AIG S.E. ASIA®

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

OPERATIONS IN MALAYSIA

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2006

CONTENTS

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

I, Brad M. Bennett, 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 2006 set out on pages 5 to 43 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.

BRAD M. BENNETT

Subscribed and solemnly declared by the abovenamed Brad M. Bennett at Kuala Lumpur on

30 March 2007.

Before me:

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 2006.

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 Conducts.

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 compliance are constantly reviewed and updated. These manuals and updates are circulated to all staff concerned. Our Statement of Corporate Governance is overtly reflected in 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 conducts. The policyholder's rights and interests are paramount in all considerations 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 being made available to the public in accordance with the provision of Section 95(1) of the Insurance Act, 1996. Regular statutory reportings which were prepared with due care and diligence have been made as required by Bank Negara Malaysia.

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

BRAD M. BENNETT
30 March 2007

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 43 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 for Entities Other than Private Entities 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 2006 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
MOHAMMAD RASLAN
(No. AF: 1146)
Chartered Accountants

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

Kuala Lumpur
30 March 2007

STATEMENT OF ASSETS AND LIABILITIES

AS AT 31 DECEMBER 2006

	Note	2006 RM	2005 RM
ASSETS			
Property, plant and equipment	5	10,711,373	13,606,345
Intangible assets	6	463,640	-
Investments	7	611,812,086	574,507,091
Loans	8	13,905,918	14,233,194
Receivables	9	66,686,787	64,949,959
Deferred tax assets	10	6,031,000	5,670,000
Cash and bank balances		7,666,286	11,667,736
Total assets		717,277,090	684,634,325
LIABILITIES			
Provision for outstanding claims	11	180,914,366	173,070,860
Payables	12	68,501,053	68,281,051
Current tax liabilities		10,054,245	10,579,982
		259,469,664	251,931,893
Unearned premium reserves	13	165,656,469	178,003,515
Total liabilities		425,126,133	429,935,408
HEAD OFFICE ACCOUNT	14	292,150,957	254,698,917
Total liabilities and amount due to Head Office		717,277,090	684,634,325

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

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	2006 RM	2005 RM
Operating revenue	15	449,523,592	473,869,476
Shareholders' fund:			
Investment income	16	1,939,112	1,722,790
Other operating income - net	17	56,234	3,682
		1,995,346	1,726,472
Surplus transferred from General Insurance Revenue Account		81,863,478	81,419,890
Profit before taxation		83,858,824	83,146,362
Taxation	18	(26,623,630)	(22,837,168)
Net profit for the financial year		57,235,194	60,309,194

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

GENERAL INSURANCE REVENUE ACCOUNT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
Gross premium		96,915,366	154,960,545	9,836,989	161,813,279	423,526,179
Reinsurance		(63,092,526)	(10,734,184)	(6,114,810)	(45,339,386)	(125,280,906)
Net premium		33,822,840	144,226,361	3,722,179	116,473,893	298,245,273
Decrease in unearned premium reserves	13	3,847,787	4,696,096	1,430,977	2,372,186	12,347,046
Earned premium		37,670,627	148,922,457	5,153,156	118,846,079	310,592,319
Net claims incurred	19	(13,357,003)	(104,215,350)	(1,902,029)	(33,103,325)	(152,577,707)
Net commission		2,069,643	(15,309,971)	174,492	(12,738,774)	(25,804,610)
Underwriting surplus before management expenses		26,383,267	29,397,136	3,425,619	73,003,980	132,210,002
Management expenses	20					(76,847,257)
Underwriting surplus						55,362,745
Investment income	16					24,058,301
Other operating income - net	17					2,442,432
Surplus transferred to Income Statement						81,863,478

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

GENERAL INSURANCE REVENUE ACCOUNT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	Note	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
Gross premium		116,961,054	163,518,946	15,883,729	153,011,674	449,375,403
Reinsurance		(83,666,167)	(12,439,924)	(11,249,888)	(55,560,996)	(162,916,975)
Net premium		33,294,887	151,079,022	4,633,841	97,450,678	286,458,428
Decrease/(increase) in unearned premium reserves	13	24,906,934	(1,556,942)	(4,013,049)	(4,085,350)	15,251,593
Earned premium		58,201,821	149,522,080	620,792	93,365,328	301,710,021
Net claims incurred	19	(14,590,432)	(105,566,252)	(2,261,692)	(31,353,621)	(153,771,997)
Net commission		6,574,709	(17,715,350)	669,300	(8,480,040)	(18,951,381)
Underwriting surplus/(deficit) before management expenses		50,186,098	26,240,478	(971,600)	53,531,667	128,986,643
Management expenses	20					(72,287,318)
Underwriting surplus						56,699,325
Investment income	16					22,771,283
Other operating income - net	17					1,949,282
Surplus transferred to Income Statement						81,419,890

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

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		57,235,194	60,309,194
Adjustments for:			
Property, plant and equipment			
- depreciation		3,168,217	3,551,034
- gain on disposal		(100,000)	(73,205)
Amortisation of intangible assets		137,155	
Investment income		(25,997,413)	(24,494,073)
Allowance for diminution in value of investments		5,952	695,489
Gain on disposal of investments		(2,581,484)	(2,059,093)
Decrease in unearned premium reserves		(12,347,046)	(15,251,593)
Taxation		26,623,630	22,837,168
Bad debts written off		153,977	978,376
(Decrease)/increase in allowance for doubtful debts		(1,556,013)	1,176,550
Equity reserve arising from share-based compensation plan		216,846	-
		44,959,015	47,669,847
Decrease in fixed deposits		15,168,052	561,116
Increase in provision for outstanding claims		7,843,506	9,017,773
Decrease in trade payables		(2,822,261)	(7,760,733)
Increase in other payables		3,042,263	5,358,648
Decrease in loans		225,613	941,683
Increase in trade receivables		(1,908,599)	(5,620,366)
(Decrease)/increase in other receivables		1,885,191	(165,756)
Interest income received		18,157,168	28,886,228
Dividend received		1,709,542	1,249,588
Proceeds from disposal of investments		147,474,095	147,905,754
Purchase of investments		(191,450,628)	(187,539,015)
Cash generated from operations		44,282,957	40,504,767
Tax paid		(27,510,367)	(17,440,803)
Net cash inflow from operating activities	21	16,772,590	23,063,964
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		100,000	91,068
Purchase of property, plant and equipment		(593,074)	(960,329)
Increase in intangible assets		(280,966)	-
Net cash outflow from investing activities	21	(774,040)	(869,261)

CASH FLOW STATEMENT

For the financial year ended 31 December 2006 (Continued)

	Note	2006 RM	2005 RM
CASH FLOW FROM FINANCING ACTIVITIES			
Transfer to Head Office		(20,000,000)	(18,000,000)
Net cash outflow from financing activities	21	(20,000,000)	(18,000,000)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	21	(4,001,450)	4,194,703
CASH AND CASH EQUIVALENTS AT 1 JANUARY		11,667,736	7,473,033
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		7,666,286	11,667,736
Cash and cash equivalents comprise:			
Cash and bank balances		7,666,286	11,667,736

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006

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 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 30 March 2007.

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, unless otherwise stated:

(a) Basis of preparation

The financial statements of the Branch have been prepared in accordance with the Financial Reporting Standards, the Malaysian Accounting Standards Board ("MASB") approved accounting standards in Malaysia for Entities Other than Private Entities, 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 financial statements of the Branch have been prepared under the historical cost convention.

The preparation of financial statements in conformity with Financial Reporting Standards 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. Its also requires the Management to exercise their judgement in the process of applying the accounting policies. Although these estimates are based on the Management's best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.0

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2006 (CONTINUED)

(a) Basis of preparation (continued)

Standards that are effective and relevant to the Branch's operations.

The new accounting standards effective and relevant to the Branch for the financial years beginning on or after 1 January 2006 are as follows:

FRS 2 Share-based Payment
FRS 101 Presentation of Financial Statements
FRS 108 Accounting Policies, Changes in Accounting Estimated and Errors
FRS 110 Events after the Balance Sheet Date
FRS 116 Property, Plant and Equipment
FRS 121 The Effect of changes in Foreign Exchange Rate
FRS 132 Financial Instrument : Disclosure and Presentation
FRS 133 Earnings Per Share
FRS 136 Impairment of Assets
FRS 138 Intangible Assets

IC 132 Intangible Assets – Web Site Costs

With the exception of FRS 2 and FRS 138 (see Note 4), there are no changes in accounting policy that affect net profit or Head Office account as the Branch was already following the recognition and measurement principles in those standards.

Standards, amendments to published standards and interpretations that are effective but not relevant to the Branch

The new accounting standards, amendments to published standards and IC Interpretations to existing standards effective, but not relevant to the Branch, for financial years beginning on or after 1 January 2006 are as follows:

FRS 1 First-time Adoption of Financial Reporting Standards
FRS 3 Business Combinations
FRS 5 Non-current Assets Held for Sale and Presentation of Discontinued Operations
FRS 102 Inventories
FRS 127 Consolidated and Separated Financial Statement
FRS 128 Investment in Associates
FRS 131 Interest in Joint Ventures
FRS 140 Investment Property

Amendment to FRS 119 2004 Employee Benefit – Actuarial Gains and Losses, Group Plans and Disclosures – in relation to the "assets ceiling" test.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

(a) Basis of preparation (continued)

Standards, amendments to published standards and interpretations that are effective but not relevant to the Branch (continued).

IC 107	Introduction to Euro
IC 110	Government Assistance – No specific relation to Operating Activities
IC112	Consolidations – Special Purpose Entities
IC 113	Jointly Controlled Entities- Non-Monetary Contributions by Ventures
IC 115	Operating Leased- Incentives
IC 121	Income Taxes – Recovery of Revalued Non-Depreciable Assets
IC 125	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders.
IC 127	Evaluating the substance of Transactions Involving the Legal form of a Lease
IC 129	Disclosure –Service Concessions Arrangements
IC 131	Revenue – Barter Transactions Involving Advertising Services

Standards and amendments to published standards that are not yet effective and have not been early adopted

The new standards and amendments to published standards that are mandatory for financial years beginning on or after 1 January 2007, but which the Branch has not early adopted for the financial year ended 31 December 2006, are as follows:

FRS 117 – Leases (effective for accounting periods beginning on or after1 October 2006). This standard requires the classification of leasehold land as prepaid lease payments. The Branch does not have any leasehold land but will apply amendments if applicable from the financial year beginning on 1 January 2007.

FRS 124 –related Party Disclosures (effective for accounting periods beginning on or after 1 October 2006). This standard will affect the identifications of related parties and some other related party disclosures. The Branch will apply this standard from the financial year beginning on 1 January 2007.

Amendment to FRS 119 2004 – Employee Benefits- Actuarial Gains and Losses, Group Plans and Disclosures (effective for accounting periods beginning on or after 1 January 2007). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirement for multi-employer plans where insufficient information is available to apply defined benefit accounting. Its also add new disclosure requirements. The Branch's does not have any multi-employer plans but will apply amendment if applicable from the financial year beginning on 1 January 2007.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (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 expected useful lives of the property, plant and equipment are as follows:

Furniture and equipment	5 - 10 years
Computer equipment	2 - 3 years
Motor vehicles	5 years
Renovation	5 - 15 years

Residual values and useful lives of assets are revalued and adjusted if appropriate at each balance sheet date.

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(i) on impairment of assets.

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

(c) Foreign currencies

The financial statements are presented in Ringgit Malaysia, which is the Branch's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement and/or revenue account.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investments

Malaysian Government Securities, Cagamas papers and other unquoted approved debt securities as specified by BNM which are intended for sale, 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 income statement and/or revenue account.

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 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) Intangible assets – computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Branch, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful live.

(f) 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 period to which they relate. Once the contributions have been paid, the Branch has no further payment obligations.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Employee benefits (continued)

(iii) Share-based compensation.

The Branch operates an equity-settled, share-based compensation plan for the employees of the Branch. Employee services received in exchange for the grant of the shares and share options are recognised as an expense in the income statement and/or revenue account over the vesting periods of the grant with a corresponding increase equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting condition (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Branch revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement and/or revenue account, with a corresponding adjustment to equity.

(g) 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 debt considered to be doubtful of collection. In addition, allowance is made for any premiums, including agents' balances or reinsurance balances, which remain outstanding for more than 6 months from the date on which they become receivable, except for outstanding motor premiums for which allowance is made for amounts outstanding for more than 30 days.

(h) 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 6 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 income statement and/or revenue account.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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 income statement and/or revenue account 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 income statement and/or revenue account immediately.

(j) 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/or revenue account on the 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.

(k) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurance's, 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

- 31 DECEMBER 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) General insurance underwriting results (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, 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 annual marine cargo, aviation cargo and transit business;

(ii) 1/24th method for all other classes of general business in respect of annual 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

- 31 DECEMBER 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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.

(m) 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.

(n) 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

- 31 DECEMBER 2006 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgements are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Branch makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definitions, rarely equal the related actual result. The estimated and assumptions that have a significant risk of causing a material judgement to the carrying amounts of assets and liabilities within the financial year are outlined below.

Incurred But Not Reported Claims

Incurred But Not Reported ("IBNR") claims for each class of business are estimated by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected estimates are based on a judgmental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and expected term to settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

3.2 Critical judgements in applying the entity accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported result and financial position of the Branch. However the Management are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

4. CHANGES IN ACCOUNTING POLICIES

The list of new accounting standards, amendment to published standards and interpretation on existing standards that are effective for the Branch's for the financial year beginning 1 January 2006 is set out in Note 2(a).

The key changes in accounting policies are as follows:

(a) FRS 2 – Share-based Payment

The adoption of FRS 2 has resulted in a change in the accounting policy for share-based payments. In previous years, the provision of share options to employees did not result in a charge to the income statement and/or revenue account. Upon adoption of FRS 2, the Branch recognises the fair value of such share options as an expense in the income statement and/or revenue account (Note 20) over the vesting period of the grant with a corresponding increase in equity reserve (Note 14).

(b) FRS 138 - Intangible Assets

The adoption of FRS 138 has resulted in a change in the accounting policy for computer software which is not an integral part of computer hardware, which was previously included in property, plant and equipment. In accordance with FRS 138, computer software which is not an integral part of computer hardware is classified as intangible assets.

The change in accounting policy has been applied prospectively in accordance with the transitional provisions of FRS 138.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

5 PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment RM	Computer equipment RM	Motor vehicles RM	Renovation RM	Total RM
Financial year ended 31 December 2006					
Net book value at 1 January 2006	4,910,314	2,264,273	257,750	6,174,008	13,606,345
Additions at cost	374,092	43,596	100,000	75,386	593,074
Disposals at net book value	-	-	-	-	-
Transferred to intangible assets at net book value	-	(319,829)	-	-	(319,829)
Depreciation charge	(852,576)	(1,705,763)	(24,517)	(585,361)	(3,168,217)
Net book value at 31 December 2006	4,431,830	282,277	333,233	5,664,033	10,711,373
At 31 December 2006					
Cost	7,157,122	1,780,400	470,348	7,745,982	17,153,852
Accumulated depreciation	(2,725,292)	(1,498,123)	(137,115)	(2,081,949)	(6,442,479)
Net book value	4,431,830	282,277	333,233	5,664,033	10,711,373
Financial year ended 31 December 2005					
Net book value at 1 January 2005	5,590,200	3,831,399	39,667	6,753,647	16,214,913
Additions at cost	150,339	501,722	276,165	32,103	960,329
Disposals at net book value	(840)	(5,688)	(11,335)	-	(17,863)
Depreciation charge	(829,385)	(2,063,160)	(46,747)	(611,742)	(3,551,034)
Net book value at 31 December 2005	4,910,314	2,264,273	257,750	6,174,008	13,606,345
At 31 December 2005					
Cost	6,783,030	16,633,392	436,165	7,670,596	31,523,183
Accumulated depreciation	(1,872,716)	(14,369,118)	(178,414)	(1,496,590)	(17,916,838)
Net book value	4,910,314	2,264,274	257,751	6,174,006	13,606,345

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2006 (CONTINUED)

6 INTANGIBLE ASSETS

	RM
Financial year ended 31 December 2006	
Transferred from property, plant and equipment on 1 January 2006	319,829
Additions at cost	280,966
Amortisation charge	(137,155)
Net book value at 31 December 2006	463,640
At 31 December 2006	
Cost	711,906
Accumulated amortisation charge	(248,266)
Net book value	463,640

7 INVESTMENTS

	2006		2005	
	Carrying value RM	Market value RM	Carrying value RM	Market value RM
Malaysian Government Securities, at cost	297,548,475		263,957,031	
Amortisation of premiums - net	(9,719,863)		(6,855,247)	
	287,828,612	290,385,600	257,101,784	258,020,300
Cagamas papers, at cost	14,997,882		50,445,255	
Amortisation of premiums - net	1,744		(257,519)	
	14,999,626	14,964,000	50,187,736	49,968,000
Quoted:				
Equity securities of corporations:				
Quoted in Malaysia, at cost	45,866,692		36,061,815	
Allowance for diminution in value	(605,670)		(695,489)	
	45,261,022	53,417,040	35,366,326	35,366,326
Real estate investment trust, at cost	3,333,014	3,484,060	1,477,823	1,692,060

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

7 INVESTMENTS (CONTINUED)

	2006 Carrying value RM	2006 Market value RM	2005 Carrying value RM	2005 Market value RM
Unquoted:				
Corporate debt securities, at cost	152,342,850		106,606,438	
Amortisation of premiums - net	(2,290,412)		(1,738,442)	
	150,052,438		104,867,996	
Other investments	220,000		220,000	
Fixed deposits with licensed banks	110,117,374		125,285,426	
Total investments	611,812,086		574,507,091	

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

	2006 Carrying value RM	2005 Carrying value RM
Investments maturing within 12 months	75,516,944	80,579,258
Investments maturing after 12 months	487,481,106	456,863,684
	562,998,050	537,442,942

8 LOANS

	2006 RM	2005 RM
Unsecured staff loans	6,111,497	6,049,801
Allowance for doubtful debts	(213,724)	(112,061)
	5,897,773	5,937,740
Secured loans	8,008,145	8,295,454
	13,905,918	14,233,194
Receivable within 12 months	1,400,687	1,238,844
Receivable after 12 months	12,505,231	12,994,350
	13,905,918	14,233,194

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

9 RECEIVABLES

	2006 RM	2005 RM
Trade receivables		
Due premiums including agents, brokers and co-insurers balances	50,360,360	50,529,635
Allowance for doubtful debts	(6,983,587)	(7,375,504)
	43,376,773	43,154,131
Due from reinsurers and cedants	17,292,598	15,393,155
Allowance for doubtful debts	(6,121,533)	(7,411,746)
	11,171,065	7,981,409
	54,547,838	51,135,540
Other receivables		
Interest income due and accrued	7,127,022	6,917,301
Assets held under Malaysian Motor Insurance Pool	2,527,351	2,470,398
Other receivables, deposits and prepayments	2,193,017	3,150,619
Amount due from related corporations (Note 22)	291,559	1,276,101
	12,138,949	13,814,419
	66,686,787	64,949,959

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:

	2006 RM	2005 RM
Ringgit Malaysia	(356,632)	263,279
United States Dollar	648,191	1,012,822
	291,559	1,276,101

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

10 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:

	2006 RM	2005 RM
Subject to income tax:		
Deferred tax assets	6,031,000	5,670,000
At 1 January	5,670,000	2,385,000
Credited to Income Statement (Note 18):	361,000	3,285,000
- property, plant and equipment	430,000	598,000
- investments	785,000	976,000
- trade receivables	(637,000)	907,000
- other receivables	139,000	(241,000)
- unearned premium reserves	(356,000)	1,045,000
At 31 December	6,031,000	5,670,000
Subject to income tax:		
Deferred tax assets (before offsetting)		
Investments	3,263,000	2,478,000
Trade receivables	3,038,000	3,675,000
Unearned premium reserves	992,000	1,348,000
	7,293,000	7,501,000
Offsetting	(1,262,000)	(1,831,000)
Deferred tax assets (after offsetting)	6,031,000	5,670,000
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	328,000	758,000
Other receivables	934,000	1,073,000
	1,262,000	1,831,000
Offsetting	(1,262,000)	(1,831,000)
Deferred tax liabilities (after offsetting)	-	-

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

11 PROVISION FOR OUTSTANDING CLAIMS

	2006 RM	2005 RM
Provision for outstanding claims	263,321,786	272,593,378
Recoverable from reinsurers	(82,407,420)	(99,522,518)
Net outstanding claims	180,914,366	173,070,860

12 PAYABLES

	2006 RM	2005 RM
Trade payables		
Due to agents, brokers, co-insurers and insureds	27,395,781	26,348,279
Due to reinsurers and cedants	27,150,647	31,020,410
	54,546,428	57,368,689
Other payables		
Payroll liabilities	1,700,523	789,821
Service tax and stamp duty payable	1,495,401	1,456,175
Accrual for Insurance Guarantee Scheme Fund levy	914,625	988,387
Accrued expenses	9,367,350	7,044,628
Accrued capital expenditure	-	165,096
Other payables	476,726	468,255
	13,954,625	10,912,362
	68,501,053	68,281,051

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

13 UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
2006					
Short term					
At 1 January 2006	38,534,282	69,248,193	2,882,593	49,371,072	160,036,140
Decrease in reserves	(3,847,787)	(4,696,096)	(531,558)	(2,174,444)	(11,249,885)
At 31 December 2006	34,686,495	64,552,097	2,351,035	47,196,628	148,786,255
Long term					
At 1 January 2006	-	-	3,222,916	14,744,459	17,967,375
Decrease in reserves	-	-	(899,419)	(197,742)	(1,097,161)
At 31 December 2006	-	-	2,323,497	14,546,717	16,870,214
Total	34,686,495	64,552,097	4,674,532	61,743,345	165,656,469
2005					
Short term					
At 1 January 2005	63,441,216	67,691,251	2,092,460	55,782,046	189,006,973
(Decrease)/increase in reserves	(24,906,934)	1,556,942	790,133	(6,410,974)	(28,970,833)
At 31 December 2005	38,534,282	69,248,193	2,882,593	49,371,072	160,036,140
Long term					
At 1 January 2005	-	-	-	4,248,135	4,248,135
Increase in reserves	-	-	3,222,916	10,496,324	13,719,240
At 31 December 2005	-	-	3,222,916	14,744,459	17,967,375
Total	38,534,282	69,248,193	6,105,509	64,115,531	178,003,515

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2006 (CONTINUED)

14 HEAD OFFICE ACCOUNT

	2006 RM	2005 RM
Working capital		
At 1 January/31 December	100,000,000	100,000,000
Non-Distributable		
Equity Reserve:		
Equity-settled share based compensation vested during the financial year	216,846	-
Distributable		
Retained Earnings:		
At 1 January	154,698,917	112,389,723
Net profit for the financial year	57,235,194	60,309,194
Transfer to Head Office	(20,000,000)	(18,000,000)
	191,934,111	154,698,917
	292,150,957	254,698,917

15 OPERATING REVENUE

	2006		
	Shareholders' fund RM	General fund RM	Total RM
Gross premium	-	423,526,179	423,526,179
Investment income (Note 16)	1,939,112	24,058,301	25,997,413
	1,939,112	447,584,480	449,523,592

	2005		
	Shareholders' fund RM	General fund RM	Total RM
Gross premium	-	449,375,403	449,375,403
Investment income (Note 16)	1,722,790	22,771,283	24,494,073
	1,722,790	472,146,686	473,869,476

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2006 (CONTINUED)

16 INVESTMENT INCOME

	2006 RM	2005 RM
General fund		
Interest from:		
Fixed deposits	5,988,277	6,350,436
Malaysian Government securities	14,096,460	14,685,676
Cagamas papers	115,158	479,076
Unquoted corporate debt securities	6,908,317	4,958,830
Secured loans	977,866	1,010,366
Amortisation of premiums, net of accretion of discounts	(5,737,319)	(5,962,689)
Gross dividends from quoted equity securities in Malaysia	1,709,542	1,249,588
	24,058,301	22,771,283
Shareholders' fund		
Interest from:		
Fixed deposits	39,906	87,621
Malaysian Government securities	131,274	-
Cagamas papers	1,340,588	1,649,365
Unquoted corporate debt securities	611,007	187,110
Amortisation of premiums, net of accretion of discounts	(183,663)	(201,306)
	1,939,112	1,722,790

17 OTHER OPERATING INCOME - NET

	2006 RM	2005 RM
General fund		
Gain on disposal of property, plant and equipment	100,000	73,205
Gain on disposal of investments	2,525,250	2,055,411
Allowance for diminution in value of investments	(5,952)	(695,489)
Sundry income	117,383	693,912
Sundry expenses	(294,249)	(177,757)
	2,442,432	1,949,282

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

17 OTHER OPERATING INCOME – NET (CONTINUED)

	2006 RM	2005 RM
Shareholders' fund		
Gain on disposal of investments	56,234	3,682

18 TAXATION

	2006 RM	2005 RM
Current tax		
Current financial year	26,033,558	28,160,276
Under/(over) provision of tax in prior financial years	951,072	(2,038,108)
	26,984,630	26,122,168
Deferred tax		
Origination and reversal of temporary differences (Note 10)	(361,000)	(3,285,000)
Tax expense	26,623,630	22,837,168

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

	2006 RM	2005 RM
Profit before taxation	83,858,824	83,146,362
Tax calculated at the Malaysian tax rate of 28% (2005: 28%)	23,480,471	23,280,981
Under/(over) provision of tax for prior financial years	951,072	(2,038,108)
Tax effects of expenses not deductible for tax purposes	2,192,087	1,594,295
Tax expense	26,623,630	22,837,168

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2006 (CONTINUED)

19 NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
2006					
Gross claims paid less salvage	33,079,762	100,176,247	5,074,883	53,321,698	191,652,590
Reinsurance recoveries	(17,619,908)	(4,432,687)	(3,046,226)	(21,819,568)	(46,918,389)
Net claims paid	15,459,854	95,743,560	2,028,657	31,502,130	144,734,201
Net outstanding claims:					
At 31 December 2006	13,893,867	103,442,073	2,469,841	61,108,585	180,914,366
At 1 January 2006	(15,996,718)	(94,970,283)	(2,596,469)	(59,507,390)	(173,070,860)
Net claims incurred	13,357,003	104,215,350	1,902,029	33,103,325	152,577,707
2005					
Gross claims paid less salvage	27,600,865	102,113,648	5,396,024	62,613,926	197,724,463
Reinsurance recoveries	(17,491,252)	(5,437,060)	(2,898,268)	(27,143,659)	(52,970,239)
Net claims paid	10,109,613	96,676,588	2,497,756	35,470,267	144,754,224
Net outstanding claims:					
At 31 December 2005	15,996,718	94,970,283	2,596,469	59,507,390	173,070,860
At 1 January 2005	(11,515,899)	(86,080,619)	(2,832,533)	(63,624,036)	(164,053,087)
Net claims incurred	14,590,432	105,566,252	2,261,692	31,353,621	153,771,997

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2006 (CONTINUED)

20 MANAGEMENT EXPENSES

	2006 RM	2005 RM
General fund		
Staff salaries and bonus	26,373,489	24,409,564
Staff benefits	6,573,998	7,667,714
Staff costs	32,947,487	32,077,278
Auditors' remuneration:		
Statutory audit	130,000	84,500
Fees for other services	9,315	8,160
Travelling expenses	709,587	436,471
Motor vehicle expenses	1,111,198	873,653
Legal expenses	186,733	198,960
Advertising	4,472,772	4,145,368
Printing and stationery	3,543,175	2,598,821
Rent and rates	4,697,086	4,533,427
Electricity and water	497,545	474,885
Postage, telephone, telex and telefax	9,738,451	5,682,075
Office maintenance	534,031	467,506
Entertainment	610,065	562,202
Depreciation of property, plant and equipment	3,168,217	3,551,034
Amortisation charge of intangible assets	137,155	-
Training expenses	1,514,586	998,874
Insurance Guarantee Scheme Fund levy	694,795	814,273
EDP expenses	6,310,721	7,038,194
Bad debts written off	153,977	978,396
Bad debts recovered	(73,635)	(128,052)
(Decrease)/increase in allowance for doubtful debts	(1,556,013)	1,176,550
Other expenses	7,310,009	5,714,743
	76,847,257	72,287,318

The charge to the income statement for the financial year ended 31 December 2006 in respect of contributions to the Employees' Provident Fund is RM3,487,982 (2005: RM3,119,810) and equity-settled share based compensation is RM216,846 (2005: Nil).

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Branch during the financial year amounted to RM607,312 (2005: RM447,181).

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

21 CASH FLOW SEGMENT INFORMATION

	Shareholders' fund RM	General fund RM	Total RM
2006			
Cash flows from:			
Operating activities	19,695,946	(2,923,356)	16,772,590
Investing activities	-	(774,040)	(774,040)
Financing activities	(20,000,000)	-	(20,000,000)
Net decrease in cash and cash equivalents	(304,054)	(3,697,396)	(4,001,450)
Cash and cash equivalents:			
At 1 January 2006	432,904	11,234,832	11,667,736
At 31 December 2006	128,850	7,537,436	7,666,286
2005			
Cash flows from:			
Operating activities	18,425,974	4,637,990	23,063,964
Investing activities	-	(869,261)	(869,261)
Financing activities	(18,000,000)	-	(18,000,000)
Net decrease in cash and cash equivalents	425,974	3,768,729	4,194,703
Cash and cash equivalents:			
At 1 January 2005	6,930	7,466,103	7,473,033
At 31 December 2005	432,904	11,234,832	11,667,736

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

22 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:

	2006 RM	2005 RM
Premiums received	540,462	546,658
Inward reinsurance premiums received	1,376,888	975,825
Reinsurance premiums ceded	(111,424,931)	(109,778,040)
Claims paid	(501,210)	(102,563)
Reinsurance claims recoveries	28,709,024	28,066,061
Commissions earned	19,557,568	23,318,969
Rental and utilities paid to a related corporation	(4,456,372)	(4,511,025)
System related costs paid to related corporations	(2,664,328)	(3,379,742)
Personnel and related costs received from a related corporation	260,931	313,970
Claims handling fee received from related corporations	251,384	221,303

(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:

	2006 RM	2005 RM
Receivables (Note 9)		
Due from reinsurers and cedants	1,845,236	727,332
Amount due from related corporations	291,559	1,276,101
Payables (Note 12)		
Due to reinsurers and cedants	6,702,488	3,731,219

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

23 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

- 31 DECEMBER 2006 (CONTINUED)

23 FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (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

- 31 DECEMBER 2006 (CONTINUED)

23 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:

		Interest-bearing: Contractual repricing or maturity date (whichever is earlier)				
2006	**Non-interest bearing RM**	**1 year or less RM**	**1 to 5 years RM**	**More than 5 years RM**	**Total carrying value RM**	**Weighted average effective interest rate per annum %**
Financial assets:						
Investments						
- Malaysian Government Securities	-	52,160,194	190,922,234	44,746,184	287,828,612	5.293
- Cagamas papers	-	14,999,626	-	-	14,999,626	3.253
- Corporate debt securities	-	-	72,471,794	77,580,644	150,052,438	5.875
- Equity securities of corporations	45,261,022	-	-	-	45,261,022	-
- Real estate investment trust	3,333,014	-	-	-	3,333,014	-
- Fixed deposits	-	8,357,126	15,085,429	86,674,819	110,117,374	4.839
- Other investments	220,000	-	-	-	220,000	-
Secured loans	-	681,818	3,181,818	3,806,818	7,670,454	8.250
Unsecured staff loans	491,573	548,414	1,904,579	3,290,898	6,235,464	0
Other receivables	9,048,072	-	-	-	9,048,072	-
Cash and bank balances	7,666,286	-	-	-	7,666,286	-
Total financial assets	66,019,967	76,747,178	283,565,854	216,099,363	642,432,362	
Other financial assets*					54,547,838	
Total financial assets					696,980,200	
Non-financial assets:						
Property, plant and equipment					10,711,373	
Intangible Assets					463,640	
Deferred tax assets					6,031,000	
Assets held under Malaysian Motor Insurance Pool					2,527,351	
Other Receivables					563,526	
Total assets per statement of assets and liabilities					717,277,090	

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006(CONTINUED)

23 FINANCIAL INSTRUMENTS (CONTINUED)

Weighted average effective interest rates and maturity dates (Continued)

		Interest-bearing: Contractual repricing or maturity date (whichever is earlier)				
2006	**Non-interest bearing RM**	**1 year or less RM**	**1 to 5 years RM**	**More than 5 years RM**	**Total carrying value RM**	**Weighted average effective interest rate per annum %**
Financial liabilities:						
Other payables	13,954,625	-	-	-	13,954,625	-
Other financial liabilities*					401,117,263	
Total financial liabilities					415,071,888	
Non-financial liabilities:						
Current tax liabilities					10,054,245	
Total liabilities per statement of assets and liabilities					425,126,133	

(*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 FRS 132 “Financial Instruments: Disclosure and Presentation”.)

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

23 FINANCIAL INSTRUMENTS (CONTINUED)

Weighted average effective interest rates and maturity dates (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:

2005	Non-interest bearing RM	1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying value RM	Weighted average effective interest rate per annum %
Financial assets:						
Investments						
- Malaysian Government Securities	-	21,809,789	134,785,066	100,506,929	257,101,784	3.653
- Cagamas papers	-	35,188,629	14,999,107	-	50,187,736	2.999
- Corporate debt securities	-	-	20,482,720	84,385,276	104,867,996	5.256
- Equity securities of corporations	35,366,326	-	-	-	35,366,326	-
- Real estate investment trust	1,477,823	-	-	-	1,477,823	-
- Fixed deposits	-	23,580,840	16,704,586	85,000,000	125,285,426	4.714
- Other investments	220,000	-	-	-	220,000	-
Secured loans	-	-	-	8,295,454	8,295,454	8.250
Unsecured staff loans	23,947	80,605	622,634	5,210,554	5,937,740	4.930
Other receivables	11,010,999	-	-	-	11,010,999	-
Cash and bank balances	11,667,736	-	-	-	11,667,736	-
Total financial assets	59,766,831	80,659,863	187,594,113	283,398,213	611,419,020	
Other financial assets*					51,135,540	
Total financial assets					662,554,560	
Non-financial assets:						
Property, plant and equipment					13,606,345	
Deferred tax assets					5,670,000	
Assets held under Malaysian Motor Insurance Pool					2,470,398	
Other Receivables					333,022	
Total assets per statement of assets and iabilities					684,634,325	

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

23 FINANCIAL INSTRUMENTS (CONTINUED)

Weighted average effective interest rates and maturity dates (Continued)

2005	Non-interest bearing RM	Interest-bearing: Contractual repricing or maturity date: 1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying value RM	Weighted average effective interest rate per annum %
Financial liabilities:						
Other payables	10,912,362	-	-	-	10,912,362	-
Other financial liabilities*					408,443,064	
Total financial liabilities					419,355,426	
Non-financial liabilities:						
Current tax liabilities					10,579,982	
Total liabilities per statement of assets and liabilities					429,935,408	

(*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 FRS 132 “Financial Instruments: Disclosure and Presentation”.)

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

23 FINANCIAL INSTRUMENTS (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:

	Carrying values 2006 RM	Fair values 2006 RM
Investments:		
- Malaysian Government Securities	287,828,612	290,385,600
- Cagamas papers *	14,999,626	14,964,000
- Real estate investment trust	3,333,014	3,484,060
- Unquoted debt securities	150,052,438	156,663,600
Loans:		
- Unsecured staff loan **	5,897,773	4,336,909
- Secured loan	8,008,145	12,298,423

	Carrying values 2005 RM	Fair values 2005 RM
Investments:		
- Malaysian Government Securities	257,101,784	258,020,300
- Cagamas papers *	50,187,736	49,968,000
- Real estate investment trust	1,477,823	1,692,060
- Unquoted debt securities	104,867,996	108,006,800
Loans:		
- Unsecured staff loan **	5,937,740	4,899,620
- Secured loan	8,295,454	9,231,232

* The carrying value of investments in Cagamas papers at the statement of assets and liabilities date has not been written down to its fair value as the Management is of the opinion that these investments will be held for long-term purposes.

** The carrying amount of the unsecured staff loan of the Branch was not reduced to its estimated fair value as the loan was staff loans to the employees of the Branch and the management is of the opinion that the amount will be repaid in full on the due date.

Credit risk

	2006 RM	2005 RM
Rating of corporate debt securities on market value basis		
AAA	51,871,500	31,665,000
AA	65,635,100	37,665,800
Not rated	39,157,000	38,676,000
	156,663,600	108,006,800

The rating categories are based on the grading of reputable rating agencies.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2006 (CONTINUED)

24 COMMITMENTS

Non-cancellable operating lease commitments

As at the statement of assets and liabilities date, the Branch has rental commitments under non-cancellable operating leases:

	Future minimum lease payments	
	2006	**2005**
	RM	**RM**
General and Shareholders' fund		
Not later than 1 year	4,568,968	4,535,425
Later than 1 year and not later than 5 years	5,671,412	2,177,398
	10,240,380	6,712,823