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

OPERATIONS IN MALAYSIA

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2007

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 2007 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
2 May 2008.

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 2007.

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
2 May 2008

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 2007 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

SRIDHARAN NAIR
(No. 2656/05/08 (J))
Partner of the firm

Kuala Lumpur
2 May 2008

STATEMENT OF ASSETS AND LIABILITIES

AS AT 31 DECEMBER 2007

	Note	2007 RM	2006 RM
ASSETS			
Property, plant and equipment	4	9,621,926	10,711,373
Intangible assets	5	280,347	463,640
Investments	6	622,343,859	611,812,086
Loans	7	4,701,448	13,905,918
Receivables	8	63,096,584	66,686,787
Deferred tax assets	9	4,830,351	6,031,000
Tax recoverable		6,497,434	-
Cash and bank balances		4,478,610	7,666,286
Total assets		715,850,559	717,277,090
LIABILITIES			
Provision for outstanding claims	10	186,726,641	180,914,366
Payables	11	68,813,109	68,501,053
Current tax liabilities		-	10,054,245
		255,539,750	259,469,664
Unearned premium reserves	12	165,776,608	165,656,469
Total liabilities		421,316,358	425,126,133
HEAD OFFICE ACCOUNT	13	294,534,201	292,150,957
Total liabilities and amount due to Head Office		715,850,559	717,277,090

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

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	2007 RM	2006 RM
Operating revenue	14	471,621,627	449,523,592
Shareholders' fund:			
Investment income	15	2,243,098	1,939,112
Other operating income - net	16	-	56,234
		2,243,098	1,995,346
Surplus transferred from General Insurance Revenue Account		58,460,770	81,863,478
Profit before taxation		60,703,868	83,858,824
Taxation	17	(18,856,502)	(26,623,630)
Net profit for the financial year		41,847,366	57,235,194

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

GENERAL INSURANCE REVENUE ACCOUNT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
Gross premium		84,140,569	154,832,621	10,143,071	193,576,226	442,692,487
Reinsurance		(57,125,803)	(10,831,606)	(6,503,046)	(51,414,019)	(125,874,474)
Net premium		27,014,766	144,001,015	3,640,025	142,162,207	316,818,013
Decrease/(increase) in unearned premium reserves	12	3,383,169	(354,242)	821,139	(3,970,205)	(120,139)
Earned premium		30,397,935	143,646,773	4,461,164	138,192,002	316,697,874
Net claims incurred	18	(23,579,177)	(100,589,054)	(1,835,469)	(43,137,304)	(169,141,004)
Net commission		1,668,375	(15,566,391)	466,039	(18,788,378)	(32,220,355)
Underwriting surplus before management expenses		8,487,133	27,491,328	3,091,734	76,266,320	115,336,515
Management expenses	19					(88,106,921)
Underwriting surplus						27,229,594
Investment income	15					26,686,042
Other operating income - net	16					4,545,134
Surplus transferred to Income Statement						58,460,770

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	12	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	18	(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	19					(76,847,257)
Underwriting surplus						55,362,745
Investment income	15					24,058,301
Other operating income - net	16					2,442,432
Surplus transferred to Income Statement						81,863,478

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

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	2007 RM	2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		41,847,366	57,235,194
Adjustments for:			
Property, plant and equipment			
- depreciation		1,663,555	3,168,217
- gain on disposal		(4,953)	(100,000)
Amortisation of intangible assets		48,372	137,155
Write off of intangible assets		236,166	-
Investment income		(28,929,140)	(25,997,413)
Allowance for diminution in value of investments		(605,670)	5,952
Net gain on disposal of investments		(3,363,395)	(2,581,484)
Increase/(decrease) in unearned premium reserves		120,139	(12,347,046)
Taxation		18,856,502	26,623,630
Bad debts written off		3,209,634	153,977
Decrease in allowance for doubtful debts		(1,138,215)	(1,556,013)
Equity reserve arising from share-based compensation plan		535,878	216,846
		32,476,239	44,959,015
Decrease in fixed deposits		1,767,161	15,168,052
Increase in provision for outstanding claims		5,812,275	7,843,506
Decrease in trade payables		(4,086,505)	(2,822,261)
Increase in other payables		4,398,561	3,042,263
Decrease in loans		8,966,717	225,613
Decrease/(increase) in trade receivables		1,367,828	(1,908,599)
Decrease in other receivables		677,366	1,885,191
Interest income received		25,672,346	18,157,168
Dividend received		2,968,137	1,709,542
Proceeds from disposal of investments		103,524,330	147,474,095
Purchase of investments		(111,854,199)	(191,450,628)
Cash generated from operations		71,690,256	44,282,957
Tax paid		(34,207,532)	(27,510,367)
Net cash inflow from operating activities	20	37,482,724	16,772,590
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		5,470	100,000
Purchase of property, plant and equipment		(574,625)	(593,074)
Purchase of intangible assets		(101,245)	(280,966)
Net cash outflow from investing activities	20	(670,400)	(774,040)

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

	Note	2007 RM	2006 RM
CASH FLOW FROM FINANCING ACTIVITIES			
Transfer to Head Office		(40,000,000)	(20,000,000)
Net cash outflow from financing activities	20	(40,000,000)	(20,000,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	20	(3,187,676)	(4,001,450)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		7,666,286	11,667,736
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		4,478,610	7,666,286
Cash and cash equivalents comprise:			
Cash and bank balances		4,478,610	7,666,286

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007

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 2 May 2008.

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.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

(a) Basis of preparation (continued)

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

The new accounting standard that is effective and relevant to the Branch's for the financial year ended 31 December 2007 is as follows:

FRS 117 Leases
FRS 124 Related Party Disclosures

All changes in accounting policies have been made in accordance with the transition provisions in the respective standard. There were no significant changes to the Branch's accounting policies arising from the adoption of the above new accounting standard.

Standards and amendments to published standards that are effective but not relevant to the Branch's operations

The new accounting standards and amendments to published standards that are effective but not relevant to the Branch's operations for the financial year ended 31 December 2007 are as follows:

FRS 6 Exploration for and Evaluation of Mineral Resources

Amendment to FRS 119 2004 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures

Standards and amendments to published standards and interpretations that are applicable to the Branch but not yet effective

FRS 112 – Income Taxes (effective for accounting periods beginning on or after 1 July 2007). This revised standard removes the requirements that prohibit recognition of deferred tax on unutilised reinvestment allowances or other allowances in excess of capital allowances. This amendment is not relevant to the Branch as the Branch does not have any reinvestment allowances or other allowances in excess of capital allowances.

FRS 120 – Accounting for Government Grants and Disclosure of Government Assistance (effective for accounting periods beginning on or after 1 July 2007). This revised standard allows the alternative treatment of recording non-monetary government grant at nominal amount on initial recognition. FRS 120 is not relevant to the Branch as the Branch does not received any government grants nor assistance.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments to published standards and interpretations that are applicable to the Branch but not yet effective (continued)

Other revised standards (effective for accounting periods beginning on or after 1 July 2007) that have no significant changes compared to the original standards:

FRS 107 – Cash Flow Statements
FRS 110 – Construction Contracts
FRS 118 – Revenue
FRS 134 – Interim Financial Reporting
FRS 137 – Provision, Contingent Liabilities and Contingent Assets

The revised FRS 110 and 134 are not relevant to the Branch and the Branch will apply the revised FRS 107, 118 and 137 from the financial year beginning on 1 January 2008.

Amendment to FRS 121 – The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operations (effective for accounting periods beginning on or after 1 July 2007). This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in income statement regardless of the currency in which these items are denominated in. This amendment is not relevant to the Branch as the Branch does not have any investments in foreign operation.

IC Interpretation 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with changes in the estimated timing or amount of the outflow of resources required to settle the obligation or a change in the discount rate. This IC Interpretation is not relevant to the Branch.

IC Interpretation 2 – Members Shares in Co-operative Entities and Similar Instruments (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with liability or equity classification of financial instruments which give the holder the right to request redemption, but subject to limits on whether it will be redeemed. This IC Interpretation is not relevant to the Branch.

IC Interpretation 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with accounting by a contributor for its interests arising from decommissioning funds. This IC Interpretation is not relevant to the Branch.

IC Interpretation 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for accounting periods beginning on or after 1 July 2007). This interpretation provides guidance on the recognition, in the financial statements of the producers, of liabilities for waste management under the European Union Directive in respect of sales of historical household equipment. This IC Interpretation is not relevant to the Branch.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

(a) Basis of preparation (continued)

Standards and amendments to published standards and interpretations that are applicable to the Branch but not yet effective (continued)

IC Interpretation 7 – Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 July 2007). This interpretation provides guidance on how to apply the requirements of FRS 129 in a reporting period in which an entity identifies the existence of hyperinflationary in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. This IC Interpretation is not relevant to the Branch.

IC Interpretation 8 – Scope of FRS 2 (effective for accounting periods beginning on or after 1 July 2007). This interpretation clarifies that FRS 2 Share-based Payment applies even in the absence of specifically identifiable goods and services. This IC Interpretation is not relevant to the Branch.

The adoption of the above standards and interpretations that are relevant to the Branch in the financial year ending 31 December 2008 is not expected to have any significant effect to the financial statements.

Standard that is approved and issued by MASB but the effective date yet to be determined

FRS 139 – Financial Instruments: Recognition and Measurement (effective date yet to be determined by MASB). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Branch will apply this standard when effective. The Branch has applied the transitional provision in FRS 139 which exempts entities from disclosing the possible impact arising from the initial application of this standard on the financial statements of the Branch.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

(b) Property, plant and equipment

Property, plant and equipment are stated at cost 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 2007 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investments

Malaysian Government Securities, Cagamas papers and other unquoted approved debt securities as specified by BNM 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 2007 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Employee benefits (continued)

(iii) Share-based compensation

The eligible employees of the Branch participate in an equity-settled, share-based compensation plan offered by its ultimate holding company, American International Group Inc. 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 2007 (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 2007 (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 2007 (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 2007 (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 2007 (CONTINUED)

4 PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment RM	Computer equipment RM	Motor vehicles RM	Renovation RM	Total RM
Financial year ended 31 December 2007					
Net book value at 1 January 2007	4,431,830	282,277	333,233	5,664,033	10,711,373
Additions at cost	100,136	142,510	-	331,979	574,625
Disposals at net book value	-	(517)	-	-	(517)
Depreciation charge	(798,402)	(255,297)	(42,770)	(567,086)	(1,663,555)
Net book value at 31 December 2007	3,733,564	168,973	290,463	5,428,926	9,621,926
At 31 December 2007					
Cost	7,257,258	1,960,343	470,348	8,077,961	17,765,910
Accumulated depreciation	(3,523,694)	(1,791,370)	(179,885)	(2,649,035)	(8,143,984)
Net book value	3,733,564	168,973	290,463	5,428,926	9,621,926
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

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2007 (CONTINUED)

5 INTANGIBLE ASSETS

	2007 RM	2006 RM
Financial year ended 31 December		
Net book value at 1 January	463,640	-
Transferred from property, plant and equipment on 1 January 2006	-	319,829
Addition at cost	101,245	280,966
Write off of intangible assets	(236,166)	-
Amortisation charges	(48,372)	(137,155)
Net book value at 31 December	280,347	463,640
Cost	498,752	711,906
Accumulated amortisation	(218,405)	(248,266)
	280,347	463,640

6 INVESTMENTS

	2007		2006	
	Carrying value RM	Market value RM	Carrying value RM	Market value RM
Malaysian Government Securities, at cost	275,509,800		297,548,475	
Amortisation of premiums - net	(6,571,477)		(9,719,863)	
	268,938,323	271,121,024	287,828,612	290,385,600
Cagamas papers, at cost	19,766,000		14,997,882	
Amortisation of premiums - net	5,592		1,744	
	19,771,592	19,349,000	14,999,626	14,964,000
Quoted:				
Equity securities of corporations:				
Quoted in Malaysia, at cost	45,458,561		45,866,692	
Allowance for diminution in value	-		(605,670)	
	45,458,561	68,734,414	45,261,022	53,417,040
Real estate investment trust, at cost	4,843,013	5,664,750	3,333,014	3,484,060

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

6 INVESTMENTS (CONTINUED)

	2007 Carrying value RM	2007 Market value RM	2006 Carrying value RM	2006 Market value RM
Unquoted:				
Corporate debt securities, at cost	177,746,850		152,342,850	
Amortisation of premiums - net	(2,984,691)		(2,290,412)	
	174,762,159		150,052,438	
Other investments	220,000		220,000	
Fixed deposits with licensed banks	108,350,211		110,117,374	
Total investments	622,343,859		611,812,086	

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

	2007 Carrying value RM	2006 Carrying value RM
Investments maturing within 12 months	61,846,182	75,516,944
Investments maturing after 12 months	509,976,103	487,481,106
	571,822,285	562,998,050

7 LOANS

	2007 RM	2006 RM
Secured staff loans	5,152,925	6,111,497
Allowance for doubtful debts	(451,477)	(213,724)
	4,701,448	5,897,773
Secured loans	-	8,008,145
	4,701,448	13,905,918
Receivable within 12 months	516,356	1,738,377
Receivable after 12 months	4,185,092	12,167,540
	4,701,448	13,905,918

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

8 RECEIVABLES

	2007 RM	2006 RM
Trade receivables		
Due premiums including agents, brokers and co-insurers balances	49,827,642	50,360,360
Allowance for doubtful debts	(8,190,993)	(6,983,587)
	41,636,649	43,376,773
Due from reinsurers and cedants	13,247,854	17,292,598
Allowance for doubtful debts	(3,538,159)	(6,121,533)
	9,709,695	11,171,065
	51,346,344	54,547,838
Other receivables		
Interest income due and accrued	7,415,679	7,127,022
Assets held under Malaysian Motor Insurance Pool	2,444,008	2,527,351
Other receivables, deposits and prepayments	1,890,553	2,193,017
Amount due from related corporations (Note 21)	-	291,559
	11,750,240	12,138,949
	63,096,584	66,686,787

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:

	2007 RM	2006 RM
Ringgit Malaysia	-	(356,632)
United States Dollar	-	648,191
	-	291,559

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

9 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:

	2007 RM	2006 RM
Subject to income tax:		
Deferred tax assets	4,830,351	6,031,000
At 1 January	6,031,000	5,670,000
Credited to Income Statement (Note 17):	(1,200,649)	361,000
- property, plant and equipment	42,597	430,000
- investments	(781,178)	785,000
- trade receivables	(295,602)	(637,000)
- other receivables	80,007	139,000
- unearned premium reserves	(246,473)	(356,000)
At 31 December	4,830,351	6,031,000

Subject to income tax:

Deferred tax assets (before offsetting)

	2007 RM	2006 RM
Investments	2,481,822	3,263,000
Trade receivables	2,742,398	3,038,000
Unearned premium reserves	745,527	992,000
	5,969,747	7,293,000
Offsetting	(1,139,396)	(1,262,000)
Deferred tax assets (after offsetting)	4,830,351	6,031,000

Deferred tax liabilities (before offsetting)

	2007 RM	2006 RM
Property, plant and equipment	285,403	328,000
Other receivables	853,993	934,000
	1,139,396	1,262,000
Offsetting	(1,139,396)	(1,262,000)
Deferred tax liabilities (after offsetting)	-	-

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

10 PROVISION FOR OUTSTANDING CLAIMS

	2007 RM	2006 RM
Provision for outstanding claims	285,715,399	263,321,786
Recoverable from reinsurers	(98,988,758)	(82,407,420)
Net outstanding claims	186,726,641	180,914,366

11 PAYABLES

	2007 RM	2006 RM
Trade payables		
Due to agents, brokers, co-insurers and insureds	25,272,661	27,395,781
Due to reinsurers and cedants	25,187,262	27,150,647
	50,459,923	54,546,428
Other payables		
Payroll liabilities	1,694,632	1,700,523
Service tax and stamp duty payable	1,544,467	1,495,401
Accrual for Insurance Guarantee Scheme Fund levy	974,989	914,625
Accrued expenses	13,504,686	9,367,350
Amount due to related corporation (Note 21)	296,509	-
Other payables	337,903	476,726
	18,353,186	13,954,625
	68,813,109	68,501,053

The amount due to 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:

	2007 RM	2006 RM
Ringgit Malaysia	397,104	-
United States Dollar	(100,595)	-
	296,509	-

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

12 UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
2007					
Short term					
At 1 January 2007	34,686,495	64,552,097	2,351,035	47,196,628	148,786,255
(Decrease)/increase in reserves	(3,383,169)	354,242	78,279	4,293,220	1,342,572
At 31 December 2007	31,303,326	64,906,339	2,429,314	51,489,848	150,128,827
Long term					
At 1 January 2007	-	-	2,323,497	14,546,717	16,870,214
Decrease in reserves	-	-	(899,418)	(323,015)	(1,222,433)
At 31 December 2007	-	-	1,424,079	14,223,702	15,647,781
Total	31,303,326	64,906,339	3,853,393	65,713,550	165,776,608
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
Increase 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

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2007 (CONTINUED)

13 HEAD OFFICE ACCOUNT

	2007 RM	2006 RM
Working capital		
At 1 January/ 31 December	100,000,000	100,000,000
Non-Distributable		
Equity Reserve :		
At 1 January	216,846	-
Equity-settled share based compensation vested during the financial year	535,878	216,846
	752,724	216,846
Distributable		
Retained Earnings :		
At 1 January	191,934,111	154,698,917
Net profit for the financial year	41,847,366	57,235,194
Transfer to Head Office	(40,000,000)	(20,000,000)
	193,781,477	191,934,111
	294,534,201	292,150,957

14 OPERATING REVENUE

	2007		
	Shareholders' fund RM	General fund RM	Total RM
Gross premium	-	442,692,487	442,692,487
Investment income (Note 15)	2,243,098	26,686,042	28,929,140
	2,243,098	469,378,529	471,621,627

	2006		
	Shareholders' fund RM	General fund RM	Total RM
Gross premium	-	423,526,179	423,526,179
Investment income (Note 15)	1,939,112	24,058,301	25,997,413
	1,939,112	447,584,480	449,523,592

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

15 INVESTMENT INCOME

	2007 RM	2006 RM
General fund		
Interest from:		
Fixed deposits	5,574,438	5,988,277
Malaysian Government securities	13,381,860	14,096,460
Cagamas papers	16,044	115,158
Unquoted corporate debt securities	8,417,126	6,908,317
Secured loans	735,813	977,866
Amortisation of premiums, net of accretion of discounts	(4,595,843)	(5,737,319)
Gross dividends from quoted equity securities in Malaysia	3,156,604	1,709,542
	26,686,042	24,058,301
Shareholders' fund		
Interest from:		
Fixed deposits	93,137	39,906
Malaysian Government securities	968,706	131,274
Cagamas papers	500,209	1,340,588
Unquoted corporate debt securities	786,000	611,007
Amortisation of premiums, net of accretion of discounts	(104,954)	(183,663)
	2,243,098	1,939,112

16 OTHER OPERATING INCOME - NET

	2007 RM	2006 RM
General fund		
Gain on disposal of property, plant and equipment	4,953	100,000
Gain on disposal of investments	3,363,395	2,525,250
Write back of /(allowance for) diminution in value of investments	605,670	(5,952)
Sundry income	651,738	117,383
Sundry expenses	(80,622)	(294,249)
	4,545,134	2,442,432

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

16 OTHER OPERATING INCOME – NET (CONTINUED)

	2007 RM	2006 RM
Shareholders' fund		
Gain on disposal of investments	-	56,234

17 TAXATION

	2007 RM	2006 RM
Current tax		
Current financial year	17,156,969	26,033,558
Under provision of tax in prior financial years	498,884	951,072
	17,655,853	26,984,630
Deferred tax		
Origination and reversal of temporary differences (Note 9)	1,200,649	(361,000)
Tax expense	18,856,502	26,623,630

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

	2007 RM	2006 RM
Profit before taxation	60,703,868	83,858,824
Tax calculated at the Malaysian tax rate of 27% (2006: 28%)	16,390,044	23,480,471
Under/(over) provision of tax for prior financial years	498,884	951,072
Tax effects of expenses not deductible for tax purposes	1,967,574	2,192,087
Tax expense	18,856,502	26,623,630

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

18 NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
2007					
Gross claims paid less salvage	31,727,094	108,973,407	2,779,761	55,725,295	199,205,557
Reinsurance recoveries	(13,631,270)	(4,610,415)	(1,660,171)	(15,974,972)	(35,876,828)
Net claims paid	18,095,824	104,362,992	1,119,590	39,750,323	163,328,729
Net outstanding claims:					
At 31 December 2007	19,377,220	99,668,135	3,185,720	64,495,566	186,726,641
At 1 January 2007	(13,893,867)	(103,442,073)	(2,469,841)	(61,108,585)	(180,914,366)
Net claims incurred	23,579,177	100,589,054	1,835,469	43,137,304	169,141,004
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

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2007 (CONTINUED)

19 MANAGEMENT EXPENSES

	2007 RM	2006 RM
General fund		
Staff salaries and bonus	26,179,422	26,373,489
Staff benefits	6,557,437	6,573,998
Staff costs	32,736,859	32,947,487
Auditors' remuneration:		
Statutory audit	142,550	130,000
Fees for tax compliance services	10,755	9,315
Travelling expenses	1,074,037	709,587
Motor vehicle expenses	1,102,298	1,111,198
Legal expenses	254,075	186,733
Advertising	5,823,900	4,472,772
Printing and stationery	4,193,069	3,543,175
Rent and rates	4,754,184	4,697,086
Electricity and water	482,064	497,545
Postage, telephone, telex and telefax	12,122,742	9,738,451
Office maintenance	503,710	534,031
Entertainment	789,385	610,065
Depreciation of property, plant and equipment	1,663,555	3,168,217
Amortisation of intangible assets	48,372	137,155
Training expenses	2,257,308	1,514,586
Insurance Guarantee Scheme Fund levy	705,313	694,795
EDP expenses	7,902,169	6,310,721
Bad debts written off	3,209,634	153,977
Bad debts recovered	(57,814)	(73,635)
Decrease in allowance for doubtful debts	(1,138,215)	(1,556,013)
Write off of intangible assets	236,166	-
Other expenses	9,290,808	7,310,009
	88,106,924	76,847,257

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

The charge to the income statement for the financial year ended 31 December 2007 in respect of contributions to the Employees' Provident Fund is RM3,948,893 (2006: RM3,487,982) and equity-settled share based compensation is RM535,878 (2006: RM216,846).

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Branch during the financial year amounted to RM685,762 (2006: RM607,312).

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Branch, either directly or indirectly. The compensation of the key management personnel including Chief Executive Officer are as follow:-

	2007 RM	2006 RM
Salary, bonus and benefits	3,621,174	3,553,854
Equity-settled share based compensation	388,134	250,739
Benefits-in-kind	761,732	532,822
	4,771,040	4,337,415

20 CASH FLOW SEGMENT INFORMATION

	Shareholders' fund RM	General fund RM	Total RM
2007			
Cash flows from:			
Operating activities	41,499,830	(4,017,106)	37,482,724
Investing activities	-	(670,400)	(670,400)
Financing activities	(40,000,000)	-	(40,000,000)
Net decrease in cash and cash equivalents	1,499,830	(4,687,506)	(3,187,676)
Cash and cash equivalents:			
At 1 January 2007	128,850	7,537,436	7,666,286
At 31 December 2007	1,628,680	2,849,930	4,478,610
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

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2007 (CONTINUED)

21 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:

	2007 RM	2006 RM
Premiums received	561,841	540,462
Inward reinsurance premiums received	1,151,035	1,376,888
Reinsurance premiums ceded	(100,110,374)	(111,424,931)
Claims paid	-	(501,210)
Reinsurance claims recoveries	23,350,124	28,709,024
Commissions earned	15,784,728	19,557,568
Rental and utilities paid to a related corporation	(4,358,381)	(4,456,372)
System related costs paid to related corporations	(3,552,486)	(2,664,328)
Personnel and related costs received from a related corporation	243,854	260,931
Claims handling fee received from related corporations	199,643	251,384

(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:

	2007 RM	2006 RM
Receivables (Note 8)		
Due from reinsurers and cedants	776,130	1,845,236
Amount due (to)/ from related corporations	(296,509)	291,559
Payables (Note 11)		
Due to reinsurers and cedants	10,900,431	6,702,488

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

22 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 2007 (CONTINUED)

22 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 2007 (CONTINUED)

22 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:

2007	Non-interest bearing RM	Interest-bearing: Contractual repricing or maturity date (whichever is earlier) 1 year or less RM	1 to 2 years RM	2 to 3 years RM	3 to 4 years RM	4 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	-	45,311,782	65,526,645	15,059,064	98,265,600	-	44,775,232	268,938,323	4.605
- Cagamas papers	-	-	-	-	-	-	19,771,592	19,771,592	4.583
- Corporate debt Securities	-	10,003,354	-	20,219,192	58,224,542	3,031,813	83,283,258	174,762,159	5.830
- Equity Securities of corporations	45,458,561	-	-	-	-	-	-	45,458,561	-
- Real estate investment trust	4,843,013	-	-	-	-	-	-	4,843,013	-
- Fixed deposits	-	6,531,046	-	15,056,100	1,763,065	25,000,000	60,000,000	108,350,211	4.921
- Other Investments	220,000	-	-	-	-	-	-	220,000	-
Secured loans	-	-	-	-	-	-	-	-	-
Secured staff loans	25,328	491,028	559,330	403,955	293,455	279,477	2,648,875	4,701,448	4.923
Other receivables	8,967,226	-	-	-	-	-	-	8,967,226	-
Cash and bank balances	4,478,610	-	-	-	-	-	-	4,478,610	-
Total financial assets	63,992,738	62,337,210	66,085,975	50,738,311	158,546,662	28,311,290	210,478,957	640,491,143	
Other financial assets*								51,346,344	
Total financial assets								691,837,487	
Non-financial assets:									
Property, plant and equipment								9,621,926	
Intangible Assets								280,347	
Deferred tax assets								4,830,351	
Assets held under Malaysian Motor Insurance Pool								2,444,008	

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

22 FINANCIAL INSTRUMENTS (CONTINUED)

Weighted average effective interest rates and maturity dates (Continued)

2007	Non-interest bearing RM	Interest-bearing: Contractual repricing or maturity date (whichever is earlier) 1 year or less RM	1 to 2 years RM	2 to 3 years RM	3 to 4 years RM	4 to 5 years RM	More than 5 years RM	Total carrying value RM	Weighted average effective interest rate per annum
Other Receivables								339,006	
Tax Recoverable								6,497,434	
Total assets per statement of assets and liabilities								715,850,559	
Financial liabilities:									
Other payables	18,353,186	-	-	-	-	-	-	18,353,186	
Other financial liabilities								402,963,172	
Total liabilities per statement of assets and liabilities								412,316,358	

(*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 2007 (CONTINUED)

22 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:

2006	Non-interest bearing RM	1 year or less RM	1 to 2 years RM	2 to 3 years RM	3 to 4 years RM	4 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	-	189,977,559	-	53,104,870	19,830,859	10,236,628	14,678,696	287,828,612	5.293
- Cagamas papers	-	14,999,626	-	-	-	-	-	14,999,626	3.253
- Corporate debt Securities	-	-	30,374,031	58,633,106	-	-	61,045,301	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	-	1,019,509	681,818	681,818	909,091	909,091	3,806,818	8,008,145	8.250
Secured staff loans	14,738	531,437	548,826	391,172	268,393	254,229	3,888,978	5,897,773	-
Other receivables	9,048,072	-	-	-	-	-	-	9,048,072	-
Cash and bank balances	7,666,286	-	-	-	-	-	-	7,666,286	-
Total financial assets	65,543,132	214,885,257	31,604,675	112,810,966	36,093,772	11,399,948	170,094,612	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	

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

22 FINANCIAL INSTRUMENTS (CONTINUED)

Weighted average effective interest rates and maturity dates (Continued)

2006	Non-interest bearing RM	Interest-bearing: Contractual repricing or maturity date 1 year or less RM	1 to 2 years RM	2 to 3 years RM	3 to 4 years RM	4 to 5 years RM	More than 5 years RM	Total carrying value RM	Weighted average effective interest rate per annum
Other Receivables								563,526	
Total assets per statement of assets and liabilities								717,277,090	
Financial liabilities:									
Other payables	13,954,625	-	-	-	-	-	-	13,954,625	
Other financial 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 2007 (CONTINUED)

22 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 2007 RM	Fair values 2007 RM
Investments:		
- Malaysian Government Securities	268,938,323	271,121,024
- Cagamas papers *	19,771,592	19,349,000
- Real estate investment trust	4,843,013	5,664,750
- Unquoted debt securities	174,762,159	179,580,400
- Equity securities of corporation	43,458,561	68,734,414
Loans:		
- Secured loan **	4,701,448	3,509,912

	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
- Equity securities of corporation	45,261,022	53,417,040
Loans:		
- Secured staff loan **	5,897,773	4,336,909
- Secured loan	8,008,145	12,298,423

* 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 secured 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.

<u>Credit risk</u>

	2007 RM	2006 RM
Rating of corporate debt securities on market value basis		
AAA	68,231,700	51,871,500
AA	77,886,700	65,635,100
A	4,962,000	-
Not rated	28,500,000	39,157,000
	179,580,400	156,663,600

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2007 (CONTINUED)

23 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	
	2007	**2006**
	RM	**RM**
General and Shareholders' fund		
Not later than 1 year	4,521,910	4,568,968
Later than 1 year and not later than 5 years	1,149,502	5,671,412
	5,671,412	10,240,380