CHARTIS

CHARTIS MALAYSIA INSURANCE BERHAD (795492-W)
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

CONTENTS

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS	RM
Net profit for the financial year	27,069,439

DIVIDENDS

The final single-tier dividend on ordinary shares declared and paid in respect of financial year ended 31 December 2010 amounting to RM90.0 million (28.96 sen per share) was paid on 1 Jun 2011.

The Directors recommend the payment of first and final single-tier dividend of 11.87% (12.00 sen per share) amounting to RM36.9 million in respect of the financial year ended 31 December 2011, which is subject to notification to Bank Negara Malaysia, approval by shareholders and approved by the Board of Directors on 28 March 2012.

The financial statements do not reflect this final dividend which will be accounted for as an apportionment of retained earnings in the financial year ending 31 December 2012 when approved by members.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

PROVISION FOR INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework for Insurers.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors of the Company are not aware of any circumstances which would render the amount written off for bad debts or the amounts of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

DIRECTORS' REPORT (CONTINUED)

CURRENT ASSETS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ensure that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Company which has arisen since the end of the financial year which secure the liabilities of any other person, or

(b) any contingent liability in respect of the Company which has arisen since the end of the financial year.

In the opinion of Directors, no contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors who have held office during the period since the date of the last report are:

Dato' Thomas Mun Lung Lee
Mohd Daruis Bin Zainuddin
Ou Shian Waei (appointed on 26 April 2011)
Leslie John Mouat
Pamela Yeo Suan Imm
Matthew James Harris
Edward Francis Pike

DIRECTORS' BENEFIT

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than the Employee Share Option Scheme and restricted stock units over ordinary shares of American International Group, Inc as disclosed in this report.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefits (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors and professional fees paid to company in which a Director has interest as disclosed in Note 22(b) to the financial statements, and employee benefits of full-time employees of the Company and its related corporations) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares and options over shares in its ultimate holding company during the financial year were as follows:

	Number of ordinary shares of US$2.50 each			
American International Group, Inc	**As at**			**As at**
Direct Interest	**1.1.2011**	**Bought**	**Vested**	**31.12.2011**
Leslie John Mouat	4,014	277	-	4,291
Pamela Yeo Suan Imm	42	-	-	42

	Number of restricted stock units over ordinary shares of US$2.50 each			
American International Group, Inc	**As at**			**As at**
Restricted Stock Units	**1.1.2011**	**Granted**	**Vested**	**31.12.2011**
Leslie John Mouat	277	-	(277)	-

	Number of stock options over ordinary shares of US$2.50 each		
American International Group, Inc	**As at**		**As at**
Employee Stock Options	**1.1.2011**	**Lapsed**	**31.12.2011**
Leslie John Mouat	956	(52)	904

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in the Company or shares, options over shares and debentures of its related corporations during the financial year.

DIRECTORS' REPORT (CONTINUED)

IMMEDIATE AND ULTIMATE HOLDING CORPORATIONS

Effective from 1 March 2011, as part of American International Group Inc ("AIG") the ultimate holding company's restructuring scheme of its worldwide insurance businesses, AIG has transferred ownership of the Company's shares to Chartis Singapore Pte Ltd. Accordingly, effective from 1 March 2011, Chartis Singapore Pte Ltd is the Company's immediate holding company. The Directors regard American International Group, Inc, a company incorporated in the State of Delaware, USA as the Company's ultimate holding corporation.

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE

The Company has taken concerted steps to ensure compliance with Bank Negara Malaysia's ("BNM") Prudential Framework of Corporate Governance (JPI/GPI 25) (Consolidated) for insurers and its best practice applications at all times.

(A) BOARD RESPONSIBILITY AND OVERSIGHT

The Board of Directors ("the Board") is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Insurance Act, 1996 ("the Act"), Insurance Regulations 1996 ("the Regulations") and BNM Guidelines on Minimum Standards for Prudential Management of Insurers (JPI/GPI 1) (Consolidated) and Prudential Framework of Corporate Governance (JPI/GPI 25) (Consolidated) and other directives, in addition to adopting other best practices on corporate governance.

The Board has an overall responsibility to lead the Company, include setting the strategic future direction, review viability of the corporate objective and overseeing the conduct and performance of business.

The Board comprises 3 Independent Non-Executive Directors, 3 Non-Independent Non-Executive Directors and 1 Executive Director. The Board is qualified and has wide business and financial experience to effectively provide directions in terms of corporate objectives and business strategies.

There were 6 meetings held during the financial year. All Directors in office at the end financial year complied with the 75% minimum attendance requirement at such meeting.

The details of attendance of each Director at Board meetings held during the financial year are set out below:

Name of Directors (Status of Directorship)		**Total Meeting Attended**
Dato' Thomas Mun Lung Lee	(Independent Non-Executive Director)	6/6
Mohd Daruis Bin Zainuddin	(Independent Non-Executive Director)	6/6
Ou Shian Waei	(Independent Non-Executive Director) appointed on 26 April 2011	4/4
Matthew James Harris	(Non-Independent Executive Director)	6/6
Leslie John Mouat	(Non-Independent Non-Executive Director)	6/6
Pamela Yeo Suan Imm	(Non-Independent Non-Executive Director)	6/6
Edward Francis Pike	(Non-Independent Non-Executive Director)	6/6
Soo Wai Har	(Non-Independent Executive Director) resigned on 1 April 2011	2/2

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

To support sound corporate governance and processes, the Board formed various Board Committees namely Nominating Committee, Remuneration Committee, Risk Management Committee and Audit Committee in accordance with the requirements of GPI/JPI 1. The guideline requires full compliance with the Terms of Reference of these Committees. The Board had adopted the terms of reference of these Committees.

The roles and members of the above Committees are as provided below.

Nominating Committee

The Nominating Committee ("NC") comprises 5 members, appointed from the Board. The current members are as follows:

Dato' Thomas Mun Lung Lee	Chairman (Independent Non-Executive)
Mohd Daruis Bin Zainuddin	Member (Independent Non-Executive)
Leslie John Mouat	Member (Non-Independent Non-Executive)
Matthew James Harris	Member (Non-Independent Executive)
Edward Francis Pike	Member (Non-Independent Non-Executive)

The objective of the NC is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officer ("CEO") and key senior officers ("KSOs") and to assess the effectiveness of individual Directors, the Board as a whole (including various committees of the Board), CEO and KSOs on an on-going basis.

The principal duties and responsibilities of NC are:

(a) establishing minimum requirements for the Board and the CEO to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between executive, non-executive and independent Directors, and other core competencies required;

(b) recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the CEO position. This includes assessing Directors and the CEO proposed for reappointment before an application for approval submitted to BNM;

(c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO. The assessments should also include ascertaining that the Director is not disqualified under the relevant law and fulfill the 'fit and proper' criteria;

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Nominating Committee (continued)

(d) recommending to the Board the removal of a Director or CEO if he is ineffective, errant or negligent in discharging his responsibilities;

(e) ensuring that all Directors undergo appropriate induction programmes and receive continuous training; and

(f) overseeing the appointment, management succession planning and performance evaluation of KSO, and recommending to the Board the removal of KSOs if they are ineffective, errant and negligent in discharging their responsibilities.

There was 3 NC meeting held during the financial year ended 31 December 2011. All members of the NC at the end of financial year complied with the minimum attendance requirement at such meeting.

Remuneration Committee

The Remuneration Committee (“RC”) comprises 5 Non-Executive Directors, appointed from the Board. The current members are as follows:

Dato’ Thomas Mun Lung Lee	Chairman (Independent Non-Executive)
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)
Leslie John Mouat	Member (Non-Independent Non-Executive)
Pamela Yeo Suan Imm	Member (Non-Independent Non-Executive)
Edward Francis Pike	Member (Non-Independent Non-Executive)

The objective of the RC is to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO and KSOs and ensuring that their compensation is competitive and consistent with the Company’s culture, objectives and strategy.

The principal duties and responsibilities of RC are:

(a) recommending a framework for the remuneration of Directors, the CEO and KSOs. The remuneration policy should:-

- be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
- reflect the experience and level of responsibility borne by individual Directors, the CEO and KSOs;
- be sufficient to attract and retain Directors, CEO and KSOs of calibre needed to manage the company successfully; and
- be balanced against the need to ensure that the funds of the insurers are not used to subsidise excessive remuneration packages and should not create incentives for irresponsible behaviour or insider excesses.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Remuneration Committee (continued)

(b) recommending specific remuneration packages for Directors, CEO and KSOs. The remuneration packages should:-

- be based on objective considerations and approved by the full Board;
- take due consideration of the assessments of the nominating committee of the effectiveness and contribution of the Directors, CEO or KSOs concerned;
- not be decided by the exercise of sole discretion by any one individual or restricted group of individuals; and
- be competitive and consistent with the Company's culture, objectives and strategy.

There was 2 RC meeting held during the financial year ended 31 December 2011. All members of the RC at the end of financial year complied with the minimum attendance requirement at such meeting.

Risk Management Committee

The Risk Management Committee ("RMC") comprises 5 Non-Executive Directors, appointed from the Board.

The current members are as follows:

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Ou Shian Waei	Member (Independent Non-Executive) appointed on 26 April 2011
Pamela Yeo Suan Imm	Member (Non-Independent Non-Executive)
Edward Francis Pike	Member (Non-Independent Non-Executive)

The objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that an appropriate risk management process is in place and functioning effectively.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Risk Management Committee (continued)

The principal duties and responsibilities of RMC are:

(a) reviewing and recommending risk management strategies, policies and risk tolerance levels for the Board's approval;

(b) reviewing and assessing the adequacy of the risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

(c) ensuring that adequate infrastructure, resources and systems are in place for effective risk management; e.g. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities; and

(d) reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

There were 4 RMC meetings held during the financial year ended 31 December 2011. All members of the RMC at the end of financial year complied with the minimum attendance requirement at such meeting.

Audit Committee

The composition of the Audit Committee ("AC") is as follows:

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Ou Shian Waei	Member (Independent Non-Executive) appointed on 26 April 2011
Pamela Yeo Suan Imm	Member (Non-Independent Non-Executive)

The primary objective of the AC is to ensure the integrity and transparency of the financial reporting process.

The principal duties and responsibilities of the AC are:

(a) To ensure that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their objectives;

(b) To review and concur the annual audit plan, audit charter and annual budget of the internal audit department and the appointment of the external auditors;

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(A) BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Audit Committee (continued)

(c) To ensure that internal audit staff have free and unrestricted access to the Company's records, assets, personnel or processes relevant to and within the scope of the audits;

(d) To review various relationships between the external auditors and the Company or any other entity that may impair or appear to impair the external auditors' judgment or independence in respect of the Company;

(e) To review with the external auditors that appropriate audit plans are in place and the scope of the audit plans reflect the terms of the engagement letter;

(f) To review with the external auditors the financial statements, audit reports, including reports to BNM and discuss the findings and issues arising from the external audit;

(g) To ensure that management's remediation efforts with respect to internal and external audit findings and recommendations are resolved effectively and in a timely manner;

(h) To approve the provision of non-audit services by the external auditor and ensure that the level of provision of non-audit services is compatible with maintaining auditor independence;

(i) To review the Chairman's statement, interim financial reports, preliminary announcements and corporate governance disclosures in the Directors' Report;

(j) To review any related-party transactions and conflict of interest situations that may arise including any transaction, procedure or conduct that raises questions of management integrity;

(k) To ensure that the Company's accounts are prepared and published in a timely and accurate manner for regulatory, management and general reporting purposes; and

(l) To report to BNM annually, on the material weaknesses in the internal control environment and the measures taken to address those weaknesses.

The AC has the authority to investigate any matter within its terms of reference and has unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Company.

There were 3 AC meetings held during the financial year ended 31 December 2011. All members of the AC at the end of financial year complied with the minimum attendance requirement at such meeting.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(B) MANAGEMENT ACCOUNTABILITY

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. The Company has a formal and transparent procedure for developing policy on executive remuneration. None of the Directors and senior management of the Company have, in any circumstances, conflict of interest referred to in Sections 54 and 55 of the Act.

The management meets all prescriptive requirements under these sections, and have already adopted best practices in the areas of organisational structure and allocation of responsibilities, conflict of interest, goal setting and the area of communication.

(C) CORPORATE INDEPENDENCE

All material related party transactions are conducted on the agreed terms as specified under BNM Guidelines JPI/GPI 19 Related-Party Transactions and JPI/GPI 25 (Consolidated) Prudential Framework of Corporate Governance for Insurers. Related parties transactions and balances have been disclosed in the financial statements in compliance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provision of the Act.

(D) INTERNAL CONTROLS AND OPERATIONAL RISK MANAGEMENT

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company through designated management functions and internal controls, which includes the setting of operational risk limits for all core activities. The Company has established internal controls which cover all levels of personnel that are capable of recognising and continually assessing material risks, including underwriting risk, reinsurance risk, investment risk, operational and legal risk, that could affect its performance and financial condition.

Continuous review and assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner.

(E) INTERNAL AUDIT

The internal audit function is provided by the ultimate holding company, AIG. While the Group Internal Audit (“GIA”) reports directly to AIG’s Audit Committee, it will assist the Company’s Audit Committee in discharging its duties and responsibilities.

The main function of the GIA includes assessment of effectiveness and adequacy of internal controls, which includes an independent examination of controls and ensure corrective actions, where necessary, are taken in a timely manner.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

(F) PUBLIC ACCOUNTABILITY

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company meets all prescriptive and best practice requirements under this section relating to unfair practices.

(G) FINANCIAL REPORTING

The Board has the overall responsibilities to ensure that accounting records are properly kept and that the Company's financial statements are prepared in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, the provision of Companies Act, 1965 and Insurance Act, 1996. In addition, the Company also meets the best practice requirements relating to management reporting, where the key performance indicators are reported on a monthly basis.

AUDITORS

The external auditors, PricewaterhouseCoopers, retired and have expressed their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with their resolution dated 31 May 2012.

MATTHEW JAMES HARRIS
DIRECTOR

DATO' THOMAS MUN LUNG LEE
DIRECTOR

Kuala Lumpur
31 May 2012

STATEMENT BY DIRECTORS

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

We, Matthew James Harris and Dato' Thomas Mun Lung Lee, two of the Directors of Chartis Malaysia Insurance Berhad, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 16 to 81 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2011 and of its results and cash flows for the financial year ended on that date in accordance with the provisions of the Companies Act and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

Signed on behalf of the Board of Directors in accordance with their resolution dated 31 May 2012.

MATTHEW JAMES HARRIS
DIRECTOR

DATO' THOMAS MUN LUNG LEE
DIRECTOR

Kuala Lumpur
31 May 2012

STATUTORY DECLARATION

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

I, Soo Wai Har, the Officer primarily responsible for the financial management of Chartis Malaysia Insurance Berhad, do solemnly and sincerely declare that the financial statements for the financial year ended 31 December 2011 set out on pages 16 to 81 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.

SOO WAI HAR

Subscribed and solemnly declared by the above named at Kuala Lumpur in the Federal Territory on 31 May 2012.

Before me,

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF CHARTIS MALAYSIA INSURANCE BERHAD

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Chartis Malaysia Insurance Berhad, which comprise the statement of financial position as at 31 December 2011, and the statements of income, comprehensive income, changes in equity and cash flow for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 81.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of these financial statements that give true and fair view in accordance with the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Insurance Act 1996 and Companies Act, 1965, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF CHARTIS MALAYSIA INSURANCE BERHAD (CONTINUED)

OPINION

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Insurance Act 1996 and Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as of 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

JAYARAJAN A/L U.RATHINASAMY
(No. 2059/06/12 (J))
Chartered Accountant

Kuala Lumpur
31 May 2012

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Assets			
Property and equipment	4	7,287,796	10,676,447
Intangible assets	5	1,369,099	1,299,794
Available-for-sale financial assets	6	628,381,332	650,231,593
Reinsurance assets	7	192,881,267	145,551,543
Loans and receivables, excluding insurance receivables	8	183,391,435	205,110,613
Insurance receivables	9	80,061,651	78,915,503
Deferred acquisition costs	10	19,445,599	19,136,055
Tax recoverable		16,276,435	8,478,071
Cash and bank balances		13,461,667	11,038,814
Total assets		1,142,556,281	1,130,438,433
Equity and liabilities			
Share capital	11(a)	310,800,000	310,800,000
Retained earnings	11(b)	43,717,930	106,648,491
Available-for-sale reserve	11(c)	15,203,124	14,528,390
Share-based reserves	11(d)	944	944
Total equity		369,721,998	431,977,825
Insurance contract liabilities	12	651,455,571	580,617,654
Deferred tax liabilities	13	4,576,248	2,797,321
Insurance payables	14	92,479,375	93,109,293
Other payables	15	24,323,089	21,936,340
Total liabilities		772,834,283	698,460,608
Total equity and liabilities		1,142,556,281	1,130,438,433

The accompanying notes form an integral part of the financial statements

STATEMENT OF INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Operating revenue	16	547,155,390	544,936,178
Gross earned premiums	17(a)	519,027,212	495,929,647
Premiums ceded to reinsurers	17(b)	(169,509,428)	(191,833,885)
Net earned premiums		349,517,784	304,095,762
Investment income	18	33,101,894	34,775,490
Realised gains and losses	19	2,510,234	1,543,575
Commission income	20(a)	30,900,057	34,816,049
Other operating revenue		1,633,866	705,671
Other income		68,146,051	71,840,785
Gross claims paid	21(a)	(236,967,725)	(229,388,990)
Claims ceded to reinsurers	21(b)	55,894,854	48,051,488
Gross changes in contract liabilities	21(c)	(75,811,633)	19,209,980
Changes in contract liabilities ceded to reinsurers	21(d)	50,044,357	2,011,870
Net claims incurred		(206,840,147)	(160,115,652)
Commission expense	20(b)	(63,064,848)	(57,984,187)
Management expenses	22	(106,906,703)	(104,374,034)
Other expenses		(169,971,551)	(162,358,221)
Profit before taxation		40,852,137	53,462,674
Income tax expense	23	(13,782,698)	(20,454,954)
Profit for the financial year		27,069,439	33,007,720
Earnings per share			
Basic	24	9 sen	11 sen

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM	2010 RM
Profit for the financial year		27,069,439	33,007,720
Other comprehensive income:			
Changes in available-for-sale reserves:			
- Net gain arise during the financial year	6(b)	3,409,877	9,364,024
- Net realised gain transferred to Statement of Income	6(b)	(2,510,234)	670,454
- Tax effect on changes in fair value reserves		(224,910)	(2,508,620)
		674,733	7,525,858
Total comprehensive income for the financial year		27,744,172	40,533,578

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Non Distributable			Distributable	
	Share capital	Available-for-sale reserves	Share-based payment reserves	Retained earnings	Total
	RM	RM	RM	RM	RM
At 1 January 2010	310,800,000	7,002,532	-	73,640,771	391,443,303
Profit for the financial year	-	-	-	33,007,720	33,007,720
Other comprehensive income for the financial year	-	7,525,858	-	-	7,525,858
Total comprehensive income for the financial year	-	7,525,858	-	33,007,720	40,533,578
Employee share-based compensation plan	-	-	944	-	944
At 31 December 2010	310,800,000	14,528,390	944	106,648,491	431,977,825
At 1 January 2011	310,800,000	14,528,390	944	106,648,491	431,977,825
Profit for the financial year	-	-	-	27,069,439	27,069,439
Other comprehensive income for the financial year	-	674,734	-	-	674,734
Total comprehensive income for the financial year	-	674,734	-	27,069,439	27,744,173
Dividend paid for the financial year ended 31 December 2010	-	-	-	(90,000,000)	(90,000,000)
At 31 December 2011	310,800,000	15,203,124	944	43,717,930	369,721,998
	Note 11(a)	**Note 11(c)**		**Note 11(b)**	

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	2011 RM	2010 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	**27,069,439**	**33,007,720**
Adjustments for:		
Depreciation of property and equipment	4,245,661	4,125,417
Amortisation of intangible assets	529,395	400,010
Investment income	(33,101,894)	(34,775,490)
Impairment loss on LAR	113,197	15,044
Impairment loss on AFS financial assets	-	544,911
Fair value gains on AFS recorded in Statement of Income	(2,510,234)	670,454
Gain on disposal of property and equipment	-	(18,620)
Gain on disposal of loans and receivables ("LAR")	-	(1,576,493)
Taxation expense	13,782,698	20,454,954
Bad debts written off	-	132,441
(Reversal)/allowance made of impairment on insurance receivables	(2,038,499)	2,247,729
Equity reserve arising from share-based compensation plan	-	944
	8,089,763	25,229,021
Changes in working capital:		
Increase in reinsurance assets	(47,329,724)	(3,676,975)
Decrease/(increase) in insurance receivables	892,351	(23,502,406)
(Increase)/decrease in deferred acquisition costs	(309,544)	470,279
Decrease/(increase) in insurance contract liabilities	70,837,917	(4,978,939)
(Decrease)/increase in insurance payables	(629,918)	36,728,932
Increase/(decrease) in other payables	2,386,749	(1,902,088)
Interest income received	34,320,313	34,286,820
Dividend income received	1,203,458	1,048,240
Decrease/(increase) in AFS financial assets	22,466,489	(94,997,769)
Decrease in loans and receivables, excluding insurance receivables	21,977,753	47,112,983
Cash generated from operations	113,905,606	15,818,097
Tax Paid	(20,027,044)	(19,243,602)
Net cash inflows/(outflows) from operating activities	93,878,563	(3,425,505)

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	2011 RM	2010 RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceed from disposal of property and equipment	-	146,000
Purchase of property and equipment	(857,010)	(899,854)
Increase in intangible assets	(598,700)	(396,034)
Net cash outflows from investing activities	(1,455,710)	(1,149,888)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend paid	(90,000,000)	-
Net cash inflow from investing activities	(90,000,000)	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,422,853	(4,575,393)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	11,038,814	15,614,207
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	13,461,667	11,038,814
Cash and cash equivalents comprise:		
Cash and bank balances	13,461,667	11,038,814

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011

1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Company is located at Level 5, Wisma Chartis, 99 Jalan Ampang, 50450 Kuala Lumpur.

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

Effective from 1 March 2011, as part of American International Group Inc ("AIG"), the ultimate holding company's restructuring scheme of its worldwide insurance businesses, AIG has transferred its ownership of the Company's shares to Chartis Singapore Pte. Ltd, a company incorporated in Singapore. Accordingly, Chartis Singapore Pte. Ltd is the Company's immediate holding company effective from 1 March 2011. The Directors regard American International Group, Inc, a company incorporated in the State of Delaware, USA as the Company's ultimate holding corporation.

The financial statements have been authorised for issue by the Board of Directors on 31 May 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements comply with the Financial Reporting Standards ("FRS"), being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

The financial statements of the Company have been prepared under the historical cost convention, except as disclosed in the summary of significant accounting policies.

The Company has met the minimum capital requirements as prescribed by the framework as at the statement of financial position date.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting 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 reported financial year. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

<u>Standards, amendments to published standards and interpretation to existing standards that are relevant to the Company and effective</u>

The new accounting standards, amendments to published standards and interpretations that are effective for the Company for the financial year beginning 1 January 2011 are as follow:

- The Revised FRS 1, First-time adoption of financial reporting standards *(effective from 1 January 2011)*
- The Amendments to FRS 2, Group cash-settled share based payment transactions *(effective from 1 January 2011)*
- The Amendments to FRS 7, Improving disclosures about financial instruments *(effective from 1 January 2011)*
- IC Interpretation 4, Determining whether an arrangement contains a lease *(effective from 1 January 2011)*
- IC Interpretation 9, Reassessment of embedded derivatives *(effective from 1 July 2010)*
- IC Interpretation 12, Service concession arrangements *(effective from 1 July 2010)*
- IC Interpretation 17, Distributions of non cash-assets to owners *(effective from 1 July 2010)*
- IC Interpretation 18, Transfers of assets from customers *(effective from 1 January 2011)*
- IC Interpretation 19, Extinguishing financial liabilities with equity instruments *(effective from 1 July 2011)*
- The amendments to FRS 138, Intangible assets *(effective from 1 July 2010)*
- Improvements to FRSs 2010

<u>Standards, amendments to published standards and interpretations to existing standards that are relevant to the Company but not yet effective</u>

In November 2011, the Malaysia Accounting Standard Board formally announced that Malaysian reporting entities would be required to comply with the new IFRS – compliant framework Malaysian Financial Reporting Standards ("MFRS") for financial years commencing on or after 1 January 2012. MFRS 1, "First-time adoption of MFRS" provides for certain optional exemption and certain mandatory exceptions for first-time MFRS adopters.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards, amendments to published standards and interpretations to existing standards that are relevant to the Company but not yet effective (continued)

The Company will be required to adopt the new standards, amendments to the standards and interpretation in the period set out below and comparative financial information prepared in compliance with MFRS will be required for the financial year commencing 1 January 2010.

(i) Financial year beginning on/after 1 January 2012

The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:

- The name of the government and the nature of their relationship;
- The nature and amount of each individually significant transaction; and
- The extent of any collectively significant transactions, qualitatively or quantitatively.

• Amendment to MFRS 112 "Income taxes" (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 "Investment property". As a result of the amendments, IC Interpretation 121 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn.

• IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognized in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss.

• Amendment to MFRS 1 "First time adoption on fixed dates and hyperinflation" (effective from 1 January 2012) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to MFRSs', thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards, amendments to published standards and interpretations to existing standards that are relevant to the Company but not yet effective (continued)

(i) Financial year beginning on/after 1 January 2012 (continued)

- Amendment to MFRS 7 "Financial instruments: Disclosures on transfers of financial assets" effective from 1 January 2012) promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

- Amendment to MFRS 101 "Presentation of items of other comprehensive income" (effective from 1 January 2012) requires entities to separate items presented in 'other comprehensive income'(OCI) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

(ii) Financial year beginning on/after 1 January 2013

- MFRS 9 "Financial instruments - classification and measurement of financial assets and financial liabilities" (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

- The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss ("FVTPL"). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Standards, amendments to published standards and interpretations to existing standards that are relevant to the Company but not yet effective (continued)

(ii) Financial year beginning on/after 1 January 2013 (continued)

- MFRS 13 "Fair value measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones.
- The Company is still assessing the impact of the changes to MFRSs.

(b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the original assessed standard of performance of the existing asset will flow to the Company.

Property and equipment are depreciated on the straight line basis to write off the cost of assets to their residual values over the estimated useful lives, summarised 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 reviewed and adjusted, if applicable, at each date of the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment (continued)

At each date of the statement of financial position, the Company 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(d) to the financial statements on impairment of non-financial assets.

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

(c) Intangible assets – computer software

Acquired computer software licenses 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 programs are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, 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 lives not exceeding 5 years.

(d) Impairment of non-financial assets

The carrying values of assets are reviewed for impairment at each reporting date and 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 asset's fair value less cost of sell and the value in use, which is measured by reference to discounted future 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 statement of income 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 statement of income in the period incurred.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial Assets

The Company classifies its financial assets into loans and receivables ("LAR") and available-for-sale ("AFS"). The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired or originated.

All regular way purchases and sales of financial assets are recognised on the trade date which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial assets. All transaction costs directly attributable to the acquisition are also included in the cost of the financial assets. After initial measurement, LAR are measured at amortised cost, using the effective yield method, less impairment losses.

Gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale ("AFS") securities

AFS securities are non-derivative financial assets that are designated as available for sale or are not classified as LAR. These investments are initially recorded at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, AFS securities are remeasured at fair value.

Fair value gains or losses of AFS securities are reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired. Fair value gains and losses on AFS securities denominated in foreign currency are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

The translation differences on monetary securities are recognised in the statement of income; translation differences on non-monitory securities are reported as a separate component of equity until the investment is derecognised.

On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the statement of income. Dividends earned on holding AFS investments are recognised in the statement of income as investment income when the right of the payment has been established.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Determination of fair value

The Company's basis of estimation of fair value for financial instruments is as follows:

Component		Method of determining fair values
(i)	Malaysian Government Securities	Indicative market prices
(ii)	Unquoted corporate debt securities	Price quoted by pricing agencies and brokers
(iii)	Quoted equity securities	Quoted market prices
(iv)	Loans receivables	Discounted future cash flows based on the contracted maturity period. Discount rates are based on current market interest rates.
(v)	Other financial assets and liabilities with a maturity period of less than one year	Carrying values assumed to approximate their fair value

(g) Impairments of financial assets

Assets carried at amortised cost

The Company assess whether objective evidence if impairment exist individually for the financial assets. If there is objective evidence that an impairment loss on financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income.

When a financial assets is uncollectible, it is written off against the related allowance for impairment losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

AFS

The Company assess at each date of the statement of financial position whether there is objective evidence that financial asset is impaired. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the financial asset below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairments of financial assets (continued)

AFS (continued)

If there is objective evidence that an impairment loss on financial asset classified as AFS has been incurred, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity change is removed from equity and recognised in the statement of income.

For debt securities, the Company uses criteria and measurement of impairment loss applicable to "assets carried at amortised cost" above. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income. Impairment losses previously recognised in the statement of income on equity instruments are not reversed through the statement of income.

(h) Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

(i) Dividends to shareholders of the Company

Dividends on ordinary shares are recognised as liabilities in the financial year in which they declared.

(j) Product classification

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are more than the benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

The recognition and measurement of insurance contracts are set out in Note 2 (l).

The Company issues short term contracts that transfer significant insurance risk. These contracts are mainly aviation, marine cargo, contractors all risks, fire, accident & health, motor and liabilities insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Product classification (continued)

Aviation insurance includes hull and liabilities. Hull policies insure against damage to aircraft, whilst Liabilities policies can be bought by any entity involved in aviation or aerospace, from airport catering contractors through to manufacturers of critical components, insuring against claims made by third parties for loss or damage.

Marine cargo insures owners against loss or damage to their goods whilst in transit. The Company also sells marine liability policies, which typically insure port and terminal operators against claims made by third parties for loss or damage.

Contractors all risks and erection all risk insurance contracts protect the customers for material damage suffered to their contract works and the third party liability arising out of the performance of the contract during the construction period.

Fire insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Accident & health ("A&H") insurance contracts protect the Company's customers against the risk of an accidental and unforeseen event which causes bodily injury to a person. The person can be an employee of a corporation, business or an individual. In addition, the A&H department also provides other coverages such as hospital income benefit (which pays a pre-determined amount to the insured for each day the insured is confined in a hospital), critical illness benefit (which pays a lump sum amount if the insured is first diagnosed with a critical illness). The A&H department also provides travel insurance for the travelers whether they are traveling on business or pleasure.

Motor - Almost all business written consists of comprehensive insurance for private cars, generally sold through agents. The remainder consists of comprehensive cover for light commercial vehicles (C permit) and a very small amount of third party cover for private cars.

Liabilities insurances consist of casualty and financial lines. Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Financial lines insurance contracts divide into management liability insurance contracts and professional liability insurance contracts. Management liability insurance contracts protect the directors and officers of a company from potential litigation. Such litigation can arise due to a personal liability that exists for a director or officer, and can be brought by shareholders, regulators, employees, customers and suppliers. Professional liability insurance contracts protect professionals from allegations of negligence or and act, error or omission in performing the said professional duties.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Reinsurance

The Company cedes insurance risk to reinsurance companies in the normal course of business for all of its businesses.

Reinsurance premium ceded and claims reimbursed are recognised in the same accounting period as the original policy to which the reinsurance relates, and are presented on a gross basis in the statement of income in the financial year in which they are earned.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

Reinsurance assets consist of balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in statement of income.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the balance sheet. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

The Company also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Insurance contracts

Premium from insurance contract

Premium of insurance contracts is recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from insurance contracts 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 financial position are accrued at the date.

Insurance contracts liabilities

Insurance contracts liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise premium liabilities and claim liabilities.

(i) Premium liabilities

Premium liabilities refer to the higher of:

(a) the aggregate of the unearned premium reserves ("UPR"); or

(b) the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future premium refunds.

PRAD is an additional component of liability value aimed at ensuring the value of insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the liability will ultimately be sufficient. For the purpose of URR valuation and claim liabilities, the level of confidence is set at 75% at an overall Company level.

UPR represent the portion of the gross premiums of insurance policies written net of the related reinsurance premiums ceded to qualified reinsurers, that relate to the unexpired periods of the policies at the end of the financial year.

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

(i) 25% method for marine and aviation cargo, and transit business;

(ii) 1/24th method for all other classes of Malaysian general policies; and

(iii) Time apportionment method for non-annual policies.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Insurance contracts (continued)

(ii) Claims liabilities

Claims and loss adjustment expenses are charged to statement of income as incurred based on the estimated liability for compensations owed to contract holders or their parties damaged by the contract holders.

Claims liabilities (or outstanding claims provision) are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the statement of financial position date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that include a PRAD which is calculated at the overall Company level. The liability is not discounted for the time value of money and includes provision for incurred but not reported ("IBNR") losses. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

(iii) Liability adequacy test on insurance contract liabilities

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in statement of income initially by writing off DAC and by subsequently establishing a provision for liability adequacy.

Acquisition costs and Deferred Acquisition Cost ("DAC")

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 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Insurance contracts (continued)

Acquisition costs and Deferred Acquisition Cost ("DAC") (continued)

Commission costs are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised/allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in statement of income.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in statement of income. DAC is also considered in the liability adequacy test for each accounting period.

DAC is derecognised when the related contracts are either settled or disposed off.

(m) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in statement of income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2 (g).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2 (h) have been met.

(n) Other revenue recognition

Interest income on loans is recognised in the statement of income using effective interest rate method.

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Other revenue recognition (continued)

Realised gains and losses recorded in statement of income on investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost determined using weighted average and are recorded on occurrence of the sale transaction.

(o) 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 statement of income 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.

(p) Income taxes

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted or substantially enacted at the reporting date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised as income or an expense and included in the statement of income for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

Deferred and income tax assets and liabilities are offset when there is a legal enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on net.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contingent liabilities and contingent assets

The Company 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 Company 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 Company. The Company does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(r) Provisions

Provisions are recognised when the Company 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. Provision are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(s) 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 Company.

(ii) Post-employment benefits

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits (continued)

(iii) Share-based compensation

The eligible employees of the Company 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 statement of income 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 date of the statement of financial position, the Company 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 statement of income with a corresponding adjustment to equity.

(t) Foreign currencies

The financial statements are presented in Ringgit Malaysia, which is the Company'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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

All financial assets and liabilities as at statement of financial position date were denominated in Ringgit Malaysia unless otherwise indicated.

(u) Other Financial Liabilities and Insurance Payables

Other liabilities and payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

(v) Cash and cash equivalent

Cash and cash equivalents consist of cash in hand, deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Events after the statement of financial position date

Any post year-end event that provides additional information about the Company's position at the date of the statement of financial position (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset of liability affected in the future. The factors could include:

(a) Critical accounting estimates and assumptions

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

<u>Claims liabilities arising from insurance contracts</u>

Estimates have to be made for both the expected ultimate cost of claims reported at the date of the statement of financial position and for the expected ultimate cost of the incurred but not reported ("IBNR") claims at the date of the statement of financial position. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the claims liabilities as at the date of the statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims is that of using past claims settlement trends to predict future claims settlement trends. At each reporting date, prior financial year claims estimates are assessed for adequacy and changes made are charged to statement of income. Claims liabilities are not discounted for the time value of money.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

Claims liabilities arising from insurance contracts (continued)

The main assumption underlying the estimation of the claims liabilities is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analysed by accident years as well as by business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

The key assumptions used in estimates claims liabilities and sensitivity of those assumptions are set out in Note 29.

(b) Critical judgments in applying the entity accounting policies

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

4. PROPERTY AND EQUIPMENT

	Furniture and equipment RM	Computer equipment RM	Motor vehicles RM	Renovation RM	Total RM
Cost					
At 1 January 2010	11,127,044	1,832,293	376,165	13,045,382	26,380,884
Additions/(reclassification)	61,869	(21,789)	370,315	489,459	899,854
Disposals	-	-	(276,165)	-	(276,165)
At 31 December 2010	11,188,913	1,810,504	470,315	13,534,841	27,004,573
Additions	126,066	24,964	-	705,980	857,010
At 31 December 2011	11,314,979	1,835,468	470,315	14,240,821	27,861,583
Accumulated Depreciation					
At 1 January 2010	5,757,439	1,784,254	188,274	4,621,527	12,351,494
Charge for financial year	1,491,144	17,842	39,436	2,576,995	4,125,417
Disposals	-	-	(148,785)	-	(148,785)
At 31 December 2010	7,248,583	1,802,096	78,925	7,198,522	16,328,126
Charge for financial year	1,343,920	19,864	36,330	2,845,547	4,245,661
At 31 December 2011	8,592,503	1,821,960	115,255	10,044,069	20,573,787
Net book value					
At 31 December 2010	3,940,330	8,408	391,390	6,336,319	10,676,447
At 31 December 2011	2,722,476	13,508	355,060	4,196,752	7,287,796

5. INTANGIBLE ASSETS

	2011 RM	2010 RM
Cost		
At 1 January	16,716,536	16,320,502
Additions	598,700	396,034
At 31 December	17,315,236	16,716,536
Accumulated amortisation		
At 1 January	15,416,742	15,016,732
Amortisation for the financial year	529,395	400,010
At 31 December	15,946,137	15,416,742
Net book value	1,369,099	1,299,794

Intangible assets comprise computer application software which were acquired to meet the unique requirements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 RM	2010 RM
(a) At fair value		
Quoted:		
Equity securities of corporations	26,244,076	27,727,689
Real estate investment trust	7,647,705	2,729,108
Unquoted:		
Malaysian government securities	350,133,248	348,374,781
Cagamas papers	58,882,081	84,854,511
Corporate debt securities	185,474,222	186,545,504
	628,381,332	650,231,593
Current	105,691,957	156,017,532
Non-current	522,689,375	494,214,061
	628,381,332	650,231,593

(b) Available-for-sale financial assets

	RM
At 1 January 2010	547,437,297
Purchases	156,967,263
Maturities	(45,190,017)
Disposals	(16,779,477)
Fair value losses recorded in other comprehensive income	9,364,024
Amortisation of premium, net of accretion of discounts	(1,774,222)
Movement in interest income due and accrued	206,725
At 31 December 2010	650,231,593
Purchases	210,877,021
Maturities	(179,000,000)
Disposals	(54,343,510)
Fair value gains recorded in other comprehensive income	3,409,877
Amortisation of premium, net of accretion of discounts	(2,125,806)
Movement in interest income due and accrued	(667,843)
At 31 December 2011	628,381,332

7. REINSURANCE ASSETS

	Note	2011 RM	2010 RM
Reinsurance of insurance contracts	12		
Claims liabilities		175,565,435	125,521,078
Premium liabilities		17,315,832	20,030,465
		192,881,267	145,551,543
Current		192,881,267	145,551,543

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

8. LOANS AND RECEIVABLES, EXCLUDING INSURANCE RECEIVABLES

	2011 RM	2010 RM
Fixed deposits with licensed banks in Malaysia	160,325,425	189,953,652
Staff loans	3,293,938	4,155,961
	163,619,363	194,109,613
Less: Allowance for impairment	(653,581)	(540,384)
	162,965,782	193,569,229
Other receivables:		
Assets held under Malaysian Motor Insurance Pool	16,120,471	7,793,959
Other receivables, deposits and prepayments	2,854,273	2,931,988
Amount due from related corporations (Note 27)	1,450,909	815,437
	20,425,653	11,541,384
Total loans and receivables	183,391,435	205,110,613
Current	67,831,831	19,645,022
Non-current	115,559,604	185,465,591
	183,391,435	205,110,613

The amount due from related corporations is non-trade in nature, interest-free, unsecured and repayable on demand.

9. INSURANCE RECEIVABLES

	2011 RM	2010 RM
Due premiums including agents/brokers and co-insurers balance	70,447,573	70,763,787
Due from reinsurers and cedants	11,340,525	11,916,662
	81,788,098	82,680,449
Less: Allowance for impairment	(1,726,447)	(3,764,946)
	80,061,651	78,915,503
Current	80,061,651	78,915,503

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

10. DEFERRED ACQUISITION COSTS

	Note	2011 RM	2010 RM
Gross of reinsurance			
At 1 January		20,162,590	20,516,346
Commission expense paid	20(b)	63,214,464	57,630,431
Amortisation	20(b)	(63,064,848)	(57,984,187)
		20,312,206	20,162,590
Reinsurance			
At 1 January		1,026,535	910,012
Commission income received	20(a)	30,740,129	34,932,572
Amortisation	20(a)	(30,900,057)	(34,816,049)
		866,607	1,026,535
Net of reinsurance			
At 1 January		19,136,055	19,606,334
Net commission expense		32,474,335	22,697,859
Amortisation		(32,164,791)	(23,168,138)
At 31 December		19,445,599	19,136,055
Current		19,445,599	19,136,055

11. EQUITY

(a) Share capital

	2011		2010	
	No of Shares	RM	No of Shares	RM
Authorised:				
Ordinary shares of RM1.00 each				
At beginning and end of financial year	500,000,000	500,000,000	500,000,000	500,000,000
Issued and paid-up:				
Ordinary shares of RM1.00 each				
At beginning and end of financial year	310,800,000	310,800,000	310,800,000	310,800,000

(b) Retained earnings

The company is under single-tier tax system, tax paid on the Company's income is a final tax and any dividend distributed will be exempted from tax in the hands of shareholders.

(c) Available-for-sale reserves

The available-for-sale reserves comprises of unrealised gain on financial assets classified as available-for-sale, net of deferred taxation.

(d) Shared-based payment reserves

The equity reserve is in respect of an equity-settled, shared-based compensation plan offered by the Company's ultimate holding company, American International Group, Inc.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

12. INSURANCE CONTRACT LIABILITIES

	Gross RM	Reinsurance RM	Net RM
2011			
Provision for claims reported by policyholders	303,669,284	(138,598,345)	165,070,939
Provision for incurred but not reported claims ("IBNR")	124,430,924	(36,967,090)	87,463,834
Claims liabilities (i)	428,100,208	(175,565,435)	252,534,773
Premiums liabilities (ii)	223,355,363	(17,315,832)	206,039,531
	651,455,571	(192,881,267)	458,574,304
2010			
Provision for claims reported by policyholders	258,723,076	(96,998,784)	161,724,292
Provision for incurred but not reported claims ("IBNR")	93,565,499	(28,522,294)	65,043,205
Claims liabilities (i)	352,288,575	(125,521,078)	226,767,497
Premiums liabilities (ii)	228,329,079	(20,030,465)	208,298,614
	580,617,654	(145,551,543)	435,066,111

(i) Claims Liabilities

	Gross RM	Reinsurance RM	Net RM
At 1 January 2011	352,288,575	(125,521,078)	226,767,497
Claims incurred in current accident year	299,417,663	(68,221,734)	231,195,929
Adjustment to claims incurred in prior accident year	41,937,411	(51,297,515)	(9,360,104)
Effect of changes in key assumptions	(28,575,716)	13,580,038	(14,995,678)
Claims paid during the financial year	(236,967,725)	55,894,854	(181,072,871)
At 31 December 2011	428,100,208	(175,565,435)	252,534,773
At 1 January 2010	371,498,555	(123,509,208)	247,989,347
Claims incurred in current accident year	257,532,760	(54,215,431)	203,317,329
Adjustment to claims incurred in prior accident year	(5,149,120)	(14,433,468)	(19,582,588)
Effect of changes in key assumptions	(42,204,630)	18,585,541	(23,619,089)
Claims paid during the financial year	(229,388,990)	48,051,488	(181,337,502)
At 31 December 2010	352,288,575	(125,521,078)	226,767,497

(ii) Premiums Liabilities

	Note	Gross RM	Reinsurance RM	Net RM
At 1 January 2011		228,329,079	(20,030,465)	208,298,614
Premiums written in the financial year	17	514,053,496	(166,794,795)	347,258,701
Premiums earned during the financial year	17	(519,027,212)	169,509,428	(349,517,784)
At 31 December 2011		223,355,363	(17,315,832)	206,039,531
At 1 January 2010		214,098,038	(18,365,360)	195,732,678
Premiums written in the financial year		510,160,688	(193,498,990)	316,661,698
Premiums earned during the financial year		(495,929,647)	191,833,885	(304,095,762)
At 31 December 2010		228,329,079	(20,030,465)	208,298,614

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

13. DEFERRED TAXATION

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 financial position:

	2011 RM	**2010 RM**
Subject to income tax:		
Deferred tax liabilities	(4,576,248)	(2,797,321)
At 1 January	(2,797,321)	(941,485)
(Charged)/credited to statement of income:		
- property and equipment	(496,560)	285,122
- available-for-sale financial assets	(317,890)	305,647
- insurance receivables	-	(60,114)
- premium liabilities	(739,567)	122,129
	(1,554,017)	652,784
Charged to other comprehensive income	(224,910)	(2,508,620)
At 31 December	(4,576,248)	(2,797,321)
Subject to income tax:		
Deferred tax assets (before offsetting)		
- premium liabilities	-	565,113
	-	565,113
Offsetting	-	(565,113)
Deferred tax assets (after offsetting)	-	-
Deferred tax liabilities (before offsetting)		
- property and equipment	(795,068)	(298,508)
- premium liabilities	(174,454)	-
- available-for-sale financial assets	(3,606,726)	(3,063,926)
	(4,576,248)	(3,362,434)
Offsetting	-	565,113
Deferred tax liabilities (after offsetting)	(4,576,248)	(2,797,321)

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

14. INSURANCE PAYABLES

	2011 RM	2010 RM
Due to agents and intermediaries	55,505,137	39,536,201
Due to reinsurers and cedants	35,583,019	51,691,775
Deposits received from reinsurers	1,391,219	1,881,317
	92,479,375	93,109,293

The carrying amounts disclosed above approximate fair value at the date of the statement of financial position. All amounts are payable within one year.

15. OTHER PAYABLES

	2011 RM	2010 RM
Other payables	24,323,089	21,936,340
	24,323,089	21,936,340

The carrying amounts disclosed above approximate fair value at the date of the statement of financial position. All amounts are payable within one year.

16. OPERATING REVENUE

	2011 RM	2010 RM
Gross premiums (Note 17)	514,053,496	510,160,688
Investment income (Note 18)	33,101,894	34,775,490
	547,155,390	544,936,178

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

17. NET EARNED PREMIUMS

2011	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
(a) Gross premiums earned					
Gross premiums	86,161,380	186,832,006	30,044,305	211,015,805	514,053,496
Changes in premium liabilities	5,479,466	(12,362,992)	4,409,104	7,448,138	4,973,716
	91,640,846	174,469,014	34,453,409	218,463,943	519,027,212
(b) Premiums ceded					
Reinsurance	(71,445,294)	(14,968,345)	(28,662,875)	(51,718,281)	(166,794,795)
Changes in premium liabilities	(10,048,537)	15,633,436	(4,108,285)	(4,191,247)	(2,714,633)
	(81,493,831)	665,091	(32,771,160)	(55,909,528)	(169,509,428)
Net earned premiums	10,147,015	175,134,105	1,682,249	162,554,415	349,517,784
2010					
(a) Gross premiums earned					
Gross premiums	92,396,484	172,574,007	33,822,284	211,367,913	510,160,688
Changes in premium liabilities	(7,515,663)	4,205,433	(5,982,120)	(4,938,691)	(14,231,041)
	84,880,821	176,779,440	27,840,164	206,429,222	495,929,647
(b) Premiums ceded					
Reinsurance	(84,113,665)	(15,219,032)	(30,761,751)	(63,404,542)	(193,498,990)
Changes in premium liabilities	16,912,859	(15,854,753)	5,530,547	(4,923,548)	1,665,105
	(67,200,806)	(31,073,785)	(25,231,204)	(68,328,090)	(191,833,885)
Net earned premiums	17,680,015	145,705,655	2,608,960	138,101,132	304,095,762

18. INVESTMENT INCOME

	2011 RM	2010 RM
AFS financial assets:		
Interest income	33,878,590	35,334,031
Dividend income	1,203,458	1,048,240
LAR interest income	145,652	167,441
Amortisation of premiums, net of accretion of discounts	(2,125,806)	(1,774,222)
	33,101,894	34,775,490

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

19. REALISED GAINS AND LOSSES

	2011 RM	2010 RM
Realised gains/(losses) for:		
Property and equipment	-	18,620
AFS financial assets:		
Equity securities	1,621,782	443,873
Debt securities	888,452	49,500
LAR, excluding insurance receivables	-	1,576,493
Impairment on AFS financial assets	-	(544,911)
	2,510,234	1,543,575

20. COMMISSION INCOME/EXPENSE

	2011 RM	2010 RM
(a) Commission income		
Commission income received	30,740,129	34,932,572
Movement in deferred acquisition costs	159,928	(116,523)
	30,900,057	34,816,049
(b) Commission expense		
Commission expense paid	(63,214,464)	(57,630,431)
Movement in deferred acquisition costs	149,616	(353,756)
	(63,064,848)	(57,984,187)

21. NET CLAIMS INCURRED

2011	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
(a) Gross claims paid	(48,676,826)	(117,292,069)	(2,020,420)	(68,978,410)	(236,967,725)
(b) Claims ceded to reinsurers	39,989,364	4,268,661	1,830,635	9,806,194	55,894,854
(c) Gross changes in contract liabilities	(49,048,190)	(17,839,045)	(4,624,290)	(4,300,108)	(75,811,633)
(d) Changes in contract liabilities ceded to reinsurers	46,244,805	305,620	3,973,776	(479,844)	50,044,357
Net claims incurred	(11,490,847)	(130,556,833)	(840,299)	(63,952,168)	(206,840,147)

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

21. NET CLAIMS INCURRED (CONTINUED)

2010	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
(a) Gross claims paid	(26,621,237)	(115,320,346)	(2,700,318)	(84,747,089)	(229,388,990)
(b) Claims ceded to reinsurers	16,407,717	4,685,519	2,123,777	24,834,475	48,051,488
(c) Gross changes in contract liabilities	(3,213,395)	(4,121,514)	93,472	26,451,417	19,209,980
(d) Changes in contract liabilities ceded to reinsurers	7,746,846	113,442	(804,067)	(5,044,351)	2,011,870
Net claims incurred	(5,680,069)	(114,642,899)	(1,287,136)	(38,505,548)	(160,115,652)

22. MANAGEMENT EXPENSES

	Note	2011 RM	2010 RM
Employee benefits expense	22(a)	46,068,585	46,402,298
Non-executive Directors' remuneration	22(b)	355,500	260,667
Auditors' remuneration:			
- Statutory audit		335,000	300,000
- Others		40,000	110,000
Traveling expenses		1,093,533	1,175,563
Motor vehicle expenses		1,398,899	1,290,260
Legal expenses		37,561	85,274
Advertising		5,920,203	4,698,036
Printing and stationery		3,758,280	5,032,222
Rent and rates		5,160,111	5,075,790
Electricity and water		806,704	746,734
Postage, telephone and telefax		17,565,287	11,499,868
Office maintenance		852,520	504,747
Entertainment		1,558,183	1,287,913
Training expenses		1,766,842	2,338,370
PIDM premium/Insurance Guarantee Scheme Fund Levy		346,682	1,020,868
Electronic Data Processing expenses		11,377,029	8,717,787
Depreciation of property and equipment		4,245,661	4,125,417
Amortisation of intangible assets		529,395	400,010
(Write back)/impairment of insurance receivables	30(a)	(2,038,499)	2,247,729
Impairment of LAR, excluding insurance receivables	30(a)	113,197	15,044
(Recovery)/write-off of bad debts		(2,338,133)	132,441
Other expenses		7,954,163	6,906,996
		106,906,703	104,374,034

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

22. MANAGEMENT EXPENSES (CONTINUED)

	2011 RM	2010 RM
(a) Employee benefits expense		
Wages and salaries	36,975,956	37,335,710
Contributions to defined contribution plan	5,610,872	5,183,487
Other benefits	3,481,757	3,883,101
	46,068,585	46,402,298

(b) Directors' remuneration

The details of remuneration receivable by Directors during the financial year are as follows:

	2011 RM	2010 RM
Executive:		
Salaries and other emoluments	1,561,533	1,527,702
Contribution to defined contribution plan	161,070	78,885
Estimated money value of benefits-in-kind	318,052	443,193
Other employee benefits	18,750	73,800
	2,059,405	2,123,580
Non-executive:		
Fees	331,500	240,000
Other allowance	24,000	20,667
	355,500	260,667
	2,414,905	2,384,247

Remuneration of executive Directos (excluding estimeated money value of benefits-in-kind) are included in employee benefits expense.

The amount paid to a firm in which a Director is a Senior Partner for professional services rendered during the financial year amounted to RM3,000 (2010: RM120,605).

The remuneration, including benefit-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM1,872,939 (2010: RM1,110,200).

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

23. INCOME TAX EXPENSE

	2011 RM	2010 RM
Current tax	12,228,681	21,107,738
Deferred tax (Note 13)	1,554,017	(652,784)
	13,782,698	20,454,954

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

	2011 RM	2010 RM
Profit before taxation	40,852,137	53,462,674
Tax calculated at Malaysian tax rate of 25% (2010: 25%)	10,213,034	13,365,669
Tax effects of expenses not deductible for tax purposes	3,569,664	7,089,285
Tax expense	13,782,698	20,454,954

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

24. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	2011 RM	2010 RM
Profit attributable to ordinary equity holders	27,069,439	33,007,720
Weighted average number of shares in issue	310,800,000	310,800,000
Basic earnings per share (sen)	9	11

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the date of statement of financial position.

25. DIVIDENDS

The final single-tier dividend on ordinary shares declared and paid in respect of financial year ended 31 December 2010 amounting to RM90 million (28.96 sen per share) was paid on 1 June 2011.

The Directors recommend the payment of first and final single-tier dividend of 11.87% (12 sen per share) amounting to RM36.9 million in respect of the financial year ended 31 December 2011, which is subject to approval by shareholders, notification to Bank Negara Malaysia and approved by the Board of Directors on 28 March 2012.

The financial statements do not reflect this final dividend which will be accounted for as an apportionment of retained earnings in the financial year ending 31 December 2012 when approved by members.

26. COMMITMENTS

Non-cancelable operating lease commitment

As at the date of the statement of financial position, the Company has rental commitments under non-cancellable operating leases:

	2011 RM	2010 RM
Not later than 1 year	4,290,191	4,944,427
Later than 1 year but not later than 5 years	1,003,615	5,147,613
	5,293,806	10,092,040

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

27. RELATED PARTY DISCLOSURES

The related parties of, and their relationship with the Company, are as follows:

Company	Country of incorporation	Relationship
American International Group, Inc.	State of Delaware, USA	Ultimate holding company
Chartis Singapore Pte Ltd	Singapore	Immediate holding company
American International Assurance Berhad	Kuala Lumpur, Malaysia	Associate
American International Underwriter Ltd, Hong Kong	Hong Kong	Associate
AIG Travel Assist, Inc. Houston	State of Florida, USA	Associate
AIG Data Centre Inc. Livingston	State of New Jersey, USA	Associate
Chartis Technology and Operations Management Corporation (CTOM) Philippines	Philippines	Associate
Chartis Bermuda Ltd.	Bermuda	Associate

In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with the ultimate holding company 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 related party transactions during the financial year between the Company and AIG Group are as follows:

	2011 RM	2010 RM
Inward reinsurance premium received	1,380,461	-
Reinsurance premium ceded	(144,142,160)	(158,193,123)
Claims paid	-	(323,500)
Reinsurance claims recoveries	35,884,308	36,819,329
Commission earned	25,359,045	26,046,633
Rental and utilities paid to a related corporation	(3,204,536)	(3,376,789)
System related costs paid to related corporations	(4,655,864)	(2,907,645)
Personnel and related costs received from related corporations	2,289,946	1,314,034
Claims handling fee received from related corporation	290,460	288,222
Loss adjustment expenses	(1,185,704)	(822,499)
Personnel and related costs for expatriate paid to related corporations	(1,097,995)	(3,365,022)

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

27. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the financial year are as follows:

	2011 RM	2010 RM
Short-term employee benefits	3,277,908	4,811,594
Post-employment benefits:		
- Defined contribution plan	357,300	679,215
	3,635,208	5,490,809
Included in the total key management personnel are:		
Executive Directors' remuneration (Note 22(b))	2,059,405	2,123,580

Members of key management comprise those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

(c) The significant outstanding balances of the Company with its related parties as at 31 December are as follows:

	2011 RM	2010 RM
Amount due from/(to) related parties		
Trade related:		
- Insurance receivables	2,420,317	2,471,969
- Insurance payables	(13,662,480)	(29,646,806)
Amount due from related corporations (Note 8)	1,450,909	815,437

28. RISK MANAGEMENT FRAMEWORK

(a) Governance and Regulatory Framework

The Board has oversight responsibility for the management of risk within the Company through the Risk Management Committee. It monitors the implementation of the Company's Risk Management Framework, including:

- Management of risk consistent with the risk management strategy and risk governance structure;
- Ensuring the proper functioning of the Enterprise Risk Management ("ERM") function in meeting its responsibilities within the framework;
- Setting and adhering to risk appetite consistent with the Company's risk appetite; and
- Systematically identifying, measuring and managing the various types of risk inherent within the operations.

The successful execution of the risk management strategy will require the combined and coordinated responsibility of leadership of all business units and corporate functions.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

28. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Risk Management Framework

The ultimate objective for managing risk is to maximise the likelihood of meeting the Company's strategic objectives. Strategic objectives are developed to ensure long-term viability and value creation. They are realised through the coordinated management of: (i) risk, (ii) profitability and (iii) growth. The specific objective for risk management is to manage the risk profile (i.e., distribution of outcomes of short-term and long-term financial performance) consistent with strategic objectives.

The Management through oversight of the Board implemented the risk management processes within the Company that sets out the overall business strategies and the general risk management philosophy. The major areas of risk that the activities of the Company are exposed to are, operational risk, liquidity risk, insurance risk, market risk and credit risk.

The risk management infrastructure of the Company sets out clear accountability and responsibility for the risk management process which underlines the principal risk management and control responsibilities.

Processes	Parties responsible
Establishment of risk management regime and Company's risk appetite and policy	**Board of Directors** **Risk Management Committee ("RMC")**
Implementation of Company's risk policy and compliance	**Dedicated Committees** • Senior Management Risk Management Committee ("RMC") • Investment Committee • Stress Test & Capital Management Review Committee **Independent Risk Management and Control Unit** • Internal Audit Department • Compliance Department • Risk Management Department
Implementation and compliance with the Company risk policy	**Business Units** • Agency Branch Channel Management Department • Claims Department • Finance & Accounting Department • Human Resource Department • Management Information Systems (MIS) Department • Operations Department • Underwriting Departments: o Commercial Lines Division o Consumer Lines Division • Service Centres covering: o Administration o Compliance o Legal o Communications & Branding o Risk Management

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

28. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Risk Management Framework (continued)

The formal risk management framework of the Company is as follows:

- A Risk Management Committee ("RMC") was established at Board level to drive the risk management processes in identifying principal business risks and the implementation of appropriate systems to manage these risks.
- The RMC, co-chaired by the Chief Executive Officer and the Risk Officer was established with the responsibility to identify and communicate to the RMC on critical risks (present and potential) in terms of likelihood of exposures and impact on the Company's business and the management action plans to manage these risks on a continuing basis.
- The independent risk management and control functions under the Internal Audit Department provides support to the Audit Committee and RMC and are responsible to ascertain that the risk policies are implemented and complied with.
- The Business Units are responsible for identifying, mitigating and managing risks within their lines of business and to ensure that their day-to-day business activities are carried out in accordance with established risk policies, procedures and limits.
- The role of the Audit Committee, supported by the Internal Audit Department, is to provide an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls and compliance with risk policies, laws, internal and regulatory guidelines.
- The risk management policies are subject to review to ensure that they remain applicable and effective in managing the associated risks due to changes in the market and regulatory environments.
- The consolidated risk profile of the Company and the risk management manual are being developed and will follow the structure set out by Chartis Inc, penultimate holding company of the Company.

(c) Risk-based Capital Framework

Bank Negara Malaysia ("BNM") introduced a Risk Based Capital ("RBC") Framework, with effect from 1 January 2009. This Framework applies to all insurers licensed under the Insurance Act 1996. Under this Framework, an insurer is required to hold capital at a level that commensurate with its risk profile, taking into account credit, market, insurance and operational risks. Under this Frameworks, the Company is required to set an internal capital adequecy ratio ("ICAR") with clearance from BNM and the minimum statutory capital adequecy ratio ("CAR") is 130%.

The Company has established adequate capital position for both of its ICAR and CAR at all times.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

28. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Risk-based Capital Framework (continued)

RBC approach

The RBC Framework uses a standardised approach, with prescribed capital risk charge applicable against each of the identified risk areas. Capital is equal to the difference between assets and liabilities of the insurer. The RBC Framework specifies the method of valuation for both assets and liabilities - and essential first step in establishing a base level of risk in the level of adequacy of the capital itself.

Assets are generally required to be valued at fair market value. Insurance liabilities (claims and premium liabilities) are required to be valued by an actuary.

The prescribed capital risk charges are then applied against the values of each of the asset and liability classes, in order to bring the base level of adequacy up to a level considered to provide regulatory security.

(d) Capital Management Plan

With clearance from BNM, the Board approved and adopted the Capital Management Plan (“CMP”) for the Company in line with the requirements set out in the RBC Framework.

The objective of the CMP is to optimize the efficient and effective use of resources in order to maximise the return on equity and to provide an appropriate level of capital to protect the policyholders while taking into account events that can impact the operations and financial resilience of the Company directly or indirectly.

The CMP guides the management of capital in accordance with by the Company’s business strategies and organisational requisites that take into account the business and regulatory environment that the Company operates in. In this respect, the Company sets capital targets for both Tier 1 and Tier 2 as defined under the RBC Framework that is above the minimum regulatory requirements.

The management committee responsible for the oversight of the Company’s capital management is the Stress Test & Capital Management Review Committee. All proposals on any deviation from capital targets or capital raising exercise must be addressed to and approved by the RMC prior to recommendation to the Board for approval and implementation.

Stress Testing

The RBC framework also includes a Stress Policy which requires a stress test be conducted twice a year and as and when required to systematically evaluate the extent by which the Company’s capital could withstand market shocks and by which capital will be eroded by the principal risks identified due to exceptional but adverse plausible events and to determine the impact on the performance and financial conditions. The stress tests results together with the counter measures are tabled to the RMC for deliberation and recommendation to the Board for approval at time of submission to BNM.

This is consistent with our practice to review and study ICAR every half-year which is consistent to the stress test guidelines.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

28. RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Asset-Liability Management ("ALM") Framework

The primary objective of the Company's ALM policy is to ensure that adequate liquid assets are held at all times and to provide a satisfactory and consistent earnings on these assets. The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance. The Company's Investment Committee is primarily responsible for the asset/liability management based on guidelines approved by the Board.

ALM Philosophy

The primary investment objective of the fixed income portfolios is long-term preservation of capital and to ensure adequate liquidity to meet claims and other expense liabilities as they occur. A secondary investment objective of the fixed income portfolios is yield and return performance while controlling risk.

With respect to the general insurance business where the average duration of the liabilities ranges mostly between two and five years, the fixed income portfolios shall normally be constructed on a laddered basis with a duration target of between two and seven years and a spread of bond maturities out to around 10 years. In normal general insurance market circumstances, the insurance cash flows together with investment income and bond maturities are likely to be sufficient to meet claims payments. When this is not the case, then the fixed income holdings need to be in liquid bonds which can be easily sold to meet such insurance claim payments.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the timing and the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and reserving, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or the severity of claims are greater that estimated. Insurance events are random, and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and type of business covered. The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claim handling.

Underwriting policy

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company's basic underwriting policy is that each line of business is expected to make an underwriting profit on a stand-alone basis. Each product or line of business has its own detailed underwriting guidelines approved locally and regionally in New York. Underwriting authorities are clearly stipulated for each line of business within each profit center, and audited regularly by the profit center. Underwriting authorities and referral levels relate to both amounts and selection of risks to be covered.

Brief details of the Company's underwriting policy for the main classes of business are as follows:

Motor	Almost all business written consists of comprehensive insurance for private cars, generally sold through agents. The remainder consists of comprehensive cover for light commercial vehicles (C permit) and a very small amount of third party cover for private cars. Motor cycles are not accepted, other than on an accommodation basis. Cover is declined for vehicle models subject to high theft rates. A list of such vehicles (based on the Company's own experience) is monitored monthly and updated for underwriters at regular intervals. Rating is strictly in accordance with the BNM tariff and guidelines. Loadings are not generally applied, other than on risks which require referral (eg. young drivers, high value vehicles).
Accident & Health ("A&H")	The Company's A&H business comprises travel insurance, personal accident policies (both group and individual), and a relatively small amount of health cover, which are generally packaged products.
Commercial Lines	All accounts are individually underwritten, other than combined packages which are available on a pre-underwritten basis. Rating for property business is on a tariff basis.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK (CONTINUED)

Reinsurance

Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.

AIU Insurance Company ("AIUI"), a wholly-owned subsidiary of AIG, Inc., which acts as the Company's immediate reinsurer for most of the Company's treaty reinsurance contracts, is a major purchaser of reinsurance. AIUI is cognisant of the need to exercise good judgment in the selection and approval of companies participating in its reinsurance programs.

AIUI's Reinsurance Security Department, consisting of members of AIUI'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, AIUI's Credit Risk Committee reviews the credit limits and concentrations with any one reinsurer. No single reinsurer is a material reinsurer on AIUI nor is AIUI's business substantially dependent upon any reinsurance contract. In this respect, the Company relies on AIUI's technical support in assessing the Company's treaty reinsurance arrangements.

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

Claims management

Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.

The Company's claims reserving policy is to promptly establish a realistic case reserve based on all available factual information in order to produce a best estimate of the total ultimate payment of the claim. In addition, emphasis is placed on the need for consistency and stability of the reserving process, as case estimates are used in the Incurred but not reported ("IBNR") projections. The IBNR estimates are assessed by the external actuary appointed by the management.

Where there is insufficient information to set a realistic reserve when the claim file is first opened, a nominal initial reserve is established, equal to the average claim payment in the previous year for that class of business. As soon as additional information is received, the initial reserve is then replaced with a realistic reserve.

Open claim files are reviewed at regular intervals, and reserves are adjusted whenever additional information is received. In addition, all open files are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK (CONTINUED)

Diversification

Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The Company has an objective to control and minimise insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

* The use and maintenance of sophisticated management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time.
* Guidelines are issued for concluding insurance contracts and assuming insurance risks.
* Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of fraudulent claims.
* Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.

The concentration of insurance risk before and after reinsurance (based on insurance contract liabilities) in relation to the type of risk accepted is summarised below:

	Note	2011 Gross RM	Reinsurance RM	Net RM
Motor		248,241,944	4,917,138	253,159,082
Fire		149,331,750	(110,842,967)	38,488,783
Marine Cargo, Aviation Cargo & Transit		18,144,484	(15,016,417)	3,128,067
Miscellaneous		235,737,393	(71,939,021)	163,798,372
	12	651,455,571	(192,881,267)	458,574,304

	Note	2010 Gross RM	Reinsurance RM	Net RM
Motor		218,039,907	20,856,194	238,896,101
Fire		105,763,026	(74,646,698)	31,116,328
Marine Cargo, Aviation Cargo & Transit		17,929,298	(15,150,926)	2,778,372
Miscellaneous		238,885,423	(76,610,113)	162,275,310
	12	580,617,654	(145,551,543)	435,066,111

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK (CONTINUED)

Key Assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of loss development pattern and loss ratio movement.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors, such as, judicial decisions and government legislation affect the estimates.

Sensitivities

The general insurance claim liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before taxation and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements on these assumptions are non-linear.

31 December 2011	Changes in assumptions	Impact of gross liabilities **RM**	Impact of net liabilities **RM**	Impact on profit before tax **RM**	Impact on equity **RM**
Loss Development	+1.5%	31,066,067	23,881,107	(23,881,107)	(17,910,830)
	+1.0%	20,710,711	15,920,738	(15,920,738)	(11,940,554)
	+0.5%	10,355,356	7,960,369	(7,960,369)	(5,970,277)
Loss Ratio	+1.5%	68,912,720	49,588,920	(49,588,920)	(37,191,690)
	+1.0%	45,941,813	33,059,280	(33,059,280)	(24,794,460)
	+0.5%	22,970,907	16,529,640	(16,529,640)	(12,397,230)

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK (CONTINUED)

Sensitivities (continued)

31 December 2010	Changes in assumptions	Impact of gross liabilities **RM**	Impact of net liabilities **RM**	Impact on profit before tax **RM**	Impact on equity **RM**
Loss Development	+1.5%	29,919,224	23,759,078	(23,759,078)	(17,819,309)
	+1.0%	19,946,149	15,839,385	(15,839,385)	(11,879,539)
	+0.5%	9,973,075	7,919,693	(7,919,693)	(5,939,770)
Loss Ratio	+1.5%	57,958,214	42,179,954	(42,179,954)	(31,634,966)
	+1.0%	38,638,810	28,119,969	(28,119,969)	(21,089,977)
	+0.5%	19,319,405	14,059,985	(14,059,985)	(10,544,989)

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR reserves for each successive accident year at each date of the statement of financial position, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively higher. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Gross Insurance Contract Liabilities for 2011:

Accident year	Before 2004 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	Total RM
At end of accident year		198,786,599	242,332,939	196,234,329	205,372,094	286,126,320	228,530,326	264,519,434	329,704,947	
One year later		209,992,723	225,822,807	197,890,867	295,749,288	207,108,611	219,928,989	251,222,570	-	
Two years later		205,978,509	241,475,155	226,849,993	208,385,634	199,432,621	221,782,741	-	-	
Three years later		204,808,516	297,379,747	179,831,322	208,942,011	194,248,845	-	-	-	
Four years later		222,024,158	295,478,191	178,217,158	209,982,771	-	-	-	-	
Five years later		199,983,668	292,529,902	176,210,463	-	-	-	-	-	
Six years later		198,678,243	294,813,157	-	-	-	-	-	-	
Seven years later		193,653,132	-	-	-	-	-	-	-	
Current estimate of cumulative claims		193,653,132	294,813,157	176,210,463	209,982,771	194,248,845	221,782,741	251,222,570	329,704,947	
At end of accident year		87,183,955	94,318,683	85,582,199	94,003,793	89,432,288	101,427,234	95,256,750	118,261,614	
One year later		152,544,528	159,418,814	149,078,774	160,253,626	153,142,506	173,305,523	169,304,422	-	
Two years later		176,866,001	180,285,040	159,875,581	174,367,143	168,326,100	193,510,332	-	-	
Three years later		187,564,413	194,140,998	167,433,053	181,583,483	176,628,860	-	-	-	
Four years later		190,456,168	211,897,809	171,214,767	187,435,157	-	-	-	-	
Five years later		193,355,613	243,307,739	171,620,326	-	-	-	-	-	
Six years later		194,364,635	247,401,445	-	-	-	-	-	-	
Seven years later		192,055,779	-	-	-	-	-	-	-	
Cumulative payments to-date		192,055,779	247,401,445	171,620,326	187,435,157	176,628,860	193,510,332	169,304,422	118,261,614	
Gross insurance contract liabilities per statement of financial position (Note 12(i))	12,699,517	1,597,353	47,411,712	4,590,137	22,547,614	17,619,985	28,272,409	81,918,148	211,443,333	428,100,208

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Net Insurance Contract Liabilities for 2011:

Accident year	Before 2004 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	2011 RM	Total RM
At end of accident year		170,166,095	171,145,327	168,947,743	169,186,783	201,316,431	189,207,726	196,285,609	218,204,705	
One year later		149,414,005	155,560,327	167,169,713	226,079,972	130,171,352	171,194,581	183,231,841	-	
Two years later		148,051,646	154,484,804	188,345,842	174,070,006	122,155,493	170,974,809	-	-	
Three years later		149,125,296	187,711,871	154,085,306	173,128,209	172,433,838	-	-	-	
Four years later		162,485,043	190,246,501	152,369,322	175,727,583	-	-	-	-	
Five years later		149,878,174	185,100,174	152,591,133	-	-	-	-	-	
Six years later		148,425,539	200,293,259	-	-	-	-	-	-	
Seven years later		164,713,837	-	-	-	-	-	-	-	
Current estimate of cumulative claims		164,713,837	200,293,259	152,591,133	175,727,583	172,433,838	170,974,809	183,231,841	218,204,705	
At end of accident year		75,331,339	77,063,419	74,404,419	83,934,595	31,274,948	85,068,728	89,040,083	88,190,437	
One year later		122,421,054	125,581,879	129,407,177	136,783,446	87,458,169	138,760,466	145,707,153	-	
Two years later		132,187,160	134,792,922	137,301,967	146,056,521	99,204,477	152,327,790	-	-	
Three years later		139,564,121	141,953,424	142,860,579	151,671,406	157,465,221	-	-	-	
Four years later		142,127,991	152,314,490	146,504,013	157,669,286	-	-	-	-	
Five years later		144,460,786	165,529,476	148,862,279	-	-	-	-	-	
Six years later		145,398,628	181,189,050	-	-	-	-	-	-	
Seven years later		163,458,391	-	-	-	-	-	-	-	
Cumulative payments to-date		163,458,391	181,189,050	148,862,279	157,669,286	157,465,221	152,327,790	145,707,153	88,190,437	
Net insurance contract liabilities per statement of financial position (Note 12(i))	9,233,375	1,255,446	19,104,209	3,728,854	18,058,297	14,968,617	18,647,019	37,524,688	130,014,268	252,534,773

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Gross Insurance Contract Liabilities for 2010:

Accident year	Before 2003 RM	2003 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	Total RM
At end of accident year		173,439,276	198,786,599	242,332,939	196,234,329	205,372,094	286,126,320	228,530,326	264,519,434	
One year later		189,727,501	209,992,723	225,822,807	197,890,867	295,749,288	207,108,611	219,928,989	-	
Two years later		171,044,090	205,978,509	241,475,155	226,849,993	208,385,634	199,432,621	-	-	
Three years later		171,952,825	204,808,516	297,379,747	179,831,322	208,942,011	-	-	-	
Four years later		169,929,795	222,024,158	295,478,191	178,217,158	-	-	-	-	
Five years later		182,481,712	199,983,668	292,529,902	-	-	-	-	-	
Six years later		167,470,524	198,678,243	-	-	-	-	-	-	
Seven years later		168,025,551	-	-	-	-	-	-	-	
Current estimate of cumulative claims		168,025,551	198,678,243	292,529,902	178,217,158	208,942,011	199,432,621	219,928,989	264,519,434	
At end of accident year		74,862,434	87,183,955	94,318,683	85,582,199	94,003,793	89,432,288	101,427,234	95,256,750	
One year later		136,450,123	152,544,528	159,418,814	149,078,774	160,253,626	153,142,506	173,305,523	-	
Two years later		146,622,746	176,866,001	180,285,040	159,875,581	174,367,143	168,326,100	-	-	
Three years later		152,159,782	187,564,413	194,140,998	167,433,053	181,583,483	-	-	-	
Four years later		154,945,580	190,456,168	211,897,809	171,214,767	-	-	-	-	
Five years later		156,144,939	193,355,613	243,307,739	-	-	-	-	-	
Six years later		158,190,630	194,364,635	-	-	-	-	-	-	
Seven years later		161,300,559	-	-	-	-	-	-	-	
Cumulative payments to-date		161,300,559	194,364,635	243,307,739	171,214,767	181,583,483	168,326,100	173,305,523	95,256,750	
Gross insurance contract liabilities per statement of financial position (Note 12(i))	10,674,222	6,724,992	4,313,608	49,222,163	7,002,391	27,358,528	31,106,521	46,623,466	169,262,684	352,288,575

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

29. INSURANCE RISK (CONTINUED)

Claims Development table (continued)

Net Insurance Contract Liabilities for 2010:

Accident year	Before 2003 RM	2003 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	Total RM
At end of accident year		136,817,240	170,166,095	171,145,327	168,947,743	169,186,783	201,316,431	189,207,726	196,285,609	
One year later		130,947,666	149,414,005	155,560,327	167,169,713	226,079,972	130,171,352	171,194,581	-	
Two years later		127,941,996	148,051,646	154,484,804	188,345,842	174,070,006	122,155,493	-	-	
Three years later		127,908,481	149,125,296	187,711,871	154,085,306	173,128,209	-	-	-	
Four years later		128,083,574	162,485,043	190,246,501	152,369,322	-	-	-	-	
Five years later		139,082,282	149,878,174	185,100,174	-	-	-	-	-	
Six years later		130,278,257	148,425,539	-	-	-	-	-	-	
Seven years later		130,554,952	-	-	-	-	-	-	-	
Current estimate of cumulative claims		130,554,952	148,425,539	185,100,174	152,369,322	173,128,209	122,155,493	171,194,581	196,285,609	
At end of accident year		66,414,854	75,331,339	77,063,419	74,404,419	83,934,595	31,274,948	85,068,728	89,040,083	
One year later		108,073,734	122,421,054	125,581,879	129,407,177	136,783,446	87,458,169	138,760,466	-	
Two years later		114,361,971	132,187,160	134,792,922	137,301,967	146,056,521	99,204,477	-	-	
Three years later		117,467,382	139,564,121	141,953,424	142,860,579	151,671,406	-	-	-	
Four years later		119,904,806	142,127,991	152,314,490	146,504,013	-	-	-	-	
Five years later		120,657,687	144,460,786	165,529,476	-	-	-	-	-	
Six years later		122,571,272	145,398,628	-	-	-	-	-	-	
Seven years later		125,476,076	-	-	-	-	-	-	-	
Cumulative payments to-date		125,476,076	145,398,628	165,529,476	146,504,013	151,671,406	99,204,477	138,760,466	89,040,083	
Net insurance contract liabilities per statement of financial position (Note 12(i))	9,138,243	5,078,876	3,026,911	19,570,698	5,865,309	21,456,803	22,951,016	32,434,115	107,245,526	226,767,497

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is the proceeds from its financial assets are not sufficient to fund the obligation arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements.

(a) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk includes credit risks in investments and insurance portfolios and counterparty risks. Key areas where the Company is exposed to credit risk are:

- reinsurer's share of insurance liabilities

- amounts due from reinsurer in respect of claims already paid

- amounts due from insurance contract holders

- amounts due from insurance intermediaries

- amounts due from loans and receivables

- amounts due from debt securities

- amounts due from money market and cash position

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound.

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. The Company also puts in place policies on credit terms extended to its producers and cancellation of insurance contracts with unpaid premiums beyond the agreed credit terms.

The Company manages the level of risk it accepts by putting in place policies on credit terms. Strict cash before cover and premium warranty endorsement of 60 days are enforced on all policies to prevent capital being tied up in receivables. Upon default, agents will be suspended and policies will be terminated or cancelled unless an appropriate proposal to settle is satisfactory to the management. Thereafter, management keeps a close monitoring on such defaulters by imposing cash terms until debts are completely settled.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Significant credit risk management expertise and resources are available at the regional and corporate offices of the ultimate parent company. The Company adopted policies and procedures developed internally and those mandated by its regional and AIG New York offices of its ultimate parent company.

The Company has put in place various monitoring and control measures depending on the types of financial assets for which the credit risk arises. For cash and cash equivalents, the Company monitors credit risk through the use of exposure limits. The level of bank exposure is monitored by the Company on a daily basis vis-a-vis the exposure limits. They are reported to the AIG New York office on a monthly basis.

For receivables, the Company prepares aging reports for each creditor type which management reviews on a monthly basis.

Credit exposure

The table below shows the maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Note	2011 RM	2010 RM
31 December			
Loans and receivables, excluding insurance receivables	8	183,391,435	205,110,613
Available-for-sale financial assets	6	594,489,552	619,774,796
Reinsurance assets	7	192,881,267	145,551,543
Insurance receivables	9	80,061,651	78,915,503
Cash and bank balances		13,461,667	11,038,814
		1,064,285,572	1,060,391,269

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating

The table below provides information regarding the credit quality of financial assets of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past due nor impaired	Past-due but not impaired	Past-due and impaired	Total
	RM	**RM**	**RM**	**RM**
31 December 2011				
Loans and receivables excluding insurance receivables	183,391,435	-	653,581	184,045,016
Available-for-sale financial assets	594,489,552	-	-	594,489,552
Reinsurance assets	192,881,267	-	-	192,881,267
Insurance receivables	48,132,089	31,929,562	1,726,447	81,788,098
Cash and bank balances	13,461,667	-	-	13,461,667
	1,032,356,009	31,929,562	2,380,028	1,066,665,600
Allowance for impairment	-	-	(2,380,028)	(2,380,028)
	1,032,356,009	31,929,562	-	1,064,285,572

	Neither past due nor impaired	Past-due but not impaired	Past-due and impaired	Total
	RM	**RM**	**RM**	**RM**
31 December 2010				
Loans and receivables excluding insurance receivables	205,110,613	-	540,384	205,650,997
Available-for-sale financial assets	619,774,796	-	-	619,774,796
Reinsurance assets	145,551,543	-	-	145,551,543
Insurance receivables	45,003,072	33,912,431	3,764,946	82,680,449
Cash and bank balances	11,038,814	-	-	11,038,814
	1,026,478,838	33,912,431	4,305,330	1,064,696,599
Allowance for impairment	-	-	(4,305,330)	(4,305,330)
	1,026,478,838	33,912,431	-	1,060,391,269

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's ("RAM") and Malaysian Rating Corporation Berhad ("MARC") credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA RM	AA RM	A RM	Not rated RM	Total RM
31 December 2011					
Loans and receivables excluding insurance receivables	135,885,767	35,239,658	-	12,266,010	183,391,435
Available-for-sale financial assets	161,836,675	56,797,923	3,085,776	372,769,178	594,489,552
Reinsurance assets	-	-	-	192,881,267	192,881,267
Insurance receivables	-	-	1,208,985	78,852,666	80,061,651
Cash and bank balances	-	-	-	13,461,667	13,461,667
	297,722,442	92,037,581	4,294,761	670,230,788	1,064,285,572

	AAA RM	AA RM	A RM	Not rated RM	Total RM
31 December 2010					
Loans and receivables excluding insurance receivables	154,715,236	35,238,412	-	15,156,965	205,110,613
Available-for-sale financial assets	204,676,327	15,879,777	3,105,530	396,113,162	619,774,796
Reinsurance assets	-	-	81,854,431	63,697,112	145,551,543
Insurance receivables	-	-	1,475,925	77,439,578	78,915,503
Cash and bank balances	-	-	-	11,038,814	11,038,814
	359,391,563	51,118,189	86,435,886	563,445,631	1,060,391,269

Age analysis of financial assets past-due but not impaired

	< 30 days RM	31 to 60 days RM	61 to 90 days RM	> 91 days RM	Total RM
31 December 2011					
Insurance receivables	3,428,314	967,386	3,593,006	23,940,856	31,929,562
	3,428,314	967,386	3,593,006	23,940,856	31,929,562
31 December 2010					
Insurance receivables	2,850,335	871,573	2,953,440	27,237,083	33,912,431
	2,850,335	871,573	2,953,440	27,237,083	33,912,431

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(a) Credit risk (continued)

Impaired financial assets

At 31 December 2011, based on a individual assessment of receivables, there are impaired insurance receivables of **RM1,726,447 (2010: RM3,764,946).** For assets to be classified as "past-due and impaired", contractual payments must be in arrears for more than two (2) months. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate allowance for doubtful debts accounts. A reconciliation of the allowance for impairment losses for loans and receivables and insurance receivables is as follows:

	Note	2011 RM	2010 RM
Insurance receivables			
At 1 January		3,764,946	1,517,217
Movement for the financial year	22	(2,038,499)	2,247,729
At 31 December	9	1,726,447	3,764,946
LAR, excluding insurance receivables			
At 1 January		540,384	525,341
Movement for the financial year	22	113,197	15,043
At 31 December	8	653,581	540,384

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial instruments. The Company's liquidity is primarily derived from the operating cash flows which are derived from two sources i.e. underwriting operations and investment operations.

The Company's strong capital position is integral to managing this liquidity. Directors believe that the Company's liquid assets and its net cash provided by operations will enable it to meet any foreseeable cash requirements. In addition, being a 100%-owned subsidiary, the Company relies on the funding capability of its immediate parent company. The major liquidity risk confronting the Company is the day-to-day cash requirements for claims arising from insurance contracts. This risk is addressed by an effective cash management function and ensuring that liquidity is a major consideration for selecting long-term investment securities.

A daily cash position report is prepared and reviewed by management on daily bank balances. The report takes into account projections for settlement of major claims and other liabilities based on the input provided by the different departments executing the transactions.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(b) Liquidity risk (continued)

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest/profit payable and receivable.

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability its applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate using information that develops during the course of the loss adjustment process.

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(b) Liquidity Risk (continued)

31 December 2011	Carrying Value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	> 5 years RM	No maturity date RM	Total RM
Financial investments:							
Loans and receivables, excluding insurance receivables	183,391,435	67,950,330	72,528,564	5,797,220	37,233,820	18,685,343	202,195,277
Available-for-sale financial assets	628,381,332	127,560,975	367,610,425	61,396,600	93,682,350	33,891,781	684,142,131
Reinsurance assets	192,881,267	111,714,331	60,819,138	14,152,210	6,195,588	-	192,881,267
Insurance receivables	80,061,651	80,061,651	-	-	-	-	80,061,651
Cash and bank balances	13,461,667	13,461,667	-	-	-	-	13,461,667
Total assets	1,098,177,352	400,748,954	500,958,127	81,346,030	137,111,758	52,577,124	1,172,741,993
Insurance contract liabilities	651,455,571	377,314,627	205,416,352	47,799,023	20,925,569	-	651,455,571
Insurance payables	92,479,375	92,479,375	-	-	-	-	92,479,375
Other payables	24,323,089	24,323,089	-	-	-	-	24,323,089
Total liabilities	768,258,035	494,117,091	205,416,352	47,799,023	20,925,569	-	768,258,035

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(b) Liquidity Risk (continued)

31 December 2010	Carrying Value RM	Up to a year RM	1 - 3 years RM	3 - 5 years RM	> 5 years RM	No maturity date RM	Total RM
Financial investments:							
Loans and receivables, excluding insurance receivables	205,110,613	39,904,659	113,814,914	16,225,122	55,425,555	11,541,384	236,911,634
Available-for-sale financial assets	650,231,593	197,184,620	252,099,475	106,224,875	135,889,711	30,456,797	721,855,478
Reinsurance assets	145,551,543	66,765,056	51,900,337	25,836,105	1,050,045	-	145,551,543
Insurance receivables	78,915,503	78,915,503	-	-	-	-	78,915,503
Cash and bank balances	11,038,814	11,038,814	-	-	-	-	11,038,814
Total assets	1,090,848,066	393,808,652	417,814,726	148,286,102	192,365,311	41,998,181	1,194,272,972
Insurance contract liabilities	580,617,654	291,622,530	193,687,525	73,276,500	22,031,099	-	580,617,654
Insurance payables	93,109,293	93,109,293	-	-	-	-	93,109,293
Other payables	21,936,340	21,936,340	-	-	-	-	21,936,340
Total liabilities	695,663,287	406,668,163	193,687,525	73,276,500	22,031,099	-	695,663,287

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(c) Currency risk

Currency risk is the risk that fair value of the financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not significantly exposed to currency risk as the Company's financial assets and financial liabilities are denominated in the same currencies as its insurance liabilities and does not face currency risk as the entire investment portfolio is invested in Malaysia in Ringgit denominated assets.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates, interest rates or market prices, whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

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

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.

To minimise its exposure to investment risk, the Company 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 Company's equity price risk exposure at financial year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally available-for-sale equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments.

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(d) Market risk (continued)

Equity price risk (continued)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair value or recorded in Income Statement) and Equity (that reflects changes in fair value of available-for-sale financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on equity risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		31 December 2011		**31 December 2010**	
Market Indices	Change in variable	Impact on profit before tax	Impact on equity*	Impact on profit before taxation	Impact on equity*
Bursa Malaysia	+15%	-	3,811,986	-	2,554,312
Bursa Malaysia	-15%	-	(3,811,986)	-	(2,554,312)

* impact on Equity reflects adjustments for tax, when applicable.

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Company's available-for-sale debt securities bear fixed interest rates and therefore the Company is exposed to fair value interest rate risk, but not to cash flow interest rate risk.

In dealing with this risk, the Company 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.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity that reflects re-valuing fixed rate available-for-sale debt securities. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		31 December 2011		**31 December 2010**	
	Change in variable	Impact on profit before tax	Impact on equity*	Impact on profit before taxation	Impact on equity*
Interest rate	+100 basis point	-	(11,776,550)	-	(14,121,182)
Interest rate	-100 basis point	-	11,776,550	-	14,121,182

* impact on Equity reflects adjustments for tax, when applicable.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(e) Business and operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and evaluation procedures. Internal Audit, supported by Legal and Compliance Departments, review the effectiveness of internal controls on a regular basis.

(f) Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and items not recognised in the statement of financial position. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction.

The carrying amounts of financial assets and financial liabilities of the Company at the end of the reporting period approximated their fair values except as set out below:

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	RM	RM	RM	RM
Financial assets				
Reinsurance assets	192,881,267	186,539,525	145,551,543	138,901,934
Loan and receivables, excluding insurance receivables	183,391,435	165,760,740	205,110,613	181,351,945
	376,272,702	352,300,265	350,662,156	320,253,879
Financial liabilities				
Insurance contract liabilities	651,455,571	630,036,367	580,617,654	555,333,871
	651,455,571	630,036,367	580,617,654	555,333,871

The carrying amount of the other receivables as at 31 December 2011 and 31 December 2010 was not reduced to their estimated fair values as the Directors are of the opinion that the amounts will be recoverable in full on the maturity date.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(g) Fair value hierarchy

Fair value is the amount at which a financial asset could be exchanged or financial liabilities settled, between knowledgeable and willing parties in an arm's length transaction. With effect from 1 January 2011, the Company has adopted the Amendment to FRS 7 which requires disclosure of fair value measurement by heirarchy.

Comparative figures have not been presented for 31 December 2010 as allowed by the transition provision arising from the adoption of Amendment to FRS 7 - "Improving Disclosure about financial instruments".

The table below analyses those financial instruments carried fair value by their valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assests or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e as prices) or indirectly (i.e derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2011 **Financial assets**	**Level 1** **RM**	**Level 2** **RM**	**Level 3** **RM**	**Total** **RM**
Other investment:				
Available-for-sale financial assets	33,891,781	594,489,552	-	628,381,332

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Company then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain bonds, government bonds, corporate debt securities, repurchase and reverse purchase agreements, loans.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2011 (CONTINUED)

30. FINANCIAL RISK (CONTINUED)

(g) Fair value hierarchy (continued)

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

(h) Regulatory capital requirements

The capital structure of the Company as at 31 December, as prescribed under the Framework is provided below:

	2011 RM	2010 RM
Eligible Tier 1 Capital		
Share capital (paid-up)	310,800,000	310,800,000
Retained earnings	43,717,930	106,648,491
	354,517,930	417,448,491
Tier 2 Capital		
Eligible reserves	15,204,068	14,529,334
	15,204,068	14,529,334
*Amount deducted from Capital	(2,369,099)	(2,299,794)
Total Capital Available	367,352,899	429,678,031

At the end of 2011, approximately 97% of the Company's total capital consists of Tier 1 capital, comprising of fully paid-up ordinary shares and retained earnings.