



BERJAYA SOMPO INSURANCE BERHAD
(62605-U)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2014

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

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BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2014.

PRINCIPAL ACTIVITY

The principal activity of the Company is the underwriting of general insurance business.

The principal activities of the wholesale unit trust funds are investments in fixed income instruments and money market instruments.

There has been no significant changes in the principal activities of the Company during the financial year. However, the Company as at 30 Nov 2014 disposed of all of its controlled wholesale unit trust funds.

RESULTS

	Group RM'000	Company RM'000
Net profit for the year	75,951	75,854
Profit attributable to:		
Equity holder of the Company	75,918	75,854
Non-controlling interests	33	-
	<u>75,951</u>	<u>75,854</u>

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

No dividend has been paid or declared since the end of the previous financial period.

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

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Dato' Haji Ahmad bin Sidek (Chairman)
Dato' Loh Lye Ngok
Datuk Bhupatrai A/L Mansukhlal Premji
Dato' Sri Robin Tan Yeong Ching
Azhar Bin Mohamad
Yuji Kawauchi (Appointed on 18 August 2014)
Katsuyuki Tajiri (Appointed on 16 May 2014)
Keishi Nakamura (Resigned on 16 May 2014)
Hiroei Suzuki (Resigned on 30 June 2014)

CORPORATE GOVERNANCE

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under Prudential Framework of Corporate Governance for Insurers issued by Bank Negara Malaysia ("BNM").

CORPORATE GOVERNANCE STANDARDS

The membership, roles and terms of reference of the Audit Committee, Risk Management Committee, Nominating Committee and Remuneration Committee of the Company are as follows:

1. AUDIT COMMITTEE

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

- (i) Dato' Haji Ahmad bin Sidek (Chairman)
- (ii) Datuk Bhupatrai A/L Mansukhlal Premji
- (iii) Azhar Bin Mohamad
- (iv) Katsuyuki Tajiri (Appointed on 22 May 2014)

The AC is to assist the Board of Directors in discharging its duties of maintaining a sound system of internal controls to safeguard the Company's assets. It is also responsible for reviewing the financial reporting and internal audit processes to ensure compliance with relevant laws and regulations.

The AC met six (6) times during the financial year.

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

CORPORATE GOVERNANCE (CONT'D.)

CORPORATE GOVERNANCE STANDARDS (CONT'D.)

2. RISK MANAGEMENT COMMITTEE

The composition of the Risk Management Committee ("RMC") is as follows:

- (i) Dato' Haji Ahmad bin Sidek (Chairman)
- (ii) Datuk Bhupatrai A/L Mansukhlal Premji
- (iii) Azhar Bin Mohamad
- (iv) Katsuyuki Tajiri (Appointed on 22 May 2014)

The responsibilities of the RMC include the review, assessment and recommendation of the risk management strategies and risk tolerance, the adequacy of the policies and framework for identifying, measuring, monitoring and controlling risks, as well as the extent to which these are operating effectively through adequate infrastructure, resources and systems.

The RMC met six (6) times during the financial year.

3. NOMINATING COMMITTEE

The composition of the Nominating Committee ("NC") is as follows:

- (i) Datuk Bhupatrai A/L Mansukhlal Premji (Chairman)
- (ii) Dato' Sri Robin Tan Yeong Ching
- (iii) Dato' Loh Lye Ngok
- (iv) Dato' Haji Ahmad bin Sidek
- (v) Yuji Kawauchi (Appointed on 19 August 2014)
- (vi) Katsuyuki Tajiri (Appointed on 22 May 2014)

The NC is responsible to establish the minimum requirement for the Board of Directors and the Chief Executive Officer to perform their responsibilities effectively. It also annually reviews the Board structure, size and composition, and the mix of skills and core competencies required for the Board to discharge its duties effectively. It will also assess on an annual basis, the effectiveness of the Board and the Board Committees.

The NC is also empowered to consider and evaluate the appointment of new directors and directors to fill the seats on the Board Committees of the Company and to recommend candidates to the Board and BNM for appointment and reappointment or re-election. In addition to that, the committee is also entrusted with the responsibility for both the appointment and evaluation of the Chief Executive Officer and key senior officers of the Company.

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

CORPORATE GOVERNANCE (CONT'D.)

CORPORATE GOVERNANCE STANDARDS (CONT'D.)

3. NOMINATING COMMITTEE (CONT'D.)

The NC also ensures that all Directors undergo appropriate induction programmes and receive continuous training. In addition, the NC also oversees the management succession planning of the Company.

The NC met four (4) times during the financial year.

4. REMUNERATION COMMITTEE

The composition of the Remuneration Committee ("RC") is as follows:

- (i) Datuk Bhupatrai A/L Mansukhlal Premji (Chairman)
- (ii) Dato' Sri Robin Tan Yeong Ching
- (iii) Dato' Haji Ahmad bin Sidek
- (iv) Katsuyuki Tajiri (Appointed on 22 May 2014)

The RC is responsible to recommend a framework of remuneration for Directors, Chief Executive Officer and key senior officers of the Company. In addition, it is also responsible to recommend specific remuneration packages for Directors, Chief Executive Officer and key senior officers of the Company.

The RC met two (2) times during the financial year.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, or the options over the unissued shares of the holding company and other related companies granted to certain directors.

Since the end of the previous financial period, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 22 and Note 25 to the financial statements or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors in office at the end of the financial year had any interest in shares in the company or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

- (a) Before the statement of financial position of the Company and income statements of the Group and of the Company were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and that all known bad debts had been written off and adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would:
 - (i) render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial position of the Company and income statement of the Group and of the Company inadequate to any substantial extent; and
 - (ii) render the values attributed to the current assets in the financial positions of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.

BERJAYA SOMPO INSURANCE BERHAD
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OTHER STATUTORY INFORMATION (CONT'D.)

(f) In the opinion of the directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations as and when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e)(ii) and (f)(i), contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

- (g) Before the statement of financial position of the Company, income statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that there was adequate provisions for its insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital Framework for Insurers issued by Bank Negara Malaysia.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 24 March 2015.



Dato' Haji Ahmad bin Sidek



Dato' Loh Lye Ngok

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Dato' Haji Ahmad bin Sidek and Dato' Loh Lye Ngok, being two of the directors of Berjaya Sampo Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 10 to 83 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia, and Financial Services Act 2013 so as to give a true and fair view of :

- (a) the financial position of the Company as at 31 December 2014;
- (b) the cash flows of the Company for the year ended 31 December 2014 and;
- (c) the results of the Group and the Company for the year ended 31 December 2014.

Signed on behalf of the Board in accordance with a resolution of the directors dated 24 March 2015.



Dato' Haji Ahmad bin Sidek



Dato' Loh Lye Ngok

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

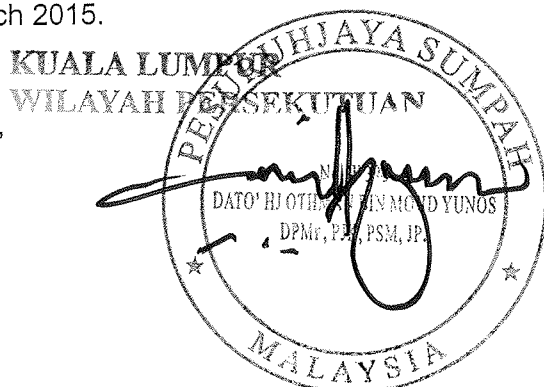
I, Teng Mee Nguk, being the officer primarily responsible for the financial management of Berjaya Sampo Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 10 to 83 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed Teng Mee Nguk,
at Kuala Lumpur in Wilayah Persekutuan
on 24 March 2015.



Teng Mee Nguk

Before me,



Kios 2, Aras 6
Kompleks KDN, WP, KUALA LUMPUR
Jalan Sri Hartamas 1, 7
50480 Kuala Lumpur

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**Independent auditors' report to the members of
Berjaya Sampo Insurance Berhad
(Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of Berjaya Sampo Insurance Berhad, which comprise the statement of financial position of the Company as at 31 December 2014, cash flows statement of the Company for the year ended 31 December 2014 and the income statements, statements of comprehensive income and the statements of changes in equity of the Group and of the Company for the year ended 31 December 2014, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 83.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is 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 judgement, 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 financial statements that give a 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.

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**Independent auditors' report to the members of
Berjaya Sampo Insurance Berhad (Cont'd.)
(Incorporated in Malaysia)**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, cash flows of the Company for the year ended 31 December 2014 and financial performance of the Group and of the Company for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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 provision of the Act.

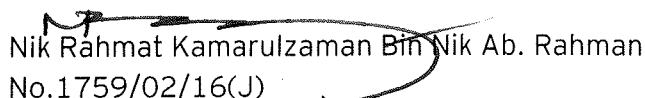
Other matters

This report is made solely to the members 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.



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
24 March 2015



Nik Rahmat Kamarulzaman Bin Nik Ab. Rahman
No.1759/02/16(J)
Chartered Accountant

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

		Company	
		2014	2013
	Note	RM'000	RM'000
ASSETS			
Property and equipment	3	103,276	90,882
Intangible assets	4	1,856	1,449
Investment properties	5	23,153	19,860
Investments	6	856,808	811,701
Malaysian government securities		19,942	10,050
Debt securities		156,193	77,868
Warrants and loan stocks		18,035	21,350
Equity securities		135,426	152,905
Unit trust funds/wholesale funds			
Deposits with financial institutions		527,212	487,428
		-	62,100
Reinsurance assets	7	247,862	178,713
Insurance receivables	8	61,197	46,759
Other receivables	9	67,803	59,673
Tax recoverable		4,788	1,645
Cash and cash equivalents	11	233,009	158,434
TOTAL ASSETS		1,599,752	1,369,116
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	118,000	118,000
Available-for-sale reserves		32,535	44,997
Retained profits		465,664	389,810
TOTAL EQUITY		616,199	552,807
LIABILITIES			
Insurance contract liabilities	13	876,130	734,503
Deferred tax liabilities	10	5,868	8,213
Insurance payables	14	62,169	48,570
Other payables	15	39,386	25,023
TOTAL LIABILITIES		983,553	816,309
TOTAL EQUITY AND LIABILITIES		1,599,752	1,369,116

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

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Group		Company	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Gross earned premiums	16(a)	578,285	516,847	578,285	516,847
Premiums ceded to reinsurers	16(b)	(122,455)	(110,691)	(122,455)	(110,691)
Net earned premiums		<u>455,830</u>	<u>406,156</u>	<u>455,830</u>	<u>406,156</u>
Investment income	17	36,217	33,033	35,996	32,061
Realised gains and losses	18	9,271	7,292	9,271	7,292
Fair value gains	19	3,409	4,628	3,409	5,452
Commission income		36,384	27,268	36,384	27,268
Other operating income	20	1,824	3,610	1,824	3,610
Other revenue		<u>87,105</u>	<u>75,831</u>	<u>86,884</u>	<u>75,683</u>
Gross claims paid	21(a)	(303,336)	(291,792)	(303,336)	(291,792)
Claims ceded to reinsurers	21(b)	49,803	45,142	49,803	45,142
Gross change in contract liabilities	21(c)	(89,383)	(25,405)	(89,383)	(25,405)
Change in contract liabilities ceded to reinsurers	21(d)	51,604	17,653	51,604	17,653
Net claims incurred	21	<u>(291,312)</u>	<u>(254,402)</u>	<u>(291,312)</u>	<u>(254,402)</u>
Commission expense		(79,873)	(69,568)	(79,873)	(69,568)
Management expense	22	(81,935)	(74,747)	(81,811)	(74,599)
Other expenses		<u>(161,808)</u>	<u>(144,315)</u>	<u>(161,684)</u>	<u>(144,167)</u>
Profit before tax		89,815	83,270	89,718	83,270
Tax expense	23	(13,864)	(15,760)	(13,864)	(15,760)
Net profit for the period/ year		<u>75,951</u>	<u>67,510</u>	<u>75,854</u>	<u>67,510</u>
Earnings per share (sen)	24	64.4	57.2		

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

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Net profit for the period/ year	75,951	67,510	75,854	67,510
Other comprehensive income:				
Items that may be reclassified to Income Statements in subsequent periods:				
Available-for-sale fair value reserves:				
Net unrealised (loss)/gain on fair value changes	(12,256)	19,011	(12,256)	19,011
Transfer to profit or loss upon disposal	(4,359)	(7,394)	(4,359)	(7,394)
	(16,615)	11,617	(16,615)	11,617
Tax effects	4,154	(2,904)	4,154	(2,904)
	(12,461)	8,713	(12,461)	8,713
Total comprehensive income for the period/ year	63,490	76,223	63,393	76,223
Profit attributable to:				
Equity holder of the Company	75,918	67,510	75,854	67,510
Non-controlling interests	33	-*	-	-
	75,951	67,510	75,854	67,510
Total comprehensive income attributable to:				
Equity holder of the Company	55,149	76,223	63,393	76,223
Non-controlling interests	33	-**	-	-
	55,182	76,223	63,393	76,223

* Denotes profit attribute to non-controlling interests of RM782

** Denotes total comprehensive income to non-controlling interests of RM922

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

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BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

Group	Non-distributable	Distributable		
	Share capital RM'000	Available- for-sale reserves RM'000	Retained profits RM'000	Non- controlling interests RM'000
At 1 January 2013	118,000	36,284	322,300	-
Increase in investment during the year	-	-	-	1,000
Profit for the year	-	-	67,510	-
Other comprehensive income for the year	-	8,713	-	-
Total comprehensive income for the year	-	8,713	67,510	1,000
At 31 December 2013	118,000	44,997	389,810	1,000
At 1 January 2014	118,000	44,997	389,810	1,000
Profit for the period	-	-	75,918	33
Other comprehensive income for the period	-	(12,462)	-	-
Effect on disposal of controlled wholesale unit trust funds	-	-	(64)	(1,033)
At the end of the period	118,000	32,535	465,664	-

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

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BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONT'D.)

Company	Non-distributable Share capital RM'000	Fair value reserves RM'000	Distributable Retained profits RM'000	Total equity RM'000
At 1 January 2013	118,000	36,284	322,300	476,584
Profit for the year	-	-	67,510	67,510
Other comprehensive income for the year	-	8,713	-	8,713
Total comprehensive income for the year	-	8,713	67,510	76,223
At 31 December 2013	118,000	44,997	389,810	552,807
At 1 January 2014	118,000	44,997	389,810	552,807
Profit for the year	-	-	75,854	75,854
Other comprehensive income for the year	-	(12,462)	-	(12,462)
Total comprehensive income for the year	-	(12,462)	75,854	63,392
At 31 December 2014	118,000	32,535	465,664	616,199

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

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOWS STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

		Company	
		2014	2013
	Note	RM'000	RM'000
Cash flows from			
operating activities			
Retained premiums less commissions		467,555	457,443
Claims less recoveries		(242,104)	(347,603)
Interest income		13,206	23,930
Net dividends		20,317	4,947
Management expenses		(77,493)	(69,028)
Purchase of investments		(407,627)	(381,746)
Proceeds from sale of investments		305,968	85,588
Net (placement)/maturity of fixed and call deposits		14,839	97,000
Rental income		1,138	1,151
Cash generated from operations		95,799	(128,318)
Taxes paid		(15,199)	(13,055)
Net cash (used in)/generated from operating activities		80,600	(141,373)
Cash flows from			
investing activities			
Purchases of property and equipment and intangible assets		(2,129)	(2,244)
Purchases of Building		(4,127)	(53,946)
Purchases of Club Membership		-	(213)
Proceeds from sale of property and equipment		231	499
Net cash used in investing activities		(6,025)	(55,904)
Net increase/(decrease) in cash and cash equivalents		74,575	(197,277)
Cash and cash equivalents at beginning of year	11	158,434	355,711
Cash and cash equivalents at end of year	11	233,009	158,434

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

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at the 18th Floor, Menara BGI, Plaza Berjaya, 12, Jalan Imbi, 55100 Kuala Lumpur.

The holding and ultimate holding companies of the Company are Sampo Japan Asia Holdings Pte. Ltd. and NKSJ Holdings, Inc respectively, both of which are incorporated in Singapore and Japan respectively. The ultimate holding company, NKSJ Holdings, Inc is listed on the Tokyo Stock Exchange and Osaka Securities Exchange.

The principal activity of the Company is the underwriting of general insurance business. There has been no significant changes in the nature of the principal activity during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24th of March 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Group and the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Group and Company have also been prepared on a historical cost basis, except as disclosed in the summary of significant accounting policies.

The Company has met the minimum capital requirements as prescribed by RBC as at the reporting 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 expenses will not be offset in the income statements unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group and the Company.

BERJAYA SOMPO INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 BASIS OF PREPARATION (CONT'D.)

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when indicated otherwise.

2.2 BASIS OF CONSOLIDATION

The financial statements comprise of the financial statements of the Company and its controlled wholesale unit trust funds as at 31 December 2014. Control is achieved when the Group is exposed or has rights, to variable returns from its involvement with the investee and has the ability to effect those returns through its power over the investee.

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidation financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit and loss and each component of the other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustment are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 BASIS OF CONSOLIDATION (CONT'D)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain and loss is recognised in profit or loss. Any investment retained is recognised at fair value.

In 2014, the Group lost control over the wholesale unit trust funds through the disposal of its units in those funds. As a result of these disposals, the Group derecognised the related assets, liabilities and non-controlling interest. Hence, the financial statements only present the statement of financial position for the Company as at 31 December 2014.

2.3 CHANGES IN THE ACCOUNTING POLICIES

On 1 January 2014, the Group and the Company adopted the following amended MFRSs and Interpretation of the Issues Committee ("IC Interpretation") mandatory for annual financial periods beginning on or after 1 January 2014:

Description	Effective for annual periods beginning on or after
• MFRS 10 Consolidated Financial Statements - Investment Entities (Amendments to MFRS 10)	1 January 2014
• MFRS 12 Disclosure of Interest in Other Entities - Investment Entities (Amendments to MFRS 12)	1 January 2014
• MFRS 127 Separate Financial Statements - Investment Entities (Amendments to MFRS 127)	1 January 2014
• MFRS 132 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)	1 January 2014
• MFRS 136 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS 136)	1 January 2014
• MFRS 139 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments to MFRS 139)	1 January 2014
• IC Interpretation 21 Levies	1 January 2014

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 CHANGES IN THE ACCOUNTING POLICIES (CONT'D.)

The adoption of the above Standards and Interpretation did not have any effect on the financial performance or position of the Group and the Company except for as follows:

- (i) Offsetting financial assets and financial liabilities (Amendments to MFRS 132)

The amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and retrospective application is required.

The additional disclosures are disclosed in Note 8 and Note 14.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Property and equipment

All items of property and equipment are initially recorded at cost. 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 income statement during the financial year in which they are incurred.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.4 (e).

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

Land and buildings	2%
Motor vehicles	20%
Furniture, fittings and office equipment	10%
Computers	20%

The residual values, useful life and depreciation method are reviewed at each reporting date to ensure that the amount, method and period of depreciation are consistent with the previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in income statement.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Intangible assets

The intangible assets of the Company consist of computer software and golf club memberships. These intangible assets, which were acquired separately, are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or infinite. The useful life of computer software is five years while the useful life of the life-time golf club memberships is infinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation year and the amortisation method for an intangible asset with a finite useful life are reviewed at least once at each reporting date.

Amortisation is charged to the income statement.

Intangible assets with infinite lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying values may be impaired either individually or at the cash-generating unit ("CGU") level. The useful lives of intangible assets with infinite lives are also reviewed annually to determine whether the useful life assessment continues to be supportable.

(c) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance lease in the same way as leases of other assets and the land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification.

All leases that do not transfer substantially all the risks and rewards are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Leases (Cont'd.)

(ii) Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(d) Investment properties

Investment properties are properties which are owned or held to earn rental income or for capital appreciation or both.

Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Any gains or losses arising from the changes in fair value of investment properties are recognised in income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in income statement in the year in which they arise.

(e) Impairment of non-financial assets

The carrying amounts of non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs to.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Impairment of non-financial assets (Cont'd.)

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in the income statement in the year in which it arises.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the assets in prior years.

Reversal of impairment loss for an asset is recognised in the income statement.

(f) Financial instruments

Financial instruments are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends, gains and losses relating to a financial instrument classified as an asset or liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Financial assets

Financial assets are recognised initially at fair value, plus in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments (cont'd.)

(i) Financial assets (Cont'd.)

The subsequent measurement of financial assets depends on their classification as follows:

(a) Financial assets at fair value through profit or loss ("FVTPL")

FVTPL includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets classified as held for trading are derivatives or financial assets acquired principally for the purpose of selling in the near term.

Financial assets designated upon initial recognition as FVTPL are designated at their initial recognition date and only if the criteria under MFRS 139 are satisfied, which includes the following:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising the gains or losses on different basis, or
- the assets and liabilities are part of the group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value.

Net gains or net losses on financial assets at FVTPL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVTPL are recognised separately in profit or loss.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments (cont'd.)

(i) Financial assets (Cont'd.)

(b) Loans and receivables ("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, such financial assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in the income statements when the loans and receivables are derecognised or impaired, as well as through the amortisation process. For the accounting policies with respect to insurance receivables, refer to note 2.4(f)(i)(e).

LAR includes insurance receivables, deposits with financial institutions and interest income accrued.

(c) Held-to-maturity ("HTM") financial assets

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These financial assets are carried at amortised cost using the effective interest method, less any impairment loss. Gains or losses are recognised in the income statements when the investments are derecognised or impaired, as well as through the amortisation process.

(d) Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in other comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the income statement.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments (Cont'd.)

(i) Financial assets (Cont'd.)

(d) Available-for-sale ("AFS") financial assets (Cont'd.)

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

(e) Insurance receivables

Insurance receivables are amounts receivable under the contractual terms of an insurance contract. On initial recognition, insurance receivables are measured at fair value based on the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost using effective interest method.

Receivables are assessed as and when or at each reporting date whether there is objective evidence of impairment as a result of one or more events having impact on the estimated future cash flow of the asset.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivables accordingly and recognised that impairment loss on income statement.

Insurance receivables are derecognised when the rights to receive cash flows from them have expired or when they have been transferred and the company have also transferred substantially all risks and rewards of ownership.

(ii) Financial liabilities

Trade and other payables are classified as other financial liabilities and recognised initially at fair value of the consideration to be paid in the future for goods and services received.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments (Cont'd.)

(iii) Equity instruments

Ordinary shares are classified as equity in the statements of financial position.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(iv) Fair value measurement

The Company measures certain financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments (Cont'd.)

(iv) Fair value measurement (Cont'd.)

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which all input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(v) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

(i) AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments (Cont'd.)

(v) Impairment of financial assets (Cont'd.)

(i) AFS financial assets (Cont'd.)

Impairment losses on AFS equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. Reversals of impairment losses on debt instruments classified as AFS are reversed through profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in profit or loss.

(ii) Financial assets carried at amortised cost

If there is an objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets original effective interest rate. The carrying amount of the assets is reduced and the loss is recorded in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

Any subsequent reversal of impairment losses are made through profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Financial instruments (Cont'd.)

(v) Impairment of financial assets (Cont'd.)

(iii) Unquoted equity securities carried at cost

If there is an objective evidence that an impairment loss on unquoted equity securities carried at cost has been incurred, the carrying amount will be written down to the recoverable amount, such impairment losses are not reversed in subsequent period.

(g) Derecognition of financial assets

A financial asset is derecognised when:

- the contractual right to receive cash flows from the financial asset expired.
- The Company retains the contractual rights to receive cash flow from the asset but has assumed obligation to pay them in full without material delay to a third party.
- The Company has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(h) Product Classification

The Company currently only issues contracts that transfer insurance risk.

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 policyholder) 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 whether it has significant insurance risk, by comparing claims paid with claims payable if the insured event did not occur.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(h) Product Classification (Cont'd.)

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

When insurance contracts contain both financial risk component and significant insurance risk component, the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

Investment contracts are those contracts that do not transfer significant insurance risk.

(i) Insurance contract liabilities

Insurance contract liabilities are recognised and measured in accordance with the terms and conditions of the respective insurance contracts and are also based on regulatory guidelines, specifically, the RBC Framework for Insurers issued by BNM. The insurance contract liabilities of the Company comprise claim liabilities and premium liabilities.

(i) Claim liabilities

Claim liabilities are recognised as the obligation to make future payments in relation to all claims that have been incurred as at the end of the financial year. The value is the best estimate value of claim liabilities which include provision for claims reported, claims incurred but not enough reserved ("IBNER"), claims incurred but not reported ("IBNR") and direct and indirect claim-related expenses as well as the provision of risk margin for adverse deviation ("PRAD") at 75% confidence level calculated at the overall Company level.

(ii) Premium liabilities

Premium liabilities represent the future obligations on insurance contracts as represented by premiums received for risks that have not yet expired. The movement in premium liabilities is released over the term of the insurance contracts and is recognised on premium income.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(i) Insurance contract liabilities (Cont'd.)

(ii) Premium liabilities (Cont'd.)

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserve ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year and PRAD calculated at 75% confidence level 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 at the end of the financial year including allowance for insurer's expenses.

(iii) Unexpired risk reserves

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year. It also includes allowance for 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 expected future premium refunds.

(iv) Unearned premium reserves

UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

In determining the UPR at the reporting date, the method that most accurately reflects the actual liability is used, as follows:

- 25% method for marine cargo, aviation cargo and transit business;
- 1/24th method for all other classes of general business in respect of Malaysian policies, with the following deduction rates, or actual commission incurred, whichever is lower

Motor and bonds	10%
Fire, engineering, aviation and marine hull	15%
Medical	10 - 15%
Other classes	25%
- 1/8th method for overseas inward treaty business with a deduction of 20% for commissions
- Non-annual policies are time apportioned over the period of the risks.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(i) Insurance contract liabilities (Cont'd.)

(v) Liability adequacy test

At each reporting date, the Company reviews all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Company, contractual or otherwise, with respect to insurance contract issued. In performing this review, the Company discounts all contractual cash flows and compares this against the carrying value of insurance contract liabilities. Any deficiency is recognised in income statement.

The estimation of claim liabilities and premium liabilities performed at reporting date is part of the liability adequacy tests performed by the Company. Based on this, all insurance contract liabilities as at reporting date are deemed to be adequate.

(j) Reinsurance

The Company cedes insurance risk in the normal course of business for all business. Premium and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considerate direct business. Reinsurance liabilities represent balances due to reinsurance companies taking into account the product classification of the business. Amounts payables are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets represent balances due from reinsurance companies for insurance contract liabilities which have yet to be settled at the reporting date. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with thereinsurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the Company from the obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurers.

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Other revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transactions will flow to the Group and the Company and the amount of the revenue can be measured reliably.

(i) Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield of the asset.

(ii) Dividend income

Dividend income is recognised on a declared basis when the right to receive payment is established.

(iii) Rental income

Rental income is recognised on an accrual basis in accordance with the terms of the relevant agreements except where a default in the payment of rent has already occurred and rent due remains outstanding for more than six months, in which case recognition of rental income is suspended. Subsequent to suspension, rental is recognised on a receipt basis until all arrears have been paid.

(l) Income tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable 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 differences arises from the initial recognition of an asset or liability which at the time of the transaction, affects neither accounting profit nor taxable profit.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Income tax (Cont'd.)

Deferred tax is measured at the tax rates that are expected to apply in the year 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 in the consolidated income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(m) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated balances, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

As required by law, the Company makes contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(n) Functional and presentation currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

(o) Foreign currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. At each reporting date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. All exchange rate differences are taken to the consolidated income statement. The currencies giving rise to these differences are primarily United States Dollars (USD) and Singapore Dollars (SGD).

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) Related companies

Related companies refer to companies related to NKSJ Holdings, Inc. and other companies.

(q) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise of cash in hand and deposits held at financial institutions which matured within 3 months.

The cash flow statements are prepared using the direct method.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following are standards and annual improvements to standards issued by Malaysian Accounting Standard Board ("MASB"), but not yet effective, up to the date of issuance of the Group's and the Company's financial statements. The Group and the Company intend to adopt these standards and annual improvements to standards, if applicable, when they become effective:

Description	Effective for annual beginning on or after
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 10 Consolidated Financial Statements - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10)	1 January 2016
MFRS 11 Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments to MFRS 11)	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2017
MFRS 116 Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116)	1 January 2016
MFRS 116 Property, Plant and Equipment - Agriculture: Bearer Plants (Amendments to MFRS 116)	1 January 2016

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONT'D.)

Description	Effective for annual beginning on or after
MFRS 119 Employee Benefits - Defined Benefits Plans: Employee Contributions (Amendments to MFRS 119)	1 July 2014
MFRS 127 Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments to MFRS 127)	1 January 2016
MFRS 128 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 128)	1 January 2016
MFRS 138 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 138)	1 January 2016
MFRS 141 Agriculture - Agriculture: Bearer Plants (Amendments to MFRS 141)	1 January 2016
Annual Improvements to MFRS 2010 - 2012 Cycle	1 July 2014
Annual Improvements to MFRS 2011 - 2013 Cycle	1 July 2014
Annual Improvements to MFRSs 2012–2014 Cycle	1 January 2016

MFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

MFRS 9 is issued by the MASB in respect of its application in Malaysia. It is equivalent to IFRS 9 as issued by IASB, including the effective and issuance dates. The areas with expected significant impact from application of MFRS 9 are summarized below:

Classification and measurement

The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the asset. Key changes include:

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONT'D.)

MFRS 9 Financial Instruments (Cont'd)

Classification and measurement (Cont'd)

- The held-to-maturity ("HTM") and available-for-sale ("AFS") asset categories will be removed;
- A new asset category measured at fair value through other comprehensive income ("FVOCI") is introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principle and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- A new asset category for non-traded equity investments measured at FVOCI is introduced;
- Classification of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in 'own credit risk' for financial liabilities designated and measured at fair value through profit or loss to be presented in other comprehensive income.

The adoption of MFRS 9 will have an effect on the classification and measurement of the Company's financial assets, and may not have impact on the classification and measurement of the Group's and the Company's financial liabilities.

Impairment

The MFRS 9 impairment requirements are based on an expected credit loss model ("ECL") that replaces the incurred loss model under the current accounting standard. The Group and the Company will be generally required to recognise either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model will apply to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which will include loans, advances and financing and debt instruments held by the Group and the Company. MFRS 9 will change the Company's current methodology for calculating allowances for impairment, in particular for individual and collective assessment and provisioning.

Hedge accounting

The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of hedged items for accounting purposes.

However, it is not practicable to provide a reasonable estimate of the effect of MFRS 9 until the Company undertakes a detailed review.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical judgements made in applying accounting policies

The following are the judgements made by management in the process of applying the Group and of the Company's accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements.

(i) Impairment of AFS investments

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost. During the year, the Group and Company impaired quoted equity instruments with "significant" decline in fair value greater than 30% and "prolonged" period as greater than 12 months or more.

(ii) Deferred tax assets

Deferred tax assets are recognised for unutilised business losses, unutilised business losses, unutilised capital allowances and provisions to the extent that it is probable that taxable profit will be available against which then losses, allowances and provision can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits together with future tax planning strategies.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Uncertainty in accounting estimates for general insurance business

The principal uncertainty in the Company's general insurance business arises from the technical provisions which include the provisions of premium and claim liabilities as described in note 2.2 (i). The premium liabilities comprise UPR and/or URR while claim liabilities comprise outstanding claims case estimates and IBNR claims.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

(b) Key sources of estimation uncertainty (Cont'd.)

(i) Uncertainty in accounting estimates for general insurance business (Cont'd.)

Generally, claim liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is all past experiences with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future premium and claim liabilities will not exactly develop as projected and may vary from the Company's projections. The estimates of premium and claim liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premium and claim liabilities may vary from the initial estimates. There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported to the Company. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations, legislative changes and claims handling procedures.

(ii) Claim Liabilities - Case Estimates

For claims, reserve is made upon notification of a new claim where the potential liability will be assessed based on information available. Where little or no information is available, a "blind" reserve will be used. The blind reserves are based on class of business and are reviewed annually in line with BNM guidelines. As and when more information becomes available regarding a claim, the reserve is updated accordingly.

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3. PROPERTY AND EQUIPMENT

	* Land and buildings RM'000	** Building Work in- progress RM'000	Furniture, fittings, office equipment and computers RM'000	Motor vehicles RM'000	Total RM'000
Cost					
At 1 January 2013	31,687	-	22,008	3,090	56,785
Additions	-	60,522	1,622	153	62,297
Disposals	-	-	(353)	(424)	(777)
Write-offs	-	-	(473)	-	(473)
At 31 December 2013	31,687	60,522	22,804	2,819	117,832
At 1 January 2014	31,687	60,522	22,804	2,819	117,832
Additions	-	13,755	1,106	252	15,113
Disposals	-	-	(1,631)	(418)	(2,049)
Write-offs	-	-	-	-	-
At 31 December 2014	31,687	74,277	22,279	2,653	130,896
Accumulated depreciation					
At 1 January 2013	7,973	-	15,866	1,092	24,931
Charge for the year	634	-	1,715	517	2,866
Disposals	-	-	(229)	(192)	(421)
Write-offs	-	-	(426)	-	(426)
At 31 December 2013	8,607	-	16,926	1,417	26,950
At 1 January 2014	8,607	-	16,926	1,417	26,950
Charge for the year	633	-	1,427	532	2,592
Disposals	-	-	(1,597)	(325)	(1,922)
Write-offs	-	-	-	-	-
At 31 December 2014	9,240	-	16,756	1,624	27,620

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3. PROPERTY AND EQUIPMENT (CONT'D.)

	* Land and buildings RM'000	** Building Work in- progress RM'000	Furniture, fittings, office equipment and computers RM'000	Motor vehicles RM'000	Total RM'000
Net carrying amount					
At 31 December 2013	23,080	60,522	5,878	1,402	90,882
At 31 December 2014	22,447	74,277	5,523	1,029	103,276

** The Capital Commitment contracted but not yet provided for in the financial statements as at 31 December 2014 is RM8.3 million.

On 24 April 2013, the Company entered into a sale and purchase agreement ("SPA") to purchase a new office building for a consideration of RM82.5 million. As at the date of this report, the company has paid RM64.6 million and with an outstanding amount of RM9.6 million in other payables, representing 89.9% of the purchase consideration of the said property. Settlement of the balance sum is currently pending fulfilment of certain key SPA conditions by the vendor.

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3. PROPERTY AND EQUIPMENT (CONT'D.)

*** Land and buildings**

Company	Freehold properties RM'000	Long-term leasehold properties RM'000	Total RM'000
Cost			
At 1 January 2013	25,067	6,620	31,687
At 31 December 2013	25,067	6,620	31,687
At 1 January 2014	25,067	6,620	31,687
At 31 December 2014	25,067	6,620	31,687
Accumulated depreciation			
At 1 January 2013	7,278	695	7,973
Charge for the year	502	132	634
At 31 December 2013	7,780	827	8,607
At 1 January 2014	7,780	827	8,607
Charge for the year	501	132	633
At 31 December 2014	8,281	959	9,240
Net carrying amount			
At 31 December 2013	17,287	5,793	23,080
At 31 December 2014	16,786	5,661	22,447

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4. INTANGIBLE ASSETS

	Club membership RM'000	Computer software RM'000	Total RM'000
Cost			
At 1 January 2013	502	3,565	4,067
Additions	213	470	683
Disposals	-	(9)	(9)
Write-offs	-	(1)	(1)
Transfer from other investment	-	9	9
At 31 December 2013	715	4,034	4,749
At 1 January 2014	715	4,034	4,749
Additions	-	779	779
At 31 December 2014	715	4,813	5,528
Accumulated amortisation			
At 1 January 2013	-	2,966	2,966
Charge for the year	-	334	334
Disposals	-	(8)	(8)
Write-offs	-	(1)	(1)
Transfer from other investment	-	9	9
At 31 December 2013	-	3,300	3,300
At 1 January 2014	-	3,300	3,300
Charge for the year	-	372	372
At 31 December 2014	-	3,672	3,672
Net carrying amount			
At 31 December 2013	715	734	1,449
At 31 December 2014	715	1,141	1,856

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5. INVESTMENT PROPERTIES

	2014	2013
	RM'000	RM'000
At 1 January	19,860	19,700
Fair value adjustment (Note 19)	3,293	160
At 31 December	<u>23,153</u>	<u>19,860</u>

Investment properties comprises of commercial properties that are leased to third parties. Investment properties are stated at fair value, which has been determined based on valuations performed by an independent firm of professional valuers.

The fair value of the investment properties has been derived using the Comparison Method of Valuation ie the property is compared with transaction or asking prices of similar properties in close proximity and adjusted for differences in key attributes such as property size.

6. INVESTMENTS

	2014	2013
	RM'000	RM'000
Malaysian government securities	19,942	10,050
Debt securities	156,193	77,868
Warrants and loan stocks	18,035	21,350
Equity securities	135,426	152,905
Unit trust funds/wholesale funds	527,212	487,428
Deposits with financial institutions	-	62,100
	<u>856,808</u>	<u>811,701</u>

The Company's financial investments are summarised by categories as follows:

	2014	2013
	RM'000	RM'000
Held-to-maturity financial assets ("HTM")	52,665	87,918
Loans and receivables ("LAR")	-	62,100
Available-for-sale financial assets ("AFS")	794,350	559,677
Financial asset at fair value through profit or loss ("FVTPL")	9,793	102,006
	<u>856,808</u>	<u>811,701</u>

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6. INVESTMENTS (CONT'D.)

(a) Held-To-Maturity financial assets

	2014 RM'000	2013 RM'000
Amortised Cost		
Malaysian government securities	-	10,050
Government investment issues	10,023	20,048
Government guaranteed loan	-	5,000
Corporate debt securities, quoted in Malaysia	42,642	52,820
	<u>52,665</u>	<u>87,918</u>

(b) Loans and Receivables

	2014 RM'000	2013 RM'000
Amortised Cost		
Deposits with licensed financial institutions:		
- Commercial banks	-	62,100
- Investment banks	-	-
	<u>-</u>	<u>62,100</u>

(c) Available-For-Sale financial assets

	2014 RM'000	2013 RM'000
Fair Value		
Equity securities:		
- Quoted in Malaysia	132,662	146,879
- Quoted outside Malaysia	2,646	5,908
Unit trust funds	527,212	395,315
Malaysian government securities	19,942	-
Government investment issues	9,991	-
Debt securities:		
- Quoted in Malaysia	93,537	-
Loan stocks	8,242	11,457
	<u>794,232</u>	<u>559,559</u>
Cost		
Equity securities:		
- Unquoted in Malaysia	118	118
	<u>794,350</u>	<u>559,677</u>

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6. INVESTMENTS (CONT'D.)

(c) Available-For-Sale financial assets (Cont'd.)

The unquoted securities are valued at cost less impairment. The fair value of these equities has not been disclosed because the fair value cannot be measured reliably as there is no active market.

(d) Financial asset at fair value through profit or loss

	2014 RM'000	2013 RM'000
Fair Value		
Held for trading ("HFT") : Warrants	4,410	4,911
Designated upon initial recognition:		
- Loan stocks	5,383	4,982
- Wholesale unit trust fund	-	92,113
	<u>9,793</u>	<u>102,006</u>

7. REINSURANCE ASSETS

	2014 RM'000	2013 RM'000
Reinsurance of insurance contracts		
Claims liabilities (Note 13)	189,557	137,953
Premium liabilities (Note 13)	58,305	40,760
	<u>247,862</u>	<u>178,713</u>

The reinsurance assets is net of the accumulated individual provision for impairment in relation to Best Re (L) Limited amounting to RM1.0 million (2013: RM3.2 million).

8. INSURANCE RECEIVABLES

	2014 RM'000	2013 RM'000
Due premiums including agents, and brokers balances and co-insurers balances	49,763	41,606
Due from reinsurers and cedants	15,573	11,259
Due from related parties	4,182	1,118
Allowance for impairment	(8,321)	(7,224)
	<u>61,197</u>	<u>46,759</u>

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8. INSURANCE RECEIVABLES (CONT'D.)

The Company's amounts due from reinsurers and cedants that have been offset against amount due to the same are as follows:

	Gross carrying amount RM'000	Gross amounts offset in the balance sheet RM'000	Net amounts in the balance sheet RM'000
31 December 2014			
Premiums	(851)	187	(664)
Commissions	471	(113)	358
Claims	15,915	(36)	15,879
	<u>15,535</u>	<u>38</u>	<u>15,573</u>
31 December 2013			
Premiums	2,283	(1294)	989
Commissions	(550)	548	(2)
Claims	2,494	7,778	10,272
	<u>4,227</u>	<u>7,032</u>	<u>11,259</u>

Receivables that are impaired

The movement of the allowance accounts used to record the impairment and the analysis of the Company's trade receivables that are individually and collectively impaired at the reporting date are as follows:

Movement in allowance account	Individually impaired RM'000	Collectively impaired RM'000	Total RM'000
At 1 January 2013	1,807	4,098	5,905
(Write back)/ allowance for impairment loss	(1,369)	2,688	1,319
Reversal of allowance for impairment losses	929	-	929
Bad debts written-off net of recovery	(929)	-	(929)
At 31 December 2013	<u>438</u>	<u>6,786</u>	<u>7,224</u>
At 1 January 2014	438	6,786	7,224
Allowance/(write back) for impairment loss	1,180	(83)	1,097
Reversal of allowance for impairment losses	(67)	-	(67)
Bad debts written-off net of recovery	67	-	67
At 31 December 2014	<u>1,618</u>	<u>6,703</u>	<u>8,321</u>

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8. INSURANCE RECEIVABLES (CONT'D.)

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

9. OTHER RECEIVABLES

	2014	2013
	RM'000	RM'000
Other receivables and deposits	2,583	2,195
Share of other assets held under Malaysia Motor Insurance Pool ("MMIP") (net)*	61,703	52,647
Staff loans **	9	-
Interest Income due and accrued	3,508	4,831
	<u>67,803</u>	<u>59,673</u>
 ** Staff loans:		
- Unsecured	9	-
	<u>9</u>	<u>-</u>

* As a participating member of MMIP, the Company shares a proportion of the Pool's net assets/ liabilities. At each reporting date, the Company accounts for its share of net assets, liabilities and performance of the Pool. The net assets held under MMIP represents the Company's share of Pool's net assets, before insurance contract liabilities. The Company's share of the Pool's insurance contract liabilities is disclosed in Note 13.

The net assets held under MMIP of the Company also includes cash contribution of RM27,347,770 (2013: RM17,989,003) made to MMIP, following a cash call made by the MMIP last year and current financial year respectively. The contribution was made in respect of the Company's share of MMIP's accumulated losses up to 31 December

** The unsecured staff loans are interest-free.

10. DEFERRED TAX LIABILITIES

	2014	2013
	RM'000	RM'000
At beginning of year	(8,213)	(3,565)
Recognised in AFS reserve	4,153	(2,904)
Recognised in the income statement (Note 24)	(1,808)	(1,744)
At end of year	<u>(5,868)</u>	<u>(8,213)</u>

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10. DEFERRED TAX LIABILITIES (CONT'D.)

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

Deferred tax assets

	Premium liabilities RM'000	Other provision RM'000	Provision for impairment in investments RM'000	Total RM'000
At 1 January 2013	(185)	1,225	9,566	10,606
Recognised in the income statement	10	514	(587)	(63)
At 31 December 2013	(175)	1,739	8,979	10,543
At 1 January 2014	(175)	1,739	8,979	10,543
Recognised in the income statement	259	330	(1,648)	(1,059)
At 31 December 2014	84	2,069	7,331	9,484

Deferred tax liabilities

	Others RM'000	Available- for-sale reserves RM'000	Accelerated capital allowances RM'000	Total RM'000
At 1 January 2013	(984)	(12,095)	(1,092)	(14,171)
Recognised in AFS reserve	-	(2,904)	-	(2,904)
Recognised in the income statement	(1,532)	-	(149)	(1,681)
At 31 December 2013	(2,516)	(14,999)	(1,241)	(18,756)
At 1 January 2014	(2,516)	(14,999)	(1,241)	(18,756)
Recognised in AFS reserve	-	4,153	-	4,153
Recognised in the income statement	(906)	-	157	(749)
At 31 December 2014	(3,422)	(10,846)	(1,084)	(15,352)

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11. CASH AND CASH EQUIVALENTS

	2014 RM'000	2013 RM'000
Fixed and call deposits with licensed financial institutions (with maturity of less than three months)	223,379	146,440
Cash and bank balances	9,630	11,994
	<u>233,009</u>	<u>158,434</u>
Fixed and call deposits were placed with:		
- Investment banks	18,015	6,002
- Commercial banks	205,364	140,438
	<u>223,379</u>	<u>146,440</u>

12. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2014 '000	2013 '000	2014 RM'000	2013 RM'000
Group and Company				
Authorised:				
At beginning/end of year	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
At beginning/end of year	<u>118,000</u>	<u>118,000</u>	<u>118,000</u>	<u>118,000</u>

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13. INSURANCE CONTRACT LIABILITIES

Note	2014			2013		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Provision for claims reported by policyholders	368,491	(126,361)	242,130	317,533	(104,676)	212,857
Provision for IBNR	217,742	(63,196)	154,546	179,317	(33,277)	146,040
Claim liabilities (a)	586,233	(189,557)	396,676	496,850	(137,953)	358,897
Premium liabilities (b)	289,897	(58,305)	231,592	237,653	(40,760)	196,893
Insurance contract liabilities	876,130	(247,862)	628,268	734,503	(178,713)	555,790
(a) Claim liabilities						
At 1 January	496,850	(137,953)	358,897	471,445	(120,300)	351,145
Claims incurred for the current accident year	392,719	(101,407)	291,312	317,197	(62,795)	254,402
Adjustment to claims incurred in prior accident years (direct & facultative)	372,747	(94,461)	278,286	291,948	(59,924)	232,024
Movement in MMIP	9,173		9,173	18,675	-	18,675
Claims incurred during the year (treaty inwards claims)	(254)		(254)	98	-	98
Movement in Fund PRAD of claims liabilities at 75% confidence level	10,247	(6,946)	3,301	5,329	(2,871)	2,458
Movement in claims handling expenses	806		806	1,147	-	1,147
Claims paid during the year	(303,336)	49,803	(253,533)	(291,792)	45,142	(246,650)
At 31 December	586,233	(189,557)	396,676	496,850	(137,953)	358,897
(b) Premium liabilities						
At 1 January	237,653	(40,760)	196,893	208,104	(37,262)	170,842
Premiums written during the year	630,529	(140,000)	490,529	546,396	(114,189)	432,207
Premiums earned during the year	(578,285)	122,455	(455,830)	(516,847)	110,691	(406,156)
At 31 December	289,897	(58,305)	231,592	237,653	(40,760)	196,893

As at 31 December 2014, the insurance contract liabilities above includes the Company's share of MMIP's claims and premium liabilities amounting to RM62,474,200 (2013: RM53,301,004) and RM11,604,000 (2013: RM10,369,596).

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14. INSURANCE PAYABLES

	2014	2013
	RM'000	RM'000
Amount due to agents, brokers, insured and co-insurers	8,917	10,204
Amount due to reinsurers and ceding companies	50,904	36,691
Amount due to related parties	2,348	1,675
	<u>62,169</u>	<u>48,570</u>

Included in the above are balances due to related parties as disclosed in Note 25.

The Company's amounts due to reinsurers and ceding companies that have been offset against amount due from the same are as follows:

	Gross carrying amount	Gross amounts offset in the balance sheet	Net amounts in the balance sheet
	RM'000	RM'000	RM'000
31 December 2014			
Premiums	54,737	(5,474)	49,263
Commissions	(9,602)	960	(8,642)
Claims	10,019	264	10,283
	<u>55,154</u>	<u>(4,250)</u>	<u>50,904</u>
31 December 2013			
Premiums	53,860	(6,463)	47,397
Commissions	(9,394)	1,127	(8,267)
Claims	(3,832)	1,393	(2,439)
	<u>40,634</u>	<u>(3,943)</u>	<u>36,691</u>

15. OTHER PAYABLES

	2014	2013
	RM'000	RM'000
Accrued liabilities	10,737	9,599
Other payables	19,743	9,552
Cash collaterals held on behalf of insureds	8,906	5,872
	<u>39,386</u>	<u>25,023</u>

BERJAYA SOMPO INSURANCE BERHAD
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16. NET EARNED PREMIUMS

Group and Company	2014 RM'000	2013 RM'000
(a) Gross earned premiums		
General insurance contract	630,529	546,396
Change in premium liabilities	(52,244)	(29,549)
	<u>578,285</u>	<u>516,847</u>
(b) Premiums ceded to reinsurers		
General reinsurance contracts	140,000	114,189
Change in premium liabilities	(17,545)	(3,498)
	<u>122,455</u>	<u>110,691</u>
Net Earned Premiums	<u>455,830</u>	<u>406,156</u>

17. INVESTMENT INCOME

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Rental income from investment properties	1,202	1,153	1,202	1,153
Interest/income from HTM financial assets quoted in Malaysia	3,261	4,468	3,261	4,468
Interest/income from AFS financial assets quoted in Malaysia	2,128	-	103	-
HTM financial assets amortisation of premiums, net of accretion	(255)	(376)	(255)	(376)
Dividend/distribution income from AFS financial assets quoted in Malaysia	19,848	9,154	19,848	11,270
LAR fixed and call deposits interest/income	9,668	17,477	8,925	14,389
Others	365	1,157	2,912	1,157
	<u>36,217</u>	<u>33,033</u>	<u>35,996</u>	<u>32,061</u>

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18. REALISED GAINS AND LOSSES

Group and Company	2014 RM'000	2013 RM'000
Property and equipment		
Realised gain/(loss)	135	95
AFS financial assets:		
Realised gains:		
Equity securities		
- quoted in Malaysia	7,469	7,587
Unit Trust Distribution		
- in Malaysia	1,667	-
Realised losses:		
Equity securities		
- quoted in Malaysia	-	(193)
Debt securities		
- quoted in Malaysia	-	(197)
	<u>9,271</u>	<u>7,292</u>

19. FAIR VALUE GAINS

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Fair value adjustment on investment properties (Note 5)	3,293	160	3,293	160
Fair value adjustment on HFT financial assets reclassified as FVTPL	116	4,468	116	4,468
Fair value adjustment on financial assets designated as at FVTPL on initial recognition	-	-	-	824
	<u>3,409</u>	<u>4,628</u>	<u>3,409</u>	<u>5,452</u>

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20. OTHER OPERATING INCOME

	2014 RM'000	2013 RM'000
Group and Company		
Realised gain/(loss) on foreign exchange	(119)	10
Sundry income	1,943	3,600
	<u>1,824</u>	<u>3,610</u>

21. NET CLAIMS INCURRED

	2014 RM'000	2013 RM'000
Group and Company		
(a) Gross claims paid		
General insurance contracts (Note 13)	(303,336)	(291,792)
(b) Claims ceded to reinsurers		
General insurance contracts (Note 13)	49,803	45,142
(c) Gross change in contract liabilities		
General insurance contracts	(89,383)	(25,405)
(d) Change in contract liabilities ceded to reinsurers		
General insurance contracts	51,604	17,653
	<u>(291,312)</u>	<u>(254,402)</u>

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22. MANAGEMENT EXPENSES

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Employee benefits expense (Note 22(a))	51,925	44,773	51,925	44,773
Directors' fees and allowances (Note 22(b))	174	149	174	149
Auditors' remuneration:				
- statutory audits	180	116	180	116
- other services	-	51	-	51
Rental of properties	475	497	475	497
Depreciation of property and equipment	2,592	2,866	2,592	2,866
Amortisation of intangible assets	372	334	372	334
Allowance for impairment losses on receivables	1,098	1,319	1,098	1,319
Bad debts written-off	79	929	79	929
Computer service charges	3,498	2,256	3,498	2,256
Other expenses	21,542	21,457	21,418	21,309
	<u>81,935</u>	<u>74,747</u>	<u>81,811</u>	<u>74,599</u>

(a) Employee benefits expenses

	2014	2013
	RM'000	RM'000
Group and Company		
Wages, salaries and bonus	45,322	39,255
Social security contributions	460	414
Contributions to defined contribution plan, EPF	5,701	4,563
Other benefits	442	541
	<u>51,925</u>	<u>44,773</u>

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22. MANAGEMENT EXPENSES (CONT'D.)

(b) Remuneration for Executive and Non-Executive Directors including benefits-in-kind

The details of remuneration received / receivable during the financial year was as follows:

	2014 RM'000	2013 RM'000
(i) Chief Executive Officer/Executive Director		
Dato' Loh Lye Ngok		
- Salaries	1,062	1,011
- Bonus	647	375
- Contribution to defined contribution plan, EPF	257	208
- Benefits-in-kind	31	35
	<u>1,997</u>	<u>1,629</u>
(ii) Executive Director		
Allowance		
- Hiroei Suzuki	50	168
- Yuji Kawauchi	93	-
	<u>143</u>	<u>168</u>
Benefits-in-kind		
- Hiroei Suzuki	20	67
- Yuji Kawauchi	37	-
	<u>57</u>	<u>67</u>
Total remuneration for Executive Directors	<u>2,197</u>	<u>1,864</u>
(iii) Non-Executive directors		
Directors Fees		
- Dato' Haji Ahmad Bin Sidek	69	63
- Datuk Bhupatrai A/L Mansukhlal Premji	36	30
- Azhar Bin Mohamad	36	24
	<u>141</u>	<u>117</u>
Meeting allowances		
- Dato' Haji Ahmad Bin Sidek	14	14
- Datuk Bhupatrai A/L Mansukhlal Premji	11	12
- Azhar Bin Mohamad	8	6
	<u>33</u>	<u>32</u>
Total director fees and allowances for non-executive directors	<u>174</u>	<u>149</u>

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23. INCOME TAX EXPENSE

	2014 RM'000	2013 RM'000
Group and Company		
Income tax:		
- Current income tax	14,310	13,493
- Over-provision in prior years	(2,254)	523
	<u>12,056</u>	<u>14,016</u>
Deferred tax (Note 10):		
- Relating to origination and reversal of temporary differences	2,035	1,514
- Under provision in prior years	(227)	230
	<u>1,808</u>	<u>1,744</u>
Tax expense for the year	<u>13,864</u>	<u>15,760</u>

Current income tax is calculated at the Malaysian tax rate of 25% (2013: 25%) on the estimated assessable profit for the year.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to tax expense at the effective tax rate is as follows:

	2014 RM'000	2013 RM'000
Group and Company		
Profit before tax	<u>89,718</u>	<u>83,270</u>
Taxation at Malaysian statutory tax rate of 25% (2013: 25%)	22,429	20,817
Effect of income not subject to tax	(4,979)	(2,351)
Effect of expenses not deductible for tax purposes	1,234	1,038
Underprovision of deferred tax in prior years	(227)	230
Overprovision of income tax in prior years	(2,254)	523
* Deduction in relation to MMIP cash calls	(2,339)	(4,497)
Tax expense for the year	<u>13,864</u>	<u>15,760</u>

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23. INCOME TAX EXPENSE (CONT'D.)

- * In accordance with P.U (A) 419 Income Tax (Deduction for contribution by Licensed Insurers to the Malaysian Motor Insurance Pool) Rules 2012, cash contributions made to MMIP via cash call is allowed for as a deduction in the year when such payment to the MMIP by a licensed insurer in respect of the insurer's share of the losses suffered by the MMIP. The Company has recognised this benefit as an additional tax deduction in the current year.

On 25 October 2013, the 2014 Malaysian Budget stated that the corporate tax rate will be reduced by 1% from the current rate of 25% to 24%, with effect from year assessment 2016 onwards. This change in corporate tax rate has been reflected in the carrying value of deferred taxes of the Company.

24. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year by the number of ordinary shares in issue during the financial year.

	2014	2013
Group		
Net profit for the year (RM'000)	<u>75,951</u>	<u>67,510</u>
Number of ordinary shares in issue ('000)	<u>118,000</u>	<u>118,000</u>
Basic earnings per share (sen)	<u>64.4</u>	<u>57.2</u>

There were no potential dilutive effects on the ordinary shares during and at the end of the financial year. There have been no other transactions involving ordinary shares between the reporting date and the date of these financial statements.

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25. RELATED PARTY DISCLOSURES

(a) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group and Company if the Group and Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. Related parties also include all the Directors of the Company.

In the normal course of business, the Group and Company undertakes various transactions with subsidiary and associated companies of its ultimate holding company, NKSJ Holdings, Inc. and other companies deemed related parties by virtue of common directors' shareholdings and a corporate shareholder's interest in its ultimate holding company. The transactions between the Group and the Company and its related parties were based on normal commercial terms and conditions and made on terms equivalent to those that prevail in arm's length transactions.

(b) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. In line with the group classification, the key management personnel include the Executive Director, Chief Executive Officer and the Deputy Chief Executive Officer who are also the Directors of the Company.

(c) Related party transactions and balances

The significant related party transactions during the year are as follows:

	2014 RM'000	2013 RM'000
Group and Company		
Related party transactions:		
Income/(expenses):		
Penultimate Holding Company:		
- Sompo Japan Insurance Inc.		
Premium ceded	(194)	(123)
Commission received	28	25
Claims recoveries	55	111
	<hr/>	<hr/>

BERJAYA SOMPO INSURANCE BERHAD
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25. RELATED PARTY DISCLOSURES (CONT'D.)

(c) Related party transactions and balances (Cont'd.)

	2014 RM'000	2013 RM'000
Group and Company		
Holding Company:		
- Sompo Japan Nipponkoa Holdings (Asia) Pte. Ltd. (Formerly known as Sompo Japan Asia Holdings Pte. Ltd.)		
Premium ceded	(10,523)	(10,187)
Commission received	2,732	2,714
Claims recoveries	1,130	2,840
Risk survey fee paid	-	(116)
	<hr/>	<hr/>
Other related companies:		
- Companies in which a controlling shareholder of the ultimate holding company has an interest		
Premium ceded	(10,429)	(11,994)
Commission received	2,870	3,235
Claims recoveries	1,919	559
	<hr/>	<hr/>
Controlled wholesale unit trust funds:		
Investment Income	2,642	2,089
	<hr/>	<hr/>
Corporate shareholder:		
- Berjaya Corporation Berhad and its related companies		
Gross premium income	29,733	20,705
Brokerage fee	(3,411)	(121)
	<hr/>	<hr/>
Related party balances:		
Due to related companies		
Penultimate Holding Company:		
- Sompo Japan Insurance Inc.	(2,159)	(81)
	<hr/>	<hr/>
Holding Company:		
- Sompo Japan Asia Holdings Pte. Ltd.	(15)	(1,447)
	<hr/>	<hr/>
Other related companies:		
- Companies in which a controlling shareholder of the ultimate holding company has an interest	(174)	(147)
	<hr/>	<hr/>

BERJAYA SOMPO INSURANCE BERHAD
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25. RELATED PARTY DISCLOSURES (CONT'D.)

(c) Related party transactions and balances (Cont'd.)

	2014 RM'000	2013 RM'000
Company		
Related party balances:		
Due from related company:		
Corporate shareholder		
- Berjaya Corporation Berhad and its related companies	4,182	1,118

The above balances are included in Note 8, Insurance receivables.

The balances with related companies above are trade in nature, and are unsecured, interest-free and repayable within normal commercial terms.

Compensation of key management personnel

The remuneration of Company's Executive Directors during the financial year was as follows:

	2014 RM'000	2013 RM'000
Group and Company		
Short term employee benefits		
- Salaries, allowances and bonus	1,852	1,554
- Other remuneration	257	208
- Benefits-in-kind	88	102
	<u>2,197</u>	<u>1,864</u>

BERJAYA SOMPO INSURANCE BERHAD
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26. RISK MANAGEMENT FRAMEWORK

(a) Framework and Responsibility

The Board of Directors is committed to the development of an effective Enterprise Risk Management Framework ("ERM"), with the aims of providing a consistent approach to risk and facilitating an accurate perception of acceptable risk by all employees. It forms an integral part of the Company's business strategic planning, performance agreement and general risk management culture. The ERM is established to provide guiding principles on risk management approach, risk governance structure, roles and responsibilities, methodology used for risk assessment, and risk monitoring and reporting.

Under the ERM, the Company adopts the three lines of defence approach, where the Business Units being the "first line of defence", while the risk control unit ("second line of defence") rests on Risk Management and Compliance, providing an independent oversight to assist the Management in achieving its strategic plans and missions by implementing risk management and compliance activities across the organisation.

The Board entrusts the Risk Management Committee ("RMC") with the overall responsibility for overseeing the risk management activities of the Company to ensure an appropriate risk management process is in place and functioning effectively as well as to endorse appropriate risk management policies/frameworks and measurement methodologies across the organisation.

The RMC has a broad mandate to ensure the effective implementation of the objectives outlined in the ERM and compliance with them throughout the Company. The RMC is responsible for periodically reporting higher risk exposures to the Board. The roles and responsibilities as well as the authorities of the RMC are set out in the Board approved Term of Reference ("TOR") for RMC.

Risk Management Working Committee ("RMWC") has been established by RMC to serve as a medium between the RMC and the Management. This Committee will oversee the daily risk management activities of the Company to ensure that risk inherent in daily business activities is managed efficiently and effectively and will report regularly to the RMC on its recommendations and/or decisions.

In addition, the Board delegates to the Chief Executive Officer ("CEO") the responsibility for ensuring effective implementation and maintenance of this ERM and that all personnel adhere to its mandates.

The detailed line accountability for risk management is fully aligned with the Company's Risk Governance structure. Accordingly, the approvals, responsibilities and accountabilities applicable to the identification, evaluation, management and reporting of the Company's risks are attributed to the CEO, head of various department and branches.

BERJAYA SOMPO INSURANCE BERHAD
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26. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(b) Objectives and Policies

The objective of the risk management policy is to define an ongoing and consistent process for identifying, assessing, monitoring and reporting upon the significant risks faced by the departments and branch offices, and ultimately, the entire Company.

The implementation of risk management framework allows management to manage risks within defined risk/return parameters, risk tolerances and risk management standards. As such it provides a framework for the effective identification, evaluation, management and reporting of the Company's risks.

Effective management of risks identified is implemented via establishment of internal controls, systems, policies and procedures. Systems are designed to provide reasonable assurance that assets are safeguarded, insurance risk exposure is within desired limit, reinsurance protection is adequate and counterparties are subject to security assessment. The risk management framework is reviewed on a periodic basis.

(c) Capital Management Plan

The objective of the Capital Management Plan ("CMP") is to optimise the efficient and effective use of resources in order to maximise the return on equity and provide an appropriate level of capital to protect the policy holders taking into consideration the events that can impact directly or indirectly on the operations and financial resilience of the Company whilst complying with the rules and regulations issued by relevant authorities.

The Company's capital management is driven by the business strategies and taking into consideration the impact of business and regulatory environment in which the Company operates in. To comply with the RBC Framework, the Company has also set an Internal Capital Adequacy Ratio which is above the minimum regulatory requirements.

(d) Stress Testing

Stress testing is a fundamental risk management tool in assessing the financial resilience of the Company under exceptional but adverse plausible events. The stress test results together with the mitigating plans are tabled every half-year for the Board's deliberation and recommendation prior to submission to BNM.

BERJAYA SOMPO INSURANCE BERHAD
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27. INSURANCE RISK

Underwriting and insurance risk is the exposure to the financial loss resulting from the selection and approval of risk to be insured, the adjudication of claims and the management of contractual and non-contractual cover.

The Company has instituted documented standards of risk selection, underwriting authorities, risk management engineering, pricing guidelines and risk accumulation limits. Reinsurance is placed to minimise certain insurance risks within approved limits and security. Claims approval and claims settlement authorities are clearly defined for prudent control on financial exposure. Regular underwriting and claims audits are performed by internal auditors to ensure strict compliance with the Company's guidelines and standards.

BERJAYA SOMPO INSURANCE BERHAD
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27. INSURANCE RISK (CONT'D.)

(a) Concentration of risks by class of business

General insurance business premiums by type of product:

Company	2014			2013		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Motor	332,793	(14,268)	318,525	290,069	(11,817)	278,252
Fire	96,253	(58,158)	38,095	81,749	(43,721)	38,028
Marine, Aviation & Transit	24,837	(12,307)	12,530	18,340	(9,767)	8,573
Miscellaneous	176,646	(55,267)	121,379	156,238	(48,884)	107,354
	<u>630,529</u>	<u>(140,000)</u>	<u>490,529</u>	<u>546,396</u>	<u>(114,189)</u>	<u>432,207</u>

Insurance contract liabilities by type of product:

Premium Liabilities

Motor	172,120	(5,285)	166,835	156,538	(6,729)	149,809
Fire	33,692	(25,003)	8,689	21,025	(11,763)	9,262
Marine, Aviation & Transit	6,474	(2,936)	3,538	2,219	(730)	1,489
Miscellaneous	77,611	(25,081)	52,530	57,871	(21,538)	36,333
	<u>289,897</u>	<u>(58,305)</u>	<u>231,592</u>	<u>237,653</u>	<u>(40,760)</u>	<u>196,893</u>

BERJAYA SOMPO INSURANCE BERHAD
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27. INSURANCE RISK (CONT'D.)

(a) Concentration of risks by class of business (cont'd.)

General insurance business premiums by type of product: (cont'd.)

Company (cont'd.)	2014			2013		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Claims Liabilities						
Motor	326,109	(24,704)	301,405	294,434	(19,142)	275,292
Fire	86,756	(67,080)	19,676	58,229	(38,466)	19,763
Marine, Aviation & Transit	12,180	(5,965)	6,216	8,316	(3,748)	4,568
Miscellaneous	161,188	(91,809)	69,380	135,871	(76,597)	59,274
	<u>586,233</u>	<u>(189,557)</u>	<u>396,676</u>	<u>496,850</u>	<u>(137,953)</u>	<u>358,897</u>

BERJAYA SOMPO INSURANCE BERHAD
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27. INSURANCE RISK (CONT'D.)

(b) Sensitivity analysis

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 key assumptions such as the adopted Ultimate Loss Ratios ("ULR"), risk margin percentages (i.e. Provision of Risk Margin for Adverse Deviation ("PRAD")) and provision for claims handling costs.

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 Company engaged an independent actuarial firm to run a sensitivity analysis of the liabilities and comparison of past valuation results. 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. Hence, the actuary has carried out the sensitivity analyses by testing the sensitivity of the following key assumptions:

- Average claim cost
- Average number of claims; and
- Average claim settlement period.

The analysis below is performed for reasonably possible movements in key assumptions (i.e. a 10% increase) with all other assumptions held constant, showing the impact on Gross and Net Liabilities, Profit before Tax 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 in these assumptions are non-linear.

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27. INSURANCE RISK (CONT'D.)

(b) Sensitivity analysis (Cont'd.)

Sensitivities (Cont'd.)

	Change in assumptions	Impact on Gross Liabilities RM'000	Impact on Net Liabilities RM'000	Impact on Profit Before Tax RM'000	* Impact on Equity RM'000
31 December 2014					
Average Claims Cost	+10%	67,979	42,313	(42,313)	(31,735)
Average Number of Claims	+10%	38,679	21,702	(21,702)	(16,276)
Average Claim Settlement Period	Increased by 6 months	5,358	2,540	(2,540)	(1,905)
31 December 2013					
Average Claims Cost	+10%	50,393	38,300	(38,300)	(28,729)
Average Number of Claims	+10%	32,046	25,582	(25,582)	(19,187)
Average Claim Settlement Period	Increased by 6 months	3,349	2,028	(2,028)	(1,521)

** Impact on Equity reflects adjustments for tax, when applicable*

(c) Claims Development Table

The following tables show the estimate of cumulative incurred claims, both claims notified and IBNR for each successive accident year at each reporting date, 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 at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

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27. INSURANCE RISK (CONT'D.)

(c) Claims Development Table (Cont'd.)

Gross General Insurance Contract Liabilities for 2014 (RM '000)

	2006	2007	2008	2009	2010	30.04.2011	31.12.2011	2012	2013	2014	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident Year											
Ultimate Claims Incurred											
At end of accident year					287,709	315,751	200,827	295,219	338,905	390,854	
One year later				283,350	279,538	310,577	220,868	282,486	325,678		
Two years later			215,547	285,751	288,667	310,373	212,340	289,540			
Three years later		183,060	218,525	287,740	281,001	303,543	205,987				
Four years later	142,019	183,669	218,009	278,040	273,702	301,697					
Five years later	140,810	182,832	214,093	273,151	269,032						
Six years later	141,615	179,815	209,806	268,203							
Seven years later	138,357	177,676	206,650								
Eight years later	137,004	176,433									
Nine years later	136,971										
Current estimate of Cumulative claims incurred	136,971	176,433	206,650	268,203	269,032	301,697	205,987	289,540	325,678	390,854	2,571,045
Cumulative Claims Paid											
At end of accident year	47,791	59,660	74,873	94,519	121,630	131,049	65,454	120,830	137,093	146,210	
One year later	104,513	126,010	150,182	189,035	206,994	217,351	156,677	215,667	231,664		
Two years later	113,831	140,325	170,109	229,616	231,273	249,553	176,052	251,009			
Three years later	120,961	155,610	190,043	245,909	248,681	269,658	180,830				
Four years later	127,683	167,310	196,842	253,022	254,798	276,000					
Five years later	133,740	169,994	200,554	258,699	256,628						
Six years later	135,452	171,713	202,308	260,391							
Seven years later	136,209	172,762	202,826								
Eight years later	136,707	173,015									
Nine years later	136,728										
Cumulative payments to date	136,728	173,015	202,826	260,391	256,628	276,000	180,830	251,009	231,664	146,210	2,115,301
Gross general insurance outstanding liabilities (direct and facultative inwards)	243	3,418	3,824	7,812	12,404	25,697	25,157	38,531	94,014	244,644	455,744
Case Reserves for Accident Years Prior to 2006											989
Treaty Inwards											1,378
MMIP											62,474
Best Estimate of Claim Liabilities											520,585
Claim Handling Expenses											6,585
Fund PRAD at 75% Confidence Interval											59,063
Gross general insurance contract liabilities (Note 13)											586,233

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27. INSURANCE RISK (CONT'D.)

(c) Claims Development Table (Cont'd.)

Net General Insurance Contract Liabilities for 2014 (RM '000)

Accident Year	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	30.04.2011 RM'000	31.12.2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
Ultimate Claims Incurred											
At end of accident year			151,716	228,874	241,344	260,184	175,526	250,321	267,467	305,055	
One year later		143,164	171,844	234,672	240,602	263,707	176,436	236,815	252,739		
Two years later	120,485	154,420	179,078	239,689	244,690	262,851	171,128	234,789			
Three years later	124,846	158,347	181,291	240,792	239,310	257,357	168,901				
Four years later	123,505	158,687	180,360	233,458	233,943	255,273					
Five years later	122,364	157,991	177,406	228,230	228,145						
Six years later	123,086	156,515	173,743	223,356							
Seven years later	120,711	153,886	170,893								
Eight years later	119,591	152,904									
Nine years later	119,555										
Current estimate of cumulative claims incurred	119,555	152,904	170,893	223,356	228,145	255,273	168,901	234,789	252,739	305,055	2,111,610
Cumulative Claims Paid											
At end of accident year	42,213	54,369	61,683	86,389	103,322	121,391	61,935	114,139	121,059	134,283	
One year later	90,688	110,576	122,630	162,902	179,048	199,397	137,878	190,988	198,337		
Two years later	98,610	121,844	139,827	191,951	198,383	225,135	153,736	209,273			
Three years later	104,999	135,203	158,027	205,805	213,034	240,364	157,844				
Four years later	111,027	146,212	164,218	212,082	218,403	244,453					
Five years later	116,691	148,717	166,729	217,018	219,933						
Six years later	118,219	150,048	168,277	218,507							
Seven years later	118,884	151,048	168,750								
Eight years later	119,361	151,299									
Nine years later	119,379										
Cumulative payments to date	119,379	151,299	168,750	218,507	219,933	244,453	157,844	209,273	198,337	134,283	1,822,058
Net general insurance outstanding liabilities (direct and facultative inwards)	176	1,605	2,143	4,849	8,212	10,820	11,057	25,516	54,402	170,772	289,552
Case Reserves for Accident Years Prior to 2003											899
Treaty Inwards											1,378
MMIP											62,474
Best Estimate of Claim Liabilities											354,303
Claim Handling Expenses											6,585
Fund PRAD at 75% Confidence Interval											34,742
Additional provision											1,046
Net general insurance contract liabilities (Note 13)											396,676

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28. FINANCIAL RISK

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contents.

(a) Credit Risk

Treaty reinsurers and brokers credit ratings are evaluated prior to entering into treaty arrangements. The Company observes the Bank Negara Malaysia Guidelines and internal Company policies in assessing the credit ratings of reinsurers and brokers.

The settlement risks are also mitigated through prompt reconciliations of records and recovery actions, avoiding at all times delays in collection from reinsurers and entering into commutations for run off reinsurers. The Company has tightened the credit collection and recovery policies to expedite collections. The Company is unable to avoid any deterioration in credit ratings of reinsurers after inception of treaties.

Credit exposure

At the reporting date, the Company's maximum exposure to credit risk is represented by the maximum amount of each class of financial assets recognised in the statement of financial position.

The Company has no significant concentration of credit risk that may arise from exposures to a single debtor or groups of debtors.

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28. FINANCIAL RISKS (CONT'D.)

(a) Credit Risk (Cont'd.)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposures of the Company by classifying assets according to the credit ratings of counterparties.

Company	Neither impaired nor past-due					Past-due but not impaired RM'000	Total RM'000
	*AAA RM'000	*AA RM'000	*A RM'000	*BBB RM'000	Not Rated RM'000		
31 December 2014							
Financial assets at FVTPL							
Warrants and loan stocks	-	-	-	-	9,793	-	9,793
Wholesale funds	-	-	-	-	-	-	-
HTM financial investments							
Malaysian government securities	-	-	-	-	-	-	-
Government investment issues	-	-	-	-	10,023	-	10,023
Government guaranteed loan	-	-	-	-	-	-	-
Corporate debt securities	22,598	20,044	-	-	-	-	42,642
LAR							
Fixed and call deposits	-	-	-	-	-	-	-
AFS financial investments							
Equity securities	-	-	-	-	135,426	-	135,426
Unit trust funds	-	-	-	-	527,212	-	527,212
Debt securities	13,540	79,997	-	-	-	-	93,537
Malaysian government securities	-	-	-	-	19,942	-	19,942
Government investment issues	-	-	-	-	9,991	-	9,991
Loan stocks	-	-	-	-	8,241	-	8,241
Reinsurance assets	-	10,839	50,051	1,928	185,044	-	247,862
Insurance receivables	-	-	-	-	46,436	14,761	61,197
Other receivables	-	-	-	-	67,803	-	67,803
Cash and cash equivalent	95,924	62,442	42,013	23,000	9,630	-	233,009
	132,062	173,322	92,064	24,928	1,029,541	14,761	1,466,678

* Based on public ratings assigned by reputable rating agencies.

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28. FINANCIAL RISKS (CONT'D.)

(a) Credit Risk (Cont'd.)

Credit exposure by credit rating (Cont'd.)

Company	Neither impaired nor past-due					Past-due but not impaired RM'000	Total RM'000
	*AAA RM'000	*AA RM'000	*A RM'000	*BBB RM'000	Not Rated RM'000		
31 December 2013							
Financial assets at FVTPL							
Warrants and loan stocks	-	-	-	-	9,893	-	9,893
Wholesale funds	-	-	-	-	92,113	-	92,113
HTM financial investments							
Malaysian government securities	-	-	-	-	10,050	-	10,050
Government investment issues	-	-	-	-	20,048	-	20,048
Government guaranteed loan	-	-	-	-	5,000	-	5,000
Corporate debt securities	22,748	30,072	-	-	-	-	52,820
LAR							
Fixed and call deposits	10,000	29,100	10,000	13,000	-	-	62,100
AFS financial investments							
Equity securities	-	-	-	-	152,905	-	152,905
Unit trust funds	-	-	-	-	395,315	-	395,315
Loan stocks	-	-	-	-	11,457	-	11,457
Reinsurance assets	-	2,837	40,097	992	134,787	-	178,713
Insurance receivables	-	-	-	-	26,953	19,806	46,759
Other receivables	-	-	-	-	59,673	-	59,673
Cash and cash equivalent	96,516	24,727	21,118	16,038	35	-	158,434
	<u>129,264</u>	<u>86,736</u>	<u>71,215</u>	<u>30,030</u>	<u>918,229</u>	<u>19,806</u>	<u>1,255,280</u>

* Based on public ratings assigned by reputable rating agencies.

BERJAYA SOMPO INSURANCE BERHAD
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28. FINANCIAL RISKS (CONT'D.)

(a) Credit Risk (Cont'd.)

Age Analysis of Financial Assets Past-Due But Not impaired

Company	Past due but not impaired					Total RM'000
	< 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	91 to 180 days RM'000	more than 180 days RM'000	
31 December 2014						
Insurance receivables:						
Due premium including agents/brokers and co-insurers balances	5,495	2,358	2,224	1,241	2,439	13,757
Due from reinsurers and cedants	258	200	125	144	277	1,004
	<u>5,753</u>	<u>2,558</u>	<u>2,349</u>	<u>1,385</u>	<u>2,716</u>	<u>14,761</u>
31 December 2013						
Insurance receivables:						
Due premium including agents/brokers and co-insurers balances	4,983	1,244	1,824	1,116	1,104	10,271
Due from reinsurers and cedants	3,093	2,142	929	3,253	118	9,535
	<u>8,076</u>	<u>3,386</u>	<u>2,753</u>	<u>4,369</u>	<u>1,222</u>	<u>19,806</u>

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28. FINANCIAL RISKS (CONT'D.)

(b) Liquidity Risk

Liquidity risk is the risk where the Company is unable to meet its obligations in a timely manner at a reasonable cost at any time. The Company maintains a large tranche of liquid asset instruments, primarily bank deposits and Malaysian Government Securities, to ensure high liquidity.

Maturity Profiles

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

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

Premium liabilities and the reinsurers' share of the premium liabilities have been excluded from the analysis as these are not contractual obligations.

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28. FINANCIAL RISKS (CONT'D.)

(b) Liquidity Risk (Cont'd.)

Maturity profiles (Cont'd.)

Company	Carrying value RM'000	Less than 1 year RM'000	Over 1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
31 December 2014						
Financial instruments:						
FVTPL	9,793	3,461	6,332	-	-	9,793
HTM	52,665	18,000 *	22,043 *	19,870 *	-	59,913
LAR	-	-	-	-	-	-
AFS - Equity Securities	135,426	-	-	-	135,426	135,426
AFS - Debt Securities	93,537	5,285 *	40,235	77,998 *	-	123,518
AFS - Unit trust funds	527,212	-	-	-	527,212	527,212
AFS - Malaysian Government Securities	19,942	-	10,749 *	12,734 *	-	23,483
AFS - Government Investment Issues	9,991	10,185 *	-	-	-	10,185
AFS - Loan stocks	8,241	8,241	-	-	-	8,241
Reinsurance assets - claim liabilities	189,557	95,959	73,924	19,674	-	189,557
Insurance receivables	61,197	61,197	-	-	-	61,197
Other receivables	67,803	3,508	-	-	64,295	67,803
Cash and cash equivalents	233,009	223,830 *	-	-	9,633	233,463
Total Assets	1,408,373	429,666	153,283	130,276	736,566	1,449,791
Insurance contract liabilities:						
Claims liabilities	586,234	296,796	250,296	39,142	-	586,234
Insurance payables	62,169	52,062	10,107	-	-	62,169
Other payables	39,386	39,386	-	-	-	39,386
Total Liabilities	687,789	388,244	260,403	39,142	-	687,789

* Reflect the principal and interest receivable upon maturity, excluding those that have been accounted for under other receivables.

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28. FINANCIAL RISKS (CONT'D.)

(b) Liquidity Risk (Cont'd.)

Maturity profiles (Cont'd.)

Company	Carrying value RM'000	Less than 1 year RM'000	Over 1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
31 December 2013						
Financial instruments:						
FVTPL	102,006	-	4,991	4,902	92,113	102,006
HTM	87,918	33,514 *	33,685 *	33,172 *	-	100,371
LAR	62,100	62,776 *	-	-	-	62,776
AFS - Equity Securities	152,905	-	-	-	152,905	152,905
AFS - Unit trust funds	395,315	-	-	-	395,315	395,315
AFS - Loan stocks	11,457	-	11,457	-	-	11,457
Reinsurance assets - claim liabilities	137,954	53,324	69,399	15,231	-	137,954
Insurance receivables	46,759	46,759	-	-	-	46,759
Other receivables	59,673	4,831	-	-	54,842	59,673
Cash and cash equivalents	158,434	146,950 *	-	-	11,994	158,944
Total Assets	1,214,521	348,154	119,532	53,305	707,169	1,228,160
Insurance contract liabilities:						
Claims liabilities	496,850	236,965	224,980	34,905	-	496,850
Insurance payables	48,570	48,570	-	-	-	48,570
Other payables	25,023	19,138	14	-	5,871	25,023
Total Liabilities	570,443	304,673	224,994	34,905	5,871	570,443

* Reflect the principal and interest receivable upon maturity, excluding those that have been accounted for under other receivables.

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28. FINANCIAL RISK (CONT'D.)

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The Company's policies on asset allocation, portfolio mix structure have been set in line with the Company's risk management policy after taking cognisance of the regulatory requirements in respect of maintenance of assets and solvency.

Compliance with the policies is monitored and reported to the Board and Investment Committee.

(d) Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's primary transactions are carried out in Ringgit Malaysia (RM) and its exposure to currency risk arises principally with respect to US Dollar (USD).

As the Company's business is conducted primarily in Malaysia, the Company's financial assets and its insurance contract liabilities are also primarily maintained in Malaysia, and denominated in RM.

The Company's main currency risk from recognised assets and liabilities arises from reinsurance transactions for which the balances are expected to be settled and realised in less than a year. Therefore, the impact arising from sensitivity analysis of foreign exchange rate movement is deemed minimal. The Company has no significant concentration of currency risk.

(e) Interest Rate Risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

The investment in deposit placements is not exposed to significant interest rate risk as the interest rates thereon are fixed. The investments in fixed rate debt securities are classified as HTM and therefore, not sensitive to changes in interest rate.

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28. FINANCIAL RISK (CONT'D.)

(f) Price Risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices.

The Company is exposed to equity price risk arising from investments held by the Company, comprises quoted equities, warrants, loan stocks, Malaysian government securities, government investment issues and unit trusts/wholesale funds.

The analysis below is performed for reasonably possible movements in equity price with all other variables held constant, showing the impact on profit before tax and equity.

	Changes in variable	Impact on Profit before tax RM'000	Impact on equity* RM'000
Group and Company			
31 December 2014			
Market Indices			
Bursa Malaysia	+ 10%	979	59,567
Bursa Malaysia	- 10%	(979)	(59,567)
31 December 2013			
Market Indices			
Bursa Malaysia	+ 10%	10,201	42,268
Bursa Malaysia	- 10%	(10,578)	(41,665)

* impact on Equity reflects adjustments for tax, when applicable

The method used for deriving sensitivity information and significant variables did not change from the previous period.

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28. FINANCIAL RISK (CONT'D.)

(g) 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 risk 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 mitigates them by establishing a control framework and by monitoring and responding to potential risks.

Business risks, such as changes in environment, technology and the industry are monitored through the Company's strategic and budgeting process.

(h) Fair Value Hierarchy

i. Level 1 - Active Market - quoted price

Financial instruments which are regarded as quoted in an active market if quoted price are readily available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices which represent actual and regularly occurring market transactions on an arm's length basis.

ii. Level 2 - No Active Market - Measurement using significant observable inputs

Inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices).

Example of Level 2 instruments include investment properties, AFS designated corporate and government bonds.

iii. Level 3 - No Active Market - Measurement using unobservable inputs

Financial instruments where fair values are measured using unobservable inputs. The valuation measurement is consistent with Level 2.

Example of Level 3 instruments include corporate bonds in illiquid markets.

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28. FINANCIAL RISK (CONT'D.)

(h) Fair value hierarchy (cont'd.)

		2014				2013			
		Fair value measurement using:				Fair value measurement using:			
	Date of valuation	Quoted prices in active market	Significant unobservable inputs	Significant unobservable inputs		Quoted prices in active market	Significant unobservable inputs	Significant unobservable inputs	
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets									
Assets measured at fair value:									
Investment properties (Note 5)	31 December 2014	-	23,153	-	23,153	-	19,860	-	19,860
Available-for-sale investments (Note 6)									
Equity securities:									
Quoted in Malaysia	31 December 2014	132,662	-	-	132,662	146,879	-	-	146,879
Quoted outside Malaysia	31 December 2014	2,646	-	-	2,646	5,908	-	-	5,908
Unit trust funds	31 December 2014	527,212	-	-	527,212	395,315	-	-	395,315
Debt securities:									
Quoted in Malaysia	31 December 2014	93,537	-	-	93,537	-	-	-	-
Loan stocks	31 December 2014	8,242	-	-	8,242	11,457	-	-	11,457
Financial investments at FVTPL (Note 6 (d))									
(i) Designated upon initial recognition:									
Loan stocks	31 December 2014	5,383	-	-	5,383	4,982	-	-	4,982
Wholesale funds	31 December 2014	-	-	-	-	92,113	-	-	92,113
(ii) Held-for-trading ("HFT")									
Warrants	31 December 2014	4,410	-	-	4,410	4,911	-	-	4,911
Total Assets		774,092	23,153	-	797,245	661,565	19,860	-	681,425

There have been no transfers between Level 1 and Level 2 during the period.

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29. REGULATORY CAPITAL REQUIREMENT

Pursuant to the Risk-Based Capital Framework issued by Bank Negara Malaysia, insurance companies are required to meet the minimum capital adequacy ratio of 130%. The Company has met the minimum regulatory capital requirement.

The capital structure of the Company as at 31 December 2014, as prescribed under the RBC Framework is provided below:

		2014	2013
		RM'000	RM'000
	Note		
Eligible Tier 1 Capital			
Share capital (paid-up)	12	118,000	118,000
Retained earnings		465,664	389,810
		<u>583,664</u>	<u>507,810</u>
Tier 2 Capital			
Eligible reserves		<u>32,535</u>	<u>44,997</u>
Deductions			
Intangible assets		<u>(1,856)</u>	<u>(1,449)</u>
Total capital available		<u>614,343</u>	<u>43,548</u>