

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

**Directors' Report and Audited Financial Statements**  
**31 December 2011**

**62605-U**

**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 Company for the financial period ended 31 December 2011.

**CHANGE OF FINANCIAL YEAR END**

The Company changed its financial year end from 30 April to 31 December to be coterminous with its ultimate holding company, NKSJ Holdings, Inc. Accordingly, the financial statements for the current financial period are drawn up for the period 1 May 2011 to 31 December 2011 or a period of eight months and therefore the comparative amounts are not in respect of comparable periods.

**PRINCIPAL ACTIVITY**

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

There has been no significant change in the nature of the principal activity during the financial period.

**RESULTS**

|                           | <b>RM'000</b> |
|---------------------------|---------------|
| Net profit for the period | <u>15,135</u> |

There were no material transfers to or from reserves or provisions during the financial period.

In the opinion of the directors, the results of the operations of the Company during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature other than as disclosed below.

The results of the operations of the Company during the financial period was negatively impacted by the huge losses incurred by the Malaysian Motor Insurance Pool (MMIP), which was formed to cater for unplaced motor risks. All licensed general insurers have an equal share of participation in the pool. The Company share of loss before tax through the MMIP was RM13.61 million.

**DIVIDENDS**

No dividend has been paid or declared by the Company since the end of the previous financial year.

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

**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' Abdul Rahman bin Hamidon  
Loh Lye Ngok  
Dato' Haji Ahmad bin Sidek  
Datuk Bhupatrai A/L Mansukhlal Premji  
Dato' Robin Tan Yeong Ching  
Hiroei Suzuki  
Keishi Nakamura

**CORPORATE GOVERNANCE**

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under JPI/GPI 25: 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 Board are as follows:

**1. AUDIT COMMITTEE**

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

- (i) Dato' Haji Ahmad bin Sidek (Chairman)
- (ii) Dato' Abdul Rahman bin Hamidon (resigned on 13 September 2011)
- (iii) Datuk Bhupatrai A/L Mansukhlal Premji
- (iv) Keishi Nakamura (appointed on 12 July 2011)

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 5 times during the financial period.

**BERJAYA SOMPO INSURANCE BERHAD**  
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**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) Dato' Abdul Rahman bin Hamidon
- (iii) Datuk Bhupatrai A/L Mansukhlal Premji
- (iv) Keishi Nakamura (appointed on 12 July 2011)

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 3 times during the financial period.

**3. NOMINATING COMMITTEE**

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

- (i) Datuk Bhupatrai A/L Mansukhlal Premji (Chairman)
- (ii) Dato' Robin Tan Yeong Ching
- (iii) Loh Lye Ngok
- (iv) Dato' Haji Ahmad bin Sidek
- (v) Dato' Abdul Rahman bin Hamidon
- (vi) Hiroei Suzuki (appointed on 12 July 2011)

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 3 times during the financial period.

**4. REMUNERATION COMMITTEE**

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

- (i) Datuk Bhupatrai A/L Mansukhlal Premji (Chairman)
- (ii) Dato' Robin Tan Yeong Ching
- (iii) Dato' Abdul Rahman bin Hamidon
- (iv) Keishi Nakamura (appointed on 12 July 2011)

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 once during the financial period.

**DIRECTORS' BENEFITS**

Neither at the end of the financial period, nor at any time during that period, 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 year, 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 23 and Note 27 to the financial statements and the financial statements of related corporations 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 period had any interest in shares of the ultimate holding company and holding company during the financial period.

**OTHER STATUTORY INFORMATION**

- (a) Before the statement of financial position and income statement 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 satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts;
  - (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) require any amount to be written off as bad debts or render the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
  - (ii) render the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets 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 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 period 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 period.

**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 period 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 period and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial period 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 income statement and statement of financial position 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 21 March 2012.

Dato' Haji Ahmad bin Sidek

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 Loh Lye Ngok, being two of the directors of Berjaya Sompō Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 10 to 73 are drawn up in accordance with Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of the results and the cash flows of the Company for the period from 1 May 2011 to 31 December 2011.

Signed on behalf of the Board in accordance with a resolution of the directors dated 21 March 2012.

Dato' Haji Ahmad bin Sidek

Loh Lye Ngok

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

I, Lim Chee Heng, being the officer primarily responsible for the financial management of Berjaya Sompō Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 10 to 73 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 Lim Chee Heng,  
at Kuala Lumpur in Wilayah Persekutuan  
on 21 March 2012

Lim Chee Heng

Before me,

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

**Report on the financial statements**

We have audited the financial statements of Berjaya Sompo Insurance Berhad, which comprise the statement of financial position as at 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 1 May to 31 December 2011, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 73.

*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 the Companies Act 1965 and Financial Reporting Standards in Malaysia and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of the 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 have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the period from 1 May 2011 to 31 December 2011.

**Report on other legal and regulatory requirements**

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

**Other matters**

This report is made solely to the 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

Nik Rahmat Kamarulzaman bin Nik Ab. Rahman  
No.1759/02/14(J)  
Chartered Accountant

Kuala Lumpur, Malaysia  
21 March 2012

**BERJAYA SOMPO INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2011**

|                                      | <b>Note</b> | <b>31.12.2011<br/>RM'000</b> | <b>30.04.2011<br/>RM'000</b> |
|--------------------------------------|-------------|------------------------------|------------------------------|
| <b>ASSETS</b>                        |             |                              |                              |
| Property and equipment               | 3           | 32,719                       | 32,614                       |
| Intangible assets                    | 4           | 826                          | 1,014                        |
| Investment properties                | 5           | 17,265                       | 16,705                       |
| Investments                          | 6           | 499,630                      | 589,034                      |
| Malaysian government securities      |             | 35,293                       | 40,339                       |
| Debt securities                      |             | 136,323                      | 158,132                      |
| Equity securities                    |             | 181,998                      | 202,664                      |
| Unit trust funds                     |             | 26,314                       | 25,147                       |
| Deposits with financial institutions |             | 119,200                      | 162,250                      |
| Other investments                    |             | 502                          | 502                          |
| Reinsurance assets                   | 7           | 125,950                      | 132,602                      |
| Insurance receivables                | 8           | 27,785                       | 34,728                       |
| Other receivables                    | 9           | 22,760                       | 22,092                       |
| Taxation                             |             | 14,297                       | 12,726                       |
| Cash and cash equivalents            | 11          | 362,079                      | 300,223                      |
| <b>TOTAL ASSETS</b>                  |             | <b>1,103,311</b>             | <b>1,141,738</b>             |
| <b>EQUITY AND LIABILITIES</b>        |             |                              |                              |
| <b>EQUITY</b>                        |             |                              |                              |
| Share capital                        | 12          | 118,000                      | 118,000                      |
| Fair value reserves                  |             | 34,063                       | 63,972                       |
| Retained profits                     |             | 262,504                      | 247,369                      |
| <b>TOTAL EQUITY</b>                  |             | <b>414,567</b>               | <b>429,341</b>               |
| <b>LIABILITIES</b>                   |             |                              |                              |
| Insurance contract liabilities       | 13          | 645,909                      | 650,558                      |
| Deferred tax liabilities             | 10          | 3,079                        | 15,929                       |
| Insurance payables                   | 14          | 25,759                       | 30,992                       |
| Other payables                       | 15          | 13,997                       | 14,918                       |
| <b>TOTAL LIABILITIES</b>             |             | <b>688,744</b>               | <b>712,397</b>               |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |             | <b>1,103,311</b>             | <b>1,141,738</b>             |

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

**BERJAYA SOMPO INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD FROM 1 MAY 2011 TO 31 DECEMBER 2011**

|   | <b>Share<br/>capital<br/>RM'000</b> | <b>Fair<br/>value<br/>reserves<br/>RM'000</b> | <b>Distributable<br/>retained<br/>profits<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|---|-------------------------------------|---|--|-------------------------|
| <b>At 1 May 2010</b>                                | 118,000                             | 41,666  | 216,393  | 376,059                 |
| Total comprehensive income<br>for the year          | -                                   | 22,306  | 30,976   | 53,282                  |
| <b>At 30 April 2011</b>                             | <u>118,000</u>                      | <u>63,972</u>                                 | <u>247,369</u>   | <u>429,341</u>          |
| <b>At 1 May 2011</b>                                | 118,000                             | 63,972  | 247,369  | 429,341                 |
| Total comprehensive (loss)/income<br>for the period | -                                   | (29,909)                                      | 15,135   | (14,774)                |
| <b>At 31 December 2011</b>                          | <u>118,000</u>                      | <u>34,063</u>                                 | <u>262,504</u>   | <u>414,567</u>          |

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

**BERJAYA SOMPO INSURANCE BERHAD**  
(Incorporated in Malaysia)

**INCOME STATEMENT**  
**FOR THE PERIOD FROM 1 MAY 2011 TO 31 DECEMBER 2011**

|  | <b>Note</b> | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|--|-------------|---|--|
| <b>Operating revenue</b>                           | 16          | 346,223   | 507,206  |
| Gross earned premiums                              | 17(a)       | 324,951   | 473,091  |
| Premiums ceded to reinsurers                       | 17(b)       | (57,518)  | (91,771)   |
| <b>Net earned premiums</b>                         |             | 267,433   | 381,320  |
| Investment income                                  | 18          | 21,272  | 34,115   |
| Realised gains and losses                          | 19          | 2,513   | (5,819)  |
| Fair value losses                                  | 20          | (13,411)  | (3,664)  |
| Commission income                                  |             | 15,728  | 22,108   |
| Other operating income                             | 21          | 1,289   | 1,985  |
| <b>Other revenue</b>                               |             | 27,391  | 48,725   |
| Gross claims paid                                  | 22(a)       | (208,818)   | (304,929)  |
| Claims ceded to reinsurers                         | 22(b)       | 20,971  | 34,432   |
| Gross change in contract liabilities               | 22(c)       | (3,749)   | (17,435)   |
| Change in contract liabilities ceded to reinsurers | 22(d)       | (4,809)   | 13,766   |
| <b>Net claims incurred</b>                         | 22          | (196,405)   | (274,165)  |
| Commission expense                                 |             | (38,458)  | (59,547)   |
| Management expenses                                | 23          | (39,607)  | (56,527)   |
| <b>Other expenses</b>                              |             | (78,065)  | (116,074)  |
| <b>Profit before tax</b>                           |             | 20,354  | 39,805   |
| Tax expense  | 24          | (5,219)   | (8,829)  |
| <b>Net profit for the period/year</b>              |             | 15,135  | 30,976   |
| <b>Earnings per share (sen) - Basic</b>            | 25          | 12.8  | 26.3   |

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

**BERJAYA SOMPO INSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIOD FROM 1 MAY 2011 TO 31 DECEMBER 2011**

|  | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|--|---|--|
| <b>Net profit for the period/year</b>                        | 15,135  | 30,976   |
| Other comprehensive income:                                  |   |  |
| Available-for-sale fair value reserves :                     |   |  |
| Net unrealised (loss) / gain on fair value changes           | (37,351)  | 23,840   |
| Net realised (gain) / loss transferred to income statement   | (2,527)   | 5,901  |
|  | <u>(39,878)</u>                                     | <u>29,741</u>  |
| Tax effects  | 9,969   | (7,435)  |
|  | <u>(29,909)</u>                                     | <u>22,306</u>  |
| <b>Total comprehensive (loss)/income for the period/year</b> | <u>(14,774)</u>                                     | <u>53,282</u>  |

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

**BERJAYA SOMPO INSURANCE BERHAD**  
(Incorporated in Malaysia)

**CASH FLOW STATEMENT**  
**FOR THE PERIOD FROM 1 MAY 2011 TO 31 DECEMBER 2011**

|  | <b>Note</b> | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|--|-------------|---|--|
| <b>Cash flows from operating activities</b>                  |             |   |  |
| Retained premiums less commissions                           |             | 288,830   | 445,430  |
| Claims less recoveries                                       |             | (242,930)   | (355,300)  |
| Interest income  |             | 16,535  | 18,099   |
| Net dividends  |             | 1,958   | 11,276   |
| Management expenses  |             | (38,048)  | (52,410)   |
| Purchase of investments                                      |             | (40,911)  | (109,309)  |
| Proceeds from sale of investments                            |             | 43,950  | 141,884  |
| Net maturity/(placement) of fixed and call deposits          |             | 43,050  | (2,999)  |
| Rental income  |             | 919   | 898  |
| Cash generated from operations                               |             | 73,353  | 97,569   |
| Taxes paid   |             | (8,546)   | (22,919)   |
| Net cash generated from operating activities                 | 26          | 64,807  | 74,650   |
| <b>Cash flows from investing activities</b>                  |             |   |  |
| Purchases of property and equipment and intangible assets    |             | (2,628)   | (4,100)  |
| Purchases of investment properties                           |             | (560)   | (6,098)  |
| Proceeds from sale of property and equipment                 |             | 237   | 225  |
| Net cash used in investing activities                        | 26          | (2,951)   | (9,973)  |
| <b>Cash flows from financing activity</b>                    |             |   |  |
| Net cash used in financing activity                          | 26          | -   | -  |
| <b>Net increase in cash and cash equivalents</b>             |             | 61,856  | 64,677   |
| <b>Cash and cash equivalents at beginning of period/year</b> | 11          | 300,223   | 235,546  |
| <b>Cash and cash equivalents at end of period/year</b>       | 11          | 362,079   | 300,223  |

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 2011**

**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 Sompo 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 change in the nature of the principal activity during the financial period.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 21 March 2012.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF PREPARATION**

The financial statements have been prepared in accordance with the Financial Reporting Standards ("FRS") in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

At the beginning of the current financial year, the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2011, as described fully in Note 2.3.

The financial statements of the Company have also been prepared on a historical cost basis, except for those financial instruments which have been measured at their fair values and insurance liabilities which have been measured in accordance with the valuation methods specified in the Risk-Based Capital Framework ("RBC") for insurers issued by BNM.

The Company has met the minimum capital requirements as prescribed by RBC at the end of the reporting date.

**BERJAYA SOMPO INSURANCE BERHAD**  
(Incorporated in Malaysia)

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.1 BASIS OF PREPARATION (CONT'D.)**

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 statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

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

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Property and equipment and depreciation**

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 period 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 2.2(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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(a) Property and equipment and depreciation (Cont'd.)**

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.

**(b) Intangible assets**

The intangible assets of the Company consist of computer software. 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 indefinite. 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 period 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 indefinite 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 indefinite 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(c) Leases (Cont'd.)**

**(i) Classification (Cont'd.)**

All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exceptions:

- 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; and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

**(ii) Finance leases**

Assets required by way of hire purchase or finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowings rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for the leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2 (a).

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(c) Leases (Cont'd.)**

**(iii) 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.

In the case of a lease of land and buildings, the minimum lease payments or the upfront payments made are allocated, whenever necessary, between the land and the buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

**(d) Investment properties**

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for 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.

Gains or losses arising from the changes in fair value of investment properties are recognised in profit or loss 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.

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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(e) Impairment of non-financial assets**

The carrying amounts of 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 cash-generating unit ("CGU") to which the asset belongs to.

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. Impairment losses recognised in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to those units and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss is recognised in the income statement in the period 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(f) Financial instruments**

Financial instruments are recognised in the statement 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 classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives, as appropriate.

The Company determines the classification of its financial assets at initial recognition. The Company initially recognises financial assets including cash and short-term deposits, loans and other receivables when it becomes a party to the contractual provisions of the instruments.

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

**(a) Classification and measurement basis for securities**

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVTPL") includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with gains or losses recognised in the income statement.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(f) Financial instruments (Cont'd.)**

**(i) Financial assets (Cont'd.)**

**(a) Classification and measurement basis for securities (Cont'd.)**

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

- Held-to-maturity investments

Held-to-maturity investments 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 assets are carried at amortised cost using the effective interest method, less any impairment loss. Gains or losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

- Available-for-sale financial assets

Available-for-sale ("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 the income statement, 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.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(f) Financial instruments (Cont'd.)**

**(i) Financial assets (Cont'd.)**

**(b) Insurance receivables**

Receivables are carried at anticipated realisable values.

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. The Company gathers the objective evidence that an insurance receivables is impaired using the same process and method.

**(ii) Financial liabilities**

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

**(iii) Equity instruments**

Ordinary shares are classified as equity on the statement of financial position.

Dividends on ordinary shares are recognised and reflected in the statement of changes in equity in the period in which they are declared.

**(iv) Fair value of financial instruments**

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted closing prices for assets at the close of business on the reporting date.

For investments in unit trusts, fair value is determined by reference to published market values.

The fair value of Malaysian Government Securities, Cagamas Papers and Unquoted Corporate Bonds are determined by reference to Bond Pricing Agency Malaysia.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(f) Financial instruments (Cont'd.)**

**(iv) Fair value of financial instruments (Cont'd.)**

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 transactions 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 a financial asset is impaired.

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 other comprehensive income, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as AFS are not recognised in profit or loss. 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.

**(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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(h) Amortised cost**

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.

**(i) 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.

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

When insurance contracts contain both a financial risk component and a significant insurance risk component and 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(j) 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. They are recognised in respect of both direct insurance and inward reinsurance. 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 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 and 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(j) Insurance contract liabilities (Cont'd.)**

**(iv) Unearned premium reserves**

The short-term 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.

The long-term UPR represent the portion of the net premiums of long-term insurance policies written, that relate to the unexpired periods of the policies at the end of the financial period. The premium income is recognised on a time apportionment basis over the duration of the policies.

**(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 profit or loss.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(j) Insurance contract liabilities (Cont'd.)**

**(v) Liability adequacy test (Cont'd.)**

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 as at reporting date are deemed to be adequate.

**(k) Reinsurance**

The Company cedes insurance risk in the normal course of business for all its business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsurer'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.

**(l) Other revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transactions will flow to the enterprise 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(l) Other revenue recognition (Cont'd.)**

**(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.

**(m) 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 measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in the income statement account, 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**(n) 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.

**(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 income statement account. The currencies giving rise to these differences are primarily United States Dollars (USD) and Singapore Dollars (SGD).

**(p) Related companies**

Related companies refer to companies related to Sompo Japan Inc. and other companies.

**(q) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank consisting fixed and call deposits which matured within 3 months.

The cash flow statement is prepared using the direct method.



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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.3 CHANGES IN ACCOUNTING POLICIES**

The accounting policies adopted by the Company are consistent with those of the previous financial year except for the adoption of new and revised FRSs.

On 1 May 2011, the Company adopted the following mandatory new and amended FRSs, Amendments to FRS and Issues Committee ("IC") Interpretations mandatory for financial periods beginning on and after 1 January 2011 :

- (i) FRS 1: First-time Adoption of Financial Reporting Standards
- (ii) Amendments to FRS 2: Share-based Payment
- (iii) FRS 3: Business Combinations
- (iv) Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations
- (v) Amendments to FRS 127: Consolidated and Separate Financial Statements
- (vi) Amendments to FRS 138: Intangible Assets
- (vii) Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
- (viii) IC Interpretation 12: Service Concession Arrangements
- (ix) IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation
- (x) IC Interpretation 17: Distributions of Non-cash Assets to Owners
- (xi) Amendments to FRS 132: Classification of Rights Issues
- (xii) IC Interpretation 18: Transfers of Assets from Customers
- (xiii) Amendments to FRS 7: Improving Disclosures about Financial Instruments
- (xiv) Amendments to FRS 1: Limited Exemptions for First-time Adopters
- (xv) Amendments to FRS 1: Additional Exemptions for First-time Adopt
- (xvi) IC Interpretation 4: Determining Whether an Arrangement contains a Lease Improvements to FRS issued in 2010

**(i) Amendments to FRS 7 : Improving Disclosures About Financial Instruments**

The amended standard requires enhanced disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (Level 1, Level 2 and Level 3), by class, for all financial instruments recognised at fair value. A reconciliation between the beginning and ending balance for Level 3 fair value measurements is required. Any significant transfers between levels of the fair value hierarchy and the reasons for those transfers need to be disclosed. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 30(h). The liquidity risk disclosures are not impacted by the amendments and are presented in Note 30(b).

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

**Malaysian Financial Reporting Standards ("MFRS Framework")**

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework").

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture ("MFRS 141") and Issues Committee ("IC") Interpretation 15 Agreements for Construction of Real Estate ("IC 15"), including its parent, significant investor and venturer (hereafter referred to as "Transitioning Entities").

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework for an additional year. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2013.

The Group and the Company will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. The directors are of the opinion that the financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 would not be significantly different if prepared under the MFRS Framework.

**2.5 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 Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)**

**(a) Critical judgements made in applying accounting policies (Cont'd.)**

**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 (j) (i) and (ii). The premium liabilities comprise UPR and/or URR while claim liabilities comprise outstanding claims case estimates and Incurred But Not Reported ("IBNR") claims.

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 past experience 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.

**(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:

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)**

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

**(i) Depreciation of property and equipment**

Management estimates that the residual values and remaining useful lives are applicable for the current financial period.

**(ii) Amortisation of intangible assets**

The Company recognises the costs of significant development of knowledge based software and computer applications as intangible assets with finite useful lives. Such software and applications are unique to the requirements of the insurance business and the Company establishes that these development costs will generate economic benefits beyond one year.

**(iii) 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.

**(iv) Deferred tax assets**

Deferred tax assets are recognised for various allowances and provisions to the extent that it is probable that taxable profit will be available against which these losses, allowances and provisions 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.

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**3. PROPERTY AND EQUIPMENT**

|  | <b>Land and<br/>buildings*<br/>RM'000</b> | <b>Furniture,<br/>fittings,<br/>office<br/>equipment<br/>and<br/>computers<br/>RM'000</b> | <b>Motor<br/>vehicles<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|---|---|--------------------------------------|-------------------------|
| <b>31 December 2011</b>                            |   |   |                                      |                         |
| <b>Cost</b>  |   |   |                                      |                         |
| At 1 May 2011                                      | 30,487                                    | 20,620  | 3,864                                | 54,971                  |
| Additions  | -   | 1,029   | 1,519                                | 2,548                   |
| Disposals  | -   | (12)  | (991)                                | (1,003)                 |
| Write-offs   | -   | (416)   | -                                    | (416)                   |
| At 31 December 2011                                | 30,487                                    | 21,221  | 4,392                                | 56,100                  |
| <b>Accumulated depreciation<br/>and impairment</b> |   |   |                                      |                         |
| At 1 May 2011                                      | 6,942                                     | 13,196  | 2,219                                | 22,357                  |
| Charge for the period                              | 407                                       | 1,303   | 482                                  | 2,192                   |
| Disposals  | -   | (11)  | (858)                                | (869)                   |
| Write-offs   | -   | (299)   | -                                    | (299)                   |
| At 31 December 2011                                | 7,349                                     | 14,189  | 1,843                                | 23,381                  |
| <b>Net carrying amount</b>                         | <b>23,138</b>                             | <b>7,032</b>  | <b>2,549</b>                         | <b>32,719</b>           |

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**3. PROPERTY AND EQUIPMENT (CONT'D.)**

|  | Land and<br>buildings*<br>RM'000 | Furniture,<br>fittings,<br>office<br>equipment<br>and<br>computers<br>RM'000 | Motor<br>vehicles<br>RM'000 | Total<br>RM'000 |
|--|----------------------------------|--|-----------------------------|-----------------|
| <b>30 April 2011</b>                               |                                  |  |                             |                 |
| <b>Cost</b>  |                                  |  |                             |                 |
| At 1 May 2010                                      | 30,487                           | 19,728   | 3,673                       | 53,888          |
| Additions  | -                                | 1,318  | 1,203                       | 2,521           |
| Disposals  | -                                | (141)  | (1,012)                     | (1,153)         |
| Write-offs   | -                                | (285)  | -                           | (285)           |
| At 30 April 2011                                   | 30,487                           | 20,620   | 3,864                       | 54,971          |
| <b>Accumulated depreciation<br/>and impairment</b> |                                  |  |                             |                 |
| At 1 May 2010                                      | 6,332                            | 11,548   | 2,597                       | 20,477          |
| Charge for the year                                | 610                              | 1,995  | 572                         | 3,177           |
| Disposals  | -                                | (128)  | (950)                       | (1,078)         |
| Write-offs   | -                                | (219)  | -                           | (219)           |
| At 30 April 2011                                   | 6,942                            | 13,196   | 2,219                       | 22,357          |
| <b>Net carrying amount</b>                         | <b>23,545</b>                    | <b>7,424</b>   | <b>1,645</b>                | <b>32,614</b>   |

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**3. PROPERTY AND EQUIPMENT (CONT'D.)**

**\* Land and buildings**

|  | <b>Freehold<br/>properties<br/>RM'000</b> | <b>Leasehold<br/>properties<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|---|--|-------------------------|
| <b>31 December 2011</b>                            |   |  |                         |
| <b>Cost</b>  |   |  |                         |
| At 1 May 2011/31 December 2011                     | 25,067                                    | 5,420                                      | 30,487                  |
| <b>Accumulated depreciation<br/>and impairment</b> |   |  |                         |
| At 1 May 2011                                      | 6,442                                     | 500  | 6,942                   |
| Charge for the period                              | 335                                       | 72   | 407                     |
| At 31 December 2011                                | 6,777                                     | 572  | 7,349                   |
| <b>Net carrying amount</b>                         | 18,290                                    | 4,848                                      | 23,138                  |
| <b>30 April 2011</b>                               |   |  |                         |
| <b>Cost</b>  |   |  |                         |
| At 1 May 2010/30 April 2011                        | 25,067                                    | 5,420                                      | 30,487                  |
| <b>Accumulated depreciation<br/>and impairment</b> |   |  |                         |
| At 1 May 2010                                      | 5,941                                     | 391  | 6,332                   |
| Charge for the year                                | 501                                       | 109  | 610                     |
| At 30 April 2011                                   | 6,442                                     | 500  | 6,942                   |
| <b>Net carrying amount</b>                         | 18,625                                    | 4,920                                      | 23,545                  |

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**4. INTANGIBLE ASSETS**

|                                 | <b>31.12.2011</b> | <b>30.04.2011</b> |
|---------------------------------|-------------------|-------------------|
|                                 | <b>RM'000</b>     | <b>RM'000</b>     |
| <b>Cost</b>                     |                   |                   |
| At 1 May 2011/2010              | 3,354             | 3,125             |
| Additions                       | 80                | 229               |
| At 31 December/30 April 2011    | <u>3,434</u>      | <u>3,354</u>      |
| <b>Accumulated amortisation</b> |                   |                   |
| At 1 May 2011/2010              | 2,340             | 1,939             |
| Charge for the period/year      | 268               | 401               |
| At 31 December/30 April 2011    | <u>2,608</u>      | <u>2,340</u>      |
| <b>Net carrying amount</b>      | <u>826</u>        | <u>1,014</u>      |

**5. INVESTMENT PROPERTIES**

|                                 | <b>31.12.2011</b> | <b>30.04.2011</b> |
|---------------------------------|-------------------|-------------------|
|                                 | <b>RM'000</b>     | <b>RM'000</b>     |
| As at 1 May                     | 16,705            | 10,498            |
| Additions                       | 560               | 5,360             |
| Fair value adjustment (Note 20) | -                 | 847               |
| As at 31 December/30 April 2011 | <u>17,265</u>     | <u>16,705</u>     |

Investment properties are stated at fair value, which has been determined based on valuations performed by Hartanah Consultants ("HC") as at 31 April 2011. However, during the financial period, desktop valuation has been performed by HC as at 31 December 2011. Formal valuations are performed at least once in every 3 years and fair value changes are recorded in income statement.

**6. INVESTMENTS**

|                                      | <b>31.12.2011</b> | <b>30.04.2011</b> |
|--------------------------------------|-------------------|-------------------|
|                                      | <b>RM'000</b>     | <b>RM'000</b>     |
| Malaysian government securities      | 35,293            | 40,339            |
| Debt securities                      | 136,323           | 158,132           |
| Equity securities                    | 181,998           | 202,664           |
| Unit trust funds                     | 26,314            | 25,147            |
| Deposits with financial institutions | 119,200           | 162,250           |
| Other investments                    | 502               | 502               |
|                                      | <u>499,630</u>    | <u>589,034</u>    |



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**6. INVESTMENTS ( CONT'D.)**

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

|   | <b>31.12.2011</b> | <b>30.04.2011</b> |
|---|-------------------|-------------------|
|   | <b>RM'000</b>     | <b>RM'000</b>     |
| Held-to-maturity financial assets ("HTM")   | 145,520           | 158,755           |
| Loans and receivables ("LAR")               | 119,200           | 162,250           |
| Available-for-sale financial assets ("AFS") | 234,910           | 268,029           |
|   | <u>499,630</u>    | <u>589,034</u>    |

**(a) Held-To-Maturity**

|   | <b>31.12.2011</b> | <b>30.04.2011</b> |
|---|-------------------|-------------------|
|   | <b>RM'000</b>     | <b>RM'000</b>     |
| <b>Amortised Cost</b>                         |                   |                   |
| Malaysian government securities               | 35,293            | 40,339            |
| Government investment issues                  | 30,201            | 25,231            |
| Government guaranteed loan                    | 5,000             | 5,000             |
| Corporate debt securities, quoted in Malaysia | 75,026            | 88,185            |
|   | <u>145,520</u>    | <u>158,755</u>    |
| <b>Fair Value</b>                             |                   |                   |
| Malaysian government securities               | 35,569            | 40,580            |
| Government investment issues                  | 30,517            | 25,346            |
| Government guaranteed loan                    | 5,049             | 5,035             |
| Corporate debt securities, quoted in Malaysia | 76,340            | 89,468            |
|   | <u>147,475</u>    | <u>160,429</u>    |

**(b) Loans and Receivables**

|  | <b>31.12.2011</b> | <b>30.04.2011</b> |
|--|-------------------|-------------------|
|  | <b>RM'000</b>     | <b>RM'000</b>     |
| <b>Amortised Cost</b>                          |                   |                   |
| Deposits with licensed financial institutions: |                   |                   |
| Commercial banks                               | 119,200           | 159,250           |
| Investment banks                               | -                 | 3,000             |
|  | <u>119,200</u>    | <u>162,250</u>    |

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**6. INVESTMENTS ( CONT'D.)**

**(c) Available-For-Sale**

|                         | <b>31.12.2011</b> | <b>30.04.2011</b> |
|-------------------------|-------------------|-------------------|
|                         | <b>RM'000</b>     | <b>RM'000</b>     |
| <b>Fair Value</b>       |                   |                   |
| Equity securities:      |                   |                   |
| Quoted in Malaysia      | 177,518           | 195,206           |
| Quoted outside Malaysia | 4,362             | 7,340             |
| Unquoted in Malaysia    | 118               | 118               |
| Unit trust funds        | 26,314            | 25,147            |
| Debt securities:        |                   |                   |
| Quoted in Malaysia      | 24,933            | 38,553            |
| Quoted outside Malaysia | 1,163             | 1,163             |
| Other investments       | 502               | 502               |
|                         | <u>234,910</u>    | <u>268,029</u>    |

**(d) Carrying Values of Financial Instruments**

|  | <b>HTM</b>     | <b>LAR</b>     | <b>AFS</b>     | <b>Total</b>   |
|--|----------------|----------------|----------------|----------------|
|  | <b>RM'000</b>  | <b>RM'000</b>  | <b>RM'000</b>  | <b>RM'000</b>  |
| <b>At 1 May 2010</b>   | 148,796        | 159,250        | 243,757        | 551,803        |
| Purchases  | 35,256         | 3,000          | 37,705         | 75,961         |
| Maturities/disposals   | (25,000)       | -              | (32,762)       | (57,762)       |
| Fair value gains recorded<br>in other comprehensive<br>income  | -              | -              | 23,840         | 23,840         |
| Impairment loss  | -              | -              | (4,511)        | (4,511)        |
| Amortisation adjustment  | (297)          | -              | -              | (297)          |
| <b>At 30 April 2011</b>  | <u>158,755</u> | <u>162,250</u> | <u>268,029</u> | <u>589,034</u> |
| <b>At 1 May 2011</b>   | 158,755        | 162,250        | 268,029        | 589,034        |
| Purchases  | 14,873         | -              | 26,833         | 41,706         |
| Maturities/disposals   | (28,000)       | (43,050)       | (9,190)        | (80,240)       |
| Fair value losses recorded<br>in other comprehensive<br>income | -              | -              | (37,351)       | (37,351)       |
| Impairment loss  | -              | -              | (13,411)       | (13,411)       |
| Amortisation adjustment  | (108)          | -              | -              | (108)          |
| <b>At 31 December 2011</b>                                     | <u>145,520</u> | <u>119,200</u> | <u>234,910</u> | <u>499,630</u> |

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**7. REINSURANCE ASSETS**

|                                    | <b>31.12.2011</b> | <b>30.04.2011</b> |
|------------------------------------|-------------------|-------------------|
|                                    | <b>RM'000</b>     | <b>RM'000</b>     |
| Reinsurance of insurance contracts |                   |                   |
| Claims liabilities (Note 13)       | 94,222            | 99,029            |
| Premium liabilities (Note 13)      | 31,728            | 33,573            |
|                                    | <u>125,950</u>    | <u>132,602</u>    |

**8. INSURANCE RECEIVABLES**

|  | <b>31.12.2011</b> | <b>30.04.2011</b> |
|--|-------------------|-------------------|
|  | <b>RM'000</b>     | <b>RM'000</b>     |
| Outstanding premiums including agents,<br>brokers and co-insurers balances | 25,061            | 35,573            |
| Allowance for impairment   | (4,302)           | (5,560)           |
|  | <u>20,759</u>     | <u>30,013</u>     |
| Amount due from reinsurers/ceding companies                                | 6,870             | 3,856             |
| Allowance for impairment   | (395)             | (383)             |
|  | <u>6,475</u>      | <u>3,473</u>      |
| Amount due from related parties  | 730               | 1,395             |
| Allowance for impairment   | (179)             | (153)             |
|  | <u>551</u>        | <u>1,242</u>      |
|  | <u>27,785</u>     | <u>34,728</u>     |

Movement in allowance for impairment:

|   | <b>31.12.2011</b> | <b>30.04.2011</b> |
|---|-------------------|-------------------|
|   | <b>RM'000</b>     | <b>RM'000</b>     |
| At 1 May                                    | 6,096             | 7,562             |
| Allowance for impairment losses             | -                 | 2,055             |
| Reversal of allowance for impairment losses | (1,228)           | (2,388)           |
| Bad debts written-off net of recovery       | 8                 | (1,133)           |
| At 31 December/30 April                     | <u>4,876</u>      | <u>6,096</u>      |

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**9. OTHER RECEIVABLES**

|   | <b>31.12.2011</b> | <b>30.04.2011</b> |
|---|-------------------|-------------------|
|   | <b>RM'000</b>     | <b>RM'000</b>     |
| Other receivables and deposits            | 2,689             | 1,580             |
| Share of net other assets held under MMIP | 13,733            | 7,895             |
| Proceed from disposal shares              | -                 | 6,767             |
| Staff loans *                             | 23                | 32                |
| Income due and accrued                    | 6,315             | 5,818             |
|   | <u>22,760</u>     | <u>22,092</u>     |
| <br>* Staff loans:                        |                   |                   |
| - Secured                                 | 9                 | 14                |
| - Unsecured                               | 14                | 18                |
|   | <u>23</u>         | <u>32</u>         |

The secured staff loans bear interest at 4.0% (30.4.2011: 4.0%) per annum, whilst the unsecured staff loans are interest-free.

**10. DEFERRED TAX LIABILITIES**

|  | <b>31.12.2011</b> | <b>30.04.2011</b> |
|--|-------------------|-------------------|
|  | <b>RM'000</b>     | <b>RM'000</b>     |
| At beginning of period/year                            | (15,929)          | (7,865)           |
| Recognised in AFS reserve                              | 9,969             | (7,435)           |
| Recognised in the income statement (Note 24)           | 2,881             | (629)             |
| At end of period/year                                  | <u>(3,079)</u>    | <u>(15,929)</u>   |
| <br>Presented after appropriate offsetting as follows: |                   |                   |
| - Deferred tax assets                                  | 10,076            | 7,044             |
| - Deferred tax liabilities                             | (13,155)          | (22,973)          |
| At end of period/year                                  | <u>(3,079)</u>    | <u>(15,929)</u>   |

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**10. DEFERRED TAX LIABILITIES (CONT'D.)**

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

**Deferred tax assets**

|                                    | <b>Premium liabilities<br/>RM'000</b> | <b>Provision for doubtful debts<br/>RM'000</b> | <b>Provision for impairment in investments<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|------------------------------------|---------------------------------------|--|---|-------------------------|
| At 1 May 2011                      | 380                                   | 1,293  | 5,371   | 7,044                   |
| Recognised in the income statement | (34)                                  | (287)  | 3,353   | 3,032                   |
| At 31 December 2011                | <u>346</u>                            | <u>1,006</u>                                   | <u>8,724</u>  | <u>10,076</u>           |
| At 1 May 2010                      | 370                                   | 1,652  | 5,832   | 7,854                   |
| Recognised in the income statement | 10                                    | (359)  | (461)   | (810)                   |
| At 30 April 2011                   | <u>380</u>                            | <u>1,293</u>                                   | <u>5,371</u>  | <u>7,044</u>            |

**Deferred tax liabilities**

|                                    | <b>Available-for-sale reserves<br/>RM'000</b> | <b>Accelerated capital allowances<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|------------------------------------|---|--|-------------------------|
| At 1 May 2011                      | 21,324  | 1,649  | 22,973                  |
| Recognised in AFS reserve          | (9,969)                                       | -  | (9,969)                 |
| Recognised in the income statement | -   | 151  | 151                     |
| At 31 December 2011                | <u>11,355</u>                                 | <u>1,800</u>                                     | <u>13,155</u>           |
| At 1 May 2010                      | 13,889  | 1,830  | 15,719                  |
| Recognised in AFS reserve          | 7,435   | -  | 7,435                   |
| Recognised in the income statement | -   | (181)  | (181)                   |
| At 30 April 2011                   | <u>21,324</u>                                 | <u>1,649</u>                                     | <u>22,973</u>           |

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**11. CASH AND CASH EQUIVALENTS**

|   | <b>31.12.2011</b><br><b>RM'000</b> | <b>30.04.2011</b><br><b>RM'000</b> |
|---|------------------------------------|------------------------------------|
| Fixed and call deposits with licensed financial institutions<br>(with maturity of less than three months) | 348,950                            | 289,608                            |
| Cash and bank balances  | 13,129                             | 10,615                             |
|   | <u>362,079</u>                     | <u>300,223</u>                     |
| Fixed and call deposits were placed with:   |                                    |                                    |
| Investment banks  | 57,000                             | 79,008                             |
| Commercial banks  | 291,950                            | 210,600                            |
|   | <u>348,950</u>                     | <u>289,608</u>                     |

**12. SHARE CAPITAL**

|                                 | <b>Number of ordinary<br/>shares of RM1 each</b> |                   | <b>Amount</b>     |                   |
|---------------------------------|--|-------------------|-------------------|-------------------|
|                                 | <b>31.12.2011</b>                                | <b>30.04.2011</b> | <b>31.12.2011</b> | <b>30.04.2011</b> |
|                                 | <b>'000</b>                                      | <b>'000</b>       | <b>RM'000</b>     | <b>RM'000</b>     |
| <b>Authorised:</b>              |  |                   |                   |                   |
| At beginning/end of period/year | <u>200,000</u>                                   | <u>200,000</u>    | <u>200,000</u>    | <u>200,000</u>    |
| <b>Issued and fully paid:</b>   |  |                   |                   |                   |
| At beginning/end of period/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   | 31.12.2011      |                            |               | 30.04.2011      |                            |               |
|--|-----------------|----------------------------|---------------|-----------------|----------------------------|---------------|
|  | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000 | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000 |
| Provision for claims reported by policyholders | 320,905         | (74,807)                   | 246,098       | 312,295         | (73,999)                   | 238,296       |
| Provision for IBNR                             | 125,735         | (19,415)                   | 106,320       | 130,595         | (25,030)                   | 105,565       |
| Claim liabilities                              | 446,640         | (94,222)                   | 352,418       | 442,890         | (99,029)                   | 343,861       |
| Premium liabilities                            | 199,269         | (31,728)                   | 167,541       | 207,668         | (33,573)                   | 174,095       |
| Insurance contract liabilities                 | 645,909         | (125,950)                  | 519,959       | 650,558         | (132,602)                  | 517,956       |

**13.1 Claim liabilities**

|  | 31.12.2011      |                            |               | 30.04.2011      |                            |               |
|--|-----------------|----------------------------|---------------|-----------------|----------------------------|---------------|
|  | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000 | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000 |
| <b>At 1 May 2011/2010</b>  | 442,890         | (99,029)                   | 343,861       | 425,455         | (85,264)                   | 340,191       |
| Claims incurred for the current accident period/year                         | 212,568         | (16,164)                   | 196,404       | 322,364         | (48,197)                   | 274,167       |
| Adjustment to claims incurred in prior accident years (direct & facultative) | 211,117         | (22,913)                   | 188,203       | 310,002         | (46,794)                   | 263,207       |
| Claims incurred during the year (treaty inwards claims)                      | 11,553          | -                          | 11,553        | 5,115           | 569                        | 5,684         |
| Movement in FPRAD of claims liabilities at 75% confidence level              | (11,065)        | 6,749                      | (4,315)       | 6,845           | (5,498)                    | 1,346         |
| Movement in claims handling expenses   | 963             | -                          | 963           | 403             | 3,527                      | 3,930         |
| Claims paid during the period/year   | (208,818)       | 20,971                     | (187,847)     | (304,929)       | 34,432                     | (270,497)     |
| <b>At 31 December/30 April 2011</b>  | 446,640         | (94,222)                   | 352,418       | 442,890         | (99,029)                   | 343,861       |

**13.2 Premium liabilities**

|   | 31.12.2011      |                            |               | 30.04.2011      |                            |               |
|---|-----------------|----------------------------|---------------|-----------------|----------------------------|---------------|
|   | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000 | Gross<br>RM'000 | Re-<br>insurance<br>RM'000 | Net<br>RM'000 |
| <b>At 1 May 2011/2010</b>               | 207,668         | (33,573)                   | 174,095       | 190,112         | (34,038)                   | 156,074       |
| Premiums written during the period/year | 316,552         | (55,673)                   | 260,879       | 490,647         | (91,307)                   | 399,340       |
| Premiums earned during the period/year  | (324,951)       | 57,518                     | (267,433)     | (473,091)       | 91,772                     | (381,319)     |
| <b>At 31 December/30 April 2011</b>     | 199,269         | (31,728)                   | 167,541       | 207,668         | (33,573)                   | 174,095       |

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**14. INSURANCE PAYABLES**

|   | <b>31.12.2011</b> | <b>30.04.2011</b> |
|---|-------------------|-------------------|
|   | <b>RM'000</b>     | <b>RM'000</b>     |
| Amount due to agents, brokers, co-insurers and insureds | 7,940             | 5,024             |
| Amount due to reinsurers and ceding companies           | 16,482            | 25,488            |
| Amount due to related parties                           | 1,337             | 480               |
|   | <u>25,759</u>     | <u>30,992</u>     |

**15. OTHER PAYABLES**

|   | <b>31.12.2011</b> | <b>30.04.2011</b> |
|---|-------------------|-------------------|
|   | <b>RM'000</b>     | <b>RM'000</b>     |
| Accrued liabilities                         | 5,362             | 6,285             |
| Other payables                              | 2,579             | 3,017             |
| Cash collaterals held on behalf of insureds | 6,056             | 5,616             |
|   | <u>13,997</u>     | <u>14,918</u>     |

**16. OPERATING REVENUE**

|                                 | <b>8 months</b>   | <b>12 months</b>  |
|---------------------------------|-------------------|-------------------|
|                                 | <b>ended</b>      | <b>ended</b>      |
|                                 | <b>31.12.2011</b> | <b>30.04.2011</b> |
|                                 | <b>RM'000</b>     | <b>RM'000</b>     |
| Gross earned premiums (Note 17) | 324,951           | 473,091           |
| Investment income (Note 18)     | 21,272            | 34,115            |
|                                 | <u>346,223</u>    | <u>507,206</u>    |



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**17. NET EARNED PREMIUMS**

|   | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|---|---|--|
| <b>(a) Gross earned premiums</b>        |   |  |
| General insurance contract              | 316,552   | 490,647  |
| Change in premium liabilities           | 8,399   | (17,556)   |
|   | <u>324,951</u>                                      | <u>473,091</u>                                       |
| <b>(b) Premiums ceded to reinsurers</b> |   |  |
| General reinsurance contracts           | 55,673  | 91,307   |
| Change in premium liabilities           | 1,845   | 464  |
|   | <u>57,518</u>                                       | <u>91,771</u>  |
| <b>Net Earned Premiums</b>              | <u>267,433</u>                                      | <u>381,320</u>                                       |

**18. INVESTMENT INCOME**

|   | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|---|---|--|
| Rental income from investment properties          | 763   | 717  |
| HTM financial assets interest/income              | 4,508   | 7,467  |
| Amortisation of premiums net of accretion         | (108)   | (297)  |
| AFS financial assets dividend/distribution income | 5,546   | 13,973   |
| LAR fixed and call deposits interest/income       | 9,951   | 12,019   |
| Others  | 612   | 236  |
|   | <u>21,272</u>                                       | <u>34,115</u>  |

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**19. REALISED GAINS AND LOSSES**

|                               | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|-------------------------------|---|--|
| <b>Property and equipment</b> |   |  |
| Realised (losses)/gain        | (14)  | 82   |
| <b>AFS financial assets:</b>  |   |  |
| Realised gains:               |   |  |
| Equity securities             |   |  |
| - quoted in Malaysia          | 2,718   | 2,831  |
| Realised losses:              |   |  |
| Equity securities             |   |  |
| - quoted in Malaysia          | (191)   | (8,327)  |
| Debts Securities              |   |  |
| - quoted in Malaysia          | -   | (405)  |
|                               | <u>2,513</u>  | <u>(5,819)</u>                                       |

**20. FAIR VALUE GAINS AND LOSSES**

|   | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|---|---|--|
| Fair value adjustment on investment properties (Note 5) | -   | 847  |
| Impairment loss on AFS financial assets                 | (13,411)  | (4,511)  |
|   | <u>(13,411)</u>                                     | <u>(3,664)</u>                                       |

**21. OTHER OPERATING INCOME**

|                                   | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|-----------------------------------|---|--|
| Realised loss on foreign exchange | (35)  | (38)   |
| Sundry income                     | 1,324   | 2,023  |
|                                   | <u>1,289</u>  | <u>1,985</u>   |

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**22. NET CLAIMS INCURRED**

|   | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|---|---|--|
| <b>(a) Gross claims paid</b>                                  |   |  |
| General insurance contracts (Note 13)                         | (208,818)   | (304,929)  |
| <b>(b) Claims ceded to reinsurers</b>                         |   |  |
| General insurance contracts (Note 13)                         | 20,971  | 34,432   |
| <b>(c) Gross change in contract liabilities</b>               |   |  |
| General insurance contracts                                   | (3,749)   | (17,435)   |
| <b>(d) Change in contract liabilities ceded to reinsurers</b> |   |  |
| General insurance contracts                                   | (4,809)   | 13,766   |
|   | <u>(196,405)</u>                                    | <u>(274,166)</u>                                     |

**23. MANAGEMENT EXPENSES**

|  | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|--|---|--|
| Employee benefits expense (Note 23(a))                     | 22,991  | 29,371   |
| Directors' fees (Note 23(b))                               | 73  | 113  |
| Auditors' remuneration:                                    |   |  |
| - statutory audits   | 100   | 100  |
| - other services   | 49  | 49   |
| Rental of properties                                       | 406   | 714  |
| Depreciation of property and equipment                     | 2,192   | 3,177  |
| Amortisation of intangible assets                          | 268   | 401  |
| Gain on disposal of property and equipment                 | (103)   | (148)  |
| Property and equipment written off                         | 117   | 66   |
| Provision for PIDM Takaful and Insurance Protection Scheme | 563   | 1,198  |
| Reversal of allowance for impairment losses on receivables | (1,228)   | (333)  |
| Computer service charges                                   | 753   | 2,672  |
| Other expenses   | 13,426  | 19,147   |
|  | <u>39,607</u>                                       | <u>56,527</u>  |

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**23. MANAGEMENT EXPENSES (CONT'D.)**

**(a) Employee benefits expenses**

|   |               |               |
|---|---------------|---------------|
| Wages, salaries and bonus                       | 19,820        | 25,337        |
| Social security contributions                   | 232           | 324           |
| Contributions to defined contribution plan, EPF | 2,169         | 2,730         |
| Other benefits                                  | 770           | 980           |
|   | <u>22,991</u> | <u>29,371</u> |

**(b) Directors' remuneration**

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

|  | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|--|---|--|
| Executive directors:                           |   |  |
| Salaries, allowances and bonus                 | 972   | 1,576  |
| Contribution to defined contribution plan, EPF | 99  | 97   |
|  | <u>1,071</u>  | <u>1,673</u>   |
| Non-Executive directors:                       |   |  |
| - Fees, allowances and bonus                   | <u>73</u>   | <u>113</u>   |
| Total directors' remuneration                  | <u>1,144</u>  | <u>1,786</u>   |

**(c) The details of remuneration receivable by the Company's Chief Executive Officer during the financial period/year was as follows:**

|                                | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|--------------------------------|---|--|
| Salaries, allowances and bonus | 825   | 1,240  |
| Other remuneration             | 99  | 97   |
| Benefits-in-kind               | 31  | 22   |
|                                | <u>955</u>  | <u>1,359</u>   |

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**24. INCOME TAX EXPENSE**

|   | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|---|---|--|
| Income tax:   |   |  |
| - Current income tax  | 8,424   | 8,070  |
| - (Over)/under-provision in prior years                                   | (324)   | 130  |
|   | <u>8,100</u>  | <u>8,200</u>   |
| Deferred tax:   |   |  |
| - Relating to origination and reversal of temporary differences (Note 10) | (2,881)   | 629  |
| - Tax expense for the period/year   | <u>5,219</u>  | <u>8,829</u>   |

Current income tax is calculated at the Malaysian tax rate of 25% (30.4.2011: 25%) on the estimated assessable profit for the period/year.

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

|  | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|--|---|--|
| Profit before tax  | <u>20,354</u>                                       | <u>39,805</u>  |
| Taxation at Malaysian statutory tax rate of 25% (30.4.2011: 25%) | 5,089   | 9,951  |
| Effect of different tax rate for offshore business               | (153)   | (152)  |
| Effect of income not subject to tax                              | (271)   | (1,757)  |
| Effect of expenses not deductible for tax purposes               | 777   | 632  |
| Under-provision of deferred tax in prior years                   | 101   | 25   |
| (Over)/under-provision of income tax in prior years              | (324)   | 130  |
| Tax expense for the period/year                                  | <u>5,219</u>  | <u>8,829</u>   |

Prior to the year of assessment 2008, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

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**24. INCOME TAX EXPENSE (CONT'D.)**

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 December 2011 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2011, the Company has sufficient credit in the Section 108 balance to pay franked dividends out of its entire retained earnings.

**25. EARNINGS PER SHARE**

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

|   | <b>8 months<br/>ended<br/>31.12.2011</b> | <b>12 months<br/>ended<br/>30.04.2011</b> |
|---|--|---|
| Net profit for the period/year (RM'000)   | 15,135                                   | 30,976                                    |
| Number of ordinary shares in issue ('000) | 118,000                                  | 118,000                                   |
| Basic earnings per share (sen)            | 12.8                                     | 26.3                                      |

There were no potential dilutive effects on the Company's ordinary shares during and at the end of the financial period/year.

**26. SEGMENTAL INFORMATION ON CASH FLOW**

|  | <b>General<br/>insurance<br/>fund<br/>RM'000</b> | <b>Shareholders'<br/>fund<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|--|--|-------------------------|
| <b>8 months ended 31 December 2011</b>   |  |  |                         |
| Net cash generated from/(used in):       |  |  |                         |
| Operating activities                     | 64,807   | -  | 64,807                  |
| Investing activities                     | (2,951)  | -  | (2,951)                 |
|  | <u>61,856</u>                                    | <u>-</u>                                 | <u>61,856</u>           |
| Net change in cash and cash equivalents: |  |  |                         |
| At beginning of year                     | 299,631  | 592                                      | 300,223                 |
| At end of period                         | <u>361,487</u>                                   | <u>592</u>                               | <u>362,079</u>          |
|  | <u>61,856</u>                                    | <u>-</u>                                 | <u>61,856</u>           |

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**26. SEGMENTAL INFORMATION ON CASH FLOW (CONT'D.)**

|  | General<br>insurance<br>fund<br>RM'000 | Shareholders'<br>fund<br>RM'000 | Total<br>RM'000 |
|--|--|---------------------------------|-----------------|
| <b>12 months ended 30 April 2011</b>     |  |                                 |                 |
| Net cash generated from/(used in):       |  |                                 |                 |
| Operating activities                     | 74,650                                 | -                               | 74,650          |
| Investing activities                     | (9,973)                                | -                               | (9,973)         |
|  | <u>64,677</u>                          | <u>-</u>                        | <u>64,677</u>   |
| Net change in cash and cash equivalents: |  |                                 |                 |
| At beginning of year                     | 234,954                                | 592                             | 235,546         |
| At end of year                           | <u>299,631</u>                         | <u>592</u>                      | <u>300,223</u>  |
|  | <u>64,677</u>                          | <u>-</u>                        | <u>64,677</u>   |

**27. RELATED PARTY DISCLOSURES**

**(a) Related parties**

For the purpose of these financial statements, parties are considered to be related to the Company if the 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 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 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 Directors are of the opinion that the Company sold insurance policies to the related companies and related parties on terms and conditions no more favourable than those available on similar transactions to its other customers or employees, and other related party transactions were also carried out on terms and conditions no more favourable than those available on similar transactions to its unrelated parties, unless otherwise stated.

**(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, our key management personnel include the Chief Executive Officer and the Deputy Chief Executive Officer who are also the Directors of the Company.

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**27. RELATED PARTY DISCLOSURES (CONT'D.)**

**Related party transactions and balances**

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

|   | <b>8 months<br/>ended<br/>31.12.2011<br/>RM'000</b> | <b>12 months<br/>ended<br/>30.04.2011<br/>RM'000</b> |
|---|---|--|
| <b>Related party transactions:</b>  |   |  |
| <b>Income/(expenses):</b>   |   |  |
| <b>Holding Company:</b>   |   |  |
| - Sompo Japan Insurance Inc.  |   |  |
| Premium ceded   | (73)  | (155)  |
| Commission received   | 18  | 33   |
| Claims recoveries   | 58  | -  |
|   | <hr/>   | <hr/>  |
| <b>Other related companies:</b>   |   |  |
| - Companies in which a controlling shareholder<br>of the ultimate holding company has an interest |   |  |
| Premium ceded   | (9,557)   | (15,365)   |
| Commission received   | 2,519   | 4,142  |
| Claims recoveries   | 533   | 895  |
| Risk survey fee paid  | (21)  | (38)   |
|   | <hr/>   | <hr/>  |
| <b>Corporate shareholder:</b>   |   |  |
| - Berjaya Corporation Berhad  |   |  |
| Gross premium income  | 4,547   | 1,778  |
| Brokerage fee   | (72)  | (122)  |
|   | <hr/>   | <hr/>  |
|   | <b>31.12.2011<br/>RM'000</b>                        | <b>30.04.2011<br/>RM'000</b>                         |
| <b>Related party balances:</b>  |   |  |
| <b>Due to related companies :</b>   |   |  |
| <b>Holding Company:</b>   |   |  |
| - Sompo Japan Insurance Inc.  | (14)  | (118)  |
|   | <hr/>   | <hr/>  |
| <b>Other related companies</b>  |   |  |
| - Companies in which a controlling shareholder<br>of the ultimate holding company has an interest | (1,323)   | (362)  |
|   | <hr/>   | <hr/>  |

The above balances are included in Note 14, Insurance payables.



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**27. RELATED PARTY DISCLOSURES (CONT'D.)**

**(b) Key management personnel (Cont'd.)**

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

|                                     | <b>31.12.2011</b> | <b>30.04.2011</b> |
|-------------------------------------|-------------------|-------------------|
|                                     | <b>RM'000</b>     | <b>RM'000</b>     |
| <b>Related party balances:</b>      |                   |                   |
| <b>Due from related companies :</b> |                   |                   |
| <b>Corporate shareholder</b>        |                   |                   |
| - Berjaya Corporation Berhad        | 730               | 1,242             |

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 period/year was as follows:

|                                  | <b>8 months</b>   | <b>12 months</b>  |
|----------------------------------|-------------------|-------------------|
|                                  | <b>ended</b>      | <b>ended</b>      |
|                                  | <b>31.12.2011</b> | <b>30.04.2011</b> |
|                                  | <b>RM'000</b>     | <b>RM'000</b>     |
| Short term employee benefits     |                   |                   |
| - Salaries, allowances and bonus | 972               | 1,576             |
| - Other remuneration             | 99                | 97                |
| - Benefits-in-kind               | 73                | 113               |
|                                  | <u>1,144</u>      | <u>1,786</u>      |

The remuneration of Company's Non-Executive Directors during the financial period is disclosed in Note 23 to the financial statements.

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**28. RISK MANAGEMENT FRAMEWORK**

**(a) Framework and Responsibility**

The Board of Directors is committed to the development of an Effective Enterprise Risk Management Framework, 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 Board entrusts the Risk Management Committee (RMC) with the overall responsibility for overseeing the risk management activities of the Company and approving appropriate risk management procedures and measurement methodologies across the organisation. The RMC has a broad mandate to ensure the effective implementation of the objectives outlined in this Policy and compliance with them throughout the Company. The RMC is responsible for periodically reporting higher risk exposures to the Board. The responsibilities and detailed administrative duties of the RMC are set out in the Board approved Risk Management Committee Charter.

The Board delegates to the Chief Executive Officer (CEO) the responsibility for ensuring effective implementation and maintenance of this Policy and that all personnel adhere to its mandates.

The detailed line accountability for risk management is fully aligned with the Company's management 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.

**(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 whole 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.

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**28. RISK MANAGEMENT FRAMEWORK (CONT'D.)**

**(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.

**29. 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.

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**29. INSURANCE RISK (CONT'D.)**

**(a) Concentration of risks by class of business**

**General insurance business by type of product:**

|                                  | 31 December 2011 |                       |                | 30 April 2011   |                       |                |
|----------------------------------|------------------|-----------------------|----------------|-----------------|-----------------------|----------------|
|                                  | Gross<br>RM'000  | Reinsurance<br>RM'000 | Net<br>RM'000  | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000  |
| Motor                            | 173,108          | (6,472)               | 166,636        | 271,454         | (12,843)              | 258,611        |
| Fire                             | 46,037           | (21,960)              | 24,077         | 72,098          | (38,662)              | 33,436         |
| Marine,<br>Aviation &<br>Transit | 11,414           | (5,552)               | 5,862          | 18,634          | (9,679)               | 8,955          |
| Miscellaneous                    | 85,993           | (21,689)              | 64,304         | 128,461         | (30,123)              | 98,338         |
|                                  | <u>316,552</u>   | <u>(55,673)</u>       | <u>260,879</u> | <u>490,647</u>  | <u>(91,307)</u>       | <u>399,340</u> |

**Insurance contract liabilities by type of product:**

|                                  | 31 December 2011 |                       |                | 30 April 2011   |                       |                |
|----------------------------------|------------------|-----------------------|----------------|-----------------|-----------------------|----------------|
| Premium<br>Liabilities           | Gross<br>RM'000  | Reinsurance<br>RM'000 | Net<br>RM'000  | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000  |
| Motor                            | 136,147          | (9,556)               | 126,591        | 137,505         | (11,856)              | 125,649        |
| Fire                             | 18,813           | (10,318)              | 8,495          | 19,506          | (10,427)              | 9,079          |
| Marine,<br>Aviation &<br>Transit | 3,229            | (1,756)               | 1,473          | 3,741           | (1,253)               | 2,488          |
| Miscellaneous                    | 41,080           | (10,098)              | 30,982         | 46,916          | (10,037)              | 36,879         |
|                                  | <u>199,269</u>   | <u>(31,728)</u>       | <u>167,541</u> | <u>207,668</u>  | <u>(33,573)</u>       | <u>174,095</u> |

|                                  | 31 December 2011 |                       |                | 30 April 2011   |                       |                |
|----------------------------------|------------------|-----------------------|----------------|-----------------|-----------------------|----------------|
| Claims<br>Liabilities            | Gross<br>RM'000  | Reinsurance<br>RM'000 | Net<br>RM'000  | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000  |
| Motor                            | 303,261          | (20,285)              | 282,976        | 292,946         | (16,033)              | 276,913        |
| Fire                             | 48,640           | (30,463)              | 18,177         | 43,803          | (27,571)              | 16,232         |
| Marine,<br>Aviation &<br>Transit | 10,997           | (5,264)               | 5,733          | 9,229           | (4,267)               | 4,962          |
| Miscellaneous                    | 83,742           | (38,210)              | 45,532         | 96,912          | (51,158)              | 45,754         |
|                                  | <u>446,640</u>   | <u>(94,222)</u>       | <u>352,418</u> | <u>442,890</u>  | <u>(99,029)</u>       | <u>343,861</u> |

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**29. 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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**29. 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 |
|---------------------------------|-----------------------|------------------------------------|----------------------------------|------------------------------------|---------------------------|
| <b>31 December 2011</b>         |                       |                                    |                                  |                                    |                           |
| Average Claims Cost             | +10%                  | 41,408                             | 43,213                           | (43,213)                           | (32,410)                  |
| Average Number of Claims        | +10%                  | 38,171                             | 34,842                           | (34,842)                           | (26,132)                  |
| Average Claim Settlement Period | Increased by 6 months | 3,142                              | 2,676                            | (2,676)                            | (2,007)                   |
| <b>30 April 2011</b>            |                       |                                    |                                  |                                    |                           |
| Average Claims Cost             | +10%                  | 42,550                             | 35,425                           | (35,425)                           | (26,569)                  |
| Average Number of Claims        | +10%                  | 36,801                             | 31,060                           | (31,060)                           | (23,295)                  |
| Average Claim Settlement Period | Increased by 6 months | 3,505                              | 2,763                            | (2,763)                            | (2,072)                   |

*\* 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 accumulative 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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**29. INSURANCE RISK (CONT'D.)**

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

**Gross General Insurance Contract Liabilities for 2011 (RM '000)**

| <b>Note</b>                                    | <b>2003</b>   | <b>2004</b>   | <b>2005</b>   | <b>2006</b>   | <b>2007</b>   | <b>2008</b>   | <b>2009</b>   | <b>2010</b>   | <b>30.04.2011</b> | <b>31.12.2011</b> | <b>Total</b>   |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|-------------------|----------------|
| <b>Accident Year</b>                           | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b>     | <b>RM'000</b>     | <b>RM'000</b>  |
| <b>Ultimate Claims Incurred</b>                |               |               |               |               |               |               |               |               |                   |                   |                |
| At end of accident year                        |               |               |               |               |               |               |               | 287,709       | 315,751           | 200,827           |                |
| One year later                                 |               |               |               |               |               |               | 283,350       | 279,538       | 310,577           |                   |                |
| Two years later                                |               |               |               |               |               | 215,547       | 285,751       | 288,667       |                   |                   |                |
| Three years later                              |               |               |               |               | 183,060       | 218,525       | 287,740       |               |                   |                   |                |
| Four years later                               |               |               |               | 142,019       | 183,669       | 218,009       |               |               |                   |                   |                |
| Five years later                               |               |               | 125,669       | 140,810       | 182,832       |               |               |               |                   |                   |                |
| Six years later                                |               | 111,637       | 124,751       | 141,615       |               |               |               |               |                   |                   |                |
| Seven years later                              | 117,565       | 111,691       | 124,218       |               |               |               |               |               |                   |                   |                |
| Eight years later                              | 117,332       | 111,460       |               |               |               |               |               |               |                   |                   |                |
| Nine years later                               | 117,396       |               |               |               |               |               |               |               |                   |                   |                |
| <b>Current estimate of</b>                     |               |               |               |               |               |               |               |               |                   |                   |                |
| <b>Cumulative claims incurred</b>              | 117,396       | 111,460       | 124,218       | 141,615       | 182,832       | 218,009       | 287,740       | 288,667       | 310,577           | 200,827           |                |
| <b>Cumulative Claims Paid</b>                  |               |               |               |               |               |               |               |               |                   |                   |                |
| At end of accident year                        | 40,229        | 39,287        | 48,085        | 47,791        | 59,660        | 74,873        | 94,519        | 121,630       | 131,049           | 65,454            |                |
| One year later                                 | 89,847        | 82,177        | 88,186        | 104,513       | 126,010       | 150,182       | 189,035       | 206,994       | 217,351           |                   |                |
| Two years later                                | 96,706        | 89,646        | 100,106       | 113,831       | 140,325       | 170,109       | 229,616       | 231,273       |                   |                   |                |
| Three years later                              | 101,354       | 95,005        | 104,063       | 120,961       | 155,610       | 190,043       | 245,909       |               |                   |                   |                |
| Four years later                               | 106,661       | 98,126        | 108,522       | 127,683       | 167,310       | 196,842       |               |               |                   |                   |                |
| Five years later                               | 109,449       | 101,143       | 114,338       | 133,740       | 169,994       |               |               |               |                   |                   |                |
| Six years later                                | 111,655       | 105,339       | 118,224       | 135,452       |               |               |               |               |                   |                   |                |
| Seven years later                              | 113,612       | 108,149       | 118,914       |               |               |               |               |               |                   |                   |                |
| Eight years later                              | 115,003       | 108,353       |               |               |               |               |               |               |                   |                   |                |
| Nine years later                               | 115,750       |               |               |               |               |               |               |               |                   |                   |                |
| <b>Cumulative payments</b>                     |               |               |               |               |               |               |               |               |                   |                   |                |
| <b>to date</b>                                 | 115,750       | 108,353       | 118,914       | 135,452       | 169,994       | 196,842       | 245,909       | 231,273       | 217,351           | 65,454            |                |
| <b>Gross general</b>                           |               |               |               |               |               |               |               |               |                   |                   |                |
| <b>insurance outstanding</b>                   |               |               |               |               |               |               |               |               |                   |                   |                |
| <b>liabilities</b>                             |               |               |               |               |               |               |               |               |                   |                   |                |
| <b>(direct and facultative inwards)</b>        | 1,646         | 3,107         | 5,304         | 6,163         | 12,838        | 21,167        | 41,831        | 57,394        | 93,226            | 135,373           | 378,049        |
| Case Reserves for Accident Years Prior to 2003 |               |               |               |               |               |               |               |               |                   |                   | 3,158          |
| Treaty Inwards                                 |               |               |               |               |               |               |               |               |                   |                   | 3,213          |
| MMIP   |               |               |               |               |               |               |               |               |                   |                   | 20,261         |
| Best Estimate of Claim Liabilities             |               |               |               |               |               |               |               |               |                   |                   | 404,681        |
| Claim Handling Expenses                        |               |               |               |               |               |               |               |               |                   |                   | 4,894          |
| Fund PRAD at 75% Confidence Interval           |               |               |               |               |               |               |               |               |                   |                   | 37,065         |
| <b>Gross general insurance contract</b>        |               |               |               |               |               |               |               |               |                   |                   |                |
| <b>liabilities per statement</b>               |               |               |               |               |               |               |               |               |                   |                   |                |
| <b>of financial position</b>                   |               |               |               |               |               |               |               |               |                   |                   | <b>446,640</b> |

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**29. INSURANCE RISK (CONT'D.)**

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

**Net General Insurance Contract Liabilities for 2011 (RM '000)**

|   | Note | 2003<br>RM'000 | 2004<br>RM'000 | 2005<br>RM'000 | 2006<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2010<br>RM'000 | 30.04.2011<br>RM'000 | 31.12.2011<br>RM'000 | Total<br>RM'000 |
|---|------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------------|----------------------|-----------------|
| <b>Accident Year</b>  |      |                |                |                |                |                |                |                |                |                      |                      |                 |
| <b>Ultimate Claims Incurred</b>   |      |                |                |                |                |                |                |                |                |                      |                      |                 |
| At end of accident year   |      |                |                |                |                | 153,036        | 151,716        | 228,874        | 241,344        | 260,184              | 175,526              |                 |
| One year later  |      |                |                |                | 123,272        | 143,164        | 171,844        | 234,672        | 240,602        | 263,707              |                      |                 |
| Two years later   |      |                |                | 102,071        | 120,485        | 154,420        | 179,078        | 239,689        | 244,690        |                      |                      |                 |
| Three years later   |      |                | 98,409         | 103,591        | 124,846        | 158,347        | 181,291        | 240,792        |                |                      |                      |                 |
| Four years later  |      | 96,818         | 99,141         | 105,316        | 123,505        | 158,687        | 180,360        |                |                |                      |                      |                 |
| Five years later  |      | 97,797         | 99,042         | 104,940        | 122,364        | 157,991        |                |                |                |                      |                      |                 |
| Six years later   |      | 97,165         | 98,122         | 104,256        | 123,086        |                |                |                |                |                      |                      |                 |
| Seven years later   |      | 97,052         | 98,109         | 103,665        |                |                |                |                |                |                      |                      |                 |
| Eight years later   |      | 96,849         | 97,882         |                |                |                |                |                |                |                      |                      |                 |
| Nine years later  |      | 96,866         |                |                |                |                |                |                |                |                      |                      |                 |
| <b>Current estimate of cumulative claims incurred</b>                                 |      | 96,866         | 97,882         | 103,665        | 123,086        | 157,991        | 180,360        | 240,792        | 244,690        | 263,707              | 175,526              |                 |
| <b>Cumulative Claims Paid</b>   |      |                |                |                |                |                |                |                |                |                      |                      |                 |
| At end of accident year   |      | 32,955         | 35,897         | 39,814         | 42,213         | 54,369         | 61,683         | 86,389         | 103,322        | 121,391              | 61,935               |                 |
| One year later  |      | 73,310         | 73,304         | 75,021         | 90,688         | 110,576        | 122,630        | 162,902        | 179,048        | 199,397              |                      |                 |
| Two years later   |      | 78,905         | 79,674         | 83,756         | 98,610         | 121,844        | 139,827        | 191,951        | 198,383        |                      |                      |                 |
| Three years later   |      | 82,827         | 84,342         | 87,322         | 104,999        | 135,203        | 158,027        | 205,805        |                |                      |                      |                 |
| Four years later  |      | 87,700         | 87,259         | 91,387         | 111,027        | 146,212        | 164,218        |                |                |                      |                      |                 |
| Five years later  |      | 90,275         | 90,014         | 96,832         | 116,691        | 148,717        |                |                |                |                      |                      |                 |
| Six years later   |      | 92,259         | 93,847         | 100,366        | 118,219        |                |                |                |                |                      |                      |                 |
| Seven years later   |      | 94,064         | 96,385         | 101,007        |                |                |                |                |                |                      |                      |                 |
| Eight years later   |      | 95,290         | 96,579         |                |                |                |                |                |                |                      |                      |                 |
| Nine years later  |      | 95,850         |                |                |                |                |                |                |                |                      |                      |                 |
| <b>Cumulative payments to date</b>  |      | 95,850         | 96,579         | 101,007        | 118,219        | 148,717        | 164,218        | 205,805        | 198,383        | 199,397              | 61,935               |                 |
| <b>Net general insurance outstanding liabilities (direct and facultative inwards)</b> |      | 1,016          | 1,303          | 2,658          | 4,867          | 9,274          | 16,142         | 34,987         | 46,307         | 64,310               | 113,591              | 294,455         |
| Case Reserves for Accident Years Prior to 2003  |      |                |                |                |                |                |                |                |                |                      |                      | 1,846           |
| Treaty Inwards  |      |                |                |                |                |                |                |                |                |                      |                      | 3,213           |
| MMIP  |      |                |                |                |                |                |                |                |                |                      |                      | 20,261          |
| Best Estimate of Claim Liabilities  |      |                |                |                |                |                |                |                |                |                      |                      | 319,775         |
| Claim Handling Expenses   |      |                |                |                |                |                |                |                |                |                      |                      | 4,893           |
| Fund PRAD at 75% Confidence Interval  |      |                |                |                |                |                |                |                |                |                      |                      | 27,750          |
| <b>Net general insurance contract liabilities</b>                                     | 13   |                |                |                |                |                |                |                |                |                      |                      | <b>352,418</b>  |



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**30. 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.

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**30. 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 Company's credit ratings of counterparties.

|                                 | Neither impaired nor past-due |                |               |                 |                      | Past-due but not impaired | Total     |
|---------------------------------|-------------------------------|----------------|---------------|-----------------|----------------------|---------------------------|-----------|
| 31 December 2011                | *AAA<br>RM '000               | *AA<br>RM '000 | *A<br>RM '000 | *BBB<br>RM '000 | Not Rated<br>RM '000 | RM '000                   | RM '000   |
| HTM financial investments       |                               |                |               |                 |                      |                           |           |
| Malaysian government securities | -                             | -              | -             | -               | 35,293               | -                         | 35,293    |
| Government investment issues    | -                             | -              | -             | -               | 30,201               | -                         | 30,201    |
| Government guaranteed loan      | -                             | -              | -             | -               | 5,000                | -                         | 5,000     |
| Corporate debt securities       | 38,098                        | 34,923         | 2,005         | -               | -                    | -                         | 75,026    |
| LAR                             |                               |                |               |                 |                      |                           |           |
| Fixed and call deposits         | 34,000                        | 69,300         | 2,900         | -               | 13,000               | -                         | 119,200   |
| AFS financial investments       |                               |                |               |                 |                      |                           |           |
| Equity securities               | -                             | -              | -             | -               | 181,998              | -                         | 181,998   |
| Unit trust funds                | -                             | -              | -             | -               | 26,314               | -                         | 26,314    |
| Debt securities                 | -                             | -              | -             | -               | 26,096               | -                         | 26,096    |
| Other investments               | -                             | -              | -             | -               | 502                  | -                         | 502       |
| Reinsurance assets              | 9                             | 8,209          | 8,329         | 3,864           | 105,539              | -                         | 125,950   |
| Insurance receivables           | -                             | -              | -             | -               | 17,610               | 10,175                    | 27,785    |
| Other receivables               | -                             | -              | -             | -               | 22,760               | -                         | 22,760    |
| Cash and cash equivalent        | 162,450                       | 77,900         | 45,600        | -               | 76,129               | -                         | 362,079   |
|                                 | 234,557                       | 190,332        | 58,834        | 3,864           | 540,442              | 10,175                    | 1,038,204 |

\* Based on public ratings assigned by reputable rating agencies.

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**30. FINANCIAL RISKS (CONT'D.)**

**(a) Credit Risk (Cont'd.)**

**Credit exposure by credit rating (Cont'd.)**

| 30 April 2011                   | Neither impaired nor past-due |                |               |                 |                      | Past-due but not impaired<br>RM '000 | Total<br>RM '000 |
|---------------------------------|-------------------------------|----------------|---------------|-----------------|----------------------|--------------------------------------|------------------|
|                                 | *AAA<br>RM '000               | *AA<br>RM '000 | *A<br>RM '000 | *BBB<br>RM '000 | Not Rated<br>RM '000 |                                      |                  |
| HTM financial investments       |                               |                |               |                 |                      |                                      |                  |
| Malaysian government securities | -                             | -              | -             | -               | 40,339               | -                                    | 40,339           |
| Government investment issues    | -                             | -              | -             | -               | 25,231               | -                                    | 25,231           |
| Government guaranteed loan      | -                             | -              | -             | -               | 5,000                | -                                    | 5,000            |
| Corporate debt securities       | 47,060                        | 30,115         | 11,010        | -               | -                    | -                                    | 88,185           |
| LAR                             |                               |                |               |                 |                      |                                      |                  |
| Fixed and call deposits         | 69,850                        | 76,400         | 1,000         | -               | 15,000               | -                                    | 162,250          |
| AFS financial investments       |                               |                |               |                 |                      |                                      |                  |
| Equity securities               | -                             | -              | -             | -               | 202,664              | -                                    | 202,664          |
| Unit trust funds                | -                             | -              | -             | -               | 25,147               | -                                    | 25,147           |
| Debt securities                 | -                             | -              | -             | -               | 39,716               | -                                    | 39,716           |
| Other investments               | -                             | -              | -             | -               | 502                  | -                                    | 502              |
| Reinsurance assets              | 10                            | 8,808          | 8,566         | 1,806           | 113,412              | -                                    | 132,602          |
| Insurance receivables           | -                             | -              | -             | -               | 22,315               | 12,413                               | 34,728           |
| Other receivables               | -                             | -              | -             | -               | 22,092               | -                                    | 22,092           |
| Cash and cash equivalent        | 130,600                       | 42,800         | 59,208        | -               | 67,615               | -                                    | 300,223          |
|                                 | <u>247,520</u>                | <u>158,123</u> | <u>79,784</u> | <u>1,806</u>    | <u>579,033</u>       | <u>12,413</u>                        | <u>1,078,679</u> |

\* Based on public ratings assigned by reputable rating agencies.

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**30. FINANCIAL RISKS (CONT'D.)**

**(a) Credit Risk (Cont'd.)**

**Age Analysis of Financial Assets Past-Due But Not impaired**

|  | Past due but not impaired |                            |                            |                             |                                    | Total<br>RM'000 |
|--|---------------------------|----------------------------|----------------------------|-----------------------------|------------------------------------|-----------------|
|  | < 30 days<br>RM'000       | 31 to 60<br>days<br>RM'000 | 61 to 90<br>days<br>RM'000 | 91 to 180<br>days<br>RM'000 | more than<br>180<br>days<br>RM'000 |                 |
| <b>31 December 2011</b>  |                           |                            |                            |                             |                                    |                 |
| Insurance receivables:   |                           |                            |                            |                             |                                    |                 |
| Due premium including agents/brokers and<br>co-insurers balances | 5,385                     | (299)                      | 1,341                      | 1,869                       | (336)                              | 7,960           |
| Due from reinsurers and cedants                                  | 148                       | 1,200                      | 42                         | 32                          | 793                                | 2,215           |
|  | <u>5,533</u>              | <u>901</u>                 | <u>1,383</u>               | <u>1,901</u>                | <u>457</u>                         | <u>10,175</u>   |
| <b>30 April 2011</b>   |                           |                            |                            |                             |                                    |                 |
| Insurance receivables:   |                           |                            |                            |                             |                                    |                 |
| Due premium including agents/brokers and<br>co-insurers balances | 7,502                     | 716                        | 1,016                      | 320                         | 2,001                              | 11,555          |
| Due from reinsurers and cedants                                  | 502                       | 33                         | 82                         | 173                         | 68                                 | 858             |
|  | <u>8,004</u>              | <u>749</u>                 | <u>1,098</u>               | <u>493</u>                  | <u>2,069</u>                       | <u>12,413</u>   |

Financial assets that are past due but not impaired are unsecured.

As at 31 December 2011, based on the assessment of receivables, there are impaired insurance receivables of RM4,876,000 (30.4.2011: RM6,096,000). A reconciliation of the allowance for the impairment losses for the insurance receivables is disclosed in Note 8.

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**30. 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. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

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**30. FINANCIAL RISKS (CONT'D.)**

**(b) Liquidity Risk (Cont'd.)**

**Maturity profiles (Cont'd.)**

|                                | Carrying<br>value<br>RM' 000 | Less than<br>1 year<br>RM' 000 | Over 1-5<br>years<br>RM' 000 | Over 5 years<br>RM' 000 | No maturity<br>date<br>RM' 000 | Total<br>RM' 000 |
|--------------------------------|------------------------------|--------------------------------|------------------------------|-------------------------|--------------------------------|------------------|
| <b>31 December 2011</b>        |                              |                                |                              |                         |                                |                  |
| Financial instruments :        |                              |                                |                              |                         |                                |                  |
| HTM                            | 145,520                      | 52,840                         | 86,899                       | 20,077                  | -                              | 159,816          |
| LAR                            | 119,200                      | 121,386                        | -                            | -                       | -                              | 121,386          |
| AFS - Equity Securities        | 182,500                      | -                              | -                            | -                       | 182,500                        | 182,500          |
| AFS - Debt Securities          | 52,410                       | -                              | 21,885                       | 4,211                   | 26,314                         | 52,410           |
| Reinsurance assets             | 125,950                      | 46,407                         | 67,089                       | 12,454                  | -                              | 125,950          |
| Insurance receivables          | 27,785                       | 27,785                         | -                            | -                       | -                              | 27,785           |
| Other receivables              | 22,760                       | 6,334                          | 4                            | -                       | 16,422                         | 22,760           |
| Cash and cash equivalents      | 362,079                      | 350,508                        | -                            | -                       | 13,129                         | 363,637          |
| <b>Total Assets</b>            | <b>1,038,204</b>             | <b>605,260</b>                 | <b>175,877</b>               | <b>36,742</b>           | <b>238,365</b>                 | <b>1,056,244</b> |
| Insurance contract liabilities | 645,909                      | 268,328                        | 310,072                      | 67,509                  | -                              | 645,909          |
| Insurance payables             | 25,759                       | 25,759                         | -                            | -                       | -                              | 25,759           |
| Other payables                 | 13,997                       | 7,663                          | 270                          | -                       | 6,064                          | 13,997           |
| <b>Total Liabilities</b>       | <b>685,665</b>               | <b>301,750</b>                 | <b>310,342</b>               | <b>67,509</b>           | <b>6,064</b>                   | <b>685,665</b>   |

**BERJAYA SOMPO INSURANCE BERHAD**  
(Incorporated in Malaysia)

**30. FINANCIAL RISKS (CONT'D.)**

**(b) Liquidity Risk (Cont'd.)**

**Maturity profiles (Cont'd.)**

|                                | <b>Carrying<br/>value<br/>RM' 000</b> | <b>Less than<br/>1 year<br/>RM' 000</b> | <b>Over 1-5<br/>years<br/>RM' 000</b> | <b>Over 5 years<br/>RM' 000</b> | <b>No maturity<br/>date<br/>RM' 000</b> | <b>Total<br/>RM' 000</b> |
|--------------------------------|---------------------------------------|---|---------------------------------------|---------------------------------|---|--------------------------|
| <b>30 April 2011</b>           |                                       |   |                                       |                                 |   |                          |
| Financial instruments :        |                                       |   |                                       |                                 |   |                          |
| HTM                            | 158,755                               | 43,930                                  | 110,443                               | 20,587                          | -                                       | 174,960                  |
| LAR                            | 162,250                               | 164,400                                 | -                                     | -                               | -                                       | 164,400                  |
| AFS - Equity Securities        | 203,166                               | -                                       | -                                     | -                               | 203,166                                 | 203,166                  |
| AFS - Debt Securities          | 64,863                                | -                                       | 34,745                                | 4,971                           | 25,147                                  | 64,863                   |
| Reinsurance assets             | 132,602                               | 73,162                                  | 41,896                                | 17,544                          | -                                       | 132,602                  |
| Insurance receivables          | 34,728                                | 34,728                                  | -                                     | -                               | -                                       | 34,728                   |
| Other receivables              | 22,092                                | 12,607                                  | 11                                    | -                               | 9,474                                   | 22,092                   |
| Cash and cash equivalents      | 300,223                               | 291,711                                 | -                                     | -                               | 10,615                                  | 302,326                  |
| <b>Total Assets</b>            | <b>1,078,679</b>                      | <b>620,538</b>                          | <b>187,095</b>                        | <b>43,102</b>                   | <b>248,402</b>                          | <b>1,099,137</b>         |
| Insurance contract liabilities | 650,558                               | 287,628                                 | 305,472                               | 57,458                          | -                                       | 650,558                  |
| Insurance payables             | 30,992                                | 30,992                                  | -                                     | -                               | -                                       | 30,992                   |
| Other payables                 | 14,918                                | 9,138                                   | 159                                   | -                               | 5,621                                   | 14,918                   |
| <b>Total Liabilities</b>       | <b>696,468</b>                        | <b>327,758</b>                          | <b>305,631</b>                        | <b>57,458</b>                   | <b>5,621</b>                            | <b>696,468</b>           |

### **30. 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 (prices 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 rates.

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

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

As the Company's main foreign exchange 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, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign 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 Company is exposed to interest rate risk primarily through its investments in fixed income securities. The investment in deposit placements is not exposed to significant interest rate risk as the interest rates thereon are fixed. The impact on debt securities are as shown below:



### 30. FINANCIAL RISK (CONT'D.)

#### (e) Interest Rate Risk (Cont'd.)

|                                 | 31.12.2011<br>Impact<br>on Equity<br>RM'000 | 30.04.2011<br>Impact<br>on Equity<br>RM'000 |
|---------------------------------|---|---|
| <b>Change in interest rates</b> |   |   |
| + 50 basis points               | (1,145)                                     | (1,502)                                     |
| - 50 basis points               | 1,981                                       | 2,018                                       |

#### (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 and classified in the statement of financial position as available-for-sale financial assets that comprises quoted equities and unit trusts.

The analysis below is performed for reasonably possible movements in equity price with all other variables held constant, showing the impact of statement of comprehensive income and equity (due to changes in fair value of available-for-sale financial assets).

|                         | Changes<br>in<br>variable<br>RM' 000 | Impact on<br>equity*<br>RM' 000 |
|-------------------------|--------------------------------------|---------------------------------|
| <b>31 December 2011</b> |                                      |                                 |
| <b>Market Indices</b>   |                                      |                                 |
| Bursa Malaysia          | + 10%                                | 13,879                          |
| Bursa Malaysia          | - 10%                                | (13,879)                        |

### 30. FINANCIAL RISK (CONT'D.)

#### (f) Price Risk (Cont'd.)

|                       | Changes<br>in<br>variable<br>RM' 000 | Impact on<br>equity*<br>RM' 000 |
|-----------------------|--------------------------------------|---------------------------------|
| <b>30 April 2011</b>  |                                      |                                 |
| <b>Market Indices</b> |                                      |                                 |
| Bursa Malaysia        | + 10%                                | 17,634                          |
| Bursa Malaysia        | - 10%                                | (17,634)                        |

\* 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.

#### (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

Comparative figures have not been presented for 30 April 2011 by virtue of the exemption provided in paragraph 44G of Amendments to FRS 7.

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

- (a) Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (b) Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices)
- (c) Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**30. FINANCIAL RISK (CONT'D.)**

**(h) Fair Value Hierarchy (Cont'd.)**

| <b>31 December 2011</b>         | <b>Level 1<br/>RM'000</b> | <b>Level 2<br/>RM'000</b> | <b>Level 3<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|---------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| <b>Financial Assets</b>         |                           |                           |                           |                         |
| Debt securities                 | -                         | 136,323                   | -                         | 136,323                 |
| Equity securities               | 181,880                   | -                         | -                         | 181,880                 |
| Malaysian government securities | -                         | 35,293                    | -                         | 35,293                  |
| Unit trust funds                | 26,314                    | -                         | -                         | 26,314                  |

There were no significant transfer between the Level 1 and Level 2 fair value hierarchy during the financial period.

**31. 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 2011, as prescribed under the RBC Framework is provided below:

|                                | <b>Note</b> | <b>31.12.2011<br/>RM'000</b> | <b>30.04.2011<br/>RM'000</b> |
|--------------------------------|-------------|------------------------------|------------------------------|
| <b>Eligible Tier 1 Capital</b> |             |                              |                              |
| Share capital (paid-up)        | 12          | 118,000                      | 118,000                      |
| Retained earnings              |             | 262,504                      | 247,369                      |
|                                |             | <u>380,504</u>               | <u>365,369</u>               |
| <b>Tier 2 Capital</b>          |             |                              |                              |
| Eligible reserves              |             | <u>32,138</u>                | <u>63,972</u>                |
| <b>Deductions</b>              |             |                              |                              |
| Intangible assets              |             | <u>(826)</u>                 | <u>(1,014)</u>               |
| <b>Total capital available</b> |             | <u>411,816</u>               | <u>428,327</u>               |