Company Registration No. 198905490E

Sompo Insurance Singapore Pte. Ltd.

Annual Financial Statements
31 December 2017

Building a better
working world

Sompo Insurance Singapore Pte. Ltd.

General information

Directors

Yuji Kawauchi	(Appointed on 1 May 2017)
Nobuhiro Kojima	(Resigned on 1 May 2017)
Takahashi Koji	
Tan Yian Hua	
Lee Soo Kwan	
Gabriel Teo Chen Thye	

Secretary

Anthony Anne Catharine

Registered Office

50 Raffles Place
#05-01/06 Singapore Land Tower
Singapore 048623

Auditor

Ernst & Young LLP

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The directors have pleasure in presenting their statement to the member together with the audited financial statements of Sompo Insurance Singapore Pte. Ltd. (the "Company") for the financial year ended 31 December 2017.

Opinion of the directors

In the opinion of the directors,

(a) the financial statements of the Company are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Company for the year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are:

Yuji Kawauchi	(Appointed on 1 May 2017)
Takahashi Koji	
Tan Yian Hua	
Lee Soo Kwan	
Gabriel Teo Chen Thye	

Arrangements to enable directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, an interest in shares and share options of the Company and related corporations, as stated below:

Name of directors and Company in which interests are held	**At the beginning of the financial year**	**At the end of the financial year**
	Ordinary shares	
Sompo Holdings, Inc. ***(Ultimate holding company)***		
Yuji Kawauchi	–	1,800

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial period, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Share options

There were no share options granted during the financial year to subscribe for unissued shares of the Company.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Auditor

Ernst & Young LLP have expressed their willingness to accept reappointment as auditor.

On behalf of the Board of Directors:

Tan Yian Hua
Director

Takahashi Koji
Director

Singapore
21 March 2018

Independent auditor's report to the member of Sompo Insurance Singapore Pte. Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sompo Insurance Singapore Pte Ltd (the "Company"), which comprise the balance sheet as at 31 December 2017, the statement of profit and loss, statement of comprehensive income, statements of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for other information. The other information comprises the Directors' Statements included in pages 1 to 2.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report to the member of Sompo Insurance Singapore Pte. Ltd.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Independent auditor's report to the member of Sompo Insurance Singapore Pte. Ltd.

Auditor's responsibilities for the audit of the financial statements (cont'd)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

21 March 2018

Sompo Insurance Singapore Pte. Ltd.

Balance sheet
As at 31 December 2017

	Note	2017 $	2016 $
ASSETS			
Non-current assets			
Property and equipment	4	2,691,006	3,496,767
Intangible assets	5	4,777,000	5,020,000
Investment in subsidiary	6	1,750,000	1,750,000
Deferred tax assets	7	9,651,643	10,175,486
		18,869,649	20,442,253
Current assets			
Amount owing from holding companies (non-trade)	8	2,043,758	1,350,674
Amount owing from related companies (non-trade)	8	32,764	17,769
Prepayments		1,705,306	1,870,379
Trade debtors	9	19,605,704	21,145,877
Other debtors	10	6,517,884	3,311,770
Available-for-sale financial assets	11	254,050,997	180,301,873
Cash, bank balances and deposits	12	120,181,797	189,994,166
		404,138,210	397,992,508
Reinsurers' share of technical reserves			
Premium liabilities	15(b)	8,882,961	7,183,326
Claims liabilities	15(a)	57,468,992	94,378,264
Deferred reinsurance commission	15(c)	(2,523,056)	(2,639,615)
		63,828,897	98,921,975
TOTAL ASSETS		486,836,756	517,356,736

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Sompo Insurance Singapore Pte. Ltd.

Balance sheet
As at 31 December 2017

	Note	2017 $	2016 $
EQUITY AND LIABILITIES			
Current liabilities			
Trade creditors	13	9,273,937	9,349,182
Other creditors	14	14,617,974	17,337,976
Provision for taxation	7	–	–
		23,891,911	26,687,158
Technical reserves			
Premium liabilities	15(b)	58,597,736	54,286,931
Claims liabilities	15(a)	116,691,771	164,238,020
Deferred acquisition costs	15(c)	(10,204,516)	(9,062,481)
		165,084,991	209,462,470
Total liabilities		188,976,902	236,149,628
Shareholder's equity			
Share capital	16	318,327,805	318,327,805
Accumulated losses		(105,054,570)	(118,933,652)
Amalgamation reserve		81,608,762	81,608,762
Fair value adjustment reserves	17	2,977,857	204,193
Total equity		297,859,854	281,207,108
TOTAL EQUITY AND LIABILITIES		486,836,756	517,356,736

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Sompo Insurance Singapore Pte. Ltd.

Statement of profit and loss
For the financial year ended 31 December 2017

	Note	2017 $	2016 $
Gross premiums written		125,815,635	120,575,445
Reinsurance premiums ceded		(39,104,341)	(40,936,223)
Net premiums written		86,711,294	79,639,222
Movement in net premium liabilities	15(b)	(2,611,170)	10,814,917
Net premiums earned		84,100,124	90,454,139
Gross claims paid		(63,336,945)	(71,435,108)
Reinsurance claims recoveries		23,969,002	27,740,067
Net claims paid	15(a)	(39,367,943)	(43,695,041)
Movement in net claims liabilities		10,636,978	12,022,336
Net claims incurred	15(a)	(28,730,965)	(31,672,705)
Gross commission expense		(26,522,545)	(24,842,148)
Reinsurance commission income		9,207,195	8,361,131
Net commission expenses		(17,315,350)	(16,481,017)
Movement in net deferred acquisition costs	15(c)	1,258,594	(349,561)
Net incurred commission expense		(16,056,756)	(16,830,578)
Operating and administrative expenses	18	(21,157,753)	(22,820,796)
Net underwriting profit		18,154,650	19,130,060
Net investment income	19	8,008,652	6,812,428
Other income	20	4,272,809	3,408,293
Other operating expenses		(16,619,518)	(14,405,707)
Profit before income tax		13,816,593	14,945,074
Income tax credit/(expense)	7	62,489	(1,607,808)
Profit after tax		13,879,082	13,337,266

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Sompo Insurance Singapore Pte. Ltd.

Statement of comprehensive income
For the financial year ended 31 December 2017

	Note	2017 $	2016 $
Profit for the year		13,879,082	13,337,266
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Net change in fair value losses on available-for-sale financial assets	17	2,773,664	(191,817)
Other comprehensive income for the year, net of tax		2,773,664	(191,817)
Total comprehensive income for the year		16,652,746	13,145,449

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Sompo Insurance Singapore Pte. Ltd.

Statement of changes in equity
For the financial year ended 31 December 2017

	Share capital $	Accumulated losses $	Amalgamation reserve $	Fair value adjustment reserves (Note 17) $	Total $
Balance at 1 January 2017	318,327,805	(118,933,652)	81,608,762	204,193	281,207,108
Profit after tax	–	13,879,082	–	–	13,879,082
Other comprehensive income for the year, net of tax	–	–	–	2,773,664	2,773,664
Total comprehensive income for the year	–	13,879,082	–	2,773,664	16,652,746
Capital reduction	–	–	–	–	–
Balance at 31 December 2017	318,327,805	(105,054,570)	81,608,762	2,977,857	297,859,854
Balance at 1 January 2016	418,327,805	(132,270,918)	81,608,762	396,010	368,061,659
Profit after tax	–	13,337,266	–	–	13,337,266
Other comprehensive income for the year, net of tax	–	–	–	(191,817)	(191,817)
Total comprehensive income for the year	–	13,337,266	–	(191,817)	13,145,449
Capital reduction	(100,000,000)	–	–	–	(100,000,000)
Balance at 31 December 2016	318,327,805	(118,933,652)	81,608,762	204,193	281,207,108

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Sompo Insurance Singapore Pte. Ltd.

Statement of cash flows
For the financial year ended 31 December 2017

	2017 $	2016 $
Cash flows from operating activities:		
Profit before tax	13,816,593	14,945,074
Adjustments for:		
Allowance for/(write back of) doubtful receivables - net (Note 9)	871	(10,840)
Impairment of intangible assets (Note 21)	6,000	–
Depreciation (Note 4)	1,087,013	839,893
Net investment income (Note 19)	(8,008,652)	(6,812,428)
Gain on sale of property and equipment (Note 20)	(14,493)	(45,304)
Write-off of property and equipment (Note 4)	69,500	48,931
Amortisation of intangible assets (Note 5)	237,000	79,000
Decrease in gross claim liabilities	(47,546,249)	(17,740,784)
Decrease in reinsurers' share of premium liabilities and claims liabilities	35,209,637	18,348,704
Increase/(decrease) in gross premium liabilities	4,310,805	(23,445,173)
Increase in deferred acquisition cost	(1,142,035)	(107,402)
(Decrease)/increase in deferred reinsurance commissions	(116,559)	456,962
Operating cash flows before working capital changes	(2,090,569)	(13,443,367)
(Increase)/decrease in debtors and prepayments	(1,501,739)	8,861,158
Decrease in creditors	(2,795,248)	(7,895,751)
(Increase)/decrease in amount owing from holding and related companies (non-trade)	(708,079)	120,032
Decrease in fixed deposits held in trust for policyholders	209,459	89,874
(Increase)/decrease in cash, bank balances and deposits held in trust for policyholders	(4,254)	1,000
Cash flows from operations	(6,890,430)	(12,267,054)
Income tax paid	(2,511)	(19,808)
Net investment income received	8,219,712	8,138,152
Net cash flows generated from/(used in) operating activities	1,326,771	(4,148,710)
Cash flows from investing activities		
Purchase of property and equipment (Note 4)	(350,752)	(1,594,015)
Proceeds from disposal of property and equipment	14,493	77,724
Purchase of available-for-sale financial assets	(177,073,221)	(102,576,342)
Proceeds from disposal and redemption of available-for-sale financial assets	106,475,545	95,494,627
Net cash flows used in investing activities	(70,933,935)	(8,598,006)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Sompo Insurance Singapore Pte. Ltd.

Statement of cash flows
For the financial year ended 31 December 2017

	2017 $	2016 $
Cash flows from financing activities		
Capital repatriation	–	(100,000,000)
Net cash flows used in financing activities	–	(100,000,000)
Net decrease in cash and cash equivalent	(69,607,164)	(112,746,716)
Cash and cash equivalents at beginning of year	188,109,593	300,856,309
Cash and cash equivalent at end of year (Note 12)	118,502,429	188,109,593

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

The financial statements of Sompo Insurance Singapore Pte. Ltd. (the "Company") for the financial year ended 31 December 2017 were authorised by the Board of Directors for issuance on 21 March 2018.

The Company is a limited liability company which is incorporated and domiciled in Singapore.

The Company's immediate holding company is Sompo Holdings (Asia) Pte. Ltd. (formerly known as Sompo Japan Nipponkoa Holdings (Asia) Pte. Ltd.), incorporated in Singapore and the ultimate holding company is Sompo Holdings Inc. (formerly known as Sompo Japan Nipponkoa Holdings Inc.), incorporated in Japan. Related companies in these financial statements refer to the Sompo Holdings Inc. group of companies.

The registered office and principal place of business of the Company is located at 50 Raffles Place, #05-01/06 Singapore Land Tower, Singapore 048623.

The principal activities of the Company are the underwriting and reinsurance of general insurance business. There have been no significant changes in the nature of these activities during the year.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act.

The financial statements have been prepared on a historical cost basis, except for financial assets classified as available-for-sale which have been measured at their fair values.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous financial year, except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars (SGD or $), the functional currency of the Company. Management has determined the currency of the primary economic environment in which the Company operates ie. functional currency, to be Singapore Dollars as it best reflect the economic substance of the underlying events and circumstances relevant to the Company. Revenue and major costs including the major operating expenses are primarily influenced by fluctuations in Singapore Dollars.

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

2. Summary of significant accounting policies (cont'd)

2.1 *Basis of preparation (cont'd)*

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The financial statements of the subsidiary have not been consolidated with the Company's financial statements as its ultimate parent, Sompo Holdings Inc. (formerly known as Sompo Japan Nipponkoa Holdings Inc.) incorporated in Japan, prepares consolidated financial statements which are available for public use. The registered address of Sompo Holdings Inc. (formerly known as Sompo Japan Nipponkoa Holdings Inc.) is 26-1 Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo, 160-8338 Japan.

2.2 *Basis of amalgamation*

The financial statements comprise the financial statements of the Company and its related company that had been amalgamated during the prior financial year. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group are eliminated in full.

Amalgamation involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the amalgamated entities are reflected at their carrying amounts. Any differences between the consideration paid and the share capital and reserves of the "amalgamated" entity is reflected within equity as amalgamation reserve.

2.3 *Adoption of new and revised standards*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards and interpretations of FRS that are effective for annual periods beginning on or after 1 January 2017. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Company.

2. Summary of significant accounting policies (cont'd)

2.4 *Standards issued but not yet effective*

The significant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

FRS 109 Financial Instruments

FRS 109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. FRS 109 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

During 2017, the Company performed a high-level impact assessment of all three aspects of FRS 109. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity, except some effect in applying the classification and measurement, and impairment requirements of FRS 109. The Company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The Company plans to defer the application of FRS 109 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, applying the temporary exemption from applying FRS 109 as introduced by the amendments.

Amendments to FRS 104 Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts

The amendments introduce two alternative options for entities issuing contracts within the scope of FRS 104, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of FRS 109 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from FRS 109 if: (i) it has not previously applied any version of FRS 109 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2017. The overlay approach allows an entity applying FRS 109 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied FRS 39 to these designated financial assets.

An entity can apply the temporary exemption from FRS 109 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies FRS 109 for the first time.

During 2017, the Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2016. The Company intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

2. Summary of significant accounting policies (cont'd)

2.4 *Standards issued but not yet effective (cont'd)*

FRS 116 Leases

FRS 116 was issued in January 2017 and it replaces FRS 17 Leases, INT FRS 114 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. FRS 116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under FRS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under FRS 116 is substantially unchanged from today's accounting under FRS 17. Lessors will continue to classify all leases using the same classification principle as in FRS 17 and distinguish between two types of leases: operating and finance leases. FRS 116 also requires lessees and lessors to make more extensive disclosures than under FRS 17.

FRS 116 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies FRS 115. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Although it expects that FRS 116 will not have a significant impact, the Company plans to perform a detailed assessment of the potential effect of FRS 116 on its financial statements in 2018.

2.5 *Property and equipment*

All items of property and equipment are initially recorded at cost. Subsequent to recognition, property and equipment and furniture and fixtures are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property and equipment. The cost of an item of property and equipment is recognised as an asset if, and only if, 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.

When significant parts of property and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognised in profit or loss as incurred.

2. Summary of significant accounting policies (cont'd)

2.5 *Property and equipment (cont'd)*

Depreciation is calculated on the straight-line method to write off the cost of the assets over their estimated useful lives which are as follows:

Motor vehicles	- 5 years
Renovations	- 3 years
Furniture and fittings	- 3 years
Office equipment	- 3 years
Computers	- 3 to 5 years

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and if carrying values exceed their recoverable amount, assets are written down.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

The Company adopts a policy of writing off individual items of property and equipment amounting to below $1,500 in the year of purchase.

2.6 *Intangible assets*

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with indefinite lives are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

2. Summary of significant accounting policies (cont'd)

2.6 *Intangible assets (cont'd)*

Bancassurance rights

Bancassurance rights relate to the cost of the Bancassurance Distribution Agreement entered into with a bank. The cost is capitalised and amortised over the estimated finite useful lives (i.e., the term of Bancassurance Distribution Agreement) and assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Club membership

Club membership is carried at cost less any accumulated impairment losses, if any. No amortisation is provided as management has assessed the useful life of the club membership to be indefinite. Club membership is tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired. The useful life of a club membership is reviewed annually to determine whether the useful life assessment continues to be supportable.

2.7 *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

Impairment losses are recognised in the statement of profit and loss except for assets that are previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss be recognised previously. Such reversal is recognised in the statement of profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2. Summary of significant accounting policies (cont'd)

2.8 *Investment in subsidiary*

The investment in subsidiary is stated at cost, less any impairment in recoverable value.

A subsidiary is an investee that is controlled by the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

2.9 *Financial assets*

The Company classified its non-derivative financial assets into the following categories: available-for-sale financial assets, loans and receivables and financial assets at fair value through profit or loss.

Initial recognition and measurement

Financial assets are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

(a) <u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss include 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 or repurchasing in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

(b) <u>Loans and receivables</u>

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Cash, bank balances and deposits, trade debtors and other debtors including those with related parties are carried at amortised cost and are considered as loans and receivables.

2. Summary of significant accounting policies (cont'd)

2.9 *Financial assets (cont'd)*

Initial recognition and measurement (cont'd)

(c) Available-for-sale financial assets

The Company classifies its investments as available-for-sale financial assets.

The available-for-sale financial assets are initially recognised at cost, being the fair value of the consideration given and including incremental acquisition charges associated with the investment.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

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

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2. Summary of significant accounting policies (cont'd)

2.10 *Impairment of financial assets*

(a) *Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on the financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2. Summary of significant accounting policies (cont'd)

2.10 *Impairment of financial assets (cont'd)*

(b) *Financial assets carried at amortised cost*

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.11 *Insurance receivables*

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.9 have been met.

2.12 *Cash, bank balances and deposits*

Cash, bank balances and deposits consist of current accounts, fixed deposits with banks and cash on hand.

Cash equivalents are those that are readily convertible to know amount of cash and which are subject to an insignificant risk of changes in value.

2. Summary of significant accounting policies (cont'd)

2.13 *Financial liabilities*

Financial liabilities are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

The carrying amounts of these financial liabilities are reasonable approximation of fair values, either due to their short-term nature on or near the balance sheet date.

After initial recognition, financial liabilities at fair value through profit and loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit and loss when the liabilities are recognised, and through the amortisation process.

Trade and other payables

Liabilities for trade and other amounts payable are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Payables to holding and related companies are carried at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit and loss.

2.14 *Provisions*

Provisions are recognised when the Company has a present obligation (legal or constructive) where as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. Summary of significant accounting policies (cont'd)

2.15 *Insurance contracts and related liabilities*

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. Any contract not considered insurance contracts under the FRS are classified as investment contracts.

General insurance contract liabilities include the outstanding claims provision, the unearned premium reserve and the provision for premium deficiency. These liabilities, where necessary, are discounted for the time value of money. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

2.16 *Reinsurance*

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

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

Gains and losses on buying reinsurance are recognised in the profit or loss immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

2. Summary of significant accounting policies (cont'd)

2.16 *Reinsurance (cont'd)*

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related insurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expires or when the contract is transferred to another party.

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

2.17 *Premium liabilities*

Premium liabilities comprises the sum of unearned premium reserves and premium deficiency reserves. Premium deficiency reserves are derived using actuarial methods on loss statistics and are recognised when the expected value of claims and expenses attributable to the unexpired period of policies in force at the balance sheet date for any line of business exceeds the unearned premium reserves.

The unearned premium reserves are computed on the following basis:

(a) on the basis not less accurate than the 1/24th method for all direct and facultative reinsurance classes of business other than marine cargo, for which 25% is applicable

(b) in the case of all classes of treaty reinsurance business, other than marine cargo, 40% of the premiums and for marine cargo, 25% of the premium; and

(c) the actual acquisition cost is taken into account in the computation in respect of direct and facultative reinsurance business, except for marine cargo and treaty reinsurance business

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Unexpired risk reserves is calculated based on the expected loss on unexpired policies after taking into consideration all benefits, claims, claims adjustment expenses, acquisition cost, maintenance expenses, and policyholders experience participation, as determined by the Actuary.

2. Summary of significant accounting policies (cont'd)

2.17 *Premium liabilities (cont'd)*

Liability adequacy test

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of any loss adjustors' expenses. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

2.18 *Deferred acquisition costs ("DAC")*

Commission costs incurred during the financial period arising from securing new insurance contracts and/or renewing existing insurance contracts are deferred to the extent that they are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to recognition, DAC is amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the profit and loss.

Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

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

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

2.19 *Deferred reinsurance commissions*

Commissions receivable on outwards reinsurance contracts are deferred and amortised on straight line basis over the term of the expected premiums payable.

2.20 *Claims*

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage, other recoveries and any adjustments to claim's outstanding from prior years.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

2. Summary of significant accounting policies (cont'd)

2.21 *Claims liabilities*

Provision is made for the estimated cost of all claims notified but not settled at the balance sheet date, less reinsurance recoveries, using the best information available at that time. Provision is also made for claims incurred but not reported (IBNR) at the balance sheet date based on historical claims experience, adjusted for variations in expected future settlement, as well as direct and indirect claims expenses.

At each reporting date, prior year's claim estimates are reassessed for adequacy and changes are made to the provision. Additional provision may be made by management as deemed necessary.

2.22 *Revenue and expense recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Premium income*

Premium income is recognised at the time a policy is issued, which approximates the inception date of the risk. Reinsurance premium income is recognised when advised. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense.

Premiums on long-term policies are recognised at commencement of contract and premiums not relating to the current financial year have been adjusted for as long term unexpired risk.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business.

At initial recognition of premiums, an unearned premium reserves is established equal to the amount of written premium. Premium is then recognised as earned over the policy term in accordance with the period of insurance service, by recording changes in the unearned provision against premium income.

(b) *Commission expense*

Commission expenses paid or payable to intermediaries (brokers/agents) upon acquiring new and renewal insurance business are recognised as expenses in profit and loss.

(c) *Commission income*

Commission income comprises reinsurance commissions received or receivable from reinsurers and is recognised as income in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.22 *Revenue and expense recognition (cont'd)*

(d) *Interest income*

Interest income is recognised using the effective interest method.

(e) *Dividend income*

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

2.23 *Employee benefits*

(a) *Defined contribution plan*

As required by Singapore law, the Company makes contributions to the state pension scheme, the Central Provident Fund ("CPF"). CPF contributions are recognised as compensation expense in the same period as the employment that gives rise to the contribution.

(b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

2.24 *Operating leases*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the statement of profit and loss on straight-line basis over the period of the lease.

2.25 *Income taxes*

(a) *Current tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income taxes are recognised in profit or loss except that tax relating to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Summary of significant accounting policies (cont'd)

2.25 *Income taxes (cont'd)*

(b) *Deferred tax*

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are recognised in the statement of profit and loss except that deferred tax relating to items recognised directly in equity is recognised directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(c) *Goods and services tax ("GST")*

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2. Summary of significant accounting policies (cont'd)

2.26 *Foreign currency transactions*

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the statement of profit and loss.

2.27 *Contingencies*

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or

(b) a present obligation that arises from past events but is not recognised because:

- (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

- (ii) The amount of the obligation cannot be measured with sufficient reliability.

2.28 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

2. Summary of significant accounting policies (cont'd)

2.28 *Related parties (cont'd)*

(b) An entity is related to the Company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) both entities are joint ventures of the same third party.
(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
(vi) the entity is controlled or jointly controlled by a person identified in (a);
(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Company's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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.

(a) *Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Company. The carrying amounts of the Company's income tax payables and deferred tax assets at the balance sheet date were $Nil (2016: $Nil) and $9,651,643 (2016: $10,175,486) respectively.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value at the end of the reporting period for deferred tax asset is disclosed in Note 7 to the financial statements.

3. Significant accounting estimates and judgements (cont'd)

Key sources of estimation uncertainty (cont'd)

(b) *Insurance contract liabilities*

Significant judgement is also involved in determining the Company's insurance contract liabilities. The claims reserve estimation process involves estimation of reserve of outstanding reported claims (case reserves), and estimation of additional reserves for IBNR and expected future movements in the estimated ultimate liabilities associated with outstanding reported claims incurred but not enough reported (IBNER). Case reserves are set and periodically reviewed by the claims department. IBNR and IBNER reserves are determined by the Company after taking into account the certifying actuary's assessment. The total claim liabilities are subject to a quarterly actuarial review and at year end a formal actuarial report will be provided on the adequacy of the Company's claim liabilities.

In forming their view on the adequacy of the claims reserve, the actuary uses a variety of statistical projection techniques like the Chain Ladder and Bornhuetter-Ferguson methods. Claims reserve is separately analysed by class of business and it is intended to provide a minimum of 75% level of assurance of adequacy, and as such include a provision for adverse deviation (PAD) beyond the best estimate of the claim liabilities. The best estimates for premium liabilities have been determined such that the total liability reserve would be adequate to pay for future claims and expenses in servicing the unexpired policies as of the valuation date. In calculating these premium liabilities for the various classes, we generally used the expected loss ratio method ("ELR") based on the outcome of the analysis for claim liabilities to determine suitable ultimate loss ratio. The results were used in this case to derive the premium liabilities.

The process, estimation, sensitivities and key assumptions used in determining the insurance contract liabilities are further discussed in Note 24.

(c) *Impairment of trade debtors*

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The provision for allowance for doubtful receivables for the year ended 31 December 2017 amounted to $Nil (2016: $871) as disclosed in Note 9.

4. Property and equipment

	Computers $	Furniture and fittings $	Renovations $	Office equipment $	Motor vehicles $	Work in Progress ("WIP") $	Total $
Cost							
As at 1 January 2017	6,859,530	353,138	1,264,396	90,605	133,932	242,989	8,944,590
Assets transferred from WIP	255,989	–	–	–	–	(255,989)	–
WIP expensed off	–	–	–	–	–	(69,500)	(69,500)
Additions for the year	265,482	–	–	2,770	–	82,500	350,752
Disposals for the year	(53,625)	–	–	(790)	–	–	(54,415)
As at 31 December 2017	7,327,376	353,138	1,264,396	92,585	133,932	–	9,171,427
Accumulated depreciation							
As at 1 January 2017	3,724,419	349,178	1,167,613	75,027	131,586	–	5,447,823
Charge for the year (Note 21)	1,033,613	2,938	41,935	7,918	609	–	1,087,013
Disposal for the year	(53,625)	–	–	(790)	–	–	(54,415)
As at 31 December 2017	4,704,407	352,116	1,209,548	82,155	132,195	–	6,480,421
Net carrying amount as at 31 December 2017	2,622,969	1,022	54,848	10,430	1,737	–	2,691,006

4. Property and equipment (cont'd)

	Computers $	Furniture and fittings $	Renovations $	Office equipment $	Motor vehicles $	Work in Progress ("WIP") $	Total $
Cost							
As at 1 January 2016	5,411,350	352,750	1,154,996	103,865	233,991	274,578	7,531,530
Assets transferred from WIP	635,427	1,129	43,211	–	–	(679,767)	–
WIP expensed off	–	–	–	–	–	(48,931)	(48,931)
Additions for the year	815,007	1,129	66,189	14,581	–	697,109	1,594,015
Disposals for the year	(2,254)	(1,870)	–	(27,841)	(100,059)	–	(132,024)
As at 31 December 2016	6,859,530	353,138	1,264,396	90,605	133,932	242,989	8,944,590
Accumulated depreciation							
As at 1 January 2016	2,939,788	344,980	1,134,100	94,525	194,141	–	4,707,534
Charge for the year (Note 20)	786,885	5,246	33,513	8,343	5,906	–	839,893
Disposal for the year	(2,254)	(1,048)	–	(27,841)	(68,461)	–	(99,604)
As at 31 December 2016	3,724,419	349,178	1,167,613	75,027	131,586	–	5,447,823
Net carrying amount as at 31 December 2016	3,135,111	3,960	96,783	15,578	2,346	242,989	3,496,767

5. Intangible assets

	Club memberships $	Bancassurance rights $	Total $
Cost:			
At 1 January 2016	627,364	–	627,364
Additions	–	4,740,000	4,740,000
At 31 December 2016 and 1 January 2017	627,364	4,740,000	5,367,364
Additions	–	–	–
Impairment (Note 21)	(6,000)	–	(6,000)
At 31 December 2017	621,364	4,740,000	5,361,364
Accumulated amortisation and impairment:			
At 1 January 2016	268,364	–	268,364
Impairment loss	–	–	–
Amortisation (Note 21)	–	79,000	79,000
At 31 December 2016 and 1 January 2017	268,364	79,000	347,364
Impairment loss	–	–	–
Amortisation (Note 21)	–	237,000	237,000
At 31 December 2017	268,364	316,000	584,364
Net carrying amount:			
At 31 December 2016	359,000	4,661,000	5,020,000
At 31 December 2017	353,000	4,424,000	4,777,000

The bancassurance rights will be amortised until 2035.

The fair value of the club memberships amounted to $353,000 (2016: $359,000) which is based on published market rates.

6. Investment in subsidiary

	2017 $	2016 $
Equity instruments at cost	1,750,000	1,750,000

Name	Principal place of business/Country of incorporation	Ownership interest 2017 %	Ownership interest 2016 %
Premier Insurance Agencies Pte Ltd [1]	Singapore	100	100

[1] Audited by CHONG, LIM & PARTNERS LLP

7. Taxation

(a) *Tax expense/(credit)*

	2017 $	2016 $
Deferred tax provision	(65,000)	1,588,000
Under provision of corporate income tax in prior years	2,511	19,808
	(62,489)	1,607,808

	2017 $	2016 $
Deferred tax liability/(asset) related to other comprehensive income		
- Fair value changes of available-for-sale financial assets (Note 17)	588,843	(123,231)

7. Taxation (cont'd)

(a) *Tax expense/(credit) (cont'd)*

A reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December was as follows:

	2017 $	2016 $
Profit before tax	13,816,593	14,945,074
Tax expense on profit before tax at 17%	2,348,821	2,540,663
Adjustments:		
Expenses not deductible for tax purposes	241,818	204,322
Tax effect of income brought to tax at 10%	(845,098)	(654,355)
Benefits from previously unrecognised tax losses	(1,810,541)	(502,630)
Under provision of corporate income tax in prior year	2,511	19,808
Tax expense	(62,489)	1,607,808

Profit from approved offshore business is taxed at a concessionary rate of 10% in accordance with the Income Tax Regulations. The statutory tax rate is 17% in 2017 (2016: 17%).

(b) *Deferred taxation*

	2017 $	2016 $
Balance at 1 January	(10,175,486)	(11,640,255)
Charged/(credited) to:		
- Profit and loss account	(65,000)	1,588,000
- Fair value adjustment reserve (Note 17)	588,843	(123,231)
Balance at 31 December	(9,651,643)	(10,175,486)

Deferred income tax assets and liabilities

	2017	2016
Deferred tax liabilities		
Revaluations of available-for-sale financial assets	–	–
Deferred tax assets		
Revaluations of available-for-sale financial assets	535,357	(53,486)
Deferred tax assets		
Unabsorbed tax losses	(10,187,000)	(10,122,000)
Net deferred tax assets	(9,651,643)	(10,175,486)

7. Taxation (cont'd)

(b) *Deferred taxation (cont'd)*

At the end of the reporting period, the Company has tax losses of approximately $157,793,000 (2016: $191,967,000) that are available for offset against future taxable profits of the Company, and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The use of these tax losses is subject to the agreement of the tax authorities and compliance with Singapore Income Tax regulations.

(c) *Provision for taxation*

	2017	**2016**
	$	$
Balance at 1 January	–	–
Under provision in respect of prior years charges to profit and loss account	2,511	19,808
Tax payments	(2,511)	(19,808)
Write-back of carried forward tax provision		–
Balance at 31 December	–	–

8. Amounts owing from holding and related companies (non-trade)

The amounts owing from holding and related companies (non-trade) are interest-free and repayable on demand. These amounts are unsecured and are expected to be settled in cash.

9. Trade debtors

	2017 $	2016 $
Holding companies	980,707	1,723,839
Related companies	573,581	249,032
Third parties	18,051,416	19,173,877
	19,605,704	21,146,748
Allowance for doubtful receivables	–	(871)
	19,605,704	21,145,877
Due from insurers	1,128,476	2,096,326
Due from agents, brokers and intermediaries	15,655,691	13,627,394
Due from reinsurers	2,821,537	5,422,157
	19,605,704	21,145,877
Add:		
Other debtors (Note 10)	6,517,884	3,311,770
Amounts owing from holding companies (non-trade) (Note 8)	2,043,758	1,350,674
Amounts owing from related companies (non-trade) (Note 8)	32,764	17,769
Cash, bank balances and deposits (Note 12)	120,181,797	189,994,166
Total financial assets at amortised cost and classified as loans and receivables	148,381,907	215,820,256

Trade debtors relate to amount due from insurers, agents, broker and intermediaries and reinsurers. Trade debtors are non-interest bearing receivables that are due but not impaired and are generally on 30 to 90 days' credit terms. They are recognised at their original invoice amounts which represent their fair value on initial recognition.

The Company has trade receivables amounting to $4,223,327 (2016: $4,921,872) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	2017 $	2016 $
Trade receivables past due not impaired:		
Less or equal to 90 days	1,594,587	2,128,695
91 to 120 days	(608,500)	287,363
121 to 180 days	964,171	1,381,436
181 to 365 days	1,732,700	1,319,037
More than 365 days	540,369	(194,659)
Total	4,223,327	4,921,872

9. Trade debtors (cont'd)

Receivables that are impaired

The Company's trade receivables that are impaired at the balance sheet date and the movement of the allowance account used to record the impairment are as follows:

	2017 $	2016 $
Trade receivables – nominal amounts	–	871
Less: Allowance for doubtful receivables	–	(871)
	–	–
Movement in allowance accounts:		
At 1 January	(871)	(11,711)
Allowance utilised	213	11,053
Charged for the year (Note 21)	658	(213)
At 31 December	–	(871)

10. Other debtors

	2017 $	2016 $
Interest receivable	4,793,614	1,802,280
Dividend receivable	–	17,000
Sundry deposits and debtors	1,724,270	1,492,490
Total	6,517,884	3,311,770

11. Available-for-sale financial assets

	2017 $	2016 $
Corporate and statutory board bonds	246,982,575	160,784,572
Government bonds	257,438	6,896,400
Quoted equity shares	6,810,567	12,620,484
Unquoted equity shares	417	417
Total available-for-sale financial assets	254,050,997	180,301,873

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices, at the close of business on the reporting date, without any deduction for transaction costs.

For units in unit trusts, money market funds and shares in open ended investment companies, fair value is determined by reference to published bid values.

Investments in corporate, statutory board and government bonds bear interest ranging from 1.6% to 6% (2016:1.23% to 6%) per annum. The maturity of these investments is disclosed in Note 24 (b) (ii).

The carrying values are determined as follows:

	2017 $	2016 $
Balance at beginning of the year	180,301,873	174,292,144
Additions	177,073,221	102,576,342
Redemptions and disposals	(106,475,545)	(96,157,875)
Amortisation of (premium)/discount on bonds (Note 19)	(211,059)	(93,690)
Unrealised fair value gain/(loss)	3,362,507	(315,048)
Balance at end of the year	254,050,997	180,301,873

11. Available-for-sale financial assets (cont'd)

Fair value hierarchy

The Company classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant un-observable inputs (Level 3)	Total
	$	$	$	$
2017				
Financial assets:				
Available-for-sale financial assets	254,050,580	–	417	254,050,997
2016				
Financial assets:				
Available-for-sale financial assets	180,301,456	–	417	180,301,873

12. Cash, bank balances and deposits

Cash, bank balances and deposits comprise the following amounts:

	2017 $	2016 $
Fixed deposits	89,592,341	140,000,497
Cash, bank balances and deposits	30,589,456	49,993,669
Cash, bank balances and deposits included in balance sheet	120,181,797	189,994,166
Fixed deposits held in trust for policyholders	(1,643,240)	(1,852,699)
Cash, bank balances and deposits held in trust for policyholders	(36,128)	(31,874)
Cash and cash equivalents included in cash flow statements	118,502,429	188,109,593

Fixed deposits are made for varying periods less than 1 year depending on the immediate cash requirements of the Company, and earn interest at the respective fixed deposit rates ranging from 0.79% to 1.40% (2016: 0.13% to 1.80%)per annum.

13. Trade creditors

	2017 $	2016 $
Holding company	372,799	347,839
Related companies	417,526	951,072
Third parties	8,483,612	8,050,271
	9,273,937	9,349,182
Add:		
Accrual for audit fees (Note 14)	200,000	200,000
Cash collaterals from policyholders (Note 14)	1,679,368	1,884,573
Other creditors and accruals (Note 14)	12,738,606	15,253,403
Total financial liabilities at amortised cost	23,891,911	26,687,158

The amounts due to holding company and related companies are unsecured and non-interest bearing with no fixed repayment terms.

14. Other creditors

	2017 $	2016 $
Accrual for audit fees	200,000	200,000
Cash collaterals from policyholders	1,679,368	1,884,573
Other creditors and accruals	12,738,606	15,253,403
	14,617,974	17,337,976

These amounts are unsecured and non-interest bearing with payment terms not exceeding 90 days.

15. Technical reserves

	Gross $	Recoverable from reinsurers $	Net $
2017			
Claims reported and loss adjustment expenses	102,881,134	(50,048,277)	52,832,857
Claims incurred but not reported	13,810,627	(7,420,715)	6,389,912
Claims liabilities	116,691,761	(57,468,992)	59,222,769
Premium liabilities	58,597,736	(8,882,961)	49,714,775
	175,289,497	(66,351,953)	108,937,544
Deferred acquisition costs and deferred reinsurance commissions	(10,204,516)	2,523,056	(7,681,460)
Insurance contract liabilities	165,084,981	(63,828,897)	101,256,084
2016			
Claims reported and loss adjustment expenses	136,426,622	(76,966,859)	59,459,763
Claims incurred but not reported	27,811,398	(17,411,405)	10,399,993
Claims liabilities	164,238,020	(94,378,264)	69,859,756
Premium liabilities	54,286,931	(7,183,326)	47,103,605
	218,524,951	(101,561,590)	116,963,361
Deferred acquisition costs and deferred reinsurance commissions	(9,062,481)	2,639,615	(6,422,866)
Insurance contract liabilities	209,462,470	(98,921,975)	110,540,495

15. Technical reserves (cont'd)

(a) *Claims liabilities*

2017	Gross $	Reinsurance $	Net $
Notified claims	136,426,622	(76,966,859)	59,459,763
Incurred but not reported	27,811,398	(17,411,405)	10,399,993
Total at beginning of year	164,238,020	(94,378,264)	69,859,756
Cash paid for claims settled in the year	(63,336,945)	23,969,002	(39,367,943)
Movement in claims incurred	15,790,686	12,940,270	28,730,956
Total at end of year	116,691,761	(57,468,992)	59,222,769
Notified claims	102,881,134	(50,048,277)	52,832,857
Incurred but not reported	13,810,627	(7,420,715)	6,389,912
	116,691,761	(57,468,992)	59,222,769
2016			
Notified claims	158,209,730	(85,223,100)	72,986,630
Incurred but not reported	23,769,074	(14,873,612)	8,895,462
Total at beginning of year	181,978,804	(100,096,712)	81,882,092
Cash paid for claims settled in the year	(71,435,108)	27,740,067	(43,695,041)
Movement in claims incurred	53,694,324	(22,021,619)	31,672,705
Total at end of year	164,238,020	(94,378,264)	69,859,756
Notified claims	136,426,622	(76,966,859)	59,459,763
Incurred but not reported	27,811,398	(17,411,405)	10,399,993
	164,238,020	(94,378,264)	69,859,756

15. Technical reserves (cont'd)

(b) *Premium liabilities*

	Gross $	Reinsurance $	Net $
2017			
At beginning of the year	54,286,931	(7,183,326)	47,103,605
Changes in the year	4,310,805	(1,699,635)	2,611,170
At end of the year	58,597,736	(8,882,961)	49,714,775
2016			
At beginning of the year	77,732,104	(19,813,582)	57,918,522
Changes in the year	(23,445,173)	12,630,256	(10,814,917)
At end of the year	54,286,931	(7,183,326)	47,103,605

(c) *Deferred acquisition costs and deferred reinsurance commissions*

	Deferred acquisition costs $	Deferred reinsurance commissions $	Net $
2017			
At 1 January	(9,062,481)	2,639,615	(6,422,866)
Changes in the year	(1,142,035)	(116,559)	(1,258,594)
At 31 December	(10,204,516)	2,523,056	(7,681,460)
2016			
At 1 January	(8,955,079)	2,182,653	(6,772,426)
Changes in the year	(107,402)	456,962	349,560
At 31 December	(9,062,481)	2,639,615	(6,422,866)

16. Share capital

	2017		2016	
	No of shares	$	No of shares	$
Issued and fully paid:				
Balance at beginning of year	318,327,805	318,327,805	418,327,805	418,327,805
Capital reduction	–	–	(100,000,000)	(100,000,000)
Balance at end of year	318,327,805	318,327,805	318,327,805	318,327,805

In 2016, the Company carried out a capital reduction exercise in accordance with the provisions set out in the Companies Act (Cap.50 of the Republic of Singapore) to reduce its share capital by $100,000,000 in the paid up capital of the Company (alongside the cancellation of 100,000,000 ordinary shares) so as to return the amount to its sole shareholder for the efficient deployment of capital within the Sompo Holdings, Inc. and its subsidiaries.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

17. Fair value adjustment reserves

Fair value adjustment reserves represent the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed of or impaired.

	2017 $	2016 $
Balance at beginning of the year	204,193	396,010
Fair value gain/(loss)	5,021,152	(978,296)
Transferred to profit and loss:		
(Gain)/loss on sale (Note 19)	(1,658,645)	663,248
Income tax relating to fair value adjustment reserve (Note 7(a) and 7(b))	(588,843)	123,231
Balance at end of the year	2,977,857	204,193

18. Operating and administrative expenses

	2017 $	2016 $
Directors' remuneration (Note 22(b))	696,663	802,595
Central Provident Fund contributions	2,931,636	2,431,563
Salaries, bonuses and other costs	16,442,441	18,746,745
Depreciation (Note 4)	1,087,013	839,893
	21,157,753	22,820,796

19. Net investment income

	2017 $	2016 $
Interest on corporate and statutory board debt securities	5,647,497	4,243,610
Interest from government debt securities	180,507	150,837
Interest income from Available-for-sale financial assets	5,828,004	4,394,447
Interest from current accounts	22,107	22,793
Interest from fixed deposits	752,628	2,412,612
Interest income from cash, bank balances and deposits	774,735	2,435,405
Exchange gain on foreign currencies, net	(278,493)	267,301
	496,242	2,702,706
Dividend income	559,901	601,479
Amortisation of (premium)/discount on bonds (Note 11)	(211,059)	(93,690)
Gain/(loss) on sale of investments (Note 17)	1,658,645	(663,248)
Investment expenses	(323,081)	(129,266)
	8,008,652	6,812,428

20. Other income

	2017 $	2016 $
Agency fees	3,870,747	2,459,218
IT support fees	71,179	51,485
Interest on premium reserve released	392	53,018
Miscellaneous income	216,528	799,268
Gain on sale of property and equipment	14,493	45,304
Head Office service fees	99,470	–
	4,272,809	3,408,293

21. Profit before tax

Profit before tax is arrived at after charging/(crediting) the following items:

	2017 $	2016 $
Directors' fees		
- Current year	105,000	105,000
- Over provision in respect of prior years	–	–
Operating lease expense (Note 23)	3,639,395	3,532,918
Provision of allowance for doubtful receivables (Note 9)	(658)	213
Depreciation of property and equipment (Note 4)	1,087,013	839,893
Impairment of intangible assets (Note 5)	6,000	–
Amortisation of intangible assets (Note 5)	237,000	79,000

22. Significant related party transactions

(a) The Company has significant transactions with the holding company and related companies on terms agreed between the parties as follows:

	2017 $	2016 $
Claims paid, commissions paid and reinsurance business ceded		
- Holding company	12,949,775	5,665,350
- Related companies	4,120,605	19,055,001
Claims recovery, commissions received and reinsurance business accepted		
- Holding company	9,656,753	8,769,511
- Related companies	2,692,214	5,162,714
Interest expense to/(income from)		
- Holding company	105	(130)
- Related companies	(390)	(21,305)
Agency fees income from		
- Holding company	(3,850,280)	(2,435,122)
- Related companies	(19,491)	(22,539)
Miscellaneous fees from		
- Holding company	(176,649)	(57,233)
- Related companies	(67)	(3,957)
Service agreement fees to		
- Holding company	108,883	112,836

In 2017, the Company decided to discontinue its reinsurance arrangements with some of its related companies in the ASEAN region. In prior years, such arrangements allowed the same related companies to cede their insurance business to the Company.

(b) Compensation of key management personnel

	2017 $	2016 $
Short-term employee benefits	687,482	792,678
Central Provident fund contributions	9,181	9,917
	696,663	802,595
Comprise amounts paid to:		
- Directors of the Company (Note 18)	696,663	802,595

Key management personnel include non-independent directors.

23. Operating lease commitments

The Company has entered into commercial property leases for the office space. Operating lease expense recognised as an expense in the profit or loss for the financial year ended 31 December 2017 amounted to $3,639,395 (2016: $3,532,918). Future minimum lease payments under non-cancellable leases as of 31 December are as follows:

	2017 $	2016 $
Not later than 1 year	3,879,774	3,399,385
Later than 1 year but not later than 5 years	2,581,539	5,660,660
	6,461,313	9,060,045

24. Management of insurance risk and financial risk

The Company has a Risk Management Committee that has established a risk manual and an enterprise risk management framework that allows the Company to be prepared for risks.

This framework specifies the practices and processes that need to be in place to manage the Company's financial and non-financial risks on an on-going basis.

The main risks arising from the Company's insurance contracts and financial instruments are summarised below:

(a) *Insurance risk*

The Company principally writes a regional book of general insurances comprising Marine Cargo, Motor, Property, Workmen's Compensation and General Accident.

Regional territories are made up mainly of Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

The Company manages its insurance risk through a comprehensive risk management policy where key performance and risk indicators are clearly defined and monitored. Underwriting guidelines sets out the Company's underwriting strategy, direction and risk appetite by product lines.

The most significant exposure is expected to arise from risks involving properties with high values. To manage this, the Company closely monitors the policy developments and ensures that proper reinsurance protection is in place to protect its net profitability and solvency.

The Company purchases reinsurance coverage on both treaty and facultative basis. The Company's net retention varies according to product lines and loss experience.

The Company relies on its reinsurance arrangements to protect its liquidity and solvency when large losses arise. Its reinsurance placements are diversified and spread amongst selected reinsurers to avoid over-reliance on any single reinsurer.

24. Management of insurance risk and financial risk (cont'd)

(a) *Insurance risk (cont'd)*

To mitigate the risk of reinsurance failure, the Company adopts a strict reinsurance management policy that is governed by two key criteria, namely reinsurance usage selection and reinsurance usage concentration. The Company monitors these indicators actively and takes corrective action whenever the need arises.

The table below sets out the concentration of claims liabilities by type of contract:

Claims liabilities	**Gross claims liabilities** $'000	**Reinsurers' share of claims liabilities** $'000	**Net claims liabilities** $'000
At 31 December 2017			
Marine	5,797	(2,437)	3,360
Motor	34,105	(5,625)	28,480
Property	40,821	(35,360)	5,461
Workmen's Compensation	13,195	(2,435)	10,760
Others	22,774	(11,612)	11,162
Total	116,692	(57,469)	59,223
31 December 2016			
Marine	9,370	(4,985)	4,385
Motor	31,683	(5,319)	26,364
Property	65,586	(52,015)	13,571
Workmen's Compensation	14,665	(2,625)	12,040
Others	42,934	(29,434)	13,500
Total	164,238	(94,378)	69,860

24. Management of insurance risk and financial risk (cont'd)

(a) *Insurance risk (cont'd)*

The geographical concentration of the Company's insurance liabilities at 31 December 2017 is as follows. The disclosure is based on the countries where the insurance business is written.

Claims liabilities	Gross claims liabilities $'000	Reinsurers' share of claims liabilities $'000	Net claims liabilities $'000
At 31 December 2017			
Indonesia	643	–	643
Philippines	886	–	886
Singapore	89,525	(57,416)	32,109
Thailand	19,228	(4)	19,224
Others	6,410	(49)	6,361
Total	116,692	(57,469)	59,223
At 31 December 2016			
Indonesia	1,000	–	1,000
Philippines	1,606	–	1,606
Singapore	124,563	(90,869)	33,694
Thailand	23,128	(3,204)	19,924
Others	13,941	(305)	13,636
Total	164,238	(94,378)	69,860

(b) *Financial risk*

The Company is exposed to financial risk arising from its operations and the use of financial instruments. In particular the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The key financial risks include credit risk, liquidity risk, currency risk and interest rate risk.

(i) *Credit risk*

Credit risk is risk of loss that arises when an obligor fails to perform its obligations under a contract or when its ability to perform such obligations is impaired.

Asset concentration risk reflects the additional risk of a high concentration of investments in a single company, group of companies, instrument, industry, geographical area, currency, etc. It is well recognised that diversification of investment portfolio reduces risk.

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(i) *Credit risk (cont'd)*

The following is an overview of how the Company manages its significant credit risk exposure:

Reinsurance

Reinsurance is placed with highly rated reinsurers and concentration of risk is monitored periodically. The Company reviews the creditworthiness of reinsurers before renewing the reinsurance arrangements annually, in accordance to the prevailing reinsurance strategy and guidelines.

Investment securities

The Company limits its exposure by setting maximum limits of portfolio securities with a single or group of issuers. The Company also makes use of institutions with high creditworthiness.

Derivatives

The Company does not enter into derivative contracts.

Insurance receivables

The credit risk in respect of the customer balances incurred on the non-payment of premiums or contributions will only persist during the grace period specified in the policy document.

Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The following table provides information regarding the credit risk exposure of the Company at 31 December 2017 by classifying assets according to credit ratings of the counterparties.

Classification of Credit Rating Agencies

Class	Standard & Poor's	Fitch Inc.	A.M. Best	Moody's
A	AAA to AA-	AAA to AA-	A++ to A+	Aaa to Aa3
B	A+ to A-	A+ to A-	A to A-	A1 to A3
C	BBB to BBB-	BBB to BBB-	B++ to B+	Baa1 to Baa3
D	BB or worse	BBB or worse	B or worse	Ba1 or worse
	Not Rated	Not Rated	Not Rated	Not Rated

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(i) *Credit risk (cont'd)*

	2017 $'000	2016 $'000
Available-for-sale financial assets	254,051	180,302
Amount owing from holding companies (non-trade)	2,044	1,351
Amount owing from related companies (non-trade)	33	18
Trade debtors	19,606	21,146
Other debtors	6,518	3,312
Cash, bank balances and deposits	120,182	189,994
Total financial assets	402,434	396,123

	2017 $'000	2016 $'000
Class		
A	83,982	111,351
B	184,526	184,532
C	2,613	2,869
D *	131,313	97,371
Total financial assets	402,434	396,123

* Non-rated debt securities included holdings of debt securities issued by Singapore Statutory Boards amounting to $53.14 million (2016: $50.06 million).

(ii) *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or counterparty failing on repayment of a contractual obligation or insurance liability falling due for payment earlier than expected or inability to generate cash inflows as anticipated.

The Company is exposed to daily cash calls on its available cash resources mainly from claims arising from short term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls that should be in place to cover these claims.

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(ii) *Liquidity risk*

The table below summarises the maturity profile of the Company's financial assets and liabilities based on undiscounted contractual obligations from the reporting date to the contractual maturity or expected repayment date. For claims liabilities and reinsurer's share of claims liabilities, their maturity profiles are determined based on the estimated timing of net cash outflows on an undiscounted basis.

	Carrying value $'000	No maturity date $'000	Less than 1 year $'000	1 to 5 years $'000	Over5 years $'000	Total $'000
2017						
Financial and insurance- related assets						
Available-for-sale financial assets	254,051	6,811	20,343	120,719	137,117	284,990
Cash, bank balances and deposits	120,182	–	120,885	–	–	120,885
Amount owing from holding companies (non-trade)	2,044	–	2,044	–	–	2,044
Amount owing from related companies (non-trade)	33	–	33	–	–	33
Trade debtors	19,606	–	19,606	–	–	19,606
Other debtors	6,518	–	6,518	–	–	6,518
Reinsurers' share of claim liabilities	57,469	–	39,949	17,998	(54)	57,893
	459,903	6,811	209,378	138,717	137,063	491,969
Financial and insurance- related liabilities						
Trade creditors	9,274	–	9,274	–	–	9,274
Other creditors	14,618	–	14,618	–	–	14,618
Claim liabilities	116,692	–	79,844	38,343	119	118,306
	140,584	–	103,736	38,343	119	142,198

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(ii) *Liquidity risk (cont'd)*

	Carrying value $'000	No maturity date $'000	Less than 1 year $'000	1 to 5 years $'000	Over5 years $'000	Total $'000
2016						
Financial and insurance-related assets						
Available-for-sale financial assets	180,302	12,621	19,787	95,089	72,410	199,907
Cash, bank balances and deposits	189,994	–	190,753	–	–	190,753
Amount owing from holding companies (non-trade)	1,351	–	1,351	–	–	1,351
Amount owing from related companies (non-trade)	18	–	18	–	–	18
Trade debtors	21,146	–	21,146	–	–	21,146
Other debtors	3,312	–	3,312	–	–	3,312
Reinsurers' share of claim liabilities	94,378	–	72,060	22,855	315	95,230
	490,501	12,621	308,427	117,944	72,725	511,717
Financial and insurance-related liabilities						
Trade creditors	9,349	–	9,349	–	–	9,349
Other creditors	17,338	–	17,338	–	–	17,338
Claim liabilities	164,238	–	121,833	42,981	1,208	166,022
	190,925	–	148,520	42,981	1,208	192,709

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iii) *Currency risk*

Currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the Singapore dollar and the other currencies in which the Company conducts business may affect its financial condition and results of operations. The Company seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The table below summarises the Company's exposure to currency risk at the end of the year by categorising the net financial assets and liabilities by major currencies.

	Singapore Dollars $'000	United States Dollars $'000	Thailand Baht $'000	Others $'000	Total $'000
2017					
Financial and insurance-related assets					
Available-for-sale financial assets	254,051	–	–	–	254,051
Amount owing from holding companies (non-trade)	1,241	566	9	228	2,044
Amount owing from related companies (non-trade)	5	21	1	6	33
Trade debtors	17,331	1,794	155	326	19,606
Other debtors	6,502	16	–	–	6,518
Cash, bank balances and deposits	117,684	1,531	851	116	120,182
Reinsurers' share of claim liabilities	31,909	5,068	18,355	2,137	57,469
Total	428,723	8,996	19,371	2,813	459,903
Financial and insurance-related liabilities					
Trade creditors	8,589	183	334	168	9,274
Other creditors	10,153	2,127	548	1,790	14,618
Claim liabilities	89,663	5,125	19,226	2,678	116,692
Total	108,405	7,435	20,108	4,636	140,584

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iii) *Currency risk (cont'd)*

	Singapore Dollars $'000	United States Dollars $'000	Thailand Baht $'000	Others $'000	Total $'000
2016					
Financial and insurance-related assets					
Available-for-sale financial assets	180,067	–	–	235	180,302
Amount owing from holding companies (non-trade)	(13)	447	20	897	1,351
Amount owing from related companies (non-trade)	10	2	(3)	9	18
Trade debtors	18,942	2,158	10	36	21,146
Other debtors	3,312	–	–	–	3,312
Cash, bank balances and deposits	183,889	4,143	1,628	334	189,994
Reinsurers' share of claim liabilities	61,747	8,112	21,354	3,165	94,378
Total	447,954	14,862	23,009	4,676	490,501
Financial and insurance-related liabilities					
Trade creditors	7,747	848	392	362	9,349
Other creditors	12,887	1,052	730	2,669	17,338
Claim liabilities	124,251	13,394	22,412	4,181	164,238
Total	144,885	15,294	23,534	7,212	190,925

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iii) *Currency risk (cont'd)*

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Company's profit net of tax to a reasonably possible change in the USD and THB exchange rates against the functional currency of the Company, with all other variables held constant.

		2017	**2016**
		$'000	$'000
Increase/(decrease) in profit and equity (before tax)			
USD/SGD	- Strengthened 5%	78	(22)
	- Weakened 5%	(78)	22
THB/SGD	- Strengthened 5%	(37)	(26)
	- Weakened 5%	37	26

(iv) *Interest rate risk*

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

The Company's exposure to market risk for changes in interest rates arises from surplus funds that are placed with reputable banks and/or invested in bonds and government securities. The exposure to interest rate risk is closely monitored to maximise the returns on these surplus funds.

Sensitivity analysis for interest rate risk

The following table sets out the impact on profit before tax and equity at the reporting date if market interest rates had been 50 (2016: 50) basis points higher/lower with all other variables held constant. The Company believes that the exposure to interest rate changes on its investments in debt securities is limited since the instruments are short to medium term fixed-income debt securities and the intent is to hold to maturity. As such, only the impact of the changes in the interest rates on the Company's fixed deposits are included in the sensitivity analysis table below.

	Changes in variables	**Impact on profit before tax**	**Impact on equity***
		$ '000	$ '000
2017			
+ 50 basis points		448	385
- 50 basis points		(448)	(385)

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iv) *Interest rate risk (cont'd)*

	Changes in variables	Impact on profit before tax $ '000	Impact on equity* $ '000
2016			
	+ 50 basis points	700	612
	- 50 basis points	(700)	(612)

* Impact on equity is after tax.

(v) *Market price risk*

Market price risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market prices (other than interest or foreign currency exchange rates). The Company is exposed to equity price risk arising from its investment in quoted equity instruments. These instruments are quoted on the Singapore Exchange Securities Trading Limited (SGX-ST) in Singapore and are classified as available-for-sale financial assets. The Company does not have exposure to commodity price risk.

The Company's objective is to manage investment returns and equity price risk using investment grade shares with steady dividend yields. The Company's policy is to limit its interest in the available-for-sale equity shares to 5% (2016: 5%) of its entire investment portfolio.

Sensitivity analysis for equity price risk

At the balance sheet date, if the market prices of the equity investments had been 5% (2016: 5%) higher/lower with all other variables held constant, the Company's fair value adjustment reserve would increase/decrease by S$282,639 (2016: S$523,750) arising mainly as a result of a increase/decrease in the fair value of equity securities classified as available-for-sale.

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

(vi) *Concentration risk*

An important element of managing both market and credit risks is to actively manage concentration to specific issuers, counterparties, industry sectors, countries and currencies. Both internal and regulatory limits are put in place and monitored to manage concentration risk. These limits are reviewed on a regular basis by the respective management committees. The Company's exposures are within the concentration limits set by the local regulators.

24. Management of insurance risk and financial risk (cont'd)

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

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

Unquoted equity shares are valued based on unobservable data (i.e., net tangible assets from financial statements).

(d) ***Insurance contract liabilities – assumptions and sensitivities***

Assumptions

One of the principal assumptions underlying the estimated claim liability is that future claim development can be approximated by historical experience. This includes assumptions in respect of claim development factors and initial expected loss ratios for past accident/underwriting years. Direct claims handling costs and future claims inflation are implicitly assumed in the valuation methods. Indirect claims handling expenses are derived based on the Company's management expenses over the past couple of years. Judgment is used to assess the extent to which large claims, reinsurance recoveries, as well as the Company's internal underwriting and claim handling policies affect the estimates.

Other assumptions include the discount rate and the provision for adverse deviation attached to the estimates.

Ultimate claim cost development

(i) The tables below show the actuary's best estimate of the gross and net of reinsurance ultimate claims cost for each accident/underwriting year at yearly intervals together with actual cumulative claim payments for each accident/underwriting year as at 31 December 2017.

(ii) Ultimate claim costs are then compared to actual cumulative claim payments for each accident/underwriting year as at 31 December 2017 to arrive at the best estimate of claim liability as at 31 December 2017.

(iii) With the addition of a provision for adverse deviation ("PAD"), the outstanding claim liabilities are reconciled to the outstanding claim liabilities as per the actuarial valuation of policy liabilities as at 31 December 2017.

24. Management of insurance risk and financial risk (cont'd)

(d) ***Insurance contract liabilities – assumptions and sensitivities (cont'd)***

Gross Loss Development Tables

Gross of reinsurance basis (S$'000)

All SIF & OIF combined - Gross of reinsurance basis

Estimate of cumulative claims Period*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
At end of underwriting year	27,678	38,547	38,167	42,614	1,519,701	65,182	69,100	87,189	74,104	64,549	63,546	
One year later	24,082	33,459	31,819	51,280	1,383,700	63,440	61,007	83,188	59,396	59,459		
Two years later	22,738	31,539	37,654	65,931	1,167,762	54,781	59,235	76,481	58,960			
Three years later	21,514	37,176	35,186	148,308	1,161,961	52,242	58,234	75,246				
Four years later	32,492	36,403	34,552	150,571	1,158,547	50,915	53,661					
Five years later	31,445	36,067	33,472	148,907	1,155,719	50,803						
Six years later	31,346	34,319	33,720	148,750	1,222,268							
Seven years later	30,589	33,326	33,665	77,959								
Eight years later	30,183	33,237	34,939									
Nine years later	30,076	34,332										
Ten years later	30,484											
Current estimate of ultimate claims	30,484	34,332	34,939	77,959	1,222,268	50,803	53,661	75,246	58,960	59,459	63,546	1,761,657
Cumulative payments	30,471	34,103	34,832	59,714	1,220,717	48,903	52,206	65,028	48,041	47,413	26,361	1,667,789
Gross estimate of outstanding claim liability	13	229	107	18,245	1,551	1,900	1,455	10,218	10,919	12,046	37,185	93,868
Best estimate for claims liability (net of unearned & add CHE)	13	218	109	18,236	1,658	1,953	1,534	10,456	11,386	12,852	39,963	98,378
Reserve for prior years												298
Discounting for time value												(1,403)
Provision for adverse deviation												15,667
Outstanding claim liability												112,940
Ex-Nipponkoa Outstanding claim liability												3,752
Total Outstanding claim liability in accounts												116,692

** Refers to accident year for all classes except Marine and Treaty classes where an underwriting year is used.*

24. Management of insurance risk and financial risk (cont'd)

(d) ***Insurance contract liabilities – assumptions and sensitivities (cont'd)***

Net Loss Development Tables

Net of reinsurance basis (S$'000)

All SIF & OIF combined - Net of reinsurance basis

Estimate of cumulative claims Period*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
At end of underwriting year	26,141	36,227	32,454	36,491	363,965	41,334	32,910	52,179	46,691	42,795	47,935	
One year later	22,657	31,554	26,593	31,696	303,089	33,210	31,128	50,861	37,754	39,480		
Two years later	21,499	29,838	23,102	29,015	269,984	31,607	29,234	47,385	36,410			
Three years later	20,283	28,293	20,947	33,556	264,815	29,358	27,392	44,224				
Four years later	20,082	27,491	21,137	28,021	263,916	28,089	28,247					
Five years later	19,097	27,096	20,625	27,161	262,902	29,483						
Six years later	19,122	27,217	20,566	26,673	258,829							
Seven years later	18,994	26,386	20,130	32,217								
Eight years later	18,810	26,305	20,964									
Nine years later	18,764	25,643										
Ten years later	18,432											
Current estimate of ultimate claims	18,432	25,643	20,964	32,217	258,829	29,483	28,247	44,224	36,410	39,480	47,935	581,864
Cumulative payments	18,428	25,780	20,926	32,319	257,410	28,680	27,493	41,613	31,501	31,035	19,614	534,799
Net estimate of outstanding claim liability	4	(137)	38	(102)	1,419	803	754	2,611	4,909	8,445	28,321	47,065
Best estimate for claims liability (net of unearned & add CHE)	5	(148)	40	(111)	1,526	854	833	2,850	5,376	9,250	31,100	51,575
Reserve for prior years												238
Discounting for time value												(1,026)
Provision for adverse deviation												8,436
Outstanding claim liability in accounts												59,223

** Refers to accident year for all classes except Marine and Treaty classes where an underwriting year is used.*

24. Management of insurance risk and financial risk (cont'd)

(d) *Insurance contract liabilities – assumptions and sensitivities (cont'd)*

Sensitivity analysis

(i) The purpose of the sensitivity analysis is to assess the relative importance of key assumptions used in the net of reinsurance actuarial valuation of outstanding claim and premium liabilities as at 31 December 2017. In this context, the outstanding claim and premium liabilities are defined as the total claim and premium liabilities for the Singapore Insurance Fund business and Offshore Insurance Fund business combined respectively, including provision for adverse deviation (these are referred to as "the base scenario" in the sensitivity analysis summary).

(ii) The key assumptions considered in the sensitivity analysis of the claim liabilities include a 5 percentage point increase or decrease in:

- the assumed initial expected loss ratio for each class of business in the 2017 accident/underwriting year;
- the first year incurred loss development factors (referred to as "first incurred development factor") for each class of business;
- the assumed level of indirect claim handling expenses; and
- the assumed PAD factor for each class of business.

(iii) The key assumptions considered in the sensitivity analysis of the premium liabilities include a 5 percentage point increase or decrease in:

- the assumed ultimate loss ratio for each class of business in the 2017 accident/underwriting year;
- the assumed level of management expenses for each class of business; and
- the assumed PAD factor for each class of business.

(iv) The sensitivity analysis is based on the assumptions set out in the actuarial report and is subject to the same reliance and limitations contained in the report. One particular reliance is that the net sensitivity results assume that all reinsurance recoveries are receivable in full.

(v) The sensitivity values shown for each assumption item are independent of changes to other assumption items. In practice a combination of adverse and favourable changes could occur.

(vi) The sensitivity results are not intended to capture all possible outcomes. Significantly more adverse or favourable results are possible.

24. Management of insurance risk and financial risk (cont'd)

(d) *Insurance contract liabilities – assumptions and sensitivities (cont'd)*

Percentage Change in Claim Liability Sensitivity Analysis

Assumption	Gross of reinsurance +5%[1]	Gross of reinsurance -5%[1]
Reported total actuarial claims liability ($'000)	111,947	
Initial Expected Loss Ratio[2]	1.07%	-1.07%
First Incurred Development Factor[3]	0.07%	-0.07%
Claim Handling Expenses[4]	0.21%	-0.21%
Provision for Adverse Deviation	0.49%	-0.49%

Percentage Change in Premium Liability Sensitivity Analysis

Assumption	Gross of reinsurance +5%[1]	Gross of reinsurance -5%[1]
Reported total actuarial premium liability ($'000)	48,393	
Ultimate Loss Ratio[2]	0.00%	0.00%
Management expense ratio[4]	0.00%	0.00%
Provision for Adverse Deviation	0.00%	0.00%

Percentage Change in Claim Liability Sensitivity Analysis

Assumption	Net of reinsurance +5%[1]	Net of reinsurance -5%[1]
Reported total actuarial claims liability ($'000)	55,167	
Initial Expected Loss Ratio[2]	1.95%	-1.93%
First Incurred Development Factor[3]	0.10%	-0.09%
Claim Handling Expenses[4]	0.44%	-0.44%
Provision for Adverse Deviation	0.40%	-0.40%

Percentage Change in Premium Liability Sensitivity Analysis

Assumption	Net of reinsurance +5%[1]	Net of reinsurance -5%[1]
Reported total actuarial premium liability ($'000)	41,572	
Ultimate Loss Ratio[2]	3.82%	-3.82%
Management expense ratio[4]	0.73%	-0.73%
Provision for Adverse Deviation	0.54%	-0.54%

24. Management of insurance risk and financial risk (cont'd)

(d) *Insurance contract liabilities – assumptions and sensitivities (cont'd)*

(1) Sensitivity analysis assesses impact of a +/- 5% change in assumption.
(2) Initial expected loss ratio sensitivity analysis applies to 2017 accident/underwriting year.
(3) First incurred development factor sensitivity analysis applies to 2017 accident/underwriting year.
(4) Expense assumption in sensitivity analysis changed by factor of +1.05 / -1.05

Liability adequacy test

The following table compares the actuarial estimate of the gross and net of reinsurance insurance policy liabilities of the Company with the Company's actual held policy liability provisions as at 31 December 2017.

	Gross $'000	**Net** $'000
2017		
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	111,947	55,167
Actuarial estimate of premium liabilities including provision for adverse deviation	48,393	41,572
Total actuarial estimate of policy liabilities including provision for adverse deviation	160,340	96,739
Comparing to:		
Company held provision for outstanding claim liabilities	116,692	59,223
Company held provision for premium liabilities	48,393	42,033
Total Company held provision for policy liabilities	165,085	101,256
2016		
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	149,471	60,404
Actuarial estimate of premium liabilities including provision for adverse deviation	45,224	38,440
Total actuarial estimate of policy liabilities including provision for adverse deviation	194,695	98,844
Comparing to:		
Company held provision for outstanding claim liabilities	164,238	69,860
Company held provision for premium liabilities	45,224	40,681
Total Company held provision for policy liabilities	209,462	110,541

25. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating in order to:

- safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders,

- maintain the required level of stability of the Company thereby providing a degree of security to policyholders

- retain financial flexibility by maintaining strong liquidity

- maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders

Capital includes equity attributable to the owners of the Company less the fair value adjustment and amalgamation reserves.

The Company has no borrowings, contingent liabilities and loan capital as at 31 December 2017. There was no change in the Company's capital management objectives, policies and processes during the years ended 31 December 2017 and 31 December 2016.

The operations of the Company are subject to regulatory requirements in Singapore. Such regulations impose restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of the insurance company to meet unforeseen liabilities as these arise.

The Company is required to satisfy the Fund Solvency and Capital Adequacy Requirements prescribed under the Singapore Insurance Act (Chapter 142). The Company monitors its capital level on a regular basis to assess whether such requirements have been met, and reports to MAS its fund solvency and capital adequacy positions at each quarter and as well as annually. The Company complied with the above mentioned solvency and capital adequacy requirements during the year ended 31 December 2017.