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

Index

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.

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

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.

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) Financial assets at fair value through profit or loss

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) Loans and receivables

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 $1/24^{th}$ 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.