Annual Report

MSIG INSURANCE (SINGAPORE) PTE. LTD.

Co. Reg. No. 200412212G

31 December 2019

The directors are pleased to present their report to the member together with the audited financial statements of the Company for the financial year ended 31 December 2019.

We, Alan John Wilson and Craig Anthony Ellis, being two of the directors of MSIG Insurance (Singapore) Pte. Ltd., do hereby state that, in the opinion of the directors,

(i) the accompanying statement of financial position, statement of profit or loss, statement of comprehensive income, statement of changes in equity, and statement of cash flow together with notes thereto are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Company for the year ended on that date in accordance to provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards, and

(ii) 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.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

1. Directors

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

Alan John Wilson	
Hideyuki Tanaka	
Craig Anthony Ellis	(Appointed on 1 April 2019)
Yoshiaki Fukuchi	
Chan Tar Seng	
Christopher Ho Siow Soong	
Ng Lak Chuan	
Tan Piak Gek	(Appointed on 1 March 2019)

2. Arrangements to enable directors to acquire shares and debentures

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

3. Directors' interests in shares and debentures

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 ("the Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

Name of director and corporation in which interests are held	Holdings at beginning of the year	Holdings at end of the year
Alan John Wilson		
MS&AD Insurance Group Holdings, Inc.		
- Options in shares		
- interest held	664	949
Ueang Mai Co Ltd		
- Ordinary shares		
- interest held	1	1
Yardhimar Company Limited		
- Ordinary shares		
- interest held	1	1
BPI/MS Insurance Corporation		
- Ordinary shares		
- interest held	1	1
Hideyuki Tanaka		
MS&AD Insurance Group Holdings, Inc.		
- Ordinary shares		
- interest held	5,000	5,000
- deemed interests	1,860	3,314
Options in shares		
- interest held	1,883	3,305
BPI/MS Insurance Corporation		
- Ordinary shares		
- interest held	1	1
Yoshiaki Fukuchi		
MS&AD Insurance Group Holdings, Inc.		
- Ordinary shares		
- interest held	900	900
- deemed interests	6,247	6,569

4. Share options

There were no share options granted by the Company during the financial year.

No shares have been 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 31 December 2019.

5. Auditors

The auditors, KPMG LLP, have indicated their willingness to accept reappointment.

On behalf of the Board of Directors,

Alan John Wilson
Director

Craig Anthony Ellis
Director

Singapore
18 March 2020

KPMG LLP
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

Telephone +65 6213 3388
Fax +65 6225 0984
Internet www.kpmg.com.sg

Independent auditors' report

Members of the Company
MSIG Insurance (Singapore) Pte. Ltd.

Report on the audit of the financial statements

We have audited the accompanying financial statements of MSIG Insurance (Singapore) Pte. Ltd. ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss, comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 59.

In our opinion, the accompanying financial statements of the Company are properly drawn up in accordance with the provisions of the Singapore 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 2019 and 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 '*Auditors' 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 *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 the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained Directors' statement prior to the date of this auditors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditors' report, 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

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.

Auditors' 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 auditors' 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 scepticism 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 controls.

KPMG

- Obtain an understanding of internal controls 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 controls.

- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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 controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

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.

KPMG LLP

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
18 March 2020

Statement of profit or loss
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Gross premiums written		312,851	309,473
Reinsurance premiums ceded		(88,256)	(80,253)
Net premiums written		224,595	229,220
Movement in net unearned premium reserves	11	3,644	17,089
Movement in net deferred acquisition costs	10	(1,638)	(5,962)
		2,006	11,127
Net premiums earned		226,601	240,347
Gross claims paid	12	(125,334)	(140,542)
Reinsurance claims recoveries	12	15,779	31,145
Net claims paid	12	(109,555)	(109,397)
Movement in net loss reserves	12	(9,971)	1,743
Net claims incurred	12	(119,526)	(107,654)
Gross commission expense		(46,097)	(47,380)
Reinsurance commission income		13,816	12,832
Net commission expense		(32,281)	(34,548)
Operating and administrative expenses	3	(93,760)	(88,794)
Underwriting (loss)/profit		(18,966)	9,351
Net investment income	5	15,718	11,285
Interest income on fixed deposits		1,929	1,568
Gain on sale of property and equipment		–	100
Miscellaneous income		183	118
Write-back/(Provision) of impairment loss of receivables		16	(150)
(Loss)/profit before income tax		(1,120)	22,272
Income tax expense	6	(83)	(2,821)
(Loss)/profit for the year		(1,203)	19,451

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

Statement of comprehensive income
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
(Loss)/profit for the year		(1,203)	19,451
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefits remeasurements	4	696	184
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		9,891	(13,753)
Income tax relating to components of other comprehensive income	18	(1,739)	2,338
Other comprehensive income for the year, net of tax		8,848	(11,231)
Total comprehensive income for the year attributable to the owner of the Company		7,645	8,220

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

Statement of financial position
As at 31 December 2019

	Note	2019 $'000	2018 $'000
Non-current assets			
Intangible assets	7	134,978	134,978
Property and equipment	8	13,829	367
Available-for-sale investments	9	419,594	424,439
Deferred tax assets	18	–	346
Reinsurers' share of technical reserves:			
Loss reserves	12	20,050	11,757
		588,451	571,887
Current assets			
Deferred acquisition costs	10	19,465	20,608
Reinsurers' share of technical reserves:			
Unearned premium reserves	11	27,731	24,445
Loss reserves	12	68,539	42,550
Cash and cash equivalents	13	135,858	132,610
Insurance receivables	14	44,142	48,194
Loans and other receivables	15	5,195	4,915
		300,930	273,322
Total assets		889,381	845,209
Shareholder's equity			
Share capital	19	333,442	333,442
Reserves		89,937	101,742
Total equity attributable to equity holder of the Company		423,379	435,184
Current liabilities			
Reinsurers' share of deferred acquisition cost	10	5,251	4,756
Gross technical reserves:			
Unearned premium reserves	11	130,301	130,659
Loss reserves	12	199,683	167,549
Insurance payables	16	21,427	21,557
Current tax payables		5,632	6,765
Other payables	17	28,230	29,682
Lease liabilities	24	5,051	–
		395,575	360,968
Non-current liabilities			
Other payables	17	2,202	2,761
Deferred tax liabilities	18	1,260	–
Gross technical reserves:			
Loss reserves	12	58,415	46,296
Lease liabilities	24	8,550	–
		70,427	49,057
Total liabilities		466,002	410,025
Total equity and liabilities		889,381	845,209

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

Statement of changes in equity
Year ended 31 December 2019

	Note	Share capital $'000	Available-for-sale reserves $'000	Retained earnings $'000	Total $'000
At 1 January 2018		333,442	14,204	80,998	428,644
Total comprehensive income for the year					
Profit for the year		–	–	19,451	19,451
Other comprehensive income					
Defined benefit measurement		–	–	184	184
Net change in fair value of available-for-sale financial assets		–	(13,753)	–	(13,753)
Income tax relating to components of other comprehensive income	18	–	2,338	–	2,338
Other comprehensive income for the year, net of tax		–	(11,415)	184	(11,231)
Total comprehensive income for the year		–	(11,415)	19,635	8,220
Transactions with owner, recorded directly in equity					
Contributions by and distributions to owner					
Dividends on ordinary shares		–	–	(1,680)	(1,680)
Total transactions with owner		–	–	(1,680)	(1,680)
At 31 December 2018		333,442	2,789	98,953	435,184

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

Statement of changes in equity
Year ended 31 December 2019

	Note	Share capital $'000	Available-for-sale reserves $'000	Retained earnings $'000	Total $'000
At 1 January 2019		333,442	2,789	98,953	435,184
Total comprehensive income for the year					
Loss for the year		–	–	(1,203)	(1,203)
Other comprehensive income					
Defined benefit measurement		–	–	696	696
Net change in fair value of available-for-sale financial assets		–	9,891	–	9,891
Income tax relating to components of other comprehensive income	18	–	(1,682)	(57)	(1,739)
Other comprehensive income for the year, net of tax		–	8,209	639	8,848
Total comprehensive income for the year		–	8,209	(564)	7,645
Transactions with owner, recorded directly in equity					
Contributions by and distributions to owner					
Dividends on ordinary shares		–	–	(19,450)	(19,450)
Total transactions with owner		–	–	(19,450)	(19,450)
At 31 December 2019		333,442	10,998	78,939	423,379

Statement of cash flow
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
(Loss)/profit before income tax		(1,120)	22,272
Adjustments for:			
Amortisation of net premium paid on bonds	5	1,371	1,901
Depreciation of property and equipment	3,8	5,919	735
(Increase)/Decrease in reinsurers' share of technical reserves		(37,073)	7,723
Increase/(Decrease) in gross technical reserves		45,038	(20,593)
Dividend received from shares	5	(2,811)	(3,359)
Gain on sale of property and equipment		–	(100)
Interest income on fixed deposits		(1,929)	(1,568)
Interest income from government and corporate bonds	5	(8,695)	(8,503)
Interest on lease liabilities	24	624	–
Provision for impairment of equities and corporate bonds	5	203	1,323
Realised gain on available-for-sale investments	5	(5,018)	(2,139)
Operating loss before working capital changes		(3,491)	(2,308)
Changes in working capital:			
Decrease in related parties and other receivables		18	68
Decrease in insurance receivables		4,052	499
(Decrease)/Increase in insurance payables		(130)	4,758
Decrease in other payables		(1,315)	(9,940)
Cash used in operations		(866)	(6,923)
Interest income received from fixed deposits		1,915	1,595
Income taxes (paid)/refund		(1,349)	137
Net cash flows used in operating activities		(300)	(5,191)
Cash flows from investing activities			
Dividend income received		2,811	3,359
Interest income received from government and corporate bonds		8,411	8,355
Purchase of available-for-sale investments		(153,753)	(158,666)
Purchase of property and equipment	8	(679)	(378)
Proceeds from disposal of property and equipment		–	100
Proceeds from sale and redemption of available-for-sale investments		171,933	139,946
Net cash flows from/(used in) investing activities		28,723	(7,284)
Cash flows from financing activities			
Lease payment	24	(5,725)	–
Dividend paid	19	(19,450)	(1,680)
Net cash flows used in financing activities		(25,175)	(1,680)
Net increase/(decrease) in cash and cash equivalents		3,248	(14,155)
Cash and cash equivalents at the beginning of the year		132,610	146,765
Cash and cash equivalents at the end of the year	13	135,858	132,610

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

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General

The Company is a limited liability company domiciled and incorporated in Singapore. Its immediate holding company is MSIG Holdings (Asia) Pte. Ltd., incorporated in Singapore. The Company's ultimate holding company is MS&AD Insurance Group Holding, Inc, incorporated in Japan. The address of the Company's registered office is:

MSIG Insurance (Singapore) Pte. Ltd.
4 Shenton Way
#21-01 SGX Centre 2
Singapore 068807

The principal activities of the Company consist of the underwriting of general insurance risks.

2. Summary of significant accounting policies

(a) Basis of preparation

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

This is the first set of the Company's annual financial statements in which FRS 116 *Leases* has been applied. The related changes to significant accounting policies are described in note 2(c).

The financial statements have been prepared on a historical cost basis, except for the measurement at fair value of available-for-sale investment securities.

The financial statements are presented in Singapore dollars ($), the functional currency of the Company, and rounded to the nearest thousand ($'000), except where otherwise indicated.

The accounting policies applied by the Company are consistent with those used in the previous financial year. Impact on adoption of FRS 109 on financial position, financial performance and cash flow is disclosed in note 2(u).

(b) Use of estimates, assumptions and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the revised estimates are made and in any future periods affected.

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

(i) *Impairment of goodwill*

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's goodwill at 31 December 2019 was $134,978,000 (2018: $134,978,000). More details are given in note 7.

(ii) *Determination of insurance contract liabilities*

The insurance contract liabilities of the Company comprise the claim liabilities and premium liabilities. Claim liabilities consist of outstanding claims notified and outstanding claims incurred but not reported ("IBNR") while premium liabilities consist of the unearned premium reserves, net of deferred acquisition costs and their values are carried in the statement of financial position as disclosed in Notes 10, 11 and 12 to the financial statements.

The principal methods used to determine the Best Estimate of the claim liabilities are the Chain Ladder methods, namely Incurred Claim Development Method and Average Cost per Reported Claim Method.

The Chain Ladder methods involve the analysis of historical claim development and the selection of estimated development based on this historical pattern.

The Best Estimate of the premium liabilities has been calculated by applying a future loss and expense ratio to the accounted unearned premium reserve. The future loss ratio is set with reference to observed loss ratios, adjusted for the effect of recent changes to premium rates, underwriting terms and policy terms.

The Provision for Adverse Deviation is determined in accordance with methods identified by actuaries, Tillinghast – Towers Perrin in a research note produced for the Institute of Actuaries of Australia (Research and Data Analysis relevant to the Development of Standards and Guidelines on Liability Valuation for General Insurance). This formula approach takes into account the size and nature of the business, so larger accounts and shorter tailed classes of business will require a smaller risk margin than smaller accounts and longer tailed classes of business.

Direct, Facultative and Treaty businesses are not modelled separately because there is insufficient volume of data to support a credible separate analysis.

Similarly, Onshore and Offshore Insurance funds have not been analysed separately as the Offshore portfolio is small and there is insufficient data to support separate credible analysis.

The Company considers the claim liabilities net of reinsurance in its valuation of reserves.

The actuarial review is based on Group accounting class definitions rather than Statutory class definitions. This makes it easier to compare the valuation results to its accounted figures. It also allows analysis of some classes to be performed in more detail, which will improve the accuracy of the valuation. The resulting reserves have been allocated to Statutory classes based on outstanding reserves for claim liabilities and unearned premium reserves for premium liabilities.

The estimates of premium and claim liabilities are sensitive to various factors and uncertainties as disclosed in note 22(d) to the financial statements. The establishment of these estimates is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of premium and claim liabilities can vary from the initial estimates.

(c) ***Changes in significant accounting policies***

New standards and amendments

The Company has applied the following FRS, amendments to and interpretations of FRS for the first time for the annual period beginning on 1 January 2019:

FRS 116 Leases

The Company applied FRS 116 using the modified retrospective approach, under which the right of use asset is equal to lease liability, adjusted by the amount of any prepaid or accrued lease payment. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under FRS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in FRS 116 have not generally been applied to comparative information.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under INT FRS 104 Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in FRS 116.

On transition to FRS 116, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied FRS 116 only to contracts that were previously identified as leases. Contracts that were not identified as leases under FRS 17 and INT FRS 104 were not reassessed for whether there is a lease under FRS 116.

As a lessee

As a lessee, the Company leases many assets including property and IT equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under FRS 116, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under FRS 17

Previously, the Company classified property leases as operating leases under FRS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rates applicable to the leases as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if FRS 116 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application ; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company used a number of practical expedients when applying FRS 116 to leases previously classified as operating leases under FRS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Impact on financial statements

Impact on transition*

On transition to FRS 116, the Company has recognised the right-of-use assets to be the same as lease liabilities. The impact on transition is summarised below.

	1 January 2019 $'000
Right-of-use assets – property, plant and equipment	7,366
Lease liabilities	(7,366)

* For the impact of FRS 116 on profit or loss for the period, see Note 24. For the details of accounting policies under FRS 116 and FRS 17, see Note 2(t).

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using the same discount rate of 8.02% as that applied for goodwill impairment assessment as at 1 January 2019.

	1 January 2019 $'000
Operating lease commitments at 31 December 2018	7,872
Lease liabilities discounted at 8.02% as at 1 January 2019	7,366

(d) Product classification

The Company issues contracts that transfer insurance risk. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

(e) Revenue recognition

(i) Premium income

Premium income on direct and facultative insurance business is recognised at the time a policy is issued, which approximates the inception date of the risk. Premium income on treaty business is accounted for based on treaty statements received up to the time of closing of the books.

(ii) Investment income

Dividend income on securities is recognised on a receipt basis while interest income is recognised on an accrual basis.

(f) Insurance contract liabilities

(i) Loss reserves

Provision is made for the full estimated cost less reinsurance recoveries of all claims notified, but not settled at the reporting date using the best information available at the time. Provision is also made for the estimated cost of claims incurred but not reported ("IBNR") until after the year-end. The primary technique adopted by management in estimating the cost of IBNR claims is that of using past claim settlement trends to predict future claims settlement trends. Further details of the claims estimation process are described in note 2(b)(ii). At each reporting date, prior year's claims estimates are reassessed for adequacy and changes are made to the provision. Additional provision may be made by management as deemed necessary.

General insurance claims provisions are not discounted for the time value of money. Any difference between the estimated cost and subsequent settlement is dealt with in the profit or loss statement of the year in which settlement takes place.

(ii) Unearned premium reserves

The unearned premium reserve for direct and facultative business (other than marine cargo business), is calculated based on the 1/365th method on written premiums during the year. The unearned premium reserve for marine cargo business is calculated based on the 1/180th method on written premiums. The unearned premium reserve for treaty business is calculated at 25% to 40% of written premiums as per contractual agreements.

Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium reserves in relation to such policies. At each reporting date, the provision of the unearned premium reserves are assessed for adequacy and changes are made to the provision. Additional provision may be made by management as deemed necessary.

(iii) Deferred acquisition costs

Commission and other acquisition costs incurred during the financial year that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relate to subsequent financial years, are deferred to the extent that they are recoverable out of future revenue margins.

Deferred acquisitions costs ("DAC") are calculated using the 1/365th method on actual commission for direct and facultative business (other than marine cargo business). DAC for marine cargo business is calculated on the 1/180th method.

(iv) Liability adequacy test

Insurance contracts are tested for adequacy by comparing current estimates of all future contractual cashflows with the carrying value of the liability. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in the profit or loss for the year.

(g) Reinsurance

The Company assumes and/or cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts due to reinsurers are determined in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract.

(h) Investments

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, these assets are re-measured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On de-recognition or impairment, the cumulative gain or loss previously reported in equity is included in the profit or loss.

Regular way purchases and sales of investments are recognised on trade date – the date on which 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 time frame generally established by regulation or convention in the market place.

(i) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognised in the profit or loss statement on a straight-line basis over the estimated useful lives (or lease term, if shorter) of each part of an item of the property and equipment. The annual rates used for this purpose are:

Office equipment	-	3 years
Furniture and fittings	-	3 years

Fully depreciated property and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

Where there is impairment in the carrying amount of property and equipment, a provision is made to write down the assets to their estimated recoverable amount based on current market value. If, in subsequent periods, circumstances and events that led to the provision for impairment in value cease to exist, a write-back up to the full provision may be made, net of depreciation which would have been charged had the provision not been made.

(j) Insurance receivables and payables

Insurance receivables and payables are recognised initially on the date they are originated. These include amounts due to and from insurance and reinsurance contract holders. They are measured on initial recognition at the fair value of the consideration receivables or payables. Subsequent to initial recognition, receivables and payables are measured at amortised cost, using the effective interest rate method. Bad debts are written off when identified and specific allowances for impairment are made for these receivables considered to be doubtful.

(k) Loans and other receivables

Loans and other receivables include amounts due from related companies which are accounted for as loans and receivables under FRS 39. These are measured at amortised cost using the effective interest method or cost if the effect of amortisation is not material, less an allowance for doubtful receivables on any uncollectible amounts.

(l) Other payables

Other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

(m) Functional and foreign currencies

(i) Functional currency

Items included in the financial statements of each entity in the Company, comprising the Company, are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency").

The functional currency of the Company is the Singapore dollar. As premiums and claims are denominated primarily in Singapore dollars and receipts from operations are usually retained in Singapore dollars, the Singapore dollar reflects the economic substance of the underlying events and circumstances relevant to the Company.

(ii) Foreign currency transactions and balances

Monetary amounts payable and receivable in foreign currencies are translated to Singapore dollars at exchange rates prevailing at the reporting date; transactions in foreign currencies during the year are recorded in Singapore dollars at exchange rates prevailing at transaction dates. All exchange differences are recorded in the profit or loss statement.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale investment reserve in equity.

(n) ***Income tax***

Tax expense comprises current and deferred tax. Current taxation is provided in the financial statements on the chargeable income for the year.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax also includes any tax arising from dividends.

Deferred taxation is recognised using the balance sheet method providing for temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax provisions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such determination is made.

(o) Employee benefits

Defined contribution plan

The Company participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, as required by law in Singapore, the Company makes contributions to the state pension scheme, the Central Provident Fund ("CPF"). Contributions to CPF and other defined contribution plans are recognised in staff costs and other employee related costs in the same period as the employment that gives rise to the contributions.

Employees' leave entitlement

Employees' entitlement to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to reporting date.

Retirement gratuity

The Company operates a non-contributory, defined benefit pension scheme that provides retirement benefits for certain of its employees. There are no specific plan assets to fund the retirement gratuity scheme. The cost of providing the benefit under the scheme is assessed using the projected unit credit method and is charged to the profit or loss statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the scheme at no more than 3 yearly intervals (the latest valuation was done on 6 December 2019).

Actuarial gains and losses are immediately recognised in the statement of comprehensive income.

(p) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, fixed deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

(q) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair values of the net assets acquired at the acquisition date. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any.

The carrying amount of goodwill for each cash-generating unit is written down for impairment where the net present value of the forecasted future cash flows of the business is insufficient to support its carrying value.

(r) ***Impairment of financial assets***

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. In assessing the impairment provision for equity shares, management evaluates whether there is a significant or prolonged decline in the fair value of equity shares held as available-for-sale. Impairment provision is made when the fair value of an equity investment falls below 20% or more from its acquisition costs or if the fair value of the investment is below cost for more than 12 months. Any impairment loss is recognised in the profit or loss. Reversals of impairment loss in respect of equity instruments are not recognised in the profit or loss.

In line with the group accounting policy, for bond investments, impairment provision will be made if the fair value of a debt instrument decreases by 20% or more of its acquisition cost, except for cases where the decrease in fair value is due to an increase in risk-free rate. Reversals of impairment losses on debt instruments are reversed through the profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss.

(s) ***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 resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(t) ***Leases***

The Company has applied FRS 116 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under FRS 17 and INT FRS 104. The details of accounting policies under FRS 17 and INT FRS 104 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in FRS 116.

This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses the weighted average cost of capital as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in current and non-current liabilities in the statement of financial position.

Leases - Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

As a lessee

As of 1 January 2019, the Company did not have any finance leases.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(u) Key management personnel

Key management personnel of the Company are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company. The directors, the chief executive officer and certain executive officers are considered as key management personnel of the Company.

(v) Standards issued but not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early applied the following new or amended standards in preparing these statements.

For those new standards and amendments to standards that are expected to have an effect on the financial statements of the Company in future financial periods, the Company is assessing the transition options and the potential impact on its financial statements, and to implement these standards. The Company does not plan to adopt these standards early.

Applicable to 2018 financial statements

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

The amendments introduce two optional solutions for insurers (i.e. entities that issue insurance contracts) to reduce the impact of the differing effective dates of FRS 109 and the new FRS 117 *Insurance Contracts*, and respond to concerns regarding temporary accounting mismatches and volatility. The two optional solutions are provided:

- give all entities with insurance contracts the option, following full adoption of FRS 109, to present changes in fair value on qualifying designated financial assets in other comprehensive income (OCI) instead of profit or loss (the "overlay approach"); and

- provide some entities with a temporary exemption from application of FRS 109 until annual reporting periods beginning before 1 January 2021 ("temporary exemption").

The effective date of the amendments permitting the temporary exemption is for annual periods beginning on or after 1 January 2018 and will expire once FRS 117 becomes effective from 1 January 2021.

Potential impact on the financial statements

The new insurance accounting standard that is currently under consideration is expected to have a significant impact on the Company's financial statements. That standard may impact how the classification and measurement of financial instruments requirements under FRS 109 is adopted.

The Company has decided that it will elect the temporary exemption in the amendments to FRS 104 from applying FRS 109 until FRS 117 is effective. The Company will be able to perform a comprehensive assessment of the impact of both standards, taking into considerations the options available for the implementation of both standards together. The Company assessed that it qualifies for the temporary exemption as the carrying amount of its liabilities arising from contracts within the scope of FRS 104 is significant compared to the total carrying amount of all its liabilities.

The fair value information of the Company's directly held financial assets at 31 December 2019 with contractual terms that give rise on specified dates to cash flows are solely payments of principal and interest ("SPPI") condition of FRS 109, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109 are shown in the table below, together with all other financial assets[1].

[1] Any financial asset:
(i) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
(ii) that meets the definition of held for trading in FRS 109; or
(iii) that is managed and whose performance is evaluated on a fair value basis.

	Financial assets that pass the SPPI test, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109		All other financial assets	
	Fair value at 31 December 2019 $'000	Movement in the fair value during the year $'000	Fair value at 31 December 2019 $'000	Movement in the fair value during the year $'000
2019				
Accrued interest receivable	2,789	298	–	–
Amounts due from related companies	63	(30)	–	–
Other receivables	471	73	–	–
Insurance receivables	44,142	(4,052)	–	–
Equity shares	–	–	45,034	(24,959)
Government bonds	–	–	148,180	112
Corporate and public authority bonds	–	–	173,889	16,513
Collective investment scheme	–	–	52,491	3,489
Cash at bank and in hand	21,893	2,740	–	–
Fixed and call deposits	113,965	508	–	–
Total financial assets	183,323	(463)	419,594	(4,845)
2018				
Accrued interest receivable	2,491	121	–	–
Amounts due from related companies	93	(16)	–	–
Other receivables	398	60	–	–
Insurance receivables	48,194	(499)	–	–
Equity shares	–	–	69,993	(6,801)
Government bonds	–	–	148,068	(5,002)
Corporate and public authority bonds	–	–	157,376	17,426
Collective investment scheme	–	–	49,002	(1,741)
Cash at bank and in hand	19,153	(5,709)	–	–
Fixed and call deposits	113,457	(8,446)	–	–
Total financial assets	183,786	(14,489)	424,439	3,882

The financial assets that pass the SPPI test, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109 in the table above are classified as amortised cost under FRS 39. The credit ratings of these financial assets, analysed on the same basis of those disclosed in Note 9, are as follows:

	Credit ratings (from Standard & Poor's or equivalents)						
	AAA $'000	AA+ to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Below BBB- $'000	Not Rated $'000	Total $'000
2019							
Accrued interest receivable	1,296	348	553	514	–	78	2,789
Amounts due from related companies	–	–	63	–	–	–	63
Other receivables	–	–	98	4	–	369	471
Insurance receivables	–	14,744	345	2	–	29,051	44,142
Cash at bank and in hand	–	6,293	15,600	–	–	–	21,893
Fixed and call deposits	–	36,951	63,011	14,003	–	–	113,965
	1,296	58,336	79,670	14,523	–	29,498	183,323
2018							
Accrued interest receivable	1,076	348	511	416	–	140	2,491
Amounts due from related companies	–	–	92	–	–	1	93
Other receivables	–	–	69	49	–	280	398
Insurance receivables	–	16,426	985	–	–	30,783	48,194
Cash at bank and in hand	–	6,080	13,073	–	–	–	19,153
Fixed and call deposits	–	43,080	62,574	7,803	–	–	113,457
	1,076	65,934	77,304	8,268	–	31,204	183,786

All of the above financial assets have low risk of default and hence they have low credit risk at the reporting date.

Applicable to the 2021 financial statements

FRS 117 *Insurance Contracts*

FRS 117 is set to replace FRS 104 *Insurance Contracts*. FRS 117 requires an entity that issues insurance contracts to report them on the balance sheet as the total of:

a) the fulfilment cash flows, which are a risk-adjusted, explicit, unbiased and probability-weighted estimate of the present value of future cash flows that will arise as the entity fulfils the contracts; and

b) the contractual service margin (CSM), which is the amount that represents the unearned profit that the entity will recognise in profit or loss as services are provided.

The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided. FRS 117 requires the entity to distinguish between groups of contracts expected to be profit-making and groups of contracts expected to be loss-making, at initial recognition.

Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the entity determines that losses are expected.

FRS 117 requires the entity to update the fulfilment cash flows at each reporting date, using current assumptions. Changes in estimates of the fulfilment cash flows are reflected in either profit or loss or OCI – or, in some cases, they adjust the CSM – depending on their nature.

FRS 117 also requires disclosures which, together with information presented in the primary financial statements to enable users of financial statements, will provide a basis for users of the entity's financial statements to assess the effects that insurance contracts have on its financial position, financial performance and cash flows.

FRS 117 is applied for annual reporting periods beginning on or after 1 January 2021.

The Company is currently assessing the potential impact on its financial statements.

3. Operating and administrative expenses

	2019 $'000	2018 $'000
Salaries, CPF & pension costs (Note 4) [1]	41,783	40,522
Other staff costs	5,826	6,308
Operating lease rentals [1]	–	4,662
Depreciation of property and equipment	5,919	735
Advertising and subscription	3,722	3,317
Printing and stationery	606	704
Computer charges	1,776	1,606
Travelling expenses [1]	332	651
Other expenses [1]	33,796	30,289
	93,760	88,794

[1] Included SAP project costs of $19,760,000 (2018: $20,675,000) and FRS 117 project costs of $441,000 (2018: nil)

4. Salaries, CPF and pension costs (including executive directors)

	2019 $'000	2018 $'000
Wages and salaries	37,044	36,085
Social security costs	4,602	4,297
Other pension costs	137	140
	41,783	40,522

The Company operates a non-contributory, defined benefit pension scheme that provides retirement benefits for certain of its employees. As the defined benefit expenses are not material to the total staff costs of the Company, additional disclosures of the defined benefit pension scheme are not shown.

Retirement gratuity

Reconciliation of present value of the defined benefit obligation:

	2019 $'000	2018 $'000
Present value of the defined benefit obligation at start of year	2,761	2,805
Current service cost	93	96
Interest cost	44	44
Net actuarial gains arising during the year	(696)	(184)
	2,202	2,761

Expenses recognised in profit or loss:

	2019 $'000	2018 $'000
Current service cost	93	96
Interest cost	44	44
	137	140

Remeasurements recognised in other comprehensive income:

	2019 $'000	2018 $'000
Actuarial losses/(gains):		
Due to change in financial assumptions:		
Change in CPF interest rates	–	(6)
Change in variable bonus amount	30	4
Change in salary increase rate	(680)	(301)
Change in discount rate	21	87
Due to experience adjustments	(67)	32
Measurement of net defined benefit liability	(696)	(184)

5. Net investment income

	2019 $'000	2018 $'000
Interest income from government and corporate bonds	8,695	8,503
Dividend received from shares	2,811	3,359
Dividend from collective investment scheme	1,744	1,199
Realised gain on available-for-sale investments	5,018	2,139
Provision for impairment of equities and corporate bonds	(203)	(1,323)
Amortisation of net premium paid on bonds	(1,371)	(1,901)
Investment expenses	(724)	(721)
Realised and unrealised exchange (loss)/ gain	(252)	30
	15,718	11,285

6. Income tax expense

(a) Major components of income tax expense

The major components of income tax are as follows:

(i) Profit or loss

	2019 $'000	2018 $'000
Current tax expense		
Current year	1,282	1,998
Overprovision in respect of prior years	(1,066)	(783)
	216	1,215
Deferred tax expense		
Current year	(133)	1,615
Overprovision in respect of prior year	–	(9)
	(133)	1,606
Income tax expense	83	2,821

(ii) Statement of changes in equity

	2019 $'000	2018 $'000
Deferred income tax related to items charged or credited directly to equity:		
Net change in fair value adjustment reserve for available-for-sale investments (note 18)	1,739	(2,338)
Income tax expense/(credit) recognised in equity	1,739	(2,338)

(b) Reconciliation of effective tax rate

	2019 $'000	2018 $'000
(Loss)/Profit before income tax	(1,120)	22,272
Tax calculated using Singapore tax rate of 17% (2018: 17%)	(190)	3,786
Effects of:		
Non-deductible expenses	1,308	278
Tax concession on income from offshore insurance fund	31	80
Recognition of tax effect of previously unrecognised tax losses	–	(531)
	1,149	3,613
Overprovision in respect of prior year	(1,066)	(792)
	83	2,821

The tax expense for the Company for the year ended 31 December 2019 has been computed at the rate of 17%, being the corporate tax rate in effect as at that date.

7. Intangible assets

	Goodwill $'000
Cost	
At 1 January 2018 / 31 December 2018 / 31 December 2019	134,978
Net carrying amounts	
At 1 January 2018	134,978
At 31 December 2018	134,978
At 31 December 2019	134,978

Impairment testing of goodwill

When testing for impairment, the recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets approved by management. Cash flows beyond the budget period are extrapolated using estimated growth rates.

If the carrying amount of the unit exceeds the recoverable amount of the unit, the Company shall recognise the impairment loss in the profit or loss. The goodwill of $134,978,000 arising from the acquisition of the general insurance business of Aviva Ltd in Singapore has been reviewed and no impairment loss was deemed necessary.

Where the future income stream from the cash-generating unit is uncertain, the excess of the acquisition cost over the fair value of the net assets acquired is written off to the profit or loss.

Key assumptions used in the value in use calculations on which management has based its cash flow projections to undertake impairment testing of goodwill are:

Long-term growth rate	3.00 % (2018: 3.00%)
Discount rate	6.71 % (2018: 8.02%)

Sensitivity analysis

Management has identified that a reasonably possible change in one key assumption could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which this assumption would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	Change required for carrying amount to equal the recoverable amount	
	2019 %	2018 %
Discount rate	0.23	0.96

8. Property and equipment

	Equipment $'000	Leased equipment $'000	Furniture and fittings $'000	Leasehold improvements $'000	Motor vehicles $'000	Total $'000
Cost						
At 1 January 2018	5,593	–	3,879	–	–	9,472
Additions	361	–	17	–	–	378
Disposals	(287)	–	–	–	–	(287)
At 31 December 2018	5,667	–	3,896	–	–	9,563
Recognition of right-of-use asset on initial application of FRS 116	–	515	–	6,143	708	7,366
Adjusted balance at 1 January 2019	5,667	515	3,896	6,143	708	16,929
Additions	679	477	–	10,859	–	12,015
Disposals	(170)	–	(2)	–	–	(172)
At 31 December 2019	6,176	992	3,894	17,002	708	28,772
Accumulated depreciation						
At 1 January 2018	4,898	–	3,850	–	–	8,748
Depreciation for the year	712	–	23	–	–	735
Disposals	(287)	–	–	–	–	(287)
At 31 December 2018	5,323	–	3,873	–	–	9,196
Depreciation for the year	451	188	17	5,041	222	5,919
Disposals	(170)	–	(2)	–	–	(172)
At 31 December 2019	5,604	188	3,888	5,041	222	14,943
Net carrying amounts						
At 1 January 2018	695	–	29	–	–	724
At 31 December 2018	344	–	23	–	–	367
At 31 December 2019	572	804	6	11,961	486	13,829

9. Available-for-sale investments

	2019 $'000	2018 $'000
Government bonds	148,180	148,068
Corporate and public authority bonds	173,889	157,376
	322,069	305,444
Collective investment scheme	52,491	49,002
Equity shares	45,034	69,993
	419,594	424,439

A breakdown of the Company's bond portfolio by credit quality based on Standard & Poor's financial strength is as follows:

	2019 $'000	2018 $'000
Financial strength rating		
Singapore Government bonds	148,180	148,068
Public Authority bonds	39,177	24,868
Corporate bonds		
A to AAA	37,326	30,770
A- and below	47,363	40,590
Not rated by Standard & Poor's (but there are equivalent A and B rating by Moody's/Fitch)	45,836	50,450
Not rated	4,187	10,698
	322,069	305,444
Collective investment scheme		
A to AAA	52,491	49,002

At 31 December 2019, an impairment loss of $0.2 million (2018: $1.3 million) relating to the Company's equity portfolio was recognised as a result of significant or prolonged decline in the fair value of investments below their costs. The Company treats "significant" as 20% and "prolonged" as more than 12 months.

See note 22(e)(iii) for the interest rate risk exposure of the government bonds and corporate and public authority bonds.

Fair value hierarchy

The table below analyses financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019				
Available-for-sale financial assets				
- Government bonds	148,180	–	–	148,180
- Corporate and public authority bonds	166,802	7,087	–	173,889
- Equity shares	45,034	–	–	45,034
- Collective investment scheme	52,491	–	–	52,491
	412,507	7,087	–	419,594
2018				
Available-for-sale financial assets				
- Government bonds	148,068	–	–	148,068
- Corporate and public authority bonds	149,765	7,611	–	157,376
- Equity shares	69,993	–	–	69,993
- Collective investment scheme	49,002	–	–	49,002
	416,828	7,611	–	424,439

10. Net deferred acquisition costs

	2019 $'000			2018 $'000		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
At 1 January	20,608	(4,756)	15,852	26,592	(4,778)	21,814
Costs deferred during the year	(1,143)	(495)	(1,638)	(5,984)	22	(5,962)
At 31 December	19,465	(5,251)	14,214	20,608	(4,756)	15,852

11. Unearned premium reserves

	2019 $'000 Gross	2019 $'000 Reinsurers' share	2019 $'000 Net	2018 $'000 Gross	2018 $'000 Reinsurers' share	2018 $'000 Net
Reserve for unexpired risks	130,301	(27,731)	102,570	130,659	(24,445)	106,214

Movement in unearned premium reserves:

	2019 $'000 Gross	2019 $'000 Reinsurers' share	2019 $'000 Net	2018 $'000 Gross	2018 $'000 Reinsurers' share	2018 $'000 Net
At 1 January	130,659	(24,445)	106,214	146,800	(23,497)	123,303
Decrease during the year	(358)	(3,286)	(3,644)	(16,141)	(948)	(17,089)
At 31 December	130,301	(27,731)	102,570	130,659	(24,445)	106,214

12. Loss reserves

	2019 $'000 Gross	2019 $'000 Reinsurers' share	2019 $'000 Net	2018 $'000 Gross	2018 $'000 Reinsurers' share	2018 $'000 Net
Outstanding claims and claims handling costs	224,916	(68,986)	155,930	189,332	(43,242)	146,090
Outstanding claims incurred but not reported ("IBNR")	33,182	(19,603)	13,579	24,513	(11,065)	13,448
At 31 December	258,098	(88,589)	169,509	213,845	(54,307)	159,538
Non-current liabilities	58,415	(20,050)	38,365	46,296	(11,757)	34,539
Current liabilities	199,683	(68,539)	131,144	167,549	(42,550)	124,999
	258,098	(88,589)	169,509	213,845	(54,307)	159,538

Movement in loss reserves:

	2019 $'000 Gross	2019 $'000 Reinsurers' share	2019 $'000 Net	2018 $'000 Gross	2018 $'000 Reinsurers' share	2018 $'000 Net
At 1 January	213,845	(54,307)	159,538	224,281	(63,000)	161,281
Claims (paid)/recovered during the year	(125,334)	15,779	(109,555)	(140,542)	31,145	(109,397)
Claims incurred during the year	169,587	(50,061)	119,526	130,106	(22,452)	107,654
At 31 December	258,098	(88,589)	169,509	213,845	(54,307)	159,538

Loss development tables

(a) *Gross loss reserves*

At end of financial year	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Accident year					
Before 2013	3,059	3,779	5,820	22,315	52,772
2013	4,302	2,182	5,202	18,666	26,059
2014	2,388	7,246	16,001	26,946	52,465
2015	7,168	10,730	22,094	38,575	119,392
2016	8,724	19,120	41,305	110,652	–
2017	22,443	41,271	132,895	–	–
2018	50,924	128,553	–	–	–
2019	158,127				
Current estimates of loss reserves:					
- Direct and facultative insurance	257,135	212,881	223,317	217,154	250,688
- Inward treaty insurance	963	964	964	979	1,002
Total current estimates of loss reserves	258,098	213,845	224,281	218,133	251,690

(b) *Net loss reserves*

At end of financial year	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Accident year					
Before 2013	1,726	2,109	4,228	16,137	33,526
2013	1,133	1,900	4,310	15,367	20,931
2014	1,778	3,341	8,313	16,910	30,609
2015	4,356	7,499	17,549	26,848	87,857
2016	5,823	11,867	27,843	84,374	–
2017	15,067	29,909	98,074	–	–
2018	32,169	101,949	–	–	–
2019	106,494				
Current estimates of loss reserves:					
- Direct and facultative insurance	168,546	158,574	160,317	159,636	172,923
- Inward treaty insurance	963	964	964	979	1,002
Total current estimates of loss reserves	169,509	159,538	161,281	160,615	173,925

(c) *Gross claims paid*

At end of financial year	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Accident year					
Before 2013	(107)	(28)	3,462	7,215	8,052
2013	420	1,288	3,934	2,716	9,507
2014	(5,387)	3,917	5,284	14,212	68,227
2015	2,470	2,585	10,792	59,822	57,266
2016	5,132	12,270	51,203	93,822	–
2017	8,788	64,983	58,736	–	–
2018	59,635	55,497	–	–	–
2019	54,383				
Gross claims paid:					
- Direct and facultative Insurance	125,334	140,512	133,411	177,787	143,052
- Inward treaty insurance	–	30	8	14	–
Total gross claims paid	125,334	140,542	133,419	177,801	143,052

(d) *Net claims paid*

At end of financial year	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Accident year					
Before 2013	(152)	773	2,513	3,182	2,758
2013	516	972	2,713	1,854	8,003
2014	541	1,267	3,518	8,323	45,233
2015	1,841	2,579	7,012	42,004	53,675
2016	2,270	7,037	44,453	55,115	–
2017	6,941	46,545	55,553	–	–
2018	48,561	50,194	–	–	–
2019	49,037				
Net claims paid:					
- Direct and facultative insurance	109,555	109,367	115,762	110,478	109,669
- Inward treaty insurance	–	30	8	14	–
Total net claims paid	109,555	109,397	115,770	110,492	109,669

(e) *Analysis of the estimated timing of cash outflows (undiscounted) relating to claims liabilities*

	2019 $'000	2018 $'000
Less than 1 year	131,144	124,999
Between 1 to 3 years	34,331	31,476
Between 3 to 5 years	3,363	2,781
More than 5 years	671	282
	169,509	159,538

13. Cash and cash equivalents

	2019 $'000	2018 $'000
Cash at bank and in hand	21,893	19,153
Fixed and call deposits	113,965	113,457
Cash and cash equivalents	135,858	132,610

The weighted average effective interest rate of fixed and call deposits is 1.50% (2018: 1.48%) per annum.

Cash and cash equivalents denominated in foreign currency at 31 December is as follows:

	2019 $'000	2018 $'000
US Dollars	13,582	3,592

14. Insurance receivables

	2019 $'000	2018 $'000
Amounts due from policyholders, agents, brokers and insurers	43,384	46,985
Allowances for doubtful receivables from policyholders, agents, brokers and insurers	(87)	(78)
	43,297	46,907
Amounts due from reinsurers	926	1,388
Allowances for doubtful receivables from reinsurers	(81)	(101)
	845	1,287
Total insurance receivables	44,142	48,194

The ageing of insurance receivables and related allowance made for doubtful receivables at the reporting date are as follows:

	2019			2018		
	Gross $'000	Allowance $'000	Net $'000	Gross $'000	Allowance $'000	Net $'000
Not past due	13,437	–	13,437	19,761	–	19,761
Current to 90 days	27,845	–	27,845	25,722	–	25,722
91 to 180 days	2,180	–	2,180	2,014	–	2,014
181 to 365 days	642	–	642	729	(32)	697
More than 1 year	206	(168)	38	147	(147)	–
	44,310	(168)	44,142	48,373	(179)	48,194

The above receivables have been individually assessed for impairment after considering information such as occurrence of significant changes in the counter party's financial position, patterns at historical payment information and dispute with counter parties.

Based on historical default rates, the Company believes that no impairment allowance is necessary in respect of receivables that are not due or overdue, other than those where specific provisions have already been made in the accounts.

The movements in allowance for doubtful receivables in respect of insurance receivables during the year are as follows:

	2019 $'000	2018 $'000
At 1 January	179	68
Additional provision during the year	139	170
Provision not required now written back	(150)	(53)
Provision written off against debtors	–	(6)
At 31 December	168	179

15. Loans and other receivables

	2019 $'000	2018 $'000
Accrued interest receivable	2,789	2,491
Amounts due from related companies	63	93
Other receivables	471	398
	3,323	2,982
Deposits and prepayments	1,872	1,933
	5,195	4,915

The management believes that there is no significant credit risk in respect of other receivables as they are mainly accrued interest receivable within 1 year.

Amounts due from related companies are non-interest bearing and are repayable on demand. These amounts are unsecured and are to be settled in cash.

16. Insurance payables

	2019 $'000	2018 $'000
Insurance business:		
Amount due to policyholders, agents, brokers and insurers	4,950	5,253
Amount due to reinsurers	16,477	16,304
	21,427	21,557

Insurance payables are non-interest bearing and are generally on 90 days' terms.

17. Other payables

	Note	2019 $'000	2018 $'000
Non-current			
Retirement gratuity	4	2,202	2,761
Current			
Accrued operating expenses		15,392	15,150
Amounts due to related companies		6,652	8,184
Other payables		4,533	4,872
		26,577	28,206
Provision for unconsumed leave		916	1,035
Provision for employee personal tax		382	330
GST payables		355	111
		28,230	29,682
Total other payables		30,432	32,443

Amounts due to related companies are non-interest bearing and are repayable on demand. These amounts are unsecured and are to be settled in cash.

The expected contractual undiscounted cash outflows of financial liabilities are disclosed in note 22(e)(ii).

18. Deferred tax liabilities/(assets)

Deferred tax liabilities/(assets) as at 31 December relate to the following:

	At reporting date		Recognised in statement of profit or loss		Recognised in statement of comprehensive income	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Deferred tax liabilities						
Differences in depreciation of property and equipment	96	50	46	(56)		–
Revaluation of available-for-sale investments to fair value	2,253	571	–	–	1,682	(2,338)
Gross deferred tax liabilities/ (assets)	2,349	621	46	(56)	1,682	(2,338)
Deferred tax assets						
Provision for reinstatement of office premises	(114)	(114)	–	–	–	–
Provision for retirement gratuity	(340)	(374)	(23)	(24)	57	–
Other provisions	(635)	(479)	(156)	1,686	–	–
Gross deferred tax assets	(1,089)	(967)	(179)	1,662	57	–
Net deferred tax liabilities/ (assets)	**1,260**	**(346)**				
Deferred income tax (credit)/ expense			**(133)**	**1,606**	**1,739**	**(2,338)**

19. Capital and reserves

Share capital	**2019 No. of shares ('000)**	**2018 No. of shares ('000)**
Fully paid ordinary shares, with no par value		
At 1 January and at 31 December	333,442	333,442

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. All shares rank equally with regard to the Company's residual assets.

Dividends

The following dividends were declared and paid by the Company:

	2019 $'000	2018 $'000
Interim exempt (one tier) dividend of 5.8 cents per ordinary share (2018: 0.5 cents)	19,450	1,680

20. Financial assets and liabilities

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Note	Loans and receivables $'000	Available-for-sale $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
2019						
Cash and cash equivalents	13	135,858	–	–	135,858	135,858
Insurance receivables	14	44,142	–	–	44,142	44,142
Loans and other receivables[1]	15	3,323	–	–	3,323	3,323
Available-for-sale investments	9	–	419,594	–	419,594	419,594
		183,323	419,594	–	602,917	602,917
Insurance payables	16	–	–	21,427	21,427	21,427
Other payables[2]	17	–	–	28,779	28,779	28,779
		–	–	50,206	50,206	50,206
2018						
Cash and cash equivalents	13	132,610	–	–	132,610	132,610
Insurance receivables	14	48,194	–	–	48,194	48,194
Loans and other receivables[1]	15	2,982	–	–	2,982	2,982
Available-for-sale investments	9	–	424,439	–	424,439	424,439
		183,786	424,439	–	608,225	608,225
Insurance payables	16	–	–	21,557	21,557	21,557
Other payables[2]	17	–	–	30,967	30,967	30,967
		–	–	52,524	52,524	52,524

[1] Excludes deposits and prepayments
[2] Excludes provision for unconsumed leave, provision for employee personal tax and GST payables

21. Corporate governance

The Company is committed to upholding good corporate governance. The Board of Directors ("the Board") and management team firmly believes that a genuine commitment to good corporate governance is essential to the sustainability of the Company's business and performance. In this regard, the Company is guided by the principles and provision in the Guidelines on Corporate Governance for Direct Insurers ("MAS guidelines"). The Company also complies with the relevant provisions in the Insurance (Corporate Governance) Regulations 2013. The following describes the Company's corporate governance practices:

(a) Board's Conduct of Affairs

The main responsibilities of the Board are to:

- Set corporate strategy and directions;
- Establish the broad objectives and policies for the conduct of the business;
- Review and approve business plans and budgets;
- Monitor financial performance;
- Oversee the process for evaluating the adequacy of internal controls, risk assessment, financial reporting and compliance;

(b) Board size and composition

The Board comprises directors who as a group provide an appropriate balance and diversity of skills, experience and knowledge of the Company. They hold core competencies such as accounting, management experience, industry knowledge and strategic planning experience. In compliance with the Insurance (Corporate Governance) Regulations 2013, the Board comprises at least one third of independent directors.

(c) Separation of roles – Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer positions are held by separate persons to ensure appropriate balance of power, accountability and greater capacity for independent decision making. The Chairman is responsible for the leadership of the Board and the management of the Board meetings. The Board shall approve the appointment of the Chief Executive Officer, subject to prior approval from MSIG Holdings (Asia) Pte Ltd. The Chief Executive Officer has the overall responsibility for the management of the Company's business and its profitable operation in accordance with the policies and objectives set by the Board.

(d) Board meetings

There are four scheduled Board meetings in a year. Additional Board meetings may be held at the discretion of the directors.

(e) Accountability and audit

(i) Accountability

The management will present all members of the Board with management reports and performance results on a quarterly basis. This is to enable the Board to make balanced and informed assessment of the Company's performance, position and prospects. During the quarterly Board meetings, the Board will meet with relevant members of the Senior Management Team to discuss and review critically the decisions made.

(ii) Audit committee

The Audit Committee ("AC") is appointed by the Board from amongst the directors of the Company and shall consist of at least three (3) members.

As at 31 December 2019, the AC comprises five members, all of whom are non-executive directors. Mr. Ng Lak Chuan, an independent director, chairs the AC. The other members of the AC are Mr. Christopher Ho Siow Soong, Ms. Tan Piak Gek, Mr. Alan John Wilson and Mr. Hideyuki Tanaka.

The Chairman of the AC is appointed by the Board.

The AC shall hold at least 4 regular meetings per year, and such additional meetings as the Chairman shall decide in order to fulfil its duties. Minutes are recorded for all regular meetings of the AC.

The AC, which has written terms of reference approved by the Board, ensures the adequacy of the internal and external audit functions and performs the following delegated functions:

- Review with the internal auditors
  - their audit plans, their evaluation of the system of internal controls and their audit reports;
  - the scope and results of the internal audit procedures;
  - the internal audit assessments of compliance with company policies, relevant laws and regulatory requirements;
  - management's responsiveness to and corrective actions taken in respect of internal audit findings and recommendations.

- Review with external auditors
  - their audit plan, evaluation of the system of internal controls, and any other matters that the external auditors wish to discuss;
  - annual financial statements before submission to the Board for approval;
  - the nature and extent of non-audit services performed by external auditors and the impact on their independence and objectivity;
  - external audit findings and recommendations, ensuring that these are resolved effectively and in a timely manner.

The Audit Committee meets annually with the Internal Auditors and External Auditors without the presence of the management. The Audit Committee is also responsible for approving the appointment and dismissal of the Head of Internal Audit and the budget of the Internal Audit function.

(iii) ***Internal audit***

The Company maintains an in-house internal audit function which assists the Audit Committee to ensure that the Company maintains a sound system of internal controls by reviewing key controls and procedures and ensuring their effectiveness. It is responsible for reviewing the risk profile and developing risk-based audit plans that will confirm and verify the existence and effectiveness of management's internal controls and risk management.

The internal audit function has unrestricted access to the Audit Committee and to the Company's documents, records and personnel. The Head of Internal Audit's primary line of reporting is to the Chairman of the Audit Committee although he or she also has a secondary reporting line to the CEO of the Company.

The staff of the internal audit function hold relevant educational or professional qualifications and are provided continuing professional development to ensure that their knowledge and skills remain current and relevant to enable them to discharge their responsibilities. The internal audit function adopts the International Standards for the Professional Practices of Internal Auditing laid down in the International Professional Practices Framework issued by the Institute of Internal Auditors ("IIA"). The Internal Audit function successfully completed its external Quality Assurance Review in 2014 and strives to comply with the IIA Standards for the Professional Practice of Internal Auditing.

22. Risk management

(a) ***Governance framework***

The Company has established a framework of responsibilities which is consistent with the following generally recognised basic principles of sound risk management practice:

(i) Appropriate overview by board of directors and senior management;
The company has a Risk Management Committee which includes the Senior Management Team, to oversee the overall risk management framework;

(ii) Adequate risk management process that provides for continuous risk monitoring by management; and

(iii) Comprehensive internal controls and assurance processes linked to key business risks.

(b) Enterprise Risk Management ("ERM") and Management controls

The Company has an ERM framework that enables the Company to support risk-based decision making and to meet the regulatory requirements. The framework is aligned to MAS Notice 126.

The key components of the ERM framework are namely the Risk appetite statement, the Business strategy, Capital management, Risk management policy and the Own Risk and Solvency Assessment ("ORSA").

The Company has established a Risk appetite statement, which outlines the overall risks that the Company undertakes in pursuit of the Company's strategic plan. The Risk Appetite Statement is reviewed annually.

The Company has in place a Risk management policy that covers the processes to assess, monitor and report risks in the Company.

In line with MAS Notice 126 on ERM, the Company conducts an ORSA assessment on an annual basis.

The Company has an independent ERM function directly reporting to the CEO to develop the ERM framework and to promote the risk awareness within the Company. The framework comprises 3 lines of Defence ("LoD"):

(i) Under the first LoD, the management owns and manages risks. The management is also responsible for implementing corrective actions to address process and control deficiencies.

(ii) Under the second LoD, the ERM Department provides an oversight of the risk management practices. It also reviews and challenges the risks taken by the first LoD.

(iii) Under the third LoD, the Internal Audit Department provides an independent assurance on the existence & effectiveness of risk management and internal controls.

The Company also has in place a whistle-blowing policy whereby accessible channels are provided for employees to raise concerns about possible improprieties in matters of financial reporting or other matters, in confidence.

(c) Regulatory framework

The operations of the Company are also subject to local regulatory requirements. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

(d) Insurance risk and risk transfer

The risk under insurance contracts is the possibility of occurrence of an insured event and uncertainty of the amount and timing of resulting claim. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk	– the possibility that the number of insured events occurring will differ from those expected.
Severity risk	– the possibility that the cost of the insured events which occurred will differ from those expected.
Development risk	– the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

Insurance risk includes underwriting risk and reserving risk.

Underwriting risk refers to the risk associated with volatilities in the timing, frequency and severity of insured events, relative to the expectations of the insurer at the time of underwriting.

Reserving risk refers to the risk that current reserves are not sufficient to cover all future costs including claim settlements and associated claims handling expenses in respect of claims that have already occurred.

The objective of the Company is to control and minimise insurance risk to reduce volatility of operating profits. The Company manages insurance risk through the following mechanism:

- Actuarial models based on past experience and statistical techniques aid to monitor claim patterns and ensure appropriate pricing.

- Insurance reserves are reviewed regularly by actuaries to ensure that the amount of reserves held is sufficient. The risk of under-reserving is unlikely to be material as insurance claims in Singapore generally take a relatively short time to be reported and settled. Also, the Company carries an additional amount of reserve to cover the possibility of adverse development in claims experience at a level such that there is at least a 75 per cent chance that the reserves will be sufficient.

- Guidelines are issued for concluding insurance contracts and assuming insurance risks.

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

- Reinsurance is used to limit the Company's exposure to large claims and catastrophes by placing risk with re-insurers providing high security.

- Diversification is accomplished by achieving a sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of classes of business and distribution channels and geographical locations.

- The Company underwrites mainly Singapore based risks. A part of its portfolio, primarily marine insurance, relates to insured risks which are offshore.

- The Company maximises retention of risk to grow net premium and improve the underwriting result. It operate a policy to manage its reinsurance counterparty exposures including use of reinsurers with defined minimum credit rating. The natural catastrophe exposure is analysed using external probabilistic catastrophe models. Reinsurance is then purchased at the appropriate level.

Sensitivity analysis of insurance liabilities

Estimates of an insurance company's claim liabilities and premium liabilities may be affected by future events, which cannot be predicted with any certainty. The assumptions made may well vary from actual experience so that the actual liability may vary considerably from the best estimates.

The Company re-runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its contracts. The tables presented below demonstrate the sensitivity of insured liability estimates to particular movements in key assumptions used in the estimation process. Certain assumptions can be expected to impact the liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

The analysis below has been prepared for a change in one variable with all other variables remaining constant and ignores changes in values of the related assets. The Company recognised that some of the assumptions are interdependent but it will be difficult to analyse such interdependencies.

The key assumptions considered in the sensitivity analysis are as follows:

- Initial Expected Loss Ratio ("IELR") for accident/underwriting year 2018 in the method;
- Selected Ultimate Loss Ratio ("ULR")

The Initial Expected Loss Ratio ("IELR") is a parameter used in the Bornhuetter-Ferguson method. This method is usually used by the actuary to estimate claims liability applied to claims data in the latest accident/ underwriting years. The sensitivity test is performed by changing the IELR by -15% to +15% to derive the claims liabilities and only net impact is disclosed in the following table.

The Selected Ultimate Loss Ratio ("ULR") is derived from the best estimation of claims reserve and it is a major factor to determine unexpected risk reserves which is a component of premium liability. The ULR also affects the claims liabilities.

The results of the sensitivity analysis (net of reinsurance) and the impact on the premium liabilities and claim liabilities as at 31 December are as follows:

	IELR		ULR	
	+15%	**-15%**	**+15%**	**-15%**
	$'000	**$'000**	**$'000**	**$'000**
2019				
Unexpired risk reserves	–	–	11,576	(11,576)
Claim liabilities	1,404	(1,403)	24,011	(23,189)
Total	1,404	(1,403)	35,587	(34,765)
2018				
Unexpired risk reserves	–	–	11,848	(11,848)
Claim liabilities	1,781	(1,781)	23,939	(23,939)
Total	1,781	(1,781)	35,787	(35,787)

(e) Financial risk management

(i) Credit risk

Credit risk represents the loss that would be recognised if counterparties to insurance, reinsurance and investment transactions failed to perform as contracted.

The carrying amount of reinsurers' share of insurance contract provisions, available-for-sale debt securities and equities, insurance and other receivables, and cash and cash equivalents represents the Company's maximum exposure to credit risk.

The maximum exposure to credit risk is normally represented by the carrying amount of each financial asset in the financial statements, although in the case of insurance receivables, it is fairly common practice to settle accounts on a net basis. In such cases, the maximum exposure to credit risk is expected to be limited to the extent of the amount of financial assets that has not been fully offset by other financial liabilities with the same counterparty.

Management of credit risk

The Company extends credit to its intermediaries and customers based on commercial terms. The creditworthiness of reinsurers is assessed on a semi-annual basis by reviewing their financial strength through published credit ratings, available market information and financial reports.

Credit evaluations are performed on all brokers, agents, reinsurers, financial institutions and other counterparties.

Strict investment guidelines are used to monitor the risks in the Company's investments, including setting maximum limits of portfolio securities within a single or group of issuers, and setting the minimum ratings for the issuer.

Exposure to credit risk

Overall exposure to credit risk for insurance receivables is shown in Note 14.

Concentration of credit risk

At the reporting date, there are no significant concentrations of credit risk.

(ii) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations at reasonable cost or at any time.

Management of liquidity risk

The Company manages this risk by monitoring daily and monthly projected and actual cash inflows and outflows and by ensuring that a reasonable amount of financial assets are kept in liquid instruments at all times. In respect of Asset Liability Management ("ALM"), the Company holds a high proportion of assets in cash or in short-term deposits in order to maintain consistency with short-tail insurance liabilities.

Exposure to liquidity risk

Due to the nature of its business, the Company's premium and claims liabilities which comprise provision for unexpired risks and provision for outstanding claims are likely to materialise fully within 10 years. For insurance contract provisions, the analysis of the estimated timing of cash outflows is shown in Note 12.

The expected contractual undiscounted cash outflows of financial liabilities as at 31 December are as follows:

	Carrying amount	Cash flows	
	Contractual cash flows $'000	**Within 1 year $'000**	**Within 1 to 5 years $'000**
2019			
Insurance payables	21,427	21,427	–
Other payables	28,779	26,577	2,202
Lease liabilities	14,875	5,796	9,079
	65,081	53,800	11,281

	Carrying amount	Cash flows	
	Contractual cash flows $'000	Within 1 year $'000	Within 1 to 5 years $'000
2018			
Insurance payables	21,557	21,557	–
Other payables	30,967	28,206	2,761
Lease liabilities	–	–	–
	52,524	49,763	2,761

(iii) ***Market risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company comprises three types of risks:

- foreign currency risk;
- interest rate risk; and
- price risk

Foreign currency risk

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

Investments denominated in foreign currencies are limited to 40% of the Insurance Fund assets, as prescribed by the Insurance (Valuation and Capital) Regulations. In complying with the foreign currency limit, active currency decisions are made when investing in foreign currency equities and bonds.

The Company's exposure to foreign currency in Singapore dollar equivalent is as follows:

	United States Dollar $'000
2019	
Cash and cash equivalents	13,582
2018	
Cash and cash equivalents	3,592

Sensitivity analysis

A 10% strengthening of the Singapore dollar against the following currency at the reporting date would increase or decrease profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	Profit or loss Increase/ (Decrease) 2019 $'000	Profit or loss Increase/ (Decrease) 2018 $'000
United States Dollar	(1,358)	(359)

A 10% weakening of the Singapore dollar against the above currency would have had the equal but opposite effect on the above currency, on the basis that all other variables remain constant.

The Company invests in a collective investment scheme where the bond investments are denominated predominantly in US dollars ("USD"). They are hedged back to Singapore dollars to mitigate currency risks exposure of the assets of the scheme.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to the impact of changes in market interest rates have on interest income from interest bearing financial assets.

The Company's exposure to changes in interest rates relates primarily to cash and cash equivalents and other fixed rate and variable rate bonds.

The Company's investment activities are inherently exposed to interest rate risk, which arises principally from differences in maturities or re-pricing of invested assets and the average duration of policy liabilities. In dealing with this risk, the Company adopts an approach of focusing on achieving a desired overall investment asset profile, which is reviewed periodically, based on the average duration of policy liabilities and the Fund Manager's and Investment Committee's longer-term view of interest rates and its impact on bond valuations.

The following tables set out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

	Within 1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	More than 5 years $'000	Total $'000
2019							
Fixed rate							
Investment in government bonds	11,779	20,154	19,711	6,100	21,056	69,380	148,180
Investment in corporate and public authority bonds	34,114	14,590	12,537	25,389	13,043	74,216	173,889
Fixed deposits	113,965	–	–	–	–	–	113,965
Cash at bank	21,893	–	–	–	–	–	21,893

	Within 1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	More than 5 years $'000	Total $'000
2018							
Fixed rate							
Investment in government bonds	8,395	11,225	25,085	20,771	9,047	73,545	148,068
Investment in corporate and public authority bonds	7,772	34,763	17,810	11,497	21,199	64,335	157,376
Fixed deposits	113,457	–	–	–	–	–	113,457
Cash at bank	19,153	–	–	–	–	–	19,153

As at 31 December 2019, the carrying amount of collective investment scheme was $52.5 million (2018: $49.0million) with average term to maturity of 11 years (2018: 10 years).

Sensitivity analysis

A change of 100 basis points ("bp") in interest rates at the reporting date would have increased/(decreased) values by the amounts shown below. This analysis assumes that all other variables remain constant.

	100 bp increase				100 bp decrease			
	Statement of profit or loss (before tax)		Equity (before tax)		Statement of profit or loss (before tax)		Equity (before tax)	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Fixed rate bonds	–	–	(12,652)	(12,434)	–	–	13,481	13,230
Collective investment scheme	–	–	(2,379)	(2,266)	–	–	2,699	2,532
	–	–	(15,031)	(14,700)	–	–	16,180	15,762

Equity price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A monitoring process is in place to limit downside risks at certain pre-determined levels. Limits are set for equity holdings in a single company/group of related companies as a percentage of total assets.

Sensitivity analysis

Impairment losses arising on available-for-sale financial assets are recognised in the profit or loss statement. A 10% increase/(decrease) in the prices of underlying shares at the reporting date would increase/(decrease) values by the following amount:

	10% increase				10% decrease			
	Statement of profit or loss (before tax)		Equity (before tax)		Statement of profit or loss (before tax)		Equity (before tax)	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Equity shares	–	–	4,503	6,999	–	–	(4,503)	(6,999)

This analysis assumes that all other variables remain constant.

(iv) ***Fair value***

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial assets carried at fair value

The Company has carried all investment securities that are classified as available-for-sale financial assets at their fair values as required by FRS 39.

The fair values of these financial instruments are determined by reference to the last transacted prices published or broker quotes as at the reporting date. During the year, no amount (2018: Nil) has been recognised in the profit or loss statement in relation to the change in fair value of financial assets or financial liabilities estimated using a valuation technique.

Financial assets whose carrying amount approximate fair value

Management has determined that the carrying amounts of cash and short term deposits, insurance and other receivables, insurance and other payables, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are re-priced frequently.

(v) ***Investment and management of funds***

The Company's objective is to protect solvency and maximise shareholder value by maintaining a balance between risks and returns, in order to promote stable growth in profits and net asset value over the medium and long terms.

The Company has appointed a professional fund manager to manage its investments. Through regular meetings with the fund manager and performance reports, the Company reviews and monitors the performance of its investment funds. The Company has also established a guideline to address the selection, review and management of its fund manager.

(vi) ***Capital management***

The Company's capital management policy aims to:

- maintain a strong capital base to sustain and grow the business so as to uphold investors, creditors and market confidence;
- to comply with the regulatory capital requirements for the Company; and
- to provide an adequate return to shareholders through prudent underwriting of insurance risks and optimising investment returns within the risk parameters established by the Board.

Under the financial reporting standards, capital comprises paid-up share capital and retained earnings.

In Singapore, the minimum capital requirement under the Risk-based Capital Framework regulated by the Monetary Authority of Singapore ("MAS") is 120% although a higher capital requirement may be prescribed by MAS for individual insurers.

The Company determines the amount of capital in accordance with business expansion needs as well as to meet the regulatory capital requirements for the Company.

Having considered the key risks the company faces, the Company also conducts stress testing analysis annually, which includes quantification of the Company's solvency position from material insurance losses. Based on the latest stress testing review, the Company is assessed to be able to withstand shocks from material but reasonable insurance risks.

The Company has complied with the minimum capital requirement prescribed by MAS.

There were no changes in the Company's approach to capital management during the year.

23. Related party transactions

(a) ***Transactions with related companies***

Other than disclosed elsewhere in the financial statements, the following significant related party transactions took place during the year on terms agreed between the parties concerned:

	2019 $'000	2018 $'000
Immediate holding company		
Management fee paid to holding company	7,477	6,796
Project cost	16,703	16,986
Other related companies		
Premiums accepted net of commission	(736)	(1,233)
Premiums ceded net of commission	40,983	32,988
Recovery on paid claims	(8,602)	(7,347)
Service fee income	(121)	(112)

(b) Compensation of key management personnel

	2019 $'000	2018 $'000
Short-term employee benefits and other pension benefit	4,142	3,352

24. Leases

Leases as lessee (FRS 116)

The Company leases assets. The leases typically run for a period of 2 to 3 years, with an option to renew the lease after that date. Lease payments are renegotiated before the lease expiry to reflect market rentals.

Previously, these leases were classified as operating leases under FRS 17.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see Note 8).

	Office equipment $'000	Leasehold improvements - office premises $'000	Leasehold improvements - apartments $'000	Motor vehicles $'000	Total $'000
2019					
Balance at 1 January	515	5,548	595	708	7,366
Additions to ROU assets	477	10,339	520	–	11,336
Depreciation charge for the year	(188)	(4,479)	(562)	(222)	(5,451)
Balance at 31 December	804	11,408	553	486	13,251

Lease liabilities

	Total $'000
Less than one year	5,796
One to five years	9,079
More than five years	–
Total undiscounted lease liabilities at 31 December 2019	14,875
Current	5,051
Non-current	8,550
Lease liabilities included in the statement of financial position at 31 December 2019	13,601

Amounts recognised in profit or loss

	$'000
2019 – Leases under FRS 116	
Interest on lease liabilities	624
2018 – Operating leases under FRS 17	
Lease expense	5,664

Amounts recognised in statement of cash flows

	2019 $'000
Total cash outflow for leases	5,725

Extension options

Some property leases contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

25. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 18 March 2020.