KPMG

Annual Report

MSIG INSURANCE (SINGAPORE) PTE. LTD.

Co. Reg. No. 200412212G

31 December 2017

MSIG Insurance (Singapore) Pte. Ltd.

General Information and Contents

Directors

Alan John Wilson	
Michael William Gourlay	
Peter Yap Kim Kee	
Chan Tar Seng	
Christopher Ho Siow Soong	
Ng Lak Chuan	
Hideyuki Tanaka	(Appointed on 1st April 2017)
Yoshiaki Fukuchi	(Appointed on 1st April 2017)
Isao Nojo	(Resigned on 1st April 2017)
Takeshi Saito	(Resigned on 1st April 2017)

Company Secretary

Chan Lai Yin
Chan Wan Mei

Registered Office

4 Shenton Way
#21-01 SGX Centre 2
Singapore 068807

Auditors

KPMG LLP

Bankers

DBS Bank Ltd
Hong Kong and Shanghai Banking Corporation
Citibank N.A.
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation

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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 2017.

We, Alan John Wilson and Michael William Gourlay, 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 2017 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	
Michael William Gourlay	
Peter Yap Kim Kee	
Chan Tar Seng	
Christopher Ho Siow Soong	
Ng Lak Chuan	
Hideyuki Tanaka	(Appointed on 1st April 2017)
Yoshiaki Fukuchi	(Appointed on 1st April 2017)

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/ Date of appointment	Holdings at end of the year
Alan John Wilson		
MS&AD Insurance Group Holdings, Inc.		
- Options in shares		
- interest held	268	456
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	135	784
- Options in shares		
- interest held	844	844
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	5,563	5,927

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 2017.

5. Auditors

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

On behalf of the Board of Directors,

Alan John Wilson
Director

Michael William Gourlay
Director

Singapore
16 March 2018

KPMG

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

Member 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 2017, the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of 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 50.

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 2017 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.

- 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.

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
16 March 2018

MSIG Insurance (Singapore) Pte. Ltd.

Statement of profit or loss
Year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Gross premiums written		337,557	337,092
Reinsurance premiums ceded		(76,106)	(69,933)
Net premiums written		261,451	267,159
Movement in net unearned premium reserves	11	1,246	(1,257)
Movement in net deferred acquisition costs	10	(443)	830
		803	(427)
Net premiums earned		262,254	266,732
Gross claims paid	12	(133,419)	(177,801)
Reinsurance claims recoveries	12	17,649	67,309
Net claims paid	12	(115,770)	(110,492)
Movement in net loss reserves	12	(666)	13,310
Net claims incurred	12	(116,436)	(97,182)
Gross commission expense		(68,798)	(67,723)
Reinsurance commission income		12,708	10,838
Net commission expense		(56,090)	(56,885)
Operating and administrative expenses	3	(101,308)	(87,382)
Underwriting profit		(11,580)	25,283
Net investment income	5	11,328	10,705
Interest income on fixed deposits		1,439	1,783
Gain on sale of property and equipment		1	1
Miscellaneous income		154	142
(Provision)/write-back of impairment loss of receivables		(14)	21
Profit before income tax		1,328	37,935
Income tax credit/(expense)	6	360	(3,254)
Profit for the year		1,688	34,681

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

Statement of comprehensive income
Year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Profit for the year		1,688	34,681
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		18,560	245
Income tax relating to components of other comprehensive income	18	(3,155)	(41)
Other comprehensive income for the year, net of tax		15,405	204
Total comprehensive income for the year attributable to the owner of the Company		17,093	34,885

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

Statement of financial position
As at 31 December 2017

	Note	2017 $'000	2016 $'000
Non-current assets			
Intangible assets	7	134,978	134,978
Property and equipment	8	724	1,342
Available-for-sale investments	9	420,557	378,802
Deferred tax assets	18	–	3,046
Reinsurers' share of technical reserves:			
Loss reserves	12	15,672	17,287
		571,931	535,455
Current assets			
Deferred acquisition costs	10	26,592	26,652
Reinsurers' share of technical reserves:			
Unearned premium reserves	11	23,497	22,715
Loss reserves	12	47,328	40,231
Cash and cash equivalents	13	146,765	208,412
Insurance receivables	14	48,693	48,394
Loans and other receivables	15	4,862	5,464
		297,737	351,868
Total assets		869,668	887,323
Shareholder's equity			
Share capital	19	333,442	333,442
Reserves		95,202	111,109
Total equity attributable to equity holder of the Company		428,644	444,551
Current liabilities			
Reinsurers' share of deferred acquisition cost	10	4,778	4,395
Gross technical reserves:			
Unearned premium reserves	11	146,800	147,264
Loss reserves	12	168,489	152,572
Insurance payables	16	16,799	14,878
Current tax payables		5,413	13,198
Other payables	17	39,762	42,267
		382,041	374,574
Non-current liabilities			
Other payables	17	2,805	2,637
Deferred tax liabilities	18	386	–
Gross technical reserves:			
Loss reserves	12	55,792	65,561
		58,983	68,198
Total liabilities		441,024	442,772
Total equity and liabilities		869,668	887,323

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

Statement of changes in equity
Year ended 31 December 2017

	Note	Share capital $'000	Available-for-sale reserves $'000	Retained earnings $'000	Total $'000
At 1 January 2016		333,442	(1,405)	110,629	442,666
Total comprehensive income for the year					
Profit for the year		–	–	34,681	34,681
Other comprehensive income					
Net change in fair value of available-for-sale financial assets		–	245	–	245
Income tax relating to components of other comprehensive income	18	–	(41)	–	(41)
Other comprehensive income for the year, net of tax		–	204	–	204
Total comprehensive income for the year		–	204	34,681	34,885
Transactions with owner, recorded directly in equity					
Contributions by and distributions to owner					
Dividends on ordinary shares		–	–	(33,000)	(33,000)
Total transactions with owner		–	–	(33,000)	(33,000)
At 31 December 2016		333,442	(1,201)	112,310	444,551

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

Statement of changes in equity
Year ended 31 December 2017

	Note	Share capital $'000	Available-for-sale reserves $'000	Retained earnings $'000	Total $'000
At 1 January 2017		333,442	(1,201)	112,310	444,551
Total comprehensive income for the year					
Profit for the year		–	–	1,688	1,688
Other comprehensive income					
Net change in fair value of available-for-sale financial assets		–	18,560	–	18,560
Income tax relating to components of other comprehensive income	18	–	(3,155)	–	(3,155)
Other comprehensive income for the year, net of tax		–	15,405	–	15,405
Total comprehensive income for the year		–	15,405	1,688	17,093
Transactions with owner, recorded directly in equity					
Contributions by and distributions to owner					
Dividends on ordinary shares		–	–	(33,000)	(33,000)
Total transactions with owner		–	–	(33,000)	(33,000)
At 31 December 2017		333,442	14,204	80,998	428,644

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

Statement of cash flow
Year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Profit before income tax		1,328	37,935
Adjustments for:			
Amortisation of net premium paid on bonds	5	1,789	1,556
Depreciation of property and equipment	3,8	972	1,271
(Increase)/Decrease in reinsurers' share of technical reserves		(5,881)	24,672
Increase/(Decrease) in gross technical reserves		5,744	(37,555)
Dividend received from shares	5	(2,281)	(2,313)
Gain on sale of property and equipment		(1)	(1)
Interest income on fixed deposits		(1,439)	(1,783)
Interest income from government and corporate bonds	5	(7,935)	(7,608)
Provision for impairment of equities and corporate bonds	5	–	928
Realised gain on available-for-sale investments	5	(2,707)	(1,786)
Operating profit before working capital changes		(10,411)	15,316
Changes in working capital:			
Decrease/(Increase) in related parties and other receivables		453	(605)
Increase in insurance receivables		(299)	(3,427)
Increase/(Decrease) in insurance payables		1,921	(2,079)
(Decrease)/Increase in other payables		(2,337)	10,598
Cash (used in)/generated from operations		(10,673)	19,803
Interest income received from fixed deposits		1,524	1,970
Income taxes paid		(7,148)	(6,987)
Net cash flows (used in)/from operating activities		(16,297)	14,786
Cash flows from investing activities			
Dividend income received		2,281	2,313
Interest income received from government and corporate bonds		7,999	7,679
Purchase of available-for-sale investments		(439,269)	(323,498)
Purchase of property and equipment	8	(354)	(1,472)
Proceeds from disposal of property and equipment		1	1
Proceeds from sale and redemption of available-for-sale investments		416,992	298,501
Net cash flows used in investing activities		(12,350)	(16,476)
Cash flows from financing activity			
Dividend paid	21	(33,000)	(33,000)
Net cash flows used in financing activity		(33,000)	(33,000)
Net decrease in cash and cash equivalents		(61,647)	(34,690)
Cash and cash equivalents at the beginning of the year		208,412	243,102
Cash and cash equivalents at the end of the year	13	146,765	208,412

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.

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.

(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 2017 was $134,978,000 (2016: $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 23(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) ***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.

(d) ***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.

(e) ***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 $1/180^{th}$ 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 $1/365^{th}$ method on actual commission for direct and facultative business (other than marine cargo business). DAC for marine cargo business is calculated on the $1/180^{th}$ 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.

(f) ***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.

(g) ***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.

(h) ***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.

(i) ***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.

(j) ***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.

(k) ***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.

(l) ***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.

(m) Income tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

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.

(n) 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 21 January 2016).

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

(o) 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.

(p) 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.

(q) 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.

(r) ***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.

(s) ***Leases***

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss statement on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(t) ***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.

(u) ***Standards issued but not adopted***

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 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 management 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

FRS 115 *Revenue from Contracts with Customers*

FRS 115 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

When effective, FRS 115 replaces existing revenue recognition guidance, including FRS 18 Revenue, FRS 11 *Construction Contracts,* INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*. FRS 115 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Company plans to adopt the standard when it becomes effective in 2018. The standard does not apply to insurance contracts within the scope of FRS 104 *Insurance Contracts* and adoption of the standard is not expected to have a material impact on the financial statements in the year of initial application.

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

The amendments introduce two approaches for entities that apply FRS 104 to reduce the impact of differing effective dates with IFRS 17 Insurance Contracts and FRS 109 Financial Instruments: an overlay approach and a temporary exemption from applying FRS 109. The amendments:

- 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 (the "deferral approach").

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 IFRS 17 becomes effective from 1 January 2021.

The amendments allowing the overlay approach are applicable when the insurer first applies FRS 109.

Potential impact on the financial statements

IFRS 17 has been issued by the International Accounting Standards Board. The Accounting Standards Council will be issuing the local version of this standard in due course. IFRS 17 is expected to have a significant impact on the Company's financial statements. That standard may impact the classification and measurement of financial instruments requirements under FRS 109 when adopted.

The Company intends to elect the temporary exemption in the amendments to FRS 104 from applying FRS 109 until the Singapore equivalent of IFRS 17 is effective. The Company is currently assessing the potential impact on its financial statements.

Applicable to the 2019 financial statements

FRS 116 *Leases*

FRS 116 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use ("ROU") assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

FRS 116 substantially carries forward the lessor accounting requirements in FRS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 operating lease and finance lease accounting models respectively. However, FRS 116 requires more extensive disclosures to be provided by a lessor.

When effective, FRS 116 replaces existing lease accounting guidance, including FRS 17, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases – Incentives*, and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The Company plans to adopt the standard when it becomes effective in 2019. The Company will be assessing the impact of adoption.

3. Operating and administrative expenses

	2017 $'000	2016 $'000
Salaries, CPF & pension costs (Note 4) [(1)]	43,092	44,579
Other staff costs	6,743	6,045
Operating lease rentals [(1)]	4,649	4,525
Depreciation of property and equipment	972	1,271
Advertising and subscription	6,040	6,872
Printing and stationery	740	863
Computer charges	1,519	1,379
Travelling expenses [(1)]	769	666
Other expenses [(1)]	36,784	21,182
	101,308	87,382

[(1)] Included total project costs of $27,847,000 (2016: $15,665,000).

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

	2017 $'000	2016 $'000
Wages and salaries	38,408	39,839
Social security costs	4,516	4,580
Other pension costs	168	160
	43,092	44,579

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:

	2017 $'000	2016 $'000
Present value of the defined benefit obligation at start of year	2,637	2,477
Current service cost	111	103
Interest cost	57	57
	2,805	2,637

Expenses recognised in profit or loss:

	2017 $'000	2016 $'000
Current service cost	111	103
Interest cost	57	57
	168	160

5. Net investment income

	2017 $'000	2016 $'000
Interest income from government and corporate bonds	7,935	7,608
Dividend received from shares	2,281	2,313
Dividend from collective investment scheme	1,791	2,003
Realised gain on available-for-sale investments	2,707	1,786
Provision for impairment of equities and corporate bonds	–	(928)
Amortisation of net premium paid on bonds	(1,789)	(1,556)
Investment expenses	(706)	(678)
Realised and unrealised exchange (loss)/gain	(891)	157
	11,328	10,705

6. Income tax (credit)/expense

(a) *Major components of income tax (credit)/expense*

The major components of income tax are as follows:

(i) Profit or loss

	2017 $'000	2016 $'000
Current tax expense		
Current year	240	7,836
Overprovision in respect of prior years	(877)	(2,912)
	(637)	4,924
Deferred tax expense		
Current year	267	(1,462)
Under/(over)provision in respect of prior year	10	(208)
	277	(1,670)
Income tax (credit)/expense	(360)	3,254

(ii) Statement of changes in equity
Deferred income tax related to items charged or credited directly to equity:

	2017 $'000	2016 $'000
Net change in fair value adjustment reserve for available-for-sale investments (note 18)	3,155	41
Income tax expense recognised in equity	3,155	41

(b) *Reconciliation of effective tax rate*

	2017 $'000	2016 $'000
Profit before income tax	1,328	37,935
Tax calculated using Singapore tax rate of 17% (2016: 17%)	226	6,449
Effects of:		
Non-deductible expenses	299	235
Change in unrecognised deductible temporary differences	60	–
Tax concession on income from offshore insurance fund	(78)	(310)
	507	6,374
Overprovision in respect of prior year	(867)	(3,120)
	(360)	3,254

The tax expense for the Company for the year ended 31 December 2017 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 2016/31 December 2016/31 December 2017	134,978
Net carrying amounts	
At 1 January 2016	134,978
At 31 December 2016	134,978
At 31 December 2017	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% (2016: 3.00%)
Discount rate	7.55% (2016: 8.37%)

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	
	2017 %	2016 %
Discount rate	7.11	8.26

8. Property and equipment

	Equipment $'000	Furniture and fittings $'000	Total $'000
Cost			
At 1 January 2016	4,210	3,833	8,043
Additions	1,454	18	1,472
Disposals	(179)	(2)	(181)
At 31 December 2016	5,485	3,849	9,334
Additions	320	34	354
Disposals	(212)	(4)	(216)
At 31 December 2017	5,593	3,879	9,472
Accumulated depreciation			
At 1 January 2016	3,224	3,678	6,902
Depreciation for the year	1,115	156	1,271
Disposals	(179)	(2)	(181)
At 31 December 2016	4,160	3,832	7,992
Depreciation for the year	950	22	972
Disposals	(212)	(4)	(216)
At 31 December 2017	4,898	3,850	8,748
Net carrying amounts			
At 1 January 2016	986	155	1,141
At 31 December 2016	1,325	17	1,342
At 31 December 2017	695	29	724

9. Available-for-sale investments

	2017 $'000	2016 $'000
Government bonds	153,070	110,987
Corporate and public authority bonds	139,950	160,186
	293,020	271,173
Collective investment scheme	50,743	48,185
Equity shares	76,794	59,444
	420,557	378,802

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

	2017 $'000	2016 $'000
Financial strength rating		
Singapore Government bonds	153,070	110,987
Public Authority bonds	17,924	43,297
Corporate bonds		
A to AAA	41,306	63,594
A- and below	24,995	22,600
Not rated by Standard & Poor's (but there are equivalent A and B rating by Moody's/Fitch)	50,068	25,062
Not rated	5,657	5,633
	293,020	271,173
Collective Investment scheme		
A to AAA	50,743	48,185

At 31 December 2017, there is no impairment loss (2016: $0.9 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 23(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
2017				
Available-for-sale financial assets				
- Government bonds	153,070	–	–	153,070
- Corporate and public authority bonds	131,244	8,706	–	139,950
- Equity shares	76,794	–	–	76,794
- Collective investment scheme	50,743	–	–	50,743
	411,851	8,706	–	420,557

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2016				
Available-for-sale financial assets				
- Government bonds	101,006	9,981	–	110,987
- Corporate and public authority bonds	140,548	19,638	–	160,186
- Equity shares	59,444	–	–	59,444
- Collective investment scheme	48,185	–	–	48,185
	349,183	29,619	–	378,802

10. Net deferred acquisition costs

	2017 $'000			2016 $'000		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
At 1 January	26,652	(4,395)	22,257	26,730	(5,303)	21,427
Costs deferred during the year	(60)	(383)	(443)	(78)	908	830
At 31 December	26,592	(4,778)	21,814	26,652	(4,395)	22,257

11. Unearned premium reserves

	2017 $'000			2016 $'000		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Reserve for unexpired risks	146,800	(23,497)	123,303	147,264	(22,715)	124,549

Movement in unearned premium reserves:

	2017 $'000			2016 $'000		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
At 1 January	147,264	(22,715)	124,549	151,340	(28,048)	123,292
(Decrease)/Increase during the year	(464)	(782)	(1,246)	(4,076)	5,333	1,257
At 31 December	146,800	(23,497)	123,303	147,264	(22,715)	124,549

12. Loss reserves

	2017 $'000 Gross	2017 $'000 Reinsurers' share	2017 $'000 Net	2016 $'000 Gross	2016 $'000 Reinsurers' share	2016 $'000 Net
Outstanding claims and claims handling costs	213,235	(54,758)	158,477	220,545	(49,898)	170,647
Outstanding claims incurred but not reported ("IBNR")	11,046	(8,242)	2,804	(2,412)	(7,620)	(10,032)
At 31 December	224,281	(63,000)	161,281	218,133	(57,518)	160,615
Non-current liabilities	55,792	(15,672)	40,120	65,561	(17,287)	48,274
Current liabilities	168,489	(47,328)	121,161	152,572	(40,231)	112,341
	224,281	(63,000)	161,281	218,133	(57,518)	160,615

Movement in loss reserves:

	2017 $'000 Gross	2017 $'000 Reinsurers' share	2017 $'000 Net	2016 $'000 Gross	2016 $'000 Reinsurers' share	2016 $'000 Net
At 1 January	218,133	(57,518)	160,615	251,690	(77,765)	173,925
Claims (paid)/recovered during the year	(133,419)	17,649	(115,770)	(177,801)	67,309	(110,492)
Claims incurred during the year	139,567	(23,131)	116,436	144,244	(47,062)	97,182
At 31 December	224,281	(63,000)	161,281	218,133	(57,518)	160,615

Loss development tables

(a) Gross loss reserves

At end of financial year	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Accident year					
Before 2011	1,975	5,858	19,214	33,873	61,448
2011	1,249	6,915	10,361	15,874	45,199
2012	2,596	9,542	23,197	32,744	44,370
2013	5,202	18,666	26,059	45,532	127,504
2014	16,001	26,946	52,465	120,444	–
2015	22,094	38,575	119,392	–	–
2016	41,305	110,652	–	–	–
2017	132,895	–	–	–	–
Current estimates of loss reserves:					
- Direct and facultative insurance	223,317	217,154	250,688	248,467	278,521
- Inward treaty insurance	964	979	1,002	1,003	1,012
Total current estimates of loss reserves	224,281	218,133	251,690	249,470	279,533

(b) Net loss reserves

At end of financial year	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Accident year					
Before 2011	1,165	3,695	15,054	26,791	37,623
2011	967	4,592	7,516	12,840	20,272
2012	2,096	7,850	10,956	17,649	31,523
2013	4,310	15,367	20,931	35,306	100,980
2014	8,313	16,910	30,609	89,328	–
2015	17,549	26,848	87,857	–	–
2016	27,843	84,374	–	–	–
2017	98,074	–	–	–	–
Current estimates of loss reserves:					
- Direct and facultative insurance	160,317	159,636	172,923	181,914	190,398
- Inward treaty insurance	964	979	1,002	1,003	1,012
Total current estimates of loss reserves	161,281	160,615	173,925	182,917	191,410

(c) Gross claims paid

At end of financial year	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Accident year					
Before 2011	3,334	649	(2,955)	(2,402)	6,580
2011	(1,000)	876	5,803	11,590	25,775
2012	1,128	5,690	5,204	11,546	53,902
2013	3,934	2,716	9,507	54,010	54,318
2014	5,284	14,212	68,227	62,926	–
2015	10,792	59,822	57,266	–	–
2016	51,203	93,822	–	–	–
2017	58,736	–	–	–	–
Gross claims paid:					
- Direct and facultative Insurance	133,411	177,787	143,052	137,670	140,575
- Inward treaty insurance	8	14	–	7	14
Total gross claims paid	133,419	177,801	143,052	137,677	140,589

(d) Net claims paid

At end of financial year	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Accident year					
Before 2011	1,617	802	(2,452)	(1,130)	4,425
2011	211	682	1,921	3,465	7,455
2012	685	1,698	3,289	7,063	41,023
2013	2,713	1,854	8,003	46,378	50,870
2014	3,518	8,323	45,233	57,933	–
2015	7,012	42,004	53,675	–	–
2016	44,453	55,115	–	–	–
2017	55,553	–	–	–	–
Net claims paid:					
- Direct and facultative insurance	115,762	110,478	109,669	113,709	103,773
- Inward treaty insurance	8	14	–	7	14
Total net claims paid	115,770	110,492	109,669	113,716	103,787

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

	2017 $'000	2016 $'000
Less than 1 year	121,161	112,341
Between 1 to 3 years	34,596	41,333
Between 3 to 5 years	4,812	6,151
More than 5 years	712	790
	161,281	160,615

13. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and in hand	24,862	31,030
Fixed and call deposits	121,903	177,382
Cash and cash equivalents	146,765	208,412

The weighted average effective interest rate of fixed and call deposits is 1.07% (2016: 0.93%) per annum.

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

	2017 $'000	2016 $'000
US Dollars	4,801	10,663

14. Insurance receivables

	2017 $'000	2016 $'000
Amounts due from policyholders, agents, brokers and insurers	46,303	46,725
Allowances for doubtful receivables from policyholders, agents, brokers and insurers	(30)	(55)
	46,273	46,670
Amounts due from reinsurers	2,458	1,733
Allowances for doubtful receivables from reinsurers	(38)	(9)
	2,420	1,724
Total insurance receivables	48,693	48,394

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

	2017			2016		
	Gross $'000	Allowance $'000	Net $'000	Gross $'000	Allowance $'000	Net $'000
Not past due	21,624	–	21,624	20,189	–	20,189
Current to 90 days	10,306	–	10,306	10,473	–	10,473
91 to 180 days	7,320	–	7,320	8,099	–	8,099
181 to 365 days	6,119	(30)	6,089	7,334	(33)	7,301
More than 1 year	3,392	(38)	3,354	2,363	(31)	2,332
	48,761	(68)	48,693	48,458	(64)	48,394

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:

	2017 $'000	2016 $'000
At 1 January	64	86
Additional provision during the year	63	49
Provision not required now written back	(52)	(70)
Provision written off against debtors	(7)	(1)
At 31 December	68	64

15. Loans and other receivables

	2017 $'000	2016 $'000
Accrued interest receivable	2,370	2,519
Amounts due from related companies	109	705
Other receivables	2,383	2,240
	4,862	5,464

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

	2017 $'000	2016 $'000
Insurance business:		
Amount due to policyholders, agents, brokers and insurers	4,411	2,616
Amount due to reinsurers	12,388	12,262
	16,799	14,878

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

17. Other payables

	2017 $'000	2016 $'000
Non-current		
Retirement gratuity	2,805	2,637
Current		
Accrued operating expenses	33,708	36,708
Amounts due to related companies	744	
Other payables	5,310	5,559
	39,762	42,267
Total other payables	42,567	44,904

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 23(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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Deferred tax liabilities						
Differences in depreciation of property and equipment	106	202	(96)	37	–	–
Revaluation of available-for-sale investments to fair value	2,909	(246)	–	–	3,155	41
Gross deferred tax liabilities/ (assets)	3,015	(44)	(96)	37	3,155	41

	At reporting date		Recognised in statement of profit or loss		Recognised in statement of comprehensive income	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Deferred tax assets						
Provision for reinstatement of office premises	(114)	(114)	–	–	–	–
Provision for retirement gratuity	(350)	(322)	(28)	(27)	–	–
Other provisions	(2,165)	(2,566)	401	(1,680)	–	–
Gross deferred tax assets	(2,629)	(3,002)	374	(1,707)	–	–
Net deferred tax liabilities/ (assets)	386	(3,046)				
Deferred income tax expense			277	(1,670)	3,155	41

19. Share capital

	2017 No. of shares ('000)	2016 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.

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
2017						
Cash and cash equivalents	13	146,765	–	–	146,765	146,765
Insurance receivables	14	48,693	–	–	48,693	48,693
Loans and other receivables	15	4,862	–	–	4,862	4,862
Available-for-sale investments	9	–	420,557	–	420,557	420,557
		200,320	420,557	–	620,877	620,877
Insurance payables	16	–	–	16,799	16,799	16,799
Other payables	17	–	–	42,567	42,567	42,567
		–	–	59,366	59,366	59,366

	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
2016						
Cash and cash equivalents	13	208,412	–	–	208,412	208,412
Insurance receivables	14	48,394	–	–	48,394	48,394
Loans and other receivables	15	5,464	–	–	5,464	5,464
Available-for-sale investments	9	–	378,802	–	378,802	378,802
		262,270	378,802	–	641,072	641,072
Insurance payables	16	–	–	14,878	14,878	14,878
Other payables	17	–	–	44,904	44,904	44,904
		–	–	59,782	59,782	59,782

21. Dividends

	2017 $'000	2016 $'000
Interim exempt (one tier) dividend of 9.9 cents per ordinary share (2016: 9.9 cents)	33,000	33,000

22. 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 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.

(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 2017, the AC comprises five members, all of whom are non-executive directors. Mr. Peter Yap Kim Kee, an independent director, chairs the AC. The other members of the AC are Mr. Christopher Ho Siow Soong, Mr. Ng Lak Chuan, 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.

23. 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 2017 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**
2017				
Unexpired risk reserves	–	–	12,629	(12,629)
Claim liabilities	1,983	(1,983)	22,743	(22,743)
Total	1,983	(1,983)	35,372	(35,372)
2016				
Unexpired risk reserves	–	–	12,195	(12,195)
Claim liabilities	2,031	(2,031)	20,856	(20,856)
Total	2,031	(2,031)	33,051	(33,051)

(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
2017			
Insurance payables	16,799	16,799	–
Other payables and retirement gratuity*	8,859	6,054	2,805
	25,658	22,853	2,805
2016			
Insurance payables	14,878	14,878	–
Other payables and retirement gratuity*	8,196	5,559	2,637
	23,074	20,437	2,637

* The amount excludes accrued expenses.

(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
2017	
Cash and cash equivalents	4,801
2016	
Cash and cash equivalents	10,663

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) 2017 $'000	Profit or loss Increase/ (Decrease) 2016 $'000
United States Dollar	(480)	(1,066)

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 S'000	1-2 years S'000	2-3 years S'000	3-4 years S'000	4-5 years S'000	More than 5 years S'000	Total S'000
2017							
Fixed rate							
Investment in government bonds	13,389	5,379	8,326	35,069	22,589	68,318	153,070
Investment in corporate and public authority bonds	13,340	3,769	39,468	16,165	8,253	58,955	139,950
Fixed deposits	121,903	–	–	–	–	–	121,903
Cash at bank	24,862	–	–	–	–	–	24,862
2016							
Fixed rate							
Investment in government bonds	16,801	1,044	3,408	5,273	33,785	50,676	110,987
Investment in corporate and public authority bonds	1,513	6,849	–	33,387	15,128	103,309	160,186
Fixed deposits	177,382	–	–	–	–	–	177,382
Cash at bank	31,030	–	–	–	–	–	31,030

At 31 December 2017, the carrying amount of the investment was $50.7 million (2016: $48.2million) with average term to maturity of 10 years (2016: 9 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)	
	2017 S'000	2016 S'000	2017 S'000	2016 S'000	2017 S'000	2016 S'000	2017 S'000	2016 S'000
Fixed rate bonds	–	–	(12,299)	(12,931)	–	–	13,098	13,814
Collective investment scheme	–	–	(2,671)	(2,524)	–	–	2,976	2,783
	–	–	(14,970)	(15,455)	–	–	16,074	16,597

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)	
	2017	2016	2017	2016	2017	2016	2017	2016
	S'000	S'000	S'000	S'000	S'000	S'000	S'000	S'000
Equity shares	–	–	7,679	5,944	–	–	(7,679)	(5,944)

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 (2016: 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.

24. 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:

	2017 $'000	2016 $'000
Immediate holding company		
Management fee paid to holding company	5,660	5,307
Project cost	23,555	8,965
Other related companies		
Premiums accepted net of commission	938	54
Premiums ceded net of commission	24,226	19,866
Recovery on paid claims	4,996	14,233
Service fee income	143	126

(b) *Compensation of key management personnel*

	2017 $'000	2016 $'000
Short-term employee benefits and other pension benefit	3,472	3,104

25. Commitments

Operating lease agreement (as lessee)

As at 31 December 2017, the future minimum payments under non-cancellable operating lease contracts at the reporting date are as follows:

	2017 $'000	2016 $'000
Not later than 1 year	5,412	5,066
Later than 1 year but not later than 5 years	6,678	10,898
More than 5 years	128	–
	12,218	15,964

26. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 16 March 2018.