MS FirstCapital

ANNUAL REPORT 2019

CORPORATE DATA

as at 21 May 2020

Board of Directors

Dr. Ker Sin Tze, Chairman
Mr. Ramaswamy Athappan
Mr. Ajit Nair
Mr. Arumugam Muthu
Mr. Lee Kwong Foo, Edward
Mr. Kiyoshi Nakagawa
Mr. Keiichi Hara
Mr. Alan John Wilson
Mr. Tetsuya Adachi

Chief Executive

Mr. Ramaswamy Athappan

Executive Director

Mr. Tetsuya Adachi

Secretary

Mr. Gerard Seah

Registered Office

6 Raffles Quay
#21-00
Singapore 048580

Auditor

KPMG LLP

MANAGEMENT TEAM

Senior Management

Ms. Chin Oi Leng, Chief General Manager
Mr. T. U. Shetty, General Manager
Ms. Angeline Ang, Chief Financial Officer
Mr. Vikas Shukla, Chief Risk Officer
Mr. R. Vaidyanathan, General Manager
Mr. Akio Takai, Deputy General Manager
Mr. Keisuke Takita, Deputy General Manager

Heads of Department

Ms. G. Neelamalar, Senior Manager
Mr. Low Weng Seng, Senior Manager
Ms. Mary Nelson, Senior Manager
Ms. Mary Tan, Senior Manager
Mr. Alex Salikin, Manager
Ms. Tan Li Choo, Manager
Ms. Linda Leman, Manager
Ms. Kwok Pui Chee, Manager
Ms. Sonia Too, Manager
Mr. Gunjan Basu, Financial Planning Manager

CONTENT

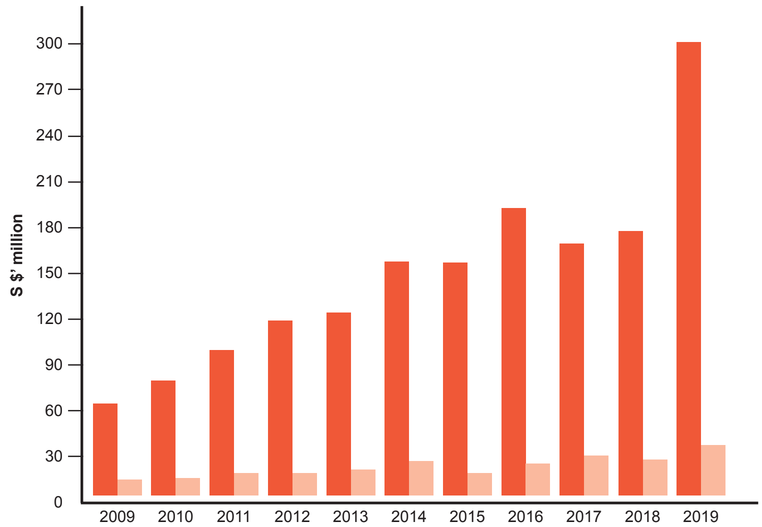
SGD’000

Segment	2019	2018
Total Assets#	1,728,062	1,494,004
Shareholders' Fund	914,743	828,853
Technical Reserves	501,203	473,667
Gross Written Premium	690,910	480,191
Net Written Premium	242,196	235,514
Underwriting Balance	68,393	53,363
Combined Ratio	69.2%	75.9%
Profit Before Tax	100,277	94,208
Profit After Tax	85,177	80,786

#Exclude reinsurers’ share of technical reserves

FINANCIAL HIGHLIGHTS
GROSS AND NET WRITTEN PREMIUM

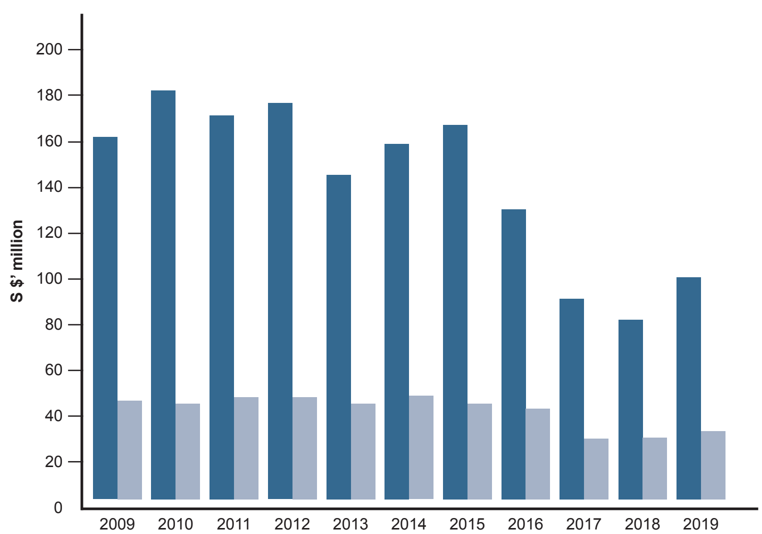
Fire



	Gross Premium S$'million	Net Premium S$'million
2009	66.1	13.2
2010	81.1	14.0
2011	102.0	17.1
2012	119.2	17.0
2013	124.7	20.3
2014	158.0	25.5
2015	157.7	19.6
2016	195.8	24.8
2017	176.4	27.0
2018	180.8	26.4
2019	304.1	35.3

Gross Premium
Net Premium

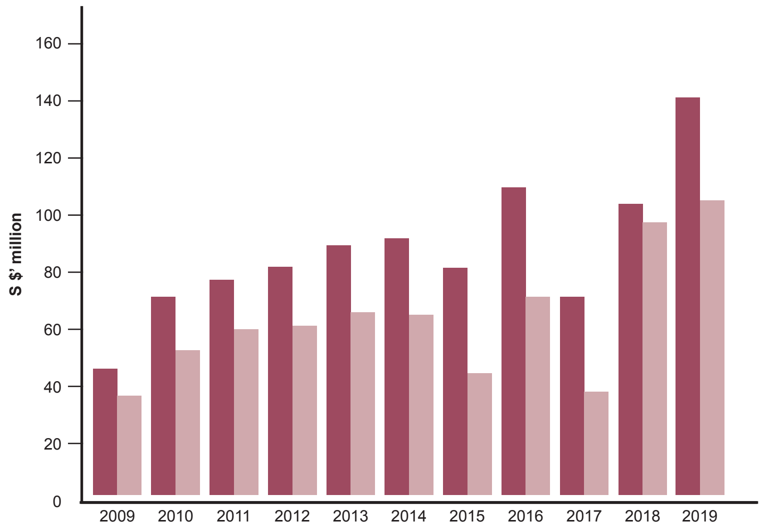
Marine



	Gross Premium S$'million	Net Premium S$'million
2009	162.4	46.9
2010	180.9	46.0
2011	169.4	48.3
2012	174.8	48.0
2013	146.8	46.0
2014	159.2	48.4
2015	166.1	45.7
2016	130.5	43.1
2017	90.4	29.6
2018	82.6	31.2
2019	105.4	33.6

Gross Premium
Net Premium

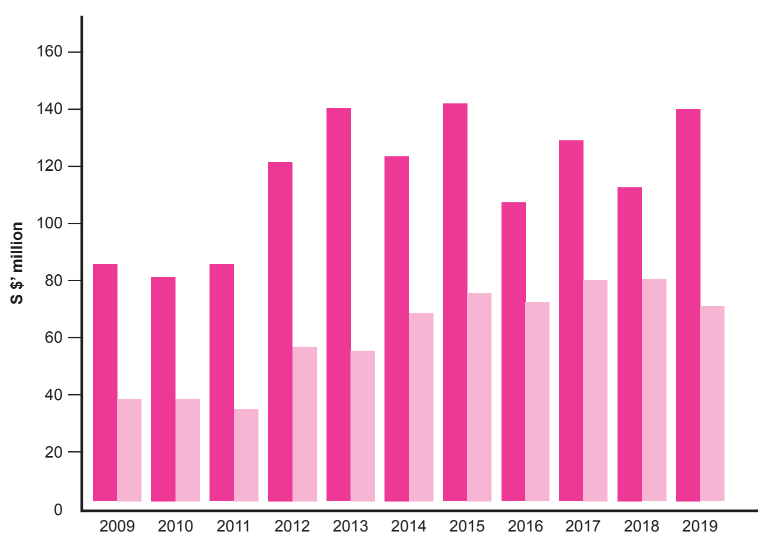
Motor



	Gross Premium S$'million	Net Premium S$'million
2009	46.0	35.0
2010	69.7	50.9
2011	76.9	57.2
2012	81.0	60.3
2013	87.4	64.9
2014	90.7	63.6
2015	79.8	42.8
2016	108.0	69.3
2017	71.0	37.6
2018	103.2	96.4
2019	141.5	103.7

Gross Premium
Net Premium

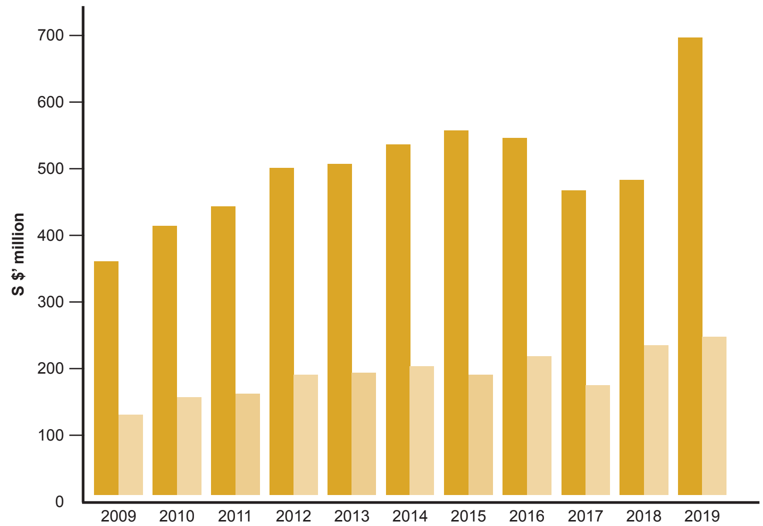
Miscellaneous



	Gross Premium S$'million	Net Premium S$'million
2009	85.4	36.5
2010	81.8	36.9
2011	88.4	34.4
2012	121.2	56.0
2013	140.3	55.2
2014	124.4	68.9
2015	144.4	76.7
2016	108.1	72.4
2017	127.0	79.9
2018	113.7	81.5
2019	139.9	69.6

Gross Premium
Net Premium

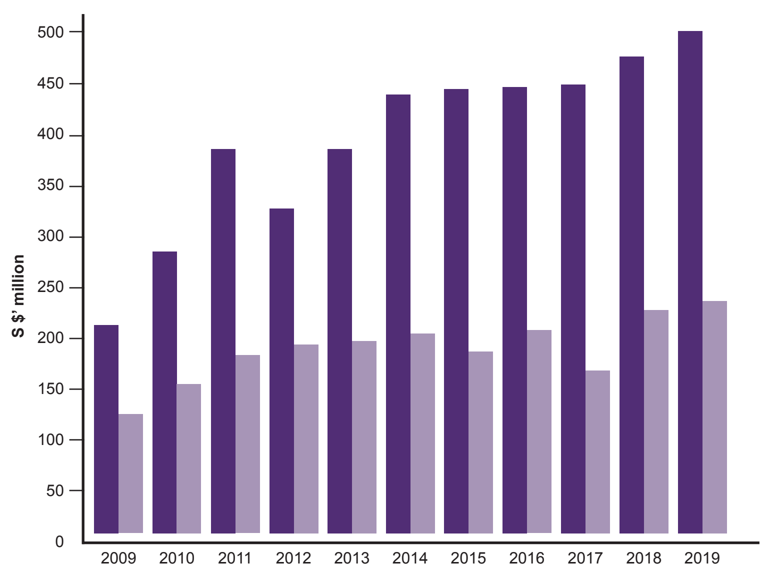
Total Gross and Net Premium



	Gross Premium S$'million	Net Premium S$'million
2009	359.9	131.6
2010	413.5	147.8
2011	436.7	157.0
2012	496.3	181.3
2013	499.1	186.3
2014	532.4	206.4
2015	548.1	184.8
2016	542.4	209.5
2017	464.8	174.1
2018	480.3	235.5
2019	690.9	242.2

Gross Premium
Net Premium

Technical Provision Compared to Net Premium

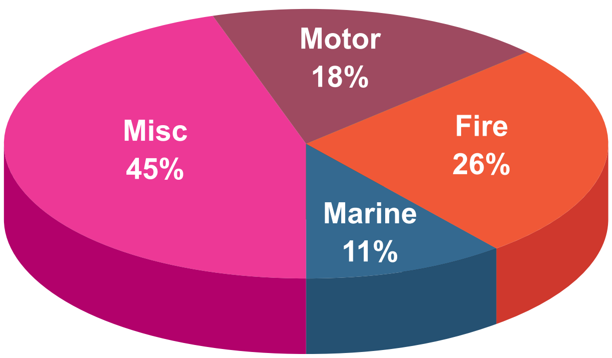


	Technical Provision S$'million	Net Premium S$'million
2009	216.9	131.6
2010	279.1	147.8
2011	325.7	157.0
2012	382.6	181.4
2013	422.9	186.3
2014	441.9	206.4
2015	442.4	184.8
2016	443.3	209.5
2017	449.1	174.1
2018	473.7	235.5
2019	501.2	242.2

Gross Premium
Net Premium

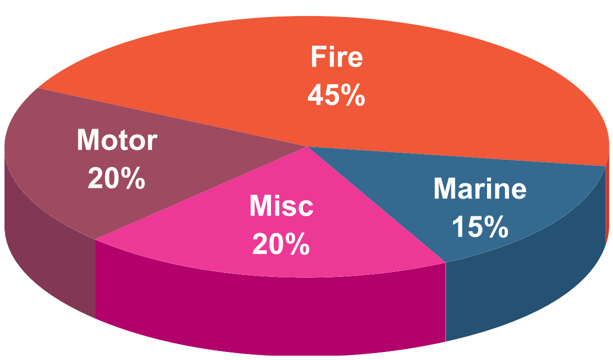
Gross Premium Composition

YEAR 2002



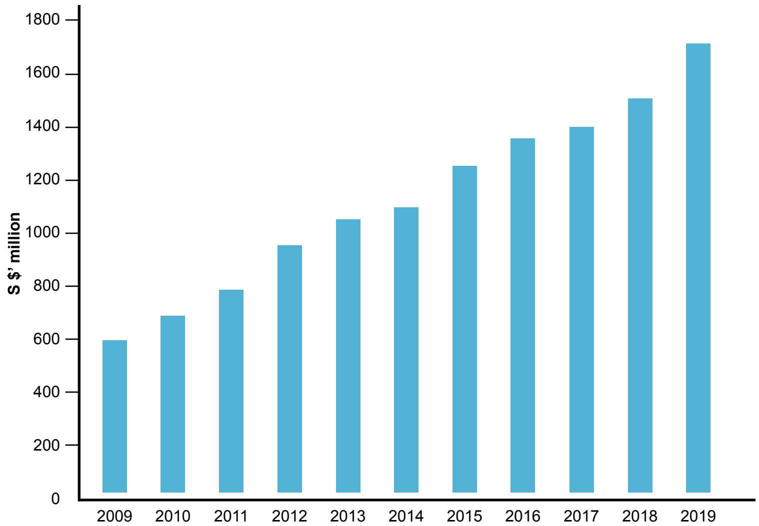
	Year 2002 ($'000)	Year 2019 ($'000)
Marine	3,481	105,446
Fire	7,941	304,108
Motor	5,517	141,452
Misc	13,634	139,904
Total	30,573	690,910

YEAR 2019



FINANCIAL HIGHLIGHTS

Total Assets

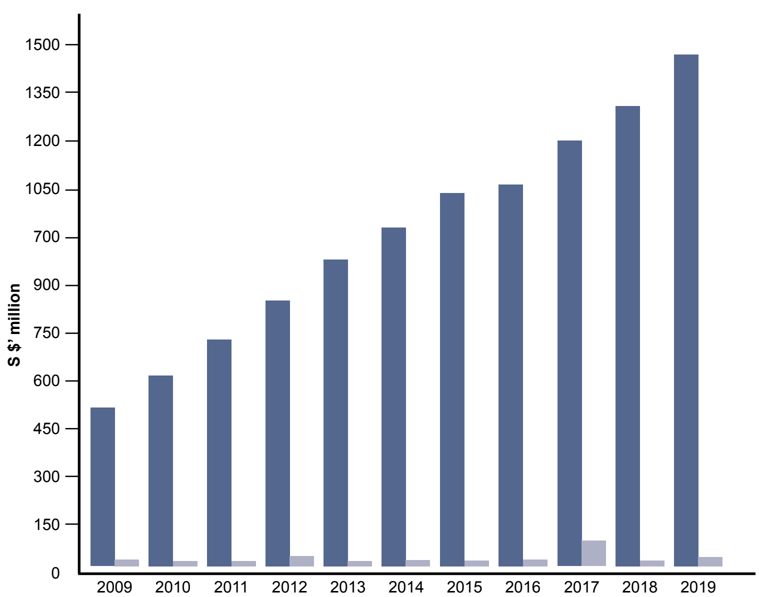


	Total Assets# S$'million
2009	596.1
2010	689.7
2011	785.6
2012	972.8
2013	1,069.9
2014	1,156.0
2015	1,263.8
2016	1,359.4
2017	1,416.5
2018	1,494.0
2019	1,728.1

Total Assets

Excluding reinsurers' share of technical reserves

Total Investment and Investment Income



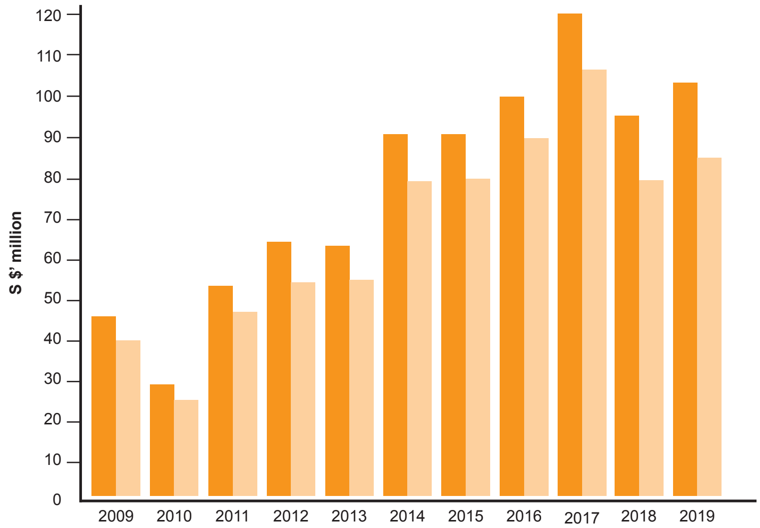
	Total Investment S$'million	Investment Income* S$'million
2009	462.7	28.3
2010	545.6	17.7
2011	652.8	18.7
2012	731.9	48.6
2013	876.2	25.1
2014	947.4	30.5
2015	1,053.9	24.5
2016	1,087.9	31.8
2017	1,213.3	90.8
2018	1,303.0	23.5
2019	1,471.3	39.0

Total Investment

Investment Income

*Before expenses and foreign exchange

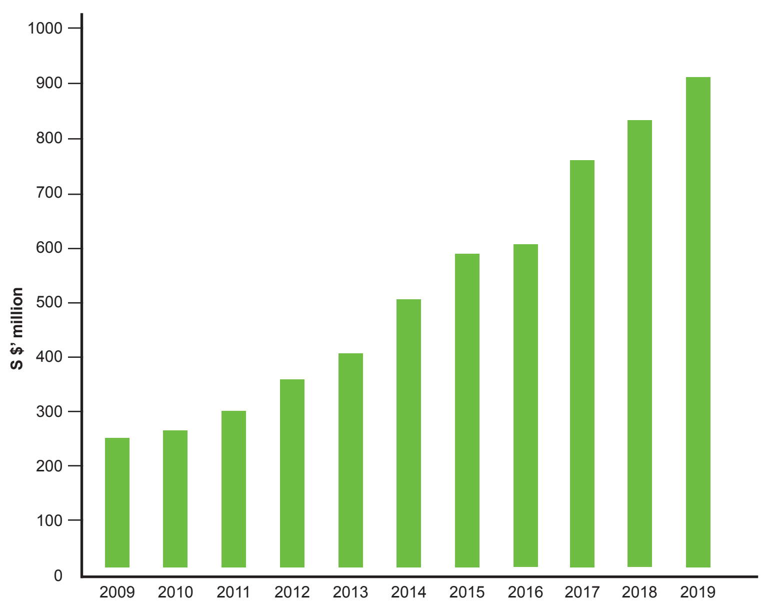
Profit Before and After Tax



	Profit before tax S$'million	Profit after tax S$'million
2008	46.1	40.7
2009	29.1	24.8
2010	53.3	46.5
2011	64.2	54.6
2012	63.6	55.5
2013	92.1	79.4
2014	92.0	80.0
2015	103.9	89.6
2016	119.1	107.5
2017	94.2	80.8
2019	100.3	85.2

Profit before tax
Profit after tax

Shareholder's Equity



	Shareholders' Equity S$'million
2009	243.5
2010	261.6
2011	296.5
2012	357.5
2013	412.1
2014	501.4
2015	578.1
2016	664.2
2017	748.3
2018	828.9
2019	914.7

Shareholders' Equity

The directors present their statement to the members together with the audited financial statements for the financial year ended 31 December 2019.

In the opinion of the directors,

(a) the financial statements set out on pages 21 to 78 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2019, and the financial performance, changes in equity and cash flows of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

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

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

Directors

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

Ker Sin Tze
Ramaswamy Athappan
Ajit Nair
Arumugam Muthu
Lee Kwong Foo, Edward
Hideyuki Tanaka
Kiyoshi Nakagawa (Appointed on 22 May 2019)
Alan John Wilson
Tetsuya Adachi

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 object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or 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 children) in shares, debentures, warrants and share options in the Company and in related corporations 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
Hideyuki Tanaka		
MS&AD Insurance Group Holdings, Inc.		
- Ordinary shares		
- Interests held	5,000	5,000
- Deemed interests	1,860	3,314
- Options in shares		
- Interests held	1,883	3,305
BPI/MS Insurance Corporation		
- Ordinary shares		
- Interests held	1	1
Kiyoshi Nakagawa		
MS&AD Insurance Group Holdings, Inc.		
- Ordinary shares		
- Interests held	1,800	1,800
Alan John Wilson		
MS&AD Insurance Group Holdings, Inc.		
- Options in shares		
- Interests held	664	949
BPI/MS Insurance Corporation		
- Ordinary shares		
- Interests held	1	1
Ueang Mai Co Ltd		
- Ordinary shares		
- Interests held	1	1
Yardhimar Company Limited		
- Ordinary shares		
- Interests held	1	1

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
Ramaswamy Athappan		
MS First Capital Insurance Limited		
- Ordinary shares		
- Interests held	1#	1#

The share is held in trust for the immediate holding corporation, Mitsui Sumitomo Insurance Company, Limited.

Share options

No options were granted during the financial year to subscribe for unissued shares of the Company.

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

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

Independent auditor

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the directors

RAMASWAMY ATHAPPAN
Director

TETSUYA ADACHI
Director

27 March 2020

INDEPENDENT AUDITORS' REPORT

Year ended 31 December 2019

Members of the Company
MS First Capital Insurance Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of MS First Capital Insurance Limited ('the Company'), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 78.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ('the Act') and Financial Reporting Standards in Singapore ('FRSs') so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ('SSAs'). Our responsibilities under those standards are further described in the '*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 the Directors' Statement prior to the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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.

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
Public Accountants and
Chartered Accountants

Singapore
27 March 2020

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Note	2019 $	2018 $
Gross insurance premium income		**690,909,989**	480,190,621
Reinsurance premium ceded to reinsurers		**(448,714,447)**	(244,676,322)
Net insurance premium income		**242,195,542**	235,514,299
Movement in net premium liabilities	15(c)	**(10,400,068)**	(14,163,671)
Movement in net deferred acquisition costs	15(c)	**(9,547,271)**	497,588
Net premiums earned		**222,248,203**	221,848,216
Gross claims paid		**(408,819,712)**	(265,409,359)
Claims recovered from reinsurers		**248,440,468**	125,074,725
Net claims paid	15(a)	**(160,379,244)**	(140,334,634)
Change in loss reserves		**(57,847,593)**	61,352,685
Change in loss reserves recoverable from reinsurers		**50,258,390**	(72,239,281)
Net claims incurred	15(a)	**(167,968,447)**	(151,221,230)
Gross commission		**(107,415,416)**	(70,862,363)
Commission income from reinsurers		**144,575,294**	75,788,003
Net commission earned		**37,159,878**	4,925,640
Employee compensation	7	**(19,324,365)**	(18,275,104)
Depreciation expense on property, plant and equipment	13	**(336,766)**	(268,765)
Depreciation expense on right-of-use assets	22	**(577,969)**	–
Other operating expenses	6	**(2,807,156)**	(3,645,369)
		(23,046,256)	(22,189,238)
Underwriting profit		**68,393,378**	53,363,388
Net investment income	4	**27,823,413**	32,626,235
Finance costs	22	**(48,179)**	–
Other net operating income	5	**4,108,080**	8,217,997
Profit before tax		**100,276,692**	94,207,620
Tax expense	8	**(15,100,000)**	(13,422,084)
Profit for the year		**85,176,692**	80,785,536
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets, available-for-sale			
- Fair value movement	18	**1,276,535**	(202,215)
- Transfer to profit or loss on disposal	18	**(562,556)**	(11,886)
Other comprehensive income, net of tax		**713,979**	(214,101)
Total comprehensive income for the year		**85,890,671**	80,571,435

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

STATEMENT OF FINANCIAL POSITION

For the financial year ended 31 December 2019

	Note	2019 $	2018 $
ASSETS			
Non-current assets			
Property, plant and equipment	13	**9,415,864**	9,543,924
Right-of-use assets	22	**2,430,024**	–
Reinsurers' share of technical reserves	15	**26,065,766**	28,112,528
Mortgage loans	12	**14,646,923**	8,473,048
Financial assets	10	**196,186,168**	63,954,163
		248,744,745	110,083,663
Current assets			
Reinsurers' share of technical reserves	15	**628,438,935**	512,977,264
Insurance and other receivables			
- insurance receivables	11(a)	**205,952,395**	160,807,880
- other receivables	11(b)	**7,589,697**	2,174,580
Mortgage loans	12	**15,000,000**	15,896,000
Financial assets	10	**25,058,373**	2,348,597
Derivative financial instruments		**1,000,232**	896,495
Cash and cash equivalents	9	**1,250,781,846**	1,229,909,800
		2,133,821,478	1,925,010,616
Total assets		**2,382,566,223**	2,035,094,279
EQUITY			
Share capital	17	**26,500,000**	26,500,000
General reserve		**250,000**	250,000
Fair value reserve	18	**1,066,227**	352,248
Retained earnings		**886,927,202**	801,750,510
Total equity		**914,743,429**	828,852,758
LIABILITIES			
Non-current liabilities			
Technical reserves	15	**34,272,207**	36,807,309
Insurance payables	14(a)	**5,909,062**	11,640,712
Lease liabilities	22	**1,418,448**	–
Deferred tax liabilities	16	**327,800**	182,700
		41,927,517	48,630,721
Current liabilities			
Technical reserves	15	**1,121,435,537**	977,948,984
Insurance and other payables			
- insurance payables	14(a)	**275,689,466**	144,481,225
- other payables	14(b)	**12,334,270**	20,600,979
Lease liabilities	22	**1,033,004**	–
Current tax liabilities		**15,403,000**	14,579,612
		1,425,895,277	1,157,610,800
Total liabilities		**1,467,822,794**	1,206,241,521
Total equity and liabilities		**2,382,566,223**	2,035,094,279

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

	Share capital $	General reserve $	Fair value reserve $	Retained earnings $	Total $
Balance at 1 January 2019	26,500,000	250,000	352,248	801,750,510	828,852,758
Profit for the year	–	–	–	85,176,692	85,176,692
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of tax	–	–	713,979	–	713,979
Total comprehensive income for the year	–	–	713,979	85,176,692	85,890,671
Balance at 31 December 2019	**26,500,000**	**250,000**	**1,066,227**	**886,927,202**	**914,743,429**
Balance at 1 January 2018	26,500,000	250,000	566,349	720,964,974	748,281,323
Profit for the year	–	–	–	80,785,536	80,785,536
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of tax	–	–	(214,101)	–	(214,101)
Total comprehensive income for the year	–	–	(214,101)	80,785,536	80,571,435
Balance at 31 December 2018	**26,500,000**	**250,000**	**352,248**	**801,750,510**	**828,852,758**

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

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2019

	Note	**2019**	2018
		$	$
Cash flows from operating activities			
Profit for the year		**85,176,692**	80,785,536
Adjustments for:			
Tax expense	8	**15,100,000**	13,422,084
Depreciation expense on property, plant and equipment	13	**336,766**	268,765
Depreciation expense on right-of-use assets	22	**577,969**	–
Write-off of property, plant and equipment	5	**–**	42
Gain on disposal of financial assets, available-for-sale	4	**(677,756)**	(14,286)
Interest income	4	**(31,027,872)**	(22,626,979)
Accretion of premium, available for sale	4	**293,651**	65,497
Fair value gain on financial assets, at fair value through profit or loss	4	**(7,545,698)**	(896,495)
Finance costs	22	**48,179**	–
Operating cash flow before working capital changes		**62,281,931**	71,004,164
Change in working capital			
Insurance and other receivables		**(45,562,098)**	11,133,274
Movements in net technical reserves		**17,989,271**	25,050,267
Movements in net deferred acquisition costs		**9,547,271**	(497,588)
Insurance and other payables		**117,209,882**	(28,290,476)
Cash generated from operations		**161,466,257**	78,399,641
Interest received		**22,712,292**	19,364,577
Interest payment of lease liabilities		**(48,179)**	–
Income tax paid		**(14,276,612)**	(12,367,957)
Net cash flows from operating activities		**169,853,758**	85,396,261
Cash flows from investing activities			
Purchases of property, plant and equipment	13	**(208,706)**	(254,808)
Purchases of financial assets, available-for-sale		**(284,960,919)**	(68,330,144)
Proceeds from sale/redemption of financial assets, available-for-sale		**131,262,322**	23,903,385
Mortgage loans granted		**(6,200,000)**	(600,000)
Mortgage loans repayments received		**922,125**	9,460,040
Interest received		**3,318,046**	2,688,133
Derivative financial instruments		**7,441,961**	(308,394)
Net cash flows used in investing activities		**(148,425,171)**	(33,441,788)
Cash flows from financing activities			
Payment of lease liabilities		**(556,541)**	–
Net cash used in financing activities		**(556,541)**	–
Net increase in cash and cash equivalents		**20,872,046**	51,954,473
Cash and cash equivalents at beginning of the financial year		**1,229,909,800**	1,177,955,327
Cash and cash equivalents at end of the financial year	9	**1,250,781,846**	1,229,909,800

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

1. General

The Company is incorporated and domiciled in Singapore. The address of its registered office is 6 Raffles Quay #21-00 Singapore 048580.

The principal activity of the Company consists of the acceptance of general insurance and reinsurance business and performance of investment functions incidental thereto. There have been no significant changes in the nature of these activities during the year.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

This is the first set of the Company's annual financial statements in which FRS 116 *Leases* has been applied. The related changes to significant accounting policies are described in Note 2.2.

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The assets and liabilities of the Company which relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act, Chapter 142. Such assets and liabilities are accounted for in the books of the respective insurance funds established under Section 17 of the Insurance Act. The net assets of the Company held in the insurance funds must be sufficient to meet the solvency requirements stipulated in Section 18 of the Insurance Act at all times. Assets held in the insurance funds may be withdrawn only if the withdrawal meets the requirements stipulated in Section 17 and the Company continues to be able to meet the solvency requirements of Section 18 of the Insurance Act. All other assets and liabilities are accounted for in the books of the "shareholders' fund".

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

2. Significant accounting policies (continued)

2.2 Changes in accounting policies

New standards and amendments

The Company has applied FRS 116 Leases for the first time for the annual period beginning on 1 January 2019.

The application of FRS 116 does not have a material effect on the financial statements.

FRS 116 *Leases*

The Company applied FRS 116 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under FRS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in FRS 116 have not generally been applied to comparative information.

Definition of a lease

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

On transition to FRS 116, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied FRS 116 only to contracts that were previously identified as leases. Contracts that were not identified as leases under FRS 17 and INT FRS 104 were not reassessed for whether there is a lease under FRS 116. Therefore, the definition of a lease under FRS 116 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

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

2. Significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

FRS 116 *Leases (continued)*

As a lessee (continued)

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

Leases classified as operating leases under FRS 17

Previously, the Company classified property leases as operating leases under FRS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the respective lessee entities incremental borrowing rates applicable to the leases as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying FRS 116 to leases previously classified as operating leases under FRS 17. In particular, the Company:
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Impact on financial statements

Impact on transition

On transition to FRS 116, the Company did not recognise additional right-of-use assets and additional lease liabilities in retained earnings as the Company assessed the impact to be immaterial.

2. Significant accounting policies (continued)

2.3 Revenue recognition

The recording of premium revenue and the determination of underwriting results of each financial year reflect delays in receipt of information from cedants and brokers. Premium income on direct and facultative insurance business is recognised at the time a policy is issued on the basis of final closing advices received from cedants and brokers. Reinsurance premium income on inward treaty insurance business is recognised on the basis of the returns and statement of accounts received from cedants and brokers.

Reinsurance commission income is recognised as revenue on a basis that is consistent with the recognition of the costs incurred on the acquisition of underlying reinsurance contracts (see Note 2.5).

Reinsurance profit commission income is recognised based on the terms of the underlying reinsurance contract, and when the amount of revenue and related cost of the reinsurance transaction can be reliably measured.

Interest income on short-term bank deposits, corporate bonds and mortgage loans is accounted for using the effective interest method. Dividends from equity investments are taken up in profit or loss in the accounting period in which the right to receive payment is established.

2.4 Product classification

All the Company's existing products are insurance contracts as defined in FRS 104 '*Insurance Contracts*'. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or where at 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.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

2. Significant accounting policies (continued)

2.5 Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets comprise of reinsurers' share of technical reserves and claims recoverable from reinsurers.

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in statement of financial position as reinsurers' share of technical provisions.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Reinsurance assets are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

2.6 Loss reserves

Claims are charged to profit or loss when incurred based on the estimated liability for compensation owed to policyholders or for damage suffered by third party claimants. They comprise direct and indirect claims settlement costs including loss adjustment expenses and professional fees, and arise from events that have occurred up to the reporting date.

Loss reserves and reinsurance and other recoveries are assessed by reviewing individual claims, advice from ceding and broking companies, and making allowance for claims incurred but not reported, taking into consideration foreseeable events, past experience and trends. These loss reserves are reviewed by actuaries. Any reduction or increase in the provision is dealt with in profit or loss in the year in which the reduction or increase arises. Any difference between the estimated cost and subsequent settlement is dealt with in profit or loss in the year in which settlement takes place.

2. Significant accounting policies (continued)

2.6 Loss reserves (continued)

In line with section 37(1)(b) of the Singapore Insurance Act, an actuarial investigation is made on the net claim liabilities, and a provision for adverse deviation at a minimum 75% level of confidence is included in the net loss reserves.

Net claim liabilities is an amount not less than the value of the expected future payments in relation to all claims incurred prior to the valuation date (other than payments which have fallen due for payment before the valuation date), whether or not they have been reported to the insurer, including any expense expected to be incurred in settling those claims and provision for any adverse deviation from the expected experience, calculated based on the 75% level of sufficiency.

2.7 Premium liabilities

Premium liabilities relate to reserves established to cover the unexpired portion of premium written. Premium liabilities are calculated as an amount not less than the aggregate unearned premium reserves or the unexpired risk reserves, whichever is higher.

Unearned premium reserves are calculated on gross premiums written during the financial year less premiums on reinsurances, using the following methods:

For direct business	
- Marine cargo business	25% method
- All other class of business	1/365th method
For reinsurance business	
- Marine cargo business	25% method
- All other class of business	
- Proportional treaties	40% method
- Facultative	1/365th method

Where the 1/365th method is used, provision for unearned premiums is determined after allowing for acquisition costs.

Unexpired risk reserve as at the reporting date is calculated based on the requirements under section 19 of the Insurance (Valuation and Capital) Regulations 2004 and any amendments thereof.

Unexpired risk reserve as at the reporting date is the sum of the value of the expected future payments arising from future events insured under policies in force as at the valuation date, including any expenses expected to be incurred in administering the policies and settling relevant claims and any provision for any adverse deviation from the expected experience, calculated based on the 75% level of sufficiency.

2. Significant accounting policies (continued)

2.8 Deferred acquisition costs

Acquisition costs are deferred and amortised over the period of the insurance cover. The deferred acquisition costs comprise the portion of the commissions incurred in connection with acquisition or renewal of insurance policies that relate to the unearned premiums.

2.9 Liability adequacy tests

The liability of the Company under insurance contracts is tested for adequacy by comparing the expected future contractual cash flows with the carrying amount of the technical reserves for unexpired risks and insurance claims. Where an expected shortfall is identified, additional provisions are made for unexpired risks or insurance claims and the deficiency is recognised in profit or loss.

2.10 Property, plant and equipment

(a) *Measurement*

(i) Land and building

Land and building are initially recorded at cost. No depreciation is provided on freehold land; however the carrying value is adjusted for any impairment losses. Building are subsequently stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(b) *Depreciation*

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

Motor vehicles	10 years
Office equipment	5 years
Furniture and fittings	5 years
Building on freehold land	40 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are recognised in profit or loss when the changes arise.

2. Significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

(c) *Subsequent expenditure*

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured. All other repair and maintenance expense is recognised in profit or loss when incurred.

(d) *Disposal*

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognised in profit or loss.

2.11 Impairment of non-financial assets

Property, plant and equipment

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the Cash Generating Unit ("CGU") to which the asset belongs to.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease to the extent of any previously recorded revaluation.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

2. Significant accounting policies (continued)

2.11 Impairment of non-financial assets (continued)

Property, plant and equipment (continued)

A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment is also recognised in profit or loss.

2.12 Financial assets

(a) Classification

The Company classifies its investments in financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets, at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented Company investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are presented as current assets, except for those maturing later than 12 months after the reporting date which are presented as non-current assets.

Loans and receivables comprise cash and cash equivalents, other receivables and mortgage loans.

2. Significant accounting policies (continued)

2.12 Financial assets (continued)

(a) Classification (continued)

(ii) Loans and receivables (continued)

Cash and cash equivalents comprise cash balances and bank deposits, and are used by the Company in the management of its short-term commitments.

(iii) Financial assets, available-for-sale

Financial assets, available-for-sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the reporting date.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in the fair value reserve relating to that asset is transferred to profit or loss.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately in profit or loss.

2. Significant accounting policies (continued)

2.12 Financial assets (continued)

(d) Subsequent measurement

Financial assets, both available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets, at fair value through profit or loss are recognised in profit or loss when the changes arise. The effects of currency translation, interest and dividend income are recognised separately in profit or loss.

Interest and dividend income on financial assets, available-for-sale are recognised separately in profit or loss. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in the fair value reserve.

Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

(e) Impairment

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

2. Significant accounting policies (continued)

2.12 Financial assets (continued)

(e) Impairment (continued)

(i) Loans and receivables (continued)

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Financial assets, available-for-sale

Significant or prolonged declines in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

The cumulative loss that was recognised in the fair value reserve is transferred to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss on debt securities. The impairment losses recognised in profit or loss on equity securities are not reversed through profit or loss.

2.13 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the reporting date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analyses, are also used to determine the fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2. Significant accounting policies (continued)

2.14 Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

2.15 Receivables and payables related to insurance contracts

Insurance receivables and insurance payables are recognised on the date that the Company becomes a party to the insurance contract. These include amounts due to and from insurance contract holders. They are measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, receivables and payables are measured at amortised cost, using the effective interest rate method.

The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If there is objective evidence that the insurance receivables is impaired, the Company reduces the carrying amount of the insurance receivables and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets. Insurance receivables and insurance payables are derecognised based on the same derecognition criteria as financial assets and liabilities respectively, as described in note 2.12(b).

2.16 Tax

Current tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

2. Significant accounting policies (continued)

2.16 Tax (continued)

A deferred tax liability is recognised on temporary differences arising on investment in subsidiary, except where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred tax is measured:

(i) at the tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date; and

(ii) based on the tax consequence that will follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.17 Provisions

Provisions for other liabilities and charges are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in profit or loss as finance expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

2. Significant accounting policies (continued)

2.18 Employee compensation

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The Company's contributions are recognised as employee compensation expense when they are due.

Annual Leave

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

2.19 Currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The functional currency of the Company is the Singapore dollar.

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

2.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2. Significant accounting policies (continued)

2.21 Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

2.22 Leases

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

Policy applicable from 1 January 2019

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

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

As a lessee

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

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

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

2. Significant accounting policies (continued)

2.22 Leases (continued)

Policy applicable from 1 January 2019 (continued)

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

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

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

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

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

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

2.22 Leases (continued)

Policy applicable before 1 January 2019

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

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

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

3. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Insurance liabilities

Assumptions and sensitivities

(i) Process used to decide on assumptions

The major classes of general insurance written by the Company include property, motor, work injury compensation, professional indemnity, marine hull and cargo, and miscellaneous. For general insurance contracts, claims provisions (comprising provision for claims reported by policyholders and claims incurred but not reported ("IBNR")) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The best estimates of claims liabilities have been determined from the projected ultimate claim liabilities based on different methods, including the incurred loss development, the paid loss development, the Bornhuetter-Ferguson method and/or the expected loss ratio method.

Claims paid and incurred claims net of reinsurance recoveries were obtained for each of the last 12 years, as well as for 2007 and prior, and shown in a triangular form by accident/underwriting year and development year. Then, ratios of claim amounts at successive development years were calculated to build loss development factor triangles

For direct and facultative business, the incurred loss development method has been used to select the ultimate best estimates for 2015 and prior accident/underwriting years, as the actual claims experience in these periods are generally more stable. For more recent periods (i.e. 2016-2019 accident/underwriting years) where there is greater uncertainty, a combination of the claims experience and loss ratio assumptions, such as the Bornhuetter-Ferguson method and the expected loss ratio method, are used. In addition, allowance for late reported large losses based on the reporting and development patterns of historical large losses are applied.

For treaty business where little claim information was available as of the valuation date, greater reliance is placed on the expected loss ratio method for the 2018-2019 underwriting years. For 2017 and prior underwriting years where claims experience is generally more stable, a combination of methods, such as the IBNR to case estimates ratios and factor-to-ultimate ratios, are used in selecting the ultimate best estimates.

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(i) Process used to decide on assumptions (continued)

In estimating the ultimate best estimates for treaty business, an estimate of the claims that have been incurred but not reported by the cedants as at the valuation date is included.

The claims data includes external claims handling expenses, but does not include internal claims handling expenses. A provision for internal claims expenses ("ULAER") has been determined for the direct and facultative business, based on the ratio of paid ULAE to net average of paid and incurred losses of 7.5%. This ULAE percentage was applied to one half of the total of the case reserves plus the IBNR.

Acquisition expenses are assumed to have been incurred at the date of writing the policy and hence do not form parts of the loss reserving exercise.

Non-reinsurance recoveries, including salvage and subrogation, were not specifically analysed in this valuation. However, they would implicitly be allowed for in the valuation method, where past recovery patterns are assumed to continue into the projected future years.

The best estimates for premium liabilities are determined such that the total premium liability provision would be sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation date.

A discounting factor for future investment earnings has been applied to claim and premium provisions. The selected discount rate of 1.73% is consistent with posted one-year government bond yields.

No explicit inflation adjustment has been made to claim amounts payable in the future. This inflation is, however, implicitly allowed for in the valuation method, where past inflation patterns are assumed to continue into the projected future years.

The provision for adverse deviation ("PAD") allows for inherent uncertainty of the best estimate of the insurance liabilities. It takes into consideration the variability of claim experience within a class of business (PAD before diversification) and also the diversification between classes of business (diversification allowance).

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(i) Process used to decide on assumptions (continued)

To estimate the variability around the best estimate, an internal model based on internal company data was used. In deriving the 75% level of sufficiency for the claims liabilities, a Bootstrap method was used.

Bootstrapping procedures are useful when the theoretical distribution of a statistic of interest is complicated or unknown.

The indicated PAD loading for the claims liabilities is based on the ratio of the 75% estimate to the mean estimate of the total claims reserves from the model. Based on the model output and judgement, the PAD loading is selected for claims liabilities.

Whilst there is inherent uncertainty attached to risks in respect to claims liabilities, the corresponding PAD for premium liabilities would be subject to a higher level of uncertainty as the claim events relating to unexpired policies have yet to occur. The Company has assumed that the PAD loading for premium liabilities is a multiple of the selected PAD loading for claims liabilities.

(ii) Change in assumptions and sensitivity analysis

The Company maintains separate insurance funds – SIF and OIF – for each class of insurance business carried on by the Company that relates to Singapore policies and offshore policies respectively. The Company's insurance liabilities are analysed on a fund level basis i.e. SIF and OIF and not at Company level.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect to its insurance contracts. Certain assumptions can be expected to impact the actuarial liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(iii) Change in assumptions and sensitivity analysis (continued)

The following analyses have been prepared for a change in one variable with all other variables remaining constant and ignore changes in values of related assets. The Company recognised that some of the assumptions are interdependent but it will be difficult to analyse such dependencies.

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

- Initial Expected Loss Ratio ("IELR") for accident/underwriting year 2019;
- Selected Ultimate Loss Ratio ("ULR") for accident/underwriting year 2019

The result of the sensitivity analysis (net of reinsurance) and the impact on the unexpired risk reserves and claim liabilities as at 31 December are as follows:

Singapore Insurance Fund ("SIF")

	IELR		**ULR**	
	+15%	**-15%**	**+15%**	**-15%**
	$'000	**$'000**	**$'000**	**$'000**
2019				
Unexpired risk reserves	–	–	5,206	(5,206)
Claims liabilities	5,760	(5,760)	13,249	(13,249)
Total	**5,760**	**(5,760)**	**18,455**	**(18,455)**
2018				
Unexpired risk reserves	–	–	5,415	(5,415)
Claims liabilities	8,717	(10,018)	16,183	(17,484)
Total	8,717	(10,018)	21,598	(22,899)

Offshore Insurance Fund ("OIF")

	IELR		**ULR**	
	+15%	**-15%**	**+15%**	**-15%**
	$'000	**$'000**	**$'000**	**$'000**
2019				
Unexpired risk reserves	–	–	9,351	(9,351)
Claims liabilities	9,197	(9,197)	14,301	(14,301)
Total	**9,197**	**(9,197)**	**23,652**	**(23,652)**
2018				
Unexpired risk reserves	–	–	6,984	(6,984)
Claims liabilities	8,726	(8,726)	13,612	(13,612)
Total	**8,726**	(8,726)	20,596	**(20,596)**

3. Critical accounting estimates and judgements (continued)

(a) Insurance liabilities (continued)

Assumptions and sensitivities (continued)

(ii) Change in assumptions and sensitivity analysis (continued)

The actual loss development on SIF direct and facultative business on an accident year basis was better than expected by $23.4 million. Actual loss development on SIF direct and facultative business on an underwriting year basis was better than expected by $14.3 million. Overall, SIF direct and facultative business reported loss development of $1.1 million, which was better than expected loss development of $38.8 million by $37.7 million. For more homogenous grouping of business, taxi fleet programs (SMRT, Comfort, SMART, TransCab, Prime Car and CityCab), as well as Singapore Law Society professional indemnity direct business, are separated out from Motor and Miscellaneous lines respectively and analysed on an underwriting year basis. For SIF Inward Treaties and Runoff business, ultimate loss estimates are lower by $3.5 million.

The ultimate loss estimates on SIF business for this year's valuation are lower than last year's by $30.5 million, stemming from decreases in most prior years.

The actual loss development on OIF direct and facultative business on an accident year basis of $3.7 million was better than expected loss development of $16.5 million by $12.8 million. For OIF Inward Treaties and Runoff Business, ultimate loss estimates are lower by $0.3 million.

The ultimate loss estimates on OIF business for this year's valuation are lower than last year's by $8.1 million, also stemming from decreases in most of prior years.

(b) Investments in financial assets

Impairment of financial assets, available-for-sale

The Company follows the guidance of FRS 39 in determining when an investment is considered impaired. This determination requires significant judgment. The Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health of and near-term business outlook of the issuer of the instrument, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

3. Critical accounting estimates and judgements (continued)

(c) Taxes

The Company is subject to Singapore income tax laws. Judgment is involved in determining the Company's provision for income taxes. The Company recognises liabilities for tax based on estimates. For these estimates the ultimate tax determination is based on the final assessment. Where the final assessment is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Premium recognition

In line with the Company's accounting policy described in Note 2.3, the Company records premium income from businesses in pipeline only upon receipt of documents from counterparty, rather than recording it as of the date of inception of risk.

The directors are of the view that due to the nature of the business, specifically where it relates to large risks, recording of the premium should only be done upon receipt of documents from the counterparty and consider the impact of the time lag to the financial statements as being insignificant as this application has been adopted consistently year on year and that the insurance liabilities recognised as at 31 December 2019 are adequate. In addition, the directors have also considered the credit risk arising from the unprocessed business not recognised as at 31 December 2019 to be insignificant.

4. Net investment income

	2019	2018
	$	$
Fair value gains		
- financial assets, fair value through profit or loss	**7,545,698**	896,495
Realised gains on disposal		
- financial assets, available-for-sale	**677,756**	14,286
Interest income	**31,027,872**	22,626,979
Net amortisation of premium	**(293,651)**	(65,497)
Investment expenses	**(108,121)**	(35,598)
Net (loss)/gain on foreign exchange	**(11,026,141)**	9,189,570
Net investment income	**27,823,413**	32,626,235

5. Other net operating income

	2019 $	2018 $
Brokerage income	**1,303,873**	1,087,510
Net currency exchange gain/(loss) on operations	**351,593**	(89,690)
Write-off of property, plant & equipment	**–**	(42)
Allowance for impairment of receivables	**(51,505)**	(92,356)
Service fee income/(refund)	**761,261**	(671,447)
Income from writeback of balances	**–**	6,504,385
Miscellaneous income	**1,742,858**	1,479,637
	4,108,080	8,217,997

6. Other operating expenses

	2019 $	2018 $
Professional fees	**482,227**	532,040
Rental & occupancy expenses	**645,159**	1,193,060
Management fees	**250,000**	–
Directors' fees	**225,000**	225,000
Advertising and promotional expenses	**155,333**	304,936
Travelling expenses	**227,524**	266,127
Levy and subscriptions	**123,528**	85,371
Computer supplies & maintenance	**219,342**	303,580
Miscellaneous expenses	**479,043**	735,255
	2,807,156	3,645,369

7. Employee compensation

	2019 $	2018 $
Wages and salaries	**17,173,879**	16,264,796
Other benefits	**605,447**	583,860
Employer's contribution to defined contribution plans including Central Provident Fund	**1,545,039**	1,426,448
	19,324,365	18,275,104

8. Tax expense

Tax recognised in profit or loss

	2019 $	2018 $
Tax expense attributable to profit is made up of:		
Current income tax - Singapore	**15,100,000**	13,400,000
Deferred tax (Note 16)	**–**	10,000
Under provision in prior years	**–**	12,084
Tax charge	**15,100,000**	13,422,084

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax as explained below:

	2019 $	2018 $
Profit before tax	**100,276,692**	94,207,620
Tax calculated at a tax rate of 17% (2018: 17%)	**17,047,038**	16,015,295
Effects of:		
- Income not subject to tax	**(6,120)**	(4,759)
- Expenses not deductible for tax purposes	**50,406**	40,467
- Effect of income taxed at rate of 10%	**(3,078,407)**	(2,999,014)
- Singapore statutory stepped income exemption	**(25,925)**	(25,925)
- Under provision of tax in prior years	**–**	12,084
- Others	**1,113,008**	383,936
	15,100,000	13,422,084

Pursuant to Section 43C of the Singapore Income Tax Act, Chapter 134, income from offshore business is subject to the tax concessionary rate of 10% instead of the standard rate of 17%.

The Company’s tax liabilities have been measured based on the corporate tax rate and tax laws prevailing at reporting date.

9. Cash and cash equivalents

	2019	2018
	$	$
Cash at bank and on hand	**29,445,665**	17,242,324
Short-term bank deposits	**1,221,336,181**	1,212,667,476
	1,250,781,846	1,229,909,800

Short-term bank deposits at the reporting date had maturity ranging between 1- 6 months (2018: 1 month) from the end of the financial year with the following weighted average effective interest rates:

	2019	2018
Singapore Dollar	**2.16%**	1.89%
United States Dollar	**2.26%**	2.60%
Others	**3.34%**	2.67%

10. Financial assets

Financial assets, available-for-sale are analysed as follows:

	2019	2018
	$	$
Debt securities:		
- Listed	**200,087,689**	64,808,682
- Unlisted	**21,156,852**	1,494,078
Total financial assets, available-for-sale	**221,244,541**	66,302,760
Current	**25,058,373**	2,348,597
Non-current	**196,186,168**	63,954,163
Total financial assets, available-for-sale	**221,244,541**	66,302,760

The debt securities are fixed rate bonds with a weighted average effective interest rate of 3.11% (2018: 3.28%).

11. Insurance and other receivables

(a) Insurance receivables

	2019 $	2018 $
Amounts due from insureds, agents, brokers, insurers and reinsurers		
- External receivables	**201,098,220**	157,166,934
- Immediate holding company	**278,639**	442,338
- Related companies	**5,529,734**	4,101,301
	206,906,593	161,710,573
Less: Allowance for impairment of receivables	**(954,198)**	(902,693)
Total insurance receivables	**205,952,395**	160,807,880

(b) Other receivables

	2019 $	2018 $
Deposits	**426,427**	437,208
Accrued interest and dividends	**6,480,568**	1,483,034
Other receivables	**475,121**	28,644
Prepayments	**207,581**	225,694
	7,589,697	2,174,580

12. Mortgage loans

	2019 $	2018 $
Mortgage loans maturing within 1 year	**15,000,000**	15,896,000
Mortgage loans maturing after 1 year	**14,646,923**	8,473,048
	29,646,923	24,369,048

Mortgage loans are secured with interest rates ranging from 2.77% to 7.00% per annum (2018: 2.00% to 7.00% per annum).

13. Property, plant and equipment

	Motor vehicles $	Office equipment $	Furniture and fittings $	Building $	Land $	Total $
2019						
Cost						
At 1 January 2019	**429,999**	**1,719,708**	**1,128,121**	**2,350,000**	**7,264,164**	**12,891,992**
Additions	**–**	**207,046**	**1,660**	**–**	**–**	**208,706**
At 31 December 2019	**429,999**	**1,926,754**	**1,129,781**	**2,350,000**	**7,264,164**	**13,100,698**
Accumulated depreciation						
At 1 January 2019	**49,044**	**1,376,168**	**982,856**	**940,000**	**–**	**3,348,068**
Depreciation for the year	**45,273**	**173,630**	**59,113**	**58,750**	**–**	**336,766**
At 31 December 2019	**94,317**	**1,549,798**	**1,041,969**	**998,750**	**–**	**3,684,834**
Net book value at 31 December 2019	**335,682**	**376,956**	**87,812**	**1,351,250**	**7,264,164**	**9,415,864**
2018						
At 1 January 2018	414,422	1,490,734	1,130,060	2,350,000	7,264,164	12,649,380
Additions	15,577	229,186	10,045	–	–	254,808
Written off	–	(212)	–	–	–	(212)
Disposals	–	–	(11,984)	–	–	(11,984)
At 31 December 2018	429,999	1,719,708	1,128,121	2,350,000	7,264,164	12,891,992
Accumulated depreciation						
At 1 January 2018	3,610	1,280,290	926,307	881,250	–	3,091,457
Depreciation for the year	45,434	96,048	68,533	58,750	–	268,765
Written off	–	(170)	–	–	–	(170)
Disposals	–	–	(11,984)	–	–	(11,984)
At 31 December 2018	49,044	1,376,168	982,856	940,000	–	3,348,068
Net book value at 31 December 2018	**380,955**	**343,540**	**145,265**	**1,410,000**	**7,264,164**	**9,543,924**

The fair value of the office building for the Company as at 31 December 2019 was approximately $30,000,000 (2018: $30,000,000). The property of the Company was valued by an independent professional valuer based on the property highest-and-best use using the sales comparison approach as at 11 December 2017. Under the sales comparison approach, the recent sale prices of properties in close proximity are adjusted for differences in key attributes such as tenure, location, condition of the properties. The most significant input into this valuation approach is selling price per square foot.

14. Insurance and other payables

(a) Insurance payables

At the reporting date, the carrying amounts of balances due to agents, brokers and reinsurers approximated their fair values.

	2019	2018
	$	$
Amounts due to insureds, agents, brokers, insurers and reinsurers		
- External payables	**281,015,607**	155,937,296
- Immediate holding company	**–**	5,724
- Related companies	**582,921**	178,917
	281,598,528	156,121,937

(b) Other payables

	2019	2018
	$	$
Cash collateral	**1,830,037**	9,919,304
Accrued operating expenses	**1,956,320**	3,348,221
Amount due to related company	**247,190**	250,560
Other creditors	**8,300,723**	7,082,894
	12,334,270	20,600,979

15. Technical reserves

	2019 $	2018 $
Technical reserves		
- premium liabilities	**292,247,340**	209,143,484
- loss reserves	**863,460,404**	805,612,809
Total technical reserves, gross	**1,155,707,744**	1,014,756,293
Reinsurers' share of technical reserves		
- premium liabilities on reinsurance ceded	**173,626,400**	110,469,883
- loss reserves recoverable from reinsurers	**480,878,301**	430,619,909
Total reinsurers' share of technical reserves	**654,504,701**	541,089,792
Net		
- premium liabilities	**118,620,940**	98,673,601
- loss reserves	**382,582,103**	374,992,900
Total technical reserves, net	**501,203,043**	473,666,501

	2019 $	2018 $
Technical reserves are disclosed as follows:		
Current	**492,996,603**	464,971,720
Non-current	**8,206,440**	8,694,781
	501,203,043	473,666,501

(a) Movements in net loss reserves are as follows:

	2019 $	2018 $
Balance at beginning of financial year	**374,992,900**	364,106,304
Net claims paid	**(160,379,244)**	(140,334,634)
Claims incurred	**167,968,447**	151,221,230
Balance at end of financial year	**382,582,103**	374,992,900

(b) Loss development triangles

Disclosed below is an exhibit that shows the development of claims over a period of time on a gross and net of reinsurance basis. The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive accident and underwriting year at each reporting date, together with cumulative claims as at the current reporting date.

15. Technical reserves (continued)

(b) Loss development triangles

Loss reserves (Gross)

Direct & Facultative Lines Accident Year Basis
As at 31 December 2019

2019	2015	2016	2017	2018	2019	Total
Accident Year	$	$	$	$	$	$
Estimate of ultimate claim costs:						
- At end of accident year	277,353,568	271,138,805	266,521,592	236,655,170	354,035,992	
- one year later	263,379,015	260,113,205	258,110,881	224,421,628		
- two years later	248,803,416	237,400,979	240,222,416			
- three years later	236,841,093	237,826,084				
- four years later	222,932,286					
Current estimate of cumulative claims	222,932,286	237,826,084	240,222,416	224,421,628	354,035,992	1,279,438,406
Cumulative payments to date	(193,778,395)	(188,464,407)	(158,762,663)	(103,476,082)	(142,142,217)	(786,623,764)
Liability recognised in actuarial valuation	29,153,891	49,361,677	81,459,753	120,945,546	211,893,775	492,814,642

Direct/Treaty Lines Underwriting Year Basis
As at 31 December 2019

	2015	2016	2017	2018	2019	Total
Underwriting Year	$	$	$	$	$	$
Estimate of ultimate claim costs:						
- At end of underwriting year	53,507,297	55,573,915	61,916,810	96,878,136	106,712,335	
- one year later	89,862,466	91,042,119	96,106,686	143,839,632		
- two years later	93,080,446	95,492,216	98,559,851			
- three years later	93,856,599	92,723,732				
- four years later	91,958,837					
Current estimate of cumulative claims	91,958,837	92,723,732	98,559,851	143,839,632	106,712,335	533,794,387
Cumulative payments to date	(84,760,890)	(80,279,153)	(79,180,915)	(83,883,127)	(15,687,957)	(343,792,042)
Liability recognised in actuarial valuation	7,197,947	12,444,579	19,378,936	59,956,505	91,024,378	190,002,345

Total All Lines (Direct & Facultative & Treaty)	
Liability recognised in actuarial valuation	682,816,987
Reserve in respect of prior years	87,753,646
Total reserve including ULAE	770,570,633
PAD, Discounting	88,240,458
Total reserve included in actuarial valuation	858,811,091
Total reserve included in the statement of financial position	863,460,404

Direct & Facultative Lines Accident Year Basis
As at 31 December 2018

2018	2014	2015	2016	2017	2018	Total
Accident Year	$	$	$	$	$	$
Estimate of ultimate claim costs:						
- At end of accident year	278,592,505	277,353,568	271,138,805	266,521,592	236,655,170	
- one year later	289,368,606	263,379,015	260,113,205	258,110,881		
- two years later	302,228,755	248,803,416	237,400,979			
- three years later	269,705,415	236,841,093				
- four years later	251,962,974					
Current estimate of cumulative claims	251,962,974	236,841,093	237,400,979	258,110,881	236,655,170	1,220,971,097
Cumulative payments to date	(223,844,229)	(181,933,296)	(167,874,195)	(119,981,614)	(32,389,037)	(726,022,371)
Liability recognised in actuarial valuation	28,118,745	54,907,797	69,526,784	138,129,267	204,266,133	494,948,726

15. Technical reserves (continued)

(b) Loss development triangles (continued)

Loss reserves (Gross) (continued)

	Direct/Treaty Lines Underwriting Year Basis As at 31 December 2018					
	2014	2015	2016	2017	2018	Total
Underwriting Year	$	$	$	$	$	$
Estimate of ultimate claim costs:						
- At end of underwriting year	51,416,485	53,507,297	55,573,915	61,916,810	96,878,136	
- one year later	80,587,884	89,862,466	91,042,119	96,106,686		
- two years later	86,454,099	93,080,446	95,492,216			
- three years later	85,148,038	93,856,599				
- four years later	81,439,056					
Current estimate of cumulative claims	81,439,056	93,856,599	95,492,216	96,106,686	96,878,136	463,772,693
Cumulative payments to date	(69,706,184)	(79,266,345)	(75,273,383)	(58,772,006)	(17,881,228)	(300,899,146)
Liability recognised in actuarial valuation	11,732,872	14,590,254	20,218,833	37,334,680	78,996,908	162,873,547

Total All Lines (Direct & Facultative & Treaty)	
Liability recognised in actuarial valuation	657,822,273
Reserve in respect of prior years	73,578,374
Total reserve including ULAE	731,400,647
PAD, Discounting	73,512,578
Total reserve included in actuarial valuation	804,913,225
Total reserve included in the statement of financial position	805,612,809

Loss reserves (Net)

	Direct & Facultative Lines Accident Year Basis As at 31 December 2019					
2019	2015	2016	2017	2018	2019	Total
Accident Year	$	$	$	$	$	$
Estimate of ultimate claim costs:						
- At end of accident year	104,540,573	94,566,547	79,321,731	96,902,398	88,759,842	
- one year later	101,451,166	94,957,755	86,884,976	88,295,755		
- two years later	97,458,042	83,056,073	81,345,370			
- three years later	86,672,545	79,631,665				
- four years later	81,903,046					
Current estimate of cumulative claims	81,903,046	79,631,665	81,345,370	88,295,755	88,759,842	419,935,678
Cumulative payments to date	(71,593,316)	(61,915,331)	(54,206,643)	(44,024,839)	(18,178,305)	(249,918,434)
Liability recognised in actuarial valuation	10,309,730	17,716,334	27,138,727	44,270,916	70,581,537	170,017,244

	Direct/Treaty Lines Underwriting Year Basis As at 31 December 2019					
	2015	2016	2017	2018	2019	Total
Underwriting Year	$	$	$	$	$	$
Estimate of ultimate claim costs:						
- At end of underwriting year	29,267,577	30,349,724	37,656,634	88,431,398	69,779,707	
- one year later	62,832,688	64,597,654	69,719,958	123,177,511		
- two years later	64,495,402	67,551,607	73,248,266			
- three years later	63,755,357	65,302,237				
- four years later	61,768,660					
Current estimate of cumulative claims	61,768,660	65,302,237	73,248,266	123,177,511	69,779,707	393,276,381
Cumulative payments to date	(58,184,932)	(58,863,099)	(61,505,341)	(75,220,179)	(13,173,149)	(266,946,700)
Liability recognised in actuarial valuation	3,583,728	6,439,138	11,742,925	47,957,332	56,606,558	126,329,681

Total All Lines (Direct & Facultative & Treaty)	
Liability recognised in actuarial valuation	296,346,925
Reserve in respect of prior years	38,879,566
Total reserve including ULAE	335,226,491
PAD, Discounting	42,706,299
Total reserve included in actuarial valuation	377,932,790
Total reserve included in the statement of financial position	382,582,103

15. Technical reserves (continued)

(b) Loss development triangles (continued)

Loss reserves (Net) (continued)

Direct & Facultative Lines Accident Year Basis
As at 31 December 2018

2018 **Accident Year**	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Estimate of ultimate claim costs:						
- At end of accident year	100,786,358	104,540,573	94,566,547	79,321,731	96,902,398	
- one year later	98,001,603	101,451,166	94,957,755	86,884,976		
- two years later	94,716,851	97,458,042	83,056,073			
- three years later	82,750,914	86,672,545				
- four years later	72,850,241					
Current estimate of cumulative claims	72,850,241	86,672,545	83,056,073	86,884,976	96,902,398	426,366,233
Cumulative payments to date	(66,016,022)	(68,685,921)	(55,597,523)	(42,487,982)	(16,346,153)	(249,133,601)
Liability recognised in actuarial valuation	6,834,219	17,986,624	27,458,550	44,396,994	80,556,245	177,232,632

Direct/Treaty Lines Underwriting Year Basis
As at 31 December 2018

Underwriting Year	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Estimate of ultimate claim costs:						
- At end of underwriting year	33,346,716	29,267,577	30,349,724	37,656,634	88,431,398	
- one year later	61,039,439	62,832,688	64,597,654	69,719,958		
- two years later	65,787,207	64,495,402	67,551,607			
- three years later	63,845,869	63,755,357				
- four years later	62,196,139					
Current estimate of cumulative claims	62,196,139	63,755,357	67,551,607	69,719,958	88,431,398	351,654,459
Cumulative payments to date	(52,891,131)	(57,368,275)	(55,814,641)	(45,765,509)	(17,484,790)	(229,324,346)
Liability recognised in actuarial valuation	9,305,008	6,387,082	11,736,966	23,954,449	70,946,608	122,330,113

Total All Lines (Direct & Facultative & Treaty)	
Liability recognised in actuarial valuation	299,562,745
Reserve in respect of prior years	35,695,474
Total reserve including ULAE	335,258,219
PAD, Discounting	39,035,100
Total reserve included in actuarial valuation	374,293,319
Total reserve included in the statement of financial position	374,992,900

15. Technical reserves (continued)

(c) Movements in premium liabilities are as follows:

	2019			2018		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Premium liabilities						
Balance at beginning of financial year	232,280,939	(145,391,976)	86,888,963	223,761,320	(151,036,028)	72,725,292
Movement during the year	91,632,225	(81,232,157)	10,400,068	8,519,619	5,644,052	14,163,671
Balance at end of financial year	323,913,164	(226,624,133)	97,289,031	232,280,939	(145,391,976)	86,888,963
Deferred acquisition costs						
Balance at beginning of financial year	23,137,455	(34,922,093)	(11,784,638)	23,118,650	(35,400,876)	(12,282,226)
Costs deferred during the year	8,528,369	(18,075,640)	(9,547,271)	18,805	478,783	497,588
Balance at beginning of financial year	31,665,824	(52,997,733)	(21,331,909)	23,137,455	(34,922,093)	(11,784,638)
Premium liabilities, net of deferred acquisition costs						
Balance at beginning of financial year	209,143,484	(110,469,883)	98,673,601	200,642,670	(115,635,152)	85,007,518
Movement during the year	83,103,856	(63,156,517)	19,947,339	8,500,814	5,165,269	13,666,083
Balance at end of financial year	292,247,340	(173,626,400)	118,620,940	209,143,484	(110,469,883)	98,673,601

16. Deferred taxes

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Movement in deferred income tax account is as follows:

	Accelerated tax depreciation	Fair value gains/ (losses)	Total
	$	$	$
2019			
Beginning of financial year	**110,000**	**72,700**	**182,700**
Credited to:			
- Equity (Note 18)	**–**	**145,100**	**145,100**
End of financial year	**110,000**	**217,800**	**327,800**
2018			
Beginning of financial year	100,000	116,500	216,500
Credited to:			
- Profit or loss (Note 8)	10,000	–	10,000
- Equity (Note 18)	–	(43,800)	(43,800)
End of financial year	110,000	72,700	182,700

The Company's deferred tax liabilities have been computed based on the corporate tax rate and tax laws prevailing at reporting date.

17. Share capital

The share capital comprises of fully paid-up 25,000,000 (2018: 25,000,000) ordinary shares with no par value, amounting to a total of $26,500,000 (2018: $26,500,000).

18. Fair value reserve

	2019	2018
	$	**$**
Beginning of financial year	**352,248**	566,349
Financial assets, available-for-sale		
Fair value gains/(losses)	**1,536,835**	(243,615)
Tax on fair value changes	**(260,300)**	41,400
	1,276,535	(202,215)
Transfer to profit or loss on disposal	**(677,756)**	(14,286)
Tax effect	**115,200**	2,400
	(562,556)	(11,886)
End of financial year	**1,066,227**	352,248

19. Management of insurance and financial risk

Exposure to underwriting, credit, market, liquidity and capital risks arise in the normal course of business. The management of these risks is discussed below:

The Company is a Singapore based direct insurer. The table below sets out the composition of gross written premium for the current year by class of business.

	Singapore	Overseas
	%	%
2019		
Marine and aviation	14	16
Fire	23	56
Motor	20	21
Workmen's compensation	10	–
Miscellaneous accident	33	7
	100	100
2018		
Marine and aviation	14	20
Fire	17	53
Motor	26	18
Workmen's compensation	13	–
Miscellaneous accident	30	9
	100	100

19. Management of insurance and financial risk (continued)

The Company's overall business strategy, its tolerance of risks and its general risk management philosophy are determined by management in accordance with prevailing economic and operating conditions.

(a) *Underwriting risk*

Underwriting risks include the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the Company having either received insufficient premiums for the risks it has agreed to underwrite and hence not having adequate funds to invest and pay claims. The Company seeks to minimise underwriting risks with a balanced mix and spread of classes of business and by observing underwriting guidelines and limits, and high standards applied to the security of reinsurers. The Company adopted the Company's appointed actuary's view on its claims and premium liabilities at reporting date.

The table below sets out the concentration of the claims and premium liabilities (in percentage terms) at the reporting date:

	Gross claims liabilities	Net claims liabilities	Gross premium liabilities	Net premium liabilities
	%	%	%	%
2019				
Marine and aviation	23	21	18	18
Fire	34	13	36	22
Motor	24	40	16	30
Workmen's compensation	5	9	5	9
Miscellaneous accident	14	17	25	21
	100	100	100	100
2018				
Marine and aviation	24	20	18	22
Fire	33	13	31	8
Motor	22	36	13	33
Workmen's compensation	5	10	4	9
Miscellaneous accident	16	21	34	28
	100	100	100	100

19. Management of insurance and financial risk (continued)

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties to insurance, reinsurance and investment transactions failed to perform as contracted. Credit evaluations are performed on all new brokers, reinsurers, financial institutions and other counterparties by reviewing credit grades provided by rating agencies and other publicly available financial information. The exposure to individual counterparties is managed by monitoring the payment history for significant contract holders with whom the Company regularly transacts. The exposure to individual counterparties is also managed by other mechanisms, such as, withholding premiums deposits and the right to offset where counterparties are both debtors and creditors of the Company.

	AAA $	AA $	A $	BBB $	BB $	Not Rated / Analysed $	Total $
2019							
Cash and cash equivalents#	–	92,814,192	671,510,737	470,848,173	10,321,117	5,287,627	1,250,781,846
Financial assets	80,392,871	19,492,661	40,366,250	71,644,124	–	9,348,635	221,244,541
Insurance receivables	–	2,107,359	21,766,515	1,081,918	–	180,996,603	205,952,395
Other receivables*#	499,591	599,278	4,547,159	1,148,122	7,126	580,840	7,382,116
Derivative financial instruments	–	–	1,000,232	–	–	–	1,000,232
Mortgage loans#	–	–	–	–	–	29,646,923	29,646,923
	80,892,462	115,013,490	739,190,893	544,722,337	10,328,243	225,860,628	1,716,008,053
2018							
Cash and cash equivalents#	–	52,134,568	718,007,103	408,140,998	38,867,866	12,759,265	1,229,909,800
Financial assets	26,104,474	2,034,232	16,174,696	20,964,458	–	1,024,900	66,302,760
Insurance receivables	–	4,320,032	15,104,029	789,681	–	140,594,138	160,807,880
Other receivables*#	196,470	183,140	673,262	358,785	21,102	516,127	1,948,886
Derivative financial instruments	–	–	896,495	–	–	–	896,495
Mortgage loans#	–	–	–	–	–	24,369,048	24,369,048
	26,300,944	58,671,972	750,855,585	430,253,922	38,888,968	179,263,478	1,484,234,869

* Excludes prepayments

\# These are the financial assets that meet the SPPI conditions of FRS 109, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109.

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks which have credit-ratings as determined by international credit-rating agencies. Financial assets, insurance receivables and reinsurance receivables that are neither past due nor impaired are substantially companies with good collection track records with the Company.

19. Management of insurance and financial risk (continued)

(b) *Credit risk (continued)*

(i) *Financial assets that are neither past due nor impaired* (continued)

Mortgage loans are not exposed to credit risk as the loans are fully collaterised. For financial assets that do not have any collateral, the maximum exposure to credit risk for each class of financial assets is the carrying amount of that class of financial assets presented on the statement of financial position.

(ii) *Financial assets that are past due and/or impaired*

There is no other class of financial assets that is past due and/or impaired except for insurance and other receivables.

The age analysis of insurance receivables and other receivables (excluding prepayments) is disclosed below.

	Gross 2019 $	**Impairment losses 2019 $**	Gross 2018 $	Impairment losses 2018 $
Insurance and other receivables				
Not past due	**188,828,744**	**–**	141,327,197	–
4-6 months	**15,842,472**	**–**	13,706,284	–
7-12 months	**4,755,990**	**–**	5,006,392	–
More than one year	**4,861,503**	**954,198**	3,619,586	902,693
	214,288,709	**954,198**	163,659,459	902,693

Movement in provision for impairment:

	2019 $	2018 $
At 1 January	**902,693**	810,337
Provision for the year	**103,816**	206,448
Write-back for the year	**(52,311)**	(114,092)
At 31 December	**954,198**	902,693

(c) *Market risk*

(i) Currency risk

The Company is exposed to foreign exchange rate fluctuations because of its foreign currency denominated investments, bank deposits and insurance policies. Exposures to foreign currency risks on investments and bank deposits are monitored on an ongoing basis. The exposures to foreign currency risks on insurance policies are reviewed annually. The currency giving rise to this foreign currency risk is primarily the US Dollar. The Company does not enter into derivative contracts to manage this risk.

19. Management of insurance and financial risk (continued)

(c) *Market risk* (continued)

(i) Currency risk (continued)

The table below summarises the Company's exposures to foreign currency exchange rate movements as at 31 December 2019. The Company's assets and liabilities at carrying amounts are included in the table, categorised by currency at their carrying amount. All the amounts are presented in Singapore Dollars.

	SGD $	USD $	Others $	Total $
2019				
Cash and cash equivalents	**820,419,157**	**341,503,168**	**88,859,521**	**1,250,781,846**
Financial assets	**221,244,541**	**–**	**–**	**221,244,541**
Mortgage loans	**29,646,923**	**–**	**–**	**29,646,923**
Insurance and other receivables	**78,351,863**	**72,540,050**	**62,650,179**	**213,542,092**
Derivative financial instruments	**1,000,232**	**–**	**–**	**1,000,232**
Reinsurers' share of technical reserves	**373,934,967**	**163,810,488**	**116,759,246**	**654,504,701**
	1,524,597,683	**577,853,706**	**268,268,946**	**2,370,720,335**
Insurance and other payables	**(156,539,197)**	**(123,515,276)**	**(13,878,325)**	**(293,932,798)**
Technical reserves	**(700,506,547)**	**(232,119,405)**	**(223,081,792)**	**(1,155,707,744)**
	(857,045,744)	**(355,634,681)**	**(236,960,117)**	**(1,449,640,542)**
Net exposure	**667,551,939**	**222,219,025**	**31,308,829**	**921,079,793**
2018				
Cash and cash equivalents	1,026,870,214	148,779,354	54,260,232	1,229,909,800
Financial assets	66,302,760	–	–	66,302,760
Mortgage loans	24,369,048	–	–	24,369,048
Insurance and other receivables	74,358,842	51,471,201	37,152,417	162,982,460
Derivative financial instruments	896,495	–	–	896,495
Reinsurers' share of technical reserves	358,588,479	110,255,434	72,245,879	541,089,792
	1,551,385,838	310,505,989	163,658,528	2,025,550,355
Insurance and other payables	(144,521,056)	(23,836,925)	(8,364,935)	(176,722,916)
Technical reserves	(771,372,073)	(141,806,218)	(101,578,002)	(1,014,756,293)
	(915,893,129)	(165,643,143)	(109,942,937)	(1,191,479,209)
Net exposure	635,492,709	144,862,846	53,715,591	834,071,146

19. Management of insurance and financial risk (continued)

(c) *Market risk* (continued)

(i) Currency risk (continued)

If the foreign currencies change against the Singapore dollar by 5% (2018: 5%) with all other variables including tax rate being held constant the effects arising from the net position will be as follows:

	Increase /(Decrease)			
	2019 Profit after tax	**2019 Equity**	2018 Profit after tax	2018 Equity
Foreign currencies against SGD	**5%**	**5%**	5%	5%
- Strengthened	**10,774,934**	**10,774,934**	8,439,584	8,439,584
- Weakened	**(10,774,934)**	**(10,774,934)**	(8,439,584)	(8,439,584)

(ii) Price risk

The Company is not exposed to equity price risk as all investments are debt securities.

19. Management of insurance and financial risk (continued)

(c) *Market risk* (continued)

(iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk primarily arising from its interest-bearing short-term bank deposits, interest-bearing debt securities and interest-bearing loans and receivables. Strict investment guidelines are used to monitor the risks in the Company's investments.

The tables below set out the Company's exposure to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorised by the maturity date.

	Variable rates	Fixed rates					
	Amount $	Less than 6 months $	6 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
2019							
Cash and cash equivalents	**–**	**881,243,877**	**340,092,305**	**–**	**–**	**29,445,664**	**1,250,781,846**
Insurance and other receivables	**–**	**–**	**–**	**–**	**–**	**213,542,092**	**213,542,092**
Mortgage loans	**13,785,624**	**–**	**15,000,000**	**–**	**861,299**	**–**	**29,646,923**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**1,000,232**	**1,000,232**
Financial assets	**37,678,090**	**17,501,193**	**7,557,180**	**83,835,233**	**74,672,845**	**–**	**221,244,541**
2018							
Cash and cash equivalents	–	1,212,667,476	–	–	–	17,242,324	1,229,909,800
Insurance and other receivables	–	–	–	–	–	162,982,460	162,982,460
Mortgage loans	8,249,623	–	15,232,000	–	887,425	–	24,369,048
Derivative financial instruments	–	–	–	–	–	896,495	896,495
Financial assets	–	1,749,857	598,740	34,292,036	29,662,127	–	66,302,760

19. Management of insurance and financial risk (continued)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

If interest rates increase by 200 basis points ("bp"), with all other variables including tax rate being held constant, the profit after tax will be higher by $854,298 (2018: $136,944). A 200 bp decrease will have an equal but opposite effect on profit after tax.

Other comprehensive income would have been higher/lower by $13,028,767 (2018: $4,535,245) as a result of market value fluctuations on the debt securities portfolio based on the above movements in interest rates.

(d) Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash and marketable securities to meet normal operating commitments. The Company's cash management process assesses the liquidity of assets held to ensure that assets can be realised on a reasonably timely basis to settle insurance liabilities.

The Company is required to satisfy the solvency requirements prescribed by the Singapore Insurance Act. The Company will assess at each quarter as well as annually whether solvency requirements have been met as part of their reporting process to the Monetary Authority of Singapore, which is the regulatory body for insurance companies in Singapore. Appropriate actions are taken by management to ensure the Company maintains a sound financial position throughout the year and in the long term.

Management believes that the Company's liquid assets and net cash from operations will enable it to meet any foreseeable cash requirements.

The table below analyses contractual maturities of the liabilities of the Company into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

19. Management of insurance and financial risk (continued)

(d) *Liquidity risk (continued)*

	Carrying amount $	Contractual cash flow $	Less than 1 Year $	Between 1 and 2 Years $	Between 2 and 5 Years $	Over 5 Years $
2019						
Insurance and other payables	293,932,798	293,932,798	288,023,736	3,388,711	2,368,177	152,174
Lease liabilities	2,451,452	2,546,086	1,095,469	1,450,617	–	–
Technical reserves - loss reserves, net of reinsurers' share	382,582,103	391,857,702	184,369,947	89,412,780	100,723,280	17,351,695
2018						
Insurance and other payables	176,722,916	176,722,916	165,082,204	7,445,940	4,163,814	30,958
Technical reserves - loss reserves, net of reinsurers' share	374,992,900	384,949,679	178,901,926	89,091,127	99,846,222	17,110,404

(e) *Capital risk*

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to comply with capital adequacy requirements prescribed by the Singapore Insurance Act as an authorised insurer to carry on insurance business in or from Singapore, so that it can continue to provide returns for shareholders, by pricing products and services commensurate with the level of risk.

Regulatory capital requirements require the Company to hold assets sufficient to cover liabilities. The Company will assess at each quarter as well as annually whether the capital adequacy requirements as defined by the Singapore Insurance Act have been met as part of their reporting process to the Monetary Authority of Singapore.

The table below shows the minimum amount of capital that must be held by the Company in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year.

	2019	2018
Capital Adequacy Ratio Held	**500%**	479%
Minimum regulatory Capital Adequacy Ratio	**100%**	100%

19. Management of insurance and financial risk (continued)

(e) Capital risk (continued)

In addition, MAS may prescribe different fund solvency requirements or capital adequacy requirements for different classes of insurance business and for different types of insurers from time to time. The Company is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2019 and 31 December 2018.

(f) Accounting classifications and fair values

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (i.e. derived from prices) (Level 2); and

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

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

19. Management of insurance and financial risk (continued)

(f) Accounting classifications and fair values (continued)

		Carrying amount					Fair value			
	Note	Available-for-sale $	Fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $	Level 1 $	Level 2 $	Level 3 $	Total $
2019										
Financial assets measured at fair value										
Financial assets, available for sale	10	221,244,541	–	–	–	221,244,541	–	221,244,541	–	221,244,541
Derivative financial instruments		–	1,000,232	–	–	1,000,232	–	1,000,232	–	1,000,232
		221,244,541	1,000,232	–	–	222,244,773				
Financial assets not measured at fair value										
Mortgage loans#	12	–	–	29,646,923	–	29,646,923	–	–	29,646,923	29,646,923
Other receivables*#	11(b)	–	–	7,382,116		7,382,116				
Cash and cash equivalents#	9	–	–	1,250,781,846	–	1,250,781,846				
		–	–	1,287,810,885	–	1,287,810,885				
Financial liabilities not measured at fair value										
Other payables	14(b)	–	–	–	(12,334,270)	(12,334,270)				

* *Excludes prepayments*
# These are the financial assets that meet the SPPI conditions of FRS 109, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the financial year ended 31 December 2019

19. Management of insurance and financial risk (continued)

(f) Accounting classifications and fair values (continued)

		Carrying amount					Fair value			
	Note	Available-for-sale $	Fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $	Level 1 $	Level 2 $	Level 3 $	Total $
2018										
Financial assets measured at fair value										
Financial assets, available for sale	10	66,302,760	–	–	–	66,302,760	–	66,302,760	–	66,302,760
Derivative financial instruments		–	896,495	–	–	896,495	–	896,495	–	896,495
		66,302,760	896,495	–	–	67,199,255				
Financial assets not measured at fair value										
Mortgage loans#	12	–	–	24,369,048	–	24,369,048	–	–	24,369,048	24,369,048
Other receivables*#	11(b)	–	–	1,948,886	–	1,948,886				
Cash and cash equivalents#	9	–	–	1,229,909,800	–	1,229,909,800				
		–	–	1,256,227,734	–	1,256,227,734				
Financial liabilities not measured at fair value										
Other payables	14(b)	–	–	–	(20,600,979)	(20,600,979)				

* *Excludes prepayments*

\# These are the financial assets that meet the SPPI conditions of FRS 109, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109.

19. Management of insurance and financial risk (continued)

(g) Measurement of fair values

(i) Financial instruments measured at fair value

Debt securities

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of debt securities classified as financial assets, available-for-sale, financial assets at fair value through profit or loss and derivative financial instruments (total return swaps) are based on over-the-counter quotes at the reporting date. These are based on market observable inputs such as benchmark yields, reported trades and broker-dealer quotes available for these investments. These investments are included in Level 2.

Derivative financial instruments

The fair value of financial derivative instruments for disclosure purposes is estimated based on quoted market prices for dealer quotes for similar instruments by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

(ii) Financial instruments not measured at fair value

The fair value of mortgage loans approximates their carrying amount.

20. Immediate and ultimate holding companies

Mitsui Sumitomo Insurance Company Limited, and MS&AD Insurance Group Holdings, Inc, both incorporated in Japan, are the Company's immediate and ultimate holding companies.

21. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Company and related parties at terms agreed between the parties.

(a) Transactions

	2019 $	2018 $
Immediate holding company		
Premiums received/receivable	**6,589,094**	3,970,796
Reinsurance premiums paid/payable	**–**	(13,599)
Commissions received	**–**	1,253
Commissions paid	**(1,104,373)**	(571,458)
Claims paid	**(12,989)**	(13,622)
Other related companies		
Premiums received/receivable	**22,254,952**	10,178,031
Reinsurance premiums paid/payable	**(862,818)**	(354,530)
Commissions received	**135,715**	37,622
Commissions paid	**(3,577,914)**	(1,493,643)
Claims paid	**(2,467,757)**	(154,395)
Claims recovered	**29,348**	74,712
Management fees	**(250,000)**	–

(b) Key management personnel compensation

Key management personnel compensation is analysed as follows:

	2019 $	2018 $
Salaries and other short-term employee benefits	**6,033,129**	5,070,940
Employer's contribution to defined contribution plans including Central Provident Fund	**67,320**	66,488
	6,100,449	5,137,428

22. Leases

Leases as lessee (FRS 116)

The Company leases properties consisting of office premises and expatriates' housing. The leases typically runs for a period of 2 to 3 years, with an option to renew the lease after that date. Lease payments are renegotiated every 2 to 3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Company is restricted from entering into any sub-lease arrangements.

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

Right-of-use assets

Right-of-use assets relates to leased properties that do not meet the definition of investment property.

	Leased premises $
2019	
Balance at 1 January	–
Depreciation charge for the year	(577,969)
Additions to right-of-use assets	3,007,993
Balance at 31 December	2,430,024

Lease liabilities

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3.31%.

Amounts recognised in profit or loss

	$
2019 – Leases under FRS 116	
Interest on lease liabilities	48,179
Expenses relating to short-term leases	321,043
2018 – Operating leases under FRS 17	
Lease expense	884,223

Amounts recognised in statement of cash flows

	2019 $
Total cash outflow for leases (including short-term leases)	925,763

22. Leases (continued)

Future minimum rental payments under non-cancellable operating leases are as follows:

	2019 $	2018 $
Within one year	**1,183,069**	625,843
After one year but not more than five years	**1,522,617**	28,800
	2,705,686	654,643

23. New or revised accounting Standards and Interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however the Company has not early applied the following new or amended standards in preparing these statements.

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

Applicable to 2019 financial statements

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 FRS 117 Insurance Contracts and FRS 109 Financial Instruments: an overlay approach and a temporary exemption from applying FRS 109.

The amended FRS 104:

- gives all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when FRS 109 is applied before the new insurance contracts standard is issued (the “Overlay Approach”); and

- gives companies whose activities are predominantly connected with insurance an optional temporary exemption from applying FRS 109 till the earlier of annual reporting periods beginning before 1 January 2021 or when FRS 117 becomes effective. The entities that defer the application of FRS 109 will continue to apply the existing financial instruments standard – FRS 39 until that time.

23. New or revised accounting Standards and Interpretations (continued)

Applicable to 2019 financial statements (continued)

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

An insurer that applies the Overlay Approach shall disclose information to enable users of financial statements to understand:

a) how the total amount reclassified between profit or loss and other comprehensive income in the reporting period is calculated; and
b) the effect of that reclassification on the financial statements.

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

An insurer that elects to apply the temporary exemption from FRS 109 shall disclose information to enable users of financial statements:

a) to understand how the insurer qualified for the temporary exemption; and
b) to compare insurers applying the temporary exemption with entities applying FRS 109.

The effective date of the amendments permitting the temporary exemption is for annual periods beginning on or after 1 January 2018. The temporary exemption is available for annual reporting periods beginning before 1 January 2023 and will expire once FRS 117 becomes effective.

Potential impact on the financial statements

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

The Company has decided that it will elect the temporary exemption in the amendments to FRS 104 from applying FRS 109 till FRS 117 is effective. The Company will be able to perform a comprehensive assessment of the impact of both standards, taking into considerations the options available for the implementation of both standards together. The Company assessed that it has qualified for the temporary exemption as the carrying amount of its liabilities arising from contracts within the scope of FRS 104 is significant compared to the total carrying amount of all its liabilities; and that the total carrying amount of its liabilities connected with insurance is above 90% of its total liabilities since financial year ended 31 December 2015. There were no changes to the Company's activities after this date, hence no reassessment was required at subsequent reporting year-ends.

23. New or revised accounting Standards and Interpretations (continued)

Applicable to 2019 financial statements (continued)

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

Potential impact on the financial statements (continued)

The credit ratings and fair value information of the Company's directly held financial assets at 31 December 2019 with contractual terms that give rise on specified dates to cash flows are solely payments of principal and interest ("SPPI") condition of FRS 109, excluding any financial asset that meet the definition of held for trading or that is managed and evaluated on a fair value basis of FRS 109 are disclosed in Notes 19(b) and 19(f) respectively, together with all other financial assets[1].

The Company is currently assessing the impact of FRS 109 on its financial statements.

Applicable to 2023 financial statements

FRS 117 Insurance Contracts

FRS 117 Insurance Contracts which is expected to be effective for years beginning on 1 January 2023, and is to be applied retrospectively. If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used. The standard will replace FRS 104 Insurance Contracts and will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Company's financial statements. The Company is assessing the impact of FRS 117 on its financial statements.

24. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Directors on 27 March 2020.

[1] Any financial asset:

(i) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;

(ii) that meets the definition of held for trading in FRS 109; or

(iii) that is managed and whose performance is evaluated on a fair value basis.

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