Great American Insurance Company
(Incorporated in United States of America)
Singapore Branch
Company Registration No. T15FC0029B

Annual Financial Statements
31 December 2018

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(Incorporated in the United States of America)
Singapore Branch

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(Incorporated in the United States of America)
Singapore Branch

Statement by Chief Executive

For the financial year ended 31 December 2018

In my opinion, the accompanying statement of comprehensive income, statement of financial position, statement of changes in head office account and statement of cash flows together with notes thereto of the Singapore Branch of Great American Insurance Company (the "Branch") are properly drawn up so as to give a true and fair view of the assets used in, and liabilities arising out of, the Branch's operations in Singapore as at 31 December 2018, and of the results of the Branch's operations in Singapore, changes in head office account and cash flows from such operations for the financial year then ended.

Chee Keng Koon
Chief Executive

Singapore
11 March 2019

Independent Auditor's Report

For the financial year ended 31 December 2018
To the member of Great American Insurance Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Singapore Branch of Great American Insurance Company (the "Branch"), pursuant to section 373 of the Singapore Companies Act, Cap. 50 (the "Act"). These financial statements comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in head office account and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

The Branch is a segment of Great American Insurance Company and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded therein.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Act and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the assets used in, and liabilities arising out of, the Branch's operations in Singapore as at 31 December 2018, and of the results, changes in head office account and cash flows of the Branch's operations in Singapore for the financial year ended on that date.

Basis for opinion

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

Other information

Management is responsible for other information. The other information comprises the Statement by Chief Executive included in page 1, but does not include the financial statements and our auditor's report thereon.

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

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

Independent Auditor's Report

For the financial year ended 31 December 2018
To the member of Great American Insurance Company

Responsibilities of management and directors for the financial statements

The Branch's 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, the Branch's management is responsible for assessing the Branch'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 the Branch's management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional 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 control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

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

Independent Auditor's Report

For the financial year ended 31 December 2018
To the member of Great American Insurance Company

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

- Conclude on the appropriateness of the Branch's 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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch 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 Branch's management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records examined by us relating to the Branch's operations in Singapore have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

11 March 2019

Great American Insurance Company
(Incorporated in the United States of America)
Singapore Branch

Statement of Comprehensive Income

For the financial year ended 31 December 2018

	Notes	2018 S$'000	2017 S$'000
Gross written premiums		62,401	83,569
Outward reinsurance premiums		(21,570)	(15,601)
Net written premiums		40,831	67,968
Movement in net reserves for unexpired risks	6	9,982	(13,359)
Net earned premiums		**50,813**	**54,609**
Gross claims paid	5	(40,862)	(23,159)
Reinsurance claims recoveries	5	3,721	5,810
Net claims paid		(37,141)	(17,349)
Movement in net loss reserves		(20,086)	(20,867)
Net claims incurred	5	**(57,227)**	**(38,216)**
Commission expense		(11,454)	(15,239)
Commission income		3,204	1,253
Net commission expense		(8,250)	(13,986)
Movement in net deferred acquisition costs	7	(2,931)	2,579
Net incurred commission expense		**(11,181)**	**(11,407)**
Net underwriting (loss)/profit		**(17,595)**	**4,986**
Staff costs	15	(9,410)	(7,738)
Depreciation expense	4	(1,312)	(1,082)
Net gain/(loss) on foreign exchange		1,316	(3,184)
Other operating expenses	16	(4,687)	(5,331)
Operating and other expenses		**(14,093)**	**(17,335)**
Investment income		1,367	615
Other income	18	327	333
Loss before tax		**(29,994)**	**(11,401)**
Income tax expense	17	–	–
Loss for the financial year		**(29,994)**	**(11,401)**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Net fair value loss on available-for-sale financial assets, net of tax		(118)	(2)
Total comprehensive loss for the financial year		**(30,112)**	**(11,403)**

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

Statement of Financial Position

As at 31 December 2018

	Notes	2018 S$'000	2017 S$'000
Assets			
Plant and equipment	4	2,985	3,241
Reinsurers' share of loss reserves	5	17,221	3,342
Reinsurers' share of reserves for unexpired risks	6	7,427	6,717
Deferred acquisition costs	7	5,017	7,349
Other receivables	8	1,866	927
Insurance receivables	9	25,206	34,137
Available-for-sale financial assets	11	71,333	36,635
Cash and cash equivalents	10	51,115	39,088
Total assets		**182,170**	**131,436**
Liabilities			
Loss reserves	5	74,948	40,983
Reserves for unexpired risks	6	31,806	41,078
Deferred acquisition costs from reinsurers	7	1,196	597
Other creditors and accruals	12	3,684	3,876
Insurance payables	13	12,681	6,935
Total liabilities		**124,315**	**93,469**
Net assets		**57,855**	**37,967**
Head office account			
Head office contribution	14	115,000	65,000
Fair value adjustment reserves		(120)	(2)
Accumulated losses		(57,025)	(27,031)
Total head office account		**57,855**	**37,967**

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

Statement of Changes in Head Office Account

For the financial year ended 31 December 2018

	Head office contribution S$'000	Accumulated losses S$'000	Fair value adjustment reserves S$'000	Total head office account S$'000
Balance at 31 December 2017	45,000	(15,630)	–	29,370
Loss for the financial year, net of tax	–	(11,401)	–	(11,401)
Net fair value loss on available-for-sale financial assets, net of tax	–	–	(2)	(2)
Total comprehensive loss for the financial year	–	(11,401)	(2)	(11,403)
Fund contribution from head office	20,000	–	–	20,000
Balance at 31 December 2017 and 1 January 2018	65,000	(27,031)	(2)	37,967
Loss for the financial year, net of tax	–	(29,994)	–	(29,994)
Net fair value loss on available-for-sale financial assets, net of tax	–	–	(118)	(118)
Total comprehensive loss for the financial year	65,000	(57,025)	(120)	7,855
Fund contribution from head office	50,000	–	–	50,000
Balance at 31 December 2018	115,000	(57,025)	(120)	57,855

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

Great American Insurance Company
(Incorporated in the United States of America)
Singapore Branch

Statement of Cash Flows

For the financial year ended 31 December 2018

	Notes	2018 S$'000	2017 S$'000
Operating activities			
Loss before tax		(29,994)	(11,401)
Adjustments for:			
Depreciation expense	4	1,312	1,082
Write-back of doubtful debt		(16)	–
(Decrease)/increase in gross reserves for unexpired risks		(9,272)	14,555
Decrease/(increase) in gross deferred acquisition costs		2,332	(2,788)
Increase in gross loss reserves		33,965	19,790
Increase in reinsurers' share of reserves for unexpired risks		(710)	(1,196)
Increase in reinsurers' share of deferred acquisition costs		599	209
(Increase)/decrease in reinsurers' share of loss reserves		(13,879)	1,077
Interest income		(1,367)	(615)
Unrealised foreign exchange (gain)/loss on available-for-sale financial assets		(504)	559
Operating cash flows before working capital changes		**(17,534)**	**21,272**
Decrease/(increase) in insurance receivables		8,931	(12,215)
(Increase)/decrease in other receivables		(752)	15
Increase in insurance payables		5,746	3,369
(Decrease)/increase in other creditors and accruals		(192)	1,254
Total changes in working capital		13,733	(7,577)
Net cash flows (used in)/from operating activities		**(3,801)**	**13,695**
Investing activities			
Purchase of plant and equipment	4	(1,056)	(640)
Purchase of available-for-sale financial assets		(61,500)	(37,187)
Proceeds from disposal and redemption of available-for-sale financial assets		27,204	–
Interest received		1,180	480
Net cash flows used in investing activities		**(34,172)**	**(37,347)**
Financing activities			
Capital contribution from head office	14	50,000	20,000
Cash flows from financing activities		**50,000**	**20,000**
Net increase/(decrease) in cash and cash equivalents		12,027	(3,652)
Cash and cash equivalents at beginning of financial year		39,088	42,740
Cash and cash equivalents at end of financial year	10	**51,115**	**39,088**

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

1. Corporate information

Great American Insurance Company, Singapore Branch ("the Branch") is a branch of Great American Insurance Company, incorporated in Ohio, United States. The Branch was registered under the Companies Act, Cap. 50, on 11 March 2015 and a license to carry on general insurance business in Singapore was granted by the Monetary Authority of Singapore ("MAS") on 15 May 2015.

The Branch is engaged principally in the underwriting of general and reinsurance insurance business. There were no significant changes in the nature of the principal activity during the financial year.

The registered office of the Branch is at 3 Temasek Avenue, #16-01, Centennial Tower, Singapore 039190.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

These financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") and Section 373 of the Singapore Companies Act, Cap. 50. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies are consistently applied in the financial statements.

The financial statements are prepared on a historical cost basis, except as disclosed in the accounting policies below.

The preparation of these financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Branch'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 estimates and assumptions are significant to the financial statements are disclosed in Note 3.

The financial statements are presented in Singapore Dollars and rounded to the nearest thousands (S$'000) except when otherwise indicated.

2.2 *Adoption of new and revised standards*

The accounting policies used by the Branch are applied consistently in these financial statements. In the current financial year, the Branch has adopted all the new and revised standards that are effective for annual periods beginning on or after 1 January 2018. The adoption of these standards did not have any effect on the financial performance or position of the Branch.

The Branch applies the temporary exemption from FRS 109 *Financial Instruments* as permitted by the Amendments to FRS 104 *Insurance Contracts: Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts* which is effective for annual periods beginning on or after 1 January 2018. The temporary exemption permits the Branch to continue applying FRS 39 rather than FRS 109 for annual periods beginning before 1 January 2021.

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

2.2 *Adoption of new and revised standards (cont'd)*

The Branch concluded that it qualified for the temporary exemption from FRS 109 as the Branch has not previously applied any versions of FRS 109 and its activities are predominantly connected with insurance at annual reporting date that immediately precedes 1 April 2016 (i.e. 31 December 2015). As at 31 December 2015, the Branch's gross liabilities arising from contracts within the scope of FRS 104 represented 92% of the total carrying amount of all its liabilities. Since 31 December 2015, there has been no change in the activities of the Branch that requires reassessment of the use of the temporary exemption.

As at 31 December 2015, the gross liabilities connected with insurance relative to total liabilities were as follows:

	S$'000	% of total liabilities
Liabilities arising from contracts within the scope of FRS 104	15,354	75%
Relevant other liabilities	3,513	17%
Total gross liabilities connected with insurance	18,867	92%
Total gross liabilities not connected with insurance	1,552	8%
Total liabilities	20,419	100%

The table below presents an analysis of the fair value of classes of financial assets as at 31 December 2018, as well as the corresponding change in fair value during the financial year. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest ("SPPI"), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and

- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis). As at 31 December 2018, the Branch does not hold financial assets in this category.

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

2.2 *Adoption of new and revised standards (cont'd)*

In the table below, the amortised cost of other receivables excluding prepayment and GST receivable, insurance receivables and cash and cash equivalents has been used as a reasonable approximation to fair value.

31 December 2018	**SPPI financial assets**		**Other financial assets**	
	S$'000	S$'000	S$'000	S$'000
	Fair value	Fair value change	Fair value	Fair value change
Other receivables excluding prepayment and GST receivable	1,753	–	–	–
Insurance receivables	25,206	–	–	–
Available-for-sale financial assets	71,333	(118)	–	–
Cash and cash equivalents	51,115	–	–	–
Total	149,407	(118)	–	–

Refer to table as disclosed in Note 20.2 that shows the carrying amount of the SPPI assets included in the table above by credit risk rating grades. The carrying amount is measured in accordance with FRS 39 although this is prior to any impairment allowance for those measured at amortised cost.

As at 31 December 2018, the fair value under FRS 39 for those SPPI assets that do not have low credit risk was S$21,832,000.

The following table provides information on the fair value and carrying amount under FRS 39 for those SPPI assets which the Branch has determined do not have low credit risk. The carrying amount is measured in accordance with FRS 39 although this is prior to any impairment allowance for those measured at amortised cost.

At 31 December 2018	**Fair value**	**Carrying amount**
	S$'000	S$'000
Other receivables excluding prepayment and GST receivable	1,753	1,753
Insurance receivables	20,079	20,079
	21,832	21,832

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

2.3 *Standards issued but not yet effective*

The Branch has not adopted the following relevant standards that are issued but not yet effective:

Description	**Effective for annual periods beginning on or after**
FRS 116 *Leases*	1 January 2019
FRS 117 *Insurance Contracts*	1 January 2021

The nature of the impending changes in accounting policy on adoption of the standards above are described below:

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees - leases of 'low value' assets and short-term leases. FRS 116 is effective for annual periods beginning on or after 1 January 2019.

The Branch has performed a preliminary impact assessment based on currently available information. On the adoption of FRS 116, the Branch expects to recognise right-of-use assets and lease liabilities of S$3,779,944 and S$3,779,944 for its leases previously classified as operating leases as of 1 January 2019. The assessment may be subject to changes from ongoing analysis until the Branch adopts FRS 116 in 2019.

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

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

FRS 117 Insurance Contracts

In March 2018, Accounting Standards Council Singapore ("ASC") issued FRS 117 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. FRS 117 provides a comprehensive model for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short duration which typically applies to certain non-life insurance contracts.

The overall objective of FRS 117 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in FRS 104 *Insurance Contracts*, which are largely based on previous local accounting policies, FRS 117 provides a comprehensive model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts

FRS 117 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Branch is evaluating the impact of the new standard on its financial statements and related disclosures and plans to adopt the new standard on the required effective date together with FRS 109.

2.4 *Plant and equipment*

(a) *Measurement*

All items of plant and equipment are initially recorded at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Subsequent expenditure relating to plant and equipment that has already been recognised is added to the carrying amount of the assets only when it is probable that future economic benefits associated with the item will flow to the Branch and the costs of the item can be reliably measured. All other repairs and maintenance expenses are recognised in profit and loss when incurred.

The cost of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

2 Summary of significant accounting policies (cont'd)

2.4 *Plant and equipment (cont'd)*

(b) *Depreciation*

Depreciation is calculated using the straight-line basis over the estimated useful life as follows:

Furniture and Fittings	-	5 years
IT Equipment (Computer Hardware)	-	3 years
IT Equipment (Server Hardware)	-	5 years
IT Equipment (Software)	-	5 years
Office Equipment	-	5 years
Motor Vehicles	-	5 years

The residual values, estimated useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of plant and equipment.

(c) *Disposal*

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

2.5 *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or whenever there is any evidence or indication that these assets may be impaired.

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 an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at a revalued amount, in which case, such reversal is treated as a revaluation increase. An impairment loss is recognised in profit or loss in the period in which it arises.

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

2.6 *Financial assets*

Classification

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate, depending on the purpose for which the assets are acquired.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as current assets unless the investment matures or there is intention to dispose these assets more than 12 months after the reporting date.

Recognition and derecognition

Financial assets are recognised when, and only when, the Branch becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable to the transaction costs. The Branch determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

All regular way purchases and sales of financial assets are recognised on the trade date (i.e. the date on which the Branch commits to purchase or sell the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place concerned.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Branch has also transferred substantially all risks and rewards of ownership. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income is recongised in profit or loss.

Impairment of financial assets

The Branch assesses at each reporting date whether there is evidence that a financial asset or a Branch of financial assets is impaired and recognizes for impairment when such evidence arises.

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

2.6 *Financial assets (cont'd)*

Assets carried at amortised cost

If there is evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss will be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred), discounted at the financial asset's original effective interest rate/yield. The carrying amount of the asset will then be reduced and the loss will be recorded in profit or loss.

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

2.7 *Insurance classification*

The Branch issues contracts that transfer significant insurance risk. An insurance contract is a contract under which the Branch (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Branch determines whether it has significant insurance risk by comparing benefits paid with benefits payable, if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remaining of its life-span, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

2.8 *Reinsurance*

The Branch cedes and assumes insurance and reinsurance risks in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Reinsurance liabilities represent balances due to reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policies and in accordance with the related reinsurance contracts. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Ceded reinsurance arrangements do not relieve the Branch from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

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

2.8 ***Reinsurance (cont'd)***

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

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

2.9 ***General insurance underwriting results***

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

(a) *Gross premiums*

Gross premiums are recognised as income at the commencement date of the risk. These premiums are recognised as revenue (earned premium) proportionally over the period of coverage. The portion of premiums received on in-force policies that relates to unexpired risks at the balance sheet date is reported as the reserves for unexpired risks.

(b) *Reinsurance premiums*

Inward reinsurance is recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance is accounted for in the same financial year as the original policy to which the reinsurance relates.

(c) *Unearned premium reserves*

Unearned premium reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies, treaties and facultative acceptances in force, and will be earned over the remaining terms of the policies, treaties and facultative acceptances. The unearned premium reserves are calculated on the 1/365th method.

(d) *Claims and claims related expenses*

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimate of the expenditure required together with related claims expenses less recoveries to settle the present obligation at the reporting date. Provision is made for the estimated cost of all claims incurred but not settled at the reporting date less reinsurance recoveries, using the best information available at the time. In addition, provision for claims incurred but not reported is made based on the independent actuarial assessment as at the reporting date as required under the Insurance Act.

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

2.9 *General insurance underwriting results (cont'd)*

(e) *Acquisition costs and deferred acquisition costs ("DAC")*

Commission and other acquisition costs that are related to securing new insurance contracts and renewing existing contracts are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income or expenses.

Acquisition costs are deferred to the extent that the costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised based on the earnings profile over the term of expected future premiums. Amortisation is recognised in profit or loss.

2.10 *Receivables and payables related to insurance contracts*

Receivables and payables are recognised when due and they are measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance and other receivables are measured at amortised cost. It includes amounts due to and from agents, brokers and insurance contract holders.

2.11 *Insurance contract liabilities*

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise outstanding claims provision and provision for unearned premiums.

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Notification and settlement of certain types of claims can be delayed due to different circumstances, therefore, the ultimate cost of these claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using the standard actuarial claim projection techniques based on empirical data and current assumptions, this may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

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

2.11 *Insurance contract liabilities (cont'd)*

The provision for unearned premiums represents premiums received for risks that have not yet expired. The unearned premium reserves for all classes of business are calculated using the 1/365th method based on gross written premium less premiums on reinsurance. Premium deficiency reserves are derived using actuarial methods on the Branch's loss statistics. Generally, the reserve is released over the term of the insurance contract and is recognised as earned premium.

Liability adequacy test

At each reporting date, the Branch reviews its unexpired risks and a liability adequacy test is performed to determine if there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) taking into account loss adjustors' expense, if applicable. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in the profit or loss through the provision for liability adequacy.

2.12 *Provisions for other liabilities and charges*

Provisions for other liabilities and charges are recognised when the Branch has a present obligation where as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and will be adjusted to reflect the current best estimate.

2.13 *Investment income*

Interest income from investments is recognized on an accrual basis using the effective interest method.

2.14 *Employee benefits*

(a) *Short-term benefits*

Wages, salaries, bonuses and Central Provident Fund ("CPF") contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees which increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(b) *Defined contribution plans*

As required by law, the Branch makes contributions to the CPF scheme in Singapore, a defined contribution pension scheme. CPF contributions are recognised as compensation expense in the same period as the employment that gives rise to the contributions.

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

2.15 *Currency translation*

The financial statements are presented in Singapore Dollars and rounded to the nearest thousands (S$'000). Singapore Dollar is also the functional currency of the Branch.

Transactions in foreign currencies are initially recorded in the functional currency at exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting date. All differences are taken to the profit or loss.

Non-monetary items in foreign currency measured in historical cost are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the profit or loss, except for differences relating to items where gains or losses are recognised directly in equity. The gain or loss is recognised net of the exchange component in equity.

2.16 *Cash and cash equivalents*

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank, short-term deposits and cash in hand.

2.17 *Operating leases*

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.18 *Taxation*

Current tax

Current tax assets and liabilities for the current and prior periods are recognised at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that are enacted or substantively enacted by the balance sheet date.

Current taxes are recognised in the profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Deferred tax

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

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

2.18 *Taxation (cont'd)*

Deferred tax (cont'd)

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

2.19 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Branch if that person:
- (i) Has control or joint control over the Branch;
- (ii) Has significant influence over the Branch; or
- (iii) Is a member of the key management personnel of the Branch or of a parent of the head office of the Branch.

(b) An entity is related to the Branch if any of the following conditions applies:
- (i) The entity and the Branch are members of the same Branch (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Branch of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Branch or an entity related to the Branch;
- (vi) The entity is controlled or jointly controlled by a person identified in (a); or
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting estimates, assumptions and judgements

The preparation of the Branch's financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date as well as judgements made by the management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.1 *Critical judgements made in applying accounting policies*

There are no critical judgements made by the management in the process of applying the Branch's accounting policies that has significant effect on the amount recognised in the financial statements, apart from those involving estimations and assumptions of the insurance contract liabilities, which have the most significant effect on the amounts recognised in the financial statements.

3.2 *Key sources of estimation uncertainty and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) *Impairment of insurance receivables and reinsurance assets*

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

Where there is objective evidence of impairment, the amount and timing of future cash flows will be estimated on historical loss experience for assets with similar credit risk characteristics. As at 31 December 2018, allowance for impairment loss recognised for insurance receivables amounted to S$77,000 (2017: S$93,000). There was no impairment loss recognised for reinsurance assets for the financial years ended 31 December 2018 and 2017.

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

3.2 *Key sources of estimation uncertainty and assumptions (cont'd)*

(b) *Impairment of available-for-sale financial assets*

The Branch records impairment charges on available-for-sale financial assets when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Branch evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

There was no impairment loss recognised on available-for-sale financial assets held as at 31 December 2018 and 2017.

(c) *Valuation of general insurance contract liabilities*

The principal uncertainty in the Branch's financial statements primarily arises in the technical provisions, which include the provisions of premium and claim liabilities. The premium liabilities comprise provision for unexpired risks, net of deferred acquisition cost while the claim liabilities comprise provision for outstanding claims. Their values are carried in the statement of financial position as disclosed in Notes 5, 6 and 7 to the financial statements.

Generally, premium and claim liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is the past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future premium and claim liabilities will not develop exactly as projected and may vary from our projection.

The other uncertainties arising under insurance contracts include:

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- uncertainty as to the extent policy coverage and limits are applicable; and
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Branch. Following the identification and notification of an insured loss, there may still be uncertainty on the magnitude of the claim. There are many factors such as inflation, inconsistent judicial interpretations, legislative changes and claims handling procedures that will affect the level of uncertainty.

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

3.2 *Key sources of estimation uncertainty and assumptions (cont'd)*

(c) *Valuation of general insurance contract liabilities (cont'd)*

The estimates of premium and claim liabilities are therefore sensitive to the various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process. As a consequence of this uncertainty, the eventual cost of premium settlement and claim liabilities can vary from the initial estimates.

Sensitivity analysis

An analysis of the sensitivity around the various scenarios provide an indication of the adequacy of the Branch's estimation process in respect of its insurance contracts. The tables presented below demonstrate the sensitivity of insured liability estimates to the particular movements in the estimation process assumptions used. Certain assumptions can be expected to impact the liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

The analysis below has been prepared for a change in one variable with all other variables remaining constant and ignores changes in values of the related assets.

(i) Claim liabilities

2018	**Change in assumptions**	**Impact on gross claim liabilities**	**Impact on net claim liabilities**	**Net impact on loss before tax (Increase)/ decrease**
		S$'000	S$'000	S$'000
Ultimate Loss Ratio (all classes)	+5%	9,448	8,022	(8,022)
	-5%	(9,425)	(8,000)	8,000
Indirect Claim Handling Expenses	+1%	480	476	(476)
	-1%	(480)	(476)	476
Provision for Adverse Deviation	+5%	2,811	1,983	(1,983)
	-5%	2,811	(1,983)	1,983
2017				
Ultimate Loss Ratio (all classes)	+5%	5,225	4,765	(4,765)
	-5%	(5,225)	(4,765)	4,765
Indirect Claim Handling Expenses	+1%	242	236	(236)
	-1%	(242)	(236)	236
Provision for Adverse Deviation	+5%	2,413	1,743	(1,743)
	-5%	(2,413)	(1,743)	1,743

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

3.2 *Key sources of estimation uncertainty and assumptions (cont'd)*

(c) *Valuation of general insurance contract liabilities (cont'd)*

(i) Claim liabilities (cont'd)

The key assumptions considered in the sensitivity analysis of claims reported and loss adjustment expenses and claims incurred but not reported include ultimate loss ratio, indirect claim handling expenses and provision for adverse deviation.

(ii) Premium liabilities

2018	**Change in assumptions**	**Impact on gross premium liabilities** S$'000	**Impact on net premium liabilities** S$'000	**Net impact on loss before tax (Increase)/ decrease** S$'000
Expected Loss Ratio (all classes)	+5%	1,506	1,207	(1,207)
	-5%	(1,109)	(1,207)	1,207
Indirect Claim Handling Expenses	+1%	216	213	(213)
	-1%	(216)	(213)	213
Policy Maintenance Expenses	+1%	314	311	(311)
	-1%	(314)	(311)	311
Provision for Adverse Deviation	+5%	1,183	894	(894)
	-5%	(957)	(894)	894

2017	**Change in assumptions**	**Impact on gross premium liabilities** S$'000	**Impact on net premium liabilities** S$'000	**Net impact on loss before tax (Increase)/ decrease** S$'000
Expected Loss Ratio (all classes)	+5%	–	–	–
	-5%	–	–	–
Indirect Claim Handling Expenses	+1%	–	–	–
	-1%	–	–	–
Policy Maintenance Expenses	+1%	–	–	–
	-1%	–	–	–
Provision for Adverse Deviation	+5%	–	–	–
	-5%	–	–	–

The key assumptions considered in the sensitivity analysis of unearned premiums and unexpired portion of premiums include expected loss ratio, indirect claim handling expenses, policy maintenance expenses and provision for adverse deviation.

4. Plant and equipment

	Furniture and fittings S$'000	IT equipment hardware S$'000	IT equipment software S$'000	Office equipment S$'000	Motor vehicles S$'000	Total S$'000
Cost						
At 1 January 2017	1,245	1,338	2,270	155	79	5,087
Additions	31	41	566	2	–	640
At 31 December 2017 and 1 January 2018	1,276	1,379	2,836	157	79	5,727
Additions	1	204	846	5	–	1,056
At 31 December 2018	1,277	1,583	3,682	162	79	6,783
Accumulated depreciation						
At 1 January 2017	379	387	582	43	13	1,404
Charge for the financial year	254	301	480	31	16	1,082
At 31 December 2017 and 1 January 2018	633	688	1,062	74	29	2,486
Charge for the financial year	255	323	686	32	16	1,312
At 31 December 2018	888	1,011	1,748	106	45	3,798
Net book value						
31 December 2017	643	691	1,774	83	50	3,241
31 December 2018	389	572	1,934	56	34	2,985

5. Loss reserves

	2018 Gross S$'000	2018 Reinsurance S$'000	2018 Net S$'000	2017 Gross S$'000	2017 Reinsurance S$'000	2017 Net S$'000
Outstanding claims notified	44,547	(9,557)	34,990	28,262	(1,845)	26,417
Outstanding claims incurred but not reported ("IBNR")	30,401	(7,664)	22,737	12,721	(1,497)	11,224
	74,948	(17,221)	57,727	40,983	(3,342)	37,641

	2018 Gross S$'000	2018 Reinsurance S$'000	2018 Net S$'000	2017 Gross S$'000	2017 Reinsurance S$'000	2017 Net S$'000
At beginning of financial year	40,983	(3,342)	37,641	21,193	(4,419)	16,774
Claims paid during the year	(40,862)	3,721	(37,141)	(23,159)	5,810	(17,349)
Claims incurred during the financial year	74,827	(17,600)	57,227	42,949	(4,733)	38,216
At end of financial year	74,948	(17,221)	57,727	40,983	(3,342)	37,641

5. Loss reserves (cont'd)

Loss development triangle

Reproduced below is an exhibit showing the development of claims over a period on a gross and net basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at the reporting date, together with the cumulative claims as at the current reporting date.

Analysis of claims development – Gross of reinsurance

	As at 31 December				
Accident Year	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of cumulative claims	S$'000	S$'000	S$'000	S$'000	S$'000
At the end of accident year	2,129	21,933	35,832	59,293	
One year later	2,474	26,983	46,386		
Two years later	2,129	28,007			
Three years later	1,950				
Current estimate of ultimate claims	1,950	28,007	46,386	59,293	135,636
Cumulative payments to-date	(1,867)	(24,619)	(31,594)	(11,602)	(69,682)
Gross outstanding claims liabilities	83	3,388	14,792	47,691	65,954
Claims handling expenses					2,184
Total best estimate of gross claims liabilities					68,138
Provision for adverse deviation					6,810
Total gross claims liabilities as per the statement of financial position					74,948

5. Loss reserves (cont'd)

Analysis of claims development – Net of reinsurance

	As at 31 December				
Accident Year	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of cumulative claims	S$'000	S$'000	S$'000	S$'000	S$'000
At the end of accident year	1,794	18,414	33,962	43,426	
One year later	1,919	20,678	44,066		
Two years later	1,814	21,283			
Three years later	1,652				
Current estimate of ultimate claims	1,652	21,283	44,066	43,426	110,427
Cumulative payments to-date	(1,574)	(17,931)	(29,957)	(10,279)	(59,741)
Net outstanding claims liabilities	78	3,352	14,109	33,147	50,686
Claims handling expenses					2,184
Total best estimate of net claims liabilities					52,870
Provision for adverse deviation					4,857
Total net claims liabilities as per the statement of financial position					57,727

6. Reserves for unexpired risks

	2018			2017		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
At beginning of financial year	41,078	(6,717)	34,361	26,523	(5,521)	21,002
Movement of reserve during the financial year	(9,272)	(710)	(9,982)	14,555	(1,196)	13,359
At end of financial year	31,806	(7,427)	24,379	41,078	(6,717)	34,361

7. Deferred acquisition costs

	2018 Gross S$'000	2018 Reinsurance S$'000	2018 Net S$'000	2017 Gross S$'000	2017 Reinsurance S$'000	2017 Net S$'000
At beginning of financial year	7,349	(597)	6,752	4,561	(388)	4,173
Cost deferred during the financial year	(2,332)	(599)	(2,931)	2,788	(209)	2,579
At end of financial year	5,017	(1,196)	3,821	7,349	(597)	6,752

8. Other receivables

	2018 S$'000	2017 S$'000
Security deposits	494	494
Down payments on system customisation	137	186
Prepayment	70	70
Salvage recoveries	758	–
Interest receivable from cash and cash equivalents	22	36
Interest receivable from available-for-sale financial assets	292	91
GST receivable	43	–
Other receivables	50	50
	1,866	927

Other receivables which are denominated in foreign currencies are disclosed in Note 20 to the financial statements.

9. Insurance receivables

	2018 S$'000	2017 S$'000
Amounts due from policyholders, agents and brokers	11,994	17,350
Amounts due from cedants	10,974	13,590
	22,968	30,940
Less: Allowance for impairment	(77)	(93)
	22,891	30,847
Reinsurance recoverables	2,315	3,290
Total insurance receivables	25,206	34,137

Insurance receivables relate to amounts due from policyholders, agents, brokers, cedants and reinsurers. The Branch has no credit risk concentration that may arise from the exposure of a single debtor or a Branch of debtors. The Branch's normal trade credit term ranges from 60 to 90 days. Other credit terms are assessed and approved on a case-by-case-basis. Other credit terms include instalment scheme granted. Insurance receivables which are denominated in foreign currencies are disclosed in Note 20 to the financial statements.

Allowance for impairment relates to the provision for doubtful debt made during the financial year. There was a net write-back of doubtful debt amounting to S$16,000 (2017: S$NIL) during the financial year. The Branch currently offsets balances with the same counterparty within the receivables. The Branch has the legal rights to set-off these amounts and intends to settle on a net basis.

The insurance receivables that are offset are as follows:

2018	Gross carrying amount S$'000	Gross amount offset in the statement of financial position S$'000	Amount in the statement of financial position S$'000
Due from policyholders, agents, brokers, cedants and reinsurers	27,866	(2,660)	25,206

2017	Gross carrying amount S$'000	Gross amount offset in the statement of financial position S$'000	Amount in the statement of financial position S$'000
Due from policyholders, agents, brokers, cedants and reinsurers	35,036	(899)	34,137

10. Cash and cash equivalents

	2018 S$'000	2017 S$'000
Deposits	41,830	30,098
Cash at banks	9,283	8,988
Cash in hand	2	2
	51,115	39,088

The deposits bear interest at rates ranging from 0.50% to 2.45% per annum (2017: 0.29% to 1.55%), and mature within 3 months from year end, except for a sum of S$596,000 (2017: S$458,000) of deposits held as collateral against performance bonds issued on behalf of policyholders of which S$108,000 (2017: NIL) matures within 3 months from year end and S$488,000 (2017: S$458,000) expires after 3 months from year end.

Cash at banks represent non-interest bearing current accounts.

Cash and cash equivalents which are denominated in foreign currencies are disclosed in Note 20 to the financial statements.

11. Available-for-sale financial assets

	2018 S$'000	2017 S$'000
At beginning of financial year	36,635	–
Additions	61,500	37,187
Disposals/redemptions	(27,177)	–
Amortisation	(11)	9
Currency translation	504	(559)
Fair value loss recognised in other comprehensive income	(118)	(2)
At end of financial year	71,333	36,635
Less: Current portion	23,708	8,757
Non-current portion	47,625	27,878

The available-for-sale financial assets comprise debt securities which bear a weighted average interest rate of 2.01% per annum (2017: 1.35% per annum) with maturity dates from January 2019 to March 2022 (2017: February 2018 to March 2022).

Available-for-sale financial assets which are denominated in foreign currencies are disclosed in Note 20 to the financial statements.

12. Other creditors and accruals

	2018 S$'000	2017 S$'000
Collateral held in respect of performance bonds (Note 10)	596	458
Other creditors	1,394	1,883
Accrued operating expenses	1,694	1,239
GST payable	–	296
	3,684	3,876

Other creditors and accruals which are denominated in foreign currencies are disclosed in Note 20 to the financial statements.

13. Insurance payables

	2018 S$'000	2017 S$'000
Due to policyholders, agents and brokers	2,392	309
Amounts due to reinsurers	10,289	6,626
	12,681	6,935

The Branch currently offsets balances with the same counterparty within the amount due to policyholders, agents, brokers and reinsurers. The Branch has the legal rights to offset these amounts and intends to settle on a net basis.

2018	**Gross carrying amount** S$'000	**Gross amount offset in the statement of financial position** S$'000	**Amount in the statement of financial position** S$'000
Due to policyholders, agents, brokers and reinsurers	12,807	(126)	12,681

2017	**Gross carrying amount** S$'000	**Gross amount offset in the statement of financial position** S$'000	**Amount in the statement of financial position** S$'000
Due to policyholders, agents, brokers and reinsurers	6,967	(32)	6,935

13. Insurance payables (cont'd)

Insurance payables are non-interest bearing and the normal trade credit term granted to the Branch ranges from 60 to 90 days. Insurance payables which are denominated in foreign currencies are disclosed in Note 20 to the financial statements.

14. Head office account

During the financial year ended 31 December 2018, there was S$50,000,000 (2017: S$20,000,000) of fund injection from head office to fund the operation of the Branch.

15. Staff costs

	2018 S$'000	**2017** S$'000
Salaries and bonuses	8,010	6,642
CPF contributions	771	606
Allowances and other staff-related expenses	629	490
	9,410	7,738

16. Other operating expenses

	2018 S$'000	**2017** S$'000
Other operating expenses include the following:		
Legal and professional fees	508	485
License and association fees	70	105
Operating lease expense (Note 18)	1,852	1,846
Other operating expenses	2,257	2,895
	4,687	5,331

Included in other operating expenses is a net write-back of doubtful debt amounting to S$16,000 (2017: S$NIL) during the financial year.

17. Income tax

A reconciliation between the tax expense and the product of accounting loss multiplied by the applicable tax rate are as follows:

	2018 S$'000	**2017** S$'000
Loss before tax	(29,994)	(11,401)
Tax at statutory tax rate of 17%	(5,099)	(1,938)
Adjustments:		
Non-deductible expenses	244	196
Benefit from enhanced deduction	(11)	(22)
Deferred tax assets not recognised	4,866	1,764
Income tax expense recognised in profit or loss	–	–

Unrecognised tax losses

As at balance sheet date, the Branch has tax losses of approximately S$52,770,000 (2017: S$24,564,000) that are available for offset against future taxable profits. No deferred tax asset has been recognised on these tax losses due to uncertainty of its recoverability against future taxable profits. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation.

18. Operating lease commitments as lessee and lessor

Future minimum rental payments for office premises and IT equipment of the Branch under non-cancellable operating lease at the end of the reporting period are as follows:

	2018 S$'000	**2017** S$'000
Within one year	1,868	1,874
After one year but not more than three years	2,526	4,395
More than three years	–	–
	4,394	6,269

Operating lease expense recognised as an expense in the profit or loss for the financial year ended 31 December 2018 amounted to S$1,852,000 (2017: S$1,846,000) (Note 16).

The Branch subleased part of its office space to its in-house agents. The subleased income of S$327,000 (2017: S$333,000) was recognised as other income for the financial year ended 31 December 2018. The future minimum rental receivable from the in-house agents are as follows:

	2018 S$'000	**2017** S$'000
Within one year	255	337
After one year but not more than three years	–	287
	255	624

19. Significant related party transactions

In addition to the transactions detailed elsewhere in the financial statements, during the financial year, the significant transactions between the Branch and related parties were as follows:

	2018 S$'000	2017 S$'000
Head office:		
Reimbursement of IT charges	645	468

Amounts due to head office were unsecured, interest-free and were repayable on demand. There are no outstanding amounts due to related party as at 31 December 2018 and 2017.

Key management personnel

Key management personnel is defined as persons having authority and responsibility for planning, directing and controlling the activities of the Branch either directly or indirectly. The key management personnel compensation includes salary, bonus and other benefits computed based on the costs incurred by the Branch.

Key management personnel compensation is as follows:

	2018 S$'000	2017 S$'000
Salaries and bonuses	854	913
CPF contributions	13	13
Allowances and other benefits	74	74
	941	1,000

Notes to the Financial Statements

For the financial year ended 31 December 2018

20. Financial and insurance risk management objectives and policies

The Branch's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Branch's business whilst managing its liquidity, credit, interest rate, foreign currency, operational and insurance risks. The Branch operates within clearly defined guidelines approved by the Head Office and the Branch's policy is not to engage in speculative transactions. There has been no change to the Branch's exposure to these financial and insurance risks or the manner in which it manages and measures the risks.

20.1 *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting its contractual obligations as they become due because of the inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.

The Branch manages its operating cash flows and the availability of funding to ensure that repayment and funding obligations are met. As part of its overall prudent liquidity management, the Branch maintains sufficient levels of cash to meet its working capital requirements.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Branch's financial assets and financial liabilities at the end of the reporting period based on contractual maturities or expected repayment dates.

At 31 December 2018	**Within 1 year** S$'000	**1 - 3 years** S$'000	**Above 3 years** S$'000	**Total** S$'000
Financial assets:				
Other receivables excluding prepayment and GST receivable	501	1,252	–	1,753
Insurance receivables	25,064	105	37	25,206
Cash and cash equivalents	51,115	–	–	51,115
Total loans and receivables	76,680	1,357	37	78,074
Available-for-sale financial assets	23,708	42,685	4,940	71,333
Total financial assets	100,388	44,042	4,977	149,407
Financial liabilities:				
Other creditors and accruals excluding GST payable	3,531	153	–	3,684
Insurance payables	12,681	–	–	12,681
Total financial liabilities at amortised cost	16,212	153	–	16,365

20. Financial and insurance risk management objectives and policies (cont'd)

20.1 *Liquidity risk (cont'd)*

At 31 December 2017	**Within 1 year** S$'000	**1 - 3 years** S$'000	**Above 3 years** S$'000	**Total** S$'000
Financial assets:				
Other receivables excluding prepayment and GST receivable	362	495	–	857
Insurance receivables	34,029	74	34	34,137
Cash and cash equivalents	39,082	6	–	39,088
Total loans and receivables	73,473	575	34	74,082
Available-for-sale financial assets	8,757	17,899	9,979	36,635
Total financial assets	82,230	18,474	10,013	110,717
Financial liabilities:				
Other creditors and accruals excluding GST payable	3,427	153	–	3,580
Insurance payables	6,935	–	–	6,935
Total financial liabilities at amortised cost	10,362	153	–	10,515

Financial assets and liabilities up to 1 year maturity are current assets and current liabilities respectively.

Loss reserves and related reinsurers' share of loss reserves are excluded from the above analysis. Due to the nature of the insurance risks assumed by the Branch, management does not believe that it is practicable to estimate reliably the timing of the future cash flows arising from these liabilities and assets. The inherent liquidity risk assumed by the Branch in this respect is mitigated by the Branch and its ability to obtain cash advances, if required from its Head Office and reinsurers.

20.2 *Credit risk*

Credit risk refers to the risk that the counterparty default on its contractual obligations, resulting in financial loss to the Branch. Credit risks, or the counterparties defaulting risk, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored by strictly limiting the Branch's associations to business partners with high creditworthiness.

The Branch limits its exposure on securities investment by setting maximum duration of portfolio security holding and maximum portfolio with a single issuer or a Branch of issuers.

20. Financial and insurance risk management objectives and policies (cont'd)

20.2 *Credit risk (cont'd)*

Insurance receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Branch. Cash and cash equivalents that are neither past due nor impaired are placed with reputable financial institutions with high credit ratings and no history of default.

The age analysis of insurance receivables are as follows:

	2018	**2017**
	S$'000	S$'000
Up to 90 days	17,691	20,269
Above 90 days but not exceeding 180 days	4,419	7,210
Above 180 days but not exceeding 1 year	2,389	5,526
Above 1 year	707	1,132
	25,206	34,137

There is no other class of financial assets that is past due and/or impaired, except for insurance receivables where included in the insurance receivables is an amount of S$13,008,000 (2017: S$15,981,000) that is past due but not impaired. The Branch believes that the unimpaired amounts that are past due are still collectible in full, based on historical payment trends, subsequent receipts and extensive analysis of customer credit risk.

The age analysis of receivables that is past due but not impaired are as follows:

	2018	**2017**
	S$'000	S$'000
Up to 90 days	7,306	6,635
Above 90 days but not exceeding 180 days	3,789	3,688
Above 180 days but not exceeding 1 year	1,159	3,977
Above 1 year	754	1,681
	13,008	15,981

Financial assets that are past due and impaired are as follows:

	2018	**2017**
	S$'000	S$'000
Gross carrying amount	77	93
Allowance for impairment	(77)	(93)
	–	–

20. Financial and insurance risk management objectives and policies (cont'd)

20.2 *Credit risk (cont'd)*

The table below provides information regarding the credit risk exposure of the Branch by classifying financial assets according to the Standard and Poor's credit ratings of the counterparties.

At 31 December 2018	**AAA** S$'000	**AA- to AA+** S$'000	**A- to A+** S$'000	**B- to B+** S$'000	**Not rated** S$'000	**Total** S$'000
Financial assets:						
Other receivables excluding prepayment and GST receivable	–	–	–	–	1,753	1,753
Insurance receivables	–	1,915	2,957	255	20,079	25,206
Cash and cash equivalents	51,115	–	–	–	–	51,115
Total loans and receivables	51,115	1,915	2,957	255	21,832	78,074
Available-for-sale financial assets	71,333	–	–	–	–	71,333
Total financial assets	122,448	1,915	2,957	255	21,832	149,407

At 31 December 2017	**AAA** S$'000	**AA- to AA+** S$'000	**A- to A+** S$'000	**B- to B+** S$'000	**Not rated** S$'000	**Total** S$'000
Financial assets:						
Other receivables excluding prepayment and GST receivable	–	–	–	–	857	857
Insurance receivables	19	607	5,239	354	27,918	34,137
Cash and cash equivalents	39,088	–	–	–	–	39,088
Total loans and receivables	39,107	607	5,239	354	28,775	74,082
Available-for-sale financial assets	36,635	–	–	–	–	36,635
Total financial assets	75,742	607	5,239	354	28,775	110,717

20. Financial and insurance risk management objectives and policies (cont'd)

20.3 *Interest rate risk*

Interest rate risk is the risk that changes in the interest rates will have an adverse financial effect on the Branch's financial condition and/or results.

The Branch's exposure to interest rate risk relates primarily to cash flow interest rate risk and fair value interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and available-for-sale debt securities respectively.

The management considers the Branch's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

The following sensitivity analysis has been determined based on the exposure to interest rates for interest bearing bank balances at the reporting date and the stipulated changes taking place at the beginning of the financial year and held constant throughout the financial year.

If interest rates on interest bearing bank balances had been 50 basis points higher/lower and all other variables were held constant, the net loss before tax for the financial year ended 31 December 2018 would decrease/increase by approximately S$209,000 (2017: S$150,000).

If the interest rate had been 50 basis points higher/lower with all other variables held constant, the fair value reserve in equity before tax for the financial year would have been lower/higher by S$931,000 and S$880,000 respectively (2017: S$363,000 and S$647,000) as a result of decrease/increase in the fair value of debt securities classified as available-for-sale financial assets.

The Branch currently has no borrowings and therefore, is not exposed to interest rate risk resulting from borrowings.

20. Financial and insurance risk management objectives and policies (cont'd)

20.4 *Foreign currency risk*

Foreign currency risk is the risk of loss resulting from changes in the exchange rates. Foreign currency risk is managed through risk limits and policies approved by the Branch.

The net unhedged financial assets and liabilities of the Branch as at the reporting date that are not denominated in their functional currency are as follows:

At 31 December 2018	Cash and cash equivalents S$'000	Available-for-sale financial assets S$'000	Insurance receivables S$'000	Other receivables excluding prepayment and GST receivable S$'000	Insurance payables S$'000	Other creditors and accruals excluding GST payable S$'000	Net loss reserves S$'000	Net exposures S$'000
SGD	29,882	52,365	6,997	798	(2,749)	(2,441)	(38,722)	46,130
USD	21,233	18,968	18,209	955	(9,932)	(1,243)	(18,652)	29,538
MYR	–	–	–	–	–	–	(49)	(49)
IDR	–	–	–	–	–	–	(114)	(114)
PHP	–	–	–	–	–	–	(20)	(20)
AED	–	–	–	–	–	–	(27)	(27)
EUR	–	–	–	–	–	–	(83)	(83)
KRW	–	–	–	–	–	–	(56)	(56)
THB	–	–	–	–	–	–	(4)	(4)
CNY	–	–	–	–	–	–	–	–
	51,115	71,333	25,206	1,753	(12,681)	(3,684)	(57,727)	75,315

20. Financial and insurance risk management objectives and policies (cont'd)

20.4 *Foreign currency risk (cont'd)*

At 31 December 2017	Cash and cash equivalents	Available-for-sale financial assets	Insurance receivables	Other receivables excluding prepayment and GST receivable	Insurance payables	Other creditors and accruals excluding GST payable	Net loss reserves	Net exposures
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
SGD	25,234	18,324	10,882	605	(5,048)	(2,119)	(21,729)	26,149
USD	13,854	18,311	23,255	252	(1,887)	(1,461)	(14,955)	37,369
MYR	–	–	–	–	–	–	(435)	(435)
IDR	–	–	–	–	–	–	(81)	(81)
PHP	–	–	–	–	–	–	(131)	(131)
AED	–	–	–	–	–	–	(110)	(110)
EUR	–	–	–	–	–	–	(107)	(107)
KRW	–	–	–	–	–	–	(48)	(48)
THB	–	–	–	–	–	–	(17)	(17)
CNY	–	–	–	–	–	–	(28)	(28)
	39,088	36,635	34,137	857	(6,935)	(3,580)	(37,641)	62,561

20. Financial and insurance risk management objectives and policies (cont'd)

20.4 *Foreign currency risk (cont'd)*

Sensitivity analysis

The following table demonstrates the sensitivity of the Branch's loss before tax to a reasonably possible change in exchange rates of the following currencies against the functional currency of the Branch, Singapore Dollars (S$).

	Loss before tax Decrease/ (increase)	
	2018	**2017**
	S$'000	S$'000
USD/SGD		
Strengthened 5%	1,477	1,868
Weakened 5%	(1,477)	(1,868)
MYR/SGD		
Strengthened 5%	(2)	(22)
Weakened 5%	2	22
IDR/SGD		
Strengthened 5%	(6)	(4)
Weakened 5%	6	4
PHP/SGD		
Strengthened 5%	(1)	(7)
Weakened 5%	1	7
AED/SGD		
Strengthened 5%	(1)	(6)
Weakened 5%	1	6
EUR/SGD		
Strengthened 5%	(4)	(5)
Weakened 5%	4	5
KRW(/SGD		
Strengthened 5%	(3)	(2)
Weakened 5%	3	2
THB/SGD		
Strengthened 5%	–	(1)
Weakened 5%	–	1
CNY/SGD		
Strengthened 5%	–	(1)
Weakened 5%	–	1

20. Financial and insurance risk management objectives and policies (cont'd)

20.5 *Fair value measurements*

The following table presents assets measured at fair value and classified by level of the following fair value measurement hierarchy:

(i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Branch can access at the measurement date;

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

(iii) Level 3 – unobservable inputs for the asset or liability.

2018	**Level 1** S$'000	**Level 2** S$'000	**Level 3** S$'000	**Total** S$'000
Assets				
Recurring fair value measurements				
Available-for-sale financial assets (Note 11)				
- Debt securities	71,333	–	–	71,333
At end of financial year	71,333	–	–	71,333

2017	**Level 1** S$'000	**Level 2** S$'000	**Level 3** S$'000	**Total** S$'000
Assets				
Recurring fair value measurements				
Available-for-sale financial assets (Note 11)				
- Debt securities	36,635	–	–	36,635
At end of financial year	36,635	–	–	36,635

There have been no transfer between Level 1 and Level 2 and Level 3 during the financial years ended 2018 and 2017.

20. Financial and insurance risk management objectives and policies (cont'd)

20.5 *Fair value measurements (cont'd)*

Determination of fair value

(i) Fair value of financial instruments that are carried at fair value

Fair value of debt securities in level 1 is determined by direct reference to their bid price quotations in an active market at the reporting date.

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

The carrying amounts of Cash and cash equivalents (Note 10), Insurance receivables (Note 9), Other receivables excluding prepayment and GST receivable (Note 8), Insurance payables (Note 13) and Other creditors and accruals excluding GST payable (Note 12) are reasonable approximation of fair values due to their short-term nature.

20.6 *Operational risk*

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. When controls fail, operational risks can cause reputational damage and will have legal or regulatory implications which may lead to financial loss.

The Branch has implemented a robust control framework through its Enterprise Risk Management framework. The Risk Management and Compliance department monitors, responds and manages the potential risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff training, self-review and evaluation procedures.

Business risks, such as, changes in environment, technology and the industry are monitored through the Branch's strategic planning and budgeting process and the risk management framework.

20.7 *Insurance risk*

Insurance risk is the risk of variations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of understanding. The Branch faces the possibility of incurring higher claims than expected owing to the nature of the claim, their frequency, the severity and the risk of legal or economic conditions changes or behavioral patterns affecting pricing and conditions of insurance or reinsurance cover.

The Branch manages its exposure to large losses and catastrophe events by purchasing various appropriate reinsurance covers.

20. Financial and insurance risk management objectives and policies (cont'd)

20.7 *Insurance risk (cont'd)*

The table below sets out the concentration of general insurance contracts by line of business during the financial years ended 31 December 2018 and 2017.

2018	**Gross written premiums** S$'000	**Outward reinsurance premiums** S$'000	**Net written premiums** S$'000
Engineering	1,432	(973)	459
General accident	575	(127)	448
General liability	1,254	(166)	1,088
Marine cargo	10,575	(4,567)	6,008
Marine hull	30,298	(11,564)	18,734
Marine liability	3,524	(785)	2,739
Personal accident	1,054	(122)	932
Professional liability	4,216	(601)	3,615
Property & Home	2,201	(1,610)	591
Workmen compensation	2,985	(422)	2,563
Motor	2,736	(484)	2,252
Branch Hospital & Surgical	1,551	(149)	1,402
	62,401	(21,570)	40,831

2017	**Gross written premiums** S$'000	**Outward reinsurance premiums** S$'000	**Net written premiums** S$'000
Engineering	1,335	(636)	699
General accident	1,225	(121)	1,104
General liability	1,139	(98)	1,041
Marine cargo	19,015	(2,956)	16,059
Marine hull	27,554	(7,874)	19,680
Marine liability	3,466	(324)	3,142
Personal accident	2,177	(188)	1,989
Professional liability	3,278	(281)	2,997
Property & Home	2,766	(1,430)	1,336
Workmen compensation	4,666	(396)	4,270
Motor	15,106	(1,297)	13,809
Branch Hospital & Surgical	1,842	–	1,842
	83,569	(15,601)	67,968

20. Financial and insurance risk management objectives and policies (cont'd)

20.7 *Insurance risk (cont'd)*

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Branch's future claims development will follow a similar pattern and industry statistics. This includes assumptions in respect of average claims costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, and internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivity analysis of the key assumptions used in this estimation process is found in Note 3.

21. Capital management

The primary objective of the Branch's capital management is to safeguard the Branch's ability to continue as a going concern, to maintain healthy capital ratios and to provide an adequate return to the shareholders. The Branch's capital is represented by the amount in the head office account comprising the capital contribution from the head office offset by accumulated losses.

The Branch is required to satisfy the Fund Solvency and Capital Adequacy Requirements prescribed under the Singapore Insurance Act (Chapter 142). The Branch monitors its capital level on a regular basis to assess whether such requirements are met, and reports to the MAS its fund solvency and capital adequacy positions at each quarter and annually. The Branch has complied with the solvency requirements during the financial years ended 31 December 2018 and 2017.

22. Authorisation of financial statements

The financial statements were authorised for issuance by the Chief Executive of the Branch on 11 March 2019.