QBE

2018 FINANCIAL STATEMENTS

QBE INSURANCE (SINGAPORE) PTE LTD

Contents

Directors' statement

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The directors present their statement to the shareholder together with the audited financial statements of QBE Insurance (Singapore) Pte. Ltd. (the "Company") for the financial year ended 31 December 2018.

In the opinion of the directors,

(a) the financial statements as set out on pages 8 to 33 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Company for the financial year ended on that date; and

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

Directors

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

Karl Ludwig Anthony Hamann
Arunothayam A/P V Rajaratnam
Stephen James Lardner
Jason Colin Brown
Jack Kai Jiang

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 of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	HOLDINGS REGISTERED IN NAME OF DIRECTOR			
	ORDINARY SHARES OF A$1 EACH		NO. OF SHARE OPTIONS	
	AT 31.12.2018	AT 1.1.2018	AT 31.12.2018	AT 1.1.2018
Ultimate Holding Corporation – QBE Insurance Group Limited				
Karl Ludwig Anthony Hamann	–	760	20,743	31,983
Jason Colin Brown	–	–	103,171	156,768
Jack Kai Jiang	–	–	4,679	7,129

Share options

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

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

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

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

Jack Kai Jiang
Director

Karl Ludwig Anthony Hamann
Director

29 March 2019

Independent auditor's report

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Report on the Audit of the Financial Statements

Opinion

In our opinion, the accompanying financial statements of QBE Insurance (Singapore) Pte. Ltd. (the "Company") are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

What we have audited

The financial statements of the Company comprise:
- the statement of comprehensive income for the year ended 31 December 2018;
- the balance sheet as at 31 December 2018;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 29 March 2019

Statement of comprehensive income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 S$'000	2017 S$'000
Gross premium written	12(b)	**209,299**	240,287
Outward reinsurance premiums		**(135,049)**	(190,983)
Net premium written	12(b)	**74,250**	49,304
Change in net unearned premium reserves	12(e)(i)	**4,775**	26,025
Net earned premium		**79,025**	75,329
Investment income	6	**4,567**	3,549
Commission income		**36,968**	62,803
Other income		**1,439**	1,630
		42,974	67,982
Gross claims paid		**(141,393)**	(114,735)
Reinsurer's share of claims paid		**84,693**	37,144
Change in gross claims reserve	12(e)(ii)	**(32,875)**	(41,984)
Reinsurer's share of change in claims reserve	12(e)(ii)	**44,860**	64,091
Net claims incurred		**(44,715)**	(55,484)
Investment expenses		**(251)**	(286)
Commission expenses		**(36,267)**	(40,194)
Management expenses	4	**(45,312)**	(53,768)
Total expenses		**(81,830)**	(94,248)
Loss before tax		**(4,546)**	(6,421)
Income tax (expense)/credit	7	**(101)**	1,095
Loss after tax		**(4,647)**	(5,326)
Total comprehensive loss for the year		**(4,647)**	(5,326)

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

Balance sheet

AS AT 31 DECEMBER 2018

	NOTE	2018 S$'000	2017 S$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**12,535**	13,662
Trade and other receivables	9	**75,300**	80,031
Financial assets, at fair value through profit or loss	10	**237,967**	270,434
Loan to a related corporation	11	**13,630**	-
Reinsurer's share of unearned premium reserves	12(d)	**27,449**	31,103
Reinsurer's share of claims reserves	12(d)	**85,247**	58,494
Total current assets		**452,128**	453,724
Non-current assets			
Property, plant and equipment	13	**938**	1,324
Intangible assets	14	**1,019**	1,847
Reinsurer's share of unearned premium reserves	12(d)	**6,204**	10,955
Reinsurer's share of claims reserves	12(d)	**43,573**	25,466
Total non-current assets		**51,734**	39,592
Total assets		**503,862**	493,316
LIABILITIES			
Current liabilities			
Trade and other payables	15	**40,939**	45,542
Tax payable	7(b)	**11**	11
Unearned premium reserves	12(d)	**64,326**	69,825
Outstanding claims reserves	12(d)	**150,342**	131,995
Total current liabilities		**255,618**	247,373
Non-current liabilities			
Unearned premium reserves	12(d)	**14,538**	22,219
Outstanding claims reserves	12(d)	**73,766**	59,238
Deferred tax liabilities	16	**162**	61
		88,466	81,518
Total liabilities		**344,084**	328,891
NET ASSETS		**159,778**	164,425
EQUITY			
Share capital	17	**156,580**	156,580
Retained profits		**3,198**	7,845
Total Equity		**159,778**	164,425

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

Statement of changes in equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	NOTE	SHARE CAPITAL S$'000	RETAINED PROFITS S$'000	TOTAL EQUITY S$'000
2018				
Beginning of financial year		**156,580**	**7,845**	**164,425**
Total comprehensive loss		**-**	**(4,647)**	**(4,647)**
Dividends paid	18	**-**	**-**	**-**
End of financial year		**156,580**	**3,198**	**159,778**
2017				
Beginning of financial year		156,580	20,021	176,601
Total comprehensive loss		-	(5,326)	(5,326)
Dividends paid	18	-	(6,850)	(6,850)
End of financial year		156,580	7,845	164,425

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

Statement of cash flows

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 S$'000	2017 S$'000
Cash flows from operating activities			
Loss before tax		(4,546)	(6,421)
Adjustments for:			
– Depreciation of property, plant and equipment		485	514
– Amortisation of intangible assets		1,230	3,133
– Impairment loss on intangible assets		–	197
– Net realised loss from sale of financial assets at fair value through profit or loss		177	830
– Net unrealised loss/(gain) on financial assets at fair value through profit or loss		139	(140)
– Investment income		(4,883)	(4,415)
– Allowance for/(write back of) impairment loss on trade receivables		172	(83)
– Net unearned premium reserves		(4,775)	(26,025)
– Net outstanding claims reserves		(11,985)	(22,107)
		(23,986)	(54,517)
Change in working capital			
– Trade and other receivables		3,951	2,491
– Trade and other payables		(4,603)	14,744
Cash used in operations		(24,638)	(37,282)
– Income tax paid	7(b)	–	(2,309)
Net cash used in operating activities		(24,638)	(39,591)
Cash flows from investing activity			
Purchase of financial assets, at fair value through profit or loss		(434,156)	(593,376)
Proceeds from maturity and sale of financial assets, at fair value through profit or loss		466,307	537,795
Purchase of property, plant and equipment		(99)	(186)
Purchase of intangible assets		(402)	(490)
Investment income received		5,491	4,302
Loan to a related corporation		(13,630)	–
Net cash provided by/(used in) investing activities		23,511	(51,955)
Cash flows from financing activity			
Dividends paid		–	(6,850)
Net cash used in financing activity		–	(6,850)
Net decrease in cash and cash equivalents		(1,127)	(98,396)
Cash and cash equivalents at beginning of financial year		13,662	112,058
Cash and cash equivalents at end of financial year		12,535	13,662

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

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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

1. GENERAL INFORMATION

The Company is incorporated and domiciled in Singapore. The address of the registered office is 1 Raffles Quay, #29-10, South Tower, Singapore 048583.

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The financial statements are presented in Singapore dollars, which is the functional currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below.

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

Interpretations and amendments to published standards effective in 2018

On 1 January 2018, the Company adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Company and had no material effect on the amounts reported for the current period or prior financial years except for the following:

(a) Adoption of FRS 115 Revenue from Contracts with Customers

In accordance with the requirements of FRS 1, the Company adopted FRS 115 retrospectively. The adoption of FRS 115 did not result in substantial changes to the accounting policies of the Company and had no material effect on the amounts reported for the current or prior financial years. The revenue recognition as disclosed in Note 2.2 does not change under FRS 115.

(b) Temporary exemption on adoption of FRS 109 Financial Instruments

FRS 109 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ("FVOCI") and fair value through Profit or Loss ("FVTPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVTPL with an irrevocable option at inception to present changes in fair value in Other Comprehensive Income ("OCI") . Gains and losses realised on the sale of such financial assets at FVOCI are not transferred to profit or loss on sale but reclassified from the FVOCI reserve to retained earnings.

FRS 109 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management uses for risk management purposes.

There is also now a new expected credit loss impairment model that replaces the incurred loss impairment model used in FRS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under FRS 115 Revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation.

The standard is mandatorily effective for financial periods beginning on or after 1 January 2018 (except for prepayment features with negative compensation and modifications or exchange of financial liabilities that do not result in derecognition which will become effective for financial periods beginning on or after 1 January 2019), but the Company qualifies for a temporary exemption as explained in Note 2.1(c). Additional disclosures required by FRS 109 is made in Note 24.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The amendments introduce two approaches: an overlay approach and a deferral approach. The amended FRS 104:

(1) 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 contract is issued (the "Overlay Approach") and

(2) gives companies whose activities are predominantly connected with insurance an optional temporary exemption from applying FRS 109 until 2021 (the "Deferral Approach"). The IASB proposed to defer the new insurance standard to financial period beginning on or after 1 January 2022 (Note 2.1 (d)). The entities that defer the application of FRS 109 will continue to apply the existing financial instruments standard – FRS 39.

In determining the appropriateness of the Company's eligibility in applying the exemption, management have reviewed the conditions prescribed by the Standard to ascertain if the Company has met the eligibility criteria set forth.

As at 31 December 2015, the carrying amount of the Company's insurance liabilities within the scope of FRS 104 exceed 80% of the carrying amount of the Company's total liabilities; and the Company does not engage in any significant activity unconnected with insurance, on the basis that its business is almost exclusively in the nature of issuing insurance contracts, purchasing reinsurance protection and deriving a return from the investment of insurance premiums. As such, the Company has met the criteria as set out for the temporary exemption under FRS 109.

The Company has decided that it will defer the implementation of FRS 109 till the new insurance accounting standard is effective and it is able to perform a comprehensive assessment of both standards together.

(d) Deferral for FRS 117 Insurance Contracts

FRS 117 Insurance Contracts will replace the current FRS 104 Insurance Contracts standard. FRS 117 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, FRS 117 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. In November 2018, IASB proposed to defer FRS 117 and temporary FRS 109 exemption is made available to insurers until the financial period beginning on or after 1 January 2022. The proposed deferral is subject to public consultation, which is expected in 2019.

2.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable from rendering of services in the ordinary course of the Company's activities, net of goods and services tax, rebates and discounts. Revenue is recognised as follows:

(a) Premium income

Written premiums include premiums on contracts incepting during the financial year, irrespective of whether they relate in whole or in part to later financial years. Written premiums are disclosed gross of commissions to insurance companies and intermediaries.

The earned portion of written premiums is recognised as revenue proportionally over the period of coverage.

Treaty and facultative reinsurance inward premiums are recognised as written upon receipt of statements and closing placement slips respectively from cedants up to the time of closing of the books.

(b) Reinsurance commission income

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 insurance contracts.

(c) Interest income

Interest income is recognised using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES

2.3 Financial assets

(a) Classification

The Company classifies its financial assets into loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivbles 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 balance sheet date, which are presented as non-current assets. Loans and receivables are presented as "cash and cash equivalents", "trade and other receivables" and "loan to a related corporation".

(ii) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at 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 at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Company investment strategy. 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 balance sheet date.

Management has designated all its financial assets as at fair value through profit or loss at inception. The designation of financial assets as at fair value through profit or loss at inception is irrevocable.

(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 net sale proceeds is recognised in 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 as expenses.

(d) Subsequent measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value.

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise, and are presented as investment income (net).

(e) Impairment

The Company assesses at each balance sheet 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

2.4 Currency translation

The financial statements are presented in Singapore Dollar, which is the functional currency of the Company.

Transactions in a currency other than the Singapore Dollar ("foreign currency") are translated into Singapore Dollar using the exchange rates at the dates of the transactions. Currency exchange differences resulting 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 balance sheet date are recognised in profit or loss.

2.5 Income taxes

Current income 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 balance sheet date.

Deferred income 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 income tax arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax is measured at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Current and deferred income 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.

The Company accounts for investment tax credits (for example, productivity and innovative credit) similar to accounting for other tax credits where deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

2.6 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand and at bank, and deposits held at call with financial institutions which are subject to an insignificant change in value.

2.7 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). Otherwise they are presented as non-current liabilities.

Trade and other payables are initially recognised at their fair value, and subsequently carried at amortised cost, using the effective interest method.

2.8 Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses (see Note 2.10).

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

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

Depreciation is calculated using the straight-line method to allocate depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

	Useful lives
Computers	3 years
Furniture and fittings	5 years
Office equipment	5 years
Motor vehicles	5 years
Leasehold improvement	5 years

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.9 Intangible assets

(a) Software development cost

Software that are internally developed are reported at cost less accumulated amortisation and accumulated impairment losses.

Software development cost is amortised on a straight-line basis over its estimated useful life using the straight-line method over 3 years. The estimated useful life and amortisation are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

(b) Club membership

Club membership acquired is measured initially at cost less any accumulated impairment losses.

2.10 Impairment of non-financial assets

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

For the purpose of impairment testing of assets, recoverable amount (i.e. the higher of the 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.

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset 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.

An impairment loss for an asset is reversed only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an 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 accumulated 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.

2.11 Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significant when compared to the premiums collected for such contracts.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as unearned premium reserves. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date inclusive of provisions for incurred but not reported claims. The Company discounts its liabilities for unpaid claims using applicable risk free discount rates.

2.12 Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts issued by the Company where significant insurance risk is transferred are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurer's share of insurance liabilities. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment when there is objective evidence that the Company will not be able to collect all amounts due in accordance with the original terms of the contract, having regard to market data on the financial strength of each of the reinsurance companies. The amount of the allowance is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES

2.13 Insurance liabilities

Insurance liabilities comprise unearned premiums reserves and outstanding claims reserves.

(a) Unearned premium reserves/deferred acquisition cost

An unearned premium reserve is made for the amount of premium not yet earned at the balance sheet date. Unearned premium reserves are calculated using the 1/365th method based on the gross premiums written less return premiums and reinsurance premiums and 25% method for marine cargo business.

Commission that vary with and are related to securing new contracts and renewing existing contracts are netted off against unearned premium provision. All other acquisition costs are recognised as expenses when incurred.

Commission income and commission expense are deferred and subsequently amortised over the life of the policies as the premiums are ceded or earned.

(b) Outstanding claims reserves

Provision for claims is made for the estimated cost of claims notified but not settled at the date of the balance sheet, less reinsurance recoveries using the best information available at that time.

In addition, a provision is made for claims incurred but not reported ("IBNR") for all business written at the balance sheet date based on the past claims experience and statistics derived from prior trends (see Note 3).

The reserve for IBNR losses and loss expenses is established by management based on actuarial determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in earnings in the period in which they become known.

The claims provisions are intended to provide a 75% level of assurance of adequacy, and as such include a Provision for Adverse Deviation (PAD) beyond the estimated cost of claim including the required IBNR.

(c) Liability adequacy test

At each balance sheet date, a liability adequacy test is performed to ensure the adequacy of unearned premium liabilities. In performing the test, current best estimates of future contractual cash flows are used. Any deficiency is immediately charged to profit or loss.

2.14 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.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

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

The Company makes estimates, assumptions and judgments in determining the reported insurance liabilities. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

<u>The ultimate liability arising from claims made under insurance contracts</u>

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimation of the ultimate liability arising from claims is done using conventional actuarial techniques.

The assumptions used by the Company, in determining its insurance liability are disclosed in Note 2.

Notes to the financial statements continued

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

4. MANAGEMENT EXPENSES

	2018 S$'000	2017 S$'000
Employee compensation (Note 5)	**19,682**	22,511
Consultant services	**806**	748
Management fees paid to a related company	**15,110**	15,868
Office rent	**2,876**	2,835
Other expenses		
– Depreciation of property, plant and equipment	**485**	514
– Amortisation of intangible assets	**1,230**	3,133
– Impairment loss on intangible assets	**–**	197
– Advertising and subscriptions	**878**	1,042
– Impairment loss/(write-back of impairment loss) on trade receivables	**172**	(83)
– Audit fees	**299**	295
– Other expenses	**3,774**	6,708
	45,312	53,768

5. EMPLOYEE COMPENSATION

	2018 S$'000	2017 S$'000
Wages and salaries	**13,751**	15,047
Employer's contribution to defined contribution plans	**1,706**	1,921
Other benefits	**4,225**	5,543
	19,682	22,511

6. INVESTMENT INCOME

	2018 S$'000	2017 S$'000
Interest income		
– Interest income on financial assets at fair value through profit or loss	**4,826**	3,815
– Cash and cash equivalents	**57**	600
Net realised loss from sale of financial assets at fair value through profit or loss	**(177)**	(830)
Net (loss)/gain from re-measurement of financial assets at fair value	**(441)**	1166
Net gain/(loss) on foreign exchange	**302**	(1,202)
	4,567	3,549

7. INCOME TAX

(a) Income tax expense

	2018 S$'000	2017 S$'000
Tax expense attributable to profit is made up of:		
Current income tax	-	(293)
Deferred income tax (Note 16)	**101**	(802)
Tax expense	**101**	(1,095)
Current income tax		
Current year	-	13
Over provision in respect of prior years	-	(306)
	101	(293)
Deferred income tax		
Origination and reversal of temporary difference (Note 16)	**101**	(802)
	101	(1,095)

The tax on loss before tax differs from the amount that would arise using the Singapore standard rate of income tax as follows:

	2018 S$'000	2017 S$'000
Loss before tax	**(4,546)**	(6,421)
Tax calculated at a tax rate of 17% (2017: 17%)	**(773)**	(1,092)
Tax effect of:		
Income tax credit calculated at a lower rate of 10% instead of at 17%	**302**	(172)
Income not subject to tax	**(26)**	(32)
Expense not deductible for tax purpose	**269**	260
Utilisation of previously unrecognised capital allowances	-	(143)
Deferred tax asset not recognised	**276**	417
Over provision in prior year	-	(306)
Others	**53**	(27)
Income tax expense/(credit)	**101**	(1,095)

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% (2017 : 10%), instead of the standard rate of 17% (2017 : 17%).

(b) Movements in current income tax liabilities

	2018 S$'000	2017 S$'000
Beginning of financial year	**11**	2,613
Income tax paid	-	(2,309)
Over provision in prior year	-	(306)
Tax payable on profit for current financial year	-	13
End of financial in year	**11**	11

Notes to the financial statements continued

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

8. CASH AND CASH EQUIVALENTS

	2018 S$'000	2017 S$'000
Cash at bank and on hand	**12,535**	13,662

Cash and cash equivalents at the balance sheet date are denominated in the following currencies:

	2018 S$'000	2017 S$'000
United States Dollar	**4,737**	9,222
Singapore Dollar	**7,798**	4,440
	12,535	13,662

The exposure of cash and cash equivalents to interest rate risks is disclosed in Note 19.

9. TRADE AND OTHER RECEIVABLES

	2018 S$'000	2017 S$'000
Insurance receivables – Related parties	**6,535**	675
Insurance receivables – Non-related parties	**65,291**	70,579
Less: Allowance for impairment of receivables – Non-related parties	**(1,317)**	(1,145)
	63,974	69,434
Prepayments	**697**	338
Interest receivables	**1,016**	1,624
Deposits	**1,110**	1,125
Other receivables – Related parties	**1,871**	6,753
Other receivables – Non-related parties	**97**	82
	75,300	80,031

At the balance sheet date, all trade, interest receivables, deposits and other receivables are current, and the carrying amounts approximate their fair values.

Trade, interest receivables, deposits and other receivables are unsecured, interest free and are recoverable on demand.

10. FINANCIAL ASSETS, AT FAIR VALUE THROUGH PROFIT & LOSS

	2018 S$'000	2017 S$'000
Government securities	**197,911**	206,463
Corporate bonds	**40,056**	63,971
	237,967	270,434

The maturity profile and exposure of financial assets, at fair value through profit or loss to interest rate risks is disclosed in Note 19.

Financial assets, at fair value through profit or loss, at the balance sheet date are denominated in the following currencies:

	2018 S$'000	2017 S$'000
Singapore Dollar	**214,724**	263,602
United States Dollar	**23,243**	6,832
	237,967	270,434

11. LOAN TO A RELATED CORPORATION

The loan to a related corporation is unsecured, denominated in the United States Dollars and was due in full on 7 January 2019. The contractual interest rate on the loan at balance sheet date is at 3.4% (2017: Nil) per annum.

The fair value of the loan at balance sheet date is S$13,630,000 (2017: Nil).

12. INSURANCE LIABILITIES AND REINSURER'S SHARE OF INSURANCE LIABILITIES

	2018 S$'000	2017 S$'000
Gross		
Insurance contracts:		
– unearned premium reserves	**78,864**	92,044
– outstanding claims reserves	**224,108**	191,233
Total insurance liabilities – gross	**302,972**	283,277
Reinsurance Outwards		
Insurance contracts:		
– unearned premium reserves	**33,653**	42,058
– outstanding claims reserves	**128,820**	83,960
Total reinsurers' share of insurance liabilities	**162,473**	126,018
Net		
Insurance contracts:		
– unearned premium reserves	**45,211**	49,986
– outstanding claims reserves	**95,288**	107,273
Total insurance liabilities – net	**140,499**	157,259

The estimated timing of the net cash outflows arising from the reinsurance assets and insurance liabilities are disclosed in Note 12(d).

(a) *Insurance risk*

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Company faces the possibility of incurring higher claims costs than expected owing to the nature of the claims, their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting pricing and conditions of insurance or reinsurance cover.

The Company seeks to minimise and manage these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The Company's underwriting policy supports the seeking of risks with adequate pricing that is commensurate with the risk profiles and claims experience.

The underwriting strategy attempts to ensure that there are appropriate risk criteria. There are underwriting policies setting the Company's risk appetite, risk management and control. Also in place are underwriting and claims authority limits. Where applicable, the Company has the right not to renew any policy, impose deductibles and reject payment of any fraudulent claim.

(i) Loss reserves

Outstanding claims reserves include unpaid losses, loss adjustment expenses and estimates for ultimate reserves for IBNR.

The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available and assessed regularly by reference to both levels of business and actual claims development. The statistics are divided by class of business and arranged on an accident year basis. Estimates of ultimate outcome are assessed by accident year allowing for past experience, levels of business and known claims trends.

The establishment of an ultimate outcome for older accident years is more certain and IBNR is established mainly to allow for the adverse deterioration in the case of more recent years, and the most recent year in particular. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

IBNR allowance is established for the onshore and offshore fund as a whole. The IBNR allowance is reflecting this approach and is allocated to the respective funds on a consistent basis. Comfort should be taken from looking at the development of earlier accident years that adequate provisions have been established reflecting an allowance for adverse deviation.

12. INSURANCE LIABILITIES AND REINSURER'S SHARE OF INSURANCE LIABILITIES

(ii) Reinsurance

The Company cedes insurance premiums and risks in a normal course of its business in order to limit the potential for single large loss or losses arising from a single event or longer exposures. Reinsurance does not, however, relieve the originating insurer of its liability. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claims liability associated with the reinsured policy. Reinsurance is recorded gross in the balance sheet unless a right of offset exists.

(b) *Concentration of insurance risk*

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted by the Company is summarised below, with reference to the carrying amount of the premiums (gross and net of reinsurance) arising from insurance contracts:

	2018 GROSS PREMIUM WRITTEN S$'000	2018 NET PREMIUM WRITTEN S$'000	2017 GROSS PREMIUM WRITTEN S$'000	2017 NET PREMIUM WRITTEN S$'000
Property	**34,930**	**1,140**	43,867	2,521
Motor	**8,572**	**4,164**	12,475	3,600
Marine Cargo	**14,295**	**8,048**	19,099	6,270
Marine Hull	**40,220**	**17,778**	54,164	11,820
Work Injury Compensation	**22,154**	**10,755**	23,787	5,967
Health	**17,703**	**8,348**	17,529	5,035
Public Liability	**12,992**	**6,036**	14,682	3,667
Engineering	**13,823**	**2,629**	16,315	1,460
Professional Indemnity	**20,930**	**9,079**	16,369	3,872
Others	**23,680**	**6,273**	22,000	5,092
Total	**209,299**	**74,250**	240,287	49,304

(c) *Sensitivity analysis*

The general insurance claim liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movement in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit before tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

2018	CHANGE IN ASSUMPTIONS	IMPACT ON GROSS LIABILITIES S$'000	IMPACT ON NET LIABILITIES S$'000	IMPACT ON PROFIT BEFORE TAX S$'000
Ultimate loss ratio	**+5%**	**7,383**	**3,143**	**(3,143)**
Discount rate	**+1%**	**(2,360)**	**(1,049)**	**1,049**
Provision for adverse deviation	**+1%**	**2,243**	**954**	**(954)**

2017	CHANGE IN ASSUMPTIONS	IMPACT ON GROSS LIABILITIES S$'000	IMPACT ON NET LIABILITIES S$'000	IMPACT ON PROFIT BEFORE TAX S$'000
Ultimate loss ratio	+5%	8,341	3,577	(3,577)
Discount rate	+1%	(1,922)	(1,128)	1,128
Provision for adverse deviation	+1%	1,912	1,073	(1,073)

12. INSURANCE LIABILITIES AND REINSURER'S SHARE OF INSURANCE LIABILITIES

(d) *Maturity analysis*

The table below indicates the estimated timing of the net cash outflows arising from recognised insurance liabilities of the Company:

	2018 PAYABLE WITHIN 12 MONTHS S$'000	2018 PAYABLE AFTER 12 MONTHS S$'000	2018 TOTAL S$'000	2017 PAYABLE WITHIN 12 MONTHS S$'000	2017 PAYABLE AFTER 12 MONTHS S$'000	2017 TOTAL S$'000
Gross						
Unearned premium reserves	**64,326**	**14,538**	**78,864**	69,825	22,219	92,044
Outstanding claims reserves	**150,342**	**73,766**	**224,108**	131,995	59,238	191,233
Total as at end of financial year	**214,668**	**88,304**	**302,972**	201,820	81,457	283,277
Reinsurance						
Unearned premium reserves	**(27,449)**	**(6,204)**	**(33,653)**	(31,103)	(10,955)	(42,058)
Outstanding claims reserves	**(85,247)**	**(43,573)**	**(128,820)**	(58,494)	(25,466)	(83,960)
Total as at end of financial year	**(112,696)**	**(49,777)**	**(162,473)**	(89,597)	(36,421)	(126,018)
Net						
Unearned premium reserves	**36,877**	**8,334**	**45,211**	38,722	11,264	49,986
Outstanding claims reserves	**65,095**	**30,193**	**95,288**	73,501	33,772	107,273
Total as at end of financial year	**101,972**	**38,527**	**140,499**	112,223	45,036	157,259

(e) *Movements in insurance liabilities and reinsurance assets*

(i) *Unearned premium reserves*

2018	GROSS S$'000	REINSURANCE S$'000	NET S$'000
Total at beginning of financial year	**92,044**	**(42,058)**	**49,986**
(Decrease)/increase in unearned premium reserves	**(13,180)**	**8,405**	**(4,775)**
Total at end of financial year	**78,864**	**(33,653)**	**45,211**

2017	GROSS S$'000	REINSURANCE S$'000	NET S$'000
Total at beginning of financial year	94,316	(18,305)	76,011
Decrease in unearned premium reserves	(2,272)	(23,753)	(26,025)
Total at end of financial year	92,044	(42,058)	49,986

(ii) *Outstanding claims reserves*

2018	GROSS S$'000	REINSURANCE S$'000	NET S$'000
Total at beginning of financial year	**191,233**	**(83,960)**	**107,273**
Increase/(decrease) in claims reserves	**32,875**	**(44,860)**	**(11,985)**
Total at end of financial year	**224,108**	**(128,820)**	**95,288**

2017	GROSS S$'000	REINSURANCE S$'000	NET S$'000
Total at beginning of financial year	149,249	(19,869)	129,380
Increase/(decrease) in claims reserves	41,984	(64,091)	(22,107)
Total at end of financial year	191,233	(83,960)	107,273

Notes to the financial statements continued

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12. INSURANCE LIABILITIES AND REINSURER'S SHARE OF INSURANCE LIABILITIES

(f) *Loss development tables*

The loss development tables presented below are net of reinsurance.

Accident Year	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	TOTAL
NET INCURRED											
0							91,097	112,753	68,270	53,093	
1						41,636	82,265	105,636	91,649		
2					16,954	36,286	79,654	139,486			
3				5,209	14,903	35,395	92,711				
4			2,155	3,921	14,086	39,703					
5		735	2,274	4,355	13,720						
6	1,239	495	2,171	5,261							
7	838	425	2,183								
8	724	404									
9	1,142										
Movement	418	(21)	12	906	(366)	4,205	13,031	33,653	22,464	53,093	127,394
Current estimate	1,142	404	2,183	5,261	13,720	39,703	92,711	139,486	91,649	53,093	439,351
Cumulative payments	553	347	1,778	4,181	9,759	36,334	64,008	120,211	69,363	17,992	344,063
Net outstanding liability	589	57	404	1,080	3,961	3,369	9,175	19,265	22,286	35,101	95,288

13. PROPERTY, PLANT AND EQUIPMENT

2018	COMPUTERS S$'000	FURNITURE AND FITTINGS S$'000	MOTOR VEHICLES S$'000	OFFICE EQUIPMENT S$'000	LEASEHOLD IMPROVEMENT S$'000	TOTAL S$'000
Cost						
Beginning of financial year	**409**	**16**	**189**	**360**	**1,485**	**2,459**
Additions	**94**	**-**	**-**	**-**	**5**	**99**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
End of financial year	**503**	**16**	**189**	**360**	**1,490**	**2,558**
Accumulated depreciation						
Beginning of financial year	**319**	**9**	**117**	**158**	**532**	**1,135**
Depreciation charge	**63**	**2**	**51**	**71**	**298**	**485**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
End of financial year	**382**	**11**	**168**	**229**	**830**	**1,620**
Net book value						
End of financial year	**121**	**5**	**21**	**131**	**660**	**938**

13. PROPERTY, PLANT AND EQUIPMENT

2017	COMPUTERS S$'000	FURNITURE AND FITTINGS S$'000	MOTOR VEHICLES S$'000	OFFICE EQUIPMENT S$'000	LEASEHOLD IMPROVEMENT S$'000	TOTAL S$'000
Cost						
Beginning of financial year	382	14	189	360	1,336	2,281
Additions	35	2	-	-	149	186
Disposals	(8)	-	-	-	-	(8)
End of financial year	409	16	189	360	1,485	2,459
Accumulated depreciation						
Beginning of financial year	222	5	65	85	252	629
Depreciation charge	105	4	52	73	280	514
Disposals	(8)	-	-	-	-	(8)
End of financial year	319	9	117	158	532	1,135
Net book value						
End of financial year	**90**	**7**	**72**	**202**	**953**	**1,324**

14. INTANGIBLE ASSETS

SOFTWARE DEVELOPMENT COST	2018 TOTAL S$'000	2017 TOTAL S$'000
Cost:		
Beginning of financial year	**8,673**	8,183
Additions	**402**	490
End of financial year	**9,075**	8,673
Accumulated amortisation		
Beginning of financial year	**7,154**	4,021
Amortisation	**1,230**	3,133
End of financial year	**8,384**	7,154
Carrying Amount:		
End of financial year	**691**	1,519
Club membership	**328**	328
Total intangible assets	**1,019**	1,847

15. TRADE AND OTHER PAYABLES

	2018 S$'000	2017 S$'000
Trade payables consists of:		
- amounts due to non-related parties	**14,855**	11,451
- amounts due to related parties	**5,491**	9,948
	20,346	21,399
Other payables consists of:		
- amounts due to related parties	**6,251**	11,612
- accrued expenses and other payables	**14,342**	12,531
	20,593	24,143
	40,939	45,542

Notes to the financial statements continued

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

16. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2018 S$'000	2017 S$'000
Deferred tax liability as at 1 January	**61**	863
Credited to profit or loss (Note 7)	**101**	(802)
Deferred tax liability as at 31 December	**162**	61

The movements in deferred tax liabilities and assets during the financial year comprise the tax effects of the following:

2018	BEGINNING OF FINANCIAL YEAR S$'000	CREDITED S$'000	END OF FINANCIAL YEAR S$'000
Recognised in profit or loss:			
Excess of capital allowance over depreciation	**61**	**101**	**162**
Others	**-**	**-**	**-**
	61	**101**	**162**

2017			
Recognised in profit or loss:			
Excess of capital allowance over depreciation	863	(746)	117
Others	-	(56)	(56)
	863	(802)	61

Deferred income tax assets are recognised for tax losses and capital allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Company has unrecognised tax losses of $1,918,543 (2017: $1,896,867) and utilised capital allowance of $1,081,542 (2017: $749,640) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation. The tax losses and capital allowance have no expiry date.

17. SHARE CAPITAL

	2018 NO. OF SHARES	2018 S$'000	2017 NO. OF SHARES	2017 S$'000
Issued and fully paid ordinary shares with par value				
At 1 January and 31 December	**156,579,532**	**156,580**	156,579,532	156,580

18. DIVIDENDS

	2018 S$'000	2017 S$'000
Ordinary dividends		
Interim dividend paid in respect of current financial year of nil (2017: $0.0437) per share	**-**	6,850

19. MANAGEMENT OF FINANCIAL RISK

The Company's activities also expose it to a variety of financial risks, including the effects of changes in debt market prices and foreign currency exchange rates.

Financial risk management objectives

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from claims as they fall due. The most important components of this financial risk are market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company manages these positions within an investment strategy that has been developed with the following objectives:

(i) to preserve capital in reasonably liquid investments to pay claims, and

(ii) to maximise returns to the Company's income needs.

The Company's investment strategy is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities.

(a) Market risk

(i) Currency risk

The Company maintains cash and deposits mainly in Singapore Dollars ("SGD") which is consistent with its functional currency. The foreign exchange exposure arose mainly from exchange rate movements of the United States Dollar ("USD") against the SGD. The Company manages its exposure to foreign exchange risk by monitoring its level of assets and liabilities that are denominated in foreign currencies.

If the USD changed against SGD by 1% (2017: 6%) with all other variables being held constant, the effects to the profit after tax would have been S$70,000 (2017: S$170,000).

The table below summarises the Company's exposures to foreign currency exchange rate movements as at 31 December 2018. 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 $'000	USD $'000	TOTAL $'000
As at 31 December 2018			
Cash and cash equivalents	**7,798**	**4,737**	**12,535**
Trade and other receivables	**55,218**	**22,494**	**77,712**
Financial assets, at fair value through profit or loss	**214,724**	**23,243**	**237,967**
Loan to a related corporation	**-**	**13,630**	**13,630**
Financial assets	**277,740**	**64,104**	**341,844**
Trade and other payables	**36,160**	**7,888**	**44,048**
Total liabilities	**36,160**	**7,888**	**44,048**
Net financial assets	**241,580**	**52,216**	**297,796**
As at 31 December 2017			
Cash and cash equivalents	4,537	9,125	13,662
Trade and other receivables	58,936	20,757	79,693
Financial assets, at fair value through profit or loss	263,602	6,832	270,434
Loan to a related corporation	-	-	-
Financial assets	327,075	36,714	363,789
Trade and other payables	37,555	7,987	45,542
Total liabilities	37,555	7,987	45,542
Net financial assets	289,520	28,727	318,247

19. MANAGEMENT OF FINANCIAL RISK

(ii) *Interest rate risk*

The Company's exposure to changes in interest rates relate primarily to interest-earning financial assets. Interest rate risk is managed by the Company on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates. However, the Company does not hedge against such exposures.

Summary quantitative data of the Company's interest-bearing financial instruments can be found in below.

Effective interest rates and maturity analysis

Non-derivative financial assets

In respect of interest-earning financial assets, the following table indicates their weighted average effective interest rates per annum at the end of the reporting period drawn up based on the undiscounted contractual maturities of the financial assets that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

		INTEREST BEARING FINANCIAL ASSETS			
MATURITY DATE		WITHIN 1 YEAR	1 YEAR–5 YEARS	MORE THAN 5 YEARS	TOTAL
As at 31 December 2018					
Fixed Interest	S$'000	**107,182**	**86,596**	**14,149**	**207,927**
Weighted Average Interest Rate	%	**1.94**	**2.00**	**3.35**	**2.06**
Floating Rate	S$'000	**43,670**	**-**	**-**	**43,670**
Weighted Average Interest Rate	%	**2.31**	**-**	**-**	**2.31**
As at 31 December 2017					
Fixed Interest	S$'000	175,402	55,194	10,344	240,940
Weighted Average Interest Rate	%	1.35	1.67	2.88	1.49
Floating Rate	S$'000	3,362	30,201	-	33,563
Weighted Average Interest Rate	%	1.79	0.97	-	1.05

19. MANAGEMENT OF FINANCIAL RISK

(b) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit rating to its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The carrying amount of reinsurers' share of insurance contract provisions, insurance and other receivables, financial assets at fair value through profit or loss, and cash and cash equivalents represent the Company's maximum exposure to credit risk.

As at 31 December 2018, the Company had exposure to concentration of credit risk arising from one trade debtor (2017: one trade debtor) that represented 18% (2017: 22%) of trade receivables at balance sheet date.

At the end of the reporting period, there is no other significant concentration of credit risk and exposures are well spread. The Company's exposure to credit risk relating to its financial and insurance assets are summarised below:

2018	AAA S$'000	A- TO AA+ S$'000	BB TO BBB+ S$'000	NOT RATED S$'000	TOTAL S$'000
Financial Assets, at fair value through profit or loss	**174,668**	**53,283**	**10,016**	**-**	**237,967**
Cash and cash equivalent	**-**	**12,535**	**-**	**-**	**12,535**
Trade and other receivables (excluding prepayment)	**568**	**11,995**	**146**	**61,894**	**74,603**
Loan to a related corporation	**-**	**-**	**-**	**13,630**	**13,630**

2017	AAA S$'000	A- TO AA+ S$'000	BB TO BBB+ S$'000	NOT RATED S$'000	TOTAL S$'000
Financial Assets, at fair value through profit or loss	202,993	57,097	10,344	-	270,434
Cash and cash equivalent	-	13,662	-	-	13,662
Trade and other receivables (excluding prepayment)	1,180	11,128	1,280	66,105	79,693
Loan to a related corporation	-	-	-	-	-

The following table provides information regarding the ageing of the Company's financial assets that are past due but not impaired at the balance sheet date.

		PAST DUE BUT NOT IMPAIRED			
2018	NEITHER PAST DUE NOR IMPAIRED S$'000	0-3MTHS S$'000	3-9MTHS S$'000	MORE THAN 9MTHS S$'000	TOTAL S$'000
Insurance receivables	**31,477**	**21,794**	**10,647**	**6,591**	**70,509**
Loan to a related corporation	**13,630**	**-**	**-**	**-**	**13,630**

		PAST DUE BUT NOT IMPAIRED			
2017	NEITHER PAST DUE NOR IMPAIRED S$'000	0-3MTHS S$'000	3-9MTHS S$'000	MORE THAN 9MTHS S$'000	TOTAL S$'000
Insurance receivables	36,688	18,397	9,825	5,199	70,109
Loan to a related corporation	-	-	-	-	-

19. MANAGEMENT OF FINANCIAL RISK

(c) Liquidity risk

An important aspect of the Company's management of financial and insurance assets and liabilities is to ensure that cash is available to settle liabilities as they fall due. The Company maintains sufficient cash and liquid deposits, and internally generated cash flows to finance its activities. In normal circumstances, the majority of claims are settled with the cash at bank balances and bank deposits available.

(d) Capital risk

The Company's policy is to maintain a suitable capital base so as to support its underwriting strategy. The Company is also required to comply with the regulatory capital requirement prescribed in the Insurance (Valuation and Capital) Regulations 2004 under the Insurance Act (Chapter 142). Under the Risk-based Capital Framework regulation set by MAS, insurance companies are required to satisfy a minimum capital adequacy ratio of 120%. MAS may prescribe different fund solvency requirements or capital adequacy requirements for different classes of insurance business and for different insurers. The Company has a capital adequacy ratio in excess of the minimum requirement. However, the Company did not fully comply with the fund solvency requirement in Quarter 2 of the financial year. This was subsequently rectified in the following quarter.

(e) Fair value measurements

The Company's assets measured at fair value are its fair value through profit or loss financial assets, which are classified by level of the following fair value measurement hierarchy:

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

(b) 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

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

As at 31 December 2018, the Company holds financial assets, at fair value through profit or loss of $108,579,000 (2017: $142,297,000) which are based on Level 1 inputs and $129,388,000 (2017: $128,137,000) which are based on Level 2 inputs. The fair value of financial instruments traded in active markets (at fair value through profit or loss) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

The carrying value less impairment provision of current trade receivables and payables approximate to their fair values. The fair value of financial liabilities approximates their carrying amount.

(f) Financial instruments by category

The carrying amounts of financial assets measured at fair value through profit or loss are disclosed on the face of the balance sheet and in Note 10 to the financial statements respectively.

The aggregate carrying amounts of trade and other receivables and financial assets, at fair value through profit or loss, are as follows:

	2018 S$'000	2017 S$'000
Cash and cash equivalents	**12,535**	13,662
Trade and other receivables (excluding prepayments)	**74,603**	79,693
Financial assets, at fair value through profit or loss	**237,967**	270,434
Loan to a related corporation	**13,630**	-

20. IMMEDIATE AND ULTIMATE HOLDING CORPORATION

The Company's immediate holding corporation is QBE Asia Pacific Holdings Limited ("QAPH"), incorporated in Hong Kong. The ultimate holding corporation is QBE Insurance Group Limited, incorporated in Australia.

21. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the financial statements, the following significant transactions took place between the Company and related parties during the financial year.

		2018 S$'000	2017 S$'000
(a)	Revenue		
	Reinsurance premiums received from related parties	**992**	750
	Reinsurance commissions received from related parties	**31,567**	61,859
	Reinsurance claims recovered from related parties	**65,212**	21,401

		2018 S$'000	2017 S$'000
(b)	Expenses		
	Reinsurance premiums ceded to related parties	**130,713**	169,182
	Reinsurance commissions paid to related parties	**106**	83
	Reinsurance claims paid to related parties	**30**	15
	Management fees paid to a related party	**15,110**	15,867
	Management expenses received from related parties	**(1,003)**	(341)
	Payments made on behalf by the Company	**15,061**	14,256

(c) Key management personnel compensation

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

	2018 S$'000	2017 S$'000
Salary and other remuneration	**737**	833
Benefits in kind and share based compensation	**211**	254
	948	1,087

22. OPERATING LEASE ARRANGEMENTS

Operating lease payments represent rentals payable by the Company for its office premises. At the end of the financial year, the Company has outstanding commitment under non-cancellable operating lease, which falls due as follows:

	2018 S$'000	2017 S$'000
Within one year	**3,796**	3,700
In the second to fifth year inclusive	**3,319**	7,339
	7,115	11,039

23. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Company's accounting year beginning on or after 1 January 2019 and which the Company has not early adopted:

(a) FRS 116 Leases (effective for annual periods beginning on or after 1 January 2019)

FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

As at the reporting date, the Company has non-cancellable operating lease commitments of $7,115,066, see Note 21. The Company expects to recognise right-of-use assets and lease liabilities of approximately $6,950,788 on 1 January 2019. Net current asset will be $3,669,320 lower due to presentation of a portion of liability as a current liability.

The Company expects that net profit after tax will increase by $28,704 for 2019 as a result of adopting FRS 116. Operating cash flows will increase and financing cash flows decrease by approximately $3,796,200 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

(b) INT FRS 123 Uncertainty Over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

(i) how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;

(ii) that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;

(iii) that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment

(iv) that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and

(v) that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The Company does not expect additional tax liability to be recognised arising from the uncertain tax positions on the adoption of the interpretation on 1 January 2019.

24. DISCLOSURE ON THE TEMPORARY EXEMPTION FROM FRS 109

According to Amendments to FRS 104 Insurance Contracts, the Company made the assessment based on the financial position as of 31 December 2015, concluding that the Company met the criteria as set out for the temporary exemption under FRS 109. There had been no significant change in the activities of the Company since then that requires reassessment. Therefore, the Company's activities are predominantly connected with insurance, meeting the criteria to apply temporary exemption from FRS 109.

(a) The table below presents the fair value of the following groups of financial assets under IFRS 9 as at 31 December 2018 and fair value changes for the year ended 31 December 2018:

	FAIR VALUE AS AT 31 DECEMBER 2018 $'000	FAIR VALUE CHANGES FOR THE YEAR ENDED 31 DECEMBER 2018 $'000
Financial assets that are solely payments of principal and interest ("SPPI") and are not held for trading or managed on a fair value basis	**102,085**	**–**
Other financial assets	**237,967**	**(441)**
	340,052	**(441)**

(b) The table below presents the credit risk exposure for aforementioned financial assets with contractual terms that give rise on SPPI:

	CARRYING AMOUNT AS 31 DECEMBER 2018 $'000	FAIR VALUE AS AT 31 DECEMBER 2018 $'000
AAA	**568**	**568**
A- to AA+-	**24,569**	**24,569**
BB to BBB+	**146**	**146**
Not rated	**76,802**	**76,802**
	102,085	**102,085**

For financial assets measured at amortised cost, carrying amount represents amount before adjusting impairment allowance.

25. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the financial year ended 31 December 2018 were authorised for issue by the Board of Directors of the Company on 29 March 2019.

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