2017 FINANCIAL STATEMENTS

QBE INSURANCE (SINGAPORE) PTE LTD

Contents

QBE Insurance (Singapore) Pte Ltd
Unique Entity No. 198401363C

Financial statements

Directors' statement

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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 2017.

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 2017 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:

Mark Thomas Lingafelter
Karl Ludwig Anthony Hamann
Arunothayam A/P V Rajaratnam
Stephen James Lardner
Jason Colin Brown (appointed as at 9 November 2017)

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:in the shares or debentures of the Company or its related corporations, except as follows:

	HOLDINGS REGISTERED IN NAME OF DIRECTOR		HOLDINGS IN WHICH A DIRECTOR IS DEEMED TO HAVE AN INTEREST	
	AT 31.12.2017	AT 1.1.2017 OR DATE OF APPOINTMENT, IF LATER	AT 31.12.2017	AT 1.1.2017 OR DATE OF APPOINTMENT, IF LATER
Ultimate Holding Corporation				
– QBE Insurance Group Limited				
(Ordinary shares of A$1 each)				
Karl Ludwig Anthony Hamann	760	760	31,983	42,713
Mark Thomas Lingafelter	-	-	55,789	45,602
Jason Colin Brown	-	-	156,768	-

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

Mark Thomas Lingafelter
Director

Karl Ludwig Anthony Hamann
Director

2 April 2018

Independent auditor's report

TO THE SHAREHOLDER OF QBE INSURANCE (SINGAPORE) PTE. LTD.

Report on the Audit of the Financial Statements

Our 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 2017 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 balance sheet as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- 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 included in pages 4 to 5 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 and will 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

2 April 2018

Statement of comprehensive income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 S$'000	2016 S$'000
Gross premium written	11(b)	240,287	225,551
Outward reinsurance premiums		(190,983)	(39,907)
Net premium written	11(b)	49,304	185,644
Change in net unearned premium reserves	11(e)(i)	26,025	(855)
Net earned premium		75,329	184,789
Investment income	6	3,549	4,127
Commission income		62,803	2,120
Other income		1,630	1,504
		67,982	7,751
Gross claims paid		(114,735)	(123,235)
Reinsurer's share of claims paid		37,144	26,375
Change in gross claims reserve	11(e)(ii)	(41,984)	8,685
Reinsurer's share of change in claims reserve	11(e)(ii)	64,091	(5,277)
Net claims incurred		(55,484)	(93,452)
Investment expenses		(286)	(299)
Commission expenses		(40,194)	(42,464)
Management expenses	4	(53,768)	(47,207)
Total expenses		(94,248)	(89,970)
(Loss)/profit before tax		(6,421)	9,118
Income tax credit/(expense)	7	1,095	(952)
(Loss)/profit after tax		(5,326)	8,166
Total comprehensive (loss)/ income for the year		(5,326)	8,166

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

Balance sheet

AS AT 31 DECEMBER 2017

	NOTE	2017 S$'000	2016 S$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	13,662	112,058
Trade and other receivables	9	80,031	82,326
Financial assets, at fair value through profit & loss	10	270,434	215,543
Reinsurer's share of unearned premium reserves	11(d)	31,103	14,366
Reinsurer's share of claims reserves	11(d)	58,494	14,766
Total current assets		453,724	439,059
Non-current assets			
Property, plant and equipment	12	1,324	1,652
Intangible assets	13	1,847	4,687
Reinsurer's share of unearned premium reserves	11(d)	10,955	3,939
Reinsurer's share of claims reserves	11(d)	25,466	5,103
Total non-current assets		39,592	15,381
Total assets		493,316	454,440
LIABILITIES			
Current liabilities			
Trade and other payables	14	45,542	30,798
Tax payable	7(b)	11	2,613
Unearned premium reserves	11(d)	69,825	88,735
Outstanding claims reserves	11(d)	131,995	102,375
Total current liabilities		247,373	224,521
Non-current liabilities			
Unearned premium reserves	11(d)	22,219	5,581
Outstanding claims reserves	11(d)	59,238	46,874
Deferred tax liabilities	15	61	863
		81,518	53,318
Total liabilities		328,891	277,839
NET ASSETS		164,425	176,601
EQUITY			
Share capital	17	156,580	156,580
Retained profits		7,845	20,021
Total Equity		164,425	176,601

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

Statement of changes in equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	NOTE	SHARE CAPITAL S$'000	RETAINED PROFITS S$'000	TOTAL EQUITY S$'000
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
2016				
Beginning of financial year		156,580	11,855	168,435
Total comprehensive income		-	8,166	8,166
End of financial year		156,580	20,021	176,601

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

Statement of cash flows

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 S$'000	2016 S$'000
Cash flows from operating activities			
(Loss)/ profit before tax		(6,421)	9,118
Adjustments for:			
- Depreciation of property, plant and equipment		514	561
- Amortisation of intangible assets		3,133	3,304
- Impairment loss on club membership		197	163
- Property, plant and equipment written off		-	112
- Gain on disposal of property, plant and equipment		-	(17)
- Loss/(gain) on disposal of financial assets at fair value through profit & loss		830	(356)
- Unrealised (gain)/loss on financial assets at fair value through profit & loss		(140)	1,140
- Investment income		(4,415)	(4,824)
- (Write back of)/allowance for impairment loss on trade receivables		(83)	66
- Net unearned premium reserves		(26,025)	855
- Net outstanding claims reserves		(22,107)	(3,408)
		(54,517)	6,714
Change in working capital			
- Trade and other receivables		2,491	(8,699)
- Trade and other payables		14,744	(31,773)
- Income tax paid		(2,309)	(154)
Net cash used in operating activities		(39,591)	(33,912)
Cash flows from investing activity			
Purchase of financial assets, at fair value through profit & loss		(593,376)	(349,851)
Proceeds from maturity and sale of financial assets, at fair value through profit & loss		537,795	394,158
Purchase of property, plant and equipment		(186)	(79)
Proceeds from sale of property, plant and equipment		-	56
Purchase of intangible assets		(490)	(1,092)
Investment income received		4,302	4,253
Net cash provided by investing activities		(51,955)	47,445
Cash flows from financing activity			
Dividends paid		(6,850)	-
Net cash used in financing activity		(6,850)	-
Net (decrease)/increase in cash and cash equivalents		(98,396)	13,533
Cash and cash equivalents at beginning of financial year		112,058	98,525
Cash and cash equivalents at end of financial year		13,662	112,058

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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 2017

On 1 January 2017, 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:

FRS 7 Statement of Cash Flows

The amendments to FRS 7 Statement of Cash Flows (Disclosure initiative) sets out required disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes.

There are no additional disclosure required arising from the amendments.

Standards issued but not yet effective

The Company has not adopted the following standards and interpretations that have been issued but not yet effective:

DESCRIPTION	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
FRS 109 Financial Instruments	1 January 2018
FRS 115 Revenue from Contracts with Customers	1 January 2018
INT FRS 122 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to: FRS 115 Revenue from Contracts with Customers (Clarifications of guidance) FRS 102 Share-based Payment (Classification and Measurement of Share-based Payment Transactions) FRS 40 Investment Property (Transfer of investment property) FRS 104 Insurance contracts (Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts) FRS 28 Investments in Associates and Joint Ventures	1 January 2018
FRS 116 Leases	1 January 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.

2.3 Financial assets

(a) Classification

The Company classifies its financial assets into trade and other receivables and financial assets at fair value through profit & 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) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date, which are presented as non-current assets.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit & 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 & 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 & loss at inception. The designation of financial assets as at fair value through profit & 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 & loss.

(c) Initial measurement

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

(d) Subsequent measurement

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

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

Changes in the fair values of financial assets at fair value through profit & loss including the effects of currency translation, interest and dividends, are recognised in profit & 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) Trade and other 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 & loss.

The allowance for impairment loss account is reduced through profit & 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.

2.4 Foreign 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 & 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.

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

Deferred income tax is measured:

(i) 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; and

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

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

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.

2.8 Property, plant and equipment

(a) Measurement

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.

(b) Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Computers	3 years
Furniture and fittings	5 years
Office equipments	5 years
Motor vehicles	5 years
Leasehold improvements	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.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset 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.

(d) Disposal

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

2.9 Intangible assets

(a) Software development cost

Intangible assets internally developed are reported at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised on a straight-line basis over their estimated useful lives using the straight-line method on the following bases: Software development cost – 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 estimate 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.

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.

2.13 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 2017

4. Management expenses

	2017 S$'000	2016 S$'000
Employee compensation (Note 5)	22,511	19,025
Consultant services	748	918
Management fees paid to a related company	15,868	15,399
Office rent	2,835	2,620
Other expenses		
- Depreciation of property, plant and equipment	514	561
- Amortisation of intangible assets	3,133	3,304
- Advertising and subscriptions	1,042	1,078
- (Write-back of)/allowance for Impairment loss on trade receivables	(83)	66
- Impairment loss on trade receivables	197	163
- Property, plant and equipment written off	-	112
- Other expenses	7,003	3,961
	53,768	47,207

5. Employee compensation

	2017 S$'000	2016 S$'000
Wages and salaries	15,047	12,725
Employer's contribution to defined contribution plans	1,921	1,708
Other benefits	5,543	4,592
	22,511	19,025

6. Investment income

	2017 S$'000	2016 S$'000
Interest income		
- Interest income on financial assets at fair value through profit & loss	3,815	3,485
- Cash and cash equivalents	600	1,339
Net realised (loss)/gain from sale of financial assets at fair value through profit & loss	(830)	356
Net gain/(loss) from re-measurement of financial assets at fair value	1166	(1,380)
Net (loss)/gain on foreign exchange	(1,202)	327
	3,549	4,127

7. Income tax

(a) Income tax expense

	2017 S$'000	2016 S$'000
Tax expense attributable to profit is made up of:		
Current income tax	(293)	1,316
Deferred income tax (Note 15)	(802)	(364)
Tax expense	(1,095)	952
Current income tax		
Current year	13	2,397
Over provision in respect of prior years	(306)	(1,081)
	(293)	1,316
Deferred income tax		
Origination and reversal of temporary difference (Note 15)	(802)	(364)
	(1,095)	**952**

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

	2017 S$'000	2016 S$'000
(Loss)/profit before tax	(6,421)	9,118
Tax calculated at a tax rate of 17% (2016: 17%)	(1,092)	1,550
Tax effect of:		
Income tax (credit)/expense calculated at a lower rate of 10% instead of at 17%	(172)	191
Income not subject to tax	(32)	(123)
Statutory income exemption	-	(26)
Expense not deductible for tax purpose	260	247
Tax incentives	29	1
Utilisation of previously unrecognised capital allowances	(143)	-
Corporate tax rebate	-	(20)
Deferred tax asset not recognised	417	-
Over provision in prior year	(306)	(1,081)
Others	(56)	213
Income tax (credit)/expense	(1,095)	952

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% (2016 : 10%), instead of the standard rate of 17% (2016 : 17%).

(b) Movements in current income tax liabilities

	2017 S$'000	2016 S$'000
Beginning of financial year	2,613	1,451
Income tax paid	(2,309)	(154)
Over provision in prior year	(306)	(1,081)
Tax payable on profit for current financial year	13	2,397
End of financial in year	11	2,613

Notes to the financial statements CONTINUED

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

8. Cash and cash equivalents

	2017 S$'000	2016 S$'000
Bank and cash balances	13,662	112,058

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

	2017 S$'000	2016 S$'000
United States Dollar	9,222	11,412
Singapore Dollar	4,440	100,646
	13,662	112,058

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

9. Trade and other receivables

	2017 S$'000	2016 S$'000
Insurance receivables – Related parties	675	980
Insurance receivables – Non-related parties	69,434	77,742
Prepayments	338	71
Interest receivables	1,624	1,511
Deposits	1,125	1,074
Other receivables – Related parties	6,753	819
Other receivables – Non-related parties	82	129
	80,031	82,326

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

	2017 S$'000	2016 S$'000
Government securities	206,463	146,190
Corporate bonds	63,971	69,353
	270,434	215,543

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

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

	2017 S$'000	2016 S$'000
Singapore Dollar	263,602	203,652
United States Dollar	6,832	11,891
	270,434	215,543

11. Insurance liabilities and reinsurer's share of insurance liabilities

	2017 S$'000	2016 S$'000
Gross		
Insurance contracts:		
– unearned premium reserves	92,044	94,316
– outstanding claims reserves	191,233	149,249
Total insurance liabilities – gross	283,277	243,565
Reinsurance Outwards		
Insurance contracts:		
– unearned premium reserves	42,058	18,305
– outstanding claims reserves	83,960	19,869
Total reinsurers' share of insurance liabilities	126,018	38,174
Net		
Insurance contracts:		
– unearned premium reserves	49,986	76,011
– outstanding claims reserves	107,273	129,380
Total insurance liabilities – net	157,259	205,391

The estimated timing of the net cash outflows arising from the reinsurance assets and insurance liabilities are disclosed in Note 11 (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.

(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.

In addition to the existing reinsurance program, the company enters into a new 50% whole account quota share (QS) arrangement covering retrospective in-forced policies in 2017.

(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:

	2017 GROSS PREMIUM WRITTEN S$'000	2017 NET PREMIUM WRITTEN S$'000	2016 GROSS PREMIUM WRITTEN S$'000	2016 NET PREMIUM WRITTEN S$'000
Property	43,867	2,521	27,810	15,329
Motor	12,475	3,600	15,587	15,317
Marine Cargo	19,099	6,270	18,681	15,408
Marine Hull	54,164	11,820	61,905	54,314
Work Injury Compensation	23,787	5,967	23,542	23,359
Health	17,529	5,035	18,645	18,645
Public Liability	14,682	3,667	11,461	10,756
Engineering	16,315	1,460	13,139	10,847
Professional Indemnity	16,369	3,872	14,888	13,119
Others	22,000	5,092	19,893	8,550
Total	240,287	49,304	225,551	185,644

(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.

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)

2016	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%	7,211	5,824	(5,824)
Discount rate	+1%	(1,534)	(1,358)	1,358
Provision for adverse deviation	+1%	1,376	1,203	(1,203)

(d) Maturity analysis

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

	2017 PAYABLE WITHIN 12 MONTHS S$'000	2017 PAYABLE AFTER 12 MONTHS S$'000	2017 TOTAL S$'000	2016 PAYABLE WITHIN 12 MONTHS S$'000	2016 PAYABLE AFTER 12 MONTHS S$'000	2016 TOTAL S$'000
Gross						
Unearned premium reserves	69,825	22,219	92,044	88,735	5,581	94,316
Outstanding claims reserves	131,995	59,238	191,233	102,375	46,874	149,249
Total as at end of financial year	201,820	81,457	283,277	191,110	52,455	243,565
Reinsurance						
Unearned premium reserves	(31,103)	(10,955)	(42,058)	(14,366)	(3,939)	(18,305)
Outstanding claims reserves	(58,494)	(25,466)	(83,960)	(14,766)	(5,103)	(19,869)
Total as at end of financial year	(89,597)	(36,421)	(126,018)	(29,132)	(9,042)	(38,174)
Net						
Unearned premium reserves	38,722	11,264	49,986	74,369	1,642	76,011
Outstanding claims reserves	73,501	33,772	107,273	87,609	41,771	129,380
Total as at end of financial year	112,223	45,036	157,259	161,978	43,413	205,391

(e) Movements in insurance liabilities and reinsurance assets

(i) Unearned premium reserves

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

2016	GROSS S$'000	REINSURANCE S$'000	NET S$'000
Total at beginning of financial year	95,718	(20,562)	75,156
(Decrease)/increase in unearned premium reserves	(1,402)	2,257	855
Total at end of financial year	94,316	(18,305)	76,011

Notes to the financial statements CONTINUED

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

(ii) Outstanding claims reserves

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

2016	GROSS S$'000	REINSURANCE S$'000	NET S$'000
Total at beginning of financial year	157,934	(25,146)	132,788
(Decrease)/increase in claims reserves	(8,685)	5,277	(3,408)
Total at end of financial year	149,249	(19,869)	129,380

(f) Loss development tables

The loss development tables presented below are net of reinsurance.

Accident Year	Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
NET INCURRED											
0								91,097	112,753	68,270	
1							41,636	82,265	105,636		
2						16,954	36,286	79,654			
3					5,209	14,903	35,395				
4				2,155	3,921	14,086					
5			735	2,274	4,355						
6		1,239	495	2,171							
7	311	838	425								
8	89	724									
9	(2,179)										
Movement	(2,267)	(114)	(70)	(103)	434	(817)	(891)	(2,611)	(7,117)	68,270	54,714
Current estimate	(2,179)	724	425	2,171	4,355	14,086	35,395	79,654	105,636	68,270	308,538
Cumulative payments	2	358	310	1,600	3,286	9,191	27,729	64,008	74,156	20,626	201,265
Net outstanding liability	(2,180)	366	115	571	1,069	4,895	7,666	15,647	31,480	47,645	107,273

12. 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

2016	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	315	7	244	355	1,448	2,369
Additions	67	7	–	7	329	410
Disposals	–	–	(55)	–	–	(55)
Adjustments	–	–	–	(2)	(441)	(443)
End of financial year	382	14	189	360	1,336	2,281
Accumulated depreciation						
Beginning of financial year	53	1	18	12	-	84
Depreciation charge	169	4	63	73	252	561
Disposals	–	–	(16)	–	–	(16)
Adjustment	–	–	–	–	–	-
End of financial year	222	5	65	85	252	629
Net book value						
End of financial year	160	9	124	275	1,084	1,652

13. Intangible assets

SOFTWARE DEVELOPMENT COST	2017 TOTAL S$'000	2016 TOTAL S$'000
Cost:		
Beginning of financial year	8,183	7,091
Additions	490	1,092
End of financial year	8,673	8,183
Accumulated amortisation		
Beginning of financial year	4,021	717
Amortisation	3,133	3,304
End of financial year	7,154	4,021
Carrying Amount:		
End of financial year	1,519	4,162
Club membership	328	525
Total intangible assets	1,847	4,687

14. Trade and other payables

	2017 S$'000	2016 S$'000
Trade payables consists of:		
- amounts due to non-related parties	11,451	8,419
- amounts due to related parties	9,948	2,594
	21,399	11,013
Other payables consists of:		
- amounts due to related parties	11,612	5,855
- accrued expenses and other payables	12,531	13,930
	24,143	19,785
	45,542	30,798

15. 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:

	2017 S$'000	2016 S$'000
Deferred tax liability as at 1 January	863	1,227
Change in deferred income taxes	–	–
Credited to profit or loss (Note 7)	(802)	(364)
Deferred tax liability as at 31 December	61	863

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

2017	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	863	(746)	117
Others	–	(56)	(56)
	863	(802)	61
2016			
Transferred from QII			
Recognised in profit or loss:			
Excess of capital allowance over depreciation	1,227	(364)	863
Others	–	–	–
	1,227	(364)	863

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 $2,450,000 (2016: Nil) and capital allowances of $32,000 (2016: Nil) 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.

16. 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.

17. Share capital

	2017 NO. OF SHARES	2017 S$'000	2016 NO. OF SHARES	2016 S$'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

	2017 S$'000	2016 S$'000
Ordinary dividends		
Interim dividend paid in respect of current financial Year of $0.0437 (2016: Nil) 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 6% (2016: 2%) with all other variables being held constant, the effects to the profit after tax would have been S$170,000 (2016: S$227,000).

(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 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 2017					
Fixed Interest	S$'000	173,500	55,194	10,344	239,038
Weighted Average Interest Rate	%	1.35	1.67	2.88	1.49
Floating Rate	S$'000	2,512	30,201	-	32,713
Weighted Average Interest Rate	%	1.79	0.97	-	1.03
As at 31 December 2016					
Fixed Interest	S$'000	178,041	83,369	10,042	271,452
Weighted Average Interest Rate	%	1.18	1.77	3.66	1.45
Floating Rate	S$'000	5,505	33,744	-	39,249
Weighted Average Interest Rate	%	1.98	1.31	-	1.40

(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 & loss, and cash and cash equivalents represent the Company's maximum exposure to credit risk.

As at 31 December 2017, the Company had exposure to concentration of credit risk arising from one trade debtor (2016: one trade debtor) that represented 22% (2016: 29%) 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:

2017	AAA	A- TO AA+	BB TO BBB+	NOT RATED	TOTAL
Financial Assets, at fair value through profit & loss	202,993	57,097	10,344	-	270,434
Cash and cash equivalent	-	13,662	-	-	13,662
Insurance receivables	-	4,064	1,177	64,868	70,109

2016	AAA	A- TO AA+	BB TO BBB+	NOT RATED	TOTAL
Financial Assets, at fair value through profit & loss	143,439	62,062	10,042	-	215,543
Cash and cash equivalent	-	112,055	-	3	112,058
Insurance receivables	-	3,400	1	75,321	78,722

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			
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

		PAST DUE BUT NOT IMPAIRED			
2016	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	39,548	21,111	12,290	5,773	78,722

(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.

(e) Fair value measurements

The Company's assets measured at fair value are its fair value through profit & 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 2017, the Company holds financial assets, at fair value through profit & loss of $142,297,000 (2016: $138,168,000) which are based on Level 1 inputs and $128,137,000 (2016: $77,375,000) which are based on Level 2 inputs. The fair value of financial instruments traded in active markets (at fair value through profit & 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 & 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 & loss, are as follows:

	2017 S$'000	2016 S$'000
Cash and cash equivalents	13,662	112,058
Trade and other receivables (excluding prepayments)	79,693	82,254
Financial assets, at fair value through profit & loss	270,434	215,543

20. 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.

		2017 S$'000	2016 S$'000
(a)	Revenue		
	Reinsurance premiums received from related parties	750	1,113
	Reinsurance commissions received from related parties	61,859	19
	Reinsurance claims recovered from related parties	21,401	8,334

		2017 S$'000	2016 S$'000
(b)	Expenses		
	Reinsurance premiums ceded to related parties	169,182	30,896
	Reinsurance commissions paid to related parties	83	243
	Reinsurance claims paid to related parties	15	25
	Management fees paid to a related party	15,867	15,399
	Management expenses (received from)/paid to related parties	(341)	1,156
	Payments made on behalf by the Company	14,256	16,886

(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.

	2017 S$'000	2016 S$'000
Salary and other remuneration	833	587
Benefits in kind and share based compensation	254	194
	1,087	781

21. 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:

	2017 S$'000	2016 S$'000
Within one year	3,700	3,566
In the second to fifth year inclusive	7,339	10,846
	11,039	14,412

22. 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 2018 and which the Company has not early adopted:

a) FRS 109 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

FRS 109 replaces FRS 39 Financial Instruments: Recognition and Measurement and its relevant interpretations.

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.

Under FRS 109, there are no changes to the classification and measurement requirements for financial liabilities except for the recognition of fair value changes arising from changes in own credit risk. For liabilities designated at fair value through profit or loss, such changes are recognised in OCI.

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 Company expects to defer FRS 109 until 1 January 2021 as allowed under the amendments to FRS 104 Insurance contracts outlined below.

b) *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 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 2017, the proportion of the Company's liabilities arising from contracts that is in scope of FRS 104 is significant as it constitutes approximately 93% of the total liabilities. The Company's activities is deemed to be predominantly connected with insurance since the proportion of liabilities connected with insurance is exceeding 90%. 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.

c) *FRS 115 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)*

FRS 115 replaces FRS 11 Construction contracts, FRS 18 Revenue, and related interpretations.

Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of FRS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

FRS 115 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company does not expect a material impact on the financial statement upon adoption of the standard.

d) *INT FRS 122 Foreign Currency Transactions and Advance Considerations (effective for annual periods beginning on or after 1 January 2018)*

INT FRS 122 Foreign Currency Transactions and Advance Considerations considers how to determine the date of the transactions when applying the standard on foreign currency transactions, FRS 21 *The Effects of Changes in Foreign Exchange Rates*. The Interpretation applies where the Company either pays or receives consideration in advance for foreign currency denominated contracts.

For single upfront payment/receipt, the Interpretation states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related item, should be the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity should determine the date of the transaction for each payment or receipt.

The Interpretation is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company does not expect a material impact on the financial statement upon adoption of the Interpretation.

e) 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.

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

Some of the Company's commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under FRS 116.

The Company has yet to determine to what extent the commitments as at 31 December 2017 will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows.

23. Authorisation of financial statements

The financial statements for the financial year ended 31 December 2017 were authorised for issue by the Board of Directors of the Company on 2 April 2018.

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