

Company Registration No. 198905490E

Sompo Insurance Singapore Pte. Ltd.

Annual Financial Statements
31 December 2019



Sompo Insurance Singapore Pte. Ltd.

General information

Directors

Pui Phusangmook	(Appointed on 1 June 2019)
Yoshihiko Ishigaki	
Neo Daniel	(Appointed on 20 March 2019)
Tan Chuan Lye	(Appointed on 10 January 2019)
Gabriel Teo Chen Thye	
Yuji Kawauchi	(Resigned on 20 March 2019)
Tan Yian Hua	(Resigned on 31 March 2019)

Secretary

Anthony Anne Catharine

Registered Office

50 Raffles Place
#05-01/06 Singapore Land Tower
Singapore 048623

Auditor

Ernst & Young LLP

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Sompo Insurance Singapore Pte. Ltd.

Directors' statement For the financial year ended 31 December 2019

The directors have pleasure in presenting their statement to the member together with the audited financial statements of Sompo Insurance Singapore Pte. Ltd. (the "Company") for the financial year ended 31 December 2019.

Opinion of the directors

In the opinion of the directors,

- (a) the financial statements of the Company are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Company for the year then ended; 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 of the Company in office at the date of this statement are:

Pui Phusangmook	(Appointed on 1 June 2019)
Yoshihiko Ishigaki	
Neo Daniel	(Appointed on 20 March 2019)
Tan Chuan Lye	(Appointed on 10 January 2019)
Gabriel Teo Chen Thye	

Arrangements to enable directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is 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 and debentures

None of the directors who held office at the end of the financial year had any interests in shares, share options, warrants or debentures of the Company or any related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Sompo Insurance Singapore Pte. Ltd.

Directors' statement
For the financial year ended 31 December 2019

Share options

There were no share options granted during the financial year to subscribe for unissued shares of the Company.

There were no shares 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.

Auditor

Ernst & Young LLP have expressed their willingness to accept reappointment as auditor.

On behalf of the Board of Directors:



Pui Phusangmook
Director



Yoshihiko Ishigaki
Director

Singapore
20 March 2020

Sompo Insurance Singapore Pte. Ltd.

**Independent auditor's report
For the financial year ended 31 December 2019**

Independent auditor's report to the member of Sompo Insurance Singapore Pte. Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sompo Insurance Singapore Pte Ltd (the "Company"), which comprise the balance sheet as at 31 December 2019, the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statement of 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 2019 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for opinion

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

Other information

Management is responsible for other information. The other information comprises the Directors' Statements included in pages 1 to 2.

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

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

Sompo Insurance Singapore Pte. Ltd.

**Independent auditor's report
For the financial year ended 31 December 2019**

Independent auditor's report to the member of Sompo Insurance Singapore Pte. Ltd.

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 skepticism 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.

Sompo Insurance Singapore Pte. Ltd.

**Independent auditor's report
For the financial year ended 31 December 2019**

Independent auditor's report to the member of Sompo Insurance Singapore Pte. Ltd.

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

- 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.



Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

20 March 2020

Sompo Insurance Singapore Pte. Ltd.

**Balance sheet
As at 31 December 2019**

	Note	2019 \$	2018 \$
ASSETS			
Non-current assets			
Property and equipment	4	1,911,815	1,657,104
Right-of-use assets	18	12,742,274	–
Lease receivables	18	1,781,325	–
Intangible assets	5	4,748,031	4,852,733
Investment in subsidiary	6	1,750,000	1,750,000
Deferred tax assets	7	7,612,608	11,520,312
		30,546,053	19,780,149
Current assets			
Amount owing from holding companies (non-trade)	8	1,369,443	975,063
Amount owing from related companies (non-trade)	8	12,323	4,346
Prepayments		1,008,672	1,487,840
Trade debtors	9	22,569,753	19,940,433
Other debtors	10	4,637,279	4,413,458
Lease receivables	18	467,874	–
Available-for-sale financial assets	11	270,344,004	274,371,899
Cash, bank balances and deposits	12	112,475,982	103,916,225
		412,885,330	405,109,264
Reinsurers' share of technical reserves			
Premium liabilities	15(b)	19,047,089	15,440,523
Claims liabilities	15(a)	24,486,740	31,285,569
Deferred reinsurance commission	15(c)	(3,801,578)	(3,339,940)
		39,732,251	43,386,152
TOTAL ASSETS		483,163,634	468,275,565

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

Sompo Insurance Singapore Pte. Ltd.

**Balance sheet
As at 31 December 2019**

	Note	2019 \$	2018 \$
EQUITY AND LIABILITIES			
Non-current liabilities			
Lease liabilities	18	11,687,126	–
		11,687,126	–
Current liabilities			
Trade creditors	13	10,739,220	10,483,640
Other creditors	14	8,958,986	9,187,471
Lease liabilities	18	3,287,525	–
		22,985,731	19,671,111
Technical reserves			
Premium liabilities	15(b)	74,838,122	70,972,638
Claims liabilities	15(a)	82,369,408	90,436,603
Deferred acquisition costs	15(c)	(11,897,261)	(11,746,795)
		145,310,269	149,662,446
Total liabilities		179,983,126	169,333,557
Shareholder's equity			
Share capital	16	318,327,805	318,327,805
Accumulated losses		(97,966,555)	(99,755,540)
Amalgamation reserve		81,608,762	81,608,762
Fair value adjustment reserves	17	1,210,496	(1,239,019)
Total equity		303,180,508	298,942,008
TOTAL EQUITY AND LIABILITIES		483,163,634	468,275,565

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

Sompo Insurance Singapore Pte. Ltd.

**Statement of profit or loss
For the financial year ended 31 December 2019**

	Note	2019 \$	2018 \$
Gross premiums written		144,681,264	139,276,937
Reinsurance premiums ceded		(49,355,942)	(45,650,763)
Net premiums written		95,325,322	93,626,174
Movement in net premium liabilities	15(b)	(258,918)	(5,817,340)
Net premiums earned		95,066,404	87,808,834
Gross claims paid		(74,747,075)	(59,897,164)
Reinsurance claims recoveries		25,876,589	17,058,248
Net claims paid		(48,870,486)	(42,838,916)
Movement in net claims liabilities	15(a)	1,268,366	71,735
Net claims incurred	15(a)	(47,602,120)	(42,767,181)
Gross commission expense		(27,450,473)	(26,861,188)
Reinsurance commission income		9,624,024	9,422,255
Net commission expenses		(17,826,449)	(17,438,933)
Movement in net deferred acquisition costs	15(c)	(311,172)	725,395
Net incurred commission expense		(18,137,621)	(16,713,538)
Operating and administrative expenses	19	(25,073,436)	(22,961,724)
Net underwriting profit		4,253,227	5,366,391
Net investment income	20	8,510,099	9,663,221
Other income	21	4,841,468	4,410,888
Other operating expenses	22	(13,267,525)	(14,636,470)
Profit before tax		4,337,269	4,804,030
Income tax (expense) credit	7	(2,520,000)	495,000
Profit after tax		1,817,269	5,299,030

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

Sompo Insurance Singapore Pte. Ltd.

**Statement of comprehensive income
For the financial year ended 31 December 2019**

	Note	2019 \$	2018 \$
Profit for the year		1,817,269	5,299,030
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value gains/(losses) on available-for-sale financial assets	17	2,449,515	(4,216,876)
Other comprehensive income/(loss) for the year, net of tax		2,449,515	(4,216,876)
Total comprehensive income for the year		4,266,784	1,082,154

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

Sompo Insurance Singapore Pte. Ltd.

Statement of changes in equity
For the financial year ended 31 December 2019

	Share capital \$	Accumulated losses \$	Amalgamation reserve \$	Fair value adjustment reserves (Note 17) \$	Total \$
Balance at 1 January 2019	318,327,805	(99,755,540)	81,608,762	(1,239,019)	298,942,008
Effect of adoption of FRS 116 <i>Leases</i> (Note 2.3)	–	(28,284)	–	–	(28,284)
Balance at 1 January 2019 (adjusted)	318,327,805	(99,783,824)	81,608,762	(1,239,019)	298,913,724
Profit after tax	–	1,817,269	–	–	1,817,269
Other comprehensive income for the year, net of tax	–	–	–	2,449,515	2,449,515
Total comprehensive income for the year	–	1,817,269	–	2,449,515	4,266,784
Balance at 31 December 2019	318,327,805	(97,966,555)	81,608,762	1,210,496	303,180,508
Balance at 1 January 2018	318,327,805	(105,054,570)	81,608,762	2,977,857	297,859,854
Profit after tax	–	5,299,030	–	–	5,299,030
Other comprehensive loss for the year, net of tax	–	–	–	(4,216,876)	(4,216,876)
Total comprehensive income/(loss) for the year	–	5,299,030	–	(4,216,876)	1,082,154
Balance at 31 December 2018	318,327,805	(99,755,540)	81,608,762	(1,239,019)	298,942,008

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

Sompo Insurance Singapore Pte. Ltd.

Statement of cash flows
For the financial year ended 31 December 2019

	2019 \$	2018 \$
Cash flows from operating activities		
Profit before tax	4,337,269	4,804,030
Adjustments for:		
Allowance for doubtful receivables – net of bad debts written off	–	111,715
Depreciation of property and equipment (Note 4)	987,481	1,309,246
Depreciation of right-of-use assets (Note 18)	1,100,598	–
Amortisation of intangible assets (Note 5)	254,702	242,901
Net investment income (Note 20)	(8,510,099)	(9,663,221)
Gain on sale of property and equipment (Note 21)	(73,843)	–
Decrease in gross claim liabilities	(8,067,195)	(26,255,168)
Decrease in reinsurers' share of premium liabilities and claims liabilities	3,192,263	19,625,861
Increase in gross premium liabilities	3,865,484	12,374,902
Increase in deferred acquisition cost	(150,466)	(1,542,279)
Increase in deferred reinsurance commissions	461,638	816,884
Interest income on lease receivables (Note 18)	(13,103)	–
Interest expense on lease liabilities (Note 18)	93,957	–
Operating cash flows before working capital changes	(2,521,314)	1,824,871
(Increase)/decrease in debtors and prepayments	(2,486,017)	1,875,448
Decrease/(increase) in creditors	27,095	(4,220,799)
(Increase)/decrease in amount owing from holding and related companies (non-trade)	(402,357)	1,097,113
(Increase)/decrease in fixed deposits held in trust for policyholders	(124,409)	3,154
Decrease in cash, bank balances and deposits held in trust for policyholders	(3,500)	(2,500)
Cash flows from operations	(5,510,502)	577,287
Net investment income received	9,514,883	10,589,149
Interest paid on lease liabilities (Note 18)	(93,957)	–
Interest received on lease receivables (Note 18)	13,103	–
Net cash flows generated from operating activities	3,923,527	11,166,436
Cash flows from investing activities		
Purchase of property and equipment (Note 4)	(1,243,259)	(275,344)
Proceeds from disposal of property and equipment	74,910	–
Purchase of available-for-sale financial assets (Note 11)	(21,430,557)	(68,046,062)
Proceeds from disposal and redemption of available-for-sale financial assets (Note 11)	28,402,931	41,208,686
Additions to intangible assets (Note 5)	(150,000)	(318,634)
Receipt of principal portion of lease receivable	155,180	–
Net cash flows generated from/(used in) investing activities	5,809,205	(27,431,354)

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

Sompo Insurance Singapore Pte. Ltd.

**Statement of cash flows
For the financial year ended 31 December 2019**

	2019 \$	2018 \$
Cash flow from financing activity		
Payment of principal portion of lease liabilities	(1,300,884)	-
Net cash flow used in financing activity	(1,300,884)	-
Net increase/(decrease) in cash and cash equivalent	8,431,848	(16,264,918)
Cash and cash equivalents at beginning of year	102,237,511	118,502,429
Cash and cash equivalent at end of year (Note 12)	110,669,359	102,237,511

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

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements For the financial year ended 31 December 2019

1. Corporate information

The financial statements of Sompo Insurance Singapore Pte. Ltd. (the "Company") for the financial year ended 31 December 2019 were authorised by the Board of Directors for issuance on 20 March 2020.

The Company is a limited liability company which is incorporated and domiciled in Singapore.

The Company's immediate holding company is Sompo Holdings (Asia) Pte. Ltd., incorporated in Singapore and the ultimate holding company is Sompo Holdings Inc., incorporated in Japan. Related companies in these financial statements refer to the Sompo Holdings Inc. group of companies.

The registered office and principal place of business of the Company is located at 50 Raffles Place, #05-01/06 Singapore Land Tower, Singapore 048623.

The principal activities of the Company are the underwriting and reinsurance of general insurance business. There have been no significant changes in the nature of these activities during the year.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act.

The financial statements have been prepared on a historical cost basis, except for financial assets classified as available-for-sale which have been measured at their fair values.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous financial year, except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars ("SGD" or "\$"), the functional currency of the Company. Management has determined the currency of the primary economic environment in which the Company operates ie. functional currency, to be Singapore Dollars as it best reflect the economic substance of the underlying events and circumstances relevant to the Company. Revenue and major costs including the major operating expenses are primarily influenced by fluctuations in Singapore Dollars.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

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

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

2.1 Basis of preparation (cont'd)

The financial statements of the subsidiary have not been consolidated with the Company's financial statements as its ultimate parent, Sompo Holdings Inc. incorporated in Japan, prepares consolidated financial statements which are available for public use. The registered address of Sompo Holdings Inc. is 26-1 Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo, 160-8338 Japan.

2.2 Basis of amalgamation

The financial statements comprise the financial statements of the Company and its related company that had been amalgamated during the prior financial year. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group are eliminated in full.

Amalgamation involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the amalgamated entities are reflected at their carrying amounts. Any differences between the consideration paid and the share capital and reserves of the "amalgamated" entity is reflected within equity as amalgamation reserve.

2.3 Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards and interpretations of FRS that are effective for annual periods beginning on or after 1 January 2019. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Company except for the adoption of FRS 116 *Leases*.

FRS 116 *Leases*

FRS 116 supersedes FRS 17 *Leases*, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases-Incentives* and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under FRS 116 is substantially unchanged from FRS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in FRS 17. Therefore, FRS 116 did not have an impact for leases where the Company is the lessor. The Company adopted FRS 116 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying FRS 17 and INT FRS 104 at the date of initial application.

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

2.3 Adoption of new and revised standards (cont'd)

FRS 116 Leases (cont'd)

The effect of adoption of FRS 116 as at 1 January 2019 is as follows:

	Increase \$
Assets	
Right-of-use assets	240,333
Total assets	<u>240,333</u>
Liabilities	
Lease liabilities	268,617
Total liabilities	<u>268,617</u>
Total adjustment on equity	
Accumulated losses	28,284
	<u>28,284</u>

The Company has lease contracts for various items of property, motor vehicles and office equipment. Before the adoption of FRS 116, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2.7 Leases for the accounting policy prior to 1 January 2019.

Upon adoption of FRS 116, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.7 Leases for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

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

2.3 Adoption of new and revised standards (cont'd)

FRS 116 Leases (cont'd)

Leases previously accounted for as operating leases (cont'd)

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right-of-use assets of \$240,333 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of \$268,617 were recognised and presented separately in the statement of financial position.
- The net effect of these adjustments amounting to \$28,284 had been adjusted to accumulated losses.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	\$
Assets	
Operating lease commitments as at 31 December 2018 (Note 24)	19,626,036
Less:	
Discounting effect using weighted average incremental borrowing rate of 1.64%	—
Committed non-cancellable leases with lease terms commencing after 1 January 2019	(17,039,520)
Commitments relating to short-term leases	(2,586,516)
Add:	
Items not included in operating lease commitments as at 31 December 2018	268,617
Lease liabilities as at 1 January 2019	268,617

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

2.3 Adoption of new and revised standards (cont'd)

FRS 104 Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts

The effect of adoption of Amendments to FRS 104 *Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts* is as follows:

During the financial year, the Company continues to apply the temporary exemption from FRS 109 *Financial Instruments* as permitted by the Amendments to FRS 104 *Insurance Contracts: Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts* which is effective for annual periods beginning on or after 1 January 2018. The temporary exemption permits the Company to continue applying FRS 39 *Financial Instruments: Recognition and Measurement* rather than FRS 109 for annual periods beginning before 1 January 2021.

The Company concluded that it qualified for the temporary exemption from FRS 109 as the Company has not previously applied any versions of FRS 109 and its activities are predominantly connected with insurance at annual reporting date that immediately precedes 1 April 2016 (i.e. 31 December 2015). As at 31 December 2015, the Company's gross liabilities arising from contracts within the scope of FRS 104 represented 97% of the total carrying amount of all its liabilities. Since 31 December 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

The table on the next page presents an analysis of the fair value of classes of financial assets as at 31 December 2019, as well as the corresponding change in fair value during the financial year. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest ("SPPI"), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and
- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

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

2.3 Adoption of new and revised standards (cont'd)

FRS 104 Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts (cont'd)

The fair value as at 31 December 2019 and fair value change of the Company's financial assets during the year, based on the classification in accordance with FRS 109, is as follows:

31 December 2019	SPPI financial assets		Other financial assets	
	Fair value \$	Fair value change \$	Fair value \$	Fair value change \$
Available-for-sale financial assets	265,343,863	3,731,900	5,000,141	72,650
Cash, bank balances and deposit	112,475,982	—	—	—
Amount owing from holding companies (non-trade)	1,369,443	—	—	—
Amount owing from related companies (non-trade)	12,323	—	—	—
Trade debtors	22,569,753	—	—	—
Other debtors	4,637,279	—	—	—
Lease receivables	2,249,199	—	—	—
Total	408,657,842	3,731,900	5,000,141	72,650

Refer to the table as disclose in Note 25(b)(i) that shows the carrying amount of the SPPI assets included in the table above by credit risk rating grades. The carrying amount is measured in accordance with FRS 39 although this is prior to any impairment allowance for those measured at amortised cost.

As at 31 December 2019, the fair value of financial assets that do not have low credit risk was \$102,549,395 (2018: \$109,400,622).

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

2.4 Standards issued but not yet effective

The significant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
FRS 117 <i>Insurance Contracts</i>	1 January 2021*
FRS 117 <i>Insurance Contracts</i>	

In March 2018, Accounting Standards Council Singapore ("ASC") issued FRS 117 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, FRS 117 will replace FRS 104 *Insurance Contracts* that was issued in 2005. FRS 117 applies to all types (i.e., life, non-life, direct insurance and re-insurance) of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

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

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

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

The Company is evaluating the impact of the new standard on its financial statements and related disclosures and plans to adopt the new standard on the required effective date.

* In November 2018, International Accounting Standard Board ("IASB") announced a proposed one-year delay to the effective date of IFRS 17 *Insurance Contracts* to reporting periods beginning on or after 1 January 2022. IASB's staff has recommended further deferral of IFRS 17 to be moved to 1 January 2023.

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

2.5 Current versus non-current classification

The Company presents assets and liabilities in the balance sheet based on whether it is current and non-current.

An asset is current when it is:

- Expected to be realised in the normal operating cycle; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when it is:

- It is expected to be settled in the normal operating cycle;
- Due to be settled within 12 months after the reporting period; or
- Not subject to unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

2.6 Property and equipment

All items of property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment. The cost of an item of property and equipment is recognised as an asset if, and only if, 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.

When significant parts of property and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Leasehold improvements	- 5 years or over the remaining term of lease, whichever is shorter
Motor vehicles	- 5 years
Renovations	- 3 years
Furniture and fittings	- 3 years
Office equipment	- 3 years
Computers	- 3 to 5 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Costs incurred for individual items of property and equipment amounting to less than \$1,500 are recognised in profit or loss in the year of purchase.

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

2.7 Leases

The accounting policy for leases before 1 January 2019 are as follows:

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the statement of profit or loss on straight-line basis over the period of the lease.

The accounting policy for leases from 1 January 2019 are as follows:

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use ("ROU") assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The projected cost of dismantlement, removal or restoration is also recognised as part of the cost of right-of-use assets if the obligation for the dismantlement, removal or restoration is incurred as a consequence of either acquiring the asset or using the asset for purpose other than to produce inventories.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Office space	-	5 years
Motor vehicles	-	5 years
Office equipment	-	3 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2.9 Impairment of non-financial assets.

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

2.7 Leases (cont'd)

Company as a lessee (cont'd)

(b) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

2.7 Leases (cont'd)

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

In classifying a sublease, the Company as an intermediate lessor classifies the sublease as a finance or an operating lease with reference to the right-of-use asset arising from the head lease, rather than the underlying asset.

When the sublease is assessed as a finance lease, the Company derecognises the right-of-use asset relating to the head lease that it transfers to the sub-lessee and recognised the net receivable relating to the sublease under "Lease receivables" in the balance sheet. Any differences between the right-of-use asset derecognised and the net receivable relating to the sublease is recognised in profit or loss. Lease liability relating to the head lease is retained in the balance sheet, which represents the lease payments owed to the head lessor.

When the sublease is assessed as an operating lease, the Company recognises lease income from sublease in profit or loss within "Other income". The right-of-use asset relating to the head lease is not derecognised.

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

2.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial acquisition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite lives are not amortised, but are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Bancassurance rights

Bancassurance rights relate to the cost of the Bancassurance Distribution Agreement entered into with a bank. The cost is capitalised and amortised to profit or loss using the straight-line method over the estimated finite useful life of 20 years (i.e., the term of Bancassurance Distribution Agreement) and assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Club membership

Club membership is carried at cost less any accumulated impairment losses, if any. No amortisation is provided as management has assessed the useful life of the club membership to be indefinite. Club membership is tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired. The useful life of a club membership is reviewed annually to determine whether the useful life assessment continues to be supportable.

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

2.9 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

Impairment losses are recognised in the statement of profit or loss except for assets that are previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss be recognised previously. Such reversal is recognised in the statement of profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.10 Investment in subsidiary

The investment in subsidiary is stated at cost, less any impairment in recoverable value.

A subsidiary is an investee that is controlled by the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

2.11 *Financial assets*

The Company classified its non-derivative financial assets into the following categories: available-for-sale financial assets, loans and receivables and financial assets at fair value through profit or loss.

Initial recognition and measurement

Financial assets are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

(b) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Cash, bank balances and deposits, trade debtors and other debtors including those with related parties are carried at amortised cost and are considered as loans and receivables.

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

2.11 Financial assets (cont'd)

Initial recognition and measurement (cont'd)

(c) Available-for-sale financial assets

The Company classifies its investments as available-for-sale financial assets.

The available-for-sale financial assets are initially recognised at cost, being the fair value of the consideration given and including incremental acquisition charges associated with the investment.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

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

2.12 *Impairment of financial assets*

(c) *Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on the financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

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

2.12 Impairment of financial assets (cont'd)

(d) *Financial assets carried at amortised cost*

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

If there is objective evidence that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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

2.13 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.11 have been met.

2.14 Cash, bank balances and deposits

Cash, bank balances and deposits consist of current accounts, fixed deposits with banks and cash on hand.

Cash equivalents are those that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

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

2.15 Financial liabilities

Financial liabilities are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

The carrying amounts of these financial liabilities are reasonable approximation of fair values, either due to their short-term nature on or near the balance sheet date.

After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are recognised, and through the amortisation process.

Trade and other creditors

Liabilities for trade and other creditors are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Payables to holding and related companies are carried at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.16 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) where as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

2.17 Insurance contracts and related liabilities

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. Any contract not considered insurance contracts under the FRS are classified as investment contracts.

General insurance contract liabilities include the outstanding claims provision, the unearned premium reserve and the provision for premium deficiency. These liabilities, where necessary, are discounted for the time value of money. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the estimation involves using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

2.18 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related insurance contract.

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

Gains and losses on buying reinsurance are recognised in the profit or loss immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

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

2.18 Reinsurance (cont'd)

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related insurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the balance sheet. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest rate method when accrued.

2.19 Premium liabilities

Premium liabilities comprises the sum of unearned premium reserves and premium deficiency reserves. Premium deficiency reserves are derived using actuarial methods on loss statistics and are recognised when the expected value of claims and expenses attributable to the unexpired period of policies in force at the balance sheet date for any line of business exceeds the unearned premium reserves.

The unearned premium reserves are computed on the following basis:

- (a) on the basis not less accurate than the 1/24th method for all direct and facultative reinsurance classes of business other than marine cargo, for which 25% is applicable;
- (b) in the case of all classes of treaty reinsurance business, other than marine cargo, 40% of the premiums and for marine cargo, 25% of the premium; and
- (c) the actual acquisition cost is taken into account in the computation in respect of direct and facultative reinsurance business, except for marine cargo and treaty reinsurance business.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Unexpired risk reserves is calculated based on the expected loss on unexpired policies after taking into consideration all benefits, claims, claims adjustment expenses, acquisition cost, maintenance expenses, and policyholders experience participation, as determined by the Actuary.

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

2.19 Premium liabilities (cont'd)

Liability adequacy test

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of any loss adjustors' expenses. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

2.20 Deferred acquisition costs ("DAC")

Commission costs incurred during the financial period arising from securing new insurance contracts and/or renewing existing insurance contracts are deferred to the extent that they are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to recognition, DAC is amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the profit or loss.

Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value an impairment loss is recognised in the income statement. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are either settled or disposed of.

2.21 Deferred reinsurance commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortised on straight line basis over the term of the expected premiums payable.

2.22 Claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage, other recoveries and any adjustments to claims outstanding from prior years.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

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

2.23 Claims liabilities

Provision is made for the estimated cost of all claims notified but not settled at the balance sheet date, less reinsurance recoveries, using the best information available at that time. Provision is also made for claims incurred but not reported ("IBNR") at the balance sheet date based on historical claims experience, adjusted for variations in expected future settlement, as well as direct and indirect claims expenses.

At each reporting date, prior year's claim estimates are reassessed for adequacy and changes are made to the provision. Additional provision may be made by management as deemed necessary.

2.24 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Premium income*

Premium income is recognised at the time a policy is issued, which approximates the inception date of the risk. Reinsurance premium income is recognised when advised. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense.

Premiums on long-term policies are recognised at commencement of contract and premiums not relating to the current financial year have been adjusted for as long term unexpired risk.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business.

At initial recognition of premiums, an unearned premium reserve is established which equals the amount of written premium. Premium is then recognised as earned over the policy term in accordance with the period of insurance service, by recording changes in the unearned provision against premium income.

(b) *Commission expense*

Commission expenses paid or payable to intermediaries (brokers/agents) upon acquiring new and renewal insurance business are recognised as expenses in profit or loss.

(c) *Commission income*

Commission income comprises reinsurance commissions received or receivable from reinsurers and is recognised as income in profit or loss.

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

2.24 Revenue and expense recognition (cont'd)

(d) *Interest income*

Interest income is recognised using the effective interest method.

(e) *Dividend income*

Dividend income is recognised when the Company's right to receive payment is established.

2.25 Employee benefits

(a) *Defined contribution plan*

As required by Singapore law, the Company makes contributions to the state pension scheme, the Central Provident Fund ("CPF"). CPF contributions are recognised as compensation expense in the same period as the employment that gives rise to the contribution.

(b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

2.26 Income taxes

(a) *Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

2.26 *Income taxes (cont'd)*

(b) *Deferred tax*

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

Deferred tax liabilities are recognised for all temporary differences.

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(c) *Goods and services tax ("GST")*

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

2.27 Foreign currency transactions

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

2.28 Contingencies

A contingent liability is:

- (a) possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

2.29 Related parties

A related party is defined as follows:

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

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

2.29 Related parties (cont'd)

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

3. Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Company's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

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

(a) *Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Company. The carrying amounts of the Company's income tax payables and deferred tax assets at the balance sheet date were \$Nil (2018: \$Nil) and \$7,612,608 (2018: \$11,520,312) respectively.

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

Key sources of estimation uncertainty (cont'd)

(a) *Income taxes (cont'd)*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value at the end of the reporting period for deferred tax asset is disclosed in Note 7 to the financial statements.

(b) *Insurance contract liabilities*

Significant judgement is also involved in determining the Company's insurance contract liabilities. The claims reserve estimation process involves estimation of reserve of outstanding reported claims (case reserves), and estimation of additional reserves for IBNR and expected future movements in the estimated ultimate liabilities associated with outstanding reported claims incurred but not enough reported ("IBNER"). Case reserves are set and periodically reviewed by the claims department. IBNR and IBNER reserves are determined by the Company after taking into account the certifying actuary's assessment. The total claim liabilities are subject to a quarterly actuarial review and at year end a formal actuarial report will be provided on the adequacy of the Company's claim liabilities.

In forming their view on the adequacy of the claims reserve, the actuary uses a variety of statistical projection techniques like the Chain Ladder and Bornhuetter-Ferguson methods. Claims reserve is separately analysed by class of business and it is intended to provide a minimum of 75% level of assurance of adequacy, and as such include a provision for adverse deviation ("PAD") beyond the best estimate of the claim liabilities. The best estimates for premium liabilities have been determined such that the total liability reserve would be adequate to pay for future claims and expenses in servicing the unexpired policies as of the valuation date. In calculating these premium liabilities for the various classes, we generally used the expected loss ratio method ("ELR") based on the outcome of the analysis for claim liabilities to determine suitable ultimate loss ratio. The results were used in this case to derive the premium liabilities.

The process, estimation, sensitivities and key assumptions used in determining the insurance contract liabilities are further discussed in Note 25(e).

(c) *Impairment of trade debtors*

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

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The provision for allowance for doubtful receivables for the year ended 31 December 2019 amounted to \$nil (2018: \$111,715) as disclosed in Note 9.

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

Key sources of estimation uncertainty (cont'd)

(d) *Impairment of intangible assets – Bancassurance rights*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Company makes an estimate of the asset's recoverable amount.

Indicators of impairment of a cash generating unit include any one of the following conditions:

- (i) Continuous losses or negative cash flows from operating activities, where ordinary losses (i.e. losses before tax and extraordinary items) were recorded in the three prior financial years; or consecutively in the two prior financial years and expected to occur in the current financial year.
- (ii) Changes that significantly reduce recoverable amounts have or are expected to occur, for example discontinued operations or significant reduction in business size.
- (iii) Business environment has significantly deteriorated or is expected to do so, for example, there is an economic downturn or political unrest.

During the year ended 31 December 2019, the Bancassurance business achieved its sales target for the pay-out of the second of three milestone payments. This second milestone payment was disbursed during the year. The Company remains the exclusive Bancassurance partner of CIMB and no indicators of deterioration of the partnership were noted.

No impairment of the bancassurance rights intangible assets was required.

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

4. Property and equipment

	Computers \$	Furniture and fittings \$	Renovations \$	Office equipment \$	Motor vehicles \$	Work in Progress ("WIP") \$	Total \$
Cost							
As at 1 January 2019	7,564,660	351,390	1,264,396	94,400	133,932	—	9,408,778
Additions for the year	1,186,347	—	—	30,412	—	26,500	1,243,259
Disposals for the year	—	—	—	—	(133,932)	—	(133,932)
As at 31 December 2019	8,751,007	351,390	1,264,396	124,812	—	26,500	10,518,105
Accumulated depreciation							
As at 1 January 2019	5,926,554	351,201	1,250,962	90,092	132,865	—	7,751,674
Charge for the year (Note 19)	968,916	189	13,434	4,942	—	—	987,481
Disposal for the year	—	—	—	—	(132,865)	—	(132,865)
As at 31 December 2019	6,895,470	351,390	1,264,396	95,034	—	—	8,606,290
Net carrying amount as at 31 December 2019	1,855,537	—	—	29,778	—	26,500	1,911,815

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

4. Property and equipment (cont'd)

Cost	Computers \$	Furniture and fittings \$	Renovations equipment \$	Office equipment \$	Motor vehicles \$	Work in Progress ("WIP") \$	Total \$
As at 1 January 2018	7,327,376	353,138	1,264,396	92,585	133,932	-	9,171,427
Additions for the year	273,529	-	-	1,815	-	-	275,344
Disposals for the year	(36,245)	(1,748)	-	-	-	-	(37,993)
As at 31 December 2018	7,564,660	351,390	1,264,396	94,400	133,932	-	9,408,778
Accumulated depreciation							
As at 1 January 2018	4,704,407	352,116	1,209,548	82,155	132,195	-	6,480,421
Charge for the year (Note 19)	1,258,392	833	41,414	7,937	670	-	1,309,246
Disposal for the year	(36,245)	(1,748)	-	-	-	-	(37,993)
As at 31 December 2018	5,926,554	351,201	1,250,962	90,092	132,865	-	7,751,674
Net carrying amount as at 31 December 2018	1,638,106	189	13,434	4,308	1,067	-	1,657,104

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

5. Intangible assets

	Club memberships \$	Bancassurance rights \$	Total \$
Cost			
As at 1 January 2018	621,364	4,740,000	5,361,364
Additions	–	318,634	318,634
<hr/>			
As at 31 December 2018 and 1 January 2019	621,364	5,058,634	5,679,998
Additions	150,000	–	150,000
<hr/>			
At 31 December 2019	771,364	5,058,634	5,829,998
<hr/>			
Accumulated amortisation and impairment			
As at 1 January 2018	268,364	316,000	584,364
Amortisation (Note 22)	–	242,901	242,901
<hr/>			
As at 31 December 2018 and 1 January 2019	268,364	558,901	827,265
Amortisation (Note 22)	–	254,702	254,702
<hr/>			
As at 31 December 2019	268,364	813,603	1,081,967
<hr/>			
Net carrying amount			
As at 31 December 2018	353,000	4,499,733	4,852,733
<hr/>			
As at 31 December 2019	503,000	4,245,031	4,748,031
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The bancassurance rights will be amortised until 2035.

The fair value of the club memberships amounted to \$533,000 (2018: \$353,000) which is based on published market rates.

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

6. Investment in subsidiary

	2019 \$	2018 \$
Equity instruments at cost	1,750,000	1,750,000

Name	Principal place of business/Country of incorporation	Ownership interest	
		2019 %	2018 %
Premier Insurance Agencies Pte Ltd ¹	Singapore	100	100

¹ Audited by CHONG, LIM & PARTNERS LLP.

7. Taxation

(a) *Tax expense/(credit)*

	2019 \$	2018 \$
Deferred tax expense/(credit)	2,520,000	(495,000)
Deferred tax liability/(asset) related to other comprehensive income		
- Fair value changes of available-for-sale financial assets (Note 17)	1,387,704	(1,373,669)

Notes to the financial statements
For the financial year ended 31 December 2019

7. Taxation (cont'd)

(a) ***Tax expense/(credit) (cont'd)***

A reconciliation between the tax expense/(credit) and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December was as follows:

	2019	2018
	\$	\$
Profit before tax	4,337,269	4,804,030
Tax expense on profit before tax at 17%	737,336	816,685
<u>Adjustments:</u>		
Expenses not deductible for tax purposes	64,957	282,805
Tax effect of income brought to tax at 10%	(56,051)	(445,731)
Benefits from previously unrecognised tax losses	(746,242)	(653,759)
Deferred tax asset movement	2,520,000	(495,000)
Tax expense/(credit)	<u>2,520,000</u>	<u>(495,000)</u>

Profit from approved offshore business is taxed at a concessionary rate of 10% in accordance with the Income Tax Regulations. The statutory tax rate is 17% in 2019 (2018: 17%).

(b) ***Deferred taxation***

	2019	2018
	\$	\$
Balance at 1 January	(11,520,312)	(9,651,643)
<u>Charged/(credited) to:</u>		
- Profit or loss account	2,520,000	(495,000)
- Fair value adjustment reserve (Note 17)	1,387,704	(1,373,669)
Balance at 31 December	<u>(7,612,608)</u>	<u>(11,520,312)</u>
<i>Deferred income tax assets and liabilities</i>		
<i>Deferred tax liabilities</i>		
Revaluations of available-for-sale financial assets	549,392	-
<i>Deferred tax assets</i>		
Revaluations of available-for-sale financial assets	-	(838,312)
Unabsorbed tax losses	(8,162,000)	(10,682,000)
Net deferred tax assets	<u>(7,612,608)</u>	<u>(11,520,312)</u>

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

7. Taxation (cont'd)

(b) *Deferred taxation (cont'd)*

At the end of the reporting period, the Company has tax losses of approximately \$131,841,821 (2018: \$139,449,506) that are available for offset against future taxable profits of the Company in which the losses arose, and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The use of these tax losses is subject to the agreement of the tax authorities and compliance with Singapore Income Tax regulations.

8. Amounts owing from holding and related companies (non-trade)

The amounts owing from holding and related companies (non-trade) are interest-free and repayable on demand. These amounts are unsecured and are expected to be settled in cash.

9. Trade debtors

	2019	2018
	\$	\$
Holding companies	7,050	268,957
Related companies	31,045	20,042
Third parties	22,531,658	19,763,149
	<hr/>	<hr/>
	22,569,753	20,052,148
Allowance for doubtful receivables	–	(111,715)
	<hr/>	<hr/>
	22,569,753	19,940,433
	<hr/>	<hr/>
Due from insurers	2,646,167	490,251
Due from agents, brokers and intermediaries	17,700,234	18,241,188
Due from reinsurers	2,223,352	1,208,994
	<hr/>	<hr/>
	22,569,753	19,940,433
Add:		
Other debtors (Note 10)	4,637,279	4,413,458
Amounts owing from holding companies (non-trade)	1,369,443	975,063
Amounts owing from related companies (non-trade)	12,323	4,346
Cash, bank balances and deposits (Note 12)	112,475,982	103,916,225
	<hr/>	<hr/>
Total financial assets at amortised cost and classified as loans and receivables	141,064,780	129,249,525
	<hr/>	<hr/>

Trade debtors relate to amount due from insurers, agents, broker and intermediaries and reinsurers. Trade debtors are non-interest bearing receivables that are due but not impaired and are generally on 30 to 90 days' credit terms. They are recognised at their original invoice amounts which represent their fair value on initial recognition.

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

9. Trade debtors (cont'd)

The Company has trade receivables amounting to \$6,689,516 (2018: \$3,509,620) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	2019 \$	2018 \$
Trade receivables past due not impaired:		
Less or equal to 90 days	3,726,032	1,075,243
91 to 120 days	231,009	443,705
121 to 180 days	926,364	477,611
181 to 365 days	1,439,829	1,376,278
More than 365 days	366,282	136,783
Total	6,689,516	3,509,620

Receivables that are impaired

The Company's trade receivables that are impaired at the balance sheet date and the movement of the allowance account used to record the impairment are as follows:

	2019 \$	2018 \$
Trade receivables - nominal amounts	-	111,715
Less: Allowance for doubtful receivables	-	(111,715)
	-	-
<i>Movement in allowance accounts:</i>		
As at 1 January	(111,715)	-
Allowance utilised (Note 21)	111,715	-
Charged for the year (Note 22)	-	(111,715)
As at 31 December	-	(111,715)

10. Other debtors

	2019 \$	2018 \$
Interest receivable	2,698,311	2,810,355
Sundry deposits and debtors	1,938,968	1,603,103
Total	4,637,279	4,413,458

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

11. Available-for-sale financial assets

	2019	2018
	\$	\$
Corporate and statutory board bonds	265,343,863	271,435,885
Quoted equity shares	4,999,724	2,935,597
Unquoted equity shares	417	417
	<hr/>	<hr/>
Total available-for-sale financial assets	270,344,004	274,371,899
	<hr/>	<hr/>

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices, at the close of business on the reporting date, without any deduction for transaction costs.

For units in unit trusts, money market funds and shares in open ended investment companies, fair value is determined by reference to published bid values.

Investments in corporate and statutory board bear interest ranging from 1.6% to 4.7% (2018: 1.6% to 5.8%) per annum. The maturity of these investments is disclosed in Note 25 (b) (ii).

The carrying values are determined as follows:

	2019	2018
	\$	\$
Balance at beginning of the year	274,371,899	254,050,997
Additions	21,430,557	68,046,062
Redemptions and disposals	(28,402,931)	(41,208,686)
Amortisation of premium on bonds (Note 20)	(892,740)	(925,930)
Unrealised fair value gain/(loss)	3,837,219	(5,590,544)
	<hr/>	<hr/>
Balance at end of the year	270,344,004	274,371,899
	<hr/>	<hr/>

Fair value hierarchy

The Company classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

11. Available-for-sale financial assets (cont'd)

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	Total \$
2019				
Financial assets:				
Available-for-sale financial assets	270,343,587	–	417	270,344,004
2018				
Financial assets:				
Available-for-sale financial assets	274,371,482	–	417	274,371,899

12. Cash, bank balances and deposits

Cash, bank balances and deposits comprise the following amounts:

	2019 \$	2018 \$
Fixed deposits	71,944,937	77,646,834
Cash, bank balances and deposits	40,531,045	26,269,391
Cash, bank balances and deposits included in balance sheet	112,475,982	103,916,225
Fixed deposits held in trust for policyholders	(1,764,495)	(1,640,086)
Cash, bank balances and deposits held in trust for policyholders	(42,128)	(38,628)
Cash and cash equivalents included in cash flow statement	110,669,359	102,237,511

Fixed deposits are made for varying periods less than 1 year depending on the immediate cash requirements of the Company, and earn interest at the respective fixed deposit rates ranging from 1.4% to 2.0% (2018: 1.2% to 2.0%) per annum.

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

13. Trade creditors

	2019	2018
	\$	\$
Holding company	554,826	655,695
Related companies	700,388	736,943
Third parties	9,484,006	9,091,002
	<u>10,739,220</u>	<u>10,483,640</u>

The amounts due to holding company and related companies are unsecured and non-interest bearing with no fixed repayment terms.

14. Other creditors

	2019	2018
	\$	\$
Accrual for audit fees	460,000	200,000
Cash collaterals from policyholders	1,806,623	1,678,714
Other creditors and accruals	6,692,363	7,308,757
	<u>8,958,986</u>	<u>9,187,471</u>

These amounts are unsecured and non-interest bearing with payment terms not exceeding 90 days.

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

15. Technical reserves

	Gross \$	Recoverable from reinsurers \$	Net \$
2019			
Claims reported and loss adjustment expenses	75,709,888	(18,857,713)	56,852,175
Claims incurred but not reported	6,659,520	(5,629,027)	1,030,493
Claims liabilities	82,369,408	(24,486,740)	57,882,668
Premium liabilities	74,838,122	(19,047,089)	55,791,033
	157,207,530	(43,533,829)	113,673,701
Deferred acquisition costs and deferred reinsurance commissions	(11,897,261)	3,801,578	(8,095,683)
Insurance contract liabilities	145,310,269	(39,732,251)	105,578,018
2018			
Claims reported and loss adjustment expenses	83,504,486	(26,138,945)	57,365,541
Claims incurred but not reported	6,932,117	(5,146,624)	1,785,493
Claims liabilities	90,436,603	(31,285,569)	59,151,034
Premium liabilities	70,972,638	(15,440,523)	55,532,115
	161,409,241	(46,726,092)	114,683,149
Deferred acquisition costs and deferred reinsurance commissions	(11,746,795)	3,339,940	(8,406,855)
Insurance contract liabilities	149,662,446	(43,386,152)	106,276,294

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

15. Technical reserves (cont'd)

(a) *Claims liabilities*

	Gross \$	Reinsurance \$	Net \$
2019			
Notified claims	83,504,486	(26,138,945)	57,365,541
Incurring but not reported	6,932,117	(5,146,624)	1,785,493
Total at beginning of year	90,436,603	(31,285,569)	59,151,034
Cash paid for claims settled in the year	(74,747,075)	25,876,589	(48,870,486)
Movement in claims incurred	66,679,880	(19,077,760)	47,602,120
Total at end of year	82,369,408	(24,486,740)	57,882,668
Notified claims	75,709,888	(18,857,713)	56,852,175
Incurring but not reported	6,659,520	(5,629,027)	1,030,493
	82,369,408	(24,486,740)	57,882,668
2018			
Notified claims	102,881,134	(50,048,277)	52,832,857
Incurring but not reported	13,810,627	(7,420,715)	6,389,912
Total at beginning of year	116,691,761	(57,468,992)	59,222,769
Cash paid for claims settled in the year	(59,897,164)	17,058,248	(42,838,916)
Movement in claims incurred	33,642,006	9,125,175	42,767,181
Total at end of year	90,436,603	(31,285,569)	59,151,034
Notified claims	83,504,486	(26,138,945)	57,365,541
Incurring but not reported	6,932,117	(5,146,624)	1,785,493
	90,436,603	(31,285,569)	59,151,034

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

15. Technical reserves (cont'd)

(b) *Premium liabilities*

	Gross \$	Reinsurance \$	Net \$
2019			
At beginning of the year	70,972,638	(15,440,523)	55,532,115
Changes in the year	3,865,484	(3,606,566)	258,918
As at end of the year	<u>74,838,122</u>	<u>(19,047,089)</u>	<u>55,791,033</u>
2018			
At beginning of the year	58,597,736	(8,882,961)	49,714,775
Changes in the year	12,374,902	(6,557,562)	5,817,340
As at end of the year	<u>70,972,638</u>	<u>(15,440,523)</u>	<u>55,532,115</u>

(c) *Deferred acquisition costs and deferred reinsurance commissions*

	Deferred acquisition costs \$	Deferred reinsurance commissions \$	Net \$
2019			
As at 1 January	(11,746,795)	3,339,940	(8,406,855)
Changes in the year	(150,466)	461,638	311,172
As at 31 December	<u>(11,897,261)</u>	<u>3,801,578</u>	<u>(8,095,683)</u>
2018			
As at 1 January	(10,204,516)	2,523,056	(7,681,460)
Changes in the year	(1,542,279)	816,884	(725,395)
As at 31 December	<u>(11,746,795)</u>	<u>3,339,940</u>	<u>(8,406,855)</u>

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

16. Share capital

	2019		2018	
	No. of shares	\$	No of shares	\$
Issued and fully paid:				
Balance at beginning and end of year	318,327,805	318,327,805	318,327,805	318,327,805

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

17. Fair value adjustment reserves

Fair value adjustment reserves represent the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed of or impaired.

	2019	2018
	\$	\$
Balance at beginning of the year	(1,239,019)	2,977,857
Fair value gain/(loss)	3,804,550	(3,719,100)
Transferred to profit or loss:		
Loss/(gain) on sale (Note 20)	32,669	(1,871,445)
Income tax relating to fair value adjustment reserve (Note 7(a) and 7(b))	(1,387,704)	1,373,669
Balance at end of the year	1,210,496	(1,239,019)

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

18. Leases

Company as a lessee

The Company has lease contracts for various items of property, motor vehicles and office equipment used in its operations. Leases of property generally have lease terms of 5 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets.

The Company also has certain leases of office equipment with low value. The Company applies the 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Property \$	Motor vehicles \$	Office equipment \$	Total \$
As at 1 January 2019 (restated) (Note 2.3)	–	107,783	132,550	240,333
Additions	12,842,408	473,398	286,733	13,602,539
Depreciation expense (Note 19)	(856,247)	(195,766)	(48,585)	(1,100,598)
As at 31 December 2019	11,986,161	385,415	370,698	12,742,274

Set out below are the carrying amounts of lease liabilities recognised and the movements during the period:

	\$
As at 1 January 2019 (restated) (Note 2.3)	268,617
Additions	16,006,918
Accretion of interest	93,957
Payments	(1,394,841)
As at 31 December 2019	14,974,651
Current	3,287,525
Non-current	11,687,126

The maturity analysis of lease liabilities are disclosed in Note 25(b)(ii).

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

18. Leases (cont'd)

Company as a lessee (cont'd)

The following are the amounts recognised in profit or loss:

	2019
	\$
Depreciation expense of right-of-use assets (Note 19)	1,100,598
Interest expense on lease liabilities	93,957
Expense relating to short-term leases (included in other operating expenses)	2,426,095
Expense relating to leases of low-value assets (included in other operating expenses)	8,688
Total amount recognised in profit or loss	3,629,338

The Company had total cash outflows for leases of \$3,829,624 in 2019. The Company also had non-cash additions to right-of-use assets of \$13,602,539 and lease liabilities of \$16,006,918 in 2019.

Company as a lessor - Sublease

The Company's sublease of its right-of-use of the office space is classified as finance lease because the sublease is for the entire remaining lease term of the head lease.

ROU assets relating to the head leases with subleases classified as finance lease is derecognised. The net receivable relating to the sublease is recognised under "Lease receivables" in the balance sheet. Finance income on the lease receivables during the financial year is \$13,103.

The following table shows the maturity analysis of the undiscounted lease payments to be received:

	31 December 2019	31 December 2018
	\$	\$ Restated
Within one year	504,850	409,107
After one year but not more than five years	1,851,115	-
More than five years	-	-
Total undiscounted lease payments	2,355,965	409,107
Less: Unearned finance income	(106,766)	-
Net investment in finance lease	2,249,199	409,107
Current	467,874	409,107
Non-current	1,781,325	-
Total	2,249,199	409,107

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

18. Leases (cont'd)

Company as a lessor – Sublease (cont'd)

Set out below are the carrying amounts of lease receivable recognised and the movements during the period:

	\$
As at 1 January 2019 (restated)	–
Additions	2,404,379
Accretion of interest	13,103
Receipts	(168,283)
	<hr/>
As at 31 December 2019	2,249,199
	<hr/> <hr/>

19. Operating and administrative expenses

	2019 \$	2018 \$
Directors' remuneration	1,003,012	734,864
Central Provident Fund contributions	2,413,696	2,860,939
Salaries, bonuses and other costs	19,568,649	18,056,675
Depreciation of property and equipment (Note 4)	987,481	1,309,246
Depreciation of right-of-use assets (Note 18)	1,100,598	–
	<hr/>	<hr/>
	25,073,436	22,961,724
	<hr/> <hr/>	<hr/> <hr/>

The directors' remuneration includes directors' fees amounting to \$128,000 (2018: \$105,000).

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

20. Net investment income

	2019	2018
	\$	\$
Interest on corporate and statutory board debt securities	8,221,574	7,768,373
Interest from government debt securities	–	1,678
<i>Interest income from available-for-sale financial assets</i>	<u>8,221,574</u>	<u>7,770,051</u>
Interest from current accounts	3,576	15,922
Interest from fixed deposits	1,353,201	972,318
<i>Interest income from cash, bank balances and deposits</i>	<u>1,356,777</u>	<u>988,240</u>
Exchange gain on foreign currencies, net	4,351	37,427
	<u>1,361,128</u>	<u>1,025,667</u>
Dividend income	145,806	238,270
Amortisation of premium on bonds (Note 11)	(892,740)	(925,930)
(Loss)/gain on sale of investments (Note 17)	(32,669)	1,871,445
Investment expenses	(293,000)	(316,282)
	<u>8,510,099</u>	<u>9,663,221</u>

21. Other income

	2019	2018
	\$	\$
Agency fees	3,775,428	3,852,461
Information technology support fees	81,985	83,665
Gain on sale of property and equipment	73,843	–
Head Office service fees	58,395	73,731
Interest income from lease receivable	13,103	–
Decrease in provision of doubtful receivables	111,715	–
Miscellaneous income	726,999	401,031
	<u>4,841,468</u>	<u>4,410,888</u>

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

22. Other operating expenses

	2019	2018
	\$	\$
Information technology expenses	3,318,445	3,125,294
Lease expenses	2,434,783	3,879,774
Professional fees	1,054,583	919,840
Other staff costs	953,422	1,124,632
Advertising and subscription	911,336	808,391
Bank charges	761,933	766,447
Goods and services tax expenses	628,185	491,948
Amortisation of CIMB milestone payment (Note 5)	254,702	242,901
Net currency exchange losses	280,296	-
Interest expense	93,957	-
Increase in provision of doubtful receivables (Note 9)	-	111,715
Other expenses	2,575,883	3,165,528
	<u>13,267,525</u>	<u>14,636,470</u>

23. Significant related party transactions

- (a) The Company has significant transactions with the holding company and related companies on terms agreed between the parties as follows:

	2019	2018
	\$	\$
Claims paid, commissions paid and reinsurance business ceded		
- Holding company	(18,220,523)	(13,577,143)
- Related companies	(6,010,222)	(3,784,502)
Claims recovery, commissions received and reinsurance business accepted		
- Holding company	12,331,048	6,651,218
- Related companies	265,642	970,338
Interest income from/(expense to)		
- Holding company	13,103	(40)
- Related companies	5	21
Agency fees income from		
- Holding company	3,766,001	3,832,108
- Related companies	8,310	18,173
Miscellaneous fees and rental income from		
- Holding company	259,760	176,653
- Related companies	-	88,444
Risk survey and service agreement fees to		
- Holding company	(60,673)	(38,626)

Sompo Insurance Singapore Pte. Ltd.

**Notes to the financial statements
For the financial year ended 31 December 2019**

23. Significant related party transactions (cont'd)

(b) Compensation of key management personnel

	2019	2018
	\$	\$
Short-term employee benefits	868,492	725,683
Central Provident fund contributions	26,520	9,181
	<hr/>	<hr/>
	895,012	734,864
	<hr/>	<hr/>
<i>Comprise amounts paid to:</i>		
- Directors of the Company	895,012	734,864
	<hr/>	<hr/>

Key management personnel include non-independent directors.

24. Operating lease commitments

The Company has entered into commercial property leases for the office space. Operating lease expense recognised as an expense in the profit or loss for the financial year ended 31 December 2018 amounted to \$3,879,774. Future minimum lease payments under non-cancellable leases as of 31 December are as follows:

	2018
	\$
Not later than 1 year	3,722,484
Later than 1 year but not later than 5 years	15,903,552
	<hr/>
	19,626,036
	<hr/>

As disclosed in Note 2.3, the Company has adopted FRS 116 on 1 January 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the balance sheet as at 31 December 2019, except for short-term and low value leases.

25. Management of insurance risk and financial risk

The Company has a Risk Management Committee that has established a risk manual and an enterprise risk management framework that allows the Company to be prepared for risks.

This framework specifies the practices and processes that need to be in place to manage the Company's financial and non-financial risks on an on-going basis.

The main risks arising from the Company's insurance contracts and financial instruments are summarised below:

(a) ***Insurance risk***

The Company principally writes a regional book of general insurances comprising Marine Cargo, Motor, Property, Workmen's Compensation and General Accident.

Regional territories are made up mainly of Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

The Company manages its insurance risk through a comprehensive risk management policy where key performance and risk indicators are clearly defined and monitored. Underwriting guidelines sets out the Company's underwriting strategy, direction and risk appetite by product lines.

The most significant exposure is expected to arise from risks involving properties with high values. To manage this, the Company closely monitors the policy developments and ensures that proper reinsurance protection is in place to protect its net profitability and solvency.

The Company purchases reinsurance coverage on both treaty and facultative basis. The Company's net retention varies according to product lines and loss experience.

The Company relies on its reinsurance arrangements to protect its liquidity and solvency when large losses arise. Its reinsurance placements are diversified and spread amongst selected reinsurers to avoid over-reliance on any single reinsurer.

25. Management of insurance risk and financial risk (cont'd)

(a) *Insurance risk (cont'd)*

To mitigate the risk of reinsurance failure, the Company adopts a strict reinsurance management policy that is governed by two key criteria, namely reinsurance usage selection and reinsurance usage concentration. The Company monitors these indicators actively and takes corrective action whenever the need arises.

The table below sets out the concentration of claims liabilities by type of contract:

Claims liabilities	Gross claims liabilities \$'000	Reinsurers' share of claims liabilities \$'000	Net claims liabilities \$'000
As at 31 December 2019			
Marine	4,514	(1,676)	2,838
Motor	35,056	(3,629)	31,427
Property	8,848	(6,637)	2,211
Workmen's Compensation	10,377	(1,146)	9,231
Others	23,574	(11,399)	12,175
Total	82,369	(24,487)	57,882
As at 31 December 2018			
Marine	3,921	(802)	3,119
Motor	37,461	(5,899)	31,562
Property	17,067	(13,107)	3,960
Workmen's Compensation	11,633	(1,674)	9,959
Others	20,355	(9,804)	10,551
Total	90,437	(31,286)	59,151

25. Management of insurance risk and financial risk (cont'd)

(a) *Insurance risk (cont'd)*

The geographical concentration of the Company's insurance liabilities at 31 December 2019 is as follows. The disclosure is based on the countries where the insurance business is written.

Claims liabilities	Gross claims liabilities \$'000	Reinsurers' share of claims liabilities \$'000	Net claims liabilities \$'000
As at 31 December 2019			
Indonesia	113	(56)	57
Philippines	15	-	15
Singapore	81,036	(22,223)	58,813
Thailand	1,038	(2,148)	(1,110)
Others	167	(60)	107
Total	82,369	(24,487)	57,882
As at 31 December 2018			
Indonesia	-	-	-
Philippines	16	-	16
Singapore	81,793	(30,943)	50,850
Thailand	6,118	-	6,118
Others	2,510	(343)	2,167
Total	90,437	(31,286)	59,151

(b) *Financial risk*

The Company is exposed to financial risk arising from its operations and the use of financial instruments. In particular, the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The key financial risks include credit risk, liquidity risk, currency risk and interest rate risk.

(i) *Credit risk*

Credit risk is risk of loss that arises when an obligor fails to perform its obligations under a contract or when its ability to perform such obligations is impaired.

Asset concentration risk reflects the additional risk of a high concentration of investments in a single company, group of companies, instrument, industry, geographical area, currency, etc. It is well recognised that diversification of investment portfolio reduces risk.

25. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(i) *Credit risk (cont'd)*

The following is an overview of how the Company manages its significant credit risk exposure:

Reinsurance

Reinsurance is placed with highly rated reinsurers and concentration of risk is monitored periodically. The Company reviews the creditworthiness of reinsurers before renewing the reinsurance arrangements annually, in accordance to the prevailing reinsurance strategy and guidelines.

Investment securities

The Company limits its exposure by setting maximum limits of portfolio securities with a single or group of issuers. The Company also makes use of institutions with high creditworthiness.

Derivatives

The Company does not enter into derivative contracts.

Insurance receivables

The credit risk in respect of the customer balances incurred on the non-payment of premiums or contributions will only persist during the grace period specified in the policy document.

Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The following table provides information regarding the credit risk exposure of the Company at 31 December 2019 by classifying assets according to credit ratings of the counterparties.

Classification of Credit Rating Agencies

Class	Standard & Poor's	Fitch Inc.	A.M. Best	Moody's
A	AAA to AA-	AAA to AA-	A++ to A+	Aaa to Aa3
B	A+ to A-	A+ to A-	A to A-	A1 to A3
C	BBB+ to BBB-	BBB+ to BBB-	B++ to B+	Baa1 to Baa3
D	BB+ or worse	BB+ or worse	B or worse	Ba1 or worse
	Not Rated	Not Rated	Not Rated	Not Rated

25. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(i) *Credit risk (cont'd)*

	2019 \$'000	2018 \$'000
Available-for-sale financial assets	270,344	274,372
Amount owing from holding companies (non-trade)	1,369	975
Amount owing from related companies (non-trade)	12	4
Lease receivables	2,249	–
Trade debtors	22,570	19,940
Other debtors	4,637	4,413
Cash, bank balances and deposits	112,476	103,916
	<hr/>	<hr/>
Total financial assets	413,657	403,620
	<hr/> <hr/>	<hr/> <hr/>
	2019 \$'000	2018 \$'000
Class		
A	103,955	74,010
B	172,292	194,208
C	1,032	1,556
D *	136,378	133,846
	<hr/>	<hr/>
Total financial assets	413,657	403,620
	<hr/> <hr/>	<hr/> <hr/>

* Non-rated debt securities included holdings of debt securities issued by Singapore Statutory Boards amounting to \$33.78 million (2018: \$25.01 million).

(ii) *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or counterparty failing on repayment of a contractual obligation or insurance liability falling due for payment earlier than expected or inability to generate cash inflows as anticipated.

The Company is exposed to daily cash calls on its available cash resources mainly from claims arising from short term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls that should be in place to cover these claims.

25. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(ii) *Liquidity risk (cont'd)*

The table below summarises the maturity profile of the Company's financial assets and liabilities based on undiscounted contractual obligations from the reporting date to the contractual maturity or expected repayment date. For claims liabilities and reinsurer's share of claims liabilities, their maturity profiles are determined based on the estimated timing of net cash outflows on an undiscounted basis.

2019	Carrying value \$'000	No maturity date \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial and insurance-related assets						
Available-for-sale financial assets	270,344	5,000	35,570	157,923	99,908	298,401
Cash, bank balances and deposits	112,476	40,531	72,280	–	–	112,811
Amount owing from holding companies (non-trade)	1,369	–	1,369	–	–	1,369
Amount owing from related companies (non-trade)	12	–	12	–	–	12
Trade debtors	22,570	–	22,570	–	–	22,570
Other debtors	4,637	–	4,637	–	–	4,637
Lease receivables	2,249	–	505	1,851	–	2,356
Reinsurers' share of claim liabilities	24,487	–	21,214	3,246	–	24,460
	438,144	45,531	158,157	163,020	99,908	466,616
Financial and insurance-related liabilities						
Trade creditors	10,739	–	10,739	–	–	10,739
Other creditors	8,959	–	8,959	–	–	8,959
Lease liabilities	14,975	–	3,288	11,687	–	14,975
Claim liabilities	82,369	–	69,037	13,785	–	82,822
	117,042	–	92,023	25,472	–	117,495

The Company considers trade creditors amounting to \$10,739,220 (2018: \$10,483,640), other creditors amounting to \$8,958,986 (2018: \$9,187,471) and lease liabilities amounting to \$14,974,651 (2018: \$Nil) to be financial liabilities valued at amortised cost totalling to \$34,672,857 (2018: \$19,671,111).

25. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*(ii) *Liquidity risk (cont'd)*

2018	Carrying value \$'000	No maturity date \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial and insurance-related assets						
Available-for-sale financial assets	274,372	2,936	17,832	130,615	156,123	307,506
Cash, bank balances and deposits	103,916	–	104,792	–	–	104,792
Amount owing from holding companies (non-trade)	975	–	975	–	–	975
Amount owing from related companies (non-trade)	4	–	4	–	–	4
Trade debtors	19,940	–	19,940	–	–	19,940
Other debtors	4,413	–	4,413	–	–	4,413
Reinsurers' share of claim liabilities	31,286	–	21,824	9,773	–	31,597
	434,906	2,936	169,780	140,388	156,123	469,227
Financial and insurance-related liabilities						
Trade creditors	10,484	–	10,484	–	–	10,484
Other creditors	9,187	–	9,187	–	–	9,187
Claim liabilities	90,437	–	65,288	25,978	–	91,266
	110,108	–	84,959	25,978	–	110,937

Notes to the financial statements
For the financial year ended 31 December 2019

25. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iii) *Currency risk*

Currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the Singapore dollar and the other currencies in which the Company conducts business may affect its financial condition and results of operations. The Company seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The table below summarises the Company's exposure to currency risk at the end of the year by categorising the net financial assets and liabilities by major currencies.

2019	Singapore Dollars \$'000	United States Dollars \$'000	Thailand Baht \$'000	Others \$'000	Total \$'000
Financial and insurance-related assets					
Available-for-sale financial assets	270,344	–	–	–	270,344
Amount owing from holding companies (non-trade)	(38)	1,032	12	363	1,369
Amount owing from related companies (non-trade)	14	–	(2)	–	12
Trade debtors	19,188	3,375	–	7	22,570
Other debtors	4,568	69	–	–	4,637
Lease receivables	2,249	–	–	–	2,249
Cash, bank balances and deposits	110,652	1,686	75	63	112,476
Reinsurers' share of claim liabilities	24,438	49	–	–	24,487
Total	431,415	6,211	85	433	438,144
Financial and insurance-related liabilities					
Trade creditors	8,152	2,123	–	464	10,739
Other creditors	8,981	(39)	1	16	8,959
Lease liabilities	14,975	–	–	–	14,975
Claim liabilities	82,650	(245)	(1)	(35)	82,369
Total	114,758	1,839	–	445	117,042

Sompo Insurance Singapore Pte. Ltd.

Notes to the financial statements
For the financial year ended 31 December 2019

25. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iii) *Currency risk (cont'd)*

2018	Singapore Dollars \$'000	United States Dollars \$'000	Thailand Baht \$'000	Others \$'000	Total \$'000
Financial and insurance-related assets					
Available-for-sale financial assets	274,372	–	–	–	274,372
Amount owing from holding companies (non-trade)	110	372	12	481	975
Amount owing from related companies (non-trade)	–	2	2	–	4
Trade debtors	17,600	2,311	15	14	19,940
Other debtors	4,411	2	–	–	4,413
Cash, bank balances and deposits	101,788	1,275	788	65	103,916
Reinsurers' share of claim liabilities	24,532	1,281	5,405	68	31,286
Total	422,813	5,243	6,222	628	434,906
Financial and insurance-related liabilities					
Trade creditors	10,398	55	5	26	10,484
Other creditors	9,231	(63)	1	18	9,187
Claim liabilities	83,439	629	6,118	251	90,437
Total	103,068	621	6,124	295	110,108

25. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iii) *Currency risk (cont'd)*

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in the USD and THB exchange rates against the functional currency of the Company, with all other variables held constant.

	2019 \$'000	2018 \$'000
Increase/(decrease) in profit and equity (before tax)		
USD/SGD - Strengthened 5%	219	231
- Weakened 5%	(219)	(231)
THB/SGD - Strengthened 5%	4	5
- Weakened 5%	(4)	(5)

(iv) *Interest rate risk*

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of the changes in interest rate.

The Company's exposure to market risk for changes in interest rates arises from surplus funds that are placed with reputable banks and/or invested in bonds and government securities. The exposure to interest rate risk is closely monitored to maximise the returns on these surplus funds.

Sensitivity analysis for interest rate risk

The following table sets out the impact on profit before tax and equity at the reporting date if market interest rates had been 50 (2018: 50) basis points higher/lower with all other variables held constant. The Company believes that the exposure to interest rate changes on its investments in debt securities is limited since the instruments are short to medium term fixed-income debt securities and the intent is to hold to maturity. As such, only the impact of the changes in the interest rates on the Company's fixed deposits are included in the sensitivity analysis table below.

Changes in variables	Impact on profit before tax \$'000	Impact on equity* \$'000
2019		
+ 50 basis points	360	299
- 50 basis points	(360)	(299)

25. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iv) *Interest rate risk (cont'd)*

Sensitivity analysis for interest rate risk (cont'd)

Changes in variables	Impact on profit before tax \$'000	Impact on equity* \$'000
2018		
+ 50 basis points	388	340
- 50 basis points	(388)	(340)

* Impact on equity is after tax.

(v) *Market price risk*

Market price risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market prices (other than interest or foreign currency exchange rates). The Company is exposed to equity price risk arising from its investment in quoted equity instruments. These instruments are quoted on the Singapore Exchange Securities Trading Limited (SGX-ST) in Singapore and are classified as available-for-sale financial assets. The Company does not have exposure to commodity price risk.

The Company's objective is to manage investment returns and equity price risk using investment grade shares with steady dividend yields. The Company's policy is to limit its interest in the available-for-sale equity shares to 5% (2018: 5%) of its entire investment portfolio.

Sensitivity analysis for equity price risk

At the balance sheet date, if the market prices of the equity investments had been 5% (2018: 5%) higher/lower with all other variables held constant, the Company's fair value adjustment reserve (net of tax) would increase/decrease by \$207,489 (2018: \$121,827) arising mainly as a result of a increase/decrease in the fair value of equity securities classified as available-for-sale.

The method used for deriving sensitivity analysis and significant variables did not change from the previous year.

(vi) *Concentration risk*

An important element of managing both market and credit risks is to actively manage concentration to specific issuers, counterparties, industry sectors, countries and currencies. Both internal and regulatory limits are put in place and monitored to manage concentration risk. These limits are reviewed on a regular basis by the respective management committees. The Company's exposures are within the concentration limits set by the local regulators.

25. Management of insurance risk and financial risk (cont'd)

(c) **Fair value of financial instruments**

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

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

Unquoted equity shares are valued based on unobservable data (i.e., net tangible assets from financial statements).

(d) **Offsetting financial assets and liabilities**

The Company has a legally enforceable right to set off the insurance receivables and payables with its policy holders/claimants, intermediaries and reinsurers and intends to settle on a net basis. The following table present the recognised financial instruments that are offset as at 31 December 2019.

	Gross carrying amounts before offsetting	Amounts offset	Net amounts presented in the balance sheet
	\$'000	\$'000	\$'000
At 31 December 2019			
Trade debtors	45,594	(23,024)	22,570
Trade creditors	33,763	(23,024)	10,739

(e) **Insurance contract liabilities - assumptions and sensitivities**

Assumptions

One of the principal assumptions underlying the estimated claim liability is that future claim development can be approximated by historical experience. This includes assumptions in respect of claim development factors and initial expected loss ratios for past accident/underwriting years. Direct claims handling costs and future claims inflation are implicitly assumed in the valuation methods. Indirect claims handling expenses are derived based on the Company's management expenses over the past couple of years. Judgment is used to assess the extent to which large claims, reinsurance recoveries, as well as the Company's internal underwriting and claim handling policies affect the estimates.

Other assumptions include the discount rate and the provision for adverse deviation attached to the estimates.

25. Management of insurance risk and financial risk (cont'd)

(e) ***Insurance contract liabilities - assumptions and sensitivities (cont'd)***

Ultimate claim cost development

- (i) The tables on pages 74 to 75 show the actuary's best estimate of the gross and net of reinsurance ultimate claims cost for each accident/underwriting year at yearly intervals together with actual cumulative claim payments for each accident/underwriting year as at 31 December 2019.
- (ii) Ultimate claim costs are then compared to actual cumulative claim payments for each accident/underwriting year as at 31 December 2019 to arrive at the best estimate of claim liability as at 31 December 2019.
- (iii) With the addition of a provision for adverse deviation ("PAD"), the outstanding claim liabilities are reconciled to the outstanding claim liabilities as per the actuarial valuation of policy liabilities as at 31 December 2019.

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25. Management of insurance risk and financial risk (cont'd)

(e) Insurance contract liabilities - assumptions and sensitivities (cont'd)

Gross incurred losses development table

Gross of reinsurance basis (\$'000)

Period ¹	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of year	43,498	43,325	48,678	1,412,215	50,615	69,173	81,647	72,394	63,765	62,259	68,944	68,723	
One year later	42,810	44,370	53,390	1,414,896	60,490	70,407	87,895	67,678	62,501	64,923	75,760		
Two years later	40,476	38,772	50,916	1,257,145	58,234	65,900	84,029	61,839	59,912	63,340			
Three years later	37,557	36,553	67,084	1,243,228	54,017	61,509	76,413	56,289	55,281				
Four years later	36,161	36,240	66,165	1,238,744	52,665	55,865	71,224	54,355					
Five years later	35,975	35,468	64,045	1,237,436	50,667	54,629	70,584						
Six years later	35,499	35,598	63,945	1,234,675	50,216	54,342							
Seven years later	34,496	35,135	63,922	1,233,655	50,168								
Eight years later	34,422	34,829	51,546	1,233,398									
Nine years later	34,361	34,826	51,538										
Ten years later	34,381	34,814											
Eleven years later	34,166												
Current estimate of ultimate claims	34,166	34,814	51,538	1,233,398	50,168	54,342	71,106	54,300	54,640	60,527	70,966	70,373	1,840,338
Cumulative payments	34,125	34,472	50,470	1,233,384	49,233	54,068	68,963	53,027	52,552	52,346	57,761	31,282	1,771,683
Gross estimate of outstanding claim liability	41	342	1,068	14	935	274	2,143	1,273	2,088	8,181	13,205	39,091	68,655
Best estimate for claims liability (net of unearned and add claims handling expenses)	62	343	995	15	958	285	2,231	1,362	2,251	8,615	14,071	41,636	72,824
Reserve for years prior to period ¹ 2008													11
Discounting for time value													(650)
Provision for adverse deviation													9,844
Outstanding claim liability													82,029
Ex-Nipponkoa outstanding claim liability ²													340
Total outstanding claim liability in the balance sheet													82,369

⁽¹⁾ Refers to accident year for all classes except Offshore Insurance Fund treaty class where an underwriting year is used.

⁽²⁾ The ex-Nipponkoa run-off portfolio is excluded from the claims development triangle as it has zero net impact to the claims liabilities.

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Notes to the financial statements
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25. Management of insurance risk and financial risk (cont'd)

(e) Insurance contract liabilities – assumptions and sensitivities (cont'd)

Net incurred losses development table

Net of reinsurance basis (\$'000)

Period ¹	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of year	31,590	27,693	30,994	312,839	31,933	36,744	49,404	46,288	44,463	49,359	54,827	51,978	
One year later	33,028	27,084	37,612	317,443	36,716	36,444	54,847	41,648	41,961	48,596	56,142		
Two years later	31,017	24,583	35,730	265,542	34,821	33,588	51,353	38,014	39,827	47,555			
Three years later	28,314	22,608	34,040	262,307	31,550	30,950	44,869	35,919	37,588				
Four years later	27,048	22,305	32,920	260,741	30,185	29,027	43,146	34,761					
Five years later	26,870	21,698	32,391	259,799	29,361	28,373	43,644						
Six years later	26,577	21,504	31,889	259,130	29,011	28,093							
Seven years later	25,646	21,128	31,671	258,222	28,998								
Eight years later	25,564	21,023	32,244	257,979									
Nine years later	25,544	21,022	32,593										
Ten years later	25,541	21,010											
Eleven years later	25,926												
Current estimate of ultimate claims	25,926	21,010	32,593	257,979	28,998	28,093	44,032	34,738	36,868	45,218	51,676	50,263	657,394
Cumulative payments	25,658	21,008	33,638	257,969	28,714	27,985	42,899	33,683	34,960	40,121	41,424	21,560	609,619
Net estimate of outstanding claim liability	268	2	(1,045)	10	284	108	1,133	1,055	1,908	5,097	10,252	28,703	47,775
Best estimate for claims liability (net of unearned and add claims handling expenses)	288	2	(1,118)	12	306	118	1,221	1,144	2,070	5,531	11,119	31,247	51,940
Reserve for years prior to period ¹ 2008													8
Discounting for time value													(479)
Provision for adverse deviation													6,414
Outstanding claim liability in the balance sheet													57,883

⁽¹⁾ Refers to accident year for all classes except Offshore Insurance Fund treaty class where an underwriting year is used.

25. Management of insurance risk and financial risk (cont'd)

(e) *Insurance contract liabilities - assumptions and sensitivities (cont'd)*

Sensitivity analysis

- (i) The purpose of the sensitivity analysis is to assess the relative importance of key assumptions used in the net of reinsurance actuarial valuation of outstanding claim and premium liabilities as at 31 December 2019. In this context, the outstanding claim and premium liabilities are defined as the total claim and premium liabilities for the Singapore Insurance Fund business and Offshore Insurance Fund business combined respectively, including provision for adverse deviation (these are referred to as "the base scenario" in the sensitivity analysis summary).
- (ii) The key assumptions considered in the sensitivity analysis of the claim liabilities include a 5 percentage point increase or decrease in:
 - the assumed ultimate loss ratio for each class of business in the 2019 accident/underwriting year;
 - the assumed level of indirect claim handling expenses; and
 - the assumed PAD factor for each class of business.
- (iii) The key assumptions considered in the sensitivity analysis of the premium liabilities include a 5 percentage point increase or decrease in:
 - the assumed expected loss ratio for each class of business in the 2019 accident/underwriting year;
 - the assumed level of management expenses for each class of business; and
 - the assumed PAD factor for each class of business.
- (iv) The sensitivity analysis is based on the assumptions set out in the actuarial report and is subject to the same reliance and limitations contained in the report. One particular reliance is that the net sensitivity results assume that all reinsurance recoveries are receivable in full.
- (v) The sensitivity values shown for each assumption item are independent of changes to other assumption items. In practice a combination of adverse and favourable changes could occur.
- (vi) The sensitivity results are not intended to capture all possible outcomes. Significantly more adverse or favourable results are possible.

25. Management of insurance risk and financial risk (cont'd)

(e) *Insurance contract liabilities – assumptions and sensitivities (cont'd)*

Percentage change in claims liability sensitivity analysis

Assumption	Gross of reinsurance	
	+5% ¹	-5% ¹
Reported total actuarial claims liability (\$'000)	81,120	
Ultimate loss ratio ²	4.77%	-4.77%
Indirect claim handling expenses	0.26%	-0.26%
Provision for adverse deviation	0.53%	-0.53%

Percentage change in premium liability sensitivity analysis

Assumption	Gross of reinsurance	
	+5% ¹	-5% ¹
Reported total actuarial premium liability (\$'000)	58,515	
Expected loss ratio ²	0.00%	0.00%
Policy administration cost	0.00%	0.00%
Provision for adverse deviation	0.00%	0.00%

Percentage change in claims liability sensitivity analysis

Assumption	Net of reinsurance	
	+5% ¹	-5% ¹
Reported total actuarial claims liability (\$'000)	56,947	
Ultimate loss ratio ²	5.00%	-4.94%
Indirect claim handling expenses	0.40%	-0.40%
Provision for adverse deviation	0.48%	-0.48%

Percentage change in premium liability sensitivity analysis

Assumption	Net of reinsurance	
	+5% ¹	-5% ¹
Reported total actuarial premium liability (\$'000)	47,149	
Expected loss ratio ²	3.89%	-3.89%
Policy administration cost	0.62%	-0.62%
Provision for adverse deviation	0.67%	-0.67%

(1) Sensitivity analysis assesses impact of a +/- 5% change in assumption.

(2) Loss ratio sensitivity analysis applies to 2019 accident/underwriting year.

(3) The assumed change is on a relative basis, rather than on an absolute or additive basis.

25. Management of insurance risk and financial risk (cont'd)

(e) *Insurance contract liabilities – assumptions and sensitivities (cont'd)*

Liability adequacy test

The following table compares the actuarial estimate of the gross and net of reinsurance insurance policy liabilities of the Company with the Company's actual held policy liability provisions as at 31 December 2019.

2019	Gross \$'000	Net \$'000
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	81,120	56,947
Actuarial estimate of premium liabilities including provision for adverse deviation	58,515	47,149
Total actuarial estimate of policy liabilities including provision for adverse deviation	139,635	104,096
Comparing to:		
Company held provision for outstanding claim liabilities	82,369	57,883
Company held provision for premium liabilities	62,941	47,695
Total Company held provision for policy liabilities	145,310	105,578
2018		
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	90,173	59,080
Actuarial estimate of premium liabilities including provision for adverse deviation	54,800	47,013
Total actuarial estimate of policy liabilities including provision for adverse deviation	144,973	106,093
Comparing to:		
Company held provision for outstanding claim liabilities	90,437	59,151
Company held provision for premium liabilities	54,800	47,125
Total Company held provision for policy liabilities	145,237	106,276

26. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating in order to:

- safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- maintain the required level of stability of the Company thereby providing a degree of security to policyholders;
- retain financial flexibility by maintaining strong liquidity; and
- maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.

Capital includes equity attributable to the owners of the Company less the fair value adjustment and amalgamation reserves. The Company has no borrowings, contingent liabilities and loan capital as at 31 December 2019. There was no change in the Company's capital management objectives, policies and processes during the years ended 31 December 2019 and 31 December 2018.

The operations of the Company are subject to regulatory requirements in Singapore. Such regulations impose restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance company to meet unforeseen liabilities as these arise.

The Company is required to satisfy the Fund Solvency and Capital Adequacy Requirements prescribed under the Singapore Insurance Act (Chapter 142). The Company monitors its capital level on a regular basis to assess whether such requirements have been met, and reports to MAS its fund solvency and capital adequacy positions at each quarter and as well as annually. The Company complied with the above mentioned solvency and capital adequacy requirements during the year ended 31 December 2019.

27. Events after the reporting period

(a) Capital reduction

On 17 January 2020, the Company's issued and paid up share capital of \$318,327,805 comprising 318,327,805 ordinary shares was reduced by \$40,000,000 (40,000,000 ordinary shares) to \$278,327,805 comprising 278,327,805 ordinary shares by way of cash distribution.

(b) Coronavirus disease 2019 ("COVID-19") pandemic

The extent of the impact of the COVID-19 pandemic on the financial performance of the Company, and its investments in particular, will depend on a number of factors. These include the duration and spread of the pandemic, related government advisories and restrictions and their eventual impact on financial markets and the overall economy; all of which are highly uncertain. Should financial markets and the overall economy be significantly impacted for a prolonged period of time, the carrying value of the Company's investments may be materially affected. The Company will continue to implement measures to manage and respond to the risks as the situation evolves. The pandemic does not change the financial position of the Company as at 31 December 2019.