MACAU INSURANCE COMPANY

澳門保險

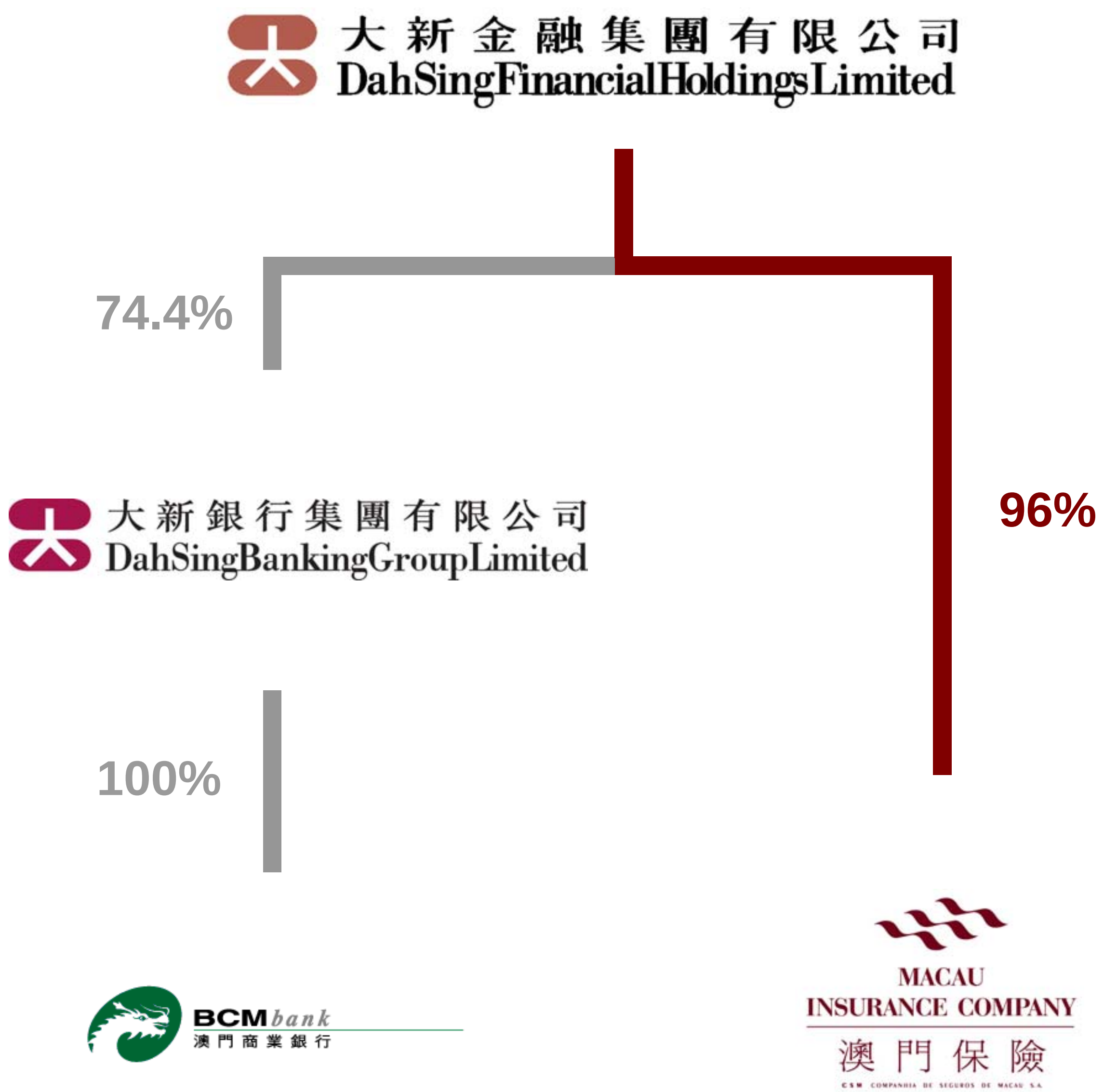
CSM COMPANHIA DE SEGUROS DE MACAU S.A.

Annual Report

2018

Table of Contents

Group Structure as at 31 December 2018



Key Management Personnel as at 31 December 2018

Diamond Lo	Chief Executive Officer
Vincent Chan	Deputy Chief Executive Officer
Joaquim António Cruz	Deputy General Manager

Departments

Bancassurance	Annie Tang, Manager
Claims	Brian Lau, Senior Manager
Commercial	Adam Chao, Manager
Information Technology	Shirley Chang, Manager
Marketing and Business Promotion	Kristy Hoi, Manager
Technical Risks	Patrick Wong, Manager
	Francis Hui, Manager

The business operation of Macau Insurance Company Limited recorded gross premium income of MOP279.3 million in 2018, increasing 13% year on year.

In September 2018, Macau was hit by another Super Typhoon Mangkhut. Thanks to effective early warnings and comprehensive measures taken by the Macau SAR government as well as active cooperation by the entire community, the impact and loss to Macau was substantially reduced. The robust reinsurance arrangements of the Company once again effectively alleviated the impact of typhoon claim losses and kept underwriting operations stable. With ongoing operations of the Company visibly benefiting from continued efforts to improve underwriting practices, underwriting profit improved considerably compared to 2017.

Global investment markets remained volatile throughout 2018, which brought fluctuations to the investment result of the Company. Following the direct recognition of changes in market value of some marketable securities under shareholders' equity, the Company achieved a profit after tax of MOP24.6 million, which grew 3% compared to the normalized profit of 2017 when one-off income from the sale of its life insurance subsidiary (Macau Life Insurance Company Limited) is excluded.

Looking ahead to 2019, the economy of the Macau SAR is expected to continue its trend of progress, with the gaming and related sectors in particular leading the way. Prospects of the Company and the local insurance sector would remain supported by gaming development and government infrastructure projects. The Company will continue to strengthen its cooperation with various distribution channels to promote products serving the insurance needs of customers and the local market in general.

MACAU
INSURANCE COMPANY
澳門保險
CSM COMPANHIA DE SEGUROS DE MACAU S.A.

Summarised Accounts

2018

Revenue Accounts for 2018

DEBIT	Employees' Compensation	Fire	Motor Vehicle	Marine Cargo	Other Insurance	General Accounts	Subtotals	Totals
UNEARNED PREMIUM RESERVE								
on Direct Insurance	3,419,837.63	13,941,192.56	-	31,993.64	3,972,031.90		21,365,055.73	
on Reinsurance Accepted	-	119,728.42	28,505.71	-	-		148,234.13	21,513,289.86
COMMISSIONS								
on Direct Insurance	3,053,069.64	10,174,258.23	4,489,143.67	22,497.96	7,224,654.11		24,963,623.61	
on Reinsurance Accepted	623,489.16	483,531.48	98,969.40	-	221,687.92		1,427,677.96	26,391,301.57
CHARGES FOR REINSURANCE CEDED								
on Direct Insurance								
Premiums Ceded	5,009,064.90	120,997,105.84	1,847,087.60	385,933.40	37,798,032.41		166,037,224.15	
Reduction in Unearned Premium Reserve	1,043,038.02	-	9,570.69	-	9,358,637.84		10,411,246.55	
Reduction in Claims Reserve	1,007,453.03	260,922,066.94	17,601,961.40	19,750.00	100,909,351.34		380,460,582.71	
on Reinsurance Accepted								
Premiums Ceded	-	1,793,435.94	-	-	131,645.90		1,925,081.84	
Reduction in Unearned Premium Reserve	-	99,215.24	-	-	838,023.60		937,238.84	
Reduction in Claims Reserve	-	12,344,789.19	-	-	948,705.99		13,293,495.18	573,064,869.27
CLAIMS								
on Direct Insurance								
Paid	10,540,205.77	201,253,588.95	23,442,448.69	17,133.02	98,472,949.84		333,726,326.27	
Provision	20,056,429.68	151,711,190.59	32,746,554.50	-	22,382,982.04		226,897,156.81	
on Reinsurance Accepted								
Paid	4,743,754.25	8,565,622.46	1,228,886.56	-	1,158,091.36		15,696,354.63	
Provision	2,309,454.02	4,737,574.72	424,994.05	-	412,276.82		7,884,299.61	584,204,137.32
GENERAL EXPENSES						39,498,213.93	39,498,213.93	39,498,213.93
FINANCIAL COSTS						622,746.83	622,746.83	622,746.83
OTHER COSTS						5,296,381.55	5,296,381.55	5,296,381.55
AMORTIZATION AND DEPRECIATION								
Intangible Assets						1,988.00	1,988.00	
Tangible Assets						1,248,410.00	1,248,410.00	1,250,398.00
ALLOWANCE FOR BAD AND DOUBTFUL DEBT								
Provision for Bad and Doubtful Debt						151,894.35	151,894.35	151,894.35
ALLOWANCE FOR PREMIUMS DUE								
Provision for Premiums Due						1,010,645.00	1,010,645.00	1,010,645.00
OPERATING PROFITS FOR THE YEAR						23,712,964.09	23,712,964.09	23,712,964.09
TOTALS	**51,805,796.10**	**787,143,300.56**	**81,918,122.27**	**477,308.02**	**283,829,071.07**	**71,543,243.75**		**1,276,716,841.77**

CREDIT	Employees' Compensation	Fire	Motor Vehicle	Marine Cargo	Other Insurance	General Accounts	Subtotals	Totals
PREMIUMS								
from Direct Insurance	30,168,008.50	129,629,735.67	32,221,762.20	487,629.30	79,157,892.70		271,665,028.37	
from Reinsurance Accepted	4,187,499.83	2,062,837.70	1,068,574.70	-	297,186.18		7,616,098.41	279,281,126.78
INCOME FROM REINSURANCE CEDED								
from Direct Insurance								
Commissions (including Profit Sharing)	612,373.60	15,809,831.76	2,747.92	87,424.46	7,627,634.97		24,140,012.71	
Indemnification of Claims	673,209.62	198,376,989.34	5,516,462.54	13,098.16	67,296,275.36		271,876,035.02	
Reinsurers' Share in Unearned Premium Reserve	-	13,454,987.43	-	20,344.57	2,855,460.82		16,330,792.82	
Reinsurers' Share in Claims Reserve	2,712,067.89	148,921,807.23	6,036,000.00	-	16,476,354.04		174,146,229.16	
from Reinsurance Accepted								
Commissions (including Profit Sharing)	-	1,077,217.98	-	-	472,885.10		1,550,103.08	
Indemnification of Claims	-	7,635,627.75	-	-	980,652.93		8,616,280.68	
Reinsurers' Share in Unearned Premium Reserve	-	-	-	-	-		-	
Reinsurers' Share in Claims Reserve	-	4,134,082.61	-	-	372,983.50		4,507,066.11	501,166,519.58
REDUCTION IN UNEARNED PREMIUM RESERVE								
from Direct Insurance	-	-	277,357.54	-	8,465,360.13		8,742,717.67	
from Reinsurance Accepted	784,755.28	127,986.50	-	-	1,570,312.02		2,483,053.80	11,225,771.47
REDUCTION IN CLAIMS RESERVE								
from Direct Insurance	22,777,809.28	263,753,625.56	49,204,231.72	32,000.00	107,663,095.54		443,430,762.10	
from Reinsurance Accepted	4,023,156.21	13,582,134.48	1,147,163.46	-	1,125,694.82		19,878,148.97	463,308,911.07
OTHER INCOME								
Financial Income						6,298,934.36	6,298,934.36	
Miscellaneous						15,228,982.51	15,228,982.51	21,527,916.87
REDUCTION IN FINANCIAL RESERVE								
Reduction in Provision for Miscellaneous						206,596.00	206,596.00	206,596.00
TOTALS	**65,938,880.21**	**798,566,864.01**	**95,474,300.08**	**640,496.49**	**294,361,788.11**	**21,734,512.87**		**1,276,716,841.77**

Profit and Loss Account for 2018

DEBIT		Amounts
Extraordinary Loss for the Year		
Others		-
Provision for Income Tax		2,832,132.00
Profit After Taxation		24,600,832.09
Total		**27,432,964.09**

CREDIT		Amounts
Operating Profits		23,712,964.09
Extraordinary Income for the Year		
Gain on Tangible Assets		3,720,000.00
Others		-
Total		**27,432,964.09**

Balance Sheet as at 31 December 2018

ASSETS	Balances	Subtotals	Totals
INTANGIBLE ASSETS			
Other Intangible Assets	8,138,429.12		
(Accumulated Amortisation)	(8,128,486.62)	9,942.50	9,942.50
TANGIBLE ASSETS			
Real Estate	117,205,049.00		
Vehicles	512,612.00		
Furniture and Equipment	2,639,679.84		
Office Equipment	916,244.02		
Central Air Conditioning and Electrical System	1,575,357.11		
Computers	3,613,350.26		
Air Conditioners and Heaters	115,926.50		
Telecommunications Equipment	913,424.33		
Others	6,528,323.17		
(Accumulated Depreciation)	(15,110,561.34)	118,909,404.89	118,909,404.89
FINANCIAL ASSETS			
Assets without Encumbrance			
Shares	151,939,062.42		
Bonds	54,388,390.76		
Investment in Subsidiary	39,940,000.00	246,267,453.18	
Assets Guaranteeing Technical Reserve			
Time Deposits	18,510,097.23		
Real Estate	33,184,951.00		
Bonds	318,506,897.13	370,201,945.36	616,469,398.54
REINSURERS' SHARE IN UNEARNED PREMIUM RESERVE			
on Direct Insurance	111,599,698.38		
on Reinsurance Accepted	1,172,577.67	112,772,276.05	
REINSURERS' SHARE IN CLAIMS RESERVE			
on Direct Insurance	638,299,035.51		
on Reinsurance Accepted	20,666,269.92	658,965,305.43	771,737,581.48
GENERAL DEBTORS			
Associated Companies	48,492.08		
Reinsurers	19,156,634.96		
Coinsurers	1,358,910.85		
Intermediaries	2,129.57		
Government Entities	3,509,301.00		
Others	2,784,101.71	26,859,570.17	
ALLOWANCE FOR BAD AND DOUBTFUL DEBT	(303,591.00)	(303,591.00)	26,555,979.17
PREMIUMS DUE	88,002,338.10		
(PROVISION FOR PREMIUMS DUE)	(2,895,770.00)	85,106,568.10	85,106,568.10
ACCOUNTS RECEIVABLE AND ACCRUALS			
Accrued Interests	328,079.47		
Other Accounts Receivable and Accruals	19,727,673.43	20,055,752.90	20,055,752.90
DEPOSITS WITH CREDIT INSTITUTIONS			
in Local Currency			
Demand Deposits	10,509,406.12		
Time Deposits	4,359,902.77	14,869,308.89	
in Foreign Currency			
Demand Deposits	40,934,821.55		
Time Deposits	80,871,259.48	121,806,081.03	136,675,389.92
CASH	48,040.11	48,040.11	48,040.11
TOTAL ASSETS			**1,775,568,057.61**

LIABILITIES & EQUITY	Balances	Subtotals	Totals
LIABILITIES			
UNEARNED PREMIUM RESERVE			
on Direct Insurance	154,600,645.45		
on Reinsurance Accepted	3,890,711.17	158,491,356.62	
CLAIMS RESERVE			
on Direct Insurance	744,453,533.39		
on Reinsurance Accepted	30,064,505.64	774,518,039.03	933,009,395.65
MISCELLANEOUS PROVISIONS	17,075,835.00	17,075,835.00	17,075,835.00
GENERAL CREDITORS			
Associated Companies	3,155,505.40		
Reinsurers	83,608,766.51		
Coinsurers	27,555.97		
Policyholders	3,716,356.89		
Intermediaries	728,816.57		
Government Entities	1,058,317.10		
Others	11,273,733.88	103,569,052.32	103,569,052.32
CLAIMS PAYABLE	-	-	-
COMMISSIONS PAYABLE	5,777,140.81	5,777,140.81	5,777,140.81
ACCOUNTS PAYABLE AND ACCRUALS	15,266,991.01	15,266,991.01	15,266,991.01
TOTAL LIABILITIES			**1,074,698,414.79**
EQUITY			
CAPITAL			
Paid-up Capital	220,000,000.00	220,000,000.00	220,000,000.00
RESERVES			
Legal Reserve	15,000,000.00		
Free Reserve	456,616,424.79		
Revaluation Reserve	(15,347,614.06)	456,268,810.73	456,268,810.73
PROFIT BEFORE TAXATION	27,432,964.09		
PROVISION FOR INCOME TAX	(2,832,132.00)	24,600,832.09	
PROFIT AFTER TAXATION			24,600,832.09
TOTAL EQUITY			**700,869,642.82**
TOTAL LIABILITIES & EQUITY			**1,775,568,057.61**

Macau Insurance Company Limited ("the Company") is domiciled in the Macau Special Administrative Region of the People's Republic of China. Its principal accounting policies are as follows:

1. Basis of preparation

The summarised accounts have been prepared in accordance with the Financial Reporting Standards issued by the Government of the Macau Special Administrative Region under Administrative Regulation No.25/2005 on 9 December 2005 ("MFRS"). MFRS requires the following International Financial Reporting Standard (IFRS) issued by the International Accounting Standards Board (IASB) and International Accounting Standards (IAS) issued by its predecessor International Accounting Standards Committee (IASC) be applied in the preparation of the summarised accounts:

IFRS 1: First-time adoption of IFRS
IAS 1: Presentation of Financial Statements
IAS 2: Inventories
IAS 7: Cash flow statements
IAS 8: Accounting policies, changes in accounting estimates and errors
IAS 10: Events after the balance sheet date
IAS 11: Construction contracts
IAS 12: Income taxes
IAS 16: Property, plant and equipment
IAS 17: Leases
IAS 18: Revenue
IAS 21: The effects of changes in foreign exchange rates
IAS 23: Borrowing costs
IAS 36: Impairment of assets
IAS 37: Provisions, contingent liabilities and contingent assets
IAS 38: Intangible assets

The summarised accounts are presented in Macau Patacas ("MOP"), which is the functional and presentation currency of the Company, unless otherwise stated. They are prepared on the historical cost basis, except for financial instruments described as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and investment properties that are stated at fair value.

The preparation of summarised accounts requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Company has voluntarily changed its accounting policies related to financial instruments for the year commencing 1 January 2018 and made retrospective adjustments to individual line items in the summarised accounts as though such accounting policies had always been applied for all accounting periods presented.

2. Recognition and measurement of insurance contracts

<u>Gross premiums arising from general insurance business</u>
Gross premiums in respect of general insurance business are accounted for in the period in which the business is written, which is generally the period in which the risk commences. Unearned premium reserves are made as stated below for the unexpired period of risk under each policy.

<u>Unearned premium reserve</u>
The provision for unearned premiums comprises the proportion of general insurance premiums written or ceded in a year that relate to the period of risk from 1 January of the following year to the expiry dates of the respective policies, calculated on a time-apportioned basis.

2. Recognition and measurement of insurance contracts (continued)

Deferred reinsurance commission income and deferred acquisition costs
Reinsurance commission income and acquisition costs, including agent commissions and attributable operating costs, for general insurance contracts are deferred and amortised over the terms of the policies as premium is earned.

Reinsurance
The Company enters into reinsurance arrangements in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to policyholders. Premiums ceded and benefits reimbursed are presented in the revenue accounts and balance sheet on a gross basis.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date.

Claims arising from general insurance business
Claims and loss adjustment expenses are charged to the revenue accounts as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for claims incurred but not reported, and estimates for the expected ultimate costs of more complex claims that may be affected by external factors (such as court decisions).

Unexpired risk reserve
Provision is made for the excess of the estimated value of claims and related expenses likely to arise after the balance sheet date from contracts concluded before that date over the unearned premiums (net of deferred acquisition costs) relating to those contracts.

Liabilities and related assets under liability adequacy test
The provision for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs and any related assets (i.e. the value of business acquired). Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in the revenue accounts.

3. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses (refer to Note 10).

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the revenue accounts during the financial period in which they are incurred.

Depreciation is charged to the revenue accounts on a straight-line basis over the estimated useful lives of items of tangible assets. The applicable rates of depreciation adopted by the Company are as follows:

Computer equipment	20%
Motor vehicles	20%
Furniture and office equipment	20%
Leasehold improvements	20%-33.33%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and recognised in the revenue accounts.

4. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses (refer to Note 10).

Amortisation is charged to the revenue accounts on a straight-line basis over the estimated useful lives of intangible assets. The applicable rate of amortisation adopted by the Company is as follows:

Computer software	33.33%

5. Insurance and other receivables

Insurance and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses (refer to Note 10).

6. Financial assets

Classification

Financial assets are classified into the following measurement categories:

- those to be measured at fair value (either through profit or loss or through other comprehensive income ("OCI")); and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

Recognition and derecognition

Purchases and sales of financial assets are recognised on the trade date, which is when the Company commits to purchase or sell the assets. Financial assets are derecognised when contractual rights to receive cash flows from the financial assets have expired or have been transferred substantially all the risks and rewards of ownership.

Initial measurement

Financial assets are initially measured at fair value plus, in the case of financial assets not at FVTPL, transaction costs that are directly attributable to their acquisition. Transaction costs of financial assets carried at FVTPL are expensed in the revenue accounts.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement

(i) Debt instruments

Debt instruments are subsequently measured in accordance with the Company's business model for managing the asset and the cash flow characteristics of the asset. The business model reflects how the Company manages the debt instruments in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVTPL.

Factors considered by the Company in determining the business model for a group of debt instruments include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Debt instruments held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of debt instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Such debt instruments are classified in the "other" business model and measured at FVTPL.

6. Financial assets (continued)

Subsequent measurement (continued)

*(i) **Debt instruments (continued)***

Where the business model is to hold debt instruments to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the debt instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

There are three measurement categories into which the Company classifies its debt instruments:

Amortised cost: Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated as FVTPL, are measured at amortised cost. Interest income from these financial assets is recognised in the revenue accounts using the effective interest rate method. Gains or losses arising on derecognition, foreign exchange gains and losses, and impairment losses or reversals thereon as described in Note 12 are also recognised in the revenue accounts.

FVOCI: Debt instruments that are held for collection of contractual cash flows or for sale, where the instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amounts of such instruments are recognised through OCI, while the related interest income, foreign exchange gains and losses, and impairment losses or reversals thereon are recognised in the revenue accounts. Interest income from these debt instruments is recognised in the revenue accounts using the effective interest rate method. When the debt instrument is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the revenue accounts.

FVTPL: Debt instruments that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in the revenue accounts in the period in which it arises.

(ii) Equity instruments

Equity securities are subsequently measured at fair value. Where the Company's management has elected to present fair value gains and losses on equity securities in OCI, there is no subsequent reclassification of fair value gains and losses to the revenue accounts following the derecognition of the investment. Dividends from such investments are recognised in the revenue accounts when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in the revenue accounts. Impairment losses on equity securities measured at FVOCI or reversals thereon are not reported separately from other changes in fair value.

The fair value of quoted investments is their quoted bid prices at the balance sheet date. If the market for a financial asset is not active, the Company establishes fair values by using valuation techniques. These include the use of recent arm's length market transactions, references to valuations provided by custodians, prices quoted by independent financial information agencies or another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the value of equity instruments cannot be reliably measured, they are measured at cost.

7. Foreign currencies

Functional and presentation currency
Items included in the summarised accounts are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The summarised accounts are presented in Macau Patacas ("MOP"), which is the Company's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into MOP using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the revenue accounts.

8. Investment in subsidiary

Investment in subsidiary is carried in the balance sheet of the Company at cost less any provision for impairment (refer to Note 10). Dividends and distributions are recognised in the Company's revenue accounts when they are proposed by the subsidiary.

9. Investment properties

Investment properties are properties held by the Company to earn rental income. They are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the revenue accounts. Rental income from investment properties is accounted for as described in Note 13.

10. Impairment

(i) Impairment of trade receivables, deposits and debt instruments

The Company adopts a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Company.

- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.

- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

- Financial instruments in Stage 1 have their expected credit losses ("ECL") measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

- In measuring ECL, the Company considers forward-looking information.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company applies a simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the ECL, trade receivables has been grouped based on shared credit risk characteristics and the days past due.

Financial assets are reviewed at each balance sheet date to determine whether any impairment exists or is expected. If in a subsequent period the assessed amount of an impairment loss decreases, the impairment loss is reversed through profit or loss. The reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

10. Impairment (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- Tangible assets (other than properties carried at revalue amounts);
- Intangible assets;
- Deferred acquisition costs; and
- Investment in subsidiary.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the revenue accounts whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversal of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. The reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the revenue accounts in the year in which the reversals are recognised.

11. Accounts payables and accruals

Accounts payable and accruals are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

12. Taxation

Taxation expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Tax is recognised in the revenue accounts, except to the extent that it relates to items recognised directly in other comprehensive income. In such case, the tax is recognised in other comprehensive income within the corresponding item.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

13. Revenue

Provided it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, revenue is recognised in the revenue accounts as follows:

(i) Premium income

The accounting policy in relation to revenue from insurance contracts is disclosed in Note 2.

(ii) Interest income and dividend income

Interest income from bank deposits and from dated debt securities intended to be held to maturity is recognised as it accrues using the effective interest method. Dividend income from listed investments is recognised when the share price goes ex-dividend and dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Fees and commission income

Annual management charges, surrender charges and policy administration charges are recognised when the services are performed.

Commissions receivable from reinsurers are recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts. Other commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. When it is probable that the Company will be required to render further services during the life of the policy, the commission, or a part thereof, is deferred and recognised as revenue over the year during which the services are provided. Profit commission for treaty reinsurance contracts are recognised as income when credit note is received from reinsurers.

(iv) Rental income

Rental income from investment property is recognised in the revenue accounts on a straight-line basis over the term of the lease.

14. Operating leases

Leases in which 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) including upfront payment made for leasehold land and land use rights, are charged to the revenue accounts on a straight-line basis over the period of the lease.

15. Employee benefits

(i) Salaries, annual bonuses, paid annual leaves, and the cost to the Company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Company.

(ii) Obligation for contributions to defined contribution pension plans are recognised as an expense as incurred. The Company has no legal or constructive obligations to pay further contributions if the related fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

16. Dividends

Dividends to shareholders are recognised in the Company's summarised accounts in the period in which they are approved by the Company's shareholders.

17. Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as deduction from the proceeds, net of tax.