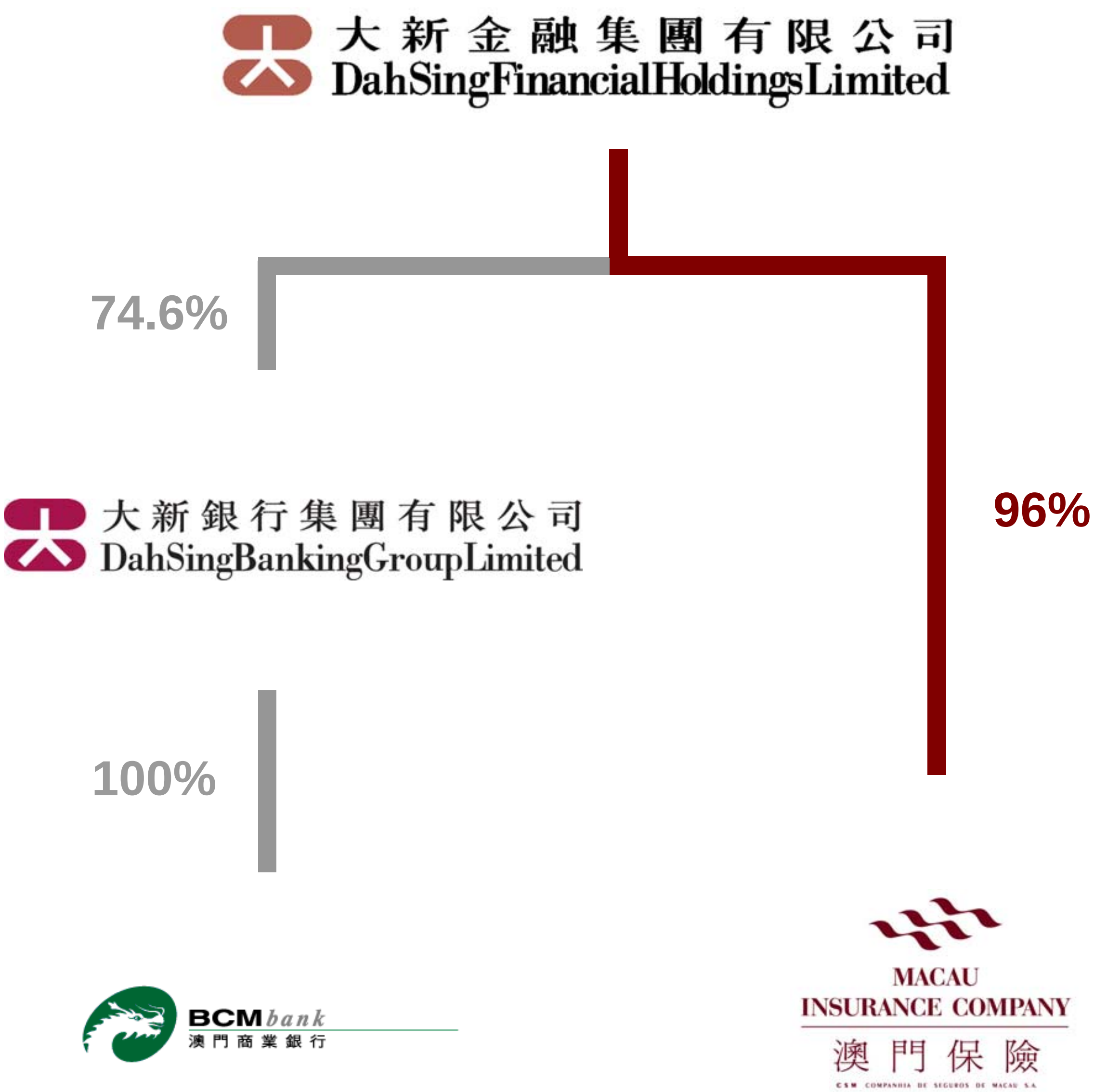
MACAU
INSURANCE COMPANY
澳門保險
CSM COMPANHIA DE SEGUROS DE MACAU S.A.

# Annual Report
# 2017

# Table of Contents

# Group Structure as at 31 December 2017



# Key Management Personnel as at 31 December 2017

| | |
|---|---|
| Diamond Lo | Chief Executive Officer |
| Vincent Chan | Deputy Chief Executive Officer |
| Joaquim António Cruz | Deputy General Manager |
| Raymond Cheung | Deputy General Manager |

## Departments

| | |
|---|---|
| Bancassurance | Annie Tang, Manager |
| Claims | Brian Lau, Senior Manager |
| Commercial | Adam Chao, Manager |
| Compliance | Vincent Fung, Compliance Officer |
| Information Technology | Sunny Wong, Manager |
| | Shirley Chang, Manager |
| Marketing | Kristy Hoi, Manager |
| Technical Risks | Patrick Wong, Manager |

The business operation of Macau Insurance Company Limited recorded gross premium income of MOP247.2 million in 2017. The year was also marked by some exceptional events with significant impact on the result of the Company.

In August 2017, Super Typhoon Hato wreaked havoc in Macau, causing widespread flooding, property damages and business disruptions. Thanks to its robust reinsurance arrangements that effectively alleviated the impact of significant typhoon claim losses, the Company was able to achieve an underwriting profit for the year. At the same time, ongoing operations of the Company have visibly benefited from continued efforts to improve underwriting practices.

In November 2017, the Company completed the sale of its life insurance subsidiary (Macau Life Insurance Company Limited) at a profit before tax of MOP130 million. Riding on this as well as a remarkable rally of investment markets, the Company achieved a profit after tax of MOP154.9 million, which was much higher than the preceding year.

Looking ahead to 2018, the economy of the Macau SAR is expected to continue its emerging trend of recovery, 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
# 2017

## Revenue Accounts for 2017

| DEBIT | Employees' Compensation | Fire | Motor Vehicle | Marine Cargo | Other Insurance | General Accounts | Subtotals | Totals |
|---|---|---|---|---|---|---|---|---|
| **UNEARNED PREMIUM RESERVE** | | | | | | | | |
| on Direct Insurance | - | 442,572.20 | - | - | 12,581.90 | | 455,154.10 | |
| on Reinsurance Accepted | - | 79,496.50 | 227,233.78 | - | 3,027,628.98 | | 3,334,359.26 | 3,789,513.36 |
| **COMMISSIONS** | | | | | | | | |
| on Direct Insurance | 2,805,734.23 | 10,798,251.72 | 5,003,591.36 | 17,324.25 | 8,036,412.70 | | 26,661,314.26 | |
| on Reinsurance Accepted | 1,106,499.21 | 443,361.99 | 101,423.50 | - | 346,686.77 | | 1,997,971.47 | 28,659,285.73 |
| **CHARGES FOR REINSURANCE CEDED** | | | | | | | | |
| on Direct Insurance | | | | | | | | |
| Premiums Ceded | 1,469,731.50 | 95,957,839.53 | 1,734,111.50 | 310,690.00 | 41,575,574.24 | | 141,047,946.77 | |
| Reduction in Unearned Premium Reserve | 2,121,546.60 | 13,778,573.23 | - | 25,128.32 | 12,736,521.13 | | 28,661,769.28 | |
| Reduction in Claims Reserve | 932,591.37 | 10,772,218.55 | 5,761,919.50 | 81,193.78 | 22,233,958.35 | | 39,781,881.55 | |
| on Reinsurance Accepted | | | | | | | | |
| Premiums Ceded | - | 1,792,852.48 | - | - | 2,773,801.70 | | 4,566,654.18 | |
| Reduction in Unearned Premium Reserve | - | 32,751.82 | - | - | 71,655.40 | | 104,407.22 | |
| Reduction in Claims Reserve | - | 294,420.95 | - | - | 193,057.92 | | 487,478.87 | 214,650,137.87 |
| **CLAIMS** | | | | | | | | |
| on Direct Insurance | | | | | | | | |
| Paid | 11,030,367.76 | 85,361,594.64 | 34,623,167.65 | 49,338.81 | 54,811,310.85 | | 185,875,779.71 | |
| Provision | 15,819,141.43 | 425,960,086.27 | 40,195,680.80 | 32,000.00 | 345,479,179.41 | | 827,486,087.91 | |
| on Reinsurance Accepted | | | | | | | | |
| Paid | 4,840,008.67 | 412,630.45 | 566,029.93 | - | 353,224.15 | | 6,171,893.20 | |
| Provision | 6,462,430.52 | 29,937,569.00 | 1,265,610.50 | - | 1,631,376.47 | | 39,296,986.49 | 1,058,830,747.31 |
| **GENERAL EXPENSES** | | | | | | 41,345,198.62 | 41,345,198.62 | 41,345,198.62 |
| **FINANCIAL COSTS** | | | | | | 211,082.61 | 211,082.61 | 211,082.61 |
| **OTHER COSTS** | 280,095.65 | 2,194,738.19 | 363,053.70 | - | 514,311.64 | 366,546.75 | 3,718,745.93 | 3,718,745.93 |
| **AMORTIZATION AND DEPRECIATION** | | | | | | | | |
| Intangible Assets | | | | | | 3,159.00 | 3,159.00 | |
| Tangible Assets | | | | | | 1,190,942.40 | 1,190,942.40 | 1,194,101.40 |
| **OPERATING PROFITS FOR THE YEAR** | | | | | | 39,876,737.83 | 39,876,737.83 | 39,876,737.83 |
| **TOTALS** | **46,868,146.94** | **678,258,957.52** | **89,841,822.22** | **515,675.16** | **493,797,281.61** | **82,993,667.21** | | **1,392,275,550.66** |

| CREDIT | Employees' Compensation | Fire | Motor Vehicle | Marine Cargo | Other Insurance | General Accounts | Subtotals | Totals |
|---|---|---|---|---|---|---|---|---|
| **PREMIUMS** | | | | | | | | |
| from Direct Insurance | 18,394,477.80 | 103,634,771.42 | 33,108,447.76 | 426,641.00 | 76,583,667.41 | | 232,148,005.39 | |
| from Reinsurance Accepted | 6,634,641.30 | 1,999,914.56 | 1,280,979.20 | - | 5,184,880.60 | | 15,100,415.66 | 247,248,421.05 |
| **INCOME FROM REINSURANCE CEDED** | | | | | | | | |
| from Direct Insurance | | | | | | | | |
| Commissions (including Profit Sharing) | 300,634.80 | 17,827,345.72 | 2,256.58 | 73,309.88 | 10,583,297.45 | | 28,786,844.43 | |
| Indemnification of Claims | (6,837.03) | 83,311,991.97 | 6,271,365.97 | 23,738.23 | 25,353,760.91 | | 114,954,020.05 | |
| Reinsurers' Share in Unearned Premium Reserve | - | 328,724.30 | 8,036.19 | - | 15,722.30 | | 352,482.79 | |
| Reinsurers' Share in Claims Reserve | 649,730.56 | 424,416,662.70 | 15,431,040.65 | 19,750.00 | 337,634,065.20 | | 778,151,249.11 | |
| from Reinsurance Accepted | | | | | | | | |
| Commissions (including Profit Sharing) | - | 1,020,218.95 | - | - | 622,761.15 | | 1,642,980.10 | |
| Indemnification of Claims | - | 303,027.11 | - | - | 253,175.00 | | 556,202.11 | |
| Reinsurers' Share in Unearned Premium Reserve | - | 93,828.30 | - | - | 1,533,480.91 | | 1,627,309.21 | |
| Reinsurers' Share in Claims Reserve | - | 27,776,431.58 | - | - | 1,483,543.43 | | 29,259,975.01 | 955,331,062.81 |
| **REDUCTION IN UNEARNED PREMIUM RESERVE** | | | | | | | | |
| from Direct Insurance | 5,442,542.84 | 13,943,966.53 | 1,926,379.60 | 25,069.00 | 11,797,899.63 | | 33,135,857.60 | |
| from Reinsurance Accepted | 511,467.15 | 42,834.50 | - | - | 303,711.70 | | 858,013.35 | 33,993,870.95 |
| **REDUCTION IN CLAIMS RESERVE** | | | | | | | | |
| from Direct Insurance | 21,279,730.18 | 11,525,260.65 | 41,747,622.12 | 218,261.35 | 28,190,584.28 | | 102,961,458.58 | |
| from Reinsurance Accepted | 3,056,802.89 | 319,712.90 | 461,846.50 | - | 254,000.02 | | 4,092,362.31 | 107,053,820.89 |
| **OTHER INCOME** | | | | | | | | |
| Financial Income | 1,433,345.10 | 123,014.96 | 1,866,669.15 | 1,639.58 | 493,739.25 | 30,702,406.23 | 34,620,814.27 | |
| Miscellaneous | 1,315,500.50 | 112,332.04 | 1,707,828.85 | 1,519.42 | 842,889.28 | 9,372,727.60 | 13,352,797.69 | 47,973,611.96 |
| **REDUCTION IN FINANCIAL RESERVE** | | | | | | | | |
| Reduction in Provision for Premiums Due | | | | | | 674,763.00 | 674,763.00 | 674,763.00 |
| **TOTALS** | **59,012,036.09** | **686,780,038.19** | **103,812,472.57** | **789,928.46** | **501,131,178.52** | **40,749,896.83** | | **1,392,275,550.66** |

## Profit and Loss Account for 2017

| DEBIT | Amounts |
|---|---|
| Extraordinary Loss for the Year | |
| Loss on Tangible Assets | |
| Provision for Income Tax | 19,568,711.00 |
| Profit After Taxation | 154,857,119.52 |
| **Total** | **174,425,830.52** |

| CREDIT | Amounts |
|---|---|
| Operating Profits | 39,876,737.83 |
| Extraordinary Income for the Year | |
| Gain on Tangible Assets | 4,560,000.00 |
| Others | 129,989,092.69 |
| **Total** | **174,425,830.52** |

## Balance Sheet as at 31 December 2017

| ASSETS | Balances | Subtotals | Totals |
|---|---|---|---|
| **INTANGIBLE ASSETS** | | | |
| Other Intangible Assets | 8,126,498.62 | | |
| (Accumulated Amortisation) | (8,126,498.62) | - | - |
| **TANGIBLE ASSETS** | | | |
| Real Estate | 112,298,308.97 | | |
| Vehicles | 512,612.00 | | |
| Furniture and Equipment | 2,639,679.84 | | |
| Office Equipment | 914,647.02 | | |
| Central Air Conditioning and Electrical System | 1,575,357.11 | | |
| Computers | 3,160,154.16 | | |
| Air Conditioners and Heaters | 115,926.50 | | |
| Telecommunications Equipment | 520,148.63 | | |
| Others | 6,528,323.17 | | |
| (Accumulated Depreciation) | (13,953,306.34) | 114,311,851.06 | 114,311,851.06 |
| **FINANCIAL ASSETS** | | | |
| Assets without Encumbrance | | | |
| Shares | 5,000.00 | | |
| Bonds | 50,262,711.07 | | |
| Investment in Subsidiary | 39,940,000.00 | 90,207,711.07 | |
| Assets Guaranteeing Technical Reserve | | | |
| Time Deposits | 102,578,050.00 | | |
| Real Estate | 34,371,691.03 | | |
| Bonds | 122,697,452.81 | 259,647,193.84 | 349,854,904.91 |
| **REINSURERS' SHARE IN UNEARNED PREMIUM RESERVE** | | | |
| on Direct Insurance | 105,680,152.11 | | |
| on Reinsurance Accepted | 2,109,816.51 | 107,789,968.62 | |
| **REINSURERS' SHARE IN CLAIMS RESERVE** | | | |
| on Direct Insurance | 844,613,389.06 | | |
| on Reinsurance Accepted | 29,452,698.99 | 874,066,088.05 | 981,856,056.67 |
| **GENERAL DEBTORS** | | | |
| Associated Companies | 726,807.69 | | |
| Reinsurers | 5,697,767.67 | | |
| Coinsurers | 1,672,894.93 | | |
| Intermediaries | 11,498.45 | | |
| Others | 1,420,259.50 | 9,529,228.24 | 9,529,228.24 |
| **PREMIUMS DUE** | 79,405,028.67 | | |
| **(PROVISION FOR PREMIUMS DUE)** | (1,993,989.00) | 77,411,039.67 | 77,411,039.67 |
| **ACCOUNTS RECEIVABLE AND ACCRUALS** | | | |
| Accrued Interests | 272,143.11 | | |
| Other Accounts Receivable and Accruals | 18,103,641.80 | 18,375,784.91 | 18,375,784.91 |
| **DEPOSITS WITH CREDIT INSTITUTIONS** | | | |
| in Local Currency | | | |
| Demand Deposits | 9,157,001.81 | | |
| Time Deposits | 19,144,095.04 | 28,301,096.85 | |
| in Foreign Currency | | | |
| Demand Deposits | 8,040,227.06 | | |
| Time Deposits | 387,485,694.10 | 395,525,921.16 | 423,827,018.01 |
| **CASH** | 29,546.81 | 29,546.81 | 29,546.81 |
| **TOTAL ASSETS** | | | **1,975,195,430.28** |

| LIABILITIES & EQUITY | Balances | Subtotals | Totals |
|---|---|---|---|
| **LIABILITIES** | | | |
| **UNEARNED PREMIUM RESERVE** | | | |
| on Direct Insurance | 141,978,307.39 | | |
| on Reinsurance Accepted | 6,225,530.84 | 148,203,838.23 | |
| **CLAIMS RESERVE** | | | |
| on Direct Insurance | 959,042,339.76 | | |
| on Reinsurance Accepted | 42,671,219.04 | 1,001,713,558.80 | 1,149,917,397.03 |
| **MISCELLANEOUS PROVISIONS** | 32,767,190.00 | 32,767,190.00 | 32,767,190.00 |
| **GENERAL CREDITORS** | | | |
| Associated Companies | 98,608,907.31 | | |
| Reinsurers | 60,316,882.09 | | |
| Policyholders | 3,481,837.54 | | |
| Intermediaries | 903,666.18 | | |
| Government Entities | 1,100,720.40 | | |
| Others | 8,206,101.37 | 172,618,114.89 | 172,618,114.89 |
| **CLAIMS PAYABLE** | 2,457,799.59 | 2,457,799.59 | 2,457,799.59 |
| **COMMISSIONS PAYABLE** | 5,282,045.91 | 5,282,045.91 | 5,282,045.91 |
| **ACCOUNTS PAYABLE AND ACCRUALS** | 13,577,745.60 | 13,577,745.60 | 13,577,745.60 |
| **TOTAL LIABILITIES** | | | **1,376,620,293.02** |
| **EQUITY** | | | |
| **CAPITAL** | | | |
| Paid-up Capital | 120,000,000.00 | 120,000,000.00 | 120,000,000.00 |
| **RESERVES** | | | |
| Legal Reserve | 15,000,000.00 | | |
| Free Reserve | 308,718,017.74 | 323,718,017.74 | 323,718,017.74 |
| **PROFIT BEFORE TAXATION** | 174,425,830.52 | | |
| **PROVISION FOR INCOME TAX** | (19,568,711.00) | 154,857,119.52 | |
| **PROFIT AFTER TAXATION** | | | 154,857,119.52 |
| **TOTAL EQUITY** | | | **598,575,137.26** |
| **TOTAL LIABILITIES & EQUITY** | | | **1,975,195,430.28** |

# Principal Accounting Policies

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 financial statements:

| | |
|---|---|
| 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 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.

## 2. Recognition and measurement of insurance contracts

Gross premiums arising from general insurance business
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.

Unearned premium reserve
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.

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. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurers.

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. These are included 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 | 20% |

## 5. Insurance and other receivables

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

## 6. Financial assets

Financial assets are classified into four categories, depending on the purpose for which the assets were acquired:

Financial assets at fair value through profit or loss are financial assets which are acquired principally for the purpose of trading or which upon initial recognition are designated by the Company as being at fair value through profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities where the Company has the positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or not classified to any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

Financial assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. After initial recognition, the Company measures financial assets at fair value through profit or loss and available-for-sale financial assets at fair values, without any deduction for transaction costs it may incur on disposal.

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. Held-to-maturity investments and loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the revenue accounts in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, except for foreign exchange gains and losses on monetary items such as debt securities, which are recognised in the revenue accounts. When available-for-sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in the revenue accounts. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the revenue accounts.

## 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 investments in debt and equity securities and other receivables***

Investment in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

- For financial assets carried at amortised cost, the impairment 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 (i.e. the effective interest rate computed at initial recognition of these assets).

- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the revenue accounts. 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.

***(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;
- Investment in subsidiary;
- Premium receivable;
- Amount due from fellow subsidiaries;
- Sundry debtors; and
- Amounts due from reinsurance companies.

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.

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 in the revenue accounts 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 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.