Kizuna Re III Pte. Ltd.
Registration Number: 202106859H

Annual Report
Year ended 31 December 2022

Directors' statement

We are pleased to submit this annual report to the member of Kizuna Re III Pte. Ltd. (the "Company") together with the audited financial statements for the financial year ended 31 December 2022.

In our opinion:

(a) the financial statements set out on pages FS1 to FS29 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2022 and the financial performance, changes in equity and cash flows of the Company for the year ended on that date in accordance with the provisions of the Companies Act 1967 and Financial Reporting Standards in Singapore; 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.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Directors

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

Lee Guan Leong	
Michael Dunsire	(Appointed on 4 April 2023)
Phoon Han Meng Linus	

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Companies Act 1967 (the Act), no director who held office at the end of the financial period has interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the year, or date of appointment if later, or at the end of the financial year.

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects 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' contractual benefits

Except as disclosed in the financial statements, since the end of the last financial period, or date of appointment if later, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Share options

During the financial year, there were:

(i) no options granted by the Company to any person to take up unissued shares in the Company; and

(ii) no shares issued by virtue of any exercise of option to take up unissued shares of the Company.

As at the end of the financial year, there were no unissued shares of the Company under option.

Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

DocuSigned by:
E2CE9E647EBE41B

Lee Guan Leong
Director

DocuSigned by:
Michael Dunsire
9385563047EB438

Michael George Dunsire
Director

27th April 2023

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Independent auditors' report

Member of the Company
Kizuna Re III Pte. Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kizuna Re III Pte. Ltd. (the "Company"), which comprise the statement of financial position as at 31 December 2022, the 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, as set out on pages FS1 to FS29.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act 1967 (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 2022 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 '*Auditors' 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 *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 the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

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.

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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls 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 controls.

- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
27 April 2023

Statement of financial position
As at 31 December 2022

	Note	2022 US$	2021 US$
Assets			
Financial assets at FVTPL	8	151,044,878	150,000,000
Insurance receivables	9	725,000	725,000
Reinsurers' share of unearned premiums	11	725,000	725,000
Other receivables	10	480,084	21,311
Cash and cash equivalents		829,618	826,924
Total assets		153,804,580	152,298,235
Liabilities			
Gross insurance contract provisions			
- Provision for unearned premiums	11	725,000	725,000
Catastrophe bond liabilities	12	153,024,482	151,520,589
Other payables	13	40,232	37,780
Total liabilities		153,789,714	152,283,369
Equity			
Share capital	14	14,866	14,866
Accumulated profits		–	–
Total equity		14,866	14,866
Total liabilities and equity		153,804,580	152,298,235

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

Statement of comprehensive income
Year ended 31 December 2022

	Note	Year ended 31/12/2022 US$	Period from 25/02/2021 (date of incorporation) to 31/12/2021 US$
Gross written premiums		3,255,385	3,204,757
Noteholders' share of annual risk premiums		(3,041,667)	(3,041,667)
Net written premium		213,718	163,090
Change in the gross provision for unearned premiums	11	–	(725,000)
Change in the reinsurers' share of unearned premium reserve	11	–	725,000
Net earned premiums		213,718	163,090
Investment income		2,117,300	7,763
Grant income		–	1,456,159
Total income		2,331,018	1,627,012
Interest expense		(2,117,300)	(7,763)
Other operating expenses		(213,718)	(1,619,249)
Profit before tax	15	–	–
Tax expense	16	–	–
Profit for the year/period, representing total comprehensive income for the year/period		–	–

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

Statement of changes in equity
Year ended 31 December 2022

	Share capital US$	Accumulated profits US$	Total US$
At 25 February 2021 (date of incorporation)	14,866	–	14,866
Total comprehensive profit for the period			
Profit for the period	–	–	–
Total comprehensive profit for the period	–	–	–
At 31 December 2021	14,866	–	14,866
At 1 January 2022	14,866	–	14,866
Total comprehensive profit for the year			
Profit for the period	–	–	–
Total comprehensive profit for the year	–	–	–
At 31 December 2022	14,866	–	14,866

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

Statement of cash flows
Year ended 31 December 2022

	Note	Year ended 31/12/2022 US$	Period from 25/02/2021 (date of incorporation) to 31/12/2021 US$
Cash flows from operating activities			
Profit before tax		–	–
Adjustments for:			
Insurance contract provisions			
- Provision for unearned premiums, net	11	–	–
Noteholders' share of annual risk premium		3,041,667	3,041,667
Investment income		(2,117,300)	(7,763)
Interest expense		2,117,300	7,763
		3,041,667	3,041,667
Changes in operating assets and liabilities:			
Insurance receivables	9	–	(725,000)
Other receivables	10	19,898	(20,378)
Other payables	13	2,452	37,780
Cash generated from operations		3,064,017	2,334,069
Tax paid	16	–	–
Net cash generated from operating activities		3,064,017	2,334,069
Cash flow from investing activities			
Interest received		1,638,629	6,830
Interest paid		(596,740)	(3,841)
Purchase of investments		(1,044,878)	(150,000,000)
Net cash used in investing activities		(2,989)	(149,997,011)
Cash flow from financing activities			
Proceeds from issue of share capital		–	14,866
Proceeds from issue of catastrophe bond	12	–	150,000,000
Contractual interest (investment yield) paid	12	(3,058,334)	(1,525,000)
Net cash flow (used in) / from financing activities		(3,058,334)	148,489,866
Net increase in cash and cash equivalents		2,694	826,924
Cash and cash equivalents at beginning of the year/period		826,924	–
Cash and cash equivalents at end of the year/period		829,618	826,924

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

Notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 27 April 2023.

1 Domicile and activities

Kizuna Re III Pte. Ltd. (the “Company”) is incorporated in the Republic of Singapore and has its registered office at 2 Shenton Way #26-01, SGX Centre 1, Singapore 068804.

The principal activities of the Company are those of a general reinsurance business in Singapore licensed under Section 11 of the Insurance Act 1996 (the Insurance Act) as a Special Purpose Reinsurance Vehicle (“SPRV”).

The immediate and ultimate holding company of the company during the financial period is Kizuna III Shares Trust registered in the Republic of Singapore.

2 Basis of preparation

2.1 Statement of compliance

The financial statements are prepared in accordance with Financial Reporting Standards in Singapore (“FRS”).

The assets and liabilities of the Company which relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act. Such assets and liabilities are accounted for in the books of the insurance funds established under the Insurance Act.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, except where otherwise described in the accounting policies in Note 3.

2.3 Functional and presentation currency

The financial statements are presented in United States dollars (“US$”) which is the Company’s functional currency. As written premiums and claims are denominated in US$ and receipts from operations are usually retained in US$, the directors are of the opinion that the US$ reflects the economic substance of the underlying events and circumstances relevant to the Company.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements relate mainly to insurance contract provisions as described in Note 4.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for all significant fair value measurements, including Level 3 fair values, and reports directly to the Company's Board of Directors.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of FRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

2.5 Comparative period

The comparative from the preceding financial period covers the period from 25 February 2021 (date of incorporation) to 31 December 2021 and is not entirely comparable to the financial performance for the year ending 31 December 2022.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to the first period presented in these financial statements, and have been applied consistently by the Company.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are measured at fair value and are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss.

3.2 Classification of contracts

All the Company's existing products are insurance contracts as defined in FRS 104 *Insurance Contracts*. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or where at inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

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 the year.

3.3 Recognition and measurement of insurance contracts

(i) Written premiums and earned premium revenue

Gross written premiums comprise the premiums on insurance contracts entered into during the financial period, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed excluding taxes based on premiums. The earned portion of premiums received is recognised as revenue. Written premiums are earned from the date of attachment of risk, over the indemnity based on the pattern of the risks underwritten.

(ii) Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

(iii) Claims incurred and provision for insurance claims

Claims incurred in respect of general reinsurance business comprise claims and claims handling expenses paid during the financial period together with the movement in the provision for insurance claims.

3 Significant accounting policies (continued)

3.3 Recognition and measurement of insurance contracts (continued)

(iii) Recognition and initial measurement (continued)

Provision for insurance claims is made for the estimated cost of all claims notified but not settled at the balance sheet date, based on the latest information available and management judgement. In addition, a provision for Incurred But Not Reported ("IBNR") reserve is made.

Provision for claims (IBNR or loss reserves) are established as advised by the reinsured to reflect the estimated unpaid losses and loss expenses resulting from a covered event, that the reinsured expects to ultimately be required to pay under its policies. These reserves are actuarially established, undiscounted central estimate basis with no allowance for risk margin. The costs are calculated net of all applicable recoveries and include allowance for claim handling expenses.

The estimates are the subject of considerable uncertainty such that the true ultimate cost may prove to be materially higher or lower than these current net central estimates. The estimates are updated regularly, utilising emerging claim experience such that the initial 'top down' estimates are based on the reinsured' s understanding of exposure and nature of the event will be superseded by a 'ground up' estimate based on the actual claims reported, individual cost assessment and finalised costs.

Whilst the directors consider that the provision are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(iv) Catastrophe bond

Catastrophe bonds are instruments in which the principal, interest payments or both are reduced significantly if a specified triggering event occurs and the triggering event includes a condition that the issuer of the bond suffered a loss. The bonds issued are redeemable at the lower of the principal amount or the sum of the proceeds of the liquidation of the investments held in the Collateral Trust Fund plus early redemption premium payable upon the occurrence of certain event of default that failed to be cured by the ceding insurer, if applicable. The contractual interest is calculated as an amount equal to the sum of the investments yield from investments held in the Collateral Trust Fund and the annual risk premium.

The Catastrophe bond is an insurance contract, with the Company (the issuer) as the policyholder and the noteholder as the insurer, and is accounted for as follows:

- Bond component comprising the principal amount collateralised by the investments held in the Collateral Trust Fund and the contractual interests on the principal amount calculated based on the investments yield are measured at fair value through profit or loss and net gains and losses are recognised in profit or loss; and
- Premiums and claims are accounted for as reinsurance contract. Noteholders' share of the premiums (risk interest spread), outstanding claims provision or settled claims are estimated in a manner consistent with that associated with the Reinsurance Agreement with the ceding insurer (refer to Notes 3.3(i), (ii) and (iii)) and in accordance with the Catastrophe bond contract.

3 Significant accounting policies (continued)

3.3 Recognition and measurement of insurance contracts (continued)

(iv) Catastrophe bond (continued)

The fair value of the bond component is determined based on the fair value of the investments held in the Collateral Trust Fund.

3.4 Liability adequacy test

The liability of the Company under insurance contracts is tested for adequacy by reviewing the current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where an expected shortfall is identified, an additional provision is made and the Company recognises the deficiency in profit or loss for the period.

3.5 Financial instruments

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables and debt investments issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Non-derivative financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Non-derivative financial assets (continued)

Financial assets at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

Non-derivative financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

3 Significant accounting policies (continued)

3.5 Financial instruments (continued)

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either
  - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
  - the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Transferred assets are not derecognised when the Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Company’s cash management are included in cash and cash equivalents.

(vi) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with FRS 12.

3 Significant accounting policies (continued)

3.6 Impairment

(i) Non-derivative financial assets and contract assets

The Company recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised costs.

Loss allowances of the Company are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset

General approach

The Company applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a contract asset to be in default when the customer is unlikely to pay its contractual obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

3 Significant accounting policies (continued)

3.6 Impairment (continued)

(i) Non-derivative financial assets and contract assets (continued)

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt investments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost and contract assets are deducted from the gross carrying amount of these assets.

For debt investments at FVOCI, loss allowances are charged to profit or loss and recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

The carrying amounts of the Company's non-financial assets, other than investment property, inventories, contract assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

3 Significant accounting policies (continued)

3.7 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.8 Revenue recognition

(i) Premium income

The accounting policy in relation to earned premiums from insurance contracts is disclosed in Note 3.3(i).

(ii) Interest income

Interest income is recognised in profit or loss on the date on which the Company's right to receive payment is established.

3.9 Government grants

Government grants are recognised where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an expense, the grant is recognised as income in profit or loss on a systematic basis over the periods in which the related costs, for which the grants are intended to compensate, is expensed.

The Company’s government grant relates to the Monetary Authority of Singapore (“MAS”) Insurance-linked Securities (“ILS”) Grant Scheme.

3.10 Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset amount of tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

3 Significant accounting policies (continued)

3.10 Tax expense (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when the Company believes that certain positions may not be fully sustained upon review by tax authorities, despite the Company's belief that its tax return positions are supportable. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of multifaceted judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.11 New or revised accounting standards and interpretations

A number of new standards, interpretations and amendments to standards are not yet effective and have not been applied in preparing these financial statements. An explanation of the impact, if any, on adoption of these new requirements is provided in Note 18.

4 Critical accounting estimates and judgements in applying accounting policies

The Company’s estimates for reported and unreported losses and establishing resulting provisions are continually reviewed and updated, and adjustments resulting from this review are reflected in the statement of comprehensive income. The process relies upon the use of an actuary assuming that past experience is an appropriate basis for predicting future events. However, the Company believes that the resulting number is prudent and conservative given the limited number of claims that the Company has.

5 Insurance risk management

5.1 Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risk may relate to property, liability or other perils that may arise from an insurable event. As such the Company is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Company manages its insurance risk though underwriting, pricing comparisons, centralised management of reinsurance and monitoring of emerging issues.

5 Insurance risk management (continued)

5.2 Underwriting strategy

The Company, due to its licensing arrangements and conditions, is unable to insure a diversified portfolio of similar risks. The Company only underwrites permitted insurance securitisation and reinsurance contracts as approved by the Monetary Authority of Singapore ("MAS"). Such a focus on one 'insured' group does result in concentration risks and creates a wider variability of outcome than a balanced portfolio. However, the nature of the business is such that the Company is fully collaterised, with the assets held on trust or otherwise under contract on behalf of the Company for the benefit of the ceding insurer, not less than the potential liabilities of the reinsurance contracts entered into.

5.3 Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

The following gives an assessment of the Company's main product and the ways in which it manages the associated risks.

Product features

The Company underwrites Catastrophe Aggregate Excess of Loss, indemnifying the reinsured for the part of its Ultimate Net Loss which exceeds the applicable attachment on account of each and every Covered Event. This insurance covers losses and expenses arising from earthquakes in Japan.

Management of risks

The key risks associated with this product are underwriting risk and claims experience.

Underwriting risk is the risk that the Company does not charge premiums appropriately for the coverage it insures. The risk on any policy will vary according to many factors such as location, safety measures in place, nature of the businesses insured and age of property. Therefore, determining a premium commensurate with the risk for these policies will be subjective, and hence risky.

Insurance risk is managed primarily through sensible pricing and appropriate investment strategy. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

5.4 Concentration of insurance risk

Within the insurance process, concentration of risk may arise where a particular event or series of events could impact heavily upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts and related to circumstances where significant liabilities could arise.

The Company manages the risk by capping its exposure with an aggregate limit.

5 Insurance risk management (continued)

5.5 Reinsurance strategy

In considering the mitigation of insurance risk, the Company's philosophy is threefold: to reduce risk, to stabilise solvency and expansion of underwriting capacity.

To achieve such objectives, the Company has issued Class A Principal-at-Risk Variable Rate Notes. Details of these notes can be found in Note 12.

6 Financial risk management

Transactions in financial instruments may result in the Company assuming financial risks. These include credit risk, liquidity risk, interest rate risk and foreign exchange risk. Each of these risks is described below, together with a summary of the ways in which the Company manages these risks.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- Financial assets at FVTPL;
- Insurance receivables; and
- Cash and cash equivalents.

There are policies in place to identify whether the debtors have adequate financial standing and have appropriate credit history.

The financial assets at FVTPL are investments placed in a money market fund and has a high credit rating of "AAAm" by Standard & Poor's.

At end of the reporting period, no expected credit losses are recognised as the risk of default is not significant.

Cash and cash equivalents were held with two financial institutions, thereby exposing the Company to significant concentrations of credit risk. However, management consider that the high credit rating of "A-1" by Standard & Poor's of the financial institutions has reduced the risk to an acceptable level.

Liquidity risk

The Company is exposed to calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost.

The Company's main liabilities are the outstanding claims (if any) as stated in the statement of financial position and repayment of interest and principal on its variable rate notes.

6 Financial risk management (continued)

Liquidity risk (continued)

It is not practicable to make a cash flow projection on the Company's outstanding claims mainly because the ultimate claim amount is likely to be affected by factors such as complexity of the claim, parties involved and placement structure.

Although a cash flow projection is not feasible, the directors do not foresee any issues in meeting the Company's claim obligations as its maximum exposure is limited to the liquidation proceeds of the permitted investments held in the collateral trust account.

Interest rate risk

The Company’s exposure to market risk for changes in interest rates relates primarily to its investment in money market funds and variable rate notes. The Company has cash balances and investment placed stable Money Market Fund with a credit rating of “AAAm” by Standard & Poor’s.

At the reporting date, the Company’s exposure to interest rate risk is not significant.

Foreign exchange risk

The Company is not exposed to significant foreign currency risk as the majority of the Company’s transactions, assets and liabilities are denominated in its functional currency.

6 Financial risk management (continued)

Foreign exchange risk (continued)

Accounting classifications and fair value

The carrying amounts of financial assets classified as loans and receivables and financial liabilities classified as other financial liabilities are as follows:

	Note	Mandatorily at FVTPL US$	At amortised cost US$	Other financial liabilities US$	Total carrying amount US$
2022					
Financial assets					
Financial assets at FVTPL	8	151,044,878	–	–	151,044,878
Other receivables	10	–	480,084	–	480,084
Cash and cash equivalents		–	829,618	–	829,618
		151,044,878	1,309,702	–	152,354,580
Financial liabilities					
Other payables	13	–	–	40,232	40,232
2021					
Financial assets					
Financial assets at FVTPL	8	150,000,000	–	–	150,000,000
Other receivables	10	–	21,311	–	21,311
Cash and cash equivalents		–	826,924	–	826,924
		150,000,000	848,235	–	150,848,235
Financial liabilities					
Other payables	13	–	–	37,780	37,780

Estimation of fair values

The carrying amounts of financial assets and liabilities, including cash and cash equivalents and other payables and accruals are assumed to approximate their fair values because of their short period to maturity.

7 Claims development

A claims development table discloses unpaid claims estimates into a context, allowing comparison of the development claims for provisions with those seen in previous years. The table will provide a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent accident year-ends.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

A claims development table is not disclosed in the financial statements as this is the first financial period of operation and there is insufficient data for such disclosure.

8 Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss comprises:

	2022 **US$**	**2021** **US$**
Current investments		
Money market fund	151,044,878	150,000,000

The Company has used the proceeds from the sale of the Variable Rate Notes to purchase its investment in money market fund, which are deposited in the applicable Collateral Trust Fund and held as collateral for claims payments as part of the terms of the Reinsurance Agreement. Following the purchase of the investments and until the agreed applicable redemption date, each Collateral Trust Fund is expected to contain only the applicable investment in money market fund unless such investments are redeemed early.

When the investment in money market fund is redeemed, the cash proceeds of such redemption will be deposited in the applicable Collateral Trust Fund. The financial assets are collateral for the Variable Rate Notes in issue of the Company and any funds made available through their disposal will be used to repay the principal and accrued interest of the Variable Rate Notes.

The investment in money market fund is a Level 1 financial instrument. The investment is denominated in United States dollars.

9 Insurance receivables

	2022 **US$**	**2021** **US$**
Reinsurance premium receivables	725,000	725,000

At the reporting date, there are no provisions made for impairment losses on insurance receivables from the ceding insurer as management has assessed each receivable individually and have determined that no specific allowance is necessary. Insurance receivables are expected to be received within the next financial year.

10 Other receivables

	2022 US$	2021 US$
GST recoverable, net	480	20,378
Interest receivable	479,604	933
	480,084	21,311

Other receivables are expected to be received within the next financial year.

11 Insurance contract provisions

	2022 US$	2021 US$
Unearned premium reserve, net of reinsurance	–	–

Analysis of movements in provision for unearned premiums

	2022 US$	2021 US$
Gross unearned premium reserve		
At 1 January/25 February 2021 (date of incorporation)	725,000	–
Movement during the year/period	–	725,000
At 31 December	725,000	725,000
Reinsurers' share of unearned premium reserve		
At 1 January/25 February 2021 (date of incorporation)	(725,000)	–
Movement during the year/period	–	(725,000)
At 31 December	(725,000_	(725,000)
Net unearned premium reserve		
At 1 January/25 February 2021 (date of incorporation)	–	–
Movement during year/period	–	–
At 31 December	–	–

12 Catastrophe bond liabilities

	2022 US$	2021 US$
Variable Rate Notes	153,024,482	151,520,589

On 29 March 2021, the Company issued US$150,000,000 series 2021-1 Class A Principal At-Risk Variable Rate Notes that is due on 7 April 2026. The Notes issued by the Company are with limited recourse to certain assets of the Company. Noteholders will only have recourse to the Collateral Trust Fund relating to the Class A Notes. In addition, to the covered perils associated with the Reinsurance Agreement, the Noteholders are exposed to the credit risk of Tokio Marine & Nichido Fire Insurance Co., Ltd. (as Reinsured) and The Bank of New York Mellon (as Indenture Trustee).

12 Catastrophe bond liabilities (continued)

Due to the limited recourse of the Variable Rate Notes, the repayment of the principal and accrued interest of the Notes is dependent upon funds being available to meet such liabilities as they fall due. If the Company has insufficient funds available for the purpose of redeeming the principal outstanding on any class of notes in full or interest thereon, such amounts shall not be payable to the Noteholders.

The fair value of the Notes are calculated by adding the nominal value of the Variable Rate Notes and the unrealised fair value adjustment on financial assets, which is nil as at 31 December 2022 (2021: Nil) (Note 8).

Reconciliation of movements in liabilities to cash flows arising from financing activities

	Catastrophe bond liabilities	
	2022	**2021**
	US$	**US$**
At 1 January/25 February 2021 (date of incorporation)	151,520,589	–
Changes from financing cash flows		
Proceeds from issue of catastrophe bond	–	150,000,000
Contractual interest (investment yield) paid	(3,058,334)	(1,525,000)
	(3,058,334)	148,475,000
Other changes – liability-related		
Noteholders' share of annual risk premiums	3,041,667	3,041,667
Collateral interest payable	1,520,560	3,922
	4,562,227	3,045,589
At 31 December	153,024,482	151,520,589

13 Other payables

	2022	**2021**
	US$	**US$**
Payments received in advance	40,232	37,780

14 Share capital

	2022	**2021**
	No. of shares	**No. of shares**
Fully paid ordinary shares		
At 1 January/25 February 2021 (date of incorporation) and at 31 December	20,000	20,000

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

14 Share capital (continued)

Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the Singapore insurance regulator;

- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders; and

- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The Company is required, at all times it carries on insurance businesses, to meet and maintain the relevant fund solvency and capital adequacy requirements as prescribed under the Act and relevant regulations. There is no change in the Company's approach to capital management during the year.

15 Profit before tax

The following items have been included in arriving at the profit for the year:

	Year ended 31/12/2022 US$	**Period from 25/02/2021 (date of incorporation) to 31/12/2021 US$**
Director's fees	12,494	10,732

16 Tax expense

The Company was approved by the Monetary Authority of Singapore for the Tax Incentive Scheme for Special Purpose Vehicle engaged in Asset Securitisation Transaction with effect from 26 February 2021. The tax exemption status will be for the life of the Company, provided that the Company continues to meet all terms and conditions set out in the MAS Letter dated 15 March 2021, and the relevant Income Tax legislations.

17 Related parties

Transactions with key management personnel

Key management personnel of the Company are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company. The directors are considered as key management personnel of the Company.

The key management personnel of the Company comprised directors and their fees are as disclosed in Note 15.

At the reporting date, the Company had no employees as the operational management, accounting and administrative functions are provided by the insurance manager.

Other related party transactions

Except as disclosed elsewhere in these financial statements

	2022 US$	2021 US$
Management fee paid to a company of which a director is a member	45,000	45,000
Acceptance fee paid to a company of which a director is a member	–	30,000
	45,000	75,000

18 New standards and interpretations not adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these financial statements. Other than the application of FRS 117 – Insurance Contracts, the application of the new standards and amendments to standards and interpretations are not expected to have a significant impact on the Company’s financial statements.

(i) FRS 117 – Insurance Contracts

FRS 117 replaces FRS 104 for annual periods beginning on or after 1 January 2023. FRS 117 introduces an accounting model that measures groups of insurance contracts based on fulfilment cash flows. It is likely to change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures of the Company's financial statements.

Estimated impact of adoption of SFRS(I) 17

The Company is in the process of estimating the impact of adopting FRS 117 on its financial statements for the year ending 31 December 2023. The transition work has not been finalised and the eventual impact of adopting FRS 117 on 1 January 2023 may vary because:

- the Company is continuing to refine the new accounting processes and internal controls required for applying FRS 117;

18 New standards and interpretations not adopted (continued)

(i) FRS 117 – Insurance Contracts (continued)

- the Company has not finalised the testing and assessment of controls over its systems and changes to its governance framework; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalises its first financial statements that include the date of initial application.

i. Measurement model

FRS 117 introduces a General Measurement Model ("GMM") that is based on the estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a Contract Service Margin ("CSM"). The Premium Allocation Approach ("PAA") is an optional simplified measurement model in SFRS(I) 17 that is available for insurance and reinsurance contracts meet certain eligibility criteria.

The Company expects that the insurance contract issued and held are eligible for application of the Premium Allocation Approach ("PAA") model as the insurance contract has an annual reset clause that the Calculation Agent will use applicable Industry Exposure Database, payout factors and Escrow Models to reset the Attachment and Exhaustion Levels, as well as the option to allow for computation of the updated modelled annual expected loss and Risk Interest Spread calculation which determines the premiums.

The Company anticipates that the measurement of liability for remaining coverage for the insurance contract would not differ materially from the measurement that would be produced by applying the requirements for the GMM given the annual reset clause.

The measurement principles of the PAA comprise of the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided.
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart.
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component. The premium liabilities under FRS 104 is determined to be the higher of the unexpired risk reserve and unearned premium reserves.
- Measurement of the liability for incurred claims (previously claims outstanding and incurred but not reported (IBNR) claims) is determined on a discounted probability-weighted expected value basis, and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.

18 New standards and interpretations not adopted (continued)

(ii) FRS 117 – Insurance Contracts (continued)

i. *Measurement model (continued)*

- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts

ii. Level of aggregation

FRS 117 requires an entity to determine the level of aggregation for applying its requirements. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together.

The Company represents that each insurance contract represents a different group of insurable risk. There is only one contract written. As such group of contracts would be held at the individual contract level.

iii. Onerous group of contracts

The Company has assessed the historical performance and the expected future performance of each contract in order to conclude whether it should be classified as loss making. In addition, the expected combined operating ratio for each policy will be used to inform the group of contracts as onerous. Specific analysis and justification will be made at each reporting period.

iv. Contract boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services.

The analysis on the contract written was based on the following criteria:

- whether the Company has the practical ability to reassess the risks of the insurance contract that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and

- whether the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment.

18 New standards and interpretations not adopted (continued)

(i) FRS 117 – Insurance Contracts (continued)

v. Risk Adjustment

Risk adjustments for non-financial risk is the compensation that the Company requires for bearing uncertainty about the amount and timing of the cash flows of groups of insurance contracts.

For contracts that are eligible for the PAA model, the risk adjustment valuation may therefore only be required for liability for incurred claims. Accordingly, for the risk adjustment calculation permitted under FRS 117, a percentage loading will be applied to the best estimate claims position.

For policies where events leading to a claim have not been identified as at the valuation date, a risk adjustment loading will not be required as events that could lead to losses have not been identified to have occurred during the expired policy period. For all other policies the above approach will be taken to select an appropriate risk adjustment.

vi. Discount rates

FRS 117 requires the use of prescribed measurement models for which the basis of the measurement is discounted, risk-adjusted expected value of future cash flows. The discount rates applied to the estimate of cash flows shall:

- reflect the time value of money (“TVM”), the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;

- be consistent with observable market prices of those financial instruments whose cash flow characteristics are consistent with those of the insurance contracts; and

- exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

vii. Changes to presentation and disclosure

For presentation in the statement of financial position, the Company aggregates insurance contract issued and presents separately:

- Portfolios of insurance issued that are assets
- Portfolios of insurance issued that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the FRS 117 requirements.

Portfolios of insurance contracts issued include any assets for insurance acquisition cash flows.

18 New standards and interpretations not adopted (continued)

(i) FRS 117 – Insurance Contracts (continued)

vii. Changes to presentation and disclosure (continued)

The line item descriptions in the statement of profit or loss and other comprehensive income have been changed significantly compared to those disclosed under FRS 104. Under FRS 104 the Company reported the following line items in their financial statements:

- Gross premiums written
- Net written premiums
- Movement in the net provision for unearned premiums
- Movement in the net provision for outstanding claims
- Net earned premiums
- Net claims incurred

In the adoption of FRS 117, the standard requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Insurance finance income or expenses

The Company provides disaggregated qualitative information about significant judgements, and changes in those judgements, when applying the standard.

viii. Transition

A full retrospective approach shall be applied for changes in accounting policies resulting from the adoption of FRS 117, to the extent practicable. The Company will adopt the modified retrospective approach when it is impractical to use a full retrospective approach in determining transition amounts as at the FRS 117 transition date.