

Company Registration No. AGO/RFC/228

The Great Eastern Life Assurance Company Limited
– Brunei Branch

Annual Financial Statements
31 December 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of The Great Eastern Life Assurance Company Ltd.

Opinion

We have audited the financial statements of The Great Eastern Life Assurance Company Ltd. - Brunei Darussalam Branch ("the Branch"), which comprise the balance sheet as at 31 December 2017, and the related life assurance revenue statement, statement of comprehensive income, statement of changes in Head Office account and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

The Branch is a segment of The Great Eastern Life Assurance Company Ltd., a company incorporated in Singapore, and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded locally.

In our opinion,

- a) the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the provisions of the Brunei Darussalam Companies Act, Cap. 39 ("the Act") and International Financial Reporting Standards according to the best of our information and the explanations given to us and as shown by the books of the Branch.
- b) we have obtained all the information and explanations we required.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Brunei Darussalam, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA 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. The other information comprises the statement of compliance set out on page 3.

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 Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Companies Act, Cap. 39 and International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of The Great Eastern Life Assurance Company Ltd. (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



ERNST & YOUNG
Public Accountants

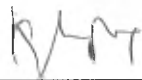


KONG EE PIN
Registered Public Accountant

Brunei Darussalam
12 February 2018

**The Great Eastern Life Assurance Company Limited – Brunei Branch
(Incorporated in Singapore)**

In our opinion the accompanying statement of assets used in and liabilities arising out of the company's operations in Brunei, the Brunei Branch's life assurance revenue statement, statement of comprehensive income, statement of changes in Head office account and statement of cash flows together with the notes thereto are properly drawn up in accordance with the provisions of the Brunei Darussalam Companies Act, Cap 39 and International Financial Reporting Standards and so as to exhibit a true and fair view of the state of affairs of the Brunei Branch's operations as at 31 December 2017, and of the results and cash flows of the Brunei Branch's operations for the year then ended.



Mr Koh Beng Seng
Chairman



Ms Mimi Ho
Director

Singapore
12 February 2018

THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED - BRUNEI BRANCH

LIFE ASSURANCE REVENUE STATEMENT

for the financial year ended 31 December

in Brunei Dollars	Note	2017	2016
Income			
Gross premiums		17,397,678	17,118,859
less: Premiums ceded to reinsurers		219,435	240,236
Net premiums		17,178,243	16,878,623
Commissions received from reinsurers		20,881	14,480
Investment income, net	3	3,920,359	3,629,341
Gain on sale of investments and changes in fair value	4	7,078,814	4,713,596
Loss on exchange differences		(195,532)	(194,732)
		28,002,765	25,041,308
less: Expenses			
Gross claims, surrenders and annuities		12,039,508	15,017,750
Claims, surrenders and annuities recovered from reinsurers		(337,507)	(244,183)
Commissions and agency expenses		1,383,007	1,329,360
Increase in provision for impairment of assets	5	7,880	327,699
Management expenses		1,801,938	1,656,259
Depreciation	17	46,268	36,207
Change in life assurance fund contract liabilities	10	19,760,103	5,859,434
		34,701,197	23,982,526
Life assurance (loss)/profit before income tax		(6,698,432)	1,058,782
Income tax	7	(253,000)	(107,052)
Life assurance (loss)/profit after income tax		(6,951,432)	951,730
Retained in life assurance fund		(7,526,615)	525,904
Transfer to head office	18	575,183	425,826
		(6,951,432)	951,730

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

THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED - BRUNEI BRANCH

STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December

in Brunei Dollars	Note	2017	2016
(Loss)/profit after income tax for the year		(6,951,432)	951,730
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Changes in fair value	18	25,905,813	9,753,518
Reclassification of realised gain on disposal of investments to Life Assurance Revenue Statement	4	(6,664,362)	(4,651,359)
Other comprehensive income for the year, net of tax		19,241,451	5,102,159
Total comprehensive income for the year		12,290,019	6,053,889

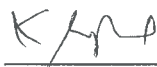
The accompanying significant accounting policies and explanatory notes form an integral part of the financial statements.


THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED - BRUNEI BRANCH

BALANCE SHEET

for the financial year ended 31 December

in Brunei Dollars	Note	2017	2016
LIABILITIES			
Other creditors	8	3,461,305	3,880,943
Insurance payables	9	7,648,343	7,377,537
Derivative financial liabilities	14	1,943	34,740
Income tax		-	340,574
Amount due to head office	18	8,304,438	7,825,869
Policy liabilities	10	180,735,899	160,975,796
TOTAL LIABILITIES		200,151,928	180,435,459
ASSETS			
Cash and cash equivalents		20,794,680	26,958,480
Other debtors	11	1,966,194	2,441,125
Insurance receivables	12	20,624,802	20,270,522
Derivative financial assets	14	191,766	136,034
Investments	15	243,954,062	207,352,596
Income tax recoverables		1,061,030	-
Property, plant and equipment	17	847,031	849,503
TOTAL ASSETS		289,439,565	258,008,260
NET ASSETS		89,287,637	77,572,801
Represented by:			
Fair value reserve	18	34,921,601	15,680,150
Unallocated surplus	18	54,366,036	61,892,651
		89,287,637	77,572,801


 Mr Koh Beng Seng
 Chairman


 Ms Mimi Ho
 Director

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

THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED - BRUNEI BRANCH

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT
for the financial year ended 31 December

in Brunei Dollars	Note	Fair Value Reserve	Unallocated Surplus	TOTAL
Balance at 1 January 2017		15,680,150	61,892,651	77,572,801
Loss for the year /				
Total comprehensive income for the year		19,241,451	(6,951,432)	12,290,019
Transfer to Head Office		-	(575,183)	(575,183)
Balance at 31 December 2017		34,921,601	54,366,036	89,287,637
 Balance at 1 January 2016		10,577,991	61,366,747	71,944,738
Profit for the year /				
Total comprehensive income for the year		5,102,159	951,730	6,053,889
Transfer to Head Office		-	(425,826)	(425,826)
Balance at 31 December 2016		15,680,150	61,892,651	77,572,801

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

THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED - BRUNEI BRANCH

STATEMENT OF CASH FLOWS

for the financial year ended 31 December

in Brunei Dollars	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Life assurance (loss)/profit before income tax		(6,698,432)	1,058,782
<i>Adjustments for non-cash items:</i>			
Surplus transferred from life assurance fund but not yet withdrawn		(575,183)	(425,826)
Gain on sale of investments and changes in fair value	4	(7,078,814)	(4,713,596)
Increase in provision for impairment of assets	5	7,880	327,699
Unrealised loss in exchange differences		479,810	187,389
Change in life assurance fund contract liabilities	10	19,760,103	5,859,434
Depreciation	17	46,268	36,207
Interest income	3	(4,823,449)	(4,434,180)
Dividend income	3	(744)	(276)
Interest expense on policy benefits	6	194,471	197,098
		1,311,910	(1,907,269)
<i>Changes in working capital:</i>			
Insurance receivables		(354,280)	(775,377)
Other debtors		615,047	(1,111,477)
Insurance payables		270,806	(165,768)
Other creditors		(419,638)	296,911
Amount due to Head Office		478,569	(972,098)
Cash generated from/(used in) operations		1,902,414	(4,635,078)
Interest paid on policy benefits		(194,471)	(197,098)
Income tax paid		(1,654,604)	(773,721)
Net cash flows generate from/(used in) operating activities		53,339	(5,605,897)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities and sales of investments		199,642,715	96,688,240
Purchase of investments		(210,591,446)	(88,895,754)
Purchase of property, plant and equipment	17	(43,796)	(4,909)
Interest income received		4,774,644	4,601,376
Dividend income received	3	744	276
Net cash flows (used in)/generated from investing activities		(6,217,139)	12,389,229
Net (decrease)/increase in cash and cash equivalents		(6,163,800)	6,783,332
Cash and cash equivalents at the beginning of the year		26,958,480	20,175,148
Cash and cash equivalents at the end of the year		20,794,680	26,958,480
Cash and cash equivalents comprise:			
Cash and bank balances		11,424,885	17,610,302
Cash on deposit		9,369,795	9,348,178
		20,794,680	26,958,480

Included in the cash and cash equivalents are bank deposits amounting to \$1 million which are lodged with the regulator as statutory deposits, which are not available for use by the Branch.

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

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL

The Great Eastern Life Assurance Company Limited – Brunei Branch (the "Branch" or "GELB") is a branch of The Great Eastern Life Assurance Company Limited, a company which is incorporated and domiciled in the Republic of Singapore. The principal place of business of the Branch is located at BD 47727 Lot No 55967 Kampung Kiarong, Mukim Gadong, Brunei Muara District.

The principal activity of the Branch is life assurance business. There have been no significant changes in the nature of this activity during the financial year.

The holding company is Great Eastern Holdings Limited ("GEH"), a public listed company, incorporated in the Republic of Singapore. GEH's immediate and ultimate holding company is Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), which prepares financial statements for public use.

The Branch's resources and the existence are at the disposal of corporate management. Its assets are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying statement of assets and liabilities, and its debts may result in claims against assets not appearing therein.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared in accordance with the International Accounting Standards ("IAS") / International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

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

The financial statements are presented in Brunei Dollars (BND or \$) except as otherwise stated.

2.2 Changes in Accounting Policies

2.2.1 The Branch has applied the following IFRS with effect from 1 January 2017:

IAS/IFRS	Title	Effective date (Annual periods beginning on or after)
IFRS 7	Amendments to IFRS 7 – Disclosure Initiative	1 January 2017
IAS 12	Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Various	Improvements to FRSs (December 2016)	1 January 2017

The adoption of these standards did not have any effect on the financial performance or position of the Branch.

2.2.2 IAS/IFRS not yet effective

The Branch has not applied the following IAS/IFRS that have been issued but which are not yet effective:

IAS/IFRS	Title	Effective date (Annual periods beginning on or after)
Various	Improvements to FRSs (December 2016)	1 January 2018
IFRS 4	Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 15	Amendments to IFRS 15 – Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policies (continued)

2.2.2 IAS/IFRS not yet effective (continued)

IAS/IFRS	Title	Effective date (Annual periods beginning on or after)
IFRS 9	Financial Instruments	1 January 2018
INT FRS 122	Foreign Currency Transactions and Advance Consideration	1 January 2018
INT FRS 123	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 9	Amendments to IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
IFRS 17	Insurance Contract	1 January 2021

The Directors expect that the adoption of these standards above will not have any material impact on the financial statements in the period of initial application, except as disclosed below.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for classification and measurement of financial instruments and impairment of financial instruments, and is effective for annual periods beginning on or after 1 January 2018. Financial instruments are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model.

The Branch plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

The Branch has performed a preliminary impact assessment of adopting IFRS 9 based on currently available information. This assessment may be subject to changes arising from ongoing analysis, until the Branch adopts IFRS 9 in 2018.

(a) Classification and measurement

The Branch expects to have mixed business models. The Branch intends to make an election to measure its currently available-for-sale debt securities amounting to \$138,816,823 at fair value through profit or loss ("FVTPL") as doing so eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

For equity securities, the Branch intends to measure its currently available-for-sale equity securities amounting to \$372,753 at FVTPL.

For collective investment schemes ("CIS"), the Branch intends to measure currently available-for-sale collective investment schemes amounting to \$105,280,508 at FVTPL.

Other than the effects of the matter as described above and the adoption of the new standards that are effective on 1 January 2018, the Branch expects that the adoption of the new financial reporting framework will have no material impact on the financial statements in the year of initial application.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policies (continued)

2.2.2 IAS/IFRS not yet effective (continued)

(b) Impairment

IFRS 9 required the Branch to record expected credit losses on loans and trade receivables, either on a 12-month or lifetime basis. The Branch expects to apply the simplified approach and record lifetime expected credit losses on all trade receivables.

(c) Transition

The Branch plans to adopt the new standard on the required effective date without restating prior periods' information and recognizes any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

2.3 Foreign Currency Conversion and Translation

2.3.1 Functional and Presentation Currency

Items included in the financial statements of the Branch are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

2.3.2 Transactions and Balances

Transactions in foreign currency are measured in the functional currency of the Branch and are recorded on initial recognition in the functional currency at the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in the Life Assurance Revenue Statement. Exchange differences on non-monetary items such as equity investments classified as available-for-sale financial assets are included in the fair value reserve in equity.

2.4 Insurance Contracts

2.4.1 Product Classification

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance Contracts (continued)

2.4.1 Product Classification (continued)

Insurance contracts are further classified as being either with or without discretionary participating features ("DPF"). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- Likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer;
- That are contractually based on:
 - Performance of a specified pool of contracts or a specified type of contract
 - Realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or
 - The profit or loss of the Branch that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded derivatives separately at fair value through the Life Assurance Revenue Statement. However, bifurcation is not required if the embedded derivative is itself an insurance contract or if the host insurance contract itself is measured at fair value through the Life Assurance Revenue Statement.

For the purpose of IFRS 4, the Branch adopts maximum policy benefits as the proxy for insurance risk and cash surrender value as the proxy for realisable value of the insurance contract on surrender. The Branch defines insurance risk to be significant when the ratio of the insurance risk over the deposit component is not less than 105% of the deposit component at inception of the insurance contract. Based on this definition, all policy contracts issued by the Branch are considered insurance contracts as at the balance sheet date.

The Branch writes insurance contracts in accordance with the Insurance Regulations in which the Branch operate.

2.4.2 Types of Insurance Contracts

Insurance contract liabilities are classified into principal components as follows:

- (a) Life Assurance Fund contract liabilities, comprising
 - Participating Fund contract liabilities; and
 - Non Participating Fund contract liabilities
- (b) Reinsurance contracts

2.4.3 Deferred Acquisition Costs

The Branch does not defer acquisition costs relating to its insurance contracts.

2.4.4 Life Assurance Fund Contract Liabilities

Insurance contracts are recognised and measured in accordance with the terms and conditions of the respective contracts and are based on guidelines laid down by the insurance regulations. Premiums, claims and benefit payments, acquisition and management expenses and valuation of future policy benefit payments or premium reserves as the case may be, are recognised in the Life Assurance Revenue Statement.

Life assurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the gross premium valuation method. The liability is determined as the sum of the present value of future guaranteed and, where relevant, appropriate level of non-guaranteed benefits, less the present value of future gross considerations arising from the policy discounted at the appropriate discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate risk margin allowance for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefit liabilities of participating life policies.

The liability in respect of a participating insurance contract is based on the higher of the guaranteed benefit liabilities or the total benefit liabilities at the contract level derived as stated above. Refer to Table 2.4 for details.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance Contracts (continued)

2.4.4 Life Assurance Fund Contract Liabilities (continued)

In the case of life policies where part of, or all the premiums are accumulated in a fund, the accumulated amounts, as declared to policyholders are shown as liabilities if the accumulated amounts are higher than the amounts as calculated using the gross premium valuation method.

In the case of short-term life policies covering contingencies other than death or survival, the liability for such life insurance contracts comprises the provision for unearned premiums and unexpired risks, together with provision for claims outstanding, including an estimate of the incurred claims that have not yet been reported to the Branch.

Adjustments to liabilities at each reporting date are recorded in the Life Assurance Revenue Statement. Profits originating from margins for adverse deviations on run-off contracts are recognised in the Life Assurance Revenue Statement over the lives of the contracts, whereas losses are fully recognised in the Life Assurance Revenue Statement during the first year of run-off.

The liability is extinguished when the contract expires, is discharged or is cancelled.

The Branch issues a variety of short and long duration insurance contracts which transfer risks from the policyholders to the Branch to protect policyholders from the consequences of insured events such as death, disability, illness, accident, including survival. These contracts may transfer both insurance and investment risk or insurance risk alone, from the policyholders to the Branch.

For non-participating policy contracts, both insurance and investment risks are transferred from policyholders to the Branch. For non-participating policy contracts other than medical insurance policy contracts, the payout to policyholders upon the occurrence of the insured event is pre-determined and the transfer of risk is absolute. For medical insurance policy contracts, the payout is dependent on the actual medical costs incurred upon the occurrence of the insured event.

A significant portion of insurance contracts issued by the Branch contain discretionary participating features. These contracts are classified as participating policies. In addition to guaranteed benefits payable upon insured events associated with human life such as death or disability, the contracts entitle the policyholder to receive benefits, which could vary according to investment performance of the fund. The Branch does not recognise the guaranteed components separately from the discretionary participating features.

The valuation of insurance contract liabilities is determined according to Singapore Insurance Act (Chapter 142), Insurance (Valuation and Capital) Regulations 2004 for insurance funds regulated in Singapore ("MAS Regulations"), except for Section 20 (6) of the regulations.

The Branch is required by the Insurance Regulations and accounting standards to carry out a liability adequacy test using current estimates of future cash flows relating to its insurance contracts; the process is referred to as the gross premium valuation.

The liability adequacy test is applied to both the guaranteed benefits and the discretionary participating features; the assumptions are based on best estimates, the basis adopted is prescribed by the Insurance Regulations. The Branch performs liability adequacy tests on its actuarial reserves to ensure that the carrying amount of provisions is sufficient to cover estimated future cash flows. When performing the liability adequacy test, the Branch discounts all contractual cash flows and compares this amount against the carrying value of the liability. Any deficiency is charged to the Life Assurance Revenue Statement.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance Contracts (continued)

2.4.4 Life Assurance Fund Contract Liabilities (continued)

TABLE 2.4 below provides the key underlying assumptions used for valuation of life insurance contract liabilities.

	BRUNEI
Valuation Method	<p>Gross Premium Valuation</p> <p>For Participating Fund, the method that produces the higher reserves of:</p> <p>(i) Guaranteed and non-guaranteed cashflows discounted at the appropriate rate of return reflecting the strategic asset allocation; and</p> <p>(ii) Guaranteed cashflows discounted using the interest rate outlined below.</p>
Interest Rate	<p>Singapore Government Securities zero coupon spot yields for cash flows up to year 15, an interpolation of the 15-year Singapore Government Securities zero coupon spot yield and the Long Term Risk Free Discount Rate ("LTRFDR") for cash flows between 15 to 20 years, and the LTRFDR for cash flows year 20 and after.</p> <p><i>Data source: MAS website and Bloomberg</i></p>
Mortality, Disability, Dread disease, Expenses, Lapse and surrenders	<p>Participating Fund:</p> <p>(i) Best estimates for Gross Premium Valuation method (i),</p> <p>(ii) Best estimates plus provision for adverse deviation (PAD) for Gross Premium Valuation method (ii).</p>

2.4.5 Reinsurance Contracts

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

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

Gains or losses on reinsurance are recognised in the Life Assurance Revenue Statement immediately at the date of contract and are not amortised. Ceded reinsurance arrangements do not relieve the Branch from its obligations to policyholders.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Profit from Insurance Fund

Profit derived from the insurance fund is categorised as follows:

2.5.1 Life Assurance – Participating Fund

Profits to shareholders from the participating fund are allocated from the surplus or surplus capital, determined from the results of the annual actuarial valuation (such valuation also determines the liabilities relating to all the policyholders' benefits of the participating fund) parameters which are set out in the Insurance Regulations. The provisions in the Articles of Association of the Head Office are applied in conjunction with the Insurance Regulations, such that the distribution for any year to policyholders of the participating fund and shareholders approximate 90% and 10% respectively of total distribution from the participating fund. The annual declaration of the quantum of policyholder bonus and correspondingly the profits to shareholders to be distributed out of the participating fund is approved by the Board of Directors under the advice of the Appointed Actuary of the Branch, in accordance with the Insurance Regulations and the Articles of Association of the Head Office.

2.6 Recognition of Income and Expense

2.6.1 Premiums and Commissions

First year premiums of insurance policies are recognised from inception date and subsequent renewal premiums are recognised when due. Single premiums are recognised on the dates on which the policies are effective.

2.6.2 Interest Income

Interest income is recognised using the effective interest method.

2.6.3 Dividend Income

Dividend income is recognised as investment income when the Branch's right to receive the payment is established.

2.6.4 Gain/Loss on Sale of Investments

Gains or losses on sale of investments are derived from the difference between net sales proceeds and the purchase or amortised cost. They are recognised on trade date.

2.6.5 Impairment of Non-Financial Assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses on continuing operations are recognised in the Life Assurance Revenue Statement.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the Life Assurance Revenue Statement. Unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Recognition of Income and Expense (continued)

2.6.6 Impairment of Financial Assets

The Branch assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Branch first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the Life Assurance Revenue Statement.

When the asset becomes uncollectible, the carrying amount of the impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amount charged to the allowance account is written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Branch considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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

(b) Financial assets carried at cost

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

(c) Available-for-sale financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Recognition of Income and Expense (continued)

2.6.6 Impairment of Financial Assets (continued)

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in Life Assurance Revenue Statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Life Assurance Revenue Statement, the impairment loss is reversed in the Life Assurance Revenue Statement.

2.6.7 Employee Benefits

Defined Contribution Plans under Statutory Regulations

The Branch is required to make contributions on the basis of its employees' wages in accordance with the Tabung Amanah Pekerja Act, Cap. 167 and Supplemental Contributory Pension Scheme, Supplemental Contributory Pension Order, 2009. These contributions are recognised as an expense in the period in which the service is rendered.

Employee Leave Entitlements

An employee's entitlement to annual leave and long-service leave is estimated and accrued according to the Branch's Human Resource policy.

2.7 Income Taxes

2.7.1 Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period where the Branch operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2.7.2 Deferred Tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Income Taxes (continued)

2.7.2 Deferred Tax (continued)

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

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rates expected to apply to taxable income in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

2.7.3 Sales Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. Receivables and payables are stated with the amount of sales tax included.

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

2.8 Provisions

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

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

2.9 Policy Benefits

Policy benefits are recognised when the policyholder exercises the option to deposit the survival benefits with the Branch when the benefit falls due. Policy benefits are interest bearing at rates adjusted from time to time by the Branch. Interest payable on policy benefits is recognised in the Life Assurance Revenue Statement as incurred.

2.10 Claims Admitted or Intimated

Full provision is made for the estimated cost of all life assurance claims notified but not settled at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and short term, highly liquid investments with maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

2.12 Insurance Receivables

Insurance receivables are recognised when due. They are measured at initial recognition at the fair value received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in the Life Assurance Revenue Statement. Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.13 has been met.

2.13 Financial Assets

Initial recognition and measurement

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.13.1 Financial Assets at Fair Value through Life Assurance Revenue Statement

Financial assets at fair value through Life Assurance Revenue Statement include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets classified as held for trading are derivatives, hybrid financial instruments with derivatives embedded in non-derivative host contract or assets acquired principally for the purpose of selling in the short term and which are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Derivatives are financial instruments or contracts where the values vary according to changes in interest rate, foreign exchange rate, credit spreads or other variable. The Branch uses derivatives such as interest rate swaps and foreign exchange contracts for risk mitigation.

Subsequent to initial recognition, financial assets at fair value through Life Assurance Revenue Statement are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in the Life Assurance Revenue Statement.

2.13.2 Loans and Receivables

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

2.13.3 Available-for-sale Financial Assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in the fair value reserve in the Statement of Comprehensive Income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in the Life Assurance Revenue Statement. The cumulative gain or loss previously recognised in equity is recognised in the Life Assurance Revenue Statement when the financial asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial Assets (continued)

2.13.3 Available-for-sale Financial Assets (continued)

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the Life Assurance Revenue Statement.

Regular way purchase or sale of a financial asset

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

2.14 Financial Liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when the Branch becomes a party to the contractual obligations of the financial instrument. The Branch determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

The Branch's financial liabilities include other creditors, amount due to Head Office and insurance payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

2.14.1 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term and include derivative financial instruments entered into by the Branch that are not designated as hedging instruments in hedge relationships.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in the Life Assurance Revenue Statement.

2.14.2 Financial Liabilities at Amortised Cost

After initial recognition, other financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Life Assurance Revenue Statement.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.16 Determination of Fair Value of Financial Instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted or published bid prices on the balance sheet date. If quoted prices are not available over the counter, broker or dealer price quotations are used.

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

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual, and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and overnight deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

2.17 Property, Plant and Equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is computed on a straight line basis over estimated useful life of the assets as follows:

Buildings	50 years
Office furniture, fittings and equipment	4 years
Computer equipment	4 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate. This is to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the Life Assurance Revenue Statement in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Related Parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Branch if that person:
 - (i) Has control or joint control over the Branch;
 - (ii) Has significant influence over the Branch; or
 - (iii) Is a member of the key management personnel of the Branch.
- (b) An entity is related to the Branch if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

2.19 Contingencies

A contingent liability is:

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Branch.

Contingent liabilities and assets are not recognised on the balance sheet of the Branch.

2.20 Critical Accounting Estimates and Judgments

In the preparation of the Branch's financial statements, management makes estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. Estimates, assumptions and judgments are continually evaluated and based on internal studies of actual or historical experience and other factors. Best estimates and assumptions are constantly reviewed to ensure that they remain relevant and valid. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

2.20.1 Critical Accounting Estimates and Assumptions

(a) Liabilities of insurance business

The estimation of the ultimate liability arising from claims made under life insurance contracts is the Branch's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liabilities that the Branch will ultimately be required to pay as claims.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.20 Critical Accounting Estimates and Judgments (continued)****2.20.1 Critical Accounting Estimates and Assumptions (continued)****(a) Liabilities of insurance business (continued)**

For life insurance contracts, estimates are made for future deaths, morbidity, lapses, voluntary terminations, investment returns and administration expenses. The Branch relies on standard industry, reinsurance and national mortality and morbidity tables which represent historical experience, and makes appropriate adjustments for its respective risk exposures and portfolio experience in deriving the mortality and morbidity estimates. These estimates provide the basis for the valuation of the future benefits to be paid to policyholders and to ensure adequate provisions which are monitored against current and future premiums. For those contracts that insure risk on longevity and disability, estimates are made based on recent past experience and emerging trends. Epidemics and changing patterns of lifestyle could result in significant changes to the expected future exposures. Each year, these estimates are assessed for adequacy and changes will be reflected as adjustments to insurance fund contract liabilities. The carrying value of Life Assurance Fund contract liabilities as at 31 December 2017 amounted to \$180,735,899 (2016: \$160,975,796).

(b) Income taxes

Significant judgment is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Branch recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which the determination is made. The carrying amount of the income tax recoverable as at 31 December 2017 amounted to \$1,061,030 (2016: Income tax provision amounted to \$340,574).

2.20.2 Critical Judgments in Applying Accounting Policies**(a) Impairment of loans and receivables**

The Branch determines impairment of loans by calculating the present value of future recoverable cash flows and the fair value of the underlying collaterals for impaired loans against the carrying value of the loans. The future recoverable cash flows are determined based on credit assessment on a loan-by-loan basis for impaired loans.

(b) Impairment of available-for-sale financial assets

The Branch reviews its debt securities classified as available-for-sale investments at each balance sheet date to assess whether they are impaired. The Branch also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Branch evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

(c) Insurance contract classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the policyholder to the Branch. The Branch exercises judgment about the level of insurance risk transferred. The level of insurance risk is assessed by considering whether the Branch is required to pay significant additional benefits in excess of amounts payable if the insured event did not occur. These additional benefits include claims liability and assessment costs, but exclude the loss of the ability to charge the policyholder for future services. The assessment covers the whole of the expected term of the contract where such additional benefits could be payable. Some contracts contain options for the policyholder to purchase insurance risk protection at a later date, these insurance risks are deemed not significant.

NOTES TO THE FINANCIAL STATEMENTS

	in Brunei Dollars	Note	2017	2016
3	INVESTMENT INCOME, NET			
	Dividend income:			
	- Investments			
	Available-for-sale financial assets		744	276
			<u>744</u>	<u>276</u>
	Interest income:			
	- Investments			
	Available-for-sale financial assets		3,644,752	3,283,768
	- Loans and receivables		1,178,697	1,150,412
			<u>4,823,449</u>	<u>4,434,180</u>
			4,824,193	4,434,456
	less: Investment related expenses		903,834	805,115
			<u>3,920,359</u>	<u>3,629,341</u>
During the year ended 31 December 2017, the total dividend and interest income for financial assets that are not classified as fair value through revenue statement amounted to \$4,824,193 (2016: \$4,434,456).				
4	GAIN ON SALE OF INVESTMENTS AND CHANGES IN FAIR VALUE			
	Amount transferred from Statement of Comprehensive Income on sale of investments		6,664,362	4,651,359
	Changes in fair value of held-for-trading investments		414,452	62,237
			<u>7,078,814</u>	<u>4,713,596</u>
5	PROVISIONS			
5.1	Provision for impairment of quoted equity securities			
	Balance at the beginning of the year		372,753	372,753
	Reclassification during the year		(242,733)	-
	Balance at the end of the year	15	<u>130,020</u>	<u>372,753</u>
5.2	Provision for impairment of unquoted equity securities			
	Balance at the beginning of the year		-	-
	Reclassification during the year		242,733	-
	Balance at the end of the year	15	<u>242,733</u>	<u>-</u>
5.3	Provision for impairment of collective investment schemes			
	Balance at the beginning of the year		809,577	960,245
	Increase in provision for the year		7,880	327,699
	Utilised during the year		(674,188)	(478,367)
	Balance at the end of the year	15	<u>143,269</u>	<u>809,577</u>
	Increase in provision for impairment of assets for the year		<u>7,880</u>	<u>327,699</u>

NOTES TO THE FINANCIAL STATEMENTS

in Brunei Dollars	Note	2017	2016
6	ADDITIONAL PROFIT AND LOSS DISCLOSURES		
Staff costs and related expenses (including key management personnel compensation)			
Salaries, wages, bonuses and other costs		1,083,078	1,189,014
Employee Provident Fund		109,913	121,174
		1,192,991	1,310,188
Rental expense		69,879	88,561
Interest expense on policy benefits		194,471	197,098
7	INCOME TAX		
Major components of income tax expense			
The major components of income tax expense for the years ended 31 December 2017 and 2016 are:			
Revenue Statement:			
Current income tax:			
- Current income taxation		253,000	270,000
- Over provision in respect of previous years		-	-
		253,000	270,000
Deferred income tax:			
- Origination and reversal of temporary differences		-	(162,948)
Total tax expense for the year recognised in the Revenue Statement		253,000	107,052
Relationship between income tax expense and accounting (loss)/profit			
The reconciliation between income tax expense and the product of accounting (loss)/profit multiplied by the applicable corporate tax rate for the years ended 31 December 2017 and 2016 is as follows:			
(Loss)/profit before income tax		(6,698,432)	1,058,782
Tax at statutory rate of 18.5% (2016: 18.5%)		(1,239,210)	195,875
Adjustments:			
Foreign tax paid not recoverable		253,000	270,000
Effect of being taxed on a different basis		1,239,210	(195,875)
Deferred tax benefit		-	(162,948)
Income tax expense recognised in the Revenue Statement		253,000	107,052
Deferred Tax			
Balance at the beginning of the year		-	162,948
Deferred tax charge taken to Revenue Statement:			
Other temporary differences		-	(162,948)
Balance at the end of the year		-	-
Deferred taxes at 31 December related to the following:			
		Balance Sheet	
Deferred tax liabilities:			
Differences in depreciation for tax purposes		-	-
Deferred tax liabilities		-	-

NOTES TO THE FINANCIAL STATEMENTS

	in Brunei Dollars	Note	2017	2016
7 INCOME TAX (continued)				
Deferred taxes at 31 December related to the following:				
				Revenue Statement
Deferred tax assets:				
Differences in depreciation for tax purposes			-	(162,948)
Effect of change in tax rate			-	-
Deferred tax assets			-	(162,948)
Deferred tax benefit			-	(162,948)
8 OTHER CREDITORS				
Other creditors comprise the following:				
Financial Liabilities:				
Accrued expenses			1,260,390	1,697,056
Investment creditors			457,092	194,518
Other creditors			1,656,013	1,901,468
			3,373,495	3,793,042
Non-Financial Liabilities:				
Premiums in suspense			87,810	87,901
			3,461,305	3,880,943
9 INSURANCE PAYABLES				
Claims admitted or intimated			869,410	668,326
Policy benefits			6,716,652	6,569,435
Reinsurance liabilities			62,281	139,776
			7,648,343	7,377,537
Policy benefits bear interest at 3% per annum (2016: 3% per annum).				
10 POLICY LIABILITIES				
Balance at the beginning of the year			160,975,796	155,116,362
Change in life assurance fund contract liabilities				
- Due to assumptions change			6,218,983	112,225
- Due to change in discount rate			5,692,991	240,643
- Due to movement during the year			7,848,129	5,506,566
			19,760,103	5,859,434
Balance at the end of the year			180,735,899	160,975,796
Life assurance fund contract liabilities at 31 December comprised the following:				
Contracts with Discretionary Participating Features ("DPF")			171,948,893	152,785,708
Contracts without Discretionary Participating Features ("DPF")			8,787,006	8,190,088
			180,735,899	160,975,796
11 OTHER DEBTORS				
Other debtors comprise the following:				
Financial Assets:				
Accrued interest receivable			1,460,235	1,320,119
Investment debtors			480,189	1,117,706
Deposit collected			3,250	3,300
			1,943,674	2,441,125
Non-Financial Assets:				
Prepayments and other debtors			22,520	-
	13		1,966,194	2,441,125
12 INSURANCE RECEIVABLES				
Due from policyholders:				
Outstanding premiums			931,051	1,052,059
Policy loans			19,432,419	19,039,052
Due from reinsurers			261,332	179,411
	13		20,624,802	20,270,522

NOTES TO THE FINANCIAL STATEMENTS

	in Brunei Dollars	Note	2017	2016
13	LOANS AND RECEIVABLES			
	Loans and Receivables :			
	Cash and cash equivalents		20,794,680	26,958,480
	Other debtors	11	1,966,194	2,441,125
	Insurance receivables	12	20,624,802	20,270,522
	Total loans and receivables at amortised cost		43,385,676	49,670,127

14 DERIVATIVE FINANCIAL INSTRUMENTS

		Notional Principal 2017	Derivative Financial Assets 2017	Derivative Financial Liabilities 2017	Notional Principal 2016	Derivative Financial Assets 2016	Derivative Financial Liabilities 2016
	in Brunei Dollars						
	<u>Derivatives</u>						
Foreign exchange:	Forwards	11,619,184	191,766	(1,943)	7,031,541	136,034	(34,740)

The table above shows the fair value of derivative financial instruments, recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and the basis upon which changes in the value of derivatives are measured.

The fair value of derivatives shown above represents the current risk exposure but not the maximum risk exposure that would arise in the future as a result of the changes in value.

		Note	2017	2016
15	INVESTMENTS			
	Available-for-sale financial assets			
	Equity securities			
(i)	Quoted equity securities		130,020	372,753
(ii)	Unquoted equity securities		242,733	-
			372,753	372,753
Less:	Provision for impairment of quoted equity securities	5	130,020	372,753
Less:	Provision for impairment of unquoted equity securities	5	242,733	-
			-	-
	Debt securities			
(ii)	Quoted debt securities		128,323,665	111,041,972
(iii)	Unquoted debt securities		10,493,158	6,703,106
			138,816,823	117,745,078
	Other investments			
(iv)	Collective investment schemes ⁽¹⁾		105,280,508	90,417,095
Less:	Provision for impairment of collective investment schemes	5	143,269	809,577
			105,137,239	89,607,518
	Total Available-for-sale financial assets		243,954,062	207,352,596
	TOTAL INVESTMENTS		243,954,062	207,352,596

⁽¹⁾ Collective investment schemes include but are not limited to unit trusts, hedge funds and real estate investment funds.

NOTES TO THE FINANCIAL STATEMENTS

16 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Branch has interest in unconsolidated structured entities as described below.

The Branch holds shares or units in investment vehicles, which consist of:

- Debt securities which comprise: Mortgage-Back-Securities ("MBS")
- Collective Investment Scheme which comprise: Hedge funds and Open Ended Investment Companies ("OEIC")

The Branch's holding in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles.

The investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee, and is reflected in the valuation of the investment vehicles.

As part of its investment activities, the Branch invests in unconsolidated structured entities. As at 31 December 2017, the Branch's total interest in unconsolidated structured entities was \$105,137,239 (2016: \$89,607,518) on the Branch's balance sheet.

The Branch does not sponsor any of the unconsolidated structured entities.

As at 31 December 2017, a summary of the Branch's interest in unconsolidated structured entities is as follows:

in Brunei Dollars	Financial investments		Total assets	
	2017	2016	2017	2016
Debt Securities				
Analysed as:				
MBS	-	-	-	-
Collective Investment Scheme				
Analysed as:				
Hedge funds	41	470,541	41	470,541
OEIC	105,137,198	89,136,977	105,137,198	89,136,977
Total	105,137,239	89,607,518	105,137,239	89,607,518

The Branch's maximum exposure to the loss on the interests presented above is the carrying amount of the Branch's investments.

The Branch has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

in Brunei Dollars	Computer Equipment	Building	Other Assets ⁽¹⁾	Total
17 PROPERTY, PLANT AND EQUIPMENT				
Cost				
Cost at 1 January 2016	80,062	890,000	840,749	1,810,811
Additions	3,530	-	1,379	4,909
Cost at 31 December 2016 and 1 January 2017	83,592	890,000	842,128	1,815,720
Additions	19,604	-	24,192	43,796
Cost at 31 December 2017	103,196	890,000	866,320	1,859,516
Accumulated Depreciation				
At 1 January 2016	(63,507)	(53,400)	(813,103)	(930,010)
Depreciation charge for the year	(8,570)	(17,800)	(9,837)	(36,207)
At 31 December 2016 and 1 January 2017	(72,077)	(71,200)	(822,940)	(966,217)
Depreciation charge for the year	(12,796)	(17,800)	(15,672)	(46,268)
Accumulated Depreciation at 31 December 2017	(84,873)	(89,000)	(838,612)	(1,012,485)
Net Book Value				
Net Book Value, at 31 December 2016	11,515	818,800	19,188	849,503
Net Book Value, at 31 December 2017	18,323	801,000	27,708	847,031

⁽¹⁾ Other assets include office furniture, fittings and equipment.

18 AMOUNT DUE TO HEAD OFFICE, FAIR VALUE RESERVE AND UNALLOCATED SURPLUS

The amount due to head office was non-trade related, unsecured, interest-free, repayable on demand and is to be settled in cash. During the financial year, an amount of \$535,183 was transferred from Unallocated Surplus to Amount due to Head Office.

	2017	2016
Fair Value Reserve Movement		
Balance at the beginning of the year	15,680,150	10,577,991
Transfer of fair value reserve to Life Assurance Revenue Statement upon disposal	(6,664,362)	(4,651,359)
Fair value movement during the year	25,905,813	9,753,518
Balance at the end of the year	34,921,601	15,680,150
Unallocated Surplus		
Balance at the beginning of the year	61,892,651	61,366,747
Amount transferred from Life Assurance Revenue Statement	(6,951,432)	951,730
Transfer to head office	(575,183)	(425,826)
Balance at the end of the year	54,366,036	61,892,651

NOTES TO THE FINANCIAL STATEMENTS

19 RELATED PARTY TRANSACTIONS

The Branch enters into transactions with their related parties in the normal course of business. Transactions are carried out on an arm's length basis.

19.1 Significant related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Branch and related parties took place at terms agreed between the parties during the financial year:

<u>in Brunei Dollars</u>	<u>2017</u>	<u>2016</u>
Management and performance fees paid by insurance funds to a related company	798,331	722,829
Interest income received from:		
- Ultimate holding company	99	-
Other expenses paid to:		
- Head office	1,105,908	909,201

19.2 Balance sheet balances with related parties

Balance sheet balances with related parties as at 31 December are as follows:

<u>in Brunei Dollars</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents held with:		
- Ultimate holding company	291,719	351,722
Amount due to head office	8,304,438	7,825,869

Outstanding balances at balance sheet date are unsecured and interest free. Settlement will take place in cash.

There was no provision for doubtful debts at the balance sheet date and no bad debt expense for the year (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES

Governance framework

Managing risk is an integral part of the Branch's core business. As stated in the Enterprise Risk Management ("ERM") Framework, the Branch shall:

- Operate within parameters and limits that have been set based on the risk appetite approved by the Board, and
- Pursue appropriate risk-adjusted returns.

Group Risk Management department spearheads the development and implementation of the ERM Framework for the Branch.

The Board of Directors ("Board") is responsible to provide oversight on the risk management initiatives. The Board may delegate this responsibility to the Risk Management Committee ("RMC"). Detailed risk management and oversight activities are undertaken by the following management committees chaired by the Chief Executive Officer and comprising key Senior Management Executives:

- Group Management Committee ("GMC")
- Group Asset-Liability Committee ("Group ALC")
- Group Information Technology Steering Committee ("Group ITSC")

GMC is responsible for providing leadership, direction and functional oversight with regards to all matters of the Branch. The GMC is also responsible for ensuring compliance and alignment with Group Governance and Oversight Framework, i.e. Group standards and guidelines. The GMC is supported by the local Senior Management Team ("SMT") and local Product Development Committee ("PDC").

Group ALC is responsible for balance sheet management. Specifically, Group ALC reviews and formulates technical frameworks, policies and methodologies relating to balance sheet management. Group ALC is also responsible for ensuring compliance and alignment with Group Governance and Oversight Framework, i.e. Group standards and guidelines. Group ALC is supported by the local Asset-Liability Committee ("ALC").

Regulatory framework

The Branch is required to comply with the Insurance Order, 2006 and Regulations, as applicable, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the investment policy rests with the respective Board. The Board exercises oversight on investments to safeguard the interests of policyholders and shareholders.

Capital management

The Branch's capital management policy is to create shareholder value, deliver sustainable returns to shareholders, maintain a strong capital position with optimum buffer to meet policyholders' obligations and regulatory requirements and make strategic investments for business growth.

The Branch has had no significant changes in the policies and processes relating to its capital structure during the year.

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

The following sections provide details regarding the Branch's exposure to insurance and key financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Branch's exposure to these insurance and key financial risks or the manner in which it manages and measures the risks.

Insurance Risk

The principal activities of the Branch are the provision of financial advisory services coupled with insurance protection against risks such as mortality, morbidity (health, disability, critical illness, personal accident).

The Branch's underwriting strategy is designed to ensure that these risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are also set in place to enforce appropriate risk selection criteria. For example, the Branch has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims.

Risks inherent in the Branch's activities include but are not limited to the following:

Insurance Risks of Life Insurance Contracts

Insurance risks arise when the Branch underwrites insurance contracts. While insurance risks do not vary significantly across the geographical locations in which the Branch currently operates, the types of risks insured and industries, assumptions used in pricing the insurance products as well as subsequent setting of the technical provisions may give rise to potential shortfalls in provision for future claims and expenses when actual experience is different from expected experience. Assumptions that may cause insurance risks to be underestimated include assumptions on policy lapses, mortality, morbidity and expenses.

The Branch utilises reinsurance to manage the mortality and morbidity risks. The Branch's reinsurance management strategy and policy are reviewed annually by RMC and ALC. Reinsurance structures are set based on the type of risk. Catastrophe reinsurance is procured to limit catastrophic losses. The Branch's exposure to group insurance business is not significant, thus there is no material concentrations in insurance risk.

Only reinsurers meeting a minimum credit rating of S&P A- or equivalent are considered when deciding on which reinsurers to reinsure the Branch's risk. The Branch limits its risk to any one reinsurer by ceding different products to different reinsurers or to a panel of reinsurers.

The ALC reviews the actual experience of mortality, morbidity, lapses and surrenders, and expenses to ensure that the policies, guidelines and limits put in place to manage the risks remain adequate and appropriate.

A substantial portion of the Branch's life assurance funds is participating in nature. In the event of volatile investment climate and/or unusual claims experience, the insurer has the option of revising the bonus and dividends payable to policyholders.

Stress Testing ("ST") is performed at least once a year. The purpose of the ST is to test the solvency of the life fund under various scenarios according to prescribed statutory valuation basis, simulating drastic changes in major parameters such as new business volume, investment scenarios, expense patterns, mortality/morbidity patterns and lapse rates.

TABLE 20(A): The table below sets out the concentration of the life insurance risk as at the balance sheet date, net of re-insurance:

(i) by Class of business:

in Brunei Dollars	Life Assurance	
	As at 31 December 2017 Policy liabilities	As at 31 December 2016 Policy liabilities
Whole life	123,860,299	106,806,028
Endowment	49,281,021	47,368,656
Term	789,744	1,213,872
Accident and health	353,079	316,029
Others	6,451,756	5,271,211
Total	180,735,899	160,975,796

The sensitivity analysis below shows the impact of change in key parameters on the value of policy liabilities, and hence on the Revenue Statement.

Sensitivity analysis produced is based on parameters set out as follows:

	Change in assumptions
(a) Scenario 1 – Mortality and Major Illness	+ 25% for all future years
(b) Scenario 2 – Mortality and Major Illness	- 25% for all future years
(c) Scenario 3 – Health and Disability	+ 25% for all future years
(d) Scenario 4 – Health and Disability	- 25% for all future years
(e) Scenario 5 – Lapse and Surrender rates	+ 25% for all future years
(f) Scenario 6 – Lapse and Surrender rates	- 25% for all future years
(g) Scenario 7 – Expenses	+ 30% for all future years

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Insurance Risk (continued)

TABLE 20(B): Profit / (Loss) After Tax sensitivity:

Impact on 1-year's profit / (loss) after tax

in Brunei Dollars	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
2017							
Gross impact	(1,828,792)	1,637,034	(25,047)	25,044	636,912	(816,761)	(56,980)
Reinsurance ceded	-	-	-	-	-	-	-
Net impact	(1,828,792)	1,637,034	(25,047)	25,044	636,912	(816,761)	(56,980)
2016							
Gross impact	(1,462,603)	1,372,498	(23,947)	23,947	532,878	(716,367)	(84,250)
Reinsurance ceded	-	-	-	-	-	-	-
Net impact	(1,462,603)	1,372,498	(23,947)	23,947	532,878	(716,367)	(84,250)

The above tables demonstrate the sensitivity of the Branch's profit and loss after tax to a reasonably possible change in actuarial valuation assumptions on an individual basis with all other variables held constant.

The effect of sensitivity analysis on reinsurance ceded is not material.

The method used, including the significant assumptions made, for performing the above sensitivity analysis did not change from the previous year.

Market and Credit Risk

Market risk arises when the market values of assets and liabilities do not move consistently as financial markets change. Changes in interest rates, foreign exchange rates, equity prices and alternative investment prices can impact present and future earnings of the insurance operation.

The Branch is exposed to market risk in the investments as well as the mismatch risk between its asset and liabilities.

The ALC actively manages market risk through setting of investment policy and asset allocation, approving portfolio construction and risk measurement methodologies, approving hedging and alternative risk transfer strategies. Investment limits are monitored at various levels to ensure that all investment activities are conducted within the Group's risk appetite and in line with the Branch's risk management principles and philosophies. Compliance with established limits forms an integral part of the risk governance and financial reporting framework. The approach adopted by the Group in managing the various types of risk, including interest rate risk, foreign exchange risk, equity price risk, credit risk, alternative investment risk and liquidity risk, is briefly described as follows:

- (a) **Interest rate risk (including asset liability mismatch).** The Branch is exposed to interest rate risk through (i) investments in fixed income instruments and (ii) policy liabilities. Given the long duration of policy liabilities and the uncertainty of the cash flows of the Branch, it is not possible to hold assets that will perfectly match the policy liabilities. This results in a net interest rate risk or asset liability mismatch risk which is managed and monitored by the ALC. The Insurance Fund will incur an economic loss when interest rates drop since the duration of policy liabilities is generally longer than the duration of the fixed income assets.

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market and Credit Risk (continued)

- (b) *Foreign currency risk.* Hedging through currency forwards is typically used for the fixed income portfolio. Internal limits on foreign exchange exposure ranging from 15% to 35% are applied to investments in fixed income portfolios at a fund level. Currency risk derived from investments in foreign equities is generally not hedged.

TABLE 20(C): The tables below show the foreign exchange position of the Branch's financial assets, financial liabilities and insurance contract liabilities by major currencies:

In Brunei Dollars	BND	SGD	USD	Others	Total
As at 31 December 2017					
FINANCIAL AND INSURANCE-RELATED ASSETS					
Available-for-sale securities					
Debt securities	-	129,777,113	3,778,195	5,261,515	138,816,823
Other investments	-	-	74,733,289	30,403,950	105,137,239
Derivative financial assets	-	191,766	-	-	191,766
Insurance receivables	20,624,802	-	-	-	20,624,802
Other debtors	860,651	1,026,497	29,268	27,258	1,943,674
Cash and cash equivalents	11,462,107	9,129,430	7,550	195,593	20,794,680
	32,947,560	140,124,806	78,548,302	35,888,316	287,508,984
FINANCIAL AND INSURANCE-RELATED LIABILITIES					
Other creditors	2,916,403	457,092	-	-	3,373,495
Insurance payables	7,586,062	62,281	-	-	7,648,343
Derivative financial liabilities	-	1,943	-	-	1,943
Amount due to head office	8,304,438	-	-	-	8,304,438
Policy liabilities	180,735,899	-	-	-	180,735,899
	199,542,802	521,316	-	-	200,064,118
	BND	SGD	USD	Others	Total
As at 31 December 2016					
FINANCIAL AND INSURANCE-RELATED ASSETS					
Available-for-sale securities					
Debt securities	-	112,333,708	3,423,761	1,987,609	117,745,078
Other investments	-	470,497	64,574,439	24,562,582	89,607,518
Derivative financial assets	-	136,034	-	-	136,034
Insurance receivables	20,270,522	-	-	-	20,270,522
Other debtors	1,486,320	935,728	18,436	641	2,441,125
Cash and cash equivalents	11,684,095	15,073,686	4,334	196,365	26,958,480
	33,440,937	128,949,653	68,020,970	26,747,197	257,158,757
FINANCIAL AND INSURANCE-RELATED LIABILITIES					
Other creditors	3,598,524	194,518	-	-	3,793,042
Insurance payables	7,237,761	139,776	-	-	7,377,537
Derivative financial liabilities	-	-	34,740	-	34,740
Amount due to head office	7,825,869	-	-	-	7,825,869
Policy liabilities	160,975,796	-	-	-	160,975,796
	179,637,950	334,294	34,740	-	180,006,984

The Branch has no significant concentration of foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market and Credit Risk (continued)

- (c) **Equity price risk.** Exposure to equity price risk exists in both assets and liabilities. Asset exposure exists through direct equity investment, where the Branch, through investments in Insurance Fund, bears all or most of the volatility in returns and investment performance risk. Limits are set for single security holdings as a percentage of equity holdings.
- (d) **Credit spread risk.** Exposure to credit spread risk exists in the Branch's investments in bonds. Credit spread is the difference between the quoted rates of return of two different investments of different credit quality. When spreads widen between bonds with different quality ratings, it implies that the market is factoring more risk of default on lower grade bonds. A widening in credit spreads will result in a fall in the values of the Branch's bond portfolio.
- (e) **Alternative investment risk.** The Branch is exposed to alternative investment risk through investments in real estate and hedge funds. A monitoring process is in place to manage foreign exchange, country and manager concentration risk. This process and the acquisition or divestment of alternative investments are reviewed and approved by RMC and ALCs.
- (f) **Commodity risk.** The Branch does not have a direct or significant exposure to commodity risk.
- (g) **Liquidity risk.** Liquidity risk arises when a Branch is unable to meet the cash flow needs of its financial liabilities, or if the assets backing the liabilities cannot be sold quickly enough without incurring unreasonable losses. For an insurance company, the greatest liquidity needs typically arise from its insurance liabilities. Demands for funds can usually be met through ongoing normal operations, premiums received, sale of assets or borrowings. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same or similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders.

Expected liquidity demands are managed through a combination of treasury, investment and asset-liability management practices, which are monitored on an ongoing basis. Actual and projected cash inflows and outflows are monitored and a reasonable amount of assets are kept in liquid instruments at all times. The projected cash flows from the in-force insurance policy contract liabilities consist of renewal premiums, commissions, claims, maturities and surrenders. Renewal premiums, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain although it has been quite stable over the past several years.

Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of surrender penalty in insurance contracts also protects the Branch from losses due to unexpected surrender trends as well as reduces the sensitivity of surrenders to changes in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market and Credit Risk (continued)(g) *Liquidity risk (continued)***Maturity Profile**

TABLE 20(D): The following tables show the expected recovery or settlement of financial assets and maturity profile of the Branch's financial and insurance contract liabilities which are presented based on contractual undiscounted cash flow basis, except for insurance contract liabilities which are presented based on net cash outflows resulting from recognised liabilities :

in Brunei Dollars	Carrying Amount	< 1 Year	1 - 5 Years	> 5 Years	No maturity date	Total
As at 31 December 2017						
FINANCIAL AND INSURANCE-RELATED ASSETS						
Available-for-sale securities						
Debt securities	138,816,823	-	15,971,997	164,307,080	-	180,279,077
Other investments	105,137,239	-	-	-	105,137,239	105,137,239
Insurance receivables	20,624,802	1,192,383	-	-	19,432,419	20,624,802
Other debtors	1,943,674	1,579,108	-	-	364,566	1,943,674
Cash and cash equivalents	20,794,680	20,794,680	-	-	-	20,794,680
	287,317,218	23,566,171	15,971,997	164,307,080	124,934,224	328,779,472
FINANCIAL AND INSURANCE-RELATED LIABILITIES						
Other creditors	3,373,495	3,373,495	-	-	-	3,373,495
Insurance payables	7,648,343	7,562,354	-	-	85,989	7,648,343
Amount due to head office	8,304,438	8,304,438	-	-	-	8,304,438
Policy liabilities	180,735,899	(4,520,075)	(3,623,282)	188,879,256	-	180,735,899
	200,062,175	14,720,212	(3,623,282)	188,879,256	85,989	200,062,175
As at 31 December 2016						
FINANCIAL AND INSURANCE-RELATED ASSETS						
Available-for-sale securities						
Debt securities	117,745,078	3,727,207	5,805,288	149,910,561	-	159,443,056
Other investments	89,607,518	-	-	-	89,607,518	89,607,518
Insurance receivables	20,270,522	1,231,470	-	-	19,039,052	20,270,522
Other debtors	2,441,125	2,088,137	-	-	352,988	2,441,125
Cash and cash equivalents	26,958,480	26,958,480	-	-	-	26,958,480
	257,022,723	34,005,294	5,805,288	149,910,561	108,999,558	298,720,701
FINANCIAL AND INSURANCE-RELATED LIABILITIES						
Other creditors	3,793,042	3,793,042	-	-	-	3,793,042
Insurance payables	7,377,537	7,292,610	-	-	84,927	7,377,537
Amount due to head office	7,825,869	7,825,869	-	-	-	7,825,869
Policy liabilities	160,975,796	(3,303,994)	(3,023,014)	167,302,804	-	160,975,796
	179,972,244	15,607,527	(3,023,014)	167,302,804	84,927	179,972,244

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market and Credit Risk (continued)(g) *Liquidity risk (continued)*

TABLE 20(E): The following tables show the current/non-current classification of assets and liabilities:

In Brunei Dollars	Current*	Non-Current	Total
<u>As at 31 December 2017</u>			
ASSETS			
Cash and cash equivalents	20,794,680	-	20,794,680
Other debtors	1,601,628	364,566	1,966,194
Insurance receivables	1,192,383	19,432,419	20,624,802
Derivative financial assets	191,766	-	191,766
Investments	-	243,954,062	243,954,062
Income tax receivable	1,061,030	-	1,061,030
Property, plant and equipment	-	847,031	847,031
	24,841,487	264,598,078	289,439,565
LIABILITIES			
Other creditors	3,461,305	-	3,461,305
Insurance payables	7,562,354	85,989	7,648,343
Derivative financial liabilities	1,943	-	1,943
Amount due to head office	8,304,438	-	8,304,438
Policy liabilities	(4,520,075)	185,255,974	180,735,899
	14,809,965	185,341,963	200,151,928
<u>As at 31 December 2016</u>			
ASSETS			
Cash and cash equivalents	26,958,480	-	26,958,480
Other debtors	2,088,137	352,988	2,441,125
Insurance receivables	1,231,470	19,039,052	20,270,522
Derivative financial assets	136,034	-	136,034
Investments	3,695,549	203,657,047	207,352,596
Property, plant and equipment	-	849,503	849,503
	34,109,670	223,898,590	258,008,260
LIABILITIES			
Other creditors	3,880,943	-	3,880,943
Insurance payables	7,292,610	84,927	7,377,537
Derivative financial liabilities	34,740	-	34,740
Income tax	340,574	-	340,574
Amount due to head office	7,825,869	-	7,825,869
Policy liabilities	(3,303,994)	164,279,790	160,975,796
	16,070,742	164,364,717	180,435,459

* expected recovery or settlement within 12 months from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market and Credit Risk (continued)

- (h) **Credit risk.** Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The Branch is mainly exposed to credit risk through (i) investments in cash and bonds, and (ii) exposure to counterparty's credit in derivatives transactions and reinsurance contracts. For both types of exposures, financial loss may materialise as a result of a credit default by the borrower or counterparty. For investments in bonds, financial loss may also materialise as a result of the widening of credit spread or a downgrade of credit rating.

The task of evaluating and monitoring credit risk is undertaken by the ALC. The Branch has internal limits by issuer or counterparty and by investment grades. These limits are actively monitored to manage the credit and concentration risk. These limits are reviewed on a regular basis. The creditworthiness of reinsurers is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

Reinsurance is placed with counterparties that have good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparty limits that are set each year.

Credit risk in respect of customer balances incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid-up or terminated.

In Brunei Dollars	Type of Collaterals	Carrying Amount of Loans	Fair Value of Collateral
As at 31 December 2017			
Policy loans	Cash value of policies	19,432,419	42,641,377
Total		19,432,419	42,641,377
As at 31 December 2016			
Policy loans	Cash value of policies	19,039,052	42,320,317
Total		19,039,052	42,320,317

The tables below show the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements and the use of credit derivatives. For derivatives, the fair value shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in value. The tables also provide information regarding the credit risk exposure of the Branch by classifying assets according to the Branch's credit ratings of counterparties.

Neither past due nor impaired						
In Brunei Dollars	Investment Grade* (BBB to AAA)	Non Investment Grade* (C to BB)	Not Rated	Not subject to credit risk	Past due**	Total
As at 31 December 2017						
Available-for-sale securities						
Debt securities	130,215,390	-	8,601,433	-	-	138,816,823
Other investments	-	-	-	105,137,239	-	105,137,239
Derivative financial assets	191,766	-	-	-	-	191,766
Insurance receivables	-	-	20,624,802	-	-	20,624,802
Other debtors	-	-	1,966,194	-	-	1,966,194
Cash and cash equivalents	20,794,680	-	-	-	-	20,794,680
	151,201,836	-	31,192,429	105,137,239	-	287,531,504

* Based on public ratings assigned by external rating agencies including S&P, Moody's, RAM and MARC.

** The Branch does not hold any financial assets that are past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS

20 ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market and Credit Risk (continued)(h) *Credit risk (continued)*

Neither past due nor impaired						
in Brunei Dollars	Investment Grade* (BBB to AAA)	Non Investment Grade* (C to BB)	Not Rated	Not subject to credit risk	Past due**	Total
<u>As at 31 December 2016</u>						
Available-for-sale securities						
Debt securities	115,321,102	-	2,423,976	-	-	117,745,078
Other investments	-	-	-	89,607,518	-	89,607,518
Derivative financial assets	136,034	-	-	-	-	136,034
Insurance receivables	-	-	20,270,522	-	-	20,270,522
Other debtors	-	-	2,441,125	-	-	2,441,125
Cash and cash equivalents	26,958,480	-	-	-	-	26,958,480
	142,415,616	-	25,135,623	89,607,518	-	257,158,757

* Based on public ratings assigned by external rating agencies including S&P, Moody's, RAM and MARC.

** The Branch does not hold any financial assets that are past due or impaired.

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

The Branch actively manages its product mix to ensure that there is no significant concentration of credit risk.

Operation and Compliance Risk

Operational risk is an event or action that may potentially impact partly or completely the achievement of the organisation's objectives resulting from inadequate or failed internal processes and systems, human factors, or external events.

Compliance risk is any event or action that may potentially impact partly or completely the achievement of the organisation's objectives as a result of its failure to comply with applicable laws, regulations and standards. The applicable key compliance areas include:

- laws, regulations and rules governing insurance business and regulated financial activities undertaken by the Branch;
- codes of practice promoted by industry associations;
- anti-money laundering; and
- countering of financing of terrorism.

The day-to-day management of operational and compliance risk is through the maintenance of comprehensive internal controls, supported by an infrastructure of systems and procedures to monitor processes and transactions. Issues are managed and monitored by the SMT (SIB). The Internal Audit team reviews the systems of internal controls to assess their ongoing relevance and effectiveness, and reports at least quarterly to the Audit Committee.

Technology Risk

Technology risk is defined as risk related to any potential adverse outcome, damage, loss, disruption, violation, or failure arising from the use of or reliance on computer hardware, software, electronic devices, and networks.

Great Eastern adopts a risk based approach in managing technology risks relating to data loss/leakage, system security vulnerabilities, inferior system acquisition and development, system breakdown and availability, outsourced vendor service delivery, privileged access misuse and technology obsolescence. Key risk indicators related to technology risks are reported to the Board on a regular basis. Independent assessment is performed by Internal Audit for its adequacy and effectiveness.

NOTES TO THE FINANCIAL STATEMENTS

21 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

21.1 Fair Value Hierarchy

The Branch categorises fair value measurement using a fair value hierarchy that is dependent on the valuation inputs used as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date,

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, quotes from brokers and market makers, discounted cash flow and other valuation techniques commonly used by market participants, and

Level 3 - Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are 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.

Transfers between levels of the fair value hierarchy

There has been no transfers of financial assets between levels during the financial years ended 31 December 2017 and 2016.

21.2 Assets and Liabilities Measured at Fair Value

The following table shows an analysis of each class of assets and liabilities measured at fair value at the end of the reporting period:

in Brunei Dollars	Level 1 - Quoted Market Price	Level 2 - Valuation techniques - market observable inputs	Total fair value
<u>As at 31 December 2017</u>			
<u>Financial assets</u>			
<u>Derivative financial assets</u>			
Foreign exchange			
Forwards	-	191,766	191,766
<u>Available-for-sale financial assets</u>			
Debt securities			
Quoted debt securities	128,323,665	-	128,323,665
Unquoted debt securities	-	10,493,158	10,493,158
Other investments			
Collective investment schemes	105,137,198	41	105,137,239
	<u>233,460,863</u>	<u>10,684,965</u>	<u>244,145,828</u>
<u>Financial liabilities</u>			
<u>Derivative financial liabilities</u>			
Foreign exchange			
Forwards	-	1,943	1,943
	-	<u>1,943</u>	<u>1,943</u>
<u>As at 31 December 2016</u>			
<u>Financial assets</u>			
<u>Derivative financial assets</u>			
Foreign exchange			
Forwards	-	136,034	136,034
<u>Available-for-sale financial assets</u>			
Debt securities			
Quoted debt securities	111,041,972	-	111,041,972
Unquoted debt securities	-	6,703,106	6,703,106
Other investments			
Collective investment schemes	89,136,977	470,541	89,607,518
	<u>200,178,949</u>	<u>7,309,681</u>	<u>207,488,630</u>
<u>Financial liabilities</u>			
<u>Derivative financial liabilities</u>			
Foreign exchange			
Forwards	-	34,740	34,740
	-	<u>34,740</u>	<u>34,740</u>

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL LIABILITIES SUBJECT TO OFFSETTING ARRANGEMENTS

Financial liabilities are offset in the balance sheet when the Branch has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

The Branch's reinsurance liabilities that are off-set are as follows:

in Brunei Dollars	31 December 2017		
	Gross carrying amount	Gross amounts offset in the balance sheet	Net amounts in the balance sheet
Financial liabilities			
Reinsurance liabilities	229,339	(167,058)	62,281
Total	229,339	(167,058)	62,281

in Brunei Dollars	31 December 2016		
	Gross carrying amount	Gross amounts offset in the balance sheet	Net amounts in the balance sheet
Financial liabilities			
Reinsurance liabilities	152,650	(12,874)	139,776
Total	152,650	(12,874)	139,776

23 AUTHORISATION OF FINANCIAL STATEMENTS

At the Board of Directors' Meeting held on 12 February 2018, the Board authorised these financial statements for issue and that two Directors of the Board, Mr Koh Beng Seng and Ms Mimi Ho, sign on behalf of the Board.