

Company Registration No. AGO/RFC/228

The Great Eastern Life Assurance Company Limited
(Brunei Branch)

Annual Financial Statements
31 December 2018

THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED

INDEPENDENT AUDITOR'S REPORT

To the Members of The Great Eastern Life Assurance Company Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of The Great Eastern Life Assurance Company Ltd. - Brunei Darussalam (the "Branch"), which comprise the balance sheet as at 31 December 2018, the profit and loss statement, statement of comprehensive income, statement of changes in head office account and the statement of cash flows for the year then ended, and 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 financial statements give a true and fair view of the financial position of Branch as of 31 December 2018, 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 in Page 4.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above 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.

THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED

INDEPENDENT AUDITOR'S REPORT

To the Members of The Great Eastern Life Assurance Company Limited

RESPONSIBILITIES OF MANAGEMENT AND DIRECTORS FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and International Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; and transactions are properly authorized and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the 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.

The directors' responsibilities include overseeing the Branch's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED

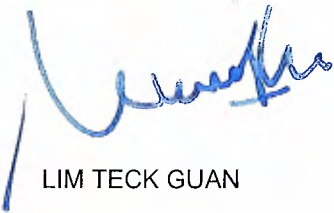
INDEPENDENT AUDITOR'S REPORT

To the Members of The Great Eastern Life Assurance Company Limited

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



ERNST & YOUNG
Public Accountants



LIM TECK GUAN
Registered Public Accountant

Brunei Darussalam
19 February 2019

THE GREAT EASTERN LIFE ASSURANCE COMPANY LIMITED

INDEPENDENT AUDITOR'S REPORT

To the Members of The Great Eastern Life Assurance Company Limited

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 profit and loss 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 2018, and of the results, changes in head office account and cash flows of the Brunei Branch's operations for the year then ended.



Mr Koh Beng Seng
Chairman



Mr Leo Mun Wai
Director

Brunei Darussalam
19 February 2019

PROFIT AND LOSS STATEMENT

for the financial year ended 31 December

in Brunei Dollars	Note	2018	2017
Income			
Gross premiums		17,526,719	17,397,678
less: Premiums ceded to reinsurers		246,601	219,435
Net premiums		17,280,118	17,178,243
Commissions received from reinsurers		103,591	20,881
Investment income, net	3	4,386,675	3,920,359
(Loss) / gain on sale of investments and changes in fair value	4	(10,306,485)	7,078,814
Loss on exchange differences		(25)	(195,532)
		11,463,874	28,002,765
less: Expenses			
Gross claims, surrenders and annuities		12,094,797	12,039,508
Claims, surrenders and annuities recovered from reinsurers		(78,517)	(337,507)
Commissions and agency expenses		1,570,113	1,383,007
Increase in provision for impairment of assets	5	-	7,880
Management expenses		1,741,074	1,801,938
Depreciation	17	51,130	46,268
Change in life insurance contract liabilities	10	4,767,034	19,760,103
		20,145,631	34,701,197
Loss before income tax		(8,681,757)	(6,698,432)
Income tax	7	(216,328)	(253,000)
Loss after income tax		(8,898,085)	(6,951,432)

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

STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December

in Brunei Dollars	Note	2018	2017
Loss after income tax for the year		(8,898,085)	(6,951,432)
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
Reclassification of realised gain on disposal of investments to Profit and Loss Statement	4	-	(6,664,362)
Other comprehensive income for the year, net of tax		-	19,241,451
Total comprehensive (loss) / income for the year		(8,898,085)	12,290,019

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

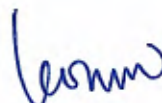
BALANCE SHEET

as at 31 December

in Brunei Dollars	Note	2018	2017
LIABILITIES			
Other creditors	8	2,923,992	3,461,305
Insurance payables	9	7,460,290	7,648,343
Derivative financial liabilities	14	-	1,943
Income tax payable		2,277,039	-
Amount due to head office	19	7,819,227	8,304,438
Policy liabilities	10	185,502,933	180,735,899
TOTAL LIABILITIES		205,983,481	200,151,928
ASSETS			
Cash and cash equivalents		20,589,691	20,794,680
Other debtors	11	2,907,705	1,966,194
Insurance receivables	12	21,051,881	20,624,802
Derivative financial assets	14	14,592	191,766
Investments	15	240,437,935	243,954,062
Income tax recoverables		-	1,061,030
Property, plant and equipment	17	902,225	847,031
TOTAL ASSETS		285,904,029	289,439,565
NET ASSETS		79,920,548	89,287,637
Represented by:			
Fair value reserve	18	-	34,921,601
Unallocated surplus	18	79,920,548	54,366,036
		79,920,548	89,287,637



Mr Koh Beng Seng
Chairman



Mr Leo Mun Wai
Director

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

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 31 December 2017 as previously reported		34,921,601	54,366,036	89,287,637
Adoption of IFRS 9	2.2.1	(34,921,601)	34,921,601	-
Balance at 1 January 2018		-	89,287,637	89,287,637
Loss for the year /		-	(8,898,085)	(8,898,085)
Total comprehensive income for the year		-	(8,898,085)	(8,898,085)
Transfer to Head Office		-	(469,004)	(469,004)
Balance at 31 December 2018		-	79,920,548	79,920,548
Balance at 1 January 2017		15,680,150	61,892,651	77,572,801
Loss for the year /		19,241,451	(6,951,432)	12,290,019
Total comprehensive income for the year		-	(575,183)	(575,183)
Transfer to Head Office		-	(575,183)	(575,183)
Balance at 31 December 2017		34,921,601	54,366,036	89,287,637

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

STATEMENT OF CASH FLOWS

for the financial year ended 31 December

in Brunei Dollars	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(8,681,757)	(6,698,432)
<i>Adjustments for non-cash items:</i>			
Deficit transferred from life assurance fund but not yet withdrawn		(469,004)	(575,183)
Loss/(gain) on sale of investments and changes in fair value	4	10,306,485	(7,078,814)
Increase in provision for impairment of assets	5	-	7,880
Unrealised loss in exchange differences		339,661	479,810
Change in life insurance contract liabilities	10	4,767,034	19,760,103
Depreciation	17	51,130	46,268
Interest income	3	(5,285,395)	(4,823,449)
Dividend income	3	(41,094)	(744)
Interest expense on policy benefits	6	195,451	194,471
		1,182,511	1,311,910
<i>Changes in working capital:</i>			
Insurance receivables		(427,079)	(354,280)
Other debtors		(868,625)	615,047
Insurance payables		(188,053)	270,806
Other creditors		(537,313)	(419,638)
Amount due to Head Office		(485,211)	478,569
Cash generated (used in)/from operations		(1,323,770)	1,902,414
Interest paid on policy benefits		(195,451)	(194,471)
Income tax recovered/(paid)		3,121,741	(1,654,604)
Net cash flows generated from operating activities		1,602,520	53,339
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities and sales of investments		47,660,486	199,642,715
Purchase of investments		(54,615,274)	(210,591,446)
Purchase of property, plant and equipment	17	(106,324)	(43,796)
Interest income received		5,212,509	4,774,644
Dividend income received	3	41,094	744
Net cash flows used in investing activities		(1,807,509)	(6,217,139)
Net decrease in cash and cash equivalents		(204,989)	(6,163,800)
Cash and cash equivalents at the beginning of the year		20,794,680	26,958,480
Cash and cash equivalents at the end of the year		20,589,691	20,794,680
<i>Cash and cash equivalents comprise:</i>			
Cash and bank balances		16,042,575	11,424,885
Cash on deposit		4,547,116	9,369,795
		20,589,691	20,794,680

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 Adoption of IFRS 9 Financial Instruments

The Branch has adopted IFRS 9 Financial Instruments effective 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Branch’s accounting policies resulting from its adoption of IFRS 9 are summarised below.

IFRS 9 requires debt instruments to be classified either at amortised cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). Classification under IFRS 9 for debt instruments depends on the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (“SPPI”). An entity’s business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is classified as amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets’ contractual cash flows and to sell the assets are classified as FVOCI. Under the new model, FVTPL is the residual category – financial assets should therefore be classified as FVTPL if they do not meet the criteria of FVOCI or amortised cost. Regardless of the business model assessment, an entity can elect to classify a financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency. The gains or losses of debt instruments initially classified as FVOCI are recycled to profit or loss on derecognition.

IFRS 9 requires all equity instruments to be carried at fair value through profit or loss, unless an entity chooses, on an instrument-by-instrument basis on initial recognition, to present fair value changes in other comprehensive income, with no recycling of gains or losses in profit or loss on derecognition.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policies (continued)

2.2.1 Adoption of IFRS 9 Financial Instruments (continued)

Derivatives and hybrid contracts with financial asset hosts where contractual cash flows are not solely payments of principal and interest, are required to be classified at fair value through profit or loss.

Impairment

IFRS 9 requires the Branch to record expected credit losses on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Branch previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

Transition

The changes in accounting policies have been applied retrospectively and the Branch has elected to apply the limited exemption in IFRS 9 and has not restated comparative periods in the year of initial application. The impact arising from IFRS 9 adoption was included in the opening retained earnings at the date of initial application, 1 January 2018.

The following table shows the material reclassifications arising from adoption of IFRS 9.

In Brunei Dollars	Original classification under IAS 39	New classification under IFRS 9	Note	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Cash and cash equivalents	Loans and receivables	Amortised cost		20,794,680	20,794,680
Other debtors	Loans and receivables	Amortised cost		1,956,194	1,956,194
Insurance receivables	Loans and receivables	Amortised cost		20,624,802	20,624,802
Derivative financial assets	FVTPL	FVTPL (mandatory)		191,766	191,766
Equity securities	Available-for-sale	FVTPL (mandatory)	a, c	-	-
Debt securities	Available-for-sale	FVTPL (designated)	b	138,816,823	138,816,823
Other investments	Available-for-sale	FVTPL (mandatory)		105,137,239	105,137,239
Total financial assets				287,508,984	287,508,984
Financial liabilities					
Insurance payables	Amortised cost	Amortised cost		7,648,343	7,648,343
Other creditors	Amortised cost	Amortised cost		3,373,495	3,373,495
Derivative financial liabilities	FVTPL	FVTPL		1,943	1,943
Total financial liabilities				11,023,781	11,023,781

The Branch's accounting policies on the classifications of financial instruments under IFRS 9 are set out in Note 2.14. The application of these policies resulted in the reclassifications set out in the table above and are explained below.

- (a) Before the adoption of IFRS 9, certain equity securities were measured at cost because their fair value could not be reliably measured. IFRS 9 has removed this cost exception.
- (b) Certain available-for-sale debt securities are held by the Branch with the intent to hold to collect contractual flows and sell. At the date of initial application of IFRS 9, the Branch elected the fair value option on these securities as it eliminates or significantly reduces an accounting mismatch. These assets are therefore measured at FVTPL under IFRS 9.
- (c) The Branch held equity securities at NIL carrying fair value as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policies (continued)

2.2.1 Adoption of IFRS 9 Financial Instruments (continued)

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

In Brunei Dollars	IAS 39 carrying amount as at 31 December 2017	Reclassification	IFRS 9 carrying amount as at 1 January 2018
FVTPL			
Equity securities			
As previously reported	-	-	-
Reclassified from available-for-sale	-	-	-
As restated	-	-	-
Debt securities			
As previously reported	-	-	-
Reclassified from available-for-sale	-	138,816,823	138,816,823
As restated	-	138,816,823	138,816,823
Other investments			
As previously reported	-	-	-
Reclassified from available-for-sale	-	105,137,239	105,137,239
As restated	-	105,137,239	105,137,239
Total FVTPL	-	243,954,062	243,954,062
Available-for-sale			
Equity securities			
As previously reported	-	-	-
Reclassified to FVTPL	-	-	-
As restated	-	-	-
Debt securities			
As previously reported	138,816,823	-	138,816,823
Reclassified to FVTPL	-	(138,816,823)	(138,816,823)
As restated	138,816,823	(138,816,823)	-
Other investments			
As previously reported	105,137,239	-	105,137,239
Reclassified to FVTPL	-	(105,137,239)	(105,137,239)
As restated	105,137,239	(105,137,239)	-
Total Available-for-sale	243,954,062	(243,954,062)	-

The following table analyses the impact, net of tax of transition to IFRS 9 on fair value reserves and unallocated surplus. There is no impact on other components of equity.

In Brunei Dollars	
Fair value reserve	
Closing balance as at 31 December 2017, before adoption of IFRS 9	34,921,601
Reclassification of investments from available-for-sale to FVTPL	(34,921,601)
Opening balance under IFRS 9 as at 1 January 2018	-
Unallocated surplus	
Closing balance as at 31 December 2017, before adoption of IFRS 9	54,366,036
Reclassification of investments from available-for-sale to FVTPL	34,921,601
Opening balance under IFRS 9 as at 1 January 2018	89,287,637

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Branch applies the impairment requirements of IFRS 9, see Note 2.6.7.

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

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

IFRS	Title	Effective date (Annual periods beginning on or after)
IFRS 16	Leases	1 January 2019
INT FRS 123	Uncertainty over Income Tax Treatments	1 January 2019
IAS 28	Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 9	Amendments to IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
Various	Annual Improvements to IFRSs 2015 -2017 Cycle	1 January 2019
IAS 19	Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement and Amendments to IAS 19	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 10, IAS 28	Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

IFRS 16 Leases

IFRS 16 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemptions for lessees – leases of ‘low value’ assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and the Branch will apply the standard from its mandatory adoption date. The Branch intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expense).

The Branch's activity as a lessee and lessor are not material and the Branch does not expect any impact on the financial statements. However, additional disclosures will be required at the date of adoption.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policies (continued)

2.2.1 IAS/IFRS not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, IFRS 17 was issued, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021. In November 2018, the International Accounting Standards Board tentatively decided to defer the IFRS 17 effective date to annual periods beginning on or after 1 January 2022. The Branch plans to adopt the new standard on the required effective date and a Project Steering Committee has been formed to oversee the implementation of IFRS 17. The Branch expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Branch and is likely to have a significant impact on profit and total equity together with the Branch's financial statements' presentation and disclosures.

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 Profit and Loss Statement.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance Contracts (continued)

2.4.1 Product Classification (continued)

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 Profit and Loss 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 Profit and Loss 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 Insurance 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 Insurance 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 Profit and Loss Statement.

Life insurance 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.

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 Profit and Loss Statement. Profits originating from margins for adverse deviations on run-off contracts are recognised in the Profit and Loss Statement over the lives of the contracts, whereas losses are fully recognised in the Profit and Loss Statement during the first year of run-off.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance Contracts (continued)

2.4.4 Life Insurance Contract Liabilities (continued)

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 Profit and Loss Statement.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance Contracts (continued)

2.4.4 Life Insurance 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: 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. Prior to 1 January 2018, 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. The impairment loss is recorded in the Profit and Loss Statement. After 1 January 2018, a loss allowance for reinsurance assets is measured at an amount equal to lifetime expected credit losses, with the impairment loss recognised in the Profit and Loss Statement. Gains or losses on reinsurance are recognised in the Profit and Loss 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

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 Profit and Loss 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 Profit and Loss 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 (Policy applicable before 1 January 2018)

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 Profit and Loss 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 Profit and Loss 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.

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 (Policy applicable before 1 January 2018) (continued)

(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.

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 Profit and Loss Statement is transferred from other comprehensive income and recognised in the Profit and Loss Statement. Reversals of impairment losses in respect of equity instruments are not recognised in the Profit and Loss 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 Profit and Loss 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 Profit and Loss Statement, the impairment loss is reversed in the Profit and Loss Statement.

2.6.7 Impairment of Financial Assets (Policy applicable after 1 January 2018)

The Branch recognises loss allowances for expected credit losses ("ECL") on receivables measured at amortised cost. For trade and insurance receivables, the Branch measures the loss allowance at an amount equal to the lifetime expected credit losses. The Branch recognises a loss allowance for ECL at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Branch measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL represents the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Note 20 provides more details on how the expected loss allowance is measured.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Recognition of Income and Expense (continued)

2.6.7 Impairment of Financial Assets (Policy applicable after 1 January 2018) (continued)

Modified financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected modification will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected modification will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Branch assesses whether financial assets measured at amortised cost and debt financial assets measured at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Branch considers factors such as probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

For financial assets that are not credit-impaired at the reporting date: the ECL is the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Branch expects to receive).

For financial assets that are credit-impaired at the reporting date: the ECL is the difference between the gross carrying amount and the present value of estimated future cash flows,

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Branch determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Branch's procedures for recovery of amounts due.

2.6.8 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 equity.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Profit and Loss 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.

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, or 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. Prior to 1 January 2018, 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 Profit and Loss Statement. After 1 January 2018, a loss allowance is measured at an amount equal to lifetime expected credit losses, with the impairment loss recognised in the Profit and Loss Statement. Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.13 and 2.14 has been met.

2.13 Financial Assets (Policy applicable before 1 January 2018)

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 Profit and Loss Statement

Financial assets at fair value through Profit and Loss 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 Profit and Loss Statement are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in the Profit and Loss Statement.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial Assets (Policy applicable before 1 January 2018) (continued)

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 Profit and Loss 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 Profit and Loss Statement. The cumulative gain or loss previously recognised in equity is recognised in the Profit and Loss Statement when the financial asset is derecognised.

Unquoted equity securities whose fair value cannot be reliably measured are measured at cost less impairment losses.

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 Profit and Loss 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 Assets (Policy applicable after 1 January 2018)

Initial recognition and measurement

Financial assets are recognised when, and only when, the Branch becomes a party to the contractual provisions of the financial asset. The Branch determines the classification of its financial assets at initial recognition. At initial recognition, the Branch measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs for financial assets carried at fair value through profit or loss are recognised as expense in the Profit and Loss Statement.

Classification

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit and loss ("FVTPL").

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial Assets (Policy applicable after 1 January 2018) (continued)

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as measured at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

An equity security that is not held for trading may, by irrevocable election, be designated as measured at FVOCI. This election is made on an investment-by-investment basis.

A financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI may, by irrevocable election, be designated as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Branch has designated all debt securities which are held with the intent to hold to collect contractual cash flows and sell as measured at FVTPL.

All other financial assets are classified as measured at FVTPL.

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Branch's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branch's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed, and whose performance is evaluated on a fair value basis, are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If the cash flows after initial recognition are realised in a way that is different from the Branch's original expectations, the Branch does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment whether contractual cash flows are solely payments of principal and interest

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Branch's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial Assets (Policy applicable after 1 January 2018) (continued)

Subsequent measurement

2.14.1 Debt Instruments

Subsequent measurement of debt instruments depends on the Branch's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

(i) Amortised cost

Debt instruments that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss. Gains or losses are also recognised in profit or loss when the assets are derecognised.

(ii) Fair value through other comprehensive income (FVOCI)

Debt instruments that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Any gains or losses from changes in fair value are recognised in other comprehensive income and accumulated in fair value reserve. Impairment, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss when the financial asset is derecognised.

(iii) Fair value through profit or loss (FVTPL)

Debt instruments that do not meet the criteria for classification as amortised cost or FVOCI are measured at FVTPL. Any gains or losses from changes in fair value and interest are recognised in profit or loss.

2.14.2 Equity Instruments

The Branch subsequently measures all equity instruments at fair value. On initial recognition of an equity instrument that is not held for trading, the Branch may irrevocably elect to present subsequent changes in fair value in OCI. The Branch's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return from such investments are to be recognised in profit or loss when the Branch's right to receive payments is established.

Changes in fair value of equity instruments at FVTPL are recognised in profit or loss.

2.14.3 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

2.14.4 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 Profit and Loss Statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Branch changes its business model for managing financial assets.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial Assets (Policy applicable after 1 January 2018) (continued)

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or has been transferred such that substantially all of the risks and rewards of ownership of the financial asset are transferred.

On derecognition of a financial asset, except for equity securities measured at FVOCI, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit and loss.

On derecognition of equity securities measured at FVOCI, any cumulative gain/loss recognised in OCI is not recognised in profit or loss.

On derecognition of all other financial assets in their entirety (or the carrying amount allocated to the portion of the asset derecognised), the difference between the carrying amount of the asset and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in the Profit and Loss Statement.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Branch is recognised as a separate asset or liability.

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.

2.15 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, insurance payables and derivative financial liabilities.

Subsequent measurement

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

2.15.1 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 Profit and Loss Statement.

2.15.2 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Liabilities (continued)

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 Profit and Loss Statement.

2.16 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.

2.17 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.

Prior to 1 January 2018, 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.

2.18 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Property, Plant and Equipment (continued)

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 Profit and Loss Statement in the year the asset is derecognised.

2.19 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 Branch 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 Branch or an entity related to the Branch. If the Branch is itself such a plan, the sponsoring employers are also related to the Branch;
 - (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.

2.20 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.

2.21 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.

2.21.1 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)

2.21 Critical Accounting Estimates and Judgments (continued)

2.21.1 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 life Insurance contract liabilities. The carrying value of Life Insurance contract liabilities as at 31 December 2018 amounted to \$185,502,933 (2017: \$180,735,899).

(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 payable as at 31 December 2018 amounted to \$2,277,039 (2017: Income tax recoverable amounted to \$1,061,030).

2.21.2 Critical Judgments in Applying Accounting Policies

(a) Impairment of financial assets (Policy applicable before 1 January 2018)

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.

(b) 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	2018	2017
3 INVESTMENT INCOME, NET				
Dividend income:				
- Investments				
Available-for-sale financial assets			-	744
Financial assets mandatorily measured at FVTPL			41,094	-
			<u>41,094</u>	<u>744</u>
Interest income:				
- Investments				
Available-for-sale financial assets			-	3,644,752
Financial assets mandatorily measured at FVTPL			4,075,929	-
- Loans and receivables			1,209,466	1,178,697
			<u>5,285,395</u>	<u>4,823,449</u>
			5,326,489	4,824,193
			<u>939,814</u>	<u>903,834</u>
less: Investment related expenses			<u>4,386,675</u>	<u>3,920,359</u>
4 (LOSS) / GAIN ON SALE OF INVESTMENTS AND CHANGES IN FAIR VALUE				
Amount transferred from Statement of Comprehensive Income on sale of investments			-	6,664,362
Changes in fair value of held-for-trading investments			-	414,452
Changes in fair value of investments				
- mandatorily measured at FVTPL			(9,996,642)	-
- designated as at FVTPL			(309,843)	-
			<u>(10,306,485)</u>	<u>7,078,814</u>
5 PROVISIONS				
5.1 Provision for impairment of quoted equity securities				
Balance at the beginning of the year			130,020	372,753
Adoption of IFRS 9			(130,020)	-
Reclassification during the year			-	(242,733)
Balance at the end of the year	15		<u>-</u>	<u>130,020</u>
5.2 Provision for impairment of unquoted equity securities				
Balance at the beginning of the year			242,733	-
Adoption of IFRS 9			(242,733)	-
Reclassification during the year			-	242,733
Balance at the end of the year	15		<u>-</u>	<u>242,733</u>
5.3 Provision for impairment of collective investment schemes				
Balance at the beginning of the year			143,269	809,577
Adoption of IFRS 9			(143,269)	-
Increase in provision for the year			-	7,880
Utilised during the year			-	(674,188)
Balance at the end of the year	15		<u>-</u>	<u>143,269</u>
Increase in provision for impairment of assets for the year			-	7,880

NOTES TO THE FINANCIAL STATEMENTS

	in Brunei Dollars	Note	2018	2017
6	ADDITIONAL PROFIT AND LOSS DISCLOSURES			
	Staff costs and related expenses (including key management personnel compensation)			
	Salaries, wages, bonuses and other costs		864,293	1,083,078
	Employee Provident Fund		76,278	109,913
			940,571	1,192,991
	Rental expense		66,047	69,879
	Interest expense on policy benefits		195,451	194,471
7	INCOME TAX			
	<u>Major components of income tax expense</u>			
	The major components of income tax expense for the years ended 31 December 2018 and 2017 are:			
	Profit and Loss:			
	Current income tax:			
	- Current income taxation		216,328	253,000
	Total tax expense for the year recognised in the Profit and Loss Statement		216,328	253,000
	<u>Relationship between income tax expense and accounting loss</u>			
	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 2018 and 2017 is as follows:			
	Loss before income tax		(8,681,757)	(6,698,432)
	Tax at statutory rate of 18.5% (2017: 18.5%)		(1,606,125)	(1,239,210)
	<u>Adjustments:</u>			
	Foreign tax paid not recoverable		216,328	253,000
	Effect of being taxed on a different basis		1,606,125	1,239,210
	Income tax expense recognised in the Profit and Loss Statement		216,328	253,000
8	OTHER CREDITORS			
	Other creditors comprise the following:			
	Financial Liabilities:			
	Accrued expenses		1,129,690	1,260,390
	Investment creditors		218,134	457,092
	Other creditors		1,521,950	1,656,013
			2,869,774	3,373,495
	Non-Financial Liabilities:			
	Premiums in suspense		54,218	87,810
			2,923,992	3,461,305

NOTES TO THE FINANCIAL STATEMENTS

in Brunei Dollars	Note	2018	2017
9 INSURANCE PAYABLES			
Claims admitted or intimated		551,536	869,410
Policy benefits		6,858,189	6,716,652
Reinsurance liabilities		50,565	62,281
		<u>7,460,290</u>	<u>7,648,343</u>

Policy benefits bear interest at 3% per annum (2017: 3% per annum).

10 POLICY LIABILITIES

Balance at the beginning of the year	180,735,899	160,975,796
Change in life insurance contract liabilities		
- Due to assumptions change	(587,764)	6,218,983
- Due to change in discount rate	(4,055,631)	5,692,991
- Due to movement during the year	9,410,429	7,848,129
	<u>4,767,034</u>	<u>19,760,103</u>
Balance at the end of the year	<u>185,502,933</u>	<u>180,735,899</u>

Life insurance contract liabilities at 31 December comprised the following:

Contracts with Discretionary Participating Features ("DPF")	176,562,984	171,948,893
Contracts without Discretionary Participating Features ("DPF")	8,939,949	8,787,006
	<u>185,502,933</u>	<u>180,735,899</u>

11 OTHER DEBTORS

Other debtors comprise the following:

Financial Assets:

Accrued interest receivable	1,533,121	1,460,235
Investment debtors	350,189	480,189
Deposit collected	1,003,250	3,250
Other debtors	11,145	12,520
	<u>2,897,705</u>	<u>1,956,194</u>

Non-Financial Assets:

Prepayments	10,000	10,000
	<u>2,907,705</u>	<u>1,966,194</u>

13

12 INSURANCE RECEIVABLES

Due from policyholders:

Outstanding premiums	1,006,321	931,051
Policy loans	19,957,766	19,432,419

Due from reinsurers

13

87,794	261,332
<u>21,051,881</u>	<u>20,624,802</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2018	2017
in Brunei Dollars			
13 LOANS AND RECEIVABLES			
Loans and Receivables :			
Cash and cash equivalents		20,589,691	20,794,680
Other debtors	11	2,897,705	1,956,194
Insurance receivables	12	21,051,881	20,624,802
Total loans and receivables at amortised cost		44,539,277	43,375,676

14 DERIVATIVE FINANCIAL INSTRUMENTS

	Notional Principal	Derivative Financial Assets	Derivative Financial Liabilities	Notional Principal	Derivative Financial Assets	Derivative Financial Liabilities
in Brunei Dollars						
	2018	2018	2018	2017	2017	2017
<u>Derivatives</u>						
Foreign exchange: Forwards	3,689,010	14,592	-	11,619,184	191,766	(1,943)

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	2018	2017
15 INVESTMENTS			
Available-for-sale financial assets			
Equity securities			
(i) Quoted equity securities		-	130,020
(ii) Unquoted equity securities		-	242,733
Less: Provision for impairment of quoted equity securities	5	-	130,020
Less: Provision for impairment of unquoted equity securities	5	-	242,733
		-	-
Debt securities			
(iii) Quoted debt securities		-	128,323,665
(iv) Unquoted debt securities		-	10,493,158
		-	138,816,823
Other investments			
(iv) Collective investment schemes ⁽¹⁾		-	105,280,508
Less: Provision for impairment of collective investment schemes	5	-	143,269
		-	105,137,239
Total Available-for-sale financial assets		-	243,954,062
Transfers to		-	-
		-	-
Mandatorily measured at FVTPL			
Equity securities			
(i) Quoted equity securities		-	-
(ii) Unquoted equity securities		-	-
		-	-
Other investments			
(iii) Collective investment schemes ⁽¹⁾		93,105,294	-
Total financial assets mandatorily measured at FVTPL		93,105,294	-
Designated as at FVTPL			
Debt securities			
(i) Quoted debt securities		140,346,625	-
(ii) Unquoted debt securities		6,986,016	-
Total financial assets designated as at FVTPL ⁽²⁾		147,332,641	-
TOTAL INVESTMENTS		240,437,935	243,954,062

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

(2) These securities are designated as fair value through Profit and Loss Statement on initial recognition.

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:

- Collective Investment Scheme which comprise: Hedge funds, Exchange-Traded funds ("ETF") 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 2018, the Branch's total interest in unconsolidated structured entities was \$93,105,293 (2017: \$105,137,239) on the Branch's balance sheet.

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

As at 31 December 2018, a summary of the Branch's interest in unconsolidated structured entities is as follows:

in Brunei Dollars	Financial investments		Total assets	
	2018	2017	2018	2017
Collective Investment Scheme				
<i>Analysed as:</i>				
Hedge funds	43	41	43	41
ETF	3,072,616	-	3,072,616	-
OEIC	90,032,634	105,137,198	90,032,634	105,137,198
Total	93,105,293	105,137,239	93,105,293	105,137,239

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.

17 PROPERTY, PLANT AND EQUIPMENT

in Brunei Dollars	Computer Equipment	Building	Other Assets ⁽¹⁾	Total
Cost				
Cost at 1 January 2017	83,592	890,000	842,128	1,815,720
Additions	19,604	-	24,192	43,796
Cost at 31 December 2017 and 1 January 2018	103,196	890,000	866,320	1,859,516
Additions	101,886	-	4,438	106,324
Cost at 31 December 2018	205,082	890,000	870,758	1,965,840
Accumulated Depreciation				
At 1 January 2017	(72,077)	(71,200)	(822,940)	(966,217)
Depreciation charge for the year	(12,796)	(17,800)	(15,672)	(46,268)
At 31 December 2017 and 1 January 2018	(84,873)	(89,000)	(838,612)	(1,012,485)
Depreciation charge for the year	(16,953)	(17,800)	(16,377)	(51,130)
Accumulated Depreciation at 31 December 2018	(101,826)	(106,800)	(854,989)	(1,063,615)
Net Book Value				
Net Book Value, at 31 December 2017	18,323	801,000	27,708	847,031
Net Book Value, at 31 December 2018	103,256	783,200	15,769	902,225

⁽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 \$469,004 (2017: \$575,183) was transferred from Unallocated Surplus to Amount due to Head Office.

	2018	2017
Fair Value Reserve Movement		
Balance at the beginning of the year	34,921,601	15,680,150
Transfer of fair value reserve to Profit and Loss Statement upon disposal	-	(6,664,362)
Fair value movement during the year	-	25,905,813
Adoption of IFRS 9	(34,921,601)	-
Balance at the end of the year	-	34,921,601
Unallocated Surplus		
Balance at the beginning of the year	54,366,036	61,892,651
Amount transferred from Profit and Loss Statement	(8,898,085)	(6,951,432)
Transfer to Head Office	(469,004)	(575,183)
	34,921,601	-
Balance at the end of the year	79,920,548	54,366,036

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:

in Brunei Dollars	2018	2017
Management and performance fees paid by insurance funds to a related company	836,104	798,331
Interest income received from:		
- Ultimate holding company	(41)	99
Other expenses paid to:		
- Head office	835,539	1,105,908

19.2 Balance sheet balances with related parties

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

in Brunei Dollars	2018	2017
Cash and cash equivalents held with:		
- Ultimate holding company	448,449	291,719
Amount due to head office	7,819,227	8,304,438

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 (2017: 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 Investment Committee ("Group IC")
- Group Product Management and Approval Committee ("Group PMAC")
- 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 IC is responsible for the oversight of all investment management activities of the company with added oversight to ensure that for the insurance funds, the interests and rights of policyholders are not compromised.

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").

Group ITSC is responsible for the management of technology and information risks, and any relevant regulatory and compliance risks relating to technology and information security risks.

Group PMAC is responsible for reviewing, approving and managing new and existing products, ensuring the business operates within the risk appetite to deliver the annual business targets. Local PDC is responsible for reviewing and endorsing new products at the local operating subsidiaries.

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 activity of the Company is the provision of insurance products and related financial advisory services. The products cover risks such as mortality, morbidity (health, disability, critical illness, personal accident) and property and casualty, and meet customer needs in investment and retirement provision.

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 by Class of Business as at the balance sheet date, net of re-insurance:

in Brunei Dollars	Life Assurance	
	As at 31 December 2018 Policy liabilities	As at 31 December 2017 Policy liabilities
Whole life	127,684,134	123,860,299
Endowment	50,097,075	49,281,021
Term	703,162	789,744
Accident and health	406,963	353,079
Others	6,611,599	6,451,756
Total	185,502,933	180,735,899

The sensitivity analysis below shows the impact of change in key parameters on the value of policy liabilities, and hence on the Profit and Loss 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
2018							
Gross impact	(1,829,174)	1,664,257	(5,963)	5,960	553,057	(722,198)	(52,798)
Reinsurance ceded	-	-	-	-	-	-	-
Net impact	(1,829,174)	1,664,257	(5,963)	5,960	553,057	(722,198)	(52,798)
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)

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 2018					
FINANCIAL AND INSURANCE-RELATED ASSETS					
Financial assets at FVTPL					
Debt securities	-	141,605,456	3,788,293	1,938,892	147,332,641
Other investments	-	-	72,623,137	20,482,157	93,105,294
Derivative financial assets	-	14,592	-	-	14,592
Insurance receivables	21,051,881	-	-	-	21,051,881
Other debtors	1,368,847	1,487,042	32,740	9,076	2,897,705
Cash and cash equivalents	7,487,824	12,885,311	32,877	183,679	20,589,691
	29,908,552	155,992,401	76,477,047	22,613,804	284,991,804
FINANCIAL AND INSURANCE-RELATED LIABILITIES					
Other creditors	2,651,804	217,970	-	-	2,869,774
Insurance payables	7,409,725	50,565	-	-	7,460,290
Amount due to head office	7,819,227	-	-	-	7,819,227
Policy liabilities	185,502,933	-	-	-	185,502,933
	203,383,689	268,535	-	-	203,652,224
	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

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 2018						
FINANCIAL AND INSURANCE-RELATED ASSETS						
Financial assets at FVTPL						
Equity securities	-	-	-	-	-	-
Debt securities	147,332,641	-	22,797,029	173,176,438	-	195,973,467
Other investments	93,105,294	-	-	-	93,105,294	93,105,294
Insurance receivables	21,051,881	1,094,115	-	-	19,957,766	21,051,881
Other debtors	2,897,705	1,540,000	-	-	1,357,705	2,897,705
Cash and cash equivalents	20,589,691	20,589,691	-	-	-	20,589,691
	284,977,212	23,223,806	22,797,029	173,176,438	114,420,765	333,618,038
FINANCIAL AND INSURANCE-RELATED LIABILITIES						
Other creditors	2,869,774	2,869,774	-	-	-	2,869,774
Insurance payables	7,460,290	7,373,115	-	-	87,175	7,460,290
Amount due to head office	7,819,227	7,819,227	-	-	-	7,819,227
Policy liabilities	185,502,933	(3,744,654)	(1,546,073)	190,793,660	-	185,502,933
	203,652,224	14,317,462	(1,546,073)	190,793,660	87,175	203,652,224
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

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:

<u>in Brunei Dollars</u>	<u>Current*</u>	<u>Non-Current</u>	<u>Total</u>
<u>As at 31 December 2018</u>			
<u>ASSETS</u>			
Cash and cash equivalents	20,589,691	-	20,589,691
Other debtors	1,550,000	1,357,705	2,907,705
Insurance receivables	1,094,115	19,957,766	21,051,881
Derivative financial assets	14,592	-	14,592
Investments	-	240,437,935	240,437,935
Property, plant and equipment	-	902,225	902,225
	<u>23,248,398</u>	<u>262,655,631</u>	<u>285,904,029</u>
<u>LIABILITIES</u>			
Other creditors	2,923,992	-	2,923,992
Insurance payables	7,373,115	87,175	7,460,290
Income tax	2,277,039	-	2,277,039
Amount due to head office	7,819,227	-	7,819,227
Policy liabilities	(3,744,654)	189,247,587	185,502,933
	<u>16,648,719</u>	<u>189,334,762</u>	<u>205,983,481</u>
<u>As at 31 December 2017</u>			
<u>ASSETS</u>			
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
	<u>24,841,487</u>	<u>264,598,078</u>	<u>289,439,565</u>
<u>LIABILITIES</u>			
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
	<u>14,809,965</u>	<u>185,341,963</u>	<u>200,151,928</u>

* 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
<u>As at 31 December 2018</u>			
Policy loans	Cash value of policies	19,957,766	44,462,371
Total		19,957,766	44,462,371
<u>As at 31 December 2017</u>			
Policy loans	Cash value of policies	19,432,419	42,641,377
Total		19,432,419	42,641,377

There were no investments lent and collateral received under securities lending arrangements as at 31 December 2018 (31 December 2017: nil)

As at the balance sheet date, no investments (2017: nil) were placed as collateral for currency hedging purposes.

Transactions are conducted under terms and conditions that are usual and customary for standards securities borrowing and lending activities.

The following table sets out the credit analysis for financial assets measured at FVTPL and at amortised cost:

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 2018</u>						
Financial assets at FVTPL						
Debt securities	138,980,462	-	8,352,179	-	-	147,332,641
Other investments	-	-	-	93,105,294	-	93,105,294
Derivative financial assets	14,592	-	-	-	-	14,592
Insurance receivables	-	-	21,051,881	-	-	21,051,881
Other debtors	-	-	2,907,705	-	-	2,907,705
Cash and cash equivalents	20,589,691	-	-	-	-	20,589,691
	159,584,745	-	32,311,765	93,105,294	-	285,001,804

* 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
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

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

As at balance sheet date, no ECL was recognized on the trade and insurance receivables of the Branch.

- (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 cyber-attacks, data loss/leakage, deficiency in change management, emerging technology, inadequate vendor management, inferior system acquisition and development, network security vulnerability, privileged access misuse, system security vulnerability, system unavailability 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 categories 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 Branch 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 2018 and 2017.

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
As at 31 December 2018			
Financial assets			
Derivative financial assets			
Foreign exchange			
Forwards	-	14,592	14,592
Financial assets at FVTPL			
Debt securities			
Quoted debt securities	140,346,625	-	140,346,625
Unquoted debt securities	-	6,986,016	6,986,016
Other investments			
Collective investment schemes	93,105,251	43	93,105,294
	233,451,876	7,000,651	240,452,527
As at 31 December 2017			
Financial assets			
Derivative financial assets			
Foreign exchange			
Forwards	-	191,766	191,766
Available-for-sale financial assets			
Tra Unquoted equity 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
	233,460,863	10,684,965	244,145,828
Financial liabilities			
Derivative financial liabilities			
Foreign exchange			
Forwards	-	1,943	1,943
	-	1,943	1,943

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 2018		
	Gross carrying amount	Gross amounts offset in the balance sheet	Net amounts in the balance sheet
Financial liabilities			
Reinsurance liabilities	197,314	(146,749)	50,565
Total	197,314	(146,749)	50,565

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

23 AUTHORISATION OF FINANCIAL STATEMENTS

At the Board of Directors' Meeting held on 19 February 2019, the Board authorised these financial statements for issue and that two Directors of the Board, Mr Koh Beng Seng and Mr Leo Mun Wai, sign on behalf of the Board.