UOI
MEMBER OF THE UOB GROUP

United Overseas Insurance Limited
3 Anson Road #28-01 Springleaf Tower
Singapore 079909
Tel (65) 6222 7733
Fax (65) 6327 3869 / 6327 3870
Email: contactus@uoi.com.sg
uoi.com.sg
Co. Reg. No. 197100152R

PUBLIC DISCLOSURE

IN PURSUANCE OF MAS NOTICE 124
"PUBLIC DISCLOSURE REQUIREMENTS"
FOR FINANCIAL YEAR ENDED
31 DECEMBER 2017

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IN PURSUANCE OF MAS NOTICE 124 “PUBLIC DISCLOSURE REQUIREMENTS” FOR FINANCIAL YEAR ENDED 31 DECEMBER 2017

1. Information about the licensed insurer’s profile, including the nature of its business, a general description of its key products, the external environment in which it operates, its objectives and its strategies in place to achieve these objectives.

Company Profile

United Overseas Insurance Limited (“UOI” or “the Company”) is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited.

The Company is a member of the United Overseas Bank Group. The holding company and ultimate holding company of UOI is United Overseas Bank Limited (“UOB”), which is incorporated in Singapore and owns 58.39% of the issued share capital of the Company.

On 25 April 2017, A.M. Best affirmed the Company’s financial strength rating of A+ (Superior) and issuer credit rating of “aa-”. According to A.M. Best, the ratings reflect UOI’s excellent earnings track record, favourable business profile and strong risk-adjusted capitalization. As a subsidiary of UOB, Singapore’s third largest bank by asset value, UOI maintains a stable market presence despite challenging market conditions through cross-selling initiatives with UOB. The Company continues to register strong underwriting margins that are above its peers, supported by a favourable claims experience and a low expense ratio averaging 20% in the five years ending 2016. On 25 April 2018, A.M. Best affirmed the Company’s current credit ratings and considered the outlook for the ratings to be stable.

Nature of Business and Key Products

The Company’s principal activities are the underwriting of general insurance and reinsurance business which covers a broad spectrum of classes of insurance, including fire, marine, motor, engineering, general accident, work injury compensation and liability insurance.

External Environment

The Company is a licensed general insurer in Singapore and has a representative office in Yangon, Myanmar. Through the acceptance of reinsurance, the Company also has business exposure in other countries in Southeast Asia and other parts of the world.

Objectives and Strategies

UOI’s mission is to be a premier insurer in the Asia Pacific region, committed to providing quality products, excellent customer service while upholding strong corporate governance and enhancing shareholdersô value. The Companyós main objective is to provide appropriate risk management solutions for selected market segments which will result in an enhanced customer experience.

To achieve this objective, the Companyós time-tested underwriting prudence will continue to be maintained as it grows its business. In addition to its continued focus on bancassurance business, Management will also devote equal attention to developing the insurance intermediary business. It will innovate and drive for change to meet the needs of a growing market. In this regard, Management will invest more in the digitalisation of its insurance services which has fast become an essential part of insurance operations. Although its immediate contribution to non-life business growth may not be evident initially due to the high setup costs associated with such digital initiatives, the Company will nevertheless be committing adequate resources in this direction in its constant pursuit of excellence.

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2. Key features of the licensed insurer’s corporate governance framework and management controls, including information on the implementation of the framework and controls.

<u>Key Features of Corporate Governance Framework</u>
UOI is committed to upholding good corporate governance. The Company has complied with the Insurance (Corporate Governance) Regulations (Insurance Regulations) that are applicable to UOI as a Tier 2 insurer, as well as all material aspects of the Guidelines on Corporate Governance for Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers which are incorporated in Singapore (MAS Guidelines) issued by the Monetary Authority of Singapore (MAS). The MAS Guidelines comprise the Code of Corporate Governance (Code) for companies listed on the Singapore Exchange Securities Trading Limited (SGX-ST), and supplementary principles and guidelines added by the MAS. References to UOI’s compliance with or deviation from the recommendations in the MAS Guidelines can be found on pages 23 to 26 of the Company’s 2017 Annual Report, which is available in its official website (http://www.uoi.com.sg/uoi/assets/pdfs/UOIAR2017.pdf). Where UOI’s practices differ from the MAS Guidelines, an explanation is provided in the Corporate Governance section of the aforesaid Annual Report.

The Company has put in place a Corporate Governance Structure, which comprises the following key features:

- UOI Board, Audit Committee (AC) and other Board Committees;
- Management and Risk Committees;
- Communication with Shareholders; and
- Ethical Standards.

UOI’s whistleblowing policy provides for an individual to report in confidence, anonymously or otherwise, any impropriety in financial or other matters. Whistleblowing reports may be sent to the AC chairman (c/o Company Secretary, 80 Raffles Place, #04-20 UOB Plaza 2, Singapore 048624). The policy also sets out the procedures by which whistleblowing cases are investigated. All whistleblowing reports received are investigated independently by the AC with the assistance of the internal auditor or an external independent consultant firm. UOI prohibits reprisal in any form against whistleblowers who have acted in good faith.

Directors and employees are guided by a code on dealing in securities, which requires them to adhere to applicable laws on insider dealings at all times.

With effect from 2017, PricewaterhouseCoopers Risk Services Pte. Ltd. (PwC) has been appointed as the internal auditor of UOI. The audit approach adopted is based on PwC’s global internal audit framework and methodology which is consistent with the International Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors. The internal auditor has confirmed that it has received appropriate access to information and cooperation from Management to perform its duties.

Management Controls

UOI's system of risk management and internal controls involves management oversight and control, risk identification and management as well as audits. The Company has put in place an enterprise risk management framework which is commensurate with the Company's level of activity, type of business and risk profile. Under the framework, key risks are identified and managed based on four risk dimensions. Each dimension has a defined risk tolerance limit. Annually, the framework is reviewed and updated by Management and approved by the Board. Six management committees assist the Managing Director and Chief Executive to develop and to implement systems and controls for risk management and to ensure their continued relevance and effectiveness. UOI has established policies and procedures which are consistent with the nature, complexity and materiality of the Company's activities, and compliance with such policies and procedures is monitored. More information on the management committees, risk dimensions and key risk types under UOI's enterprise risk management framework can be found in the Risk Management section of the Company's Annual Report 2017, which is available in its official website (http://www.uoi.com.sg/uoi/assets/pdfs/UOIAR2017.pdf).

The six management committees, comprising the managerial staff of the Company, meet regularly to deliberate on matters relating to the key types of risks under their respective supervision.

The *Management Committee* monitors the overall operational matters of the Company. It formulates, reviews and approves policies and strategies relating to the monitoring and management of operational risks and develops appropriate action plans across all business and support units. It also sets strategic directions of the Company, determines the allocation of resources and monitors the execution of strategic plans and key performance indicators.

The *Risk Management and Compliance Committee* addresses all risk management, corporate governance and compliance issues affecting the Company. These issues can emanate from regulatory authorities, industry associations, parent company, auditors and other relevant bodies. It monitors the implementation of risk management policies and procedures by all operational units. It also develops and implements compliance policies, procedures and guidelines to meet the regulatory requirements applicable to the Company. As part of its risk management monitoring function, it receives reports from committees which address the key risks emanating from the Company's core business activities namely the Underwriting and Claims Committee and Credit Control Committee.

The *Underwriting and Claims Committee* establishes underwriting and claims policies and procedures. Appropriate risk management strategies are applied to address the variety of underwriting risks accepted. Issues arising from claims development and provisions are dealt with judiciously. It also monitors the compliance of such policies and procedures by all operational units pertaining to insurance risks.

The *Credit Control Committee* establishes credit control policies and procedures, and ensures that the premium collection process is implemented by all operational units. It approves write-off of bad debts and develops action plans to improve collection or initiate remedial recovery actions.

The *Business Development Committee* develops and executes business plans of the Company, reviews business performance and formulates action plans to enhance business performance. Market trends and changes in business risks are identified, addressed and managed accordingly.

In addition, the *Investment Committee*, which comprises senior managerial staff of UOI, investment specialists from its parent company and representatives of its fund manager, meets regularly to monitor and manage the Company's investment portfolios.

3. **Quantitative and qualitative information about the licensed insurer's enterprise risk management framework including its asset-liability management ("ALM") for its entire business and, where appropriate, at a segmented level as appropriate to the business of the insurer. The licensed insurer shall disclose the methodology and key assumptions employed in the measurement of assets and liabilities for ALM purposes, and any capital or provisions held as a consequence of a mismatch between assets and liabilities**.

Enterprise Risk Management ("ERM") Framework

Under the Company's ERM framework, risks are categorised and managed under a number of risk dimensions.

Along these risk dimensions, UOI has developed a risk tolerance framework which comprises 3 levels. Level 1 of the framework contains the risk tolerance statements which are defined for each risk dimension. These set the Company's overall appetite for risk which guides further decisions and details in the subsequent levels. In Level 2, the risks that impact UOI in each risk dimension are placed into various risk categories. In Level 3, risk metrics that can be used to measure and quantify each risk category are identified and risk tolerance limits are set so that they can be addressed in daily business operations.

Asset-Liability Management

ALM is the practice of managing a business so that decisions and actions taken with respect to all assets and liabilities are coordinated. ALM looks at all risks arising from an insurer's assets in relation to its liabilities, including insurance risk, liquidity risk, market risks and counterparty risk.

As a general insurer, the Company accepts the transfer of uncertainty from its policyholders and seeks to add value through the aggregation and management of these risks. The inherent uncertainty in the insurance operation has translated into uncertainty in the Company's cash outflow requirements.

It is the Company's policy to maintain adequate liquidity and sufficient marketable assets to meet its cash outflows requirement at all time.

In order to match the unexpected cash outflow requirements, the Company is cautious in its choice of asset types and holds sufficient liquid and marketable assets which provide the Company with acceptable level of liquidity risk, market risks and counterparty risk, taking into account the Company's risk tolerances and objectives for growth and profit.

As at 31 December 2017, the Companyôs total liabilities was adequately covered by liquid assets comprising bank balances, fixed deposits and marketable investments as follows:

Liquid Assets and Total Liabilities	**31 Dec 2017 S$'000**	**31 Dec 2016 S$'000**
Liquid Assets		
Bank balances and fixed deposits	54,452	59,648
Marketable investments	427,401	380,741
Total Liquid Assets	**481,853**	**440,389**
Liabilities		
Insurance creditors	13,755	21,163
Non-trade creditors and accrued liabilities	5,674	4,138
Amount owing to related companies	1,968	2,140
Derivative financial liabilities	-	1,775
Tax payable	8,334	7,478
Deferred tax liabilities	10,524	6,416
Deferred acquisition cost ï reinsurersô share	9,354	9,298
Gross technical balances		
- Reserve for unexpired risks	64,153	62,972
- Reserve for outstanding claims	155,414	156,363
Total Liabilities	**269,176**	**271,743**
Surplus Liquid Assets	**212,677**	**168,646**

(Notes: Figures are extracted from UOIôs audited financial statements, which were prepared in conformity with Singapore Financial Reporting Standards. Reserve for unexpired risks and outstanding claims are compared with report issued by an external professional actuary to ensure that they are not less than the actuaryôs projections, which are prepared for the valuation of premium and claims liabilities in accordance with Section 37 of the Insurance Act, Cap. 142, on a yearly basis.)

As at 31 December 2017, there is no mismatch between assets and liabilities.

4. Quantitative and qualitative information on all of the licensed insurer's reasonably foreseeable and relevant material insurance risk exposures, and the management of such risk exposures, including:

a) its objectives and policies, models and techniques for the management of insurance risk exposures and underwriting process controls;
b) the nature, scale and complexity of risks arising from insurance contracts;
c) the use of reinsurance or other forms of risk transfer;
d) an understanding of the interaction between capital adequacy and risk; and
e) a description of risk concentrations.

Insurance Risk Exposures
The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and unpredictable.

Objectives, Policies, Models and Techniques for Management of Insurance Risk and Underwriting Process Controls
As general insurance business encompasses a wide range of different insurance products, a prudent management of risks is fundamental to the Company's business. This safeguards not only the interest of its shareholders but also that of its policyholders. The Company has developed a robust underwriting framework to manage its insurance risk exposures and control its underwriting processes, and ensure that all risks accepted meet with its guidelines and standards.

The Company has put in place processes and internal control systems over the acceptance, renewal, accumulation and concentration of insurance risks as well as the placement of reinsurance.

Under the Company's ERM framework, insurance risk is identified as one of the risk categories of the risk dimension of earnings. Through the monitoring and controlling of various risk levers and risk metrics, the Company manages the insurance risks it has accepted and the accumulation, concentration, reinsurance and retention of these risks.

Nature, Scale and Complexity of Risks arising from Insurance Contracts
One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The principal uncertainty in the Company's financial statements primarily arises in the technical provisions which include the provisions of premium and claim liabilities. The premium liabilities comprise reserve for unexpired risks, net of deferred acquisition cost, while the claim liabilities comprise provision for outstanding claims.

Although the premium and claim liabilities are estimated based on management's best knowledge and judgement of current facts including consultations with its certifying actuary as at the balance sheet date, the actual outcome may differ from the estimates.

Interaction between Capital Adequacy and Insurance Risks

The estimates of premium and claim liabilities are sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual value of premium and claim liabilities can vary from the initial estimates.

Pursuant to the Insurance Act and Insurance (Valuation and Capital) Regulations 2004, all Singapore licensed insurers are required to maintain a capital adequacy of not less than a generic 120% of its total risk requirements or S$5 million, whichever is the higher, or otherwise directed by the Authority.

As at 31 December 2017, the Company's capital adequacy ratio was 545.24% (2016: 516.42%), which exceeded the minimum regulatory requirement.

The following table shows the sensitivity of the Company's financial resources and capital adequacy ratio to a possible change in the net technical provision with all other variables held constant:

Interaction between capital adequacy and insurance risk	Increase / Decrease	Impact on Financial Resources S$'000	Impact on Capital Adequacy Ratio (Percent Point)
2017 Net technical provision	-5% +5%	+4,043 -4,043	+14.49 -14.06
2016 Net technical provision	-5% +5%	+4,322 -4,322	+16.10 -15.54

Risk Concentrations

The Company's businesses are primarily derived from Singapore and the region, and are segregated into separate insurance fund accounts in accordance with the requirement of the Singapore Insurance Act (Chapter 142).

As required under the Singapore Insurance Act, the Company has established and maintained a Singapore Insurance Fund ("SIF") for insurance business relating to Singapore policies and an Offshore Insurance Fund ("OIF") for insurance business relating to offshore policies. Breakdown of the Company's gross premiums written into these insurance funds are as follows:

Gross Premiums Written	SIF S$'000	OIF S$'000	Total S$'000
2017	79,049 (76%)	24,695 (24%)	103,744 (100%)
2016	83,765 (78%)	23,178 (22%)	106,943 (100%)

In 2017, 76% of the Company's gross premiums written were derived from Singapore policies. Therefore, geographically, there is an inherent concentration of insurance risks in the Company's insurance portfolio.

<u>Use of Reinsurance</u>

The Company has developed a reinsurance management strategy which manages the concentration of insurance risks based on historical experience of loss frequency and severity of similar risks and in similar geographical zones. The primary objectives of the Company's reinsurance management strategy are to protect its shareholders' fund, reduce volatility in underwriting result, provide the Company with competitive advantage, maintain sound and diversified reinsurance securities and develop long-term strategic partnership with key reinsurers.

The Company has formalised a policy on Financial Security of Reinsurers. In addition, it has established a guideline on Credit Risk Limit for Reinsurers which limits the volume of business that the Company cedes to any one individual reinsurer or reinsurance group during a year. The limit is set based on the reinsurer's country of domicile, financial strength credit rating and its size of shareholders' fund.

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5. **Quantitative and qualitative information about the determination of technical provisions, including future cash flow assumptions, the rationale for the choice of discount rates, and a description of methodology used to determine technical provisions (e.g. risk adjustment methodology) which shall be presented in appropriate segments.**

Estimation Process of Technical Provisions

Technical provisions include the provisions of premium and claim liabilities. The premium liabilities comprise reserve for unexpired risks, net of deferred acquisition cost, while claim liabilities comprise provision of outstanding claims.

The best estimates for premium liabilities have been determined such that the total liability provision would be adequate to pay for future claims and expenses in servicing the unexpired policies as of the valuation date.

The claims provision estimation process involves estimation of reserve of outstanding reported claims (case reserves), and estimation of additional reserves for incurred but not reported claims (IBNR) and expected future movements in the estimated ultimate liabilities associated with outstanding reported claims incurred but not enough reported (IBNER). Case reserves are set and periodically reviewed by the claims department. IBNR and IBNER reserves are determined by the Company after taking into account the certifying actuary's assessment. The claim liabilities are subject to a yearly actuarial review and at year end a formal actuarial report will be provided on the adequacy of the Company's claim liabilities.

In forming their view on the adequacy of the claims provision, the actuary uses a variety of statistical projection techniques like the Chain Ladder and Bornhuetter-Ferguson methods. Claims provision is separately analysed by insurance fund and by class of business and it is intended to provide a minimum of 75% level of assurance of adequacy, and therefore include a provision for adverse deviation beyond the best estimate of the claim liabilities.

Determination of Technical Provisions

In determination of technical provisions, the Company has relied on historical data and other quantitative and qualification information. There is a limitation on the accuracy of the estimates in that there is an inherent uncertainty in any estimates of claim liabilities and unexpired risk reserves. This is due to the fact that ultimate liabilities for claims is subject to the outcome of events yet to occur, e.g. the likelihood of claimants bringing lawsuits, the size of damage awards, changes in the standards of liability and attitudes of claimants towards settlement of their claims. Both claim liabilities and unexpired risk reserves are also subject to changes in the reinsurance market and to events, which have not yet occurred, e.g. the recoverability of reinsurance claims.

Assumptions

The principal assumption underlying the actuarial estimate of the claim liabilities is that the past claims development experience of the Company is indicative of likely future claims development, both in terms of expected amounts (which include future cash flow arising from claim settlements and future case reserve movements) and variability around those expected amounts. In estimating the required claims provision, actuary also considers business strategy, trends in claims frequency and severity, rate of settlement, and the impact of changes in the underwriting and claims handling policies of the Company. There is typically a lot of judgement involved in estimating the claim liabilities.

The Company has not made any special assumptions about the level of future claim inflation. Inflation is implicitly accounted for to the extent that it exists in the historical claim experience. The projected claims cost represents the Companyǿs best estimate of the ultimate value of claims on an undiscounted, full ultimate value basis.

Technical Provisions by Segment

The Companyǿs technical provisions by insurance fund accounts maintained in accordance with the Singapore Insurance Act are as follows:

Net Technical Provisions	**As at 31 Dec 2017**		
	SIF S$'000	**OIF S$'000**	**Total S$'000**
Reserve for unexpired risks, net of deferred acquisition cost	18,135 (78%)	4,937 (22%)	23,072 (100%)
Reserve for outstanding claims	41,745 (72%)	16,036 (28%)	57,781 (100%)

Net Technical Provisions	**As at 31 Dec 2016**		
	SIF S$'000	**OIF S$'000**	**Total S$'000**
Reserve for unexpired risks, net of deferred acquisition cost	19,960 (81%)	4,736 (19%)	24,696 (100%)
Reserve for outstanding claims	46,396 (75%)	15,365 (25%)	61,761 (100%)

Legend: SIF ï Singapore Insurance Fund
OIF ï Offshore Insurance Fund

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6. Quantitative and qualitative information about capital adequacy to enable the reader to evaluate the licensed insurer’s objectives, policies and processes for managing capital and to assess its capital adequacy. The licensed insurer shall disclose its generic solvency requirements as imposed by legislation or otherwise directed by the Authority, the capital available to cover regulatory capital requirements, and information on any internal model used to determine capital resources and requirements.

<u>Capital Management Objectives, Policies and Processes</u>
The Company has an established Capital Management Policy to manage its capital for its business needs and regulatory compliance.

The Company’s policy is to achieve a strong capital adequacy ratio, above the minimum regulatory requirement, through its operations and internal resources so as to maintain financial stability, meet capital funding needs for business operations and project high confidence to customers, business partners and regulators.

In accordance with its Capital Management Policy, the Company has established a dividend policy, tables of retention limits for insurance risks, a guideline on asset allocation for investment, an asset-liability management policy and systems of control to ensure their compliance.

<u>Economic and Regulatory Capital</u>
Under its ERM framework, UOI uses the regulatory risk-based capital model to quantify its significant risks. The Company’s economic capital target is to maintain a capital adequacy well above the minimum regulatory capital adequacy requirement. The Company uses risk metrics to manage its capital adequacy ratio within specific risk tolerance limits and to ensure that strong capitalisation and capital adequacy ratio are maintained.

<u>Capital Adequacy</u>
Pursuant to the Insurance Act and Insurance (Valuation and Capital) Regulations 2004, all Singapore licensed insurers are required to maintain a capital adequacy of not less than a generic 120% of its total risk requirements or S$5 million, whichever is the higher, or otherwise directed by the Authority.

The Company’s capital adequacy ratios as at 31 December 2017 and in the preceding year exceeded the minimum regulatory capital requirements as follows:

Capital Adequacy Ratio	As at 31 Dec 2017 S$’000	As at 31 Dec 2016 S$’000
UOI’s capital adequacy ratio	545.24%	516.42%
Minimum capital adequacy ratio	120.00%	120.00%

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7. Quantitative and qualitative information about the licensed insurer's financial instruments and other investments by class, including:

a) investment objectives;
b) policies and processes;
c) values, assumptions and methods used for general purpose financial reporting and solvency purposes, as well as an explanation of the differences (where applicable); and
d) information concerning the level of sensitivity to market variables associated with the disclosed amounts.

Investment Objectives

The Company's investment objective is to invest in financial assets of quality with good growth potential, proven profitability and record of consistency in paying reasonable dividends in order to achieve the desired rate of return agreed annually with its fund manager.

Policies and Processes

The Company's investment policy and guidelines are established by its Investment Committee and approved by its Audit Committee. The Investment Committee reviews the investment portfolio monthly to ensure compliance with the Company's investment policy and guidelines.

The Company's investment portfolio is managed by a professional team of UOB Asset Management, a subsidiary of UOB. The Board and Investment Committee meet the fund manager regularly to review the performance of investment portfolio.

Under the ERM framework, UOI's investment risk is managed through the monitoring and controlling of two risk levers, namely the Return Target and Asset Allocation Strategy, which are measured and quantified by various risk metrics and are managed within their corresponding risk tolerance limits.

Values, Assumptions and Methods used for Financial Reporting and Solvency Purposes

The valuations of investments as at 31 December 2017 and comparative figures for the preceding year for solvency and general financial reporting purposes are as follows:

Valuation as at 31 Dec 2017	**For Solvency Purposes S$'000**	**For Financial Reporting S$'000**	**Difference S$'000**
Bank balances & fixed deposits	54,452	54,452	-
Equity securities in corporations	89,461	89,461	-
Unit trusts	101,155	101,155	-
Debt securities	238,710	236,785	1,925
Investment in associated company	283	1	282
Total value of investments	**484,061**	**481,854**	**2,207**

Valuation as at 31 Dec 2016	**For Solvency Purposes S$'000**	**For Financial Reporting S$'000**	**Difference S$'000**
Bank balances & fixed deposits	60,933	59,648	1,285
Equity securities in corporations	77,850	77,850	-
Unit trusts	79,703	79,703	-
Debt securities	225,172	223,188	1,984
Investment in associated company	322	1	321
Total value of investments	**443,980**	**440,390**	**3,590**

Prior to 2017, bank balances and fixed deposits held as collateral against performance bonds issued on behalf of policyholders were excluded from the Company's balance sheet for financial reporting purposes. With effect from 1 January 2017, they have been put back to the Company's balance sheet so as to synchronise with the accounting treatment for solvency purposes.

The Company's investments in equity securities and unit trusts are measured at their market value for both financial reporting and solvency purposes.

For financial reporting purposes, debt securities are measured at fair value, which are either quoted market prices or dealer quotes. For solvency purposes, debt securities are measured at their net realisable value.

Investment in associated company is measured at cost for financial reporting and at net realisable value for solvency purposes.

Sensitivity to Market Variables

The Company's investments are exposed to a variety of financial risks, including the effects of changes in equity market prices, foreign currency exchange rates and interest rates.

Market Price Risk

Market price risk is the risk that the valuation or future cash flows of an investment will fluctuate because of changes in market prices (other than exchange and interest rates).

The following table shows the sensitivity of the value of investments to a reasonable possible change in market prices of equity and unit trust investments, with all other variables held constant:

Sensitivity of investment valuation to market price risk	**Increase / Decrease in market price**	**For Solvency Purposes S$'000**	**For Financial Reporting S$'000**
2017	-2% +2%	-3,207 +3,207	-3,164 +3,164
2016	-2% +2%	-2,652 +2,652	-2,615 +2,615

Foreign Exchange Risk

The Company's investments can be affected by movements in the exchange rate between Singapore dollar and other currencies.

The following table shows the sensitivity of the value of investments to a reasonable possible change in the Singapore dollar exchange rate against all other currencies, with all other variables held constant:

Sensitivity of investment valuation to foreign exchange risk	**Increase / Decrease in S$ exchange rate**	**For Solvency Purposes S$'000**	**For Financial Reporting S$'000**
2017	-5% +5%	-1,718 +1,718	-1,718 +1,718
2016	-5% +5%	-1,344 +1,344	-1,344 +1,344

Interest Rate Risk

Interest rate risk refers to the risk that the valuation or future cash flows of an investment will fluctuate because of changes in market interest rates.

The following table shows the sensitivity of the value of investments to a reasonable possible change in market interest rates, with all other variables held constant:

Sensitivity of investment valuation to interest rate risk	**Increase / Decrease in interest rate (basis point)**	**For Solvency Purposes S$'000**	**For Financial Reporting S$'000**
2017	-10 +10	+1,253 -1,253	+1,253 -1,253
2016	-10 +10	+1,030 -1,030	+1,030 -1,030

8. Quantitative and qualitative information on the licensed insurer's financial performance in total and at a segmented level, including quantitative source of earnings analysis, claims statistics (including claims development), pricing adequacy, information on returns on investment assets and components of such returns.

Financial Performance in Total and at Segment Level

Key Financial Performance Data	**2017 S$'000**	**2016 S$'000**	**%**
Profit for the financial year			
Gross premium written	103,744	106,943	-3.0
Net earned premium	43,353	44,992	-3.6
Underwriting profit	25,248	24,525	+2.9
Investment and other income	13,300	2,631	+405.5
Profit before tax	38,548	27,156	+42.0
Breakdown of profit before tax by segment			
- Singapore Insurance Fund	28,259	21,597	+30.8
- Offshore Insurance Fund	5,605	1,728	+224.4
- ShareholdersôFund	4,684	3,831	+22.3
Profit before tax	38,548	27,156	+42.0
Selected balance sheet items as at year-end			
Net technical provision	80,852	86,455	-6.5
Shareholdersôequity	377,580	335,002	+12.7
Total assets	646,756	606,745	+6.6
Breakdown of total assets by segment			
- Singapore Insurance Fund	373,031	361,921	+3.1
- Offshore Insurance Fund	85,149	74,874	+13.7
- ShareholdersôFund	188,576	169,950	+11.0
Total assets	646,756	606,745	+6.6

(Source: Audited financial statements 2017. Further details can be obtained from UOIôs annual reports available at http://www.uoi.com.sg/uoi/about/investor_relations.html)

Gross premium decreased by $3.2 million or 3.0% to $103.7 million due mainly to the Company's portfolio pruning and more selective risk acceptance in view of inadequate premium pricings taking place despite deteriorating market experience in certain classes of business. Correspondingly, net earned premium decreased $1.6 million or 3.6% to $43.4 million as compared to that of the preceding year. Underwriting profit increased by 2.9% to $25.2 million due mainly to lower net claims incurred.

Investment and other income increased by $10.7 million to $13.3 million as compared to $2.6 million in the corresponding period last year due to gains from sales of investments and foreign currency exchange and the absence of impairment provision made last year.

Overall profit before tax increased by 42.0% to $38.5 million.

Pricing Adequacy

Year 2017	**Gross premium written S$'000**	**(a) Net earned premium S$'000**	**(b) Underwriting Profit S$'000**	**Underwriting Profit Ratio (b) / (a) x 100%**
UOI	103,744	43,353	25,248	58.2%
Industry	6,079,817	3,332,071	169,587	5.1%

Year 2016	**Gross premium written S$'000**	**(a) Net earned premium S$'000**	**(b) Underwriting Profit S$'000**	**Underwriting Profit Ratio (b) / (a) x 100%**
UOI	106,943	44,992	24,525	54.5%
Industry	5,558,455	3,194,325	238,532	7.5%

(Source of data for the industry: The General Insurance Association of Singapore)

For the year ended 31 December 2017, UOI attained an underwriting profit ratio of 58.2% (2016: 54.5%) which is higher than the average margin of 5.1% achieved by the industry (2016: 7.5%).

As the Company achieves underwriting profit consistently since 1973 and enjoys profit margin better than the industryꞌs average, the pricing of the Companyꞌs insurance products should be adequate.

Claims Statistics, including Claims Development

The following are the Company's actual claims development compared with previous estimates on gross basis:

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total S$'000
Estimated of claims incurred: **GROSS**											
- at end of accident year	36,694	33,901	41,749	44,992	50,653	80,354	51,991	49,497	67,666	50,098	
- 1 year later	39,358	34,687	43,718	54,297	53,641	79,297	54,793	48,664	67,916		
- 2 years later	38,386	32,437	41,440	51,295	51,420	64,022	52,172	45,692			
- 3 years later	35,064	29,598	38,125	48,677	46,423	59,966	47,179				
- 4 years later	33,879	27,205	34,661	43,555	43,229	54,375					
- 5 years later	29,886	25,430	33,576	41,559	40,962						
- 6 years later	26,408	23,734	31,450	39,181							
- 7 years later	25,631	22,734	29,966								
- 8 years later	22,472	22,364									
- 9 years later	22,253										
Current estimate of claims incurred	22,253	22,364	29,966	39,181	40,962	54,375	47,179	45,692	67,916	50,098	
Less: Cumulative claims paid to date	21,825	21,661	27,862	35,141	29,828	43,908	28,742	28,261	22,161	6,096	
Liability recognized in the balance sheet	428	703	2,104	4,040	11,134	10,467	18,437	17,431	45,755	44,002	154,501
Liability recognized in the balance sheet for 2007 & prior years											913
Total reserve for outstanding claims											155,414

The following are the Company's actual claims development compared with previous estimates on <u>net</u> basis:

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total S$'000
Estimated of claims incurred: **NET**											
- at end of accident year	13,528	14,784	20,394	22,500	24,853	27,458	22,829	24,872	24,275	20,090	
- 1 year later	13,997	12,433	20,277	26,822	23,624	26,472	22,111	20,214	22,206		
- 2 years later	14,496	12,347	19,860	25,989	23,702	25,101	21,096	19,353			
- 3 years later	12,737	10,625	18,338	25,338	21,261	22,665	18,894				
- 4 years later	12,251	9,760	17,172	22,218	19,585	20,438					
- 5 years later	11,656	9,181	16,533	21,350	18,495						
- 6 years later	10,956	8,688	15,464	20,134							
- 7 years later	10,686	8,499	15,035								
- 8 years later	10,409	8,355									
- 9 years later	10,218										
Current estimate of claims incurred	10,218	8,355	15,035	20,134	18,495	20,438	18,894	19,353	22,206	20,090	
Less: Cumulative claims paid to date	9,929	8,004	13,936	18,013	14,924	16,207	12,787	11,558	8,694	2,094	
Liability recognized in the balance sheet	289	351	1,099	2,121	3,571	4,231	6,107	7,795	13,512	17,996	57,072
Liability recognized in the balance sheet for 2007 & prior years											709
Total reserve for outstanding claims											57,781

Returns on Investment Assets and Components of Such Returns

The following table shows the Company's returns on investment assets and components of such returns:

Returns on Investment	**2017 S$'000**	**2016 S$'000**	**Difference S$'000**
Investment income and expenses by components			
- Dividend income from investment	3,233	4,818	(1,585)
- Interest income from investment	8,192	7,970	222
- Interest on bank balances and fixed deposits	330	314	16
- Miscellaneous Income	34	27	7
- Net fair value gains/(losses) on financial derivatives* – realized	5,568	(2,043)	7,611
- Net fair value gains/(losses) on financial derivatives* – unrealized	3,623	(1,651)	5,274
- Exchange gains/(losses)	(8,353)	1,257	(9,610)
	838	(2,437)	3,275
- Net gains/(losses) on sale of investments	2,223	(5,119)	(7,342)
- Impairment on investments	-	(1,298)	1,298
- Amortisation of investments	61	86	(25)
- Management fees	(1,054)	(982)	(72)
- Other expenses	(557)	(748)	191
Investment and other income	13,300	2,631	10,669
Investment assets by components			
- Bank balances and fixed deposits	54,452	59,648	(5,196)
- Equity securities in corporations	89,461	77,850	11,611
- Unit trusts	101,155	79,703	21,452
- Debt securities	236,785	223,188	13,597
- Investment in associated company	1	1	-
Total value of investments at year end	481,854	440,390	41,464

* Financial derivatives are forward contracts used by the Company to manage its foreign exchange exposure arising from investment in debt securities denominated in foreign currencies.