Company Registration No. 198905490E

Tenet Sompo Insurance Pte. Ltd.

Annual Financial Statements
31 December 2015

Building a better working world

Tenet Sompo Insurance Pte. Ltd.

General information

Directors

Nobuhiro Kojima	(Appointed on 10 September 2015)
Katsuyuki Tajiri	(Resigned on 10 September 2015)
Takanori Ono	
Tan Yian Hua	
Lee Soo Kwan	
Gabriel Teo Chen Thye	

Secretary

Anthony Anne Catharine

Registered Office

50 Raffles Place
#05-01/06 Singapore Land Tower
Singapore 048623

Auditor

Ernst & Young LLP

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The directors have pleasure in presenting their statement to the member together with the audited financial statements of Tenet Sompo Insurance Pte. Ltd. (the "Company") for the financial year ended 31 December 2015.

Opinion of the directors

In the opinion of the directors,

(a) the financial statements of the Company are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Company for the year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

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

Nobuhiro Kojima	(Appointed on 10 September 2015)
Takanori Ono	
Tan Yian Hua	
Lee Soo Kwan	
Gabriel Teo Chen Thye	

Arrangements to enable directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, an interest in shares and share options of the Company and related corporations, as stated below:

Name of directors and Company in which interests are held	**At the date of appointment**	**At the end of the financial year**
Sompo Japan Nipponkoa Holdings, Inc		
(Ultimate holding company)	**Ordinary shares**	
Nobuhiro Kojima	2,750	2,750
	Share options held in the name of directors	
Nobuhiro Kojima	1,500	1,500

Directors' interests in shares and debentures (cont'd)

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors' contractual benefits

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

Share options

There were no share options granted during the financial year to subscribe for unissued shares of the Company.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Auditor

Ernst & Young LLP have expressed their willingness to accept reappointment as auditor.

On behalf of the board of directors:

Stella

Tan Yian Hua
Director

大野高規

Takanori Ono
Director

Singapore
23 March 2016

Independent auditor's report to the member of Tenet Sompo Insurance Pte. Ltd. (the "Company")

Report on the financial statements

We have audited the accompanying financial statements of Tenet Sompo Insurance Pte. Ltd. (the "Company") set out on pages 5 to 64, which comprise the balance sheet as at 31 December 2015, and the statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility 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 Singapore Companies Act (the "Act") and Singapore 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 unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Tenet Sompo Insurance Pte. Ltd.

Independent auditor's report
For the financial year ended 31 December 2015

Independent auditor's report to the member of Tenet Sompo Insurance Pte. Ltd. (the "Company")

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Company as at 31 December 2015 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst + Young LLP

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

23 March 2016

Statement of profit and loss
For the financial year ended 31 December 2015

	Note	2015 $	2014 $
Gross premiums written		174,629,995	210,313,999
Reinsurance premiums ceded		(75,378,679)	(105,380,893)
Net premiums written		99,251,316	104,933,106
Movement in net Premium liabilities	16(b)	2,200,974	(15,736,524)
Net premiums earned		101,452,290	89,196,582
Gross claims paid		(66,900,750)	(47,553,904)
Reinsurance claims recoveries		27,588,141	10,902,179
Net claims paid	16(a)	(39,312,609)	(36,651,725)
Movement in net Claims liabilities		(3,064,568)	(8,676,938)
Net claims incurred	16(a)	(42,377,177)	(45,328,663)
Gross commission expense		(35,646,994)	(42,977,797)
Reinsurance commission income		15,452,273	22,165,899
Net commission expenses		(20,194,721)	(20,811,898)
Movement in net deferred acquisition costs	16(c)	(3,468,670)	4,931,904
Net incurred commission expense		(23,663,391)	(15,879,994)
Operating and administrative expenses	7	(22,053,431)	(17,840,547)
Net underwriting profit		13,358,291	10,147,378
Net investment income	5	7,807,045	7,521,647
Other income	6	2,892,336	1,328,941
Other operating expenses		(10,578,353)	(9,799,826)
Profit before income tax		13,479,319	9,198,140
Income tax (expense)/credit	9	(1,125,090)	844,762
Profit after tax		12,354,229	10,042,902

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

Statement of comprehensive income
For the financial year ended 31 December 2015

	Note	2015 $	2014 $
Profit for the year		12,354,229	10,042,902
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Net change in fair value (losses)/gains on available-for-sale financial assets	21	(1,948,840)	1,022,501
Other comprehensive income for the year, net of tax		(1,948,840)	1,022,501
Total comprehensive income for the year		10,405,389	11,065,403

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

Balance sheet
As at 31 December 2015

	Note	2015 $	2014 $
ASSETS			
Non-current assets			
Property and equipment	10	2,823,996	3,131,971
Intangible assets	11	359,000	389,300
Investment in subsidiary	4	1,750,000	–
Deferred tax assets	9	11,640,255	13,475,524
		16,573,251	16,996,795
Current assets			
Amount owing from holding companies (non-trade)	13	1,470,596	403,590
Amount owing from related companies (non-trade)	13	17,879	6,036
Prepayments		1,377,021	1,080,133
Trade debtors	14	29,337,683	55,950,252
Other debtors	15	4,565,595	1,875,932
Available-for-sale financial assets	12	174,292,144	111,414,644
Cash and bank balances	20	300,889,183	334,135,293
		511,950,101	504,865,880
Reinsurers' share of technical reserves			
Premium liabilities	16(b)	19,813,582	28,323,503
Claims liabilities	16(a)	100,096,712	107,790,943
Deferred reinsurance commission	16(c)	(2,182,653)	(8,070,811)
		117,727,641	128,043,635
TOTAL ASSETS		646,250,993	649,906,310

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

Balance sheet
As at 31 December 2015

	Note	2015 $	2014 $
EQUITY AND LIABILITIES			
Current liabilities			
Trade creditors	17	18,951,960	30,779,866
Other creditors	18	8,481,545	3,509,427
Provision of taxation	9	–	1,221,188
		27,433,505	35,510,481
Technical reserves			
Premium liabilities	16(b)	77,732,104	88,442,999
Claims liabilities	16(a)	181,978,804	186,608,467
Deferred acquisition costs	16(c)	(8,955,079)	(18,311,907)
		250,755,829	256,739,559
Total liabilities		278,189,334	292,250,040
Shareholders' equity			
Share capital	19	418,327,805	418,327,805
Accumulated losses		(132,270,918)	(144,625,147)
Amalgamation reserve		81,608,762	81,608,762
Fair value adjustment reserves	21	396,010	2,344,850
Total equity		368,061,659	357,656,270
TOTAL EQUITY AND LIABILITIES		646,250,993	649,906,310

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

Tenet Sompo Insurance Pte. Ltd.

Statement of changes in equity
For the financial year ended 31 December 2015

	Share capital $	Accumulated losses $	Amalgamation reserve $	Fair value adjustment reserves (Note 21) $	Total $
Balance at 1 January 2015	418,327,805	(144,625,147)	81,608,762	2,344,850	357,656,270
Profit after tax	–	12,354,229	–	–	12,354,229
Other comprehensive income for the year, net of tax	–	–	–	(1,948,840)	(1,948,840)
Total comprehensive income for the year	–	12,354,229	–	(1,948,840)	10,405,389
Balance at 31 December 2015	418,327,805	(132,270,918)	81,608,762	396,010	368,061,659
Balance at 1 January 2014	418,327,805	(154,668,049)	81,608,762	1,322,349	346,590,867
Profit after tax	–	10,042,902	–	–	10,042,902
Other comprehensive income for the year, net of tax	–	–	–	1,022,501	1,022,501
Total comprehensive income for the year	–	10,042,902	–	1,022,501	11,065,403
Balance at 31 December 2014	418,327,805	(144,625,147)	81,608,762	2,344,850	357,656,270

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

Statement of cash flows
For the financial year ended 31 December 2015

	2015 $	2014 $
Cash flows from operating activities:		
Profit before tax	13,479,319	9,198,140
Adjustments for:		
Allowance/(write-back) for doubtful receivables (Note 14)	11,711	(129,470)
Allowance/(write-back) on impairment of intangible assets	30,300	(371,936)
Loss on Scheme of Transfer	–	1
Depreciation (Note 10)	811,948	816,229
Net investment income	(7,807,045)	(5,621,489)
(Decrease)/increase in gross claim liabilities	(4,629,663)	13,426,603
Decrease/(increase) in reinsurers' share of premium liabilities and claims liabilities	16,204,153	(8,463,963)
(Decrease)/increase in gross premium liabilities	(10,710,895)	19,450,822
Decrease/(increase) in deferred acquisition cost	9,356,828	(10,815,539)
(Decrease)/increase in deferred reinsurance commissions	(5,888,158)	5,883,635
Operating cash flows before working capital changes	10,858,498	23,373,033
Decrease/(increase) in debtors	24,666,595	(1,596,019)
Decrease in creditors	(7,605,788)	(1,070,145)
Increase in amount owing from holding and related companies (non-trade)	(1,078,849)	(222,663)
Cash flows from operations	26,840,456	20,484,205
Income tax paid	(119,278)	–
Net investment income received	6,523,348	5,313,524
Net cash flows generated from operating activities	33,244,526	25,797,729
Cash flows from investing activities:		
Purchase of property and equipment (Note 10)	(503,972)	(1,380,774)
Proceeds from disposal of property and equipment	–	11,580
Acquisition of subsidiary	(1,000,000)	–
Purchase of available-for-sale financial assets	(187,603,623)	(16,263,872)
Proceeds from disposal and redemption of available-for-sale financial assets	122,616,959	22,500,000
Net cash flows (used in)/generated from investing activities	(66,490,636)	4,866,934
Net (decrease)/increase in cash and bank balances	(33,246,110)	30,664,664
Cash and bank balances at beginning of year	334,135,293	303,470,629
Cash and bank balances at end of year (Note 20)	300,889,183	334,135,293

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

1. Corporate information

The financial statements of Tenet Sompo Insurance Pte. Ltd. (the "Company") for the financial year ended 31 December 2015 were authorised by the Board of Directors for issuance on 23 March 2016.

The Company is a limited liability company which is incorporated and domiciled in Singapore.

The Company's immediate holding company is Sompo Japan Nipponkoa Holdings (Asia) Pte. Ltd. (formerly known as Sompo Japan Asia Holdings Pte. Ltd.), incorporated in Singapore and the ultimate holding company is Sompo Japan Nipponkoa Holdings Inc. (formerly known as NKSJ Holdings Inc.), incorporated in Japan. Related companies in these financial statements refer to the Sompo Japan Nipponkoa Holdings Inc. group of companies.

The registered office and principal place of business of the Company is located at 50 Raffles Place, #05-01/06 Singapore Land Tower, Singapore 048623.

The principal activities of the Company are the underwriting and reinsurance of general insurance business. There have been no significant changes in the nature of these activities during the year.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act.

The financial statements have been prepared on a historical cost basis, except for financial assets classified as available-for-sale which have been measured at their fair values.

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

The financial statements are presented in Singapore Dollars (SGD or $), the functional currency of the Company. Management has determined the currency of the primary economic environment in which the Company operates ie. functional currency, to be Singapore Dollars as it best reflect the economic substance of the underlying events and circumstances relevant to the Company. Revenue and major costs including the major operating expenses are primarily influenced by fluctuations in Singapore Dollars.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

2. Summary of significant accounting policies (cont'd)

2.1 *Basis of preparation (cont'd)*

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The financial statements of the subsidiary have not been consolidated with the Company's financial statements as its ultimate parent, Sompo Japan Nipponkoa Holdings Inc. (formerly known as NKSJ Holdings Inc.) incorporated in Japan, prepares consolidated financial statements which are available for public use. The registered address of Sompo Japan Nipponkoa Holdings Inc. (formerly known as NKSJ Holdings Inc.) is 26-1 Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo, 160-8338 Japan.

2.2 *Basis of amalgamation*

The financial statements comprise the financial statements of the Company and its related company that had been amalgamated during the prior financial year. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group are eliminated in full.

Amalgamation involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the amalgamated entities are reflected at their carrying amounts. Any differences between the consideration paid and the share capital and reserves of the "amalgamated" entity is reflected within equity as amalgamation reserve.

2.3 *Adoption of new and revised standards*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards and interpretations of FRS that are effective for annual periods beginning on or after 1 January 2015. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Company.

2. Summary of significant accounting policies (cont'd)

2.4 *Standards issued but not yet effective*

A number of new standards, amendments to standards and interpretations have been issued in 2015, and are only effective for periods beginning after 1 January 2015. As such, the Company has not adopted or applied them in preparing these financial statements.

The Company is currently assessing the potential impact of adopting these new standards and interpretations, on the financial statements of the Company.

These new standards include, among others, FRS 115 *Revenue from Contracts with Customers* and FRS 109 *Financial Instruments* which are mandatory for adoption by the Company on 1 January 2017 and 1 January 2018 respectively.

• FRS 115 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met. When effective, FRS 115 replaces existing revenue recognition guidance, including FRS 18 *Revenue*, FRS 11 *Construction Contracts*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreement Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services.*

• FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements.

As FRS 115 and FRS 109, when effective, will change the existing accounting standards and guidance applied by the Company in accounting for revenue and financial instruments, these standards are expected to be relevant to the Company. The Company has set up project teams to assess the potential impact on its financial statements and to implement the standards. The Company does not plan to adopt these standards early.

2. Summary of significant accounting policies (cont'd)

2.5 *Revenue and expense recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Premium income*

Premium income is recognised at the time a policy is issued, which approximates the inception date of the risk. Reinsurance premium income is recognised when advised. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense.

Premiums on long-term policies are recognised at commencement of contract and premiums not relating to the current financial year have been adjusted for as long term unexpired risk.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business.

At initial recognition of premiums, an unearned premium reserves is established equal to the amount of written premium. Premium is then recognised as earned over the policy term in accordance with the period of insurance service, by recording changes in the unearned provision against premium income.

(b) *Commission expense*

Commission expenses paid or payable to intermediaries (brokers/agents) upon acquiring new and renewal insurance business are recognised as expenses in profit and loss.

(c) *Commission income*

Commission income comprises reinsurance commissions received or receivable from reinsurers and is recognised as income in profit or loss.

(d) *Interest income*

Interest income is recognised using the effective interest method.

(e) *Dividend income*

Dividend income is recognised when the Company's right to receive payment is established.

2. Summary of significant accounting policies (cont'd)

2.6 *Claims*

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage, other recoveries and any adjustments to claim's outstanding from prior years.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

2.7 *Claims liabilities*

Provision is made for the estimated cost of all claims notified but not settled at the balance sheet date, less reinsurance recoveries, using the best information available at that time. Provision is also made for claims incurred but not reported (IBNR) at the balance sheet date based on historical claims experience, adjusted for variations in expected future settlement, as well as direct and indirect claims expenses.

At each reporting date, prior year's claim estimates are reassessed for adequacy and changes are made to the provision. Additional provision may be made by management as deemed necessary.

2.8 *Foreign currency transactions*

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currencies at 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 balance sheet date. 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 determined.

Exchange differences arising from the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the statement of profit and loss.

2. Summary of significant accounting policies (cont'd)

2.9 *Insurance contracts and related liabilities*

Insurance contracts are those contracts when the Company (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 Company 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. Any contract not considered insurance contracts under the FRS are classified as investment contracts.

General insurance contract liabilities include the outstanding claims provision, the unearned premium reserve and the provision for premium deficiency. These liabilities, where necessary, are discounted for the time value of money. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

2.10 *Employee benefits*

(a) *Defined contribution plan*

As required by Singapore law, the Company makes contributions to the state pension scheme, the Central Provident Fund ("CPF"). CPF contributions are recognised as compensation expense in the same period as the employment that gives rise to the contribution.

(b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

2. Summary of significant accounting policies (cont'd)

2.11 *Premium liabilities*

Premium liabilities are the higher of unearned premium reserves or unexpired risk reserves.

Unearned premium reserves are calculated using the following methods and rates based on gross premiums less return premiums and reinsurance premiums:

Singapore Insurance Fund:		
Fire	-	on a basis not less accurate than the $^1/_{24}$th method
Marine	-	25% of net written premium
Accident	-	on a basis not less accurate than the $^1/_{24}$th method
Offshore Insurance Fund:		
Marine	-	25% of net written premium
Others	-	40% of net written premium

Where a basis not less accurate than the $^1/_{24}$th method is used, written premium is further reduced by actual commission payable.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Unexpired risk reserves is calculated based on the expected loss on unexpired policies after taking into consideration all benefits, claims, claims adjustment expenses, acquisition cost, maintenance expenses, and policyholders experience participation, as determined by the Actuary.

Liability adequacy test

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of any loss adjustors' expenses. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

2. Summary of significant accounting policies (cont'd)

2.12 *Deferred acquisition costs ("DAC")*

Commission and other acquisition costs incurred during the financial period arising from securing new insurance contracts and/or renewing existing insurance contracts are deferred to the extent that they are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to recognition, DAC is amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value an impairment loss is recognised in the income statement. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are either settled or disposed of.

2.13 *Deferred reinsurance commissions*

Commissions receivable on outwards reinsurance contracts are deferred and amortised on straight line basis over the term of the expected premiums payable.

2.14 *Reinsurance*

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers 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 insurance contract.

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

2. Summary of significant accounting policies (cont'd)

2.14 *Reinsurance (cont'd)*

Gains and losses on buying reinsurance are recognised in the profit or loss immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related insurance 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 expires or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the balance sheet. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest rate method when accrued.

2.15 *Insurance receivables*

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.19 have been met.

2. Summary of significant accounting policies (cont'd)

2.16 *Property and equipment*

All items of property and equipment are initially recorded at cost. Subsequent to recognition, property and equipment and furniture and fixtures are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property and equipment. The cost of an item of property and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

When significant parts of property and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on the straight-line method to write off the cost of the assets over their estimated useful lives which are as follows:

Motor vehicles	-	5 years
Renovations	-	3 years
Furniture and fittings	-	3 years
Office equipment	-	3 years
Computers	-	3 – 5 years

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and if carrying values exceed their recoverable amount, assets are written down.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

Property 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 profit or loss in the year the asset is derecognised.

The Company adopts a policy of writing off individual items of property and equipment amounting to below $1,500 in the year of purchase.

2. Summary of significant accounting policies (cont'd)

2.17 *Intangible assets*

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with indefinite lives are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

2.18 *Investment in subsidiary*

The investment in subsidiary is stated at cost, less any impairment in recoverable value.

A subsidiary is an investee that is controlled by the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

2.19 *Financial assets*

The Company classified its non-derivative financial assets into the following categories: available-for-sale financial assets, loans and receivables and financial assets at fair value through profit or loss.

Initial recognition and measurement

Financial assets are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company 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.

2. Summary of significant accounting policies (cont'd)

2.19 *Financial assets (cont'd)*

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Subsequent to initial recognition, financial assets 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 assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

(b) 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 profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Cash and bank balances, trade debtors and other debtors including those with related parties are carried at amortised cost and are considered as loans and receivables.

(c) Available-for-sale financial assets

The Company classifies its investments as available-for-sale financial assets.

The available-for-sale financial assets are initially recognised at cost, being the fair value of the consideration given and including incremental acquisition charges associated with the investment.

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 asset are recognised in other 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 profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

2. Summary of significant accounting policies (cont'd)

2.19 *Financial assets (cont'd)*

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. 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 profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Company 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.

2.20 *Financial liabilities*

Financial liabilities are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

The carrying amounts of these financial liabilities are reasonable approximation of fair values, either due to their short-term nature on or near the balance sheet date.

After initial recognition, financial liabilities at fair value through profit and loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit and loss when the liabilities are recognised, and through the amortisation process.

Trade and other payables

Liabilities for trade and other amounts payable are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Payables to holding and related companies are carried at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where 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 statement of profit and loss.

2. Summary of significant accounting policies (cont'd)

2.21 *Cash and bank balances*

Cash and bank balances consist of current accounts, fixed deposits with banks and cash on hand.

Cash equivalents are those that are readily convertible to know amount of cash and which are subject to an insignificant risk of changes in value.

2.22 *Provisions*

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

Provisions are reviewed at each balance sheet date 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. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.23 *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Company 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 to sell 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. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

Impairment losses are recognised in the statement of profit and loss except for assets that are previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. 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 be recognised previously. Such reversal is recognised in the statement of profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2. Summary of significant accounting policies (cont'd)

2.24 *Impairment of financial assets*

(a) *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, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in 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 profit or loss is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase 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 or loss. 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. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

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 the 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.

2. Summary of significant accounting policies (cont'd)

2.24 *Impairment of financial assets (cont'd)*

(b) *Financial assets carried at amortised cost*

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

If there is objective evidence 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 financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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 profit or loss.

2.25 *Operating leases*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the statement of profit and loss on straight-line basis over the period of the lease.

2.26 *Income taxes*

(a) *Current 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 by the balance sheet date.

Current income taxes are recognised in profit or loss except that tax relating 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. Summary of significant accounting policies (cont'd)

2.26 *Income taxes (cont'd)*

(b) *Deferred tax*

Deferred income tax is provided using the liability method on 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 temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, the 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.

The carrying amount of deferred income 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date 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 income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are recognised in the statement of profit and loss except that deferred tax relating to items recognised directly in equity is recognised directly in equity.

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

(c) *Goods and services tax ("GST")*

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of GST included.

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

2. Summary of significant accounting policies (cont'd)

2.27 *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 Company; 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.

2.28 *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 Company if that person:

(i) has control or joint control over the Company;
(ii) has significant influence over the Company; or
(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) both entities are joint ventures of the same third party.
(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
(vi) the entity is controlled or jointly controlled by a person identified in (a);
(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Company's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Company. The carrying amount of the Company's income tax payables and deferred tax assets at the balance sheet date were $Nil (2014: $1,221,188) and $11,640,255 (2014: $13,475,524) respectively.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value at the end of the reporting period for deferred tax asset is disclosed in Note 9 to the financial statements.

(b) *Insurance contract liabilities*

Significant judgement is also involved in determining the Company's insurance contract liabilities. The process, estimation, sensitivities and key assumptions used in determining the insurance contract liabilities is further discussed in Note 24.

The Company's results in 2011 had been severely affected by the claims arising from the Thailand Flood. The total outstanding claims incurred amounted to $5,070,000 (2014: $11,273,000) (gross) and $1,259,000 (2014: $2,590,000) (net of reinsurance) as at 31 December 2015. At the balance sheet date, these claims were estimated based on the advices from cedants and adjusters; as well as based on the estimation by an external actuary using the expected damage ratio. These estimates, given their magnitude pose significant uncertainty to the financial statements and any subsequent development may result in significant impact to the numbers reported.

3. Significant accounting estimates and judgements (cont'd)

Key sources of estimation uncertainty (cont'd)

(c) *Impairment of trade debtors*

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The provision for allowance for doubtful receivables for the year ended 31 December 2015 amounted to $11,711 (2014: $1,656).

4. Investment in subsidiary

On 16 October 2015, the Company acquired 100% of the shares and voting interests in Premier Insurance Agencies Pte Ltd (the "Agency") following the approval obtained from MAS in the correspondence dated 22 September 2015.

The acquisition of the Agency will enable the Company to manage the business of its individual retiring agents or small corporate agencies over time and to safeguard service continuity to its customers. On acquisition, the Agency will remain as a separate legal entity and there are no plans for the Company to seek an amalgamation or a purchase of the assets in respect of the Company. This is to ensure that the Agency will continue its business as usual to grow its existing business and also to manage the transition of the business of the retiring agents over to the Company.

Consideration transferred

	$
Cash:	
First payment (paid at completion)	750,000
Second payment (payable on first year anniversary of completion)	750,000
Total Consideration	1,500,000

The Company also made a capital injection during the year amounting to $250,000.

Acquisition-related costs

The Company incurred acquisition-related costs of $42,978 on legal fees and due diligence costs. These costs have been included in the 'Operating and administrative expenses'.

4. Investment in subsidiary (cont'd)

	2015
	$
Equity instruments at cost	1,750,000

Name	Principal place of business/Country of incorporation	Ownership interest 2015
		%
Premier Insurance Agencies Pte Ltd [1]	Singapore	100

[1] Audited by CHONG, LIM & PARTNERS LLP

5. Investment income

	2015	2014
	$	$
Interest on corporate and statutory board debt securities	3,566,804	3,387,845
Interest from government debt securities	140,123	–
Interest income from Available-for-sale financial assets	3,706,927	3,387,845
Interest from current accounts	138,944	3,049
Interest from fixed deposits	1,851,374	1,497,348
Interest income from cash and bank balances	1,990,318	1,500,397
Exchange gain on foreign currencies, net	1,171,388	1,900,158
	3,161,706	3,400,555
Dividend income	733,175	733,247
Gain on sale of investments	261,158	–
Investment expenses	(55,921)	–
	7,807,045	7,521,647

6. Other income

	2015 $	2014 $
Agency fees	2,458,795	601,808
IT support fees	73,699	33,973
Interest on premium reserve released	92,350	86,259
Miscellaneous income	249,483	234,965
(Reversal)/impairment of intangible asset	(30,300)	371,936
Gain on sale of property and equipment	48,309	–
	2,892,336	1,328,941

7. Operating and administrative expenses

	2015 $	2014 $
Directors' remuneration	583,502	502,580
Central Provident Fund contributions	1,995,816	1,632,593
Salaries, bonuses and other costs	18,662,165	14,889,145
Depreciation	811,948	816,229
	22,053,431	17,840,547

8. Profit before tax

Profit before tax is arrived at after charging/(crediting) the following items:

	2015 $	2014 $
Directors' fees		
- Current year	100,000	84,500
- Over provision in respect of prior year	(2,500)	–
Operating lease expense (Note 23)	3,286,784	2,649,497
Provision/(write-back) of allowance for doubtful receivables (Note 14)	11,711	(129,470)
Depreciation of property and equipment (Note 10)	811,948	816,229

9. Taxation

(a) *Tax expense/(credit)*

	2015 $	2014 $
Deferred Tax provision	2,227,000	(1,898,000)
	2,227,000	(1,898,000)
Tax deducted at source in respect of prior years reversed to profit and loss account	–	1,053,238
Overprovision of corporate income tax in prior years	(1,101,910)	–
	1,125,090	(844,762)
Deferred tax liability/(asset) related to other comprehensive income		
- Fair value changes of available-for-sale financial assets	(391,731)	190,351

A reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December was as follows:

	2015 $	2014 $
Profit before tax	13,479,319	9,198,140
Tax expense on profit before tax at 17%	2,291,484	1,563,684
Adjustments:		
Expenses not deductible for tax purposes	209,753	38,037
Tax deducted at source in respect of prior years reversed to profit and loss account	–	1,053,238
Tax effect of income brought to tax at 10%	(152,143)	–
Benefits from unabsorbed tax losses	(2,349,094)	(1,601,721)
Overprovision of corporate income tax in prior year	(1,101,910)	–
Movement in deferred taxation charged/ (credited) to profit and loss	2,227,000	(1,898,000)
Tax expense/(credit)	1,125,090	(844,762)

Profit from approved offshore business is taxed at a concessionary rate of 10% in accordance with the Income Tax Regulations. The statutory tax rate is 17% in 2015 (2014: 17%).

9. Taxation (cont'd)

(b) *Deferred taxation*

	2015 $	2014 $
Balance at 1 January	(13,475,524)	(11,767,875)
Charged/(credited) to:		
- Profit and loss account	2,227,000	(1,898,000)
- Fair value adjustment reserve	(391,731)	190,351
Balance at 31 December	(11,640,255)	(13,475,524)

Deferred income tax assets and liabilities

	2015	2014
Deferred tax liabilities		
Revaluations of available-for-sale financial assets	69,745	461,476
Deferred tax assets		
Unabsorbed tax losses	(11,710,000)	(13,937,000)
Net deferred tax assets	(11,640,255)	(13,475,524)

At the end of the reporting period, the Company has tax losses of approximately $186,367,941 (2014: $211,122,291) that are available for offset against future taxable profits of the Company, and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The use of these tax losses is subject to the agreement of the tax authorities and compliance with Singapore Income Tax regulations.

(c) *Provision for taxation*

	2015 $	2014 $
Balance at 1 January	1,221,188	111,124
Reversal of tax deducted at source for prior years charged to profit and loss account	–	1,053,238
Reclassification of withholding tax to other creditors	–	56,826
Tax payments	(119,278)	–
Write-back of carried forward tax provision	(1,101,910)	–
Balance at 31 December	–	1,221,188

10. Property and equipment

	Computers $	Furniture and fittings $	Renovations $	Office Equipment $	Motor vehicles $	Work in Progress ("WIP") $	Total $
Cost							
As at 1 January 2015	4,679,926	352,750	1,143,396	103,865	230,792	523,802	7,034,531
Assets transferred from WIP	316,002	–	–	–	–	(316,002)	–
Additions for the year	422,395	–	11,600	–	3,199	66,778	503,972
Disposals for the year	(6,973)	–	–	–	–	–	(6,973)
As at 31 December 2015	5,411,350	352,750	1,154,996	103,865	233,991	274,578	7,531,530
Accumulated depreciation							
As at 1 January 2015	2,275,320	339,014	1,071,062	80,980	136,184	–	3,902,560
Charge for the year	671,441	5,966	63,038	13,546	57,957	–	811,948
Disposal for the year	(6,973)	–	–	–	–	–	(6,973)
As at 31 December 2015	2,939,788	344,980	1,134,100	94,525	194,141	–	4,707,534
Net carrying amount as at 31 December 2015	2,471,562	7,770	20,896	9,340	39,850	274,578	2,823,996

10. Property and equipment (cont'd)

	Computers $	Furniture and fittings $	Renovations $	Office Equipment $	Motor vehicles $	Work in Progress ("WIP") $	Total $
Cost							
As at 1 January 2014	1,906,000	349,765	1,123,554	53,152	130,733	2,120,735	5,683,939
Assets transferred from WIP	2,120,735	–	–	–	–	(2,120,735)	–
Additions for the year	660,214	2,985	19,842	50,713	123,218	523,802	1,380,774
Disposals for the year	(7,023)	–	–	–	(23,159)	–	(30,182)
As at 31 December 2014	4,679,926	352,750	1,143,396	103,865	230,792	523,802	7,034,531
Accumulated depreciation							
As at 1 January 2014	1,792,778	322,211	858,352	53,152	78,440	–	3,104,933
Charge for the year	489,565	16,803	212,710	27,828	69,323	–	816,229
Disposal for the year	(7,023)	–	–	–	(11,579)	–	(18,602)
As at 31 December 2014	2,275,320	339,014	1,071,062	80,980	136,184	–	3,902,560
Net carrying amount as at 31 December 2014	2,404,606	13,736	72,334	22,885	94,608	523,802	3,131,971

11. Intangible assets

	2015	2014
	$	$
Club memberships		
At cost	627,364	627,364
Less: Provision for impairment	(268,364)	(238,064)
Net carrying amount	359,000	389,300
Analysis of provision for impairment in value		
At 1 January	238,064	610,000
Allowance/(write-back) for the year	30,300	(371,936)
At 31 December	268,364	238,064

12. Available-for-sale financial assets

	2015	2014
	$	$
Corporate and statutory board bonds	153,243,868	95,015,390
Government bonds	8,562,400	–
Quoted equity shares	12,485,459	16,398,837
Unquoted equity shares	417	417
Total available-for-sale financial assets	174,292,144	111,414,644

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices, at the close of business on the reporting date, without any deduction for transaction costs.

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

The carrying values are determined as follows:

	2015	2014
	$	$
Balance at beginning of the year	111,414,644	116,437,920
Transfer from scheme of transfer/amalgamation	–	246,808
Additions	187,603,623	16,017,065
Redemptions and disposals	(122,616,959)	(22,500,000)
Amortisation of discount/(premium) on bonds	231,408	(269,304)
Fair value (losses)/gains	(2,340,572)	1,482,155
Balance at end of the year	174,292,144	111,414,644

12. Available-for-sale financial assets (cont'd)

Fair value hierarchy

The Company classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market date (unobservable inputs)

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant un-observable inputs (Level 3) $	Total $
2015				
Financial assets:				
Available-for-sale financial assets	174,291,727	–	417	174,292,144
2014				
Financial assets:				
Available-for-sale financial assets	111,414,227	–	417	111,414,644

13. Amounts owing from holding and related companies (non-trade)

The amounts owing from holding and related companies (non-trade) are interest-free and repayable on demand. These amounts are unsecured and are expected to be settled in cash.

14. Trade debtors

	2015 $	2014 $
Holding companies	558,928	3,547,327
Related companies	8,433,960	5,802,242
Third parties	20,356,506	46,602,339
	29,349,394	55,951,908
Allowance for doubtful receivables	(11,711)	(1,656)
	29,337,683	55,950,252
Due from insurers	2,983,720	9,623,246
Due from agents, brokers and intermediaries	14,587,197	13,291,798
Due from reinsurers	11,766,766	33,035,208
	29,337,683	55,950,252
Add:		
Other debtors (Note 15)	4,565,595	1,875,932
Amounts owing from holding companies (non-trade) (Note 13)	1,470,596	403,590
Amounts owing from related companies (non-trade) (Note 13)	17,879	6,036
Cash and bank balances (Note 20)	300,889,183	334,135,293
Total financial assets at amortised cost and classified as loans and receivables	336,280,936	392,371,103

Trade debtors relate to amount due from insurers, agents, broker and intermediaries and reinsurers. Trade debtors are non-interest bearing receivables that are due but not impaired and are generally on 30 to 90 days' credit terms. They are recognised at their original invoice amounts which represent their fair value on initial recognition.

Trade receivables denominated in foreign currencies at 31 December 2015 are as follows:

	2015 $	2014 $
US Dollar	2,548,038	6,126,820
Thai Baht	7,855,821	22,096,935
Others	1,188,651	4,813,399
Total	11,592,510	33,037,154

14. Trade debtors (cont'd)

The Company has trade receivables amounting to $3,772,902 (2014: $7,952,293) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	2015 $	2014 $
Trade receivables past due not impaired:		
Less or equal to 90 days	2,271,552	4,132,110
91 to 120 days	27,516	150,190
121 to 180 days	347,593	410,385
181 to 365 days	970,543	2,222,412
More than 365 days	155,698	1,037,196
Total	3,772,902	7,952,293

Receivables that are impaired

The Company's trade receivables that are impaired at the balance sheet date and the movement of the allowance account used to record the impairment are as follows:

	2015 $	2014 $
Trade receivables – nominal amounts	11,711	1,656
Less: Allowance for doubtful receivables	(11,711)	(1,656)
	–	–
Movement in allowance accounts:		
At 1 January	(1,656)	(147,566)
Taken on from scheme of transfer	–	(11,000)
Allowance utilised	1,656	27,440
(Allowance)/Write-back for the year	(11,711)	129,470
At 31 December	(11,711)	(1,656)

15. Other debtors

	2015 $	2014 $
Interest receivable	2,371,066	1,318,778
Dividend receivable	17,000	17,000
Sundry deposits and debtors	2,177,529	540,154
Total	4,565,595	1,875,932

16. Technical reserves

	Gross $	Recoverable from reinsurers $	Net $
2015			
Claims reported and loss adjustment expenses	158,209,730	(85,223,100)	72,986,630
Claims incurred but not reported	23,769,074	(14,873,612)	8,895,462
Claims liabilities	181,978,804	(100,096,712)	81,882,092
Premium liabilities	77,732,104	(19,813,582)	57,918,522
Insurance contract liabilities	259,710,908	(119,910,294)	139,800,614
Deferred acquisition costs and deferred reinsurance commissions	(8,955,079)	2,182,653	(6,772,426)
Total	250,755,829	(117,727,641)	133,028,188
2014			
Claims reported and loss adjustment expenses	163,685,041	(92,311,786)	71,373,255
Claims incurred but not reported	22,923,426	(15,479,157)	7,444,269
Claims liabilities	186,608,467	(107,790,943)	78,817,524
Premium liabilities	88,442,999	(28,323,503)	60,119,496
Insurance contract liabilities	275,051,466	(136,114,446)	138,937,020
Deferred acquisition costs and deferred reinsurance commissions	(18,311,907)	8,070,811	(10,241,096)
Total	256,739,559	(128,043,635)	128,695,924

16. Technical reserves (cont'd)

(a) *Claims liabilities*

2015	Gross $	Reinsurance $	Net $
Notified claims	163,685,041	(92,311,786)	71,373,255
Incurred but not reported	22,923,426	(15,479,157)	7,444,269
Total at beginning of year	186,608,467	(107,790,943)	78,817,524
Cash paid for claims settled in the year	(66,900,750)	27,588,141	(39,312,609)
Movement in claims incurred	62,271,087	(19,893,910)	42,377,177
Total at end of year	181,978,804	(100,096,712)	81,882,092
Notified claims	158,209,730	(85,223,100)	72,986,630
Incurred but not reported	23,769,074	(14,873,612)	8,895,462
	181,978,804	(100,096,712)	81,882,092
2014			
Notified claims	160,104,755	(93,918,745)	66,186,010
Incurred but not reported	13,077,109	(9,122,533)	3,954,576
Total at beginning of year	173,181,864	(103,041,278)	70,140,586
Balances taken on from scheme of transfer	60,322,459	(60,322,459)	–
Cash paid for claims settled in the year	(47,553,904)	10,902,179	(36,651,725)
Movement in claims incurred	658,048	44,670,615	45,328,663
Total at end of year	186,608,467	(107,790,943)	78,817,524
Notified claims	163,685,041	(92,311,786)	71,373,255
Incurred but not reported	22,923,426	(15,479,157)	7,444,269
	186,608,467	(107,790,943)	78,817,524

16. Technical reserves (cont'd)

(b) *Premium liabilities*

	Gross $	Reinsurance $	Net $
2015			
At beginning of the year	88,442,999	(28,323,503)	60,119,496
Changes in the year	(10,710,895)	8,509,921	(2,200,974)
At end of the year	77,732,104	(19,813,582)	57,918,522
2014			
At beginning of the year	68,992,177	(24,609,205)	44,382,972
Balance taken on from scheme of transfer	10,506,670	(10,506,670)	–
Changes in the year	8,944,152	6,792,372	15,736,524
At end of the year	88,442,999	(28,323,503)	60,119,496

(c) *Deferred acquisition costs and deferred reinsurance commissions*

	Deferred acquisition costs $	Deferred reinsurance commissions $	Net $
2015			
At 1 January	(18,311,907)	8,070,811	(10,241,096)
Changes in the year	9,356,828	(5,888,158)	3,468,670
At 31 December	(8,955,079)	2,182,653	(6,772,426)
2014			
At 1 January	(7,496,368)	2,187,176	(5,309,192)
Balance taken on from scheme of transfer	(1,321,537)	1,321,537	–
Changes in the year	(9,494,002)	4,562,098	(4,931,904)
At 31 December	(18,311,907)	8,070,811	(10,241,096)

17. Trade creditors

	2015 $	2014 $
Holding company	4,534,784	11,440,037
Related companies	2,408,306	273,533
Third parties	12,008,870	19,066,296
	18,951,960	30,779,866
Add:		
Accrual for audit fees (Note 18)	144,000	137,500
Sundry creditors (Note 18)	32,874	30,478
Accrued expenses (Note 18)	8,304,671	3,341,449
Total financial liabilities at amortised cost	27,433,505	34,289,293

The amounts due to holding company and related companies are unsecured and non-interest bearing with no fixed repayment terms.

18. Other creditors

	2015 $	2014 $
Accrual for audit fees	144,000	137,500
Sundry creditors	32,874	30,478
Accrued expenses	8,304,671	3,341,449
	8,481,545	3,509,427

These amounts are unsecured and non-interest bearing with payment terms not exceeding 90 days.

19. Share capital

	2015		2014	
	No of shares	$	No of shares	$
Issued and fully paid:				
Balance at beginning of year	418,327,805	418,327,805	418,327,805	418,327,805
Balance at end of year	418,327,805	418,327,805	418,327,805	418,327,805

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

20. Cash and bank balances

Cash and bank balances comprise the following amounts:

	2015	2014
	$	$
Fixed deposits	239,004,349	225,653,928
Cash and bank balances	61,884,834	108,481,365
	300,889,183	334,135,293

Fixed deposits are made for varying periods less than 1 year depending on the immediate cash requirements of the Company, and earn interest at the respective fixed deposit rates ranging from 0.64% to 1.70% (2014: 0.00% to 1.60%) per annum.

21. Fair value adjustment reserves

Fair value adjustment reserves represent the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed of or impaired.

	2015	2014
	$	$
Balance at beginning of the year	2,344,850	1,322,349
Net (loss)/gain on available-for-sale financial assets:		
- Fair value transfer from amalgamation	–	99,355
- Fair value changes during the financial year	(1,948,840)	923,146
Balance at end of the year	396,010	2,344,850

22. Significant related party transactions

(a) The Company has significant transactions with the holding company and related companies on terms agreed between the parties as follows:

	2015	2014
	$	$
Claims paid, commissions paid and reinsurance business ceded		
- Holding company	16,964,782	64,583,062
- Related companies	37,291,794	55,803,673
Claims recovery, commissions received and reinsurance business accepted		
- Holding company	9,959,807	20,376,351
- Related companies	53,810,580	80,156,208
Interest expense to/(income from)		
- Holding company	158	9,671
- Related companies	(40,855)	(37,211)
Agency fees income from		
- Holding company	(2,458,795)	(601,369)
Miscellaneous fees from		
- Holding company	(59,349)	(127,819)
- Related companies	(21,919)	–

(b) Compensation of key management personnel

	2015	2014
	$	$
Short-term employee benefits	573,300	494,319
Central Provident fund contributions	10,202	8,261
	583,502	502,580
Comprise amounts paid to:		
- Directors of the Company (Note 7)	583,502	502,580
	583,502	502,580

Key management personnel include non-independent directors.

22. Significant related party transactions (cont'd)

(c) 100% Quota Share arrangement with Nipponkoa Insurance Company Limited

On 1 January 2014, the Company entered into a Whole Account Quota Share (100% Quota Share) contract with Sompo Japan Nipponkoa Insurance Inc. ("Head Office"), whereby the Company agrees to cede and the Head Office agrees to accept a 100% Quota Share of the net retained portfolio of risks underwritten by Nipponkoa Insurance Co. Ltd, Singapore branch attaching prior to 1 January 2014 and remaining in force on or after 1 January 2014 until natural expiry.

	2015 $	2014 $
Premium Liabilities	293,012	8,707,000
Claims Liabilities	73,197,655	59,608,000
Net liabilities ceded to Head Office	73,490,667	68,315,000
Net reinsurance commission from cession	46,882	1,393,120

23. Operating lease commitments

The Company has entered into commercial property leases for the office space. Operating lease expense recognised as an expense in the profit or loss for the financial year ended 31 December 2015 amounted to $3,286,784 (2014: $2,649,497). Future minimum lease payments under non-cancellable leases as of 31 December are as follows:

	2015 $	2014 $
Not later than 1 year	3,435,646	3,250,117
Later than 1 year but not later than 5 years	8,961,765	12,038,794
	12,397,411	15,288,911

24. Management of insurance risk and financial risk

The Company has a Risk Management Committee that has established a risk manual and an enterprise risk management framework that allows the Company to be prepared for risks.

This framework specifies the practices and processes that need to be in place to manage the Company's financial and non-financial risks on an on-going basis.

The main risks arising from the Company's insurance contracts and financial instruments are summarised below:

(a) *Insurance risk*

The Company principally writes a regional book of general insurances comprising Marine Cargo, Motor, Property, Workmen's Compensation and General Accident.

Regional territories are made up mainly of Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

The Company manages its insurance risk through a comprehensive risk management policy where key performance and risk indicators are clearly defined and monitored. Underwriting guidelines sets out the Company's underwriting strategy, direction and risk appetite by product lines.

The most significant exposure is expected to arise from risks involving properties with high values. To manage this, the Company closely monitors the policy developments and ensures that proper reinsurance protection is in place to protect its net profitability and solvency.

The Company purchases reinsurance coverage on both treaty and facultative basis. The Company's net retention varies according to product lines and loss experience.

The Company relies on its reinsurance arrangements to protect its liquidity and solvency when large losses arise. Its reinsurance placements are diversified and spread amongst selected reinsurers to avoid over-reliance on any single reinsurer.

To mitigate the risk of reinsurance failure, the Company adopts a strict reinsurance management policy that is governed by two key criteria, namely reinsurance usage selection and reinsurance usage concentration. The Company monitors these indicators actively and takes corrective action whenever the need arises.

24. Management of insurance risk and financial risk (cont'd)

(a) *Insurance risk (cont'd)*

The table below sets out the concentration of claims liabilities by type of contract:

Claims liabilities	**Gross claims liabilities**	**Reinsurers' share of claims liabilities**	**Net claims liabilities**
	$'000	$'000	$'000
At 31 December 2015			
Marine	10,713	(5,455)	5,258
Motor	36,345	(6,234)	30,111
Property	80,995	(63,483)	17,512
Workmen's Compensation	18,634	(4,030)	14,604
Others	35,292	(20,895)	14,397
Total	181,979	(100,097)	81,882
31 December 2014			
Marine	12,228	(7,384)	4,844
Motor	31,600	(9,659)	21,941
Property	87,491	(67,089)	20,402
Workmen's Compensation	21,346	(4,269)	17,077
Others	33,943	(19,390)	14,553
Total	186,608	(107,791)	78,817

The geographical concentration of the Company's insurance liabilities at 31 December 2015 is as follows. The disclosure is based on the countries where the insurance business is written.

Claims liabilities	**Gross claims liabilities**	**Reinsurers' share of claims liabilities**	**Net claims liabilities**
	$'000	$'000	$'000
At 31 December 2015			
Indonesia	1,263	(606)	657
Philippines	2,413	(1,250)	1,163
Singapore	116,864	(67,020)	49,844
Thailand	30,464	(7,127)	23,337
Others	30,975	(24,094)	6,881
Total	181,979	(100,097)	81,882

24. Management of insurance risk and financial risk (cont'd)

(a) *Insurance risk (cont'd)*

Claims liabilities	Gross claims liabilities $'000	Reinsurers' share of claims liabilities $'000	Net claims liabilities $'000
At 31 December 2014			
Indonesia	1,396	(599)	797
Philippines	4,854	(1,103)	3,751
Singapore	115,371	(72,398)	42,973
Thailand	37,606	(5,850)	31,756
Others	27,381	(27,841)	(460)
Total	186,608	(107,791)	78,817

(b) *Financial risk*

The Company is exposed to financial risk arising from its operations and the use of financial instruments. In particular the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The key financial risks include credit risk, liquidity risk, currency risk and interest rate risk.

(i) *Credit risk*

Credit risk is risk of loss that arises when an obligor fails to perform its obligations under a contract or when its ability to perform such obligations is impaired.

Asset concentration risk reflects the additional risk of a high concentration of investments in a single company, group of companies, instrument, industry, geographical area, currency, etc. It is well recognised that diversification of investment portfolio reduces risk.

The following is an overview of how the Company manages its significant credit risk exposure:

<u>Reinsurance</u>

Reinsurance is placed with highly rated reinsurers and concentration of risk is monitored periodically. The Company reviews the creditworthiness of reinsurers before renewing the reinsurance arrangements annually, in accordance to the prevailing reinsurance strategy and guidelines.

<u>Investment securities</u>

The Company limits its exposure by setting maximum limits of portfolio securities with a single or group of issuers. The Company also makes use of institutions with high creditworthiness.

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(i) *Credit risk (cont'd)*

Derivatives

The Company does not enter into derivative contracts.

Insurance receivables

The credit risk in respect of the customer balances incurred on the non-payment of premiums or contributions will only persist during the grace period specified in the policy document.

Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The following table provides information regarding the credit risk exposure of the Company at 31 December 2015 by classifying assets according to credit ratings of the counterparties.

Classification of Credit Rating Agencies

Class	Standard & Poor's	Fitch Inc	A.M. Best	Moody's
A	AAA to AA-	AAA to AA-	A++ to A+	Aaa to Aa3
B	A+ to A-	A+ to A-	A to A-	A1 to A3
C	BBB to BBB-	BBB to BBB-	B++ to B+	Baa1 to Baa3
D	BB or worse	BBB or worse	B or worse	Ba1 or worse
	Not Rated	Not Rated	Not Rated	Not Rated

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(i) *Credit risk (cont'd)*

	2015 $'000	2014 $'000
Available-for-sale financial assets	174,292	111,415
Amount owing from holding companies (non-trade)	1,471	404
Amount owing from related companies (non-trade)	18	6
Trade debtors	29,337	55,950
Other debtors	4,566	1,876
Cash and bank balances	300,889	334,135
Total financial assets	510,573	503,786

	2015 $'000	2014 $'000
Class		
A	89,928	102,647
B	294,306	237,695
C	15,328	34,232
D *	111,011	129,212
Total financial assets	510,573	503,786

* Non-rated debt securities included holdings of debt securities issued by Singapore Statutory Boards amounting to $29.80 million (2014: $16.22 million).

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(ii) *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or counterparty failing on repayment of a contractual obligation or insurance liability falling due for payment earlier than expected or inability to generate cash inflows as anticipated.

The Company is exposed to daily cash calls on its available cash resources mainly from claims arising from short term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls that should be in place to cover these claims.

The table below summarises the maturity profile of the Company's financial assets and liabilities at the balance sheet date based on contractual undiscounted payments except for available-for-sale financial assets.

	Within 1 year $'000	**1 to 3 years $'000**	**3 to 5 years $'000**	**More than 5 years $'000**	**Total $'000**
2015					
Financial assets:					
Available-for-sale financial assets	34,052	52,146	45,353	42,741	174,292
Cash and bank balances	300,889	–	–	–	300,889
Amount owing from holding companies (non-trade)	1,471	–	–	–	1,471
Amount owing from related companies (non-trade)	18	–	–	–	18
Trade debtors	29,337	–	–	–	29,337
Other debtors	4,566	–	–	–	4,566
	370,333	52,146	45,353	42,741	510,573
Financial liabilities:					
Trade creditors	18,952	–	–	–	18,952
Other creditors	8,482	–	–	–	8,482
	27,434	–	–	–	27,434

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(ii) *Liquidity risk (cont'd)*

	Within 1 year S$'000	1 to 3 years S$'000	3 to 5 years S$'000	More than 5 years S$'000	Total S$'000
2014					
Financial assets:					
Available-for-sale financial assets	36,592	37,489	25,245	12,089	111,415
Cash and bank balances	334,135	–	–	–	334,135
Amount owing from holding companies (non-trade)	404	–	–	–	404
Amount owing from related companies (non-trade)	6	–	–	–	6
Trade debtors	55,950	–	–	–	55,950
Other debtors	1,876	–	–	–	1,876
	428,963	37,489	25,245	12,089	503,786
Financial liabilities:					
Trade creditors	30,780	–	–	–	30,780
Other creditors	3,509	–	–	–	3,509
	34,289	–	–	–	34,289

(iii) *Currency risk*

Currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the Singapore dollar and the other currencies in which the Company conducts business may affect its financial condition and results of operations. The Company seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The table below summarises the Company's exposure to currency risk at the end of the year by categorising the net financial assets and liabilities by major currencies.

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iii) *Currency risk (cont'd)*

	Financial assets $'000	**Financial liabilities** $'000
31 December 2015		
Available-for-sale financial assets	174,292	–
Amount owing from holding companies (non-trade)	1,471	–
Amount owing from related companies (non-trade)	18	–
Trade debtors	29,337	–
Other debtors	4,566	–
Cash and bank balances	300,889	–
Trade creditors	–	18,952
Other creditors	–	8,482
Total	510,573	27,434
Singapore Dollar	480,701	20,133
US Dollar	13,407	(2,571)
Thai Baht	11,871	7,181
Others	4,594	2,691
Total	510,573	27,434

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iii) *Currency risk (cont'd)*

31 December 2014	Financial assets $'000	Financial liabilities $'000
Available-for-sale financial assets	111,415	–
Amount owing from holding company (non-trade)	404	–
Amount owing from related companies (non-trade)	6	–
Trade debtors	55,950	–
Other debtors	1,876	–
Cash and bank balances	334,135	–
Trade creditors	–	30,780
Other creditors	–	3,509
Total	503,786	34,289
Singapore Dollar	416,145	23,576
US Dollar	44,478	2,622
Thai Baht	35,388	7,266
Others	7,775	825
Total	503,786	34,289

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Company's profit net of tax to a reasonably possible change in the USD and THB exchange rates against the functional currency of the Company, with all other variables held constant.

Increase/(decrease) in profit after tax		2015 $'000	2014 $'000
USD/SGD	- Strengthened 5%	799	2,093
	- Weakened 5%	(799)	(2,093)
THB/SGD	- Strengthened 5%	234	1,406
	- Weakened 5%	(234)	(1,406)

24. Management of insurance risk and financial risk (cont'd)

(b) *Financial risk (cont'd)*

(iv) *Interest rate risk*

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of the changes in interest rate.

The Company's exposure to market risk for changes in interest rates arises from surplus funds that are placed with reputable banks and/or invested in bonds and government securities. The exposure to interest rate risk is closely monitored to maximise the returns on these surplus funds.

Sensitivity analysis for interest rate risk

At the balance sheet date, if market interest rates had been 50 (2014: 50) basis points higher with all other variables held constant, the fair value adjustment reserve would have been $2,325,438 (2014: $1,139,926) lower, arising mainly as a result of a decrease in the fair value of short-term debt securities classified as available-for-sale.

If market interest rates had been 50 (2014: 50) basis points lower with all other variables held constant, the fair value adjustment reserve would have been $2,416,560 (2014: $1,183,925) higher, arising mainly as a result of an increase in the fair value of short-term debt securities classified as available-for-sale.

The following tables sets out the carrying amount, by maturity of the Company's financial instruments that are exposed to interest rate risk.

Financial assets	Effective Interest Rate %	Within 1 year $'000	1 to 3 years $'000	3 to 5 years $'000	More than 5 years $'000	Total $'000
2015						
Debt securities	2.82	21,567	52,146	45,353	42,741	161,807
Cash and bank balances	1.18	300,889	–	–	–	300,889
2014						
Debt securities	2.96	20,192	37,489	25,245	12,089	95,015
Cash and bank balances	0.58	334,135	–	–	–	334,135

24. Management of insurance risk and financial risk (cont'd)

(c) ***Fair value of financial instruments***

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

Unquoted equity shares are valued based on unobservable data (ie net tangible assets from financial statements).

(d) ***Insurance contract liabilities – assumptions and sensitivities***

Cargo, Property and Casualty insurance contracts

Assumptions

One of the principal assumptions underlying the estimated claim liability is that future claim development can be approximated by historical experience. This includes assumptions in respect of claim development factors and initial expected loss ratios for past accident/underwriting years. Direct claims handling costs and future claims inflation are implicitly assumed in the valuation methods. Indirect claims handling expenses are derived based on the Company's management expenses over the past couple of years. Judgment is used to assess the extent to which large claims, reinsurance recoveries, as well as the Company's internal underwriting and claim handling policies affect the estimates.

Other assumptions include the discount rate and the provision for adverse deviation attached to the estimates.

Ultimate claim cost development

(i) The tables below show the actuary's best estimate of the gross and net of reinsurance ultimate claims cost for each accident/underwriting year at yearly intervals together with actual cumulative claim payments for each accident/underwriting year as at 31 December 2015.

(ii) Ultimate claim costs are then compared to actual cumulative claim payments for each accident/underwriting year as at 31 December 2015 to arrive at the best estimate of claim liability as at 31 December 2015.

(iii) With the addition of a provision for adverse deviation ("PAD"), the outstanding claim liabilities are reconciled to the outstanding claim liabilities as per the actuarial valuation of policy liabilities as at 31 December 2015.

24. Management of insurance risk and financial risk (cont'd)

(d) ***Insurance contract liabilities – assumptions and sensitivities (cont'd)***

Gross Loss Development Tables

Gross of reinsurance basis (S$'000)

All SIF & OIF combined - Gross of reinsurance basis

Estimate of cumulative claims Period*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
At end of underwriting year	31,506	28,781	27,678	38,547	38,167	42,614	1,519,701	65,182	69,100	87,189	74,104	
One year later	21,839	21,128	24,082	33,459	31,819	51,280	1,383,700	63,440	61,007	83,188		
Two years later	18,294	19,801	22,738	31,539	37,654	65,931	1,167,762	54,781	59,235			
Three years later	16,934	19,313	21,514	37,176	35,186	148,308	1,161,961	52,242				
Four years later	16,957	18,844	32,492	36,403	34,552	150,571	1,158,547					
Five years later	16,526	22,257	31,445	36,067	33,472	148,907						
Six years later	20,984	22,085	31,346	34,319	33,720							
Seven years later	20,813	21,779	30,589	33,326								
Eight years later	20,798	19,538	30,183									
Nine years later	20,077	19,447										
Ten years later	20,077											
Current estimate of ultimate claims	20,077	19,447	30,183	33,326	33,720	148,907	1,158,547	52,242	59,235	83,188	74,104	1,712,976
Cumulative payments	20,062	19,295	30,081	32,912	32,546	130,204	1,148,530	46,120	46,123	43,276	17,973	1,567,122
Gross estimate of outstanding claim liability	15	152	102	414	1,174	18,703	10,017	6,122	13,112	39,912	56,131	145,854
Best estimate for claims liability (net of unearned & add CHE)	15	157	107	414	1,217	18,771	10,307	6,395	13,589	41,422	57,855	150,249
Reserve for prior years												293
Discounting for time value												-1,569
Provision for adverse deviation												20,129
Outstanding claim liability												169,102
Ex-Nipponkoa Outstanding claim liability												12,877
Total Outstanding claim liability in accounts												181,979

** Refers to accident year for all classes except Marine and Treaty classes where an underwriting year is used.*

24. Management of insurance risk and financial risk (cont'd)

(d) ***Insurance contract liabilities – assumptions and sensitivities (cont'd)***

Net Loss Development Tables

Net of reinsurance basis (S$'000)

All SIF & OIF combined - Net of reinsurance basis

Estimate of cumulative claims Period*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
At end of underwriting year	27,498	26,764	26,141	36,227	32,454	36,491	363,965	41,334	32,910	52,179	46,691	
One year later	19,154	19,545	22,657	31,554	26,593	31,696	303,089	33,210	31,128	50,861		
Two years later	15,901	18,282	21,499	29,838	23,102	29,015	269,984	31,607	29,234			
Three years later	14,677	17,705	20,283	28,293	20,947	33,556	264,815	29,358				
Four years later	14,693	17,259	20,082	27,491	21,137	28,021	263,916					
Five years later	14,326	17,017	19,097	27,096	20,625	27,161						
Six years later	14,294	16,828	19,122	27,217	20,566							
Seven years later	14,135	16,681	18,994	26,386								
Eight years later	13,867	16,638	18,810									
Nine years later	13,856	16,531										
Ten years later	13,855											
Current estimate of ultimate claims	13,855	16,531	18,810	26,386	20,566	27,161	263,916	29,358	29,234	50,861	46,691	543,369
Cumulative payments	13,849	16,474	18,756	26,385	19,869	26,115	259,758	25,807	23,333	30,094	13,689	474,129
Net estimate of outstanding claim liability	6	57	54	1	697	1,046	4,158	3,551	5,901	20,767	33,002	69,240
Best estimate for claims liability (net of unearned & add CHE)	6	62	59	1	740	1,114	4,448	3,824	6,377	22,277	34,869	73,777
Reserve for prior years												163
Discounting for time value												-945
Provision for adverse deviation												8,887
Outstanding claim liability in accounts												81,882

** Refers to accident year for all classes except Marine and Treaty classes where an underwriting year is used.*

24. Management of insurance risk and financial risk (cont'd)

(d) *Insurance contract liabilities – assumptions and sensitivities (cont'd)*

Sensitivity analysis

(i) The purpose of the sensitivity analysis is to assess the relative importance of key assumptions used in the net of reinsurance actuarial valuation of outstanding claim and premium liabilities as at 31 December 2015. In this context, the outstanding claim and premium liabilities are defined as the total claim and premium liabilities for the Singapore Insurance Fund business and Offshore Insurance Fund business combined respectively, including provision for adverse deviation (these are referred to as "the base scenario" in the sensitivity analysis summary).

(ii) The key assumptions considered in the sensitivity analysis of the claim liabilities include a 5 percentage point increase or decrease in:

- the assumed initial expected loss ratio for each class of business in the 2015 accident/underwriting year;
- the first year incurred loss development factors (referred to as "first incurred development factor") for each class of business;
- the assumed level of indirect claim handling expenses; and
- the assumed PAD factor for each class of business.

(iii) The key assumptions considered in the sensitivity analysis of the premium liabilities include a 5 percentage point increase or decrease in:

- the assumed ultimate loss ratio for each class of business in the 2015 accident/underwriting year;
- the assumed level of management expenses for each class of business; and
- the assumed PAD factor for each class of business.

(iv) The sensitivity analysis is based on the assumptions set out in the actuarial report and is subject to the same reliance and limitations contained in the report. One particular reliance is that the net sensitivity results assume that all reinsurance recoveries are receivable in full.

(v) The sensitivity values shown for each assumption item are independent of changes to other assumption items. In practice a combination of adverse and favourable changes could occur.

(vi) The sensitivity results are not intended to capture all possible outcomes. Significantly more adverse or favourable results are possible.

24. Management of insurance risk and financial risk (cont'd)

(d) *Insurance contract liabilities – assumptions and sensitivities (cont'd)*

Percentage Change in Claim Liability Sensitivity Analysis

Assumption	Gross of reinsurance +5%[1]	Gross of reinsurance -5%[1]
Reported total actuarial claims liability ($'000)	180,930	
Initial Expected Loss Ratio[2]	3.2%	-3.2%
First Incurred Development Factor[3]	0.4%	-1.1%
Claim Handling Expenses[4]	0.2%	-0.2%
Provision for Adverse Deviation	0.6%	-0.6%

Percentage Change in Premium Liability Sensitivity Analysis

Assumption	Gross of reinsurance +5%[1]	Gross of reinsurance -5%[1]
Reported total premium liability ($'000)	68,777	
Ultimate Loss Ratio[2]	1.1%	0.0%
Management expense ratio[4]	0.0%	0.0%
Provision for Adverse Deviation	0.0%	0.0%

Percentage Change in Claim Liability Sensitivity Analysis

Assumption	Net of reinsurance +5%[1]	Net of reinsurance -5%[1]
Reported total actuarial claims liability ($'000)	80,833	
Initial Expected Loss Ratio[2]	3.3%	-3.3%
First Incurred Development Factor[3]	0.4%	-1.6%
Claim Handling Expenses[4]	0.3%	-0.3%
Provision for Adverse Deviation	0.5%	-0.5%

Percentage Change in Premium Liability Sensitivity Analysis

Assumption	Net of reinsurance +5%[1]	Net of reinsurance -5%[1]
Reported total premium liability ($'000)	49,403	
Ultimate Loss Ratio[2]	5.4%	-4.2%
Management expense ratio[4]	0.6%	-0.6%
Provision for Adverse Deviation	1.0%	-0.9%

24. Management of insurance risk and financial risk (cont'd)

(d) *Insurance contract liabilities – assumptions and sensitivities (cont'd)*

(1) Sensitivity analysis assesses impact of a +/- 5% change in assumption.
(2) Initial expected loss ratio sensitivity analysis applies to 2015 accident/underwriting year.
(3) First incurred development factor sensitivity analysis applies to 2015 accident/underwriting year.
(4) Expense assumption in sensitivity analysis changed by factor of +1.05 / -1.05

Liability adequacy test

The following table compares the actuarial estimate of the gross and net of reinsurance insurance policy liabilities of the Company with the Company's actual held policy liability provisions as at 31 December 2015.

Item	**Gross**	**Net**
	$'000	$'000
2015		
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	180,930	80,833
Actuarial estimate of premium liabilities including provision for adverse deviation	68,777	49,403
Total actuarial estimate of policy liabilities including provision for adverse deviation	**249,707**	**130,236**
Comparing to:		
Company held provision for outstanding claim liabilities	181,979	81,882
Company held provision for premium liabilities	68,777	51,146
Total Company held provision for policy liabilities	**250,756**	**133,028**
2014		
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	186,608	78,490
Actuarial estimate of premium liabilities including provision for adverse deviation	70,131	48,255
Total actuarial estimate of policy liabilities including provision for adverse deviation	**256,739**	**126,745**
Comparing to:		
Company held provision for outstanding claim liabilities	186,608	78,817
Company held provision for premium liabilities	70,131	49,878
Total Company held provision for policy liabilities	**256,739**	**128,695**

25. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating in order to:

- safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders,
- maintain the required level of stability of the Company thereby providing a degree of security to policyholders
- retain financial flexibility by maintaining strong liquidity
- maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders

The operations of the Company are subject to regulatory requirements in Singapore. Such regulations impose restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of the insurance company to meet unforeseen liabilities as these arise.

The Company is required to satisfy the Fund Solvency and Capital Adequacy Requirements prescribed under the Singapore Insurance Act (Chapter 142). The Company monitors its capital level on a regular basis to assess whether such requirements have been met, and reports to MAS its fund solvency and capital adequacy positions at each quarter and as well as annually. The Company complied with the above mentioned solvency and capital adequacy requirements during the year ended 31 December 2015.