

Company Registration No. 198905490E

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Annual Financial Statements
31 December 2016

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

General information

Directors

Nobuhiro Kojima
Takahashi Koji (Appointed on 1 April 2016)
Takanori Ono (Resigned on 1 April 2016)
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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Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Directors' statement
For the financial year ended 31 December 2016

The directors have pleasure in presenting their statement to the member together with the audited financial statements of Sompo Insurance Singapore Pte. Ltd. (formerly known as Tenet Sompo Insurance Pte. Ltd.) (the "Company") for the financial year ended 31 December 2016.

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 2016 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
Takahashi Koji (Appointed on 1 April 2016)
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 beginning of the financial year	At the end of the financial year
Sompo Holdings, Inc. <i>(Ultimate holding company)</i>	Ordinary shares	
Nobuhiro Kojima	2,750	3,050
	Share options held in the name of directors	
Nobuhiro Kojima	1,500	1,500

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Directors' statement
For the financial year ended 31 December 2016

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 period, 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:



Tan Yian Hua
Director



Takahashi Koji
Director

Singapore
15 March 2017

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Independent auditor's report.
For the financial year ended 31 December 2016

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

Report on the audit of the financial statements

We have audited the financial statements of Sompo Insurance Singapore Pte Ltd (the "Company"), which comprise the balance sheet as at 31 December 2016, the statement of profit and loss, statement of comprehensive income, statements of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion

In our opinion, the accompanying financial statements of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for other information. The other information comprises the Directors' Statements included in pages 1 to 2.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Independent auditor's report
For the financial year ended 31 December 2016

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

Responsibilities of management and directors for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Independent auditor's report
For the financial year ended 31 December 2016

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

Auditor's responsibilities for the audit of the financial statements (cont'd)

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

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

Report on other legal and regulatory requirements

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

Ernst & Young LLP

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

15 March 2017

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Balance sheet
As at 31 December 2016

	Note	2016 \$	2015 \$
ASSETS			
Non-current assets			
Property and equipment	4	3,496,767	2,823,996
Intangible assets	5	5,020,000	359,000
Investment in subsidiary	6	1,750,000	1,750,000
Deferred tax assets	7	10,175,486	11,640,255
		20,442,253	16,573,251
Current assets			
Amount owing from holding companies (non-trade)	8	1,350,674	1,470,596
Amount owing from related companies (non-trade)	8	17,769	17,879
Prepayments		1,870,379	1,377,021
Trade debtors	9	21,145,877	29,804,514
Other debtors	10	3,311,770	4,565,595
Available-for-sale financial assets	11	180,301,873	174,292,144
Cash, bank balances and deposits	12	189,994,166	302,831,756
		397,992,508	514,359,505
Reinsurers' share of technical reserves			
Premium liabilities	15(b)	7,183,326	19,813,582
Claims liabilities	15(a)	94,378,264	100,096,712
Deferred reinsurance commission	15(c)	(2,639,615)	(2,182,653)
		98,921,975	117,727,641
TOTAL ASSETS		517,356,736	648,660,397

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

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Balance sheet
As at 31 December 2016

	Note	2016 \$	2015 \$
EQUITY AND LIABILITIES			
Current liabilities			
Trade creditors	13	9,349,182	18,951,960
Other creditors	14	17,337,976	10,890,949
Provision of taxation	7	–	–
		26,687,158	29,842,909
Technical reserves			
Premium liabilities	15(b)	54,286,931	77,732,104
Claims liabilities	15(a)	164,238,020	181,978,804
Deferred acquisition costs	15(c)	(9,062,481)	(8,955,079)
		209,462,470	250,755,829
Total liabilities		236,149,628	280,598,738
Shareholder's equity			
Share capital	16	318,327,805	418,327,805
Accumulated losses		(118,933,652)	(132,270,918)
Amalgamation reserve		81,608,762	81,608,762
Fair value adjustment reserves	17	204,193	396,010
Total equity		281,207,108	368,061,659
TOTAL EQUITY AND LIABILITIES		517,356,736	648,660,397

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

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Statement of profit and loss
For the financial year ended 31 December 2016

	Note	2016 \$	2015 \$
Gross premiums written		120,575,445	174,629,995
Reinsurance premiums ceded		(40,936,223)	(75,378,679)
Net premiums written		79,639,222	99,251,316
Movement in net premium liabilities	15(b)	10,814,917	2,200,974
Net premiums earned		90,454,139	101,452,290
Gross claims paid		(71,435,108)	(66,900,750)
Reinsurance claims recoveries		27,740,067	27,588,141
Net claims paid		(43,695,041)	(39,312,609)
Movement in net claims liabilities	15(a)	12,022,336	(3,064,568)
Net claims incurred		(31,672,705)	(42,377,177)
Gross commission expense		(24,842,148)	(35,646,994)
Reinsurance commission income		8,361,131	15,452,273
Net commission expenses		(16,481,017)	(20,194,721)
Movement in net deferred acquisition costs	15(c)	(349,561)	(3,468,670)
Net incurred commission expense		(16,830,578)	(23,663,391)
Operating and administrative expenses	18	(22,820,796)	(22,053,431)
Net underwriting profit		19,130,060	13,358,291
Net investment income	19	6,812,428	7,807,045
Other income	20	3,408,293	2,892,336
Other operating expenses		(14,405,707)	(10,578,353)
Profit before income tax		14,945,074	13,479,319
Income tax expense	7	(1,607,808)	(1,125,090)
Profit after tax		13,337,266	12,354,229

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

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Statement of comprehensive income
For the financial year ended 31 December 2016

	Note	2016 \$	2015 \$
Profit for the year		13,337,266	12,354,229
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Net change in fair value losses on available-for-sale financial assets	17	(191,817)	(1,948,840)
Other comprehensive income for the year, net of tax		(191,817)	(1,948,840)
Total comprehensive income for the year		13,145,449	10,405,389

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

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Statement of changes in equity
For the financial year ended 31 December 2016

	Share capital \$	Accumulated losses \$	Amalgamation reserve \$	Fair value adjustment reserves (Note 17) \$	Total \$
Balance at 1 January 2016	418,327,805	(132,270,918)	81,608,762	396,010	368,061,659
Profit after tax	–	13,337,266	–	–	13,337,266
Other comprehensive income for the year, net of tax	–	–	–	(191,817)	(191,817)
Total comprehensive income for the year	–	13,337,266	–	(191,817)	13,145,449
Capital reduction	(100,000,000)	–	–	–	(100,000,000)
Balance at 31 December 2016	318,327,805	(118,933,652)	81,608,762	204,193	281,207,108
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

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

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Statement of cash flows
For the financial year ended 31 December 2016

	2016 \$	2015 \$
Cash flows from operating activities:		
Profit before tax	14,945,074	13,479,319
Adjustments for:		
Allowance for doubtful receivables - net (Note 9)	(10,840)	10,055
Allowance/(write-back) on impairment of intangible assets (Note 20)	–	30,300
Depreciation (Note 4)	839,893	811,948
Net investment income	(6,812,428)	(7,807,045)
Gain on sale of property and equipment (Note 20)	(45,304)	(48,309)
Write-off of property and equipment	48,931	–
Amortisation of intangible assets (Note 5)	79,000	–
Decrease in gross claim liabilities	(17,740,784)	(4,629,663)
Decrease in reinsurers' share of premium liabilities and claims liabilities	18,348,704	16,204,153
Decrease in gross premium liabilities	(23,445,173)	(10,710,895)
(Increase)/decrease in deferred acquisition cost	(107,402)	9,356,828
Increase/(decrease) in deferred reinsurance commissions	456,962	(5,888,158)
Operating cash flows before working capital changes	(13,443,367)	10,808,533
Decrease in debtors and prepayments	8,861,158	24,201,420
Decrease in creditors	(7,895,751)	(5,196,384)
Decrease/(increase) in amount owing from holding and related companies (non-trade)	120,032	(1,078,849)
Decrease in fixed deposits held in trust for policyholders	89,874	366,322
Decrease/(increase) in cash, bank balances and deposits held in trust for policyholders	1,000	(2,396)
Cash flows from operations	(12,267,054)	29,098,646
Income tax paid	(19,808)	(119,278)
Net investment income received	8,138,152	6,262,190
Net cash flows (used in)/generated from operating activities	(4,148,710)	35,241,558
Cash flows from investing activities:		
Purchase of property and equipment (Note 4)	(1,594,015)	(503,972)
Proceeds from disposal of property and equipment	77,724	48,309
Acquisition of subsidiary	–	(1,000,000)
Purchase of available-for-sale financial assets	(102,576,342)	(187,603,623)
Proceeds from disposal and redemption of available-for-sale financial assets	95,494,627	122,878,117
Net cash flows used in investing activities	(8,598,006)	(66,181,169)

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

Sompo Insurance Singapore Pte. Ltd.
(formerly known as Tenet Sompo Insurance Pte. Ltd.)

Statement of cash flows
For the financial year ended 31 December 2016

	2016	2015
	\$	\$
Cash flows from financing activities:		
Capital repatriation	(100,000,000)	–
Net cash flows used in financing activities	(100,000,000)	–
Net decrease in cash and cash equivalent	(112,746,716)	(30,939,611)
Cash and cash equivalents at beginning of year	300,856,309	331,795,920
Cash and cash equivalent at end of year (Note 12)	188,109,593	300,856,309

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

Notes to the financial statements
For the financial year ended 31 December 2016

1. Corporate information

The financial statements of Sompo Insurance Singapore Pte. Ltd. (formerly known as Tenet Sompo Insurance Pte. Ltd.) (the "Company") for the financial year ended 31 December 2016 were authorised by the Board of Directors for issuance on 15 March 2017.

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

The Company's immediate holding company is Sompo Holdings (Asia) Pte. Ltd. (formerly known as Sompo Japan Nipponkoa Holdings (Asia) Pte. Ltd.), incorporated in Singapore and the ultimate holding company is Sompo Holdings, Inc. (formerly known as Sompo Japan Nipponkoa 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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 2016. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Company.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.4 Standards issued but not yet effective

The significant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

FRS 109 Financial Instruments

FRS 109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. FRS 109 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

During 2016, the Company performed a high-level impact assessment of all three aspects of FRS 109. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of FRS 109. The Company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The Company plans to defer the application of FRS 109 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, applying the temporary exemption from applying FRS 109 as introduced by the amendments.

Amendments to FRS 104 Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts

The amendments introduce two alternative options for entities issuing contracts within the scope of FRS 104, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of FRS 109 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from FRS 109 if: (i) it has not previously applied any version of FRS 109 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying FRS 109 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied FRS 39 to these designated financial assets.

An entity can apply the temporary exemption from FRS 109 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies FRS 109 for the first time.

During 2016, the Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015. The Company intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.4 Standards issued but not yet effective (cont'd)

FRS 116 Leases

FRS 116 was issued in January 2016 and it replaces FRS 17 Leases, INT FRS 114 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. FRS 116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under FRS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lessor accounting under FRS 116 is substantially unchanged from today's accounting under FRS 17. Lessors will continue to classify all leases using the same classification principle as in FRS 17 and distinguish between two types of leases: operating and finance leases. FRS 116 also requires lessees and lessors to make more extensive disclosures than under FRS 17.

FRS 116 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies FRS 115. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Company plans to assess the potential effect of FRS 116 on its financial statements.

2.5 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.5 Property and equipment (cont'd)

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.

2.6 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.6 Intangible assets (cont'd)

Bancassurance rights

Bancassurance rights relate to the cost of the Bancassurance Distribution Agreement entered into with a bank. The cost is capitalised and amortised over the estimated finite useful lives (i.e., the term of Bancassurance Distribution Agreement) and assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Club membership

Club membership is carried at cost less any accumulated impairment losses, if any. No amortisation is provided as management has assessed the useful life of the club membership to be indefinite. Club membership is tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired. The useful life of a club membership is reviewed annually to determine whether the useful life assessment continues to be supportable.

2.7 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.8 *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.

2.9 *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.

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

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

2.9 Financial assets (cont'd)

(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.

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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.10 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.10 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.

2.11 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 2.9 have been met.

2.12 Cash, bank balances and deposits

Cash, bank balances and deposits 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. Summary of significant accounting policies (cont'd)

2.13 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.

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

2.15 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.

2.16 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.

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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.16 Reinsurance (cont'd)

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.

2.17 Premium liabilities

Premium liabilities comprises the sum of unearned premium reserves and premium deficiency reserves. Premium deficiency reserves are derived using actuarial methods on loss statistics and are recognised when the expected value of claims and expenses attributable to the unexpired period of policies in force at the balance sheet date for any line of business exceeds the unearned premium reserves.

The unearned premium reserves are computed on the following basis:

- (a) on the basis not less accurate than the 1/24th method for all direct and facultative reinsurance classes of business other than marine cargo, for which 25% is applicable
- (b) in the case of all classes of treaty reinsurance business, other than marine cargo, 40% of the premiums and for marine cargo, 25% of the premium; and
- (c) the actual acquisition cost is taken into account in the computation in respect of direct and facultative reinsurance business, except for marine cargo and treaty reinsurance business

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.

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

2.17 Premium liabilities (cont'd)

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 adjusters' 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.

2.18 Deferred acquisition costs ("DAC")

Commission 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 profit and loss.

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.

2.19 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.

2.20 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.21 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.

2.22 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.22 Revenue and expense recognition (cont'd)

(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.

2.23 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.

2.24 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.

2.25 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)

2.25 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.26 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.

2.27 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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

2.28 Related parties (cont'd)

- (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 amounts of the Company's income tax payables and deferred tax assets at the balance sheet date were \$Nil (2015: \$Nil) and \$10,175,486 (2015: \$11,640,255) respectively.

Notes to the financial statements
For the financial year ended 31 December 2016

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

Key sources of estimation uncertainty (cont'd)

(a) *Income taxes (cont'd)*

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 7 to the financial statements.

(b) *Insurance contract liabilities*

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

In forming their view on the adequacy of the claims reserve, the actuary uses a variety of statistical projection techniques like the Chain Ladder and Bornhuetter-Ferguson methods. Claims reserve is separately analysed by class of business and it is intended to provide a minimum of 75% level of assurance of adequacy, and as such include a provision for adverse deviation (PAD) beyond the best estimate of the claim liabilities. The best estimates for premium liabilities have been determined such that the total liability reserve would be adequate to pay for future claims and expenses in servicing the unexpired policies as of the valuation date. In calculating these premium liabilities for the various classes, we generally used the expected loss ratio method ("ELR") based on the outcome of the analysis for claim liabilities to determine suitable ultimate loss ratio. The results were used in this case to derive the premium liabilities.

The process, estimation, sensitivities and key assumptions used in determining the insurance contract liabilities are 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 \$520,000 (2015: \$5,070,000) (gross) and \$63,000 (2015: \$1,259,000) (net of reinsurance) as at 31 December 2016. 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 2016 amounted to \$871 (2015: \$11,711) as disclosed in Note 9.

Notes to the financial statements
For the financial year ended 31 December 2016

4. Property and equipment	Computers \$	Furniture and fittings \$	Renovations \$	Office Equipment \$	Motor vehicles \$	Work in Progress ("WIP") \$	Total \$
Cost							
As at 1 January 2016	5,411,350	352,750	1,154,996	103,865	233,991	274,578	7,531,530
Assets transferred from WIP	635,427	1,129	43,211	-	-	(679,767)	-
WIP expensed off	-	-	-	-	-	(48,931)	(48,931)
Additions for the year	815,007	1,129	66,189	14,581	-	697,109	1,594,015
Disposals for the year	(2,254)	(1,870)	-	(27,841)	(100,059)	-	(132,024)
As at 31 December 2016	6,859,530	353,138	1,264,396	90,605	133,932	242,989	8,944,590
Accumulated depreciation							
As at 1 January 2016	2,939,788	344,980	1,134,100	94,525	194,141	-	4,707,534
Charge for the year	786,885	5,246	33,513	8,343	5,906	-	839,893
Disposal for the year	(2,254)	(1,048)	-	(27,841)	(68,461)	-	(99,604)
As at 31 December 2016	3,724,419	349,178	1,167,613	75,027	131,586	-	5,447,823
Net carrying amount as at 31 December 2016	3,135,111	3,960	96,783	15,578	2,346	242,989	3,496,767

Notes to the financial statements
For the financial year ended 31 December 2016

4. Property and equipment (cont'd)

	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	80,979	136,184	-	3,902,559
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

Sompo Insurance Singapore Pte. Ltd.
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Notes to the financial statements
For the financial year ended 31 December 2016

5. Intangible assets

	Club memberships	Bancassurance rights	Total
	\$	\$	\$
Cost:			
At 1 January 2015	627,364	–	627,364
At 31 December 2015 and 1 January 2016	627,364	–	627,364
Additions	–	4,740,000	4,740,000
At 31 December 2016	627,364	4,740,000	5,367,364
Accumulated amortisation and impairment:			
At 1 January 2015	238,064	–	238,064
Impairment loss	30,300	–	30,300
At 31 December 2015 and 1 January 2016	268,364	–	268,364
Impairment loss	–	–	–
Amortisation	–	79,000	79,000
At 31 December 2016	268,364	79,000	347,364
Net carrying amount:			
At 31 December 2015	359,000	–	359,000
At 31 December 2016	359,000	4,661,000	5,020,000

The bancassurance rights will be amortised until 2035.

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Notes to the financial statements
For the financial year ended 31 December 2016

6. Investment in subsidiary

	2016	2015
	\$	\$
Equity instruments at cost	1,750,000	1,750,000

Name	Principal place of business/Country of incorporation	Ownership interest	
		2016	2015
		%	%
Premier Insurance Agencies Pte Ltd ¹	Singapore	100	100

¹ Audited by CHONG, LIM & PARTNERS LLP

7. Taxation

(a) **Tax expense/(credit)**

	2016	2015
	\$	\$
Deferred tax provision	1,588,000	2,227,000
Under/(over) provision of corporate income tax in prior years	19,808	(1,101,910)
	<u>1,607,808</u>	<u>1,125,090</u>
Deferred tax liability/(asset) related to other comprehensive income		
- Fair value changes of available-for-sale financial assets	(123,231)	(391,731)

Notes to the financial statements
For the financial year ended 31 December 2016

7. Taxation (cont'd)

(a) ***Tax expense/(credit) (cont'd)***

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:

	2016	2015
	\$	\$
Profit before tax	14,945,074	13,479,319
Tax expense on profit before tax at 17%	2,540,663	2,291,484
<u>Adjustments:</u>		
Expenses not deductible for tax purposes	204,322	209,753
Tax effect of income brought to tax at 10%	(654,355)	(152,143)
Benefits from unabsorbed tax losses	(2,090,630)	(2,349,094)
Under/(over) provision of corporate income tax in prior year	19,808	(1,101,910)
Movement in deferred taxation charged to profit and loss	1,588,000	2,227,000
	<u>1,607,808</u>	<u>1,125,090</u>
Tax expense	<u>1,607,808</u>	<u>1,125,090</u>

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 2016 (2015: 17%).

(b) ***Deferred taxation***

	2016	2015
	\$	\$
Balance at 1 January	(11,640,255)	(13,475,524)
Charged/(credited) to:		
- Profit and loss account	1,588,000	2,227,000
- Fair value adjustment reserve (Note 17)	(123,231)	(391,731)
	<u>(10,175,486)</u>	<u>(11,640,255)</u>
Balance at 31 December	<u>(10,175,486)</u>	<u>(11,640,255)</u>

Deferred income tax assets and liabilities

Deferred tax liabilities

Revaluations of available-for-sale financial assets	-	69,745
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Deferred tax assets

Revaluations of available-for-sale financial assets	(53,486)	-
<i>Deferred tax assets</i>		
Unabsorbed tax losses	(10,122,000)	(11,710,000)
	<u>(10,175,486)</u>	<u>(11,640,255)</u>
Net deferred tax assets	<u>(10,175,486)</u>	<u>(11,640,255)</u>

Notes to the financial statements
For the financial year ended 31 December 2016

7. Taxation (cont'd)

(b) ***Deferred taxation (cont'd)***

At the end of the reporting period, the Company has tax losses of approximately \$167,808,000 (2015: \$188,714,000) 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***

	2016	2015
	\$	\$
Balance at 1 January	–	1,221,188
Under provision in respect of prior years charges to profit and loss account	19,808	–
Tax payments	(19,808)	(119,278)
Write-back of carried forward tax provision	–	(1,101,910)
Balance at 31 December	–	–

8. 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.

Sompo Insurance Singapore Pte. Ltd.
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Notes to the financial statements
For the financial year ended 31 December 2016

9. Trade debtors

	2016	2015
	\$	\$
Holding companies	1,723,839	558,928
Related companies	249,032	8,433,960
Third parties	19,173,877	20,823,337
	<hr/>	<hr/>
	21,146,748	29,816,225
Allowance for doubtful receivables	(871)	(11,711)
	<hr/>	<hr/>
	21,145,877	29,804,514
	<hr/>	<hr/>
Due from insurers	2,096,326	2,983,720
Due from agents, brokers and intermediaries	13,627,394	15,054,028
Due from reinsurers	5,422,157	11,766,766
	<hr/>	<hr/>
	21,145,877	29,804,514
Add:		
Other debtors (Note 10)	3,311,770	4,565,595
Amounts owing from holding companies (non-trade) (Note 8)	1,350,674	1,470,596
Amounts owing from related companies (non-trade) (Note 8)	17,769	17,879
Cash, bank balances and deposits (Note 12)	189,994,166	302,831,756
	<hr/>	<hr/>
Total financial assets at amortised cost and classified as loans and receivables	215,820,256	338,690,340
	<hr/>	<hr/>

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.

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Notes to the financial statements
For the financial year ended 31 December 2016

9. Trade debtors (cont'd)

The Company has trade receivables amounting to \$4,921,872 (2015: \$4,239,733) 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:

	2016	2015
	\$	\$
Trade receivables past due not impaired:		
Less or equal to 90 days	2,128,695	2,579,304
91 to 120 days	287,363	27,516
121 to 180 days	1,381,436	506,672
181 to 365 days	1,319,037	970,543
More than 365 days	(194,659)	155,698
Total	4,921,872	4,239,733

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:

	2016	2015
	\$	\$
Trade receivables – nominal amounts	871	11,711
Less: Allowance for doubtful receivables	(871)	(11,711)
	–	–
<i>Movement in allowance accounts:</i>		
At 1 January	(11,711)	(1,656)
Allowance utilised	11,053	1,656
Charged for the year	(213)	(11,711)
At 31 December	(871)	(11,711)

10. Other debtors

	2016	2015
	\$	\$
Interest receivable	1,802,280	2,371,066
Dividend receivable	17,000	17,000
Sundry deposits and debtors	1,492,490	2,177,529
Total	3,311,770	4,565,595

Notes to the financial statements
For the financial year ended 31 December 2016

11. Available-for-sale financial assets

	2016	2015
	\$	\$
Corporate and statutory board bonds	160,784,572	153,243,868
Government bonds	6,896,400	8,562,400
Quoted equity shares	12,620,484	12,485,459
Unquoted equity shares	417	417
	<hr/>	<hr/>
Total available-for-sale financial assets	180,301,873	174,292,144
	<hr/> <hr/>	<hr/> <hr/>

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.

Investments in corporate, statutory board and government bonds bear interest ranging from 1.23% to 6.00% (2015:1% to 6%) per annum. The maturity of these investments is disclosed in Note 24 (b) (ii).

The carrying values are determined as follows:

	2016	2015
	\$	\$
Balance at beginning of the year	174,292,144	111,414,643
Additions	102,576,342	187,603,623
Redemptions and disposals	(96,157,875)	(122,616,959)
Amortisation of (premium)/discount on bonds	(93,690)	231,408
Unrealised fair value loss	(315,048)	(2,340,571)
	<hr/>	<hr/>
Balance at end of the year	180,301,873	174,292,144
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements
For the financial year ended 31 December 2016

11. 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 data (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 \$
2016				
Financial assets:				
Available-for-sale financial assets	180,301,456	–	417	180,301,873
2015				
Financial assets:				
Available-for-sale financial assets	174,291,727	–	417	174,292,144

Notes to the financial statements
For the financial year ended 31 December 2016

12. Cash, bank balances and deposits

Cash, bank balances and deposits comprise the following amounts:

	2016	2015
	\$	\$
Fixed deposits	140,000,497	240,946,922
Cash, bank balances and deposits	49,993,669	61,884,834
	<hr/>	<hr/>
Cash, bank balances and deposits included in balance sheet	189,994,166	302,831,756
Fixed deposits held in trust for policyholders	(1,852,699)	(1,942,573)
Cash, bank balances and deposits held in trust for policyholders	(31,874)	(32,874)
	<hr/>	<hr/>
Cash and cash equivalents included in cash flow statements	188,109,593	300,856,309
	<hr/> <hr/>	<hr/> <hr/>

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 0.13% to 1.80% (2015: 0.64% to 1.70%) per annum.

13. Trade creditors

	2016	2015
	\$	\$
Holding company	347,839	4,534,784
Related companies	951,072	2,408,306
Third parties	8,050,271	12,008,870
	<hr/>	<hr/>
	9,349,182	18,951,960
Add:		
Accrual for audit fees (Note 14)	200,000	144,000
Cash collaterals from policyholders (Note 14)	1,884,573	1,975,447
Other creditors and accruals (Note 14)	15,253,403	8,771,502
	<hr/>	<hr/>
Total financial liabilities at amortised cost	26,687,158	29,842,909
	<hr/> <hr/>	<hr/> <hr/>

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

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Notes to the financial statements
For the financial year ended 31 December 2016

14. Other creditors

	2016	2015
	\$	\$
Accrual for audit fees	200,000	144,000
Cash collaterals from policyholders	1,884,573	1,975,447
Other creditors and accruals	15,253,403	8,771,502
	<u>17,337,976</u>	<u>10,890,949</u>

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

15. Technical reserves

	Gross	Recoverable	Net
	\$	\$	\$
2016			
Claims reported and loss adjustment expenses	136,426,622	(76,966,859)	59,459,763
Claims incurred but not reported	27,811,398	(17,411,405)	10,399,993
	<u>164,238,020</u>	<u>(94,378,264)</u>	<u>69,859,756</u>
Claims liabilities	164,238,020	(94,378,264)	69,859,756
Premium liabilities	54,286,931	(7,183,326)	47,103,605
	<u>218,524,951</u>	<u>(101,561,590)</u>	<u>116,963,361</u>
Deferred acquisition costs and deferred reinsurance commissions	(9,062,481)	2,639,615	(6,422,866)
	<u>209,462,470</u>	<u>(98,921,975)</u>	<u>110,540,495</u>
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
	<u>181,978,804</u>	<u>(100,096,712)</u>	<u>81,882,092</u>
Claims liabilities	181,978,804	(100,096,712)	81,882,092
Premium liabilities	77,732,104	(19,813,582)	57,918,522
	<u>259,710,908</u>	<u>(119,910,294)</u>	<u>139,800,614</u>
Deferred acquisition costs and deferred reinsurance commissions	(8,955,079)	2,182,653	(6,772,426)
	<u>250,755,829</u>	<u>(117,727,641)</u>	<u>133,028,188</u>

Notes to the financial statements
For the financial year ended 31 December 2016

15. Technical reserves (cont'd)

(a) **Claims liabilities**

	Gross	Reinsurance	Net
2016	\$	\$	\$
Notified claims	158,209,730	(85,223,100)	72,986,630
Incurred but not reported	23,769,074	(14,873,612)	8,895,462
Total at beginning of year	181,978,804	(100,096,712)	81,882,092
Cash paid for claims settled in the year	(71,435,108)	27,740,067	(43,695,041)
Movement in claims incurred	53,694,324	(22,021,619)	31,672,705
Total at end of year	164,238,020	(94,378,264)	69,859,756
Notified claims	136,426,622	(76,966,859)	59,459,763
Incurred but not reported	27,811,398	(17,411,405)	10,399,993
	164,238,020	(94,378,264)	69,859,756
2015			
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

Notes to the financial statements
For the financial year ended 31 December 2016

15. Technical reserves (cont'd)

(b) *Premium liabilities*

	Gross	Reinsurance	Net
	\$	\$	\$
2016			
At beginning of the year	77,732,104	(19,813,582)	57,918,522
Changes in the year	(23,445,173)	12,630,256	(10,814,917)
At end of the year	54,286,931	(7,183,326)	47,103,605
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

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

	Deferred acquisition costs	Deferred reinsurance commissions	Net
	\$	\$	\$
2016			
At 1 January	(8,955,079)	2,182,653	(6,772,426)
Changes in the year	(107,402)	456,962	349,560
At 31 December	(9,062,481)	2,639,615	(6,422,866)
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)

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16. Share capital

	2016		2015	
	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
Capital reduction	(100,000,000)	(100,000,000)	–	–
Balance at end of year	<u>318,327,805</u>	<u>318,327,805</u>	<u>418,327,805</u>	<u>418,327,805</u>

During the year, the Company carried out a capital reduction exercise in accordance with the provisions set out in the Companies Act (Cap.50 of the Republic of Singapore) to reduce its share capital by \$100,000,000 in the paid up capital of the Company (alongside the cancellation of 100,000,000 ordinary shares) so as to return the amount to its sole shareholder for the efficient deployment of capital within the Sompo Holdings, Inc. and its subsidiaries.

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.

17. 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.

	2016	2015
	\$	\$
Balance at beginning of the year	396,010	2,344,850
Fair value loss	(978,296)	(2,079,413)
Transferred to profit and loss:		
Loss/(gain) on sale (Note 19)	663,248	(261,158)
Income tax relating to fair value adjustment reserve (Note 7(b))	123,231	391,731
Balance at end of the year	<u>204,193</u>	<u>396,010</u>

Notes to the financial statements
For the financial year ended 31 December 2016

18. Operating and administrative expenses

	2016	2015
	\$	\$
Directors' remuneration (Note 22(b))	802,595	583,502
Central Provident Fund contributions	2,431,563	1,995,816
Salaries, bonuses and other costs	18,746,745	18,662,165
Depreciation	839,893	811,948
	<u>22,820,796</u>	<u>22,053,431</u>

19. Net investment income

	2016	2015
	\$	\$
Interest on corporate and statutory board debt securities	4,243,610	3,319,142
Interest from government debt securities	150,837	156,377
<i>Interest income from Available-for-sale financial assets</i>	<u>4,394,447</u>	<u>3,475,519</u>
Interest from current accounts	22,793	138,944
Interest from fixed deposits	2,412,612	1,851,374
<i>Interest income from cash, bank balances and deposits</i>	<u>2,435,405</u>	<u>1,990,318</u>
Exchange gain on foreign currencies, net	267,301	1,171,388
	<u>2,702,706</u>	<u>3,161,706</u>
Dividend income	601,479	733,175
Amortisation of (premium)/discount on bonds	(93,690)	231,408
(Loss)/gain on sale of investments	(663,248)	261,158
Investment expenses	(129,266)	(55,921)
	<u>6,812,428</u>	<u>7,807,045</u>

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Notes to the financial statements
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20. Other income

	2016	2015
	\$	\$
Agency fees	2,459,218	2,458,795
IT support fees	51,485	73,699
Interest on premium reserve released	53,018	92,350
Miscellaneous income	799,268	249,483
Impairment/(reversal) of intangible asset	–	(30,300)
Gain on sale of property and equipment	45,304	48,309
	<u>3,408,293</u>	<u>2,892,336</u>

21. Profit before tax

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

	2016	2015
	\$	\$
Directors' fees		
- Current year	105,000	100,000
- Over provision in respect of prior years	–	(2,500)
Operating lease expense (Note 23)	3,532,918	3,286,784
Provision of allowance for doubtful receivables (Note 9)	213	11,711
Depreciation of property and equipment (Note 4)	839,893	811,948
Amortisation of intangible assets (Note 5)	79,000	–
	<u>79,000</u>	<u>–</u>

Notes to the financial statements
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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:

	2016	2015
	\$	\$
Claims paid, commissions paid and reinsurance business ceded		
- Holding company	5,665,350	16,964,782
- Related companies	19,055,001	37,291,794
Claims recovery, commissions received and reinsurance business accepted		
- Holding company	8,769,511	9,959,807
- Related companies	5,162,714	53,810,580
Interest expense to/(income from)		
- Holding company	(130)	158
- Related companies	(21,305)	(40,855)
Agency fees income from		
- Holding company	(2,435,122)	(2,458,795)
- Related companies	(22,539)	-
Miscellaneous fees from		
- Holding company	(57,233)	(59,349)
- Related companies	(3,957)	(21,919)
Service agreement fees to		
- Holding company	112,836	-

In 2016, the Company decided to discontinue its reinsurance arrangements with some of its related companies in the ASEAN region. In prior years, such arrangements allowed the same related companies to cede their insurance business to the Company.

- (b) Compensation of key management personnel

	2016	2015
	\$	\$
Short-term employee benefits	792,678	573,300
Central Provident fund contributions	9,917	10,202
	<u>802,595</u>	<u>583,502</u>
<i>Comprise amounts paid to:</i>		
- Directors of the Company (Note 18)	802,595	583,502
	<u>802,595</u>	<u>583,502</u>

Key management personnel include non-independent directors.

Notes to the financial statements
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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 2016 amounted to \$3,532,918 (2015: \$3,286,784). Future minimum lease payments under non-cancellable leases as of 31 December are as follows:

	2016 \$	2015 \$
Not later than 1 year	3,399,385	3,435,646
Later than 1 year but not later than 5 years	5,660,660	8,961,765
	9,060,045	12,397,411

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.

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

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

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.

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 2016			
Marine	9,370	(4,985)	4,385
Motor	31,683	(5,319)	26,364
Property	65,586	(52,015)	13,571
Workmen's Compensation	14,665	(2,625)	12,040
Others	42,934	(29,434)	13,500
Total	164,238	(94,378)	69,860
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

Notes to the financial statements
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24. Management of insurance risk and financial risk (cont'd)

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

The geographical concentration of the Company's insurance liabilities at 31 December 2016 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 2016			
Indonesia	1,000	–	1,000
Philippines	1,606	–	1,606
Singapore	124,563	(90,869)	33,694
Thailand	23,128	(3,204)	19,924
Others	13,941	(305)	13,636
Total	164,238	(94,378)	69,860
At 31 December 2015			
Indonesia	1,272	–	1,272
Philippines	2,413	–	2,413
Singapore	125,455	(95,951)	29,504
Thailand	34,256	(3,792)	30,464
Others	18,583	(354)	18,229
Total	181,979	(100,097)	81,882

(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.

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

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

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

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

Reinsurance

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.

Investment securities

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.

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 2016 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 Not Rated	BBB or worse Not Rated	B or worse Not Rated	Ba1 or worse Not Rated

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

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

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

	2016	2015
	\$'000	\$'000
Available-for-sale financial assets	180,302	174,292
Amount owing from holding companies (non-trade)	1,351	1,471
Amount owing from related companies (non-trade)	18	18
Trade debtors	21,146	29,805
Other debtors	3,312	4,566
Cash, bank balances and deposits	189,994	302,832
Total financial assets	396,123	512,984
	2016	2015
	\$'000	\$'000
Class		
A	111,351	90,759
B	184,532	295,418
C	2,869	15,328
D *	97,371	111,479
Total financial assets	396,123	512,984

* Non-rated debt securities included holdings of debt securities issued by Singapore Statutory Boards amounting to \$50.06 million (2015: \$29.80 million).

(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.

Notes to the financial statements
For the financial year ended 31 December 2016

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

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

(ii) *Liquidity risk*

The table below summarises the maturity profile of the Company's financial assets and liabilities based on undiscounted contractual obligations from the reporting date to the contractual maturity or expected repayment date. For claims liabilities and reinsurer's share of claims liabilities, their maturity profiles are determined based on the estimated timing of net cash outflows on an undiscounted basis.

	Carrying value \$'000	No maturity date \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over5 years \$'000	Total \$'000
2016						
Financial and insurance-related assets						
Available-for-sale financial assets	180,302	12,621	19,787	95,089	72,410	199,907
Cash, bank balances and deposits	189,994	–	190,753	–	–	190,753
Amount owing from holding companies (non-trade)	1,351	–	1,351	–	–	1,351
Amount owing from related companies (non-trade)	18	–	18	–	–	18
Trade debtors	21,146	–	21,146	–	–	21,146
Other debtors	3,312	–	3,312	–	–	3,312
Reinsurers' share of claim liabilities	94,378	–	72,060	22,855	315	95,230
	490,501	12,621	308,427	117,944	72,725	511,717
Financial and insurance-related liabilities						
Trade creditors	9,349	–	9,349	–	–	9,349
Other creditors	17,338	–	17,338	–	–	17,338
Claim liabilities	164,238	–	121,833	42,981	1,208	166,022
	190,925	–	148,520	42,981	1,208	192,709

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

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

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

	Carrying value	No maturity date	Less than 1 year	1 to 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2015						
Financial and insurance-related assets						
Available-for-sale financial assets	174,292	12,486	21,705	105,699	61,541	201,431
Cash, bank balances and deposits	302,832	–	304,703	–	–	304,703
Amount owing from holding companies (non-trade)	1,471	–	1,471	–	–	1,471
Amount owing from related companies (non-trade)	18	–	18	–	–	18
Trade debtors	29,805	–	29,805	–	–	29,805
Other debtors	4,566	–	4,566	–	–	4,566
Reinsurers' share of claim liabilities	100,097	–	83,566	16,965	304	100,835
	613,081	12,486	445,834	122,664	61,845	642,829
Financial and insurance-related liabilities						
Trade creditors	18,952	–	18,952	–	–	18,952
Other creditors	10,890	–	10,890	–	–	10,890
Claim liabilities	181,979	–	140,136	41,158	1,318	182,612
	211,821	–	169,978	41,158	1,318	212,454

Notes to the financial statements
For the financial year ended 31 December 2016

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

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

(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.

	Singapore Dollars \$'000	United States Dollars \$'000	Thailand Baht \$'000	Others \$'000	Total \$'000
2016					
Financial and insurance- related assets					
Available-for-sale financial assets	180,067	–	–	235	180,302
Amount owing from holding companies (non-trade)	(13)	447	20	897	1,351
Amount owing from related companies (non-trade)	10	2	(3)	9	18
Trade debtors	18,942	2,158	10	36	21,146
Other debtors	3,312	–	–	–	3,312
Cash, bank balances and deposits	183,889	4,143	1,628	334	189,994
Reinsurers' share of claim liabilities	61,747	8,112	21,354	3,165	94,378
Total	447,954	14,862	23,009	4,676	490,501
Financial and insurance- related liabilities					
Trade creditors	7,747	848	392	362	9,349
Other creditors	12,887	1,052	730	2,669	17,338
Claim liabilities	124,251	13,394	22,412	4,181	164,238
Total	144,885	15,294	23,534	7,212	190,925

Notes to the financial statements
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24. Management of insurance risk and financial risk (cont'd)

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

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

	Singapore Dollars \$'000	United States Dollars \$'000	Thailand Baht \$'000	Others \$'000	Total \$'000
2015					
Financial and insurance-related assets					
Available-for-sale financial assets	174,028	–	–	264	174,292
Amount owing from holding companies (non-trade)	(1,896)	2,416	47	904	1,471
Amount owing from related companies (non-trade)	18	–	–	–	18
Trade debtors	17,752	3,008	7,856	1,189	29,805
Other debtors	4,565	1	–	–	4,566
Cash, bank balances and deposits	288,185	8,442	3,968	2,237	302,832
Reinsurers' share of claim liabilities	56,311	11,903	28,705	3,178	100,097
Total	538,963	25,770	40,576	7,772	613,081
Financial and insurance-related liabilities					
Trade creditors	14,964	(1,108)	4,746	350	18,952
Other creditors	7,212	(1,098)	2,435	2,341	10,890
Claim liabilities	126,633	17,452	33,124	4,770	181,979
Total	148,809	15,246	40,305	7,461	211,821

Notes to the financial statements
For the financial year ended 31 December 2016

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

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

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

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.

		2016	2015
		\$'000	\$'000
Increase/(decrease) in profit and equity (before tax)			
USD/SGD	- Strengthened 5%	(22)	526
	- Weakened 5%	22	(526)
THB/SGD	- Strengthened 5%	(26)	14
	- Weakened 5%	26	(14)

(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

The following table sets out the impact on profit before tax and equity at the reporting date if market interest rates had been 50 (2015: 50) basis points higher/lower with all other variables held constant.

	Changes in variables	Impact on profit before tax	Impact on equity*
		\$ '000	\$ '000
2016			
	+ 50 basis points	700	(2,033)
	- 50 basis points	(700)	2,117

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

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

(iv) *Interest rate risk (cont'd)*

	Changes in variables	Impact on profit before tax \$ '000	Impact on equity* \$ '000
2015			
	+ 50 basis points	1,205	(1,327)
	- 50 basis points	(1,205)	1,418

* Impact on equity is after tax.

(v) *Market price risk*

Market price risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market prices (other than interest or foreign currency exchange rates). The Company is exposed to equity price risk arising from its investment in quoted equity instruments. These instruments are quoted on the Singapore Exchange Securities Trading Limited (SGX-ST) in Singapore and are classified as available-for-sale financial assets. The Company does not have exposure to commodity price risk.

The Company's objective is to manage investment returns and equity price risk using investment grade shares with steady dividend yields. The Company's policy is to limit its interest in the available-for-sale equity shares to 5% (2015: 5%) of its entire investment portfolio.

Sensitivity analysis for equity price risk

At the balance sheet date, if the market prices of the equity investments had been 5% (2015: 5%) higher/lower with all other variables held constant, the Company's fair value adjustment reserve would increase/decrease by S\$523,750 (2015: S\$518,146) arising mainly as a result of a increase/decrease in the fair value of equity securities classified as available-for-sale.

The method used for deriving sensitivity analysis and significant variables did not change from the previous year.

(vi) *Concentration risk*

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

Notes to the financial statements
For the financial year ended 31 December 2016

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 (i.e., net tangible assets from financial statements).

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

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 2016.
- (ii) Ultimate claim costs are then compared to actual cumulative claim payments for each accident/underwriting year as at 31 December 2016 to arrive at the best estimate of claim liability as at 31 December 2016.
- (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 2016.

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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 (\$'000)

All SIF & OIF combined - Gross of reinsurance basis	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims												
Period*												
At end of underwriting year	28,781	27,678	38,547	38,167	42,614	1,519,701	65,182	69,100	87,189	74,104	64,549	
One year later	21,128	24,082	33,459	31,819	51,280	1,383,700	63,440	61,007	83,188	59,396		
Two years later	19,801	22,738	31,539	37,654	65,931	1,167,762	54,781	59,235	76,481			
Three years later	19,313	21,514	37,176	35,186	148,308	1,161,961	52,242	58,234				
Four years later	18,844	32,492	36,403	34,552	150,571	1,158,547						
Five years later	22,257	31,445	36,067	33,472	148,907	1,155,719						
Six years later	22,085	31,346	34,319	33,720	148,750							
Seven years later	21,779	30,589	33,326	33,665								
Eight years later	19,538	30,183	33,237									
Nine years later	19,447	30,076										
Ten years later	19,340											
Current estimate of ultimate claims	19,340	30,076	33,237	33,665	148,750	1,155,719	50,915	58,234	76,481	59,396	64,549	1,730,362
Cumulative payments	19,322	30,054	32,941	33,106	130,355	1,150,803	47,729	48,632	55,460	39,992	21,042	1,609,436
Gross estimate of outstanding claim liability	18	21	297	559	18,395	4,917	3,186	9,602	21,021	19,404	43,507	120,927
Best estimate for claims liability (net of unearned & add CHE)	19	22	289	570	18,425	5,040	3,302	9,829	21,787	20,239	43,323	122,845
Reserve for prior years												364
Discounting for time value												(1,551)
Provision for adverse deviation												26,989
Outstanding claim liability												148,647
Ex-Nipponkoa Outstanding claim liability												15,591
Total Outstanding claim liability in accounts												164,238

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

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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	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims												
Period*												
At end of underwriting year	26,764	26,141	36,227	32,454	36,491	363,965	41,334	32,910	52,179	46,691	42,795	
One year later	19,545	22,657	31,554	26,593	31,696	303,089	33,210	31,128	50,861	37,754		
Two years later	18,282	21,499	29,838	23,102	29,015	269,984	31,607	29,234	47,385			
Three years later	17,705	20,283	28,293	20,947	33,556	264,815	29,358	27,392				
Four years later	17,259	20,082	27,491	21,137	28,021	263,916	28,089					
Five years later	17,017	19,097	27,096	20,625	27,161	262,902						
Six years later	16,828	19,122	27,217	20,566	26,673							
Seven years later	16,681	18,994	26,386	20,130								
Eight years later	16,638	18,810	26,305									
Nine years later	16,531	18,764										
Ten years later	16,506											
Current estimate of ultimate claims	16,506	18,764	26,305	20,130	26,673	262,902	28,089	27,392	47,385	37,754	42,795	554,695
Cumulative payments	16,493	18,756	26,414	19,965	26,197	261,001	26,490	24,488	37,126	27,512	17,147	501,589
Net estimate of outstanding claim liability	13	8	(110)	165	476	1,901	1,599	2,904	10,259	10,242	25,648	53,105
Best estimate for claims liability (net of unearned & add CHE)	14	9	(117)	175	505	2,024	1,715	3,131	11,025	11,077	26,581	56,139
Reserve for prior years												244
Discounting for time value												(842)
Provision for adverse deviation												14,319
Outstanding claim liability in accounts												69,860

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

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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 2016. 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 2016 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 2016 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.

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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	-5% ¹
Reported total actuarial claims liability (\$'000)	149,471	
Initial Expected Loss Ratio ²	1.5%	-1.5%
First Incurred Development Factor ³	0.8%	-1.3%
Claim Handling Expenses ⁴	0.2%	-0.2%
Provision for Adverse Deviation	0.5%	-0.5%

Percentage Change in Premium Liability Sensitivity Analysis

Assumption	Gross of reinsurance	
	+5% ¹	-5% ¹
Reported total actuarial premium liability (\$'000)	45,224	
Ultimate Loss Ratio ²	0.8%	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	-5% ¹
Reported total actuarial claims liability (\$'000)	60,404	
Initial Expected Loss Ratio ²	1.2%	-1.1%
First Incurred Development Factor ³	1.1%	-2.2%
Claim Handling Expenses ⁴	0.3%	-0.3%
Provision for Adverse Deviation	0.4%	-0.4%

Percentage Change in Premium Liability Sensitivity Analysis

Assumption	Net of reinsurance	
	+5% ¹	-5% ¹
Reported total actuarial premium liability (\$'000)	38,440	
Ultimate Loss Ratio ²	6.8%	-4.1%
Management expense ratio ⁴	0.8%	-0.8%
Provision for Adverse Deviation	1.1%	-1.0%

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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 2016 accident/underwriting year.
(3) First incurred development factor sensitivity analysis applies to 2016 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 2016.

	Gross \$'000	Net \$'000
2016		
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	149,471	60,404
Actuarial estimate of premium liabilities including provision for adverse deviation	45,224	38,440
Total actuarial estimate of policy liabilities including provision for adverse deviation	194,695	98,844
Comparing to:		
Company held provision for outstanding claim liabilities	164,238	69,860
Company held provision for premium liabilities	45,224	40,681
Total Company held provision for policy liabilities	209,462	110,541
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

Notes to the financial statements
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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

Capital includes equity attributable to the owners of the Company less the fair value adjustment and amalgamation reserves.

The Company has no borrowings, contingent liabilities and loan capital as at 31 December 2016. There was no change in the Company's capital management objectives, policies and processes during the years ended 31 December 2016 and 31 December 2015.

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 2016.

26. Comparative figures

Certain comparative figures have been reclassified following reclassification of items in the statement of financial position for consistency. Management believes that the current year presentation provides more relevant and meaningful information.

Reclassification of accounts within the statement of financial position

The Company reclassified its assets and liabilities to effect certain reclassification adjustments as follow:

	Reclassified from	Reclassified to	2015
Cash collaterals from policyholders	Other creditors	Cash, bank balances and deposits	1,942,573
Trade related balances	Other creditors	Trade debtors	466,831