Company Registration No. 198905490E

Tenet Sompo Insurance Pte. Ltd.

Annual Financial Statements
31 December 2014

General information

Directors
Katsuyuki Tajiri
Takanori Ono
Tan Yian Hua
Lee Soo Kwan
Gabriel Teo Chen Thye (Appointed on 8 August 2014)
Tetsutaro Hiraoka (Resigned on 1 April 2014)

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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Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of Tenet Sompo Insurance Pte. Ltd. (the "Company") for the financial year ended 31 December 2014.

Directors

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

Katsuyuki Tajiri
Takanori Ono
Tan Yian Hua
Lee Soo Kwan
Gabriel Teo Chen Thye (Appointed on 8 August 2014)

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

No director 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, Cap. 50, any interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year or date of appointment if later, or at the end of the financial year.

Directors' contractual benefits

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

Auditor

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

On behalf of the board of directors:

Tan Yian Hua
Director

Takanori Ono
Director

Singapore
19 March 2015

Tenet Sompo Insurance Pte. Ltd.

Statement by directors

We, Tan Yian Hua and Takanori Ono, being two of the directors of Tenet Sompo Insurance Pte. Ltd., do hereby state that, in the opinion of the directors:

(a) the accompanying balance sheet, statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes thereto, are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2014, and the results of the business, changes in equity and cash flows of the Company for the year ended on that date; 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.

On behalf of the board of directors:

Tan Yian Hua
Director

Takanori Ono
Director

Singapore
19 March 2015

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

Report on the financial statements

We have audited the accompanying financial statements of Tenet Sompo Insurance Pte. Ltd. (the "Company") set out on pages 6 to 64, which comprise the balance sheet as at 31 December 2014, and the statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Company for the year ended on that date.

Report on other legal and regulatory requirements

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

Ernst & Young LLP

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

19 March 2015

Statement of profit and loss
For the year ended 31 December 2014

	Note	2014 $	2013 $
Gross premiums written		210,313,999	144,928,943
Reinsurance premiums ceded		(105,380,893)	(72,573,707)
Net premiums written		104,933,106	72,355,236
Movement in net unearned premium reserves	16(b)	(15,736,524)	(12,772,570)
Net premiums earned		89,196,582	59,582,666
Gross claims paid		(47,553,904)	(281,257,958)
Reinsurance claims recoveries		10,902,179	137,133,580
Net claims paid	16(a)	(36,651,725)	(144,124,378)
Movement in net loss reserves		(8,676,938)	152,925,863
Net claims incurred	16(a)	(45,328,663)	8,801,485
Gross commission expense		(42,977,797)	(33,114,974)
Reinsurance commission income		22,165,899	13,927,999
Net commission expenses		(20,811,898)	(19,186,975)
Movement in net deferred acquisition costs	16(c)	4,931,904	(440,429)
Net incurred commission expense		(15,879,994)	(19,627,404)
Operating and administrative expenses	7	(17,840,547)	(12,798,975)
Net underwriting profit		10,147,378	35,957,772
Net investment income	5	7,521,647	5,675,531
Other income	6	1,328,941	4,304,989
Other operating expenses		(9,799,826)	(8,422,563)
Profit before income tax		9,198,140	37,515,729
Income tax credit	9	844,762	3,816,764
Profit after tax		10,042,902	41,332,493

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

Statement of comprehensive income
For the year ended 31 December 2014

	Note	2014 $	2013 $
Profit for the year		10,042,902	41,332,493
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Net change in fair value gains on available-for-sale financial assets		1,022,501	1,314,558
Other comprehensive income for the year, net of tax		1,022,501	1,314,558
Total comprehensive income for the year		11,065,403	42,647,051

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

Balance sheet
As at 31 December 2014

	Note	2014 $	2013 $
ASSETS			
Non-current assets			
Property, plant and equipment	10	3,131,971	2,579,006
Intangible assets	11	389,300	17,364
Deferred tax assets	9	13,475,524	11,767,875
		16,996,795	14,364,245
Current assets			
Amount owing from holding companies (non-trade)	13	403,590	3,075
Amount owing from related companies (non-trade)	13	6,036	183,888
Prepayments		1,080,133	1,189,888
Trade debtors	14	55,950,252	52,023,480
Other debtors	15	1,875,932	3,659,496
Available-for-sale financial assets	12	111,414,644	116,437,920
Cash and cash equivalents	21	334,135,293	303,470,629
		504,865,880	476,968,376
Reinsurers' share of technical reserves			
Unearned premium reserves	16	28,323,503	24,609,205
Loss reserves	16	107,790,943	103,041,278
Deferred reinsurance commission	16	(8,070,811)	(2,187,176)
		128,043,635	125,463,307
Total assets		649,906,310	616,795,928

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

Balance sheet
As at 31 December 2014

	Note	2014 $	2013 $
EQUITY AND LIABILITIES			
Current liabilities			
Trade creditors	17	30,779,866	28,283,880
Other creditors	18	3,509,427	3,887,087
Deferred income	19	–	3,245,297
Provision of taxation	9	1,221,188	111,124
		35,510,481	35,527,388
Technical reserves			
Unearned premium reserves	16	88,442,999	68,992,177
Loss reserves	16	186,608,467	173,181,864
Deferred acquisition costs	16	(18,311,907)	(7,496,368)
		256,739,559	234,677,673
Total liabilities		292,250,040	270,205,061
Shareholders' equity			
Share capital	20	418,327,805	418,327,805
Retained earnings		(144,625,147)	(154,668,049)
Amalgamation reserve		81,608,762	81,608,762
Fair value adjustment reserve	22	2,344,850	1,322,349
Total equity		357,656,270	346,590,867
TOTAL EQUITY AND LIABILITIES		649,906,310	616,795,928

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

Tenet Sompo Insurance Pte. Ltd.

Statement of changes in equity
For the year ended 31 December 2014

	Share capital $	Retained earnings $	Amalgamation reserve $	Fair value adjustment reserve (Note 22) $	Total $
Balance at 1 January 2014	418,327,805	(154,668,049)	81,608,762	1,322,349	346,590,867
Profit net of tax	–	10,042,902	–	–	10,042,902
Other comprehensive income for the year, net of tax	–	–	–	1,022,501	1,022,501
Total comprehensive income for the year	–	10,042,902	–	1,022,501	11,065,403
Balance at 31 December 2014	418,327,805	(144,625,147)	81,608,762	2,344,850	357,656,270
Balance at 1 January 2013	418,327,805	(196,000,542)	–	7,791	222,335,054
Profit net of tax	–	41,332,493	–	–	41,332,493
Other comprehensive income for the year, net of tax	–	–	–	1,314,558	1,314,558
Total comprehensive income for the year	–	41,332,493	–	1,314,558	42,647,051
Transfer from Amalgamation	–	–	81,608,762	–	81,608,762
Balance at 31 December 2013	418,327,805	(154,668,049)	81,608,762	1,322,349	346,590,867

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

Statement of cash flows
For the year ended 31 December 2014

	2014 $	2013 $
Cash flows from operating activities:		
Profit before tax	9,198,140	37,515,729
Adjustments for:		
Write back of allowance for doubtful receivables (Note 14)	(129,470)	(351)
Write-back on impairment of intangible assets	(371,936)	–
Loss/(profit) on Scheme of Transfer	1	(537,662)
Depreciation (Note 10)	816,229	1,043,520
Investment income	(5,621,489)	(3,856,566)
Increase/(decrease) in gross claim liabilities	13,426,603	(360,888,679)
(Increase)/decrease in reinsurance assets	(8,463,963)	215,713,650
Increase in gross premium liabilities	19,450,822	5,021,736
(Increase)/decrease in deferred acquisition cost	(10,815,539)	655,945
Increase/(decrease) in deferred reinsurance commissions	5,883,635	(215,515)
Operating cash flows before working capital changes	23,373,033	(105,548,193)
(Increase)/decrease in debtors	(1,596,019)	88,748,592
(Decrease)/increase in creditors	(1,070,145)	12,785,265
(Increase)/decrease in amount owing from holding and related companies (non-trade)	(222,663)	241,969
Cash flows from operations	20,484,205	(3,772,367)
Income tax refund	–	632,626
Investment income (net) received	5,313,524	4,502,135
Net cash flows generated from operating activities	25,797,729	1,362,394
Cash flows on investing activities:		
Purchase of property, plant and equipment (Note 10)	(1,380,774)	(903,322)
Proceeds from disposal of property, plant and equipment	11,580	–
Proceeds from scheme of transfer and amalgamation	–	40,847,736
Purchase of investment securities	(16,263,872)	(20,221,246)
Proceeds from disposal and redemption of investment securities	22,500,000	25,665,582
Net cash flows generated from investing activities	4,866,934	45,388,750
Net increase in cash and cash equivalents	30,664,664	46,751,144
Cash and cash equivalents in beginning of year	303,470,629	256,719,485
Cash and cash equivalents at end of year (Note 21)	334,135,293	303,470,629

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

1. Corporate information

The financial statements of Tenet Sompo Insurance Pte. Ltd. (the "Company") for the financial year ended 31 December 2014 were authorised by the Board of Directors for issuance on 19 March 2015.

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

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

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. Summary of significant accounting policies (cont'd)

2.3 *Changes in accounting policies*

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 2014. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Company.

2.4 *Standards issued but not yet effective*

The Company has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	**Effective date annual periods beginning on or after**
Improvements to FRSs (January 2014)	
Amendments to FRS 102 *Share Based Payment*	1 July 2014
Amendments to FRS 103 *Business Combinations*	1 July 2014
Amendments to FRS 108 *Operating Segments*	1 July 2014
Amendments to FRS 16 *Property, Plant and Equipment*	1 July 2014
Amendments to FRS 38 *Intangible Assets*	1 July 2014
Amendments to FRS 24 *Related Party Disclosures*	1 July 2014
Improvements to FRSs (February 2014)	
Amendments to FRS 103 *Business Combinations*	1 July 2014
Amendments to FRS 113 *Fair Value Measurement*	1 July 2014
Amendments to FRS 40 *Investment Property*	1 July 2014
Amendments to FRS 27 *Equity Method in Separate Financial Statements*	1 January 2016
Amendments to FRS 16 and FRS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Improvements to FRSs (November 2014)	
Amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	1 January 2016
Amendments to FRS 107 *Financial Instruments: Disclosures*	1 January 2016
Amendments to FRS 19 *Employee Benefits*	1 January 2016
Amendments to FRS *1 Disclosure Initiative*	1 January 2016
Amendments to FRS 110, FRS 112 and FRS 28 *Investment Entities: Applying the Consolidation Exception*	1 January 2016
FRS 115 *Revenue from Contracts with Customers*	1 January 2017
FRS 109 *Financial Instruments*	1 January 2018

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

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

Except for amendments to FRS 109 and 115, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of amendments to FRS 109 and 115 are described below.

FRS 109 Financial Instruments

In December 2014, the ASC issued the final version of FRS 109 *Financial Instruments* which reflects all phases of the financial instruments project and replaces FRS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory in the year of adoption. The adoption of FRS 109 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

FRS 115 *Revenue from Contracts with Customers*

FRS 115 was issued in November 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under FRS 115 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under FRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of FRS 115 and plans to adopt the new standard on the required effective date.

2.5 *Revenue 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.

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

2.5 *Revenue recognition (cont'd)*

(b) *Interest income*

Interest income is recognised using the effective interest method.

(c) *Dividend income*

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

2.6 *Claims*

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

Reinsurance claims

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

2.7 *Claims liabilities*

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

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

2.8 *Foreign currency transactions*

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

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

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

2.9 *Insurance contracts*

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

2.10 *Employee benefits*

(a) *Defined contribution plan*

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

(b) *Employee leave entitlement*

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

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

2.11 *Premium liabilities*

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

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

Singapore Insurance Fund:

Fire	-	on a basis not less accurate than the $^{1}/_{24}$th method
Marine		
- Cargo	-	25% of net written premium
- Hull	-	on a basis not less accurate than the $^{1}/_{24}$th method
Accident	-	on a basis not less accurate than the $^{1}/_{24}$th method

Offshore Insurance Fund:

Marine - Cargo and hull	-	25% of net written premium
Others	-	40% of net written premium

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

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

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

2.12 *Deferred acquisition costs ("DAC")*

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

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

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

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

2.12 *Deferred acquisition costs ("DAC") (cont'd)*

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 caring 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 off.

2.13 *Deferred expenses – Reinsurance commissions*

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

2.14 *Reinsurance*

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

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

Gains and losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

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

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

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

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

2.14 *Reinsurance (cont'd)*

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 statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective interest rate method when accrued.

2.15 *Insurance receivables*

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

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.18 have been met.

2.16 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant 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, plant and equipment. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

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

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

Motor vehicles	-	5 years
Renovations	-	3 years
Furniture and fittings	-	3 years
Office equipment and machinery	-	3 years
Computers	-	3 years
Software	-	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.

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

2.16 *Property, plant and equipment (cont'd)*

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

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

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

2.17 *Intangible assets*

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

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

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

2.18 *Financial assets*

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.

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

2.18 *Financial assets (cont'd)*

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

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.

Trade debtors and other debtors are carried at amortised cost.

(c) Available-for-sale financial assets

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

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

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

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

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

2.18 *Financial assets (cont'd)*

Derecognition

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

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

2.19 *Financial liabilities*

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

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

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

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

Trade and other payables

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

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit and loss.

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

2.20 *Cash and cash equivalents*

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

2.21 *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.

2.22 *Impairment of non-financial assets*

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss be recognised previously. Such reversal is recognised in the statement of profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

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

2.23 *Impairment of financial assets*

(a) *Available-for-sale financial assets*

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.

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

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.

(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, (other than those mentioned above) 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.

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

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

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

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

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

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

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

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

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

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

2.26 ***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. Summary of significant accounting policies (cont'd)

2.27 Related parties

A related party is defined as follows:

a) A person or a close member of that person's family is related to the Company if that person:

   (i) has control or joint control over the Company;

   (ii) has significant influence over the Company; or

   (iii) is a member of the key management personnel of the Company or of a parent of the Company.

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

   (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (iii) both entities are joint ventures of the same third party.

   (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

   (vi) the entity is controlled or jointly controlled by a person identified in (a);

   (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting estimates and judgements

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

3.1 Key sources of estimation uncertainty

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

(a) *Income taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Company. The carrying amount of the Company's income tax payables and deferred tax assets at the balance sheet date were $1,221,188 (2013: $111,124) and $13,475,524 (2013: $11,767,875) respectively.

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

(b) *Insurance contract liabilities*

Significant judgement is also involved in determining the Company's insurance contract liabilities. The process and key assumptions used in estimating the insurance contract liabilities is further discussed in Note 25.

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 $11,273,000 (2013: $417,034,000) (gross) and $ 2,590,000 (2013: $8,025,000) (net of reinsurance) as at 31 December 2014. 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)

3.1 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 2014 amounted to $1,656 (2013: $147,566).

4. Scheme of transfer

On 1 January 2014, the Company completed the scheme for the transfer of insurance business of Nipponkoa Insurance Co. Ltd, Singapore Branch ("NK") to the Company. The assets and liabilities of NK are recorded in the financial statements of the Company at their carrying values on the date of transfer.

(a) ***Scheme of transfer as at 1 January 2014***

The fair value of the identifiable assets and liabilities of Tenet as at the transfer date were:

	$
ASSETS	
Equity securities	246,808
Trade debtors	2,014,443
Deposits withheld by cedants	8,225,327
Reinsurance recoverables	82,856
Other assets	27,905
Cash and cash equivalent	58,048,428
Total assets	68,645,767
LIABILITIES	
Insurance contract liabilities	68,315,000
Amounts owing to insurers	193,492
Other liabilities	137,276
Total liabilities	68,645,768
Net assets, represented by loss on scheme of transfer on 1 January 2014	(1)

4. Scheme of transfer (cont'd)

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

On 1 January 2014, the Company also entered into a Whole Account Quota Share (100% Quota Share) contract with Nipponkoa Insurance Company Limited ("Head Office"), whereby the Company agrees to cede and the Head Office agrees to accept a 100% Quota Share of the net retained portfolio of risks underwritten by NK attaching prior to 1 January 2014 and remaining in force on or after 1 January 2014 until natural expiry. This agreement includes the portfolio of net retained loss outstanding including IBNR loss as at 31 December 2013 in respect of risks underwritten by NK.

Net liabilities ceded to Head Office as at 1 January 2014:	
	S$
Premium Liabilities	8,707,000
Claims Liabilities	59,608,000
	68,315,000
Net reinsurance commission from cession	1,393,120
Cash consideration to Head Office under the 100% Quota Share arrangement	66,921,880

5. Investment income

	2014	2013
	$	$
Interest on debt securities	3,387,845	2,049,259
Interest income from Available-for-sale financial assets	3,387,845	2,049,259
Interest from current accounts	3,049	107,175
Interest from fixed deposits	1,497,348	1,253,944
Interest income from cash and cash equivalents	1,500,397	1,361,119
Exchange gain on foreign currencies, net	1,900,158	1,818,965
	3,400,555	3,180,084
Dividend income	733,247	446,188
	7,521,647	5,675,531

6. Other income

	2014 $	2013 $
Agency fees	601,808	550,891
IT support fees	33,973	265,142
Interest on premium reserve released	86,259	60,257
Miscellaneous income	234,965	54,530
Gain on amalgamation	–	537,662
Exchange gain	–	2,836,507
Impairment of intangible asset	371,936	–
	1,328,941	4,304,989

7. Operating and administrative expenses

	2014 $	2013 $
Directors' remuneration	502,580	657,046
Central Provident Fund contributions	1,632,593	1,562,253
Salaries, bonuses and other costs	14,889,145	9,536,156
Depreciation	816,229	1,043,520
	17,840,547	12,798,975

8. Profit before tax

Other than disclosed elsewhere in the financial statements, profit before tax is arrived at after charging the following items:

	2014 $	2013 $
Directors' fees	84,500	50,000
Operating lease expense (Note 24)	2,649,497	2,356,378
Write back of allowance for doubtful receivables (Note 14)	(129,470)	(351)
Depreciation of property, plant and equipment (Note 10)	816,229	1,043,520

9. Taxation

(a) ***Tax credit***

	2014 $	2013 $
Deferred Tax provision	(1,898,000)	(3,251,000)
Over provision in respect of prior years	–	(565,764)
	(1,898,000)	(3,816,764)
Tax deducted at source in respect of prior years reversed to profit and loss account	1,053,238	–
	(844,762)	(3,816,764)
Deferred tax liability/(asset) related to other comprehensive income		
- Fair value changes of available-for-sale financial assets	190,351	(259,902)

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

	2014 $	2013 $
Profit before tax	9,198,140	37,515,729
Tax expense on profit before tax at 17%	1,563,684	6,377,674
Adjustments:		
Effect of income at concessionary tax rate	–	(2,753,938)
Expenses not deductible for tax purposes	38,037	–
Over provision of deferred taxation for prior years	–	(565,764)
Tax deducted at source in respect of prior years reversed to profit and loss account	1,053,238	–
Benefits from unrecognised tax losses	(3,499,721)	(6,874,736)
Tax credit	(844,762)	(3,816,764)

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 2014 (2013: 17%).

9. Taxation (cont'd)

(b) *Deferred taxation*

	2014 $	2013 $
Balance at 1 January	(11,767,875)	(8,811,000)
Tax balances taken on from amalgamation	–	373,485
Charged/(credited) to:		
- Profit and loss account	(1,898,000)	(3,251,000)
- Fair value adjustment reserve	190,351	(259,502)
Under provision in respect of prior years charged to profit and loss account	–	180,142
Balance at 31 December	(13,475,524)	(11,767,875)

Deferred income tax assets and liabilities

	2014	2013
Deferred tax liabilities		
Revaluations of available-for-sale financial assets	461,476	271,125
Deferred tax assets		
Unabsorbed tax losses	(13,937,000)	(12,039,000)
Net deferred tax assets	(13,475,524)	(11,767,875)

At the end of the reporting period, the Company has tax losses of approximately $216,744,549 (2013: $ 237,620,880) that are available for offset against future taxable profits of the Company in which the losses arose, 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.

9. Taxation (cont'd)

(c) *Provision for taxation*

	2014 $	2013 $
Balance at 1 January	111,124	–
Tax balances taken on from scheme of transfer/ amalgamation	–	750,107
Over provision in respect of prior years charged to profit and loss account	–	(557,010)
Reversal of tax deducted at source for prior years charged to profit and loss account	1,053,238	–
Reclassification of withholding tax to other creditors	56,826	–
Tax payments	–	(81,973)
Balance at 31 December	1,221,188	111,124

10. Property, plant and equipment

	Computers $	Software $	Furniture and fittings $	Renovation $	Office Equipment $	Motor vehicle $	Work in Progress ("WIP") $	Total $
Cost								
As at 1 January 2014	1,906,000	–	349,765	1,123,554	53,152	130,733	2,120,735	5,683,939
Assets transferred from WIP	–	2,120,735	–	–	–	–	(2,120,735)	–
Additions for the Year	120,076	540,138	2,985	19,842	50,713	123,218	523,802	1,380,774
Disposals for the Year	(7,023)	–	–	–	–	(23,159)	–	(30,182)
As at 31 December 2014	2,019,053	2,660,873	352,750	1,143,396	103,865	230,792	523,802	7,034,531
Accumulated depreciation								
As at 1 January 2014	1,792,778	–	322,211	858,352	53,152	78,440	–	3,104,933
Charge for the Year	113,139	376,426	16,803	212,710	27,828	69,323	–	816,229
Disposal for the Year	(7,023)	–	–	–	–	(11,579)	–	(18,602)
As at 31 December 2014	1,898,894	376,426	339,014	1,071,062	80,980	136,184	–	3,902,560
Net carrying amount as at 31 December 2014	120,159	2,284,447	13,736	72,334	22,885	94,608	523,802	3,131,971

10. Property, plant and equipment (cont'd)

	Computers $	Software $	Furniture and Fittings $	Renovation $	Office equipment $	Motor vehicle $	Work in Progress ("WIP") $	Total $
Cost								
As at 1 January 2013	1,585,855	–	104,848	754,851	53,152	–	–	2,498,706
Assets acquired through scheme of transfer	261,360	–	237,932	207,166	–	130,733	1,444,720	2,281,911
Additions for the Year	58,785	–	6,985	161,537	–	–	676,015	903,322
As at 31 December 2013	1,906,000	–	349,765	1,123,554	53,152	130,733	2,120,735	5,683,939
Accumulated depreciation								
As at 1 January 2013	1,572,014	–	63,637	372,626	53,136	–	–	2,061,413
Charge for the Year	220,764	–	258,574	485,726	16	78,440	–	1,043,520
As at 31 December 2013	1,792,778	–	322,211	858,352	53,152	78,440	–	3,104,933
Net carrying amount as at 31 December 2013	113,222	–	27,554	265,202	–	52,293	2,120,735	2,579,006

11. Intangible assets

	2014	2013
	$	$
Club memberships		
At cost	627,364	621,364
Cost taken on at amalgamation	–	6,000
Less: Provision for impairment	(238,064)	(610,000)
Net carrying amount	389,300	17,364
Analysis of provision for impairment in value:		
- Balance at 1 January and 31 December	238,064	610,000

12. Available-for-sale financial assets

	2014	2013
	$	$
Corporate bonds, at fair value	95,015,390	101,139,912
Quoted equity shares	16,398,837	15,297,591
Unquoted shares	417	417
Total available-for-sale financial assets	111,414,644	116,437,920

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

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

The carrying values are determined as follows:

	2014	2013
	$	$
Balance at beginning of the year	116,437,920	35,527,880
Transfer from scheme of transfer/amalgamation	246,808	94,996,761
Additions	16,017,065	20,221,246
Maturities and disposals	(22,500,000)	(33,500,436)
Fair value gains/(losses)	1,212,851	(807,531)
Balance at end of the year	111,414,644	116,437,920

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

Fair value hierarchy

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

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

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

	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant un-observable inputs (Level 3)	Total
	$	$	$	$
2014				
Financial assets:				
Available-for-sale financial assets	54,670,502	56,744,142	-	111,414,644
2013				
Financial assets:				
Available-for-sale financial assets	101,760,409	14,677,511	-	116,437,920

13. Amounts owing from holding and related companies

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

14. Trade debtors

	2014 $	2013 $
Holding companies	3,547,327	-
Related companies	5,802,242	17,613,128
Third parties	46,602,339	34,557,918
	55,951,908	52,171,046
Allowance for doubtful receivables	(1,656)	(147,566)
	55,950,252	52,023,480
Due from insurers	9,623,246	5,413,475
Due from agents, brokers and intermediaries	13,291,798	6,343,745
Due from reinsurers	33,035,208	40,266,260
	55,950,252	52,023,480
Add:		
Other debtors (Note 15)	1,875,932	3,659,496
Amounts owing from holding companies (non-trade) (Note 13)	403,590	3,075
Amounts owing from related companies (non-trade) (Note 13)	6,036	183,888
Cash and cash equivalents (Note 21)	334,135,293	303,470,629
Total financial assets at amortised cost	392,371,103	359,340,568

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

Trade receivables denominated in foreign currencies at 31 December 2014 are as follows:

	2014 $	2013 $
US Dollar	6,126,820	2,258,317
Thai Baht	22,096,935	13,440,220
Others	4,813,399	986,723
Total	33,037,154	16,685,260

14. Trade debtors (cont'd)

The Company has trade receivables amounting to $7,952,293 (2013: $26,649,518) 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:

	2014 $	2013 $
Trade receivables past due not impaired:		
Less or equal to 90 days	4,132,110	3,602,217
91 to 120 days	150,190	63,767
121 to 180 days	410,385	16,919,089
181 to 365 days	2,222,412	3,810,037
More than 365 days	1,037,196	2,254,408
Total	7,952,293	26,649,518

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:

	2014 $	2013 $
Trade receivables – nominal amounts	1,656	521,356
Less: Allowance for doubtful receivables	(1,656)	(147,566)
	–	373,790
Movement in allowance accounts:		
At 1 January	(147,566)	(6,157)
Cost taken on from scheme of transfer	(11,000)	(141,760)
Allowance utilised	27,440	–
Write back for the year	129,470	351
At 31 December	(1,656)	(147,566)

15. Other debtors

	2014 $	2013 $
Interest receivable	1,318,778	1,760,160
Dividend receivable	17,000	–
Sundry deposits and debtors	540,154	1,899,336
Total	1,875,932	3,659,496

16. Technical reserves

	Gross $	Recoverable from reinsurers $	Net $
2014			
Claims reported and loss adjustment expenses	163,685,041	(92,311,786)	71,373,255
Claims incurred but not reported	22,923,426	(15,479,157)	7,444,269
Claims liabilities	186,608,467	(107,790,943)	78,817,524
Premium liabilities	88,442,999	(28,323,503)	60,119,496
Insurance contract liabilities	275,051,466	(136,114,446)	138,937,020
Deferred acquisition costs and deferred reinsurance commissions	(18,311,907)	8,070,811	(10,241,096)
Total	256,739,559	(128,043,635)	128,695,924
2013			
Claims reported and loss adjustment expenses	160,104,755	(93,918,745)	66,186,010
Claims incurred but not reported	13,077,109	(9,122,533)	3,954,576
Claims liabilities	173,181,864	(103,041,278)	70,140,586
Premium liabilities	68,992,177	(24,609,205)	44,382,972
Insurance contract liabilities	242,174,041	(127,650,483)	114,523,558
Deferred acquisition costs and deferred reinsurance commissions	(7,496,368)	2,187,176	(5,309,192)
Total	234,677,673	(125,463,307)	109,214,366

16. Technical reserves (cont'd)

(a) *Claims liabilities*

2014	Gross $	Reinsurance $	Net $
Notified claims	160,104,755	(93,918,745)	66,186,010
Incurred but not reported	13,077,109	(9,122,533)	3,954,576
Total at beginning of year	173,181,864	(103,041,278)	70,140,586
Balances taken on from scheme of transfer	60,322,459	(60,322,459)	–
Cash paid for claims settled in the year	(47,553,904)	10,902,179	(36,651,725)
Movement in claims incurred	658,048	44,670,615	45,328,663
Total at end of year	186,608,467	(107,790,943)	78,817,524
Notified claims	163,685,041	(92,311,786)	71,373,255
Incurred but not reported	22,923,426	(15,479,157)	7,444,269
	186,608,467	(107,790,943)	78,817,524
2013			
Notified claims	465,642,560	(270,938,160)	194,704,400
Incurred but not reported	31,211,940	(30,471,571)	740,369
Total at beginning of year	496,854,500	(301,409,731)	195,444,769
Balances taken on from scheme of transfer	37,216,043	(9,594,363)	27,621,680
Cash paid for claims settled in the year	(281,257,958)	137,133,580	(144,124,378)
Movement in claims incurred	(79,630,721)	70,829,236	(8,801,485)
Total at end of year	173,181,864	(103,041,278)	70,140,586
Notified claims	160,104,755	(93,918,745)	66,186,010
Incurred but not reported	13,077,109	(9,122,533)	3,954,576
	173,181,864	(103,041,278)	70,140,586

16. Technical reserves (cont'd)

(b) *Premium liabilities*

	Gross $	Reinsurance $	Net $
2014			
At beginning of the year	68,992,177	(24,609,205)	44,382,972
Balance taken on from scheme of transfer	10,506,670	(10,506,670)	–
Changes in the year	8,944,152	6,792,372	15,736,524
At end of the year	88,442,999	(28,323,503)	60,119,496
2013			
At beginning of the year	36,247,025	(26,353,109)	9,893,916
Balance taken on from scheme of transfer	27,723,416	(6,006,930)	21,716,486
Changes in the year	5,021,736	7,750,834	12,772,570
At end of the year	68,992,177	(24,609,205)	44,382,972

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

	Deferred acquisition costs $	Deferred reinsurance commissions $	Net $
2014			
At 1 January	(7,496,368)	2,187,176	(5,309,192)
Balance taken on from scheme of transfer	(1,321,537)	1,321,537	–
Changes in the year	(9,494,002)	4,562,098	(4,931,904)
At 31 December	(18,311,907)	8,070,811	(10,241,096)
2013			
At 1 January	(771,437)	1,003,116	231,679
Balance taken on from scheme of transfer	(7,380,876)	1,399,576	(5,981,300)
Changes in the year	655,945	(215,516)	440,429
At 31 December	(7,496,368)	2,187,176	(5,309,192)

17. Trade creditors

	2014	2013
	$	$
Holding company	11,440,037	–
Related companies	273,533	14,686,234
Third parties	19,066,296	13,597,646
	30,779,866	28,283,880
Add:		
Accrual for audit fees (Note 18)	137,500	265,385
Sundry creditors (Note 18)	30,478	31,262
Accrued expenses (Note 18)	3,341,449	3,590,440
Total financial liabilities at amortised cost	34,289,293	32,170,967

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

18. Other creditors

	2014	2013
	$	$
Accrual for audit fees	137,500	265,385
Sundry creditors	30,478	31,262
Accrued expenses	3,341,449	3,590,440
	3,509,427	3,887,087

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

19. Deferred income

Premium for policies that are received prior to the date of commencement of the risk is presented as "Deferred income".

Deferred income is amortised to the profit and loss account upon commencement of the risk.

20. Share capital

	2014		2013	
	No of shares	$	No of shares	$
Issued and fully paid:				
Balance at beginning of year	418,327,805	418,327,805	418,327,805	418,327,805
Balance at end of year	418,327,805	418,327,805	418,327,805	418,327,805

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

21. Cash and cash equivalents

Cash and cash equivalents comprise the following balance sheet amounts:

	2014 $	2013 $
Fixed deposits	225,653,928	267,780,508
Cash and cash balances	108,481,365	35,690,121
	334,135,293	303,470,629

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 0.00% to 1.60% (2013: 0.13% to 2.50%) per annum.

22. 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.

	2014 $	2013 $
Balance at beginning of the year	1,322,349	7,791
Net gain/(loss) on available-for-sale financial assets:		
- Fair value transfer from amalgamation	99,355	2,122,089
- Fair value changes during the financial year	923,146	(807,531)
- Recognised in the revenue account and profit and loss account on disposal of investment securities	–	–
Balance at end of the year	2,344,850	1,322,349

23. 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:

	2014 $	2013 $
Claims paid, commissions paid and reinsurance business ceded		
- Holding company	64,583,062	19,328,659
- Related companies	55,803,673	240,263,274
Claims recovery, commissions received and reinsurance business accepted		
- Holding company	20,376,351	39,597,112
- Related companies	80,156,208	64,331,998
Interest expense to/(income from)		
- Holding company	9,671	2,458
- Related companies	(37,211)	–
Agency fees income from		
- Holding company	(601,369)	(550,891)
Miscellaneous fees from		
- Holding company	(127,819)	(302,979)
- Related companies	–	(26,218)
Office rental expense from		
- Holding company	–	265,942
Risk survey fee income from		
- Holding company	–	(7,216)

(b) Compensation of key management personnel

	2014 $	2013 $
Short-term employee benefits	494,319	648,121
Central Provident fund contributions	8,261	8,925
	502,580	657,046
Comprise amounts paid to:		
- Directors of the Company (Note 7)	502,580	657,046
	502,580	657,046

Key management personnel include non-independent directors.

24. 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 2014 amounted to $2,649,497 (2013: $2,356,378). Future minimum lease payments under non-cancellable leases as of 31 December are as follows:

	2014 $	2013 $
Not later than 1 year	3,250,117	2,649,497
Later than 1 year but not later than 5 years	12,038,794	15,006,781
	15,288,911	17,656,278

25. 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.

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

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

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

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

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 2014			
Marine	12,228	(7,384)	4,844
Motor	31,600	(9,659)	21,941
Property	87,491	(67,089)	20,402
Workmen's Compensation	21,346	(4,269)	17,077
Others	33,943	(19,390)	14,553
Total	186,608	(107,791)	78,817
31 December 2013			
Marine	9,141	(5,449)	3,692
Motor	21,235	(5,411)	15,824
Property	92,037	(75,629)	16,408
Workmen's Compensation	21,259	(2,740)	18,519
Others	29,510	(13,813)	15,697
Total	173,182	(103,042)	70,140

25. 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 2014 is as follows. The disclosure is based on the countries where the insurance business is written.

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

Claims liabilities	Gross claims liabilities $'000	Reinsurers' share of claims liabilities $'000	Net claims liabilities $'000
At 31 December 2013			
Indonesia	1,364	(1,075)	289
Philippines	1,323	(928)	395
Singapore	76,867	(28,322)	48,545
Thailand	82,327	(67,439)	14,888
Others	11,301	(5,278)	6,023
Total	173,182	(103,042)	70,140

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

(b) *Financial risk*

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

(i) *Credit risk*

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

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

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

<u>Reinsurance</u>

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

<u>Investment securities</u>

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

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

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

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

Derivatives

The Company does not enter into derivative contracts.

Insurance receivables

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

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

The following table provides information regarding the credit risk exposure of the Company at 31 December 2014 by classifying assets according to credit ratings of the counterparties.

Classification of Credit Rating Agencies

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

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

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

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

	2014 $'000	2013 $'000
Available-for-sale financial assets	111,415	116,438
Amount owing from holding companies (non-trade)	404	3
Amount owing from related companies (non-trade)	6	184
Trade debtors	55,950	52,023
Other debtors	1,876	3,659
Cash and cash equivalents	334,135	303,471
Total financial assets	503,786	475,778

	2014 $'000	2013 $'000
Class		
A	102,647	132,461
B	237,695	151,963
C	34,232	118,675
D *	129,212	72,679
Total financial assets	503,786	475,778

* Non-rated debt securities included holdings of debt securities issued by Singapore Statutory Boards amounting to $16.22 million (2013: $38.41 million).

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

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

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

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

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

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

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

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

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

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

	Within 1 year S$'000	1 to 3 years S$'000	3 to 5 years S$'000	More than 5 years S$'000	Total S$'000
2013					
Financial assets:					
Available-for-sale financial assets	37,919	41,953	23,753	12,813	116,438
Cash and cash equivalents	303,471	–	–	–	303,471
Amount owing from holding company (non-trade)	3	–	–	–	3
Amount owing from related companies (non-trade)	184	–	–	–	184
Trade debtors	52,023	–	–	–	52,023
Other debtors	3,659	–	–	–	3,659
	397,259	41,953	23,753	12,813	475,778
Financial liabilities:					
Trade creditors	28,284	–	–	–	28,284
Other creditors	3,887	–	–	–	3,887
	32,171	–	–	–	32,171

(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.

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

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

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

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

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

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

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

31 December 2013	Financial assets $'000	Financial liabilities $'000
Available-for-sale financial assets	116,438	–
Amount owing from holding company (non-trade)	3	–
Amount owing from related companies (non-trade)	184	–
Trade debtors	52,023	–
Other debtors	3,659	–
Cash and cash equivalents	303,471	–
Trade creditors	–	28,284
Other creditors	–	3,887
Total	475,778	32,171
Singapore Dollar	431,710	7,093
US Dollar	22,529	903
Thai Baht	17,413	23,998
Others	4,126	177
Total	475,778	32,171

Sensitivity analysis for foreign currency risk

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

Increase/(decrease) in profit net of tax		2014 $'000	2013 $'000
USD/SGD	- Strengthened 5%	2,093	1,081
	- Weakened 5%	(2,093)	(1,081)
THB/SGD	- Strengthened 5%	1,406	(329)
	- Weakened 5%	(1,406)	329

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

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

(iv) *Interest rate risk*

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

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

Sensitivity analysis for interest rate risk

At the balance sheet date, if market interest rates had been 50 (2013: 50) basis points higher with all other variables held constant, the fair value adjustment reserve would have been $1,139,926 (2013: $5,821,896) lower, arising mainly as a result of a decrease in the fair value of short-term debt securities classified as available-for-sale.

If market interest rates had been 50 (2013: 50) basis points lower with all other variables held constant, the fair value adjustment reserve would have been $1,183,925 (2013: $5,821,896) higher, arising mainly as a result of an increase in the fair value of short-term debt securities classified as available-for-sale.

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

Financial assets	Effective Interest Rate %	Within 1 year $'000	1 to 3 years $'000	3 to 5 years $'000	More than 5 years $'000	Total $'000
2014						
Bonds	2.96	20,192	37,489	25,245	12,089	95,015
Cash and cash equivalents	0.58	334,135	–	–	–	334,135
2013						
Bonds	3.34	22,621	41,953	23,753	12,813	101,140
Cash and cash equivalents	0.58	303,471	–	–	–	303,471

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

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

Insurance contract liabilities – assumptions and sensitivities

Cargo, Property and Casualty insurance contracts

Assumptions

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

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

Ultimate claim cost development

(i) The tables below show the actuary's best estimate of the gross and net of reinsurance ultimate claims cost for each accident/underwriting year at yearly intervals together with actual cumulative claim payments for each accident/underwriting year as at 31 December 2014.

(ii) Ultimate claim costs are then compared to actual cumulative claim payments for each accident/underwriting year as at 31 December 2014 to arrive at the best estimate of claim liability as at 31 December 2014.

(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 2014.

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

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

Gross Loss Development Tables

Gross of reinsurance basis (S$'000)

All SIF & OIF combined - Gross of reinsurance basis

Estimate of cumulative claims Period*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
At end of underwriting year	31,506	28,781	27,678	38,547	38,167	42,614	1,519,701	65,182	69,100	87,189	
One year later	21,839	21,128	24,082	33,459	31,819	51,280	1,383,700	63,440	61,007		
Two years later	18,294	19,801	22,738	31,539	37,654	65,931	1,167,762	54,781			
Three years later	16,934	19,313	21,514	37,176	35,186	148,308	1,161,961				
Four years later	16,957	18,844	32,492	36,403	34,552	150,571					
Five years later	16,526	22,257	31,445	36,067	33,472						
Six years later	20,984	22,085	31,346	34,319							
Seven years later	20,813	21,779	30,589								
Eight years later	20,798	19,538									
Nine years later	20,077										
Current estimate of ultimate claims	20,077	19,538	30,589	34,319	33,472	150,571	1,161,961	54,781	61,007	87,189	1,653,504
Cumulative payments	20,062	19,277	30,086	32,722	32,157	129,782	1,144,469	43,779	40,255	11,949	1,504,538
Gross estimate of outstanding claim liability	15	261	503	1,597	1,315	20,789	17,492	11,002	20,752	75,240	148,966
Best estimate for claims liability (net of unearned & add CHE)	15	271	523	1,664	1,369	20,936	17,941	11,495	21,572	73,408	149,194
Reserve for prior years											268
Discounting for time value											(1,195)
Provision for adverse deviation											19,058
Ex-Nipponkoa Outstanding claim liability											19,283
Outstanding claim liability in accounts											186,608

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

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

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

Net Loss Development Tables

Net of reinsurance basis (S$'000)

All SIF & OIF combined - Net of reinsurance basis

Estimate of cumulative claims Period*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
At end of underwriting year	27,498	26,764	26,141	36,227	32,454	36,491	363,965	41,334	32,910	52,179	
One year later	19,154	19,545	22,657	31,554	26,593	31,696	303,089	33,210	31,128		
Two years later	15,901	18,282	21,499	29,838	23,102	29,015	269,984	31,607			
Three years later	14,677	17,705	20,283	28,293	20,947	33,556	264,815				
Four years later	14,693	17,259	20,082	27,491	21,137	28,021					
Five years later	14,326	17,017	19,097	27,096	20,625						
Six years later	14,294	16,828	19,122	27,217							
Seven years later	14,135	16,681	18,994								
Eight years later	13,867	16,638									
Nine years later	13,856										
Current estimate of ultimate claims	13,856	16,638	18,994	27,217	20,625	28,021	264,815	31,607	31,128	52,179	505,080
Cumulative payments	13,849	16,456	18,630	26,199	19,798	25,787	258,124	24,745	19,373	11,864	434,825
Net estimate of outstanding claim liability	7	182	364	1,018	827	2,234	6,691	6,862	11,755	40,315	70,255
Best estimate for claims liability (net of unearned & add CHE)	7	193	384	1,085	882	2,381	7,139	7,355	12,575	38,565	70,566
Reserve for prior years											191
Discounting for time value											(685)
Provision for adverse deviation											8,745
Outstanding claim liability in accounts											78,817

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

25. Management of insurance risk and financial risk (cont'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 2014. 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 2014 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 2014 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.

25. Management of insurance risk and financial risk (cont'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	186,608	
Initial Expected Loss Ratio[2]	2.2%	-2.2%
First Incurred Development Factor[3]	1.1%	-1.2%
Claim Handling Expenses[4]	0.2%	-0.2%
Provision for Adverse Deviation	0.6%	-0.6%

Percentage Change in Premium Liability Sensitivity Analysis

Assumption	Gross of reinsurance +5%[1]	-5%[1]
Reported total premium liability	70,131	
Expected Loss Ratio[2]	0.0%	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	78,490	
Initial Expected Loss Ratio[2]	1.9%	-1.9%
First Incurred Development Factor[3]	1.5%	-1.6%
Claim Handling Expenses[4]	0.3%	-0.3%
Provision for Adverse Deviation	0.5%	-0.5%

Percentage Change in Premium Liability Sensitivity Analysis

Assumption	Net of reinsurance +5%[1]	-5%[1]
Reported total premium liability	48,255	
Expected Loss Ratio[2]	5.4%	-4.5%
Management expense ratio[4]	0.6%	-0.6%
Provision for Adverse Deviation	0.5%	-0.5%

25. Management of insurance risk and financial risk (cont'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 2014 accident/underwriting year.
(3) First incurred development factor sensitivity analysis applies to 2014 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 2014.

Item	Gross $'000	Net $'000
2014		
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	186,608	78,490
Actuarial estimate of premium liabilities including provision for adverse deviation	70,131	48,255
Total actuarial estimate of policy liabilities including provision for adverse deviation	**256,739**	**126,745**
Comparing to:		
Company held provision for outstanding claim liabilities	186,608	78,817
Company held provision for premium liabilities	70,131	49,878
Total Company held provision for policy liabilities	**256,739**	**128,695**
2013		
Actuarial estimate of outstanding claim liabilities including provision for adverse deviation	173,179	70,137
Actuarial estimate of premium liabilities including provision for adverse deviation	61,493	39,071
Total actuarial estimate of policy liabilities including provision for adverse deviation	**234,672**	**109,208**
Comparing to:		
Company held provision for outstanding claim liabilities	173,182	70,140
Company held provision for premium liabilities	61,496	39,074
Total Company held provision for policy liabilities	**234,678**	**109,214**

26. Capital management

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

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

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