

Co. Reg. No. 198905490E

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance
(Singapore) Pte. Ltd.)

Annual Financial Statements

31 December 2013



Building a better
working world

Tenet Sompo Insurance Pte. Ltd.
(Formerly known as Sompo Japan Insurance (Singapore) Pte. Ltd.)

General Information

Directors

Takanori Ono

Tan Yian Hua

Lee Soo Kwan

Katsuyuki Tajiri

(appointed on 20 November 2013)

Keishi Nakamura

(resigned on 20 November 2013)

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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Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of Tenet Sampo Insurance Pte. Ltd. (the "Company") for the financial year ended 31 December 2013.

Directors

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

| | |
|------------------|---------------------------------|
| Takanori Ono | |
| Tan Yian Hua | (appointed on 1 January 2013) |
| Lee Soo Kwan | (appointed on 1 January 2013) |
| Katsuyuki Tajiri | (appointed on 20 November 2013) |

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.

Tenet Sompo Insurance Pte. Ltd.
(Formerly known as Sompo Japan Insurance (Singapore) Pte. Ltd.)

Directors' Report

Significant events

Details of significant events are disclosed in Note 4 to the financial statements.

Subsequent event

Details of subsequent event are disclosed in Note 27 to the financial statements.

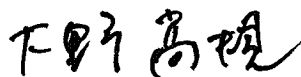
Auditor

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

On behalf of the Board,



Tan Yian Hua
Director



Takanori Ono
Director

Singapore
21 March 2014

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Statement by Directors

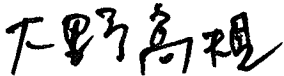
We, Tan Yian Hua and Takanori Ono, being two of the directors of Tenet Sampo Insurance Pte. Ltd., do hereby state that, in the opinion of the directors:

- (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 2013, 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,



Tan Yian Hua
Director



Takanori Ono
Director

Singapore
21 March 2014

**Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)**

**Independent Auditors' Report
For the financial year ended 31 December 2013**

To the member of Tenet Sampo Insurance Pte. Ltd. (the "Company")

Report on the Financial Statements

We have audited the accompanying financial statements of Tenet Sampo Insurance Pte. Ltd. (the "Company") set out on pages 6 to 67, which comprise the balance sheet as at 31 December 2013, 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.

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Independent Auditors' Report
For the financial year ended 31 December 2013

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 2013 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
21 March 2014

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Statement of Profit and Loss for the year ended 31 December 2013

(In Singapore dollars)

| | Note | 2013 \$ | 2012 \$ |
|---|------|---------------|---------------|
| Gross premiums written | | 144,928,943 | 83,163,584 |
| Reinsurers' share of gross premiums written | | (72,573,707) | (63,713,583) |
| Premiums written net of reinsurance | | 72,355,236 | 19,450,001 |
| Gross change in reserve for unexpired risk | 16 | (5,677,681) | (756,589) |
| Reinsurers' share of gross change in reserve for unexpired risk | 16 | (7,535,317) | 1,051,109 |
| Change in reserve for unexpired risk | | (13,212,998) | 294,520 |
| Net earned premiums | | 59,142,238 | 19,744,521 |
| Investment income / (loss) | 5 | 3,856,708 | (3,374,132) |
| Less: Investment expenses | | (142) | (565) |
| | | 3,856,566 | (3,374,697) |
| Other income | 6 | 6,123,954 | 1,249,032 |
| | | 69,122,758 | 17,618,856 |
| Gross claims paid | | (281,257,958) | (912,594,380) |
| Reinsurers' share of gross claims paid | | 137,133,580 | 790,136,060 |
| Gross change in loss reserves | 16 | 360,888,676 | 1,062,576,358 |
| Reinsurers' share of gross change in loss reserves | 16 | (207,962,815) | (875,721,616) |
| Net claims incurred | | 8,801,483 | 64,396,422 |
| Commission expense | | (33,114,974) | (16,161,158) |
| Commission income | | 13,927,999 | 11,858,483 |
| Net commission | | (19,186,975) | (4,302,675) |
| Staff costs (including Central Provident Fund contributions) | 7 | (11,755,455) | (5,280,064) |
| Depreciation | 10 | (1,043,520) | (321,199) |
| Other operating expenses | | (8,422,562) | (7,046,874) |
| Profit before tax | | 37,515,729 | 65,064,466 |
| Income tax credit | 9 | 3,816,764 | 3,273,294 |
| Profit after tax | | 41,332,493 | 68,337,760 |

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

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Statement of Comprehensive Income for the year ended 31 December 2013

(In Singapore dollars)

| | Note | 2013 \$ | 2012 \$ |
|--|------|--------------------------|--------------------------|
| Profit net of tax | | 41,332,493 | 68,337,760 |
| Other comprehensive income: | | | |
| Net gain on available-for-sale financial assets | | <u>1,314,558</u> | <u>194,953</u> |
| Other comprehensive income for the year, net of tax | | <u>1,314,558</u> | <u>194,953</u> |
| Total comprehensive income for the year | | <u><u>42,647,051</u></u> | <u><u>68,532,713</u></u> |

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

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Balance Sheet as at 31 December 2013

(In Singapore dollars)

| | Note | 2013 \$ | 2012 \$ |
|---|------|-------------|-------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 2,579,006 | 437,293 |
| Intangible assets | 11 | 17,364 | 11,364 |
| Deferred tax assets | 9 | 11,767,875 | 8,811,000 |
| Investments | 12 | 22,620,721 | 14,808,334 |
| | | 36,984,966 | 24,067,991 |
| Current assets | | | |
| Amount owing from holding companies (non-trade) | 13 | 3,075 | 364,257 |
| Amount owing from related companies (non-trade) | 13 | 183,888 | 64,675 |
| Prepayments | | 1,189,888 | 304,338 |
| Trade debtors | 14 | 52,023,480 | 137,694,330 |
| Other debtors | 15 | 3,659,496 | 545,354 |
| Investments | 12 | 93,817,199 | 20,719,546 |
| Cash and cash equivalents | 21 | 303,470,629 | 256,719,485 |
| | | 454,347,655 | 416,411,985 |
| Technical balances | | | |
| Reinsurer's share of insurance contract liabilities (ceded) | 16 | 127,650,483 | 327,762,840 |
| Deferred acquisition costs | 16 | 7,496,368 | 771,437 |
| | | 135,146,851 | 328,534,277 |
| Total assets | | 626,479,472 | 769,014,253 |

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

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Balance sheet as at 31 December 2013

(In Singapore dollars)

| | Note | 2013 | 2012 |
|--|------|---------------------------|---------------------------|
| | | \$ | \$ |
| EQUITY AND LIABILITIES | | | |
| Current liabilities | | | |
| Trade creditors | 17 | 28,283,880 | 9,501,714 |
| Other creditors | 18 | 3,888,283 | 2,495,743 |
| Deferred income | 19 | 3,245,297 | 578,297 |
| Provision of taxation | 9 | 111,124 | - |
| | | <u>35,528,584</u> | <u>12,575,754</u> |
| Technical balances | | | |
| Insurance contract liabilities (gross) | 16 | 242,174,041 | 533,101,525 |
| Deferred reinsurance commission | 16 | 2,187,176 | 1,003,116 |
| | | <u>244,361,217</u> | <u>534,104,641</u> |
| Total liabilities | | <u>279,889,801</u> | <u>546,680,394</u> |
| Shareholders' equity | | | |
| Share capital | 20 | 418,327,805 | 418,327,805 |
| Retained earnings | | (154,669,245) | (196,001,738) |
| Amalgamation reserve | 4 | 81,608,762 | - |
| Fair value adjustment reserve | 22 | 1,322,349 | 7,791 |
| Total equity | | <u>346,589,671</u> | <u>222,333,858</u> |
| TOTAL EQUITY AND LIABILITIES | | <u><u>626,479,472</u></u> | <u><u>769,014,253</u></u> |

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

Tenet Sompso Insurance Pte. Ltd.
(Formerly known as Sompso Japan Insurance (Singapore) Pte. Ltd.)

Statement of Changes in Equity for the year ended 31 December 2013

(In Singapore dollars)

| | Share capital \$ | Retained earnings \$ | Amalgamation reserve (Note 4) \$ | Fair value adjustment reserve (Note 22) \$ | Total \$ |
|---|---------------------|----------------------------|---|--|--------------------|
| Balance at 1 January 2013 | 418,327,805 | (196,001,738) | - | 7,791 | 222,333,858 |
| 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 | (154,669,245) | 81,608,762 | 1,322,349 | 346,589,671 |
| Balance at 1 January 2012 | 368,327,805 | (264,339,498) | - | (187,162) | 103,801,145 |
| Profit net of tax | - | 68,337,760 | - | - | 68,337,760 |
| Other comprehensive income for the year, net of tax | - | - | - | 194,953 | 194,953 |
| Total comprehensive income for the year | - | 68,337,760 | - | 194,953 | 68,532,713 |
| Contributions by and distributions to owners: Dividends paid during the year (Note 25) | - | - | - | - | - |
| Ordinary shares issued and fully paid (Note 21) | 50,000,000 | - | - | - | 50,000,000 |
| Balance at 31 December 2012 | 418,327,805 | (196,001,738) | - | 7,791 | 222,333,858 |

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

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Statement of Cash Flows for the year ended 31 December 2013

(In Singapore dollars)

| | 2013 | 2012 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Cash flows from operating activities : | | |
| Profit before tax | 37,515,729 | 65,064,466 |
| Adjustments for : | | |
| Loss on disposal of property, plant and equipment (Note 10) | - | 4,754 |
| (Write back)/allowance for doubtful receivables (Note 8, 14) | (351) | 1,647 |
| Profit on sale of investment securities (Note 6) | - | (579,547) |
| Profit on Scheme of Transfer | (537,662) | - |
| Depreciation (Note 8, 10) | 1,043,520 | 321,199 |
| Investment income | (3,856,566) | (1,863,501) |
| Decrease in gross claim liabilities | (360,888,679) | (1,062,576,358) |
| Decrease in reinsurance assets | 215,713,650 | 874,638,820 |
| Increase in gross premium liabilities | 5,021,736 | 835,169 |
| Decrease/(increase) in deferred acquisition cost (Decreased)/increase in deferred reinsurance commissions | 655,945 | (78,580) |
| | <u>(215,515)</u> | <u>31,687</u> |
| Operating cash flows before working capital changes | <u>(105,548,193)</u> | <u>(124,200,244)</u> |
| Decrease/(increase) in debtors | 88,748,592 | (101,356,081) |
| Increase/(decrease)/increase in creditors | 12,785,265 | (22,565,904) |
| Decrease in amount owing from/(to) holding and related companies (non-trade) | 241,969 | 151,476 |
| | <u>(3,772,367)</u> | <u>(247,970,753)</u> |
| Cash flows from operations | <u>(3,772,367)</u> | <u>(247,970,753)</u> |
| Income tax refund/(paid) | 632,626 | (9,999) |
| Investment income (net) received | 4,502,135 | 3,629,151 |
| | <u>1,362,394</u> | <u>(244,351,601)</u> |
| Net cash flows generated from operating activities | <u>1,362,394</u> | <u>(244,351,601)</u> |
| Cash flows on investing activities : | | |
| Purchase of property, plant and equipment (Note 10) | (903,322) | (483,751) |
| Proceeds from scheme of transfer and amalgamation | 40,847,736 | - |
| Purchase of investment securities | (20,221,246) | (7,891,991) |
| Proceeds from disposal and redemption of investment securities | 25,665,582 | 149,109,476 |
| | <u>45,388,750</u> | <u>140,733,734</u> |
| Net cash flows generated from investing activities | <u>45,388,750</u> | <u>140,733,734</u> |
| Cash flows from financing activities : | | |
| Proceeds from issuance of ordinary shares (Note 20) | - | 50,000,000 |
| Net cash flows generated from financing activities | <u>-</u> | <u>50,000,000</u> |
| Net increase/(decrease) in cash and cash equivalents | 46,751,144 | (53,617,867) |
| Cash and cash equivalents in beginning of year | 256,719,485 | 310,337,352 |
| Cash and cash equivalents at end of year (Note 21) | <u>303,470,629</u> | <u>256,719,485</u> |

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

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

1. Corporate information

The financial statements of Tenet Sampo Insurance Pte. Ltd. (the "Company") for the financial year ended 31 December 2013 were authorised by the Board of Directors for issuance on 21 March 2014.

With effect from 1 January 2013, the Company changed its name from Sampo Japan Insurance (Singapore) Pte. Ltd. to Tenet Sampo Insurance Pte. Ltd..

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

The Company's immediate holding company is Sampo Japan Asia Holdings Pte. Ltd. incorporated in Singapore and the ultimate holding company is 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, #03-03 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").

The financial statements have been prepared on a historical cost basis, except for financial assets classified as available-for-sale and fair value through statement of profit and loss 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.

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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

2.2 Basis of amalgamation

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

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

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

2.3 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 2013. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Company.

Tenet Sompō Insurance Pte. Ltd.
(Formerly known as Sompō Japan Insurance (Singapore) Pte. Ltd.)

Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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

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:

| <i>Description</i> | <i>Effective date (annual periods beginning on or after)</i> |
|---|--|
| Revised FRS 27 <i>Separate Financial Statements</i> | 1 January 2014 |
| Revised FRS 28 <i>Investments in Associates and Joint Ventures</i> | 1 January 2014 |
| FRS 110 <i>Consolidated Financial Statements</i> | 1 January 2014 |
| FRS 111 <i>Joint Arrangements</i> | 1 January 2014 |
| FRS 112 <i>Disclosures of Interests in Other Entities</i> | 1 January 2014 |
| Amendments to FRS 32 <i>Offsetting Financial Assets and Financial Liabilities</i> | 1 January 2014 |
| Amendments to FRS 36 <i>Recoverable Amount Disclosures for Non-Financial assets</i> | 1 January 2014 |

Except for amendments to FRS 32, 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 32 is described below.

Amendments to FRS 32: Offsetting Financial Assets and Liabilities

Amendments to FRS 32: Offsetting Financial Assets and Liabilities are effective for financial periods beginning on or after 1 January 2014. The amendments are to be applied retrospectively.

The Amendments to FRS 32 clarifies the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The Company does not expect the adoption of this standard to have material impact to the financial statements.

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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

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.

(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.

(In Singapore dollars)

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

2.6 Claims

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

Reinsurance claims

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

2.7 Claims liabilities

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

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

Tenet Sampo Insurance Pte. Ltd.
(Formerly known as Sampo Japan Insurance (Singapore) Pte. Ltd.)

Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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. The liability is not discounted for the time value of money. 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.

Tenet Sompō Insurance Pte. Ltd.
(Formerly known as Sompō Japan Insurance (Singapore) Pte. Ltd.)

Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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

2.11 Premium liabilities

Premium liabilities are the higher of unearned premium reserves and 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 | - | $\frac{1}{24}$ th method |
| Marine | | |
| - Cargo | - | 25% of net written premium |
| - Hull | - | $\frac{1}{24}$ th method |
| Accident | - | $\frac{1}{24}$ th method |

Offshore Insurance Fund:

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

Where $\frac{1}{24}$ 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.

(In Singapore dollars)

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 carrying value an impairment loss is recognised in the income statement. DAC are also considered in the liability adequacy test for each reporting period.

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

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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 |

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.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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

Available-for-sale financial assets comprise debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial 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.

(In Singapore dollars)

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.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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.

(In Singapore dollars)

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

2.23 Impairment of financial assets

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.

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.

Tenet Sampo Insurance Pte. Ltd.
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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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).

Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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 \$111,124 (2012:Nil) and \$11,767,875 (2012: \$8,811,000) 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 \$417,034,000 (2012: \$419,594,333) (gross) and \$8,025,000 (2012: \$166,999,769) (net of reinsurance) as at 31 December 2013. 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.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

3. Significant accounting estimates and judgements

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 2013 amounted to \$147,566 (2012: \$6,157).

3.2 Change in accounting estimates

Recognition of reinsurers share of gross change in reserve for unexpired risk for excess of loss premium ("XOL")

Effective 1 January 2013, the Company has changed the basis of estimating charging of XOL premiums from 25% and 40% on Marine-Cargo and hull and Others lines of business respectively to that based on the Company's actual net written premium before XOL costs, such that the charges of the XOL expenses will more appropriately reflect the pattern of the reinsurance protection costs over the entire contract period.

The impact arising from the above change in accounting estimate will result in a decrease of \$6,553,734 in reinsurers' share of gross change in reserve for unexpired risk.

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Notes to the Financial Statements - 31 December 2013

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4. Scheme of transfer and amalgamation

On 1 January 2013, the Company completed the scheme for the transfer of insurance business of Tenet Insurance Company Ltd ("Tenet") to the Company (the "Scheme"). Then Tenet was renamed to Tenet Capital post scheme of transfer. On 31 July 2013, Tenet Capital was amalgamated into the Company's operation using pooling of interest method. The assets and liabilities of Tenet are recorded in the financial statements of the Company at their carrying values on the date of amalgamation.

a) Scheme of transfer as at 1 January 2013

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

| | \$ |
|--|------------------------------|
| ASSETS | |
| Property, plant and equipment | 2,281,911 |
| Fair value of Investments | 17,599,445 |
| Other assets | 1,332,549 |
| Trade debtors | 5,972,454 |
| Cash and cash equivalent | <u>26,764,609</u> |
| Total assets | 53,950,968 |
| LIABILITIES | |
| Insurance contract liabilities | 43,356,866 |
| Other liabilities | <u>10,056,440</u> |
| Total liabilities | 53,413,306 |
| Net assets, represented by gain on scheme of transfer on 1 January 2013 | <u><u>537,662</u></u> |

b) Amalgamation as at 31 July 2013

The fair value of the identifiable assets and liabilities of Tenet Capital Ltd as at the amalgamation date were:

| | \$ |
|-------------------------------|---------------------------------|
| Investments | 69,528,964 |
| Cash and cash equivalent | 14,083,127 |
| Other debtors | 423,649 |
| Provision of taxation * | (338,387) |
| Fair value adjustment reserve | <u>(2,088,591)</u> |
| Amalgamation reserve | <u><u>81,608,762</u></u> |

* Includes deferred tax liability of \$373,485 and tax deducted at source of \$293,457.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

4. Scheme of transfer and amalgamation (cont'd)

| | \$ |
|---|--------------------------|
| Net assets of Tenet Capital Ltd post scheme of transfer on 1 January 2013 | 80,652,808 |
| Redemption of preference shares | (10,000) |
| Transfer of loss on scheme transfer | (537,662) |
| Profit of Tenet Capital Ltd (1 January 2013 to 31 July 2013) | 1,503,616 |
| Amalgamation reserve | <u>81,608,762</u> |

5. Investment income

| | 2013 \$ | 2012 \$ |
|---|------------------|--------------------|
| Interest from Government securities | - | 85,454 |
| Interest on debt securities | 2,049,401 | 814,479 |
| <i>Interest income from Available-for-sale financial assets</i> | <u>2,049,401</u> | <u>899,933</u> |
| Interest from current accounts | 107,175 | 280,294 |
| Interest from fixed deposits | 1,253,944 | 647,223 |
| <i>Interest income from loans and receivables</i> | <u>1,361,119</u> | <u>927,517</u> |
| Exchange loss on foreign currencies, net | - | (5,237,633) |
| | <u>1,361,119</u> | <u>(4,310,116)</u> |
| Dividend income | 446,188 | 36,051 |
| | <u>3,856,708</u> | <u>(3,374,132)</u> |

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Notes to the Financial Statements - 31 December 2013

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6. Other income

| | 2013 | 2012 |
|--|------------------|------------------|
| | \$ | \$ |
| Agency fees | 550,891 | 476,670 |
| IT support fees | 265,142 | 53,389 |
| Interest on premium reserve released | 60,257 | 30,245 |
| Miscellaneous income | 54,530 | 113,935 |
| Gain on amalgamation | 537,662 | - |
| Exchange gain | 4,655,472 | - |
| Loss on disposal of property, plant and equipment | - | (4,754) |
| Profit on sale of investment securities classified as available-for-sale | - | 579,547 |
| | <u>6,123,954</u> | <u>1,249,032</u> |

7. Staff costs

| | 2013 | 2012 |
|--------------------------------------|-------------------|------------------|
| | \$ | \$ |
| Directors' remuneration | 657,046 | 264,626 |
| Central Provident Fund contributions | 1,562,253 | 578,309 |
| Salaries, bonuses and other costs | 9,536,156 | 4,437,129 |
| | <u>11,755,455</u> | <u>5,280,064</u> |

8. Profit before tax

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

| | 2013 | 2012 |
|---|------------------|-------------------|
| | \$ | \$ |
| Directors' fees | 50,000 | 72,010 |
| Operating lease expense (Note 24) | 2,356,378 | 682,638 |
| Loss on foreign exchange (net) | - | 9,334,705 |
| (Write back)/allowance for doubtful debt (Note 14) | (351) | 1,647 |
| Depreciation of property, plant and equipment (Note 10) | 1,043,520 | 321,199 |
| | <u>3,450,147</u> | <u>10,372,299</u> |

Tenet Sompō Insurance Pte. Ltd.
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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

9. Taxation

a) Tax credit

| | 2013 | 2012 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Provision for Singapore taxation in respect of profit for the year | | |
| - deferred taxation | (3,251,000) | (3,032,890) |
| | <u>(3,251,000)</u> | <u>(3,032,890)</u> |
| Over provision in respect of prior years | | |
| - current | - | (234,294) |
| - deferred taxation | (565,764) | (6,110) |
| | <u>(3,816,764)</u> | <u>(3,273,294)</u> |
| Tax Credit | | |
| Deferred tax related to other comprehensive income: | | |
| - Fair value changes of available-for-sale financial assets | (259,502) | 22,000 |
| | <u>(259,502)</u> | <u>22,000</u> |

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

| | 2013 | 2012 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Profit before tax | <u>37,515,729</u> | <u>65,064,466</u> |
| Tax expense on profit before tax at 17% | 6,377,674 | 11,060,959 |
| Adjustments: | | |
| Income not subject to tax | - | 1,574 |
| Expenses not deductible for tax purposes | - | 38,048 |
| Effect of income at concessionary tax rate | (2,753,938) | (4,579,717) |
| Over provision of current taxation in respect of prior years | - | (234,294) |
| Over provision of deferred taxation in respect of prior years | (565,764) | (6,110) |
| Others | - | 245 |
| Benefits from previously unrecognised tax losses | (6,874,736) | (9,553,999) |
| | <u>(3,816,764)</u> | <u>(3,273,294)</u> |
| Tax credit | | |

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 2013 (2012: 17%).

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

9. Taxation (cont'd)

b) Deferred Taxation

| | 2013 | 2012 |
|---|---------------------|--------------------|
| | \$ | \$ |
| Balance at 1 January | (8,811,000) | (5,794,000) |
| Tax balances taken on from amalgamation | 373,485 | - |
| Charged/(credited) to: | | |
| - Profit and loss account | (3,251,000) | (3,032,890) |
| - Fair value adjustment reserve | (259,502) | 22,000 |
| (Over)/Under provision in respect of prior years charged to profit and loss account | 180,142 | (6,110) |
| | <u>(11,767,875)</u> | <u>(8,811,000)</u> |
| Deferred income tax assets and liabilities | | |
| <i>Deferred tax liabilities</i> | | |
| Excess of net book value over tax written down value of property, plant and equipment | - | - |
| Accrued interest | - | 21,604 |
| Revaluations of available-for-sale financial assets | 271,125 | 979 |
| Other deferred tax liabilities | - | - |
| Gross deferred tax liabilities | <u>271,125</u> | <u>22,583</u> |
| <i>Deferred tax assets</i> | | |
| Provisions | - | (7,878) |
| Excess of tax written value over net book value of property, plant and equipment | - | (37,366) |
| Revaluations of available-for-sale financial assets | - | - |
| Unabsorbed tax losses | (12,039,000) | (8,788,339) |
| Gross deferred tax assets | <u>(12,039,000)</u> | <u>(8,833,583)</u> |
| Net deferred tax assets | <u>(11,767,875)</u> | <u>(8,811,000)</u> |

At the end of the reporting period, the Company has tax losses of approximately \$162,136,098 (2012: \$278,372,000) 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.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

9. Taxation (cont'd)

c) Provision for Taxation

| | 2013 | 2012 |
|--|----------------|-------------|
| | \$ | \$ |
| Balance at 1 January | - | - |
| Tax balances taken on from scheme transfer / amalgamation | 750,107 | - |
| Over provision in respect of prior years charged to profit and loss account | (557,010) | - |
| Tax payments | (81,973) | - |
| Balance at 31 December | <u>111,124</u> | <u>-</u> |

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

10. Property, plant and equipment

| Cost | Computers \$ | Furniture and Fittings \$ | Renovation \$ | Office Equipme nt \$ | Motor Vehicle \$ | Work in Progress \$ | Total \$ |
|---|------------------|------------------------------------|------------------|-------------------------------|------------------------|---------------------------|------------------|
| 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 |

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(In Singapore dollars)

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

| Cost | Computers \$ | Furniture and Fittings \$ | Renovation \$ | Office Equipment \$ | Motor Vehicle \$ | Work in Progress \$ | Total \$ |
|---|------------------|------------------------------------|------------------|---------------------------|------------------------|---------------------------|------------------|
| As at 1 January 2012 | 1,608,844 | 269,284 | 752,497 | 73,906 | - | - | 2,704,531 |
| Additions for the Year | 9,107 | 38,656 | 435,988 | - | - | - | 483,751 |
| Write off | (32,096) | (203,092) | (433,634) | (20,754) | - | - | (689,576) |
| As at 31 December 2012 | 1,585,855 | 104,848 | 754,851 | 53,152 | - | - | 2,498,706 |
| Accumulated Depreciation | | | | | | | |
| As at 1 January 2012 | 1,558,308 | 236,242 | 558,897 | 71,589 | - | - | 2,425,036 |
| Charge for the Year | 45,793 | 30,461 | 242,647 | 2,298 | - | - | 321,199 |
| Write off | (32,087) | (203,066) | (428,918) | (20,751) | - | - | (684,822) |
| As at 31 December 2012 | 1,572,014 | 63,637 | 372,626 | 53,136 | - | - | 2,061,413 |
| Net Carrying Amount As At 31 December 2012 | 13,841 | 41,211 | 382,225 | 16 | - | - | 437,293 |

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(In Singapore dollars)

11. Intangible assets

| | 2013 | 2012 |
|--|----------------|----------------|
| | \$ | \$ |
| Club memberships | | |
| At cost | 621,364 | 621,364 |
| Cost taken on at amalgamation | 6,000 | - |
| Less: Provision for impairment | (610,000) | (610,000) |
| Net carrying amount | <u>17,364</u> | <u>11,364</u> |
| Analysis of provision for impairment in value: | | |
| - Balance at 1 January and 31 December | <u>610,000</u> | <u>610,000</u> |

12. Investments

| | 2013 | 2012 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Current: | | |
| <u>Financial assets at fair value through profit and loss</u> | | |
| Money Market Fund, at fair value | - | 20,517,546 |
| <u>Available-for-sale financial assets</u> | | |
| Government securities at fair value | - | 202,000 |
| Corporate bonds, at fair value | 22,620,721 | - |
| Total investments | <u>22,620,721</u> | <u>20,719,546</u> |

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

12. Investments (cont'd)

| | 2013 | 2012 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Non-current: | | |
| <u>Available-for-sale financial assets</u> | | |
| Quoted equity shares | 15,297,591 | - |
| Unquoted shares | 417 | 1,541 |
| Government securities at fair value | - | 2,525,000 |
| Corporate bonds, at fair value | 78,519,191 | 12,281,793 |
| Total investments | <u>93,817,199</u> | <u>14,808,334</u> |

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:

| | 2013 | 2012 |
|--|--------------------|-------------------|
| | \$ | \$ |
| Balance at beginning of the year | 35,527,880 | 176,265,895 |
| Transfer from scheme transfer / amalgamation | 94,996,761 | - |
| Additions | 20,221,246 | 7,891,991 |
| Maturities and disposals | (33,500,436) | (148,529,929) |
| Fair value (losses)/gains | (807,531) | 216,953 |
| Amortisation of premium on bonds | - | (317,030) |
| Balance at end of the year | <u>116,437,920</u> | <u>35,527,880</u> |

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

12. Investments (cont'd)

Fair value hierarchy

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

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

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

| | Quoted prices in active markets for identical instruments (Level 1) \$ | Significant other observable inputs (Level 2) \$ | Significant un- observable inputs (Level 3) \$ | Total \$ |
|--|---|---|---|-------------|
| 2013 | | | | |
| Financial assets: | | | | |
| Available-for-sale financial assets | 101,760,409 | 14,677,511 | - | 116,437,920 |
| 2012 | | | | |
| Financial assets: | | | | |
| Available-for-sale financial assets | 8,283,230 | 6,727,104 | - | 15,010,334 |
| Fair value through profit or loss financial assets | 20,517,546 | - | - | 20,517,546 |

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

13. Amounts owing from holding company 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

| | 2013 | 2012 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Holding companies | - | - |
| Related companies | 17,613,128 | 13,225,617 |
| Third parties | 34,557,918 | 124,474,870 |
| | <u>52,171,046</u> | <u>137,700,487</u> |
| Allowance for doubtful receivables | (147,566) | (6,157) |
| | <u>52,023,480</u> | <u>137,694,330</u> |
| Due from the insurers | 5,413,475 | 1,650,552 |
| Due from agents, brokers and intermediaries | 6,343,745 | 2,045,977 |
| Due from reinsurers | 40,266,260 | 133,997,801 |
| | <u>52,023,480</u> | <u>137,694,330</u> |
| Add: | | |
| Other debtors (Note 15) | 3,659,496 | 545,354 |
| Amounts owing from holding companies (Note 13) | 3,075 | 364,257 |
| Amounts owing from related companies (Note 13) | 183,888 | 64,675 |
| Cash and cash equivalents (Note 21) | 303,470,629 | 256,719,485 |
| | <u>359,340,568</u> | <u>395,388,101</u> |

Trade debtors relate to amount due from insurers, agents, broker and intermediaries 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 2013 are as follows:

| | 2013 | 2012 |
|-----------|-------------------|-------------------|
| | \$ | \$ |
| US Dollar | 2,258,317 | 2,362,334 |
| Thai Baht | 13,440,220 | 29,330,960 |
| Others | 986,723 | 829,217 |
| | <u>16,685,260</u> | <u>32,522,511</u> |

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(In Singapore dollars)

14. Trade debtors (cont'd)

The Company has trade receivables amounting to \$26,649,518 (2012: \$84,982,371) 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:

| | 2013 | 2012 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Trade receivables past due not impaired: | | |
| Less or equal to 90 days | 3,602,217 | 10,847,886 |
| 91 to 120 days | 63,767 | 674,728 |
| 121 to 180 days | 16,919,089 | 31,612,938 |
| 181 to 365 days | 3,810,037 | 41,777,662 |
| More than 365 days | 2,254,408 | 69,157 |
| | <u>26,649,518</u> | <u>84,982,371</u> |

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:

| | 2013 | 2012 |
|--|------------------|----------------|
| | \$ | \$ |
| Trade receivables – nominal amounts | 521,356 | 6,157 |
| Less: Allowance for doubtful receivables | (147,566) | (6,157) |
| | <u>373,790</u> | <u>-</u> |
| <i>Movement in allowance accounts:</i> | | |
| At 1 January | (6,157) | (5,180) |
| Cost taken on from scheme transfer | (141,760) | - |
| Write back / (allowance) for the year | 351 | (1,647) |
| Exchange difference | - | 670 |
| | <u>(147,566)</u> | <u>(6,157)</u> |

15. Other debtors

| | 2013 | 2012 |
|---------------------|------------------|----------------|
| | \$ | \$ |
| Interest receivable | 1,760,160 | 178,401 |
| Dividend receivable | - | 1,933 |
| Sundry deposits | 804,730 | 268,400 |
| Sundry debtors | 1,094,606 | 96,620 |
| | <u>3,659,496</u> | <u>545,354</u> |

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16. Technical balances

| | Gross \$ | Recoverable from reinsurers \$ | Net \$ |
|---|--------------------|--|--------------------|
| 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 |
| 2012 | | | |
| Claims reported and loss adjustment expenses | 465,642,560 | (270,938,160) | 194,704,400 |
| Claims incurred but not reported | 31,211,940 | (30,471,571) | 740,369 |
| Claims liabilities | 496,854,500 | (301,409,731) | 195,444,769 |
| Premium liabilities | 36,247,025 | (26,353,109) | 9,893,916 |
| Insurance contract liabilities | 533,101,525 | (327,762,840) | 205,338,685 |
| Deferred acquisition costs and deferred reinsurance commissions | (771,437) | 1,003,116 | 231,679 |
| Total | 532,330,088 | (326,759,724) | 205,570,364 |

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

16. Technical balances (cont'd)

| (a) Claims and loss adjustment expenses | Gross | Reinsurers | Net |
|--|----------------------|------------------------|--------------------|
| | \$ | \$ | \$ |
| 2013 | | | |
| Notified claims | 465,642,560 | (270,938,160) | 194,704,400 |
| Incurrent but not reported | 31,211,940 | (30,471,571) | 740,369 |
| | <u>496,854,500</u> | <u>(301,409,731)</u> | <u>195,444,769</u> |
| 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 liabilities | | | |
| - arising from current year claims | 69,099,577 | (36,467,519) | 32,632,058 |
| - arising from prior year claims | (148,730,298) | 107,296,755 | (41,433,543) |
| | <u>173,181,864</u> | <u>(103,041,278)</u> | <u>70,140,586</u> |
| 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 |
| | <u>173,181,864</u> | <u>(103,041,278)</u> | <u>70,140,586</u> |
| 2012 | | | |
| Notified claims | 1,352,638,530 | (1,052,485,617) | 300,152,913 |
| Incurrent but not reported | 206,792,328 | (124,645,730) | 82,146,598 |
| | <u>1,559,430,858</u> | <u>(1,177,131,347)</u> | <u>382,299,511</u> |
| Total at beginning of year | 1,559,430,858 | (1,177,131,347) | 382,299,511 |
| Cash paid for claims settled in the year | (908,437,452) | 789,088,810 | (119,348,642) |
| Movement in liabilities | | | |
| - arising from current year claims | 24,078,566 | (14,207,438) | 9,871,128 |
| - arising from prior year claims | (178,217,472) | 100,840,244 | (77,377,228) |
| | <u>496,854,500</u> | <u>(301,409,731)</u> | <u>195,444,769</u> |
| Total at end of year | 496,854,500 | (301,409,731) | 195,444,769 |
| Notified claims | 465,642,560 | (270,938,160) | 194,704,400 |
| Incurred but not reported | 31,211,940 | (30,471,571) | 740,369 |
| | <u>496,854,500</u> | <u>(301,409,731)</u> | <u>195,444,769</u> |

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16. Technical balances (cont'd)

(b) Premium liabilities

| | Gross | Reinsurers | Net |
|--|-------------------|---------------------|-------------------|
| | \$ | \$ | \$ |
| 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 period | 5,021,736 | 7,750,834 | 12,772,570 |
| | <u>68,992,177</u> | <u>(24,609,205)</u> | <u>44,382,972</u> |
| 2012 | | | |
| At beginning of the year | 35,411,856 | (25,270,313) | 10,141,543 |
| Changes in the period | 835,169 | (1,082,796) | (247,627) |
| | <u>36,247,025</u> | <u>(26,353,109)</u> | <u>9,893,916</u> |

(c) Deferred acquisition costs and deferred reinsurance commissions

| | Deferred Acquisition Costs | Deferred reinsurance commissions | Net |
|---------------------------------------|-----------------------------------|---|--------------------|
| | \$ | \$ | \$ |
| 2013 | | | |
| At 1 January | (771,437) | 1,003,116 | 231,679 |
| Balance taken on from scheme transfer | (7,380,876) | 1,399,576 | (5,981,300) |
| Amortisation released for the year | 7,744,697 | (2,282,557) | 5,462,140 |
| Cost deferred during the year | (7,088,752) | 2,067,041 | (5,021,711) |
| | <u>(7,496,368)</u> | <u>2,187,176</u> | <u>(5,309,192)</u> |
| 2012 | | | |
| At 1 January | (692,857) | 971,429 | 278,572 |
| Amortisation released for the year | 1,283,066 | (1,673,051) | (389,985) |
| Cost deferred during the year | (1,361,646) | 1,704,738 | 343,092 |
| | <u>(771,437)</u> | <u>1,003,116</u> | <u>231,679</u> |

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

17. Trade creditors

| | 2013 | 2012 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Holding company | - | 3,670,707 |
| Related companies | 14,686,234 | 146,259 |
| Third parties | 13,597,646 | 5,684,748 |
| | <u>28,283,880</u> | <u>9,501,714</u> |
| Add: | | |
| Accrual for audit fees (Note 18) | 265,385 | 35,000 |
| Provision for reinstatement premium (Note 18) | - | 1,044,334 |
| Sundry creditors (Note 18) | 32,458 | 202,992 |
| Accrued expenses (Note 18) | 3,590,440 | 1,213,417 |
| | <u>32,172,163</u> | <u>11,997,457</u> |

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

18. Other creditors

| | 2013 | 2012 |
|-------------------------------------|------------------|------------------|
| | \$ | \$ |
| Accrual for audit fees | 265,385 | 35,000 |
| Provision for reinstatement premium | - | 1,044,334 |
| Sundry creditors | 32,458 | 202,992 |
| Accrued expenses | 3,590,440 | 1,213,417 |
| | <u>3,888,283</u> | <u>2,495,743</u> |

Reinstatement premium relating to "XOL" cover has been estimated at the financial year end pending receipt of the premium adjustment statement from reinsurers.

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.

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Notes to the Financial Statements - 31 December 2013

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20. Share capital

| | 2013 | | 2012 | |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
| | No of shares | \$ | No of shares | \$ |
| Issued and fully paid: | | | | |
| Balance at beginning of year | 418,327,805 | 418,327,805 | 368,327,805 | 368,327,805 |
| Share issuance by cash | - | - | 50,000,000 | 50,000,000 |
| | <u>418,327,805</u> | <u>418,327,805</u> | <u>418,327,805</u> | <u>418,327,805</u> |
| Balance at end of year | <u>418,327,805</u> | <u>418,327,805</u> | <u>418,327,805</u> | <u>418,327,805</u> |

During the year, the Company issued nil (2012: 50,000,000) ordinary shares which were satisfied by cash.

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:

| | 2013 | 2012 |
|------------------------|--------------------|--------------------|
| | \$ | \$ |
| Fixed deposits | 267,780,508 | 141,385,129 |
| Cash and cash balances | 35,690,121 | 115,334,356 |
| | <u>303,470,629</u> | <u>256,719,485</u> |

Fixed deposits are made for varying periods less than 1 year depending on the immediate cash requirements of the Company, and earn interest at the respective fixed deposit rates ranging from 0.13% to 2.50% (2012: 0.12% to 0.62%) per annum.

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(In Singapore dollars)

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.

| | 2013 | 2012 |
|--|------------------|--------------|
| | \$ | \$ |
| Balance at beginning of the year | 7,791 | (187,162) |
| Net gain/(loss) on available-for-sale financial assets: | | |
| - Fair value transfer from amalgamation | 2,122,089 | - |
| - Fair value changes during the financial year | (807,531) | 774,500 |
| - Recognised in the revenue account and profit and loss account on disposal of investment securities | - | (579,547) |
| | <u>1,322,349</u> | <u>7,791</u> |

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:

| | 2013 | 2012 |
|---|-------------|-------------|
| | \$ | \$ |
| Claims paid, commissions paid and reinsurance business ceded | | |
| - Holding company | 19,328,659 | 12,935,993 |
| - Related companies | 240,263,274 | 915,152,896 |
| Claims recovery, commissions received and reinsurance business accepted | | |
| - Holding company | 39,597,112 | 205,031,555 |
| - Related companies | 64,331,998 | 47,898,259 |
| Interest expense to/(income from) | | |
| - Holding company | 2,458 | 3,437 |
| - Related companies | - | (30,252) |
| Agency fees income from | | |
| - Holding company | (550,891) | (475,963) |
| - Related companies | - | (707) |
| Miscellaneous fees from | | |
| - Holding company | (302,979) | (79,535) |
| - Related companies | (26,218) | (24,887) |
| Office rental expense from | | |
| - Holding company | 265,942 | - |
| Risk survey fee income from | | |
| - Holding company | (7,216) | (31,299) |
| Risk survey fee expense to | | |
| - Holding company | - | 134,819 |
| - Related companies | - | 10,008 |

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Notes to the Financial Statements - 31 December 2013

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23. Significant related party transactions (cont'd)

(b) Compensation of key management personnel

| | 2013 | 2012 |
|--------------------------------------|----------------|----------------|
| | \$ | \$ |
| Short-term employee benefits | 648,121 | 832,023 |
| Central Provident fund contributions | 8,925 | 13,603 |
| | <u>657,046</u> | <u>845,626</u> |
| <i>Comprise amounts paid to:</i> | | |
| - Directors of the Company (Note 7) | 657,046 | 296,436 |
| - Other key management personnel | - | 508,990 |
| | <u>657,046</u> | <u>805,426</u> |

Key management personnel include non-independent directors and senior management team members.

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 2013 amounted to \$2,356,378 (2012: \$682,638). Future minimum lease payments under non-cancellable leases as of 31 December are as follows:

| | 2013 | 2012 |
|--|-------------------|------------------|
| | \$ | \$ |
| Not later than 1 year | 2,649,497 | 1,214,975 |
| Later than 1 year but not later than 4 years | 9,500,741 | 706,749 |
| Later than 4 years | 5,506,040 | - |
| | <u>17,656,278</u> | <u>1,921,724</u> |

(In Singapore dollars)

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:

(i) Insurance risk

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

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

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

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

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

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

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

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(In Singapore dollars)

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

(i) Insurance risk (cont'd)

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

| Claims liabilities at 31 December 2013 | Gross claims liabilities \$'000 | Reinsurers' share of claims liabilities \$'000 | Net claims liabilities \$'000 |
|---|--|---|--|
| Marine | 9,141 | (5,449) | 3,692 |
| Property | 92,037 | (75,629) | 16,408 |
| Motor | 21,235 | (5,411) | 15,824 |
| Workmen's Compensation | 21,259 | (2,740) | 18,519 |
| General Accident | 29,510 | (13,813) | 15,697 |
| Total | 173,182 | (103,042) | 70,140 |
| Claims liabilities at 31 December 2012 | Gross claims liabilities \$'000 | Reinsurers' share of claims liabilities \$'000 | Net claims liabilities \$'000 |
| Marine | 9,600 | (6,867) | 2,733 |
| Property | 455,940 | (281,450) | 174,490 |
| Motor | 3,299 | (625) | 2,674 |
| Workmen's Compensation | 11,254 | (1,874) | 9,380 |
| General Accident | 16,762 | (10,594) | 6,168 |
| Total | 496,855 | (301,410) | 195,445 |

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(In Singapore dollars)

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

(i) Insurance risk (cont'd)

The geographical concentration of the Company's insurance liabilities at 31 December 2013 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 2013 | | | |
| Singapore | 76,867 | (28,322) | 48,545 |
| Indonesia | 1,364 | (1,075) | 289 |
| Thailand | 82,327 | (67,439) | 14,888 |
| Philippines | 1,323 | (928) | 395 |
| Others | 11,301 | (5,278) | 6,023 |
| Total | 173,182 | (103,042) | 70,140 |
| At 31 December 2012 | | | |
| Singapore | 27,860 | (10,858) | 17,002 |
| Indonesia | 13,390 | (6,921) | 6,469 |
| Thailand | 444,693 | (275,654) | 169,039 |
| Philippines | 6,104 | (5,391) | 713 |
| Vietnam | 1,650 | (859) | 791 |
| Others | 3,157 | (1,726) | 1,431 |
| Total | 496,854 | (301,409) | 195,445 |

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(In Singapore dollars)

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

(ii) 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.

(a) 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:

Reinsurance

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

Investment securities

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

Derivatives

The Company does not enter into derivative contracts.

Insurance receivables

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

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

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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

(ii) Financial risk (cont'd)

(a) Credit risk (cont'd)

The following table provides information regarding the credit risk exposure of the Company at 31 December 2013 by classifying assets according to credit ratings of the counterparties.

Classification of Credit Rating Agencies

| Class | Standard & Poor's | Fitch Inc | A.M. Best | Moody's |
|--|------------------------------|---------------------------|-------------------------|---------------------------|
| A | AAA to AA- | AAA to AA- | A++ to A+ | Aaa to Aa3 |
| B | A+ to A- | A+ to A- | A to A- | A1 to A3 |
| C | BBB to BBB- | BBB to BBB- | B++ to B+ | Baa1 to Baa3 |
| D | BB or worse Not Rated | BBB or worse Not Rated | B or worse Not Rated | Ba1 or worse Not Rated |
| | | | 2013 \$'000 | 2012 \$'000 |
| Fair value through profit or loss financial assets | | | - | 20,518 |
| Available-for-sale financial assets | | | 116,438 | 15,010 |
| Amount owing from holding company (non-trade) | | | 3 | 364 |
| Amount owing from related companies (non-trade) | | | 184 | 65 |
| Trade debtors | | | 52,023 | 137,694 |
| Other debtors | | | 3,659 | 545 |
| Cash and cash equivalents | | | 303,471 | 256,719 |
| Total financial assets | | | 475,778 | 430,915 |
| Class | | | 2013 \$'000 | 2012 \$'000 |
| A | | | 132,461 | 185,970 |
| B | | | 151,963 | 219,326 |
| C | | | 118,675 | 171 |
| D * | | | 72,679 | 25,448 |
| Total financial assets | | | 475,778 | 430,915 |

* Non-rated debt securities included holdings of debt securities issued by Singapore Statutory Boards amounting to \$38.41million (2012: \$4.64 million).

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(In Singapore dollars)

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

(ii) Financial risk (cont'd)

(b) Liquidity risk

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

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

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

| | Within 1 year | 1 to 3 years | 3 to 5 years | More than 5 years | Total |
|--|--------------------------|-------------------------|-------------------------|----------------------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2013 | | | | | |
| Financial assets: | | | | | |
| Fair value through profit or loss 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 | 3,888 | - | - | - | 3,888 |
| | 32,172 | - | - | - | 32,172 |

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(In Singapore dollars)

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

(ii) Financial risk (cont'd)

(b) Liquidity risk (cont'd)

| | Within 1 year | 1 to 3 years | 3 to 5 years | More than 5 years | Total |
|---|------------------|-----------------|-----------------|-------------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2012 | | | | | |
| Financial assets: | | | | | |
| Fair value through profit or loss financial assets | 20,518 | - | - | - | 20,518 |
| Available-for-sale financial assets | 2,727 | 3,873 | 8,410 | - | 15,010 |
| Cash and cash equivalents | 256,719 | - | - | - | 256,719 |
| Amount owing from holding company (non-trade) | 364 | - | - | - | 364 |
| Amount owing from related companies (non-trade) | 65 | - | - | - | 65 |
| Trade debtors | 137,694 | - | - | - | 137,694 |
| Other debtors | 545 | - | - | - | 545 |
| | <u>418,632</u> | <u>3,873</u> | <u>8,410</u> | <u>-</u> | <u>430,915</u> |
| Financial liabilities: | | | | | |
| Trade creditors | 9,502 | - | - | - | 9,502 |
| other creditors | 2,496 | - | - | - | 2,496 |
| | <u>11,998</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>11,998</u> |

(c) 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.

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(In Singapore dollars)

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

(ii) Financial risk (cont'd)

(c) Currency risk (cont'd)

| | Financial assets | Financial liabilities |
|--|-----------------------------|----------------------------------|
| | \$'000 | \$'000 |
| 31 December 2013 | | |
| Fair value through profit or loss financial assets | - | - |
| 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 | - | 3,888 |
| | <hr/> | <hr/> |
| Total | 475,778 | 32,172 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Singapore Dollar | 431,991 | 7,094 |
| US Dollar | 22,529 | 903 |
| Thai Baht | 17,413 | 23,998 |
| Others | 3,845 | 177 |
| | <hr/> | <hr/> |
| Total | 475,778 | 32,172 |
| | <hr/> <hr/> | <hr/> <hr/> |

Tenet Sompo Insurance Pte. Ltd.
(Formerly known as Sompo Japan Insurance (Singapore) Pte. Ltd.)

Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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

(ii) Financial risk (cont'd)

(c) Currency risk (cont'd)

| | Financial assets \$'000 | Financial liabilities \$'000 |
|--|--|---|
| 31 December 2012 | | |
| Fair value through profit or loss financial assets | 20,518 | - |
| Available-for-sale financial assets | 15,010 | - |
| Amount owing from holding company (non-trade) | 364 | - |
| Amount owing from related companies (non-trade) | 65 | - |
| Trade debtors | 137,694 | - |
| Other debtors | 545 | - |
| Cash and cash equivalents | 256,719 | - |
| Trade creditors | - | 9,502 |
| Other creditors | - | 1,451 |
| | <hr/> | <hr/> |
| Total | 430,915 | 10,953 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Singapore Dollar | 276,518 | 8,365 |
| US Dollar | 15,941 | 81 |
| Thai Baht | 129,381 | 1,991 |
| Others | 9,075 | 516 |
| | <hr/> | <hr/> |
| Total | 430,915 | 10,953 |
| | <hr/> <hr/> | <hr/> <hr/> |

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.

| | 2013 \$'000 | 2012 \$'000 |
|--|------------------------|------------------------|
| Increase/(decrease) in profit net of tax | | |
| USD/SGD | | |
| - Strengthened 5% | 1,081 | 793 |
| - Weakened 5% | (1,081) | (793) |
| THB/SGD | | |
| - Strengthened 5% | (329) | 6,370 |
| - Weakened 5% | 329 | (6,370) |
| | <hr/> <hr/> | <hr/> <hr/> |

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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

(ii) Financial risk (cont'd)

(d) 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 (2012: 50) basis points higher with all other variables held constant, the fair value adjustment reserve would have been \$5,821,896 (2012: \$2,080,512) 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 (2012: 50) basis points lower with all other variables held constant, the fair value adjustment reserve would have been \$5,821,896 (2012: \$2,825,548) 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 \$ | 1 to 3 years \$ | 3 to 5 years \$ | More than 5 years \$ | Total \$ |
|---------------------------|----------------------------------|-------------------------|------------------------|------------------------|-----------------------------|-----------------|
| 2013 | | | | | | |
| Bonds | 3.34 | 22,621 | 41,953 | 23,753 | 12,813 | 101,140 |
| Cash and cash equivalents | 0.58 | 303,471 | - | - | - | 303,471 |
| 2012 | | | | | | |
| Bonds | 2.84 | 2,727 | 3,873 | 8,410 | - | 15,010 |
| Cash and cash equivalents | 0.18 | 256,719 | - | - | - | 256,719 |

(In Singapore dollars)

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 2013.
- (ii) Ultimate claim costs are then compared to actual cumulative claim payments for each accident/underwriting year as at 31 December 2013 to arrive at the best estimate of claim liability as at 31 December 2013.
- (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 2013.

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(In Singapore dollars)

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 (\$'000)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|--|--------|--------|--------|--------|--------|---------|-----------|--------|--------|-----------|
| All SIF & OIF combined - Gross of reinsurance basis | | | | | | | | | | |
| Estimate of cumulative claims | | | | | | | | | | |
| Period* | | | | | | | | | | |
| At end of underwriting year | 31,506 | 28,781 | 27,678 | 38,547 | 38,167 | 42,614 | 1,519,701 | 65,182 | 69,100 | |
| One year later | 17,142 | 16,250 | 19,233 | 26,891 | 23,986 | 42,344 | 1,374,169 | 54,902 | | |
| Two years later | 10,292 | 11,829 | 12,873 | 18,602 | 24,579 | 51,101 | 1,150,045 | | | |
| Three years later | 8,216 | 10,397 | 9,981 | 22,141 | 20,585 | 131,168 | | | | |
| Four years later | 8,002 | 9,295 | 20,358 | 20,298 | 19,099 | | | | | |
| Five years later | 7,239 | 12,464 | 19,055 | 19,595 | | | | | | |
| Six years later | 11,721 | 12,246 | 18,852 | | | | | | | |
| Seven years later | 11,452 | 11,935 | | | | | | | | |
| Eight years later | 11,313 | | | | | | | | | |
| Current estimate of ultimate claims | 11,313 | 11,935 | 18,852 | 19,595 | 19,099 | 131,168 | 1,150,045 | 54,902 | 69,100 | 1,486,009 |
| Cumulative payments | 10,567 | 9,417 | 17,500 | 16,014 | 16,262 | 110,354 | 1,099,846 | 27,056 | 23,603 | 1,330,619 |
| Net estimate of outstanding claim liability | 746 | 2,518 | 1,352 | 3,581 | 2,837 | 20,813 | 50,199 | 27,846 | 45,497 | 155,390 |
| Best estimate for claims liability (net of unearned & add CHE) | 48 | 283 | 651 | 1,797 | 1,913 | 21,047 | 50,507 | 28,985 | 44,725 | 149,956 |
| Reserve for prior years | | | | | | | | | | 6,218 |
| Discounting for time value | | | | | | | | | | (334) |
| Provision for adverse deviation | | | | | | | | | | 17,337 |
| Outstanding claim liability in accounts | | | | | | | | | | 173,179 |

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

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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 (\$'000)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|--|--------|--------|--------|--------|--------|--------|---------|--------|--------|---------|
| All SIF & OIF combined - Net of reinsurance basis | | | | | | | | | | |
| Estimate of cumulative claims | | | | | | | | | | |
| Period* | | | | | | | | | | |
| At end of underwriting year | 27,498 | 26,764 | 26,141 | 36,227 | 32,454 | 36,491 | 363,965 | 41,334 | 32,632 | |
| One year later | 19,154 | 19,545 | 22,657 | 31,554 | 26,593 | 31,696 | 303,089 | 33,123 | | |
| Two years later | 15,901 | 18,282 | 21,499 | 29,838 | 23,102 | 29,015 | 267,757 | | | |
| Three years later | 14,677 | 17,705 | 20,283 | 28,293 | 20,947 | 33,498 | | | | |
| Four years later | 14,693 | 17,259 | 20,082 | 27,491 | 21,081 | | | | | |
| Five years later | 14,326 | 17,017 | 19,097 | 27,021 | | | | | | |
| Six years later | 14,294 | 16,828 | 19,112 | | | | | | | |
| Seven years later | 14,135 | 16,681 | | | | | | | | |
| Eight years later | 13,867 | | | | | | | | | |
| Current estimate of ultimate claims | 13,867 | 16,681 | 19,112 | 27,021 | 21,081 | 33,498 | 267,757 | 33,123 | 32,632 | 464,772 |
| Cumulative payments | 13,844 | 16,424 | 18,560 | 26,006 | 19,575 | 25,525 | 254,433 | 20,773 | 10,646 | 405,786 |
| Net estimate of outstanding claim liability | 23 | 258 | 552 | 1,015 | 1,506 | 7,973 | 13,324 | 12,350 | 21,986 | 58,986 |
| Best estimate for claims liability (net of unearned & add CHE) | 24 | 276 | 586 | 1,021 | 1,607 | 7,355 | 13,602 | 13,015 | 22,611 | 60,097 |
| Reserve for prior years | | | | | | | | | | 2,751 |
| Discounting for time value | | | | | | | | | | (174) |
| Provision for adverse deviation | | | | | | | | | | 7,464 |
| Outstanding claim liability in accounts | | | | | | | | | | 70,137 |

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

(In Singapore dollars)

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 2013. 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 2013 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 2013 accident/underwriting year;
 - the assumed level of management expenses for each class of business; and
 - the assumed PAD factor for each class of business.
- (iv) The sensitivity analysis is based on the assumptions set out in the actuarial report and is subject to the same reliance and limitations contained in the report. One particular reliance is that the net sensitivity results assume that all reinsurance recoveries are receivable in full.
- (v) The sensitivity values shown for each assumption item are independent of changes to other assumption items. In practice a combination of adverse and favourable changes could occur.
- (vi) The sensitivity results are not intended to capture all possible outcomes. Significantly more adverse or favourable results are possible.

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Notes to the Financial Statements - 31 December 2013

(In Singapore dollars)

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 | 173,179 | |
| Initial Expected Loss Ratio ² | 2.3% | -2.3% |
| First Incurred Development Factor ³ | 0.5% | -0.1% |
| Claim Handling Expenses ⁴ | 0.1% | -0.1% |
| Provision for Adverse Deviation | 0.1% | -0.1% |
| Change in estimate for Thailand Flood | 1.2% | -1.2% |

Percentage Change in Premium Liability Sensitivity Analysis

| Assumption | Gross of reinsurance | |
|---------------------------------------|----------------------|------------------|
| | +5% ¹ | -5% ¹ |
| Reported total premium liability | 61,493 | |
| Expected Loss Ratio ² | 4.5% | -4.5% |
| Management expense ratio ⁴ | 0.3% | -0.3% |
| Provision for Adverse Deviation | 0.2% | -0.2% |

Percentage Change in Claim Liability Sensitivity Analysis

| Assumption | Net of reinsurance | |
|--|--------------------|------------------|
| | +5% ¹ | -5% ¹ |
| Reported total actuarial claims liability | 70,137 | |
| Initial Expected Loss Ratio ² | 2.8% | -2.8% |
| First Incurred Development Factor ³ | 0.7% | -0.7% |
| Claim Handling Expenses ⁴ | 0.3% | -0.3% |
| Provision for Adverse Deviation | 0.5% | -0.5% |
| Change in estimate for Thailand Flood | 0.6% | -0.6% |

Percentage Change in Premium Liability Sensitivity Analysis

| Assumption | Net of reinsurance | |
|---------------------------------------|--------------------|------------------|
| | +5% ¹ | -5% ¹ |
| Reported total premium liability | 39,071 | |
| Expected Loss Ratio ² | 4.9% | -4.9% |
| Management expense ratio ⁴ | 0.5% | -0.5% |
| Provision for Adverse Deviation | 0.5% | -0.5% |

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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 2013 accident/underwriting year.
(3) First incurred development factor sensitivity analysis applies to 2013 accident/underwriting year.
(4) Expense assumption in sensitivity analysis changed by factor of +1.05 / -1.05
(5) Adjust unpaid Thailand Flood claims by +/- 5%

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 2013.

| Item | Gross \$'000 | Net \$'000 |
|---|-------------------------|-----------------------|
| 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 |
| 2012 | | |
| Actuarial estimate of outstanding claim liabilities including provision for adverse deviation | 496,855 | 195,445 |
| Actuarial estimate of premium liabilities including provision for adverse deviation | 35,476 | 10,126 |
| Total actuarial estimate of policy liabilities including provision for adverse deviation | 532,331 | 205,571 |
| Comparing to: | | |
| Company held provision for outstanding claim liabilities | 496,855 | 195,445 |
| Company held provision for premium liabilities | 35,476 | 10,126 |
| Total Company held provision for policy liabilities | 532,331 | 205,571 |

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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.

27. Subsequent Event

During the year, the Company has entered into a scheme for the transfer of insurance business from Nipponkoa Co., Ltd., Singapore branch ("Nipponkoa") to the Company (the "Scheme"). The Scheme was approved by the High Court of Singapore and the transfer was successfully completed on 1 January 2014. The amount of assets and liabilities that were transferred from Nipponkoa to the Company were \$68,645,768 with cash and cash equivalents of \$58,048,428.