CORPORATE DATA

DIRECTORS

Mr. G. Srinivasan

Mr. Sanatkumar Kochunni

Mr. Iyengar V. Gopalan

Dr. A.K. Saxena

Mr. R. Ravindra Kumar

CHIEF EXECUTIVE

Mr. R. Ravindra Kumar

SECRETARY

Mr. Gerard Seah Jim Hong

REGISTERED OFFICE

64 Cecil Street
#04-02 IOB Building
Singapore 049711

AUDITOR

Deloitte & Touche LLP

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CHAIRMAN'S STATEMENT

I have great pleasure in presenting the Twenty Ninth Annual Report and Audited Financial Statements of the Company for the year ended 31 December 2016.

The year 2016 continued to be a difficult one with marginal growth due to uncertain economic policies of major countries. Crude oil price went up by 43.9% during the year. This trend in trade is expected to continue in the current year as well. Singapore's economy grew by 2.0% in the year 2016, compared to 1.9% in the previous year, the lowest since 2009. The outlook remains uncertain due to the current global economic situation.

PREMIUM INCOME

Singapore's General Insurance market comprising Singapore Insurance Fund (SIF) and Off-shore Insurance Fund (OIF) reported a gross premium of S$5.5 billion for the year 2016, compared to S$5.0 billion in the previous year. In the SIF segment, Motor insurance contributed a major share of the business at S$1.2 billion or 31.5% of the Gross Written Premium The market continued to be competitive, resulting in the overall underwriting profit dropping by 18.5% compared with the previous year.

The Gross Written Premium of the Company for the year 2016 was S$157.18 million compared with S$180.34 million in the previous year showing a fall of 12.8%. The net profit increased by 31.0% in 2016 compared with the previous year.

The Company took a conscious decision to come off consistently loss-making accounts, especially in Marine and Motor, which resulted in a decline in Gross Written Premium. Added to this was the fact that apart from a few Government-related engineering projects, there was reduced construction activity in the private sector. That resulted in projects either being delayed or deferred and hence accounted for the reduction in the gross premium in those lines of business. The Fire premium was maintained at around S$25.0 million. Marine premium dropped by 16.7% to S$61.65 million and all other classes by 13.6% to S$70.18 million, compared with the previous year.

INVESTMENT INCOME

The Company maintained an investment income of S$19.66 million, compared with S$19.76 million for 2015 in spite of a 21.5% drop in dividend income compared with the previous year.

OPERATING RESULTS

For the year 2016, the Company posted a profit before tax of S$28.18 million, which worked out to 28.9% of the net premium written during the year and a profit after tax of S$23.95 million.

FOREIGN EXCHANGE GAIN/LOSS

There was a foreign exchange gain of S$5.26 million in 2016 compared with a foreign exchange gain of S$14.95 million for 2015.

DIVIDEND

I am pleased to announce that the Directors have recommended a first and final one-tier tax-exempt cash dividend of 10.0 Singapore Cents per ordinary share for 2016.

CHAIRMAN'S STATEMENT

SHAREHOLDERS' FUND

The retention of profits of the Company in the business has further strengthened Shareholders' Fund which has risen by 4.7% to S$424.56 million as at 31 December 2016 compared with S$405.60 million as at 31 December 2015.

TECHNICAL RESERVES

The Technical Reserves comprising Premium Reserves and Loss Reserves of the Company as at 31 December 2016 were S$235.47 million compared with S$261.09 million as on 31 December 2015. The ratio of Technical Reserves to Net Earned Premium improved to 230.3% as at 31 December 2016 compared with 217.9% for the previous year.

TOTAL ASSETS

The total assets of the Company as at 31 December 2016 stood at S$752.65 million compared with the total assets of S$775.08 million as at 31 December 2015.

RATING OF THE COMPANY

I am pleased to note that **Standard & Poor's** has once again reaffirmed the rating of the Company at **A- with stable outlook,** for long-term insurer financial strength and counter-party credit. The Company also retained the rating on the ASEAN Regional Scale at **axAA**. These ratings reflect the Company's strong underwriting performance and capital position.

LOOKING AHEAD

The world is facing economic uncertainty which has an impact on the global economy. The United States economy is expected to improve marginally due to various fiscal measures taken by the new administration. Europe and Japan are also experiencing growth. However, in certain other parts of the world there are uncertainties that may bring down the growth prospects. All the above factors have a direct impact on the economy of Singapore.

The Company's commitment to its core values of growth with profit will remain. All efforts to improve our market share and ranking in the industry will be intensified, following our prudent underwriting approach coupled with the launching of our Web portal and IT Core system which are expected to be fully operational by end-2017. Once completed, they will enable the Company to offer selective online personal lines of products to our customers and our intermediaries. We are also striving to meet market demands and be more competitive to increase business volume. We shall, as always, endeavor to improve our service standards to meet the growing expectations of our customers. We also have plans to improve our presence in the marketplace by strengthening our existing distribution network and forging relationships with new intermediaries.

We will continue to ensure strict compliance with all regulatory and statutory requirements at all times.

CHAIRMAN'S STATEMENT

VOTE OF THANKS

Ernst & Young LLP retired as the Auditors of the Company at the 28th Annual General Meeting on 29 August 2016. I thank them for their guidance and long association with the Company. I am pleased to welcome Deloitte & Touche LLP who were appointed as the Auditors of the Company at the same Annual General Meeting.

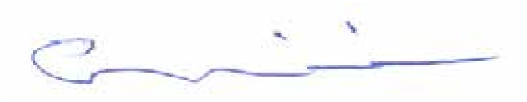
On behalf the Board of Directors, I wish to record our appreciation for the invaluable service rendered by Dr. A. K. Saxena as Chairman and Non-Executive Director until 30 June 2016. I have the pleasure of welcoming him back to the Board as an Independent Director with effect from 25 August 2016. I am also pleased to welcome Mr Sanatkumar Kochunni to the Board as a Non-Executive Director with effect from 16 May 2016.

I wish to express my sincere thanks to all my colleagues on the Board for their valuable contribution in conducting the affairs of the Company.

I wish to place on record our acknowledgement of the commendable support given by the team of officers and members of the staff. Without their dedication and hard work, it would not have been possible to achieve the profitable results during 2016.

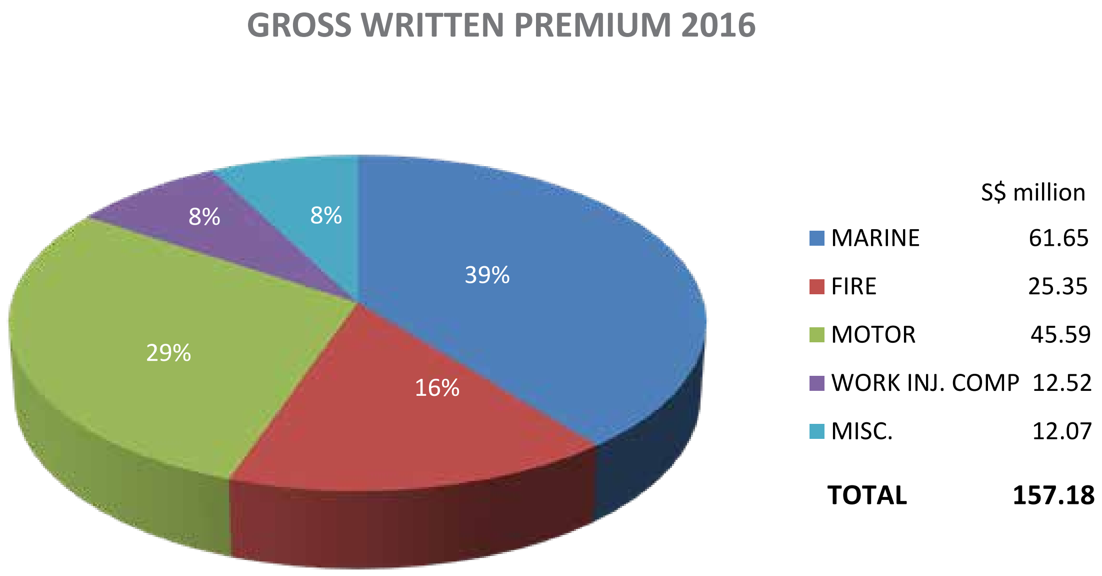
On behalf of the Board of Directors, I wish to express my gratitude to the Monetary Authority of Singapore for its leadership role and consultative regulatory framework in fostering a free market environment.

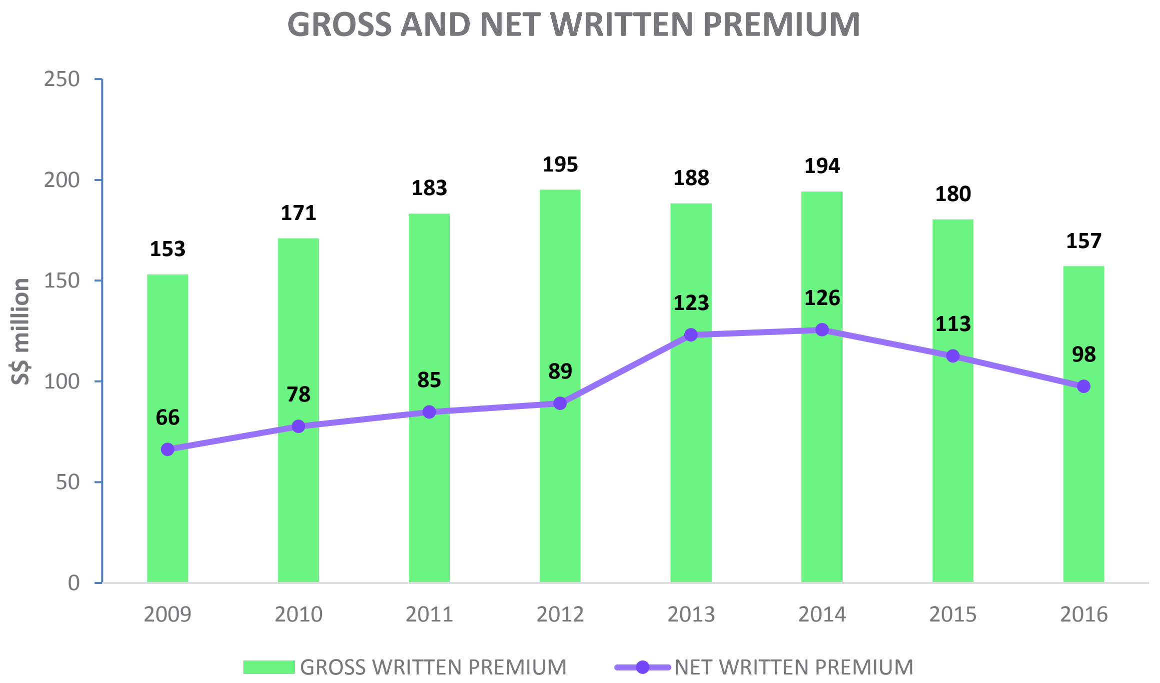
Finally, I wish to thank all our clients, cedents, brokers, agents and reinsurers for the trust and confidence that they have placed in the Company and I am sure that we can count on their support in the future as well. In turn, the Company will strive in every way to maintain excellence in the level of service it has been rendering in all areas of its activities.



G. Srinivasan
Chairman

FINANCIAL HIGHLIGHTS





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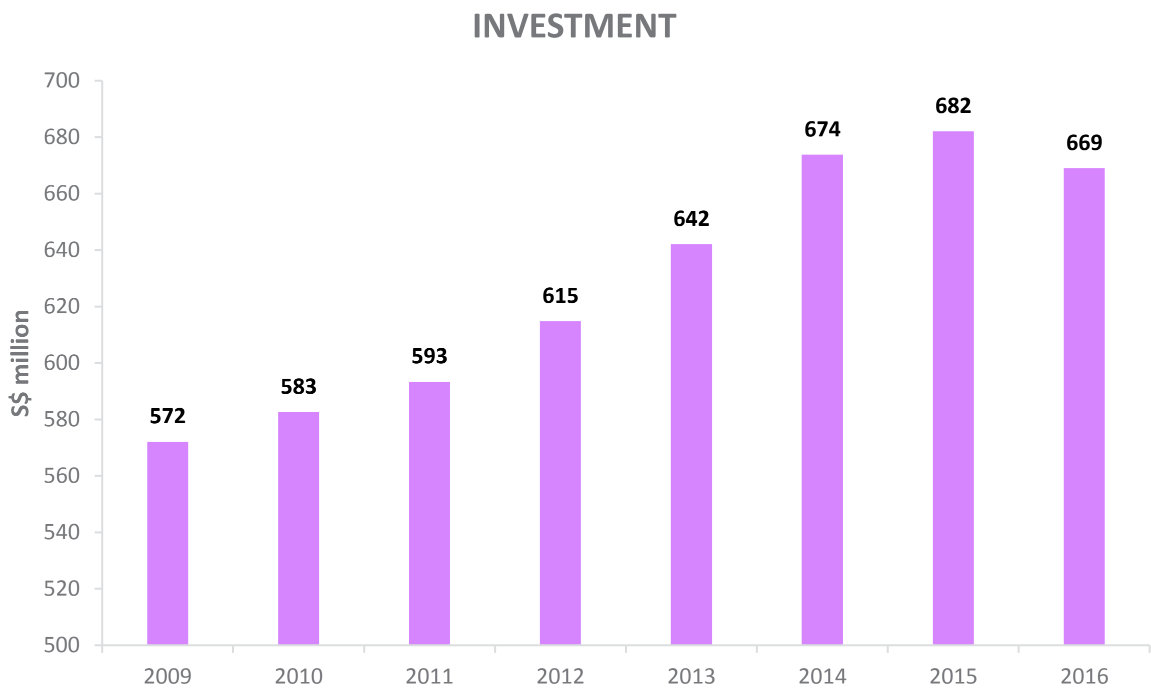

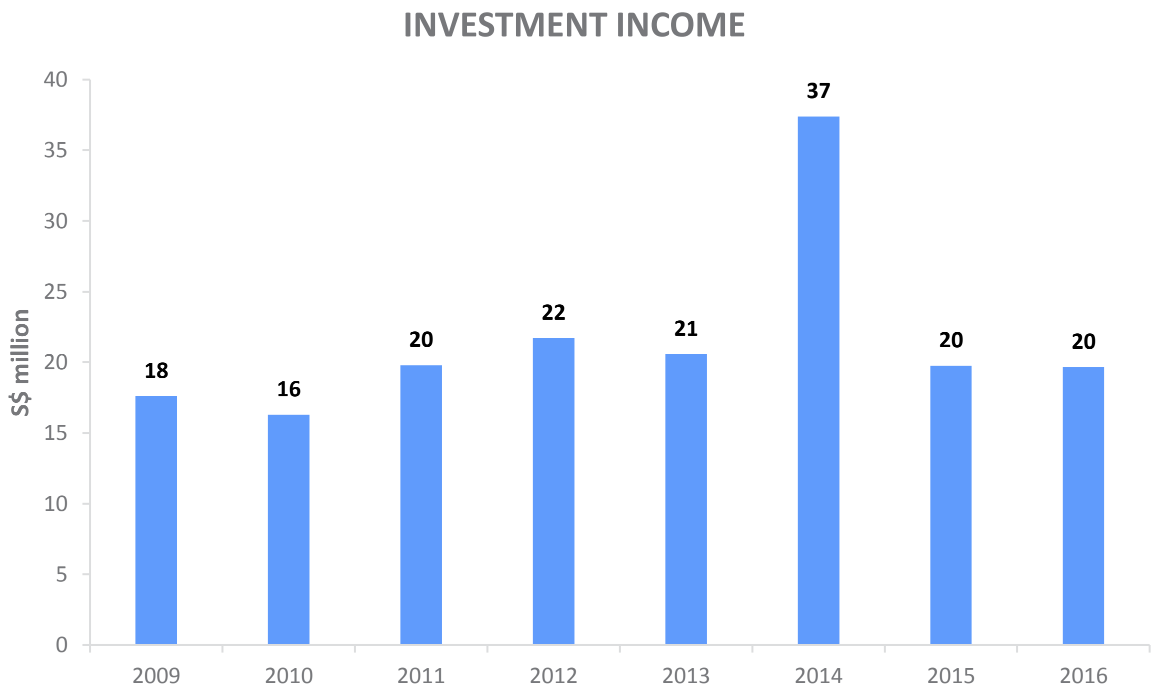

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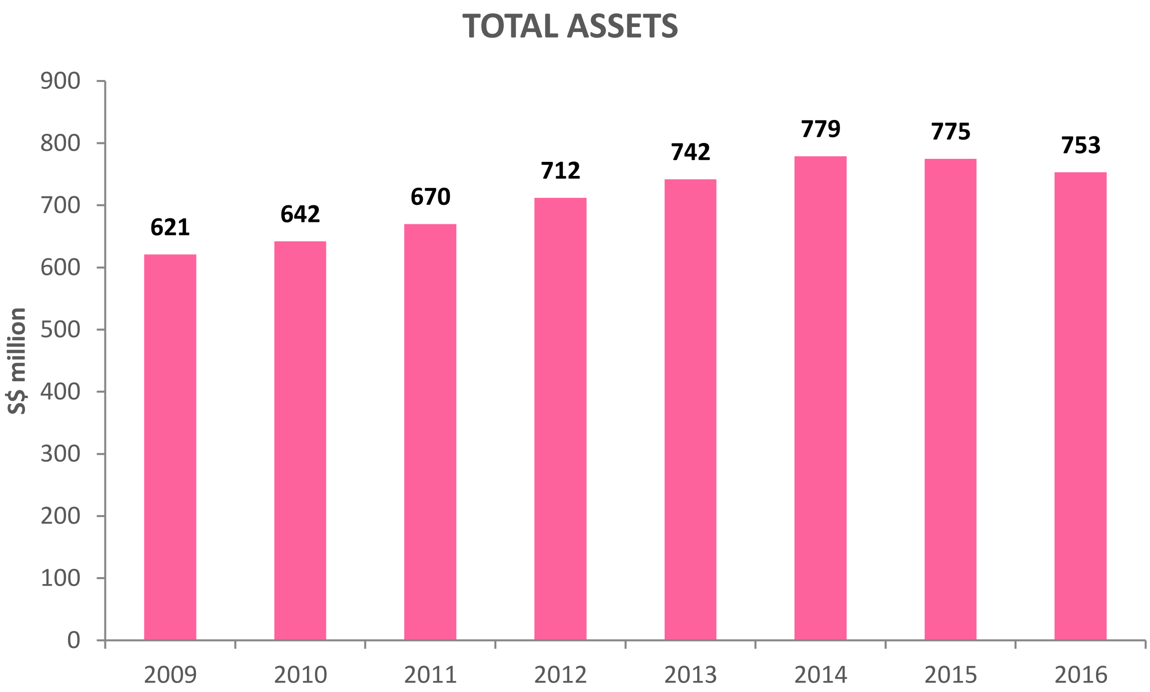

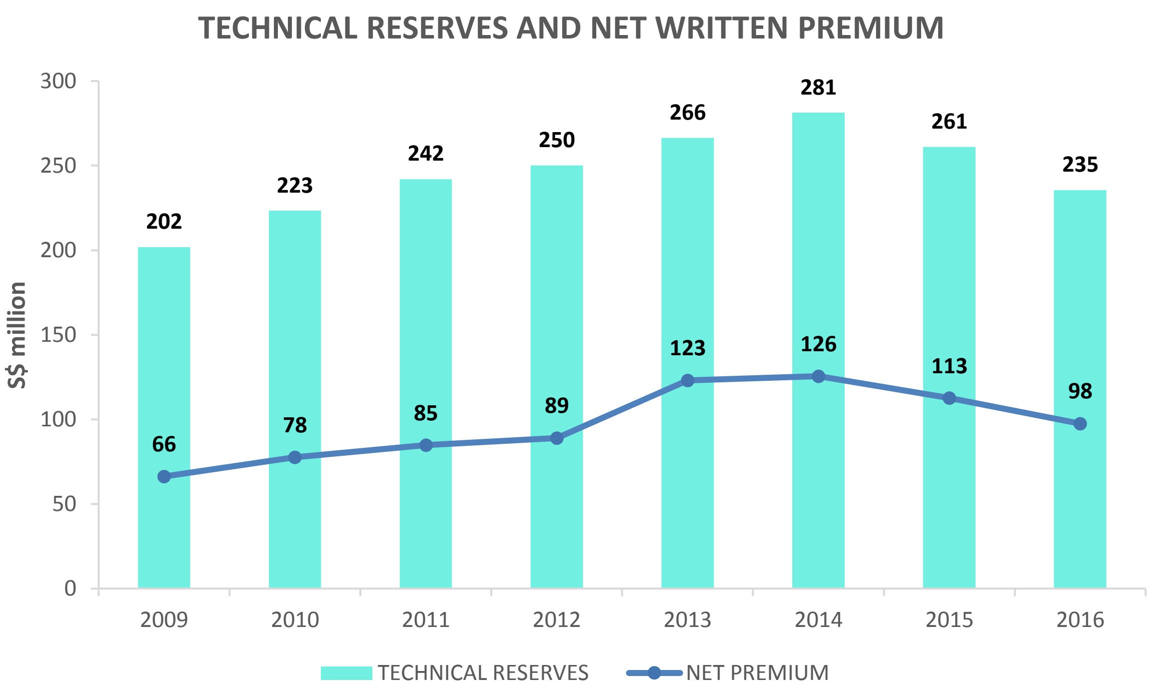

CORPORATE GOVERNANCE

The Board is committed to good corporate governance and has adopted policies pursuant to the principles and guidelines in the Guidelines on Corporate Governance for Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers which are incorporated in Singapore (the "Guidelines") and the Insurance (Corporate Governance) Regulations 2013 (the "Regulations").

The Board is supported by a number of Board Committees, namely the Audit Committee ("AC"), the Investment Committee ("IC"), the Nomination Committee ("NC"), the Remuneration Committee ("RC") and the Risk Committee. These Committees facilitate the effective oversight of the Company and supervision of management. The AC and IC meet regularly, and the other Committees meet as and when required, to consider the matters within their respective terms of reference and their deliberations and recommendations are minuted and communicated to the Board.

BOARD MATTERS

THE BOARD'S CONDUCT OF AFFAIRS

Principle:

1 Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

The Board is responsible for the management and direction of the Company's business including the following:

1. to adopt the Company's overall business strategy and financial objectives;

2. to oversee the implementation of the Company's strategies and policies;

3. to review and approve all significant matters involving the Company including the following:

   a. major transactions and business decisions;
   b. quarterly financial statements;
   c. annual report and audited financial statements;
   d. annual budget and business plan;
   e. declaration of interim dividends and proposal of final dividend;
   f. convening of shareholders meetings; and
   g. approval of corporate strategy;

4. to set and approve risk management policies and to oversee management in the design, implementation and monitoring of the risk management and internal control systems;

5. to review the adequacy and effectiveness of the Company's internal controls to ensure compliance of operational, financial, IT controls and risk management systems to safeguard shareholders' interest and the Company's assets;

6. to review the qualifications, experience, suitability and, where applicable, independence or otherwise of any person to be appointed as a Director or senior executive, and to approve any such appointment, as the case may be;

7. to oversee the general compensation policies of the Company;

8. to ensure regulatory and legal compliance; and

9. to ensure the holding of a minimum of 4 Board meetings in a year.

The Board meets regularly and as warranted by particular circumstances, as deemed appropriate by the Board members. The Board has delegated authority to the various Board Committees **in** accordance with their respective terms of reference.

The Directors' attendances at the Board and Committee meetings for FY 2016 are as shown below:

	Board	AC	IC
Number of Meetings held	4	4	4
Members	Number of meetings attended		
Mr. G. Srinivasan	4	4	4
Mr. Sanatkumar Kochunni	2	2	2
Mr. Iyengar V. Gopalan	3	3	3
Dr. A. K. Saxena	4	4	4
Mr. R. Ravindra Kumar	4	-	4

The Board does not, at present, provide any orientation and training for new and existing Directors. This is because all Directors already have prior experience as managing directors, directors and/or chief executives of their respective companies. However, the Board is considering the provision of orientation and training, as appropriate, for new and existing Directors who do not have any experience in the insurance industry, and to provide regular training, from time to time, on relevant new laws, regulations and changing commercial risks.

The Board is also responsible for the appointment and removal of senior management, and ensures that the roles, responsibilities, accountability and reporting relationships of senior management and key persons in control job functions, are clearly stated and documented.

Any delegation of authority from the Board to the senior management is formally documented and clear.

CORPORATE GOVERNANCE

The Board sets the corporate values of the Company to promote and maintain a high level of professional conduct of the business both for internal dealings and external transactions. Such corporate values discourage excessive risk taking and promote open discussion between the Board and management. The Board also ensures that senior management formulates policies and processes to promote fair practices and high standards of business conduct by staff. The Company has in place clear complaint handling procedures, which are communicated to customers, to ensure that all complaints are dealt with professionally, fairly, promptly and diligently.

BOARD COMPOSITION AND GUIDANCE

Principle:

2 ***There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, In particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.***

The present composition of the Board is as follows:

Mr. G. Srinivasan	Chairman, Non-Executive and Non-Independent
Mr. Sanatkumar Kochunni	Non-Executive and Non-Independent
Mr. Iyengar V. Gopalan	Non-Executive and Independent
Dr. A. K. Saxena	Non-Executive and Independent
Mr. R. Ravindra Kumar	Managing Director, Chief Executive, Executive and Non-Independent

In FY 2016, the following changes took place in the composition of the Board, namely:

1. Mr. Sanatkumar Kochunni was appointed as a Director on 16 May 2016, retired and was re-elected as a Director at the annual general meeting on 29 August 2016.

2. Dr. A. K. Saxena resigned as Chairman and Director on 30 June 2016, and was re-appointed on 25 August 2016 as a Non-Executive and Independent Director. He retired and was re-elected as a Director at the annual general meeting on 29 August 2016.

CORPORATE GOVERNANCE

3. Mr. G. Srinivasan was appointed as Chairman on 25 August 2016.

The Board has 2 Independent Directors and is in compliance with the requirement under the Regulations for at least one-third of the Directors on the Board to be Independent Directors.

The Board is of the view that its present size is appropriate for the Company given the scope and nature of its operations, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees. The Directors, as a group, are able to provide an appropriate balance and diversity of skills, experience and knowledge of the Company, as well as core competencies such as accounting, finance, business and management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge.

The Non-Executive Directors, who constitute a majority of the Board, constructively challenge and help develop proposals on strategy and review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The terms of reference of the IC are as follows:

1. to draft an investment policy and provide oversight and guidance to management in the management of the Company's investment portfolio and to ensure compliance with applicable regulations for investments;

2. to conduct periodic meetings with management to discuss key investment issues and to review the Company's investment portfolio and performance; and

3. to review and approve investment proposals submitted by management as required under established procedure.

The terms of reference of the other Board Committees are set out below in the relevant Sections of this Report. The composition of the various Board Committees is set out under Principle 4 below.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle:

3 There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The Chairman and Chief Executive are separate persons. There is a clear division of responsibilities between the Non-Executive Chairman and the Chief Executive who are not related. The Chief Executive is responsible for the day-to-day operations of the Company. The Chairman is responsible for providing leadership to the Board and for facilitating effective communication between the Board and management, among the Directors and with shareholders.

CORPORATE GOVERNANCE

BOARD MEMBERSHIP

Principle:

4 *There should be a formal and transparent process for the appointment and reappointment of directors to the Board.*

The Board is responsible for the selection and appointment of Directors. For this purpose, the Board has set up the NC to assist and make recommendations to the Board in the selection of suitable candidates.

In making the appointment, the Board takes into consideration educational background and experience, including experience within the insurance industry, of the nominee. The Board also considers whether the nominee is a fit and proper person and is qualified for the office taking into account the nominee's track record, age, experience, capabilities, skills and such other relevant facts as may be determined by the Board. The Board will also review on an annual basis that each existing Director remains qualified for the office based on these criteria.

A Director appointed by the Board shall retire from office at the close of the next annual general meeting of the Company, but shall be eligible for re-election. A Director re-elected at the next annual general meeting continues in office until he vacates his office in accordance with the regulations of the Company.

The key information regarding the Directors, the Board Committees served on (as a member or chairman), date of first appointment as a Director, date of last re-appointment as a Director, directorships or chairmanships both present and those held over the preceding three years in other listed companies, and other principal commitments, are as follows:

Name of Director	Board Committees
Mr. G. Srinivasan	Chairman of the IC and Risk Committee, and member of the AC, RC and NC.
Mr. Sanatkumar Kochunni	Member of the AC, IC, RC, NC and Risk Committee.
Mr. Iyengar V. Gopalan	Chairman of AC, and member of IC, RC, NC and Risk Committee.
Dr. A. K. Saxena	Chairman of the RC and NC, and member of AC, IC and Risk Committee.
Mr. R. Ravindra Kumar	Member of IC and Risk Committee.

In determining the composition of the AC, the NC and the RC, the Board is of the view that it would benefit each of these Committees to have more input from the Non-Executive Non-Independent Directors and has therefore appointed an equal number of Non-Executive Independent Directors and Non-Executive Non-Independent Directors instead of a majority of Independent Directors as recommended by the Guidelines.

CORPORATE GOVERNANCE

BOARD MEMBERSHIP (cont'd)

Name of Director	Date of first appointment / Date of last re-appointment	Directorships or chairmanships both present and those held over the preceding 3 years in other listed companies & other principal commitments
Mr. G. Srinivasan	First appointed on 19 March 2013, retired and was re-elected at the annual general meeting on 28 June 2013.	Chairman and Managing Director of The New India Assurance Company Limited, Director of GIC Housing Finance Limited, Director of Prestige Assurance Plc, Chairman of The New India Assurance Co. (Trinidad & Tobago) Ltd, Director of Health Insurance TPA of India Limited, Director of General Insurance Corporation of India, and Member of the Governing Board of the National Insurance Academy and the Insurance Information Bureau.
Mr. Sanatkumar Kochunni	First appointed on 16 May 2016, retired and was re-elected at the annual general meeting on 29 August 2016.	Chairman and Managing Director of National Insurance Co. Ltd, Director, GIC Housing Finance Co. Ltd and Director, Health Insurance TPA of India Ltd.
Mr. Iyengar V. Gopalan	First appointed on 24 August 2009, retired and was re-elected at the annual general meeting on 21 June 2010.	Chairman and Managing Director of Agrocorp International Pte Ltd.
Dr. A. K. Saxena	First appointed on 20 September 2012, retired and was re-elected at the annual general meeting on 28 June 2013, resigned on 30 June 2016. Re-appointed on 25 August 2016, retired and was re-elected at the annual general meeting on 29 August 2016.	Chairman and Managing Director of The Oriental Insurance Co. Ltd, Director of GIC Housing Finance Ltd and Director of Health Insurance TPA of India Ltd, Member of the Governing Board of the National Insurance Academy of India, up to 30 June 2016.
Mr. R. Ravindra Kumar	First appointed on 1 October 2013, retired and was re-elected at the annual general meeting on 16 June 2014.	Nil

CORPORATE GOVERNANCE

None of the Directors holds any shares in the Company except for Mr. R. Ravindra Kumar who holds 2 ordinary shares on trust for General Insurance Corporation of India.

The Board reviews the nominations, and reasons for resignations of key appointment holders, namely the Directors, Chief Executive, Chief Financial Officer, Chief Risk Officer and certifying actuary. In addition, it ensures that there are adequate policies and procedures relating to the engagement, dismissal and succession of the senior management, and is actively involved in such processes.

BOARD PERFORMANCE

Principle:

5 There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The Board collectively reviews and evaluates its performance based on the questions contained in a Board Evaluation Questionnaire circulated to the Directors. The Board shall continue to review its performance every year.

ACCESS TO INFORMATION

Principle:

6 In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

The Directors are provided with complete, adequate and timely information prior to Board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities. The Directors have separate and independent access to the company secretary. The company secretary attends all Board and Board Committee meetings.

REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle:

7 There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Board has established the RC for developing and recommending for approval *by* the Board, policy on executive remuneration and for fixing the remuneration packages of individual Directors. In formulating these policies the RC seeks to ensure that the policies are in line with the strategic objective and corporate values of the Company and do not give rise to conflicts between the objectives of the Company and the interests of individual Directors and senior management. No Director is involved in deciding his own remuneration.

CORPORATE GOVERNANCE

LEVEL AND MIX OF REMUNERATION

Principle:

8 The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

The level and structure of remuneration are aligned with the long-term interest and risk policies of the Company, and are appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the Company, and (b) key management personnel to successfully manage the Company.

DISCLOSURE ON REMUNERATION

Principle:

9 Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

The Board sets out the remuneration guidelines and reviews the remuneration framework of the Company. The Company adopts a remuneration policy that is primarily, performance based taking into account each person's job responsibilities and function and market conditions. The remuneration for employees of the Company comprises a fixed component and a performance-related variable component in an effort to link rewards to corporate and individual performance and align the interests with those of shareholders. In setting the remuneration packages, the Company takes into consideration the Company's and the individual's performance, as well as the contribution to the revenue and profitability.

The remuneration policies are in line with the strategic objectives and corporate values of the Company, and do not conflict with the Company's objectives and directions. The remuneration practices do not create incentives for excessive or inappropriate risk-taking behaviour.

No Director decides his own remuneration. The Directors' fees proposed by the Board are subject to shareholders' approval at the Company's annual general meeting.

The Company believes that it is not in its best interest to disclose the precise remuneration of the Directors and key management personnel due to the highly competitive market for talent. Details of management expenses including compensation of key management personnel, salaries and Directors' fees are set out in the Company's Financial Statements. The Company does not employ any immediate family members of any Director or the Chief Executive.

CORPORATE GOVERNANCE

ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

Principle:

10 The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board is responsible for providing a balanced and understandable assessment of the Company's performance, position and prospects as well as annual reports to shareholders of the Company on a prompt basis. These principles guide the presentation of the Company's annual financial statements and quarterly financial statements. The Board is provided with regular management reports that present a balanced and understandable assessment of the Company's performance, position and prospects.

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle:

11 The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board Is willing to take in achieving its strategic objectives.

The Board determines the Company's risk tolerance and policies and oversees management in the design, implementation and monitoring of the internal controls. The Board exercises oversight on management through the AC on the adequacy and effectiveness of the Company's systems of internal controls in compliance, operational, financial, IT and risk management. The AC reviews regularly with management and auditors, both internal *and* external, the continued development in the measures taken by management to further strengthen internal controls.

Management has completed its review of the existing risk management framework with a view to ensuring that with suitable strengthening in the practices, the Company meets with the regulatory requirement on Enterprise Risk Management for Insurers (MAS Notice 126 issued on 2 April 2013).

The Company's Enterprise Risk Management ("ERM") framework assists the Board in (a) identifying significant risks, as well as determining the Company's levels of risk tolerance and risk policies; and (b) overseeing the design, implementation and monitoring of the Company's risk management and internal control systems. Pursuant to the ERM framework, the Risk Committee has been set up to oversee the implementation and monitoring of the ERM framework, to approve risk appetite and tolerance levels and limits, and review the Company's Own Risk and Solvency Assessment Report.

The AC and Risk Committee assist the Board in carrying out its risk governance functions to ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets. The AC and Risk Committee also assist the Board to determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives. The Board has appointed a Chief Risk Officer to assist the AC and the Risk Committee in carrying out their responsibilities in relation to risk governance and the ERM framework.

CORPORATE GOVERNANCE

The internal auditors are tasked to perform independent reviews of risks and controls to provide reasonable assurance to the AC and the Board that such risks have been adequately addressed and controls are operating. The external auditor reports to management and the AC on significant weaknesses in the Company's internal controls which come to their attention during the course of their statutory audit.

Based on the Company's existing framework of management controls, risk management systems, internal control policies and procedures, as well as reviews performed by the management, the external and internal auditors, the Board, with the concurrence of the AC, is of the opinion that internal controls of the Company addressing financial, operational, compliance and information technology risks are adequate as at 31 December 2016.

The Board has also received from management, assurances that the financial records of the Company have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances, and that the Company has in place adequate risk management and internal control systems.

AUDIT COMMITTEE

Principle:

12 The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

At present, the AC is made up of 4 Non-Executive Directors, of which 2 are Independent Directors. The composition of the AC is set out under Principle 4 above.

Terms of Reference of the AC are as follows:

a. to review the adequacy of the internal audit function; to review and approve the audit scope/plans of the external and internal auditors, the results of the auditors' examinations and evaluation of the Company's system of internal accounting controls, and the management's response to their recommendations;
b. with the assistance of the management and the internal and external auditors, to review and report to the Board on the effectiveness and adequacy of the Company's internal controls including financial, operational, compliance and information technology controls;
c. to ensure regulatory and legal compliance;
d. to review the financial statements of the Company each quarter and for each financial year prior to their submission to the Board for adoption;
e. to nominate the external auditor for appointment/re-appointment and to review the external audit fees and recommend to the Board for approval; and
f. to adopt and implement the Company's whistle blowing policy.

The AC has reviewed and approved all audit and non-audit fees paid to the external auditor for FY 2016. The Company has an approved whistle-blowing policy and procedures.

During FY 2016, the AC carried out the following activities:

a. reviewed quarterly unaudited and full-year audited financial statements of the Company, as well as the quarterly business reports of the Company and recommended such reports to the Board for approval;
b. reviewed the adequacy and effectiveness of the Company's risk management and internal control systems;
c. reviewed and approved the annual audit plan of the external auditor;
d. reviewed the report of the external auditor pursuant to their statutory audit;
e. reviewed and approved the internal audit plans of the internal auditors;
f. reviewed the reports of the internal auditors pursuant to the internal audit plans; and
g. reviewed the annual re-appointment of the external auditor and internal auditors and determined their remuneration, and made a recommendation for Board approval.

The AC keeps abreast of changes to accounting standards and issues which have a direct impact on financial statements through the presentation made by the external auditor of their annual audit plan as well as through the report presented by the external auditor pursuant to their annual statutory audit.

INTERNAL AUDIT

Principle:

13 The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Company has an internal audit function that is adequately resourced and independent of the activities it audits. The internal auditors report to the AC which reviews their internal audit plans and reports, approves their terms of appointment and remuneration, ensures that they are adequately resourced and assisted by management.

The internal auditors plan their audit schedules in consultation with, but independent of management. The internal audit plans are submitted to the AC for approval prior to implementation. The internal auditors present quarterly reports to the AC and the AC reviews the activities of the internal auditors and meets with the internal auditors to approve their plans and to review their reports. The AC also ensures that the internal auditors have the necessary resources to perform their functions adequately.

The AC has reviewed the adequacy and effectiveness of the internal audit function and is satisfied that the internal auditors are adequately resourced and have the relevant qualifications and experience and have the appropriate standing and independence to fulfil their responsibilities. The AC is also of the view that the internal auditors have unfettered access to all the Company's documents, records, properties and personnel including access to the AC.

CORPORATE GOVERNANCE

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle:

14 Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

The Company treats all shareholders fairly and equitably, and recognizes, protects and facilitates the exercise of shareholders' rights as set out in the Company's constitution and under applicable law, and continually reviews and updates such governance arrangements.

COMMUNICATION WITH SHAREHOLDERS

Principle:

15 Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company actively engages its shareholders and communicates effectively and fairly with shareholders. Shareholders are provided with notices of all general meetings in a timely manner together with any relevant documents which are required to be provided to shareholders.

CONDUCT OF SHAREHOLDER MEETINGS

Principle:

16 Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Shareholders are entitled to attend and vote at all general meetings through their proxies or corporate representatives.

RELATED PARTY TRANSACTIONS

Principle:

17 ***The Board should ensure that the Financial Institution's related party transactions are undertaken on an arm's length basis.***

The Board reviews all related party transactions to ensure that they are undertaken on an arm's length basis. Material related party transactions are disclosed in the Company's financial statements.

DIRECTORS' STATEMENT

The directors are pleased to present their statement to the members together with the audited financial statements of the Company for the financial year ended December 31, 2016.

In the opinion of the directors, the accompanying financial statements are set out on pages 26 to 82 are drawn up so as to give a true and fair view of the financial position of the Company as at December 31, 2016 and the financial performance, changes in equity and cash flows of the Company for the financial year then ended on that date, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

DIRECTORS

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

Mr. G. Srinivasan
Mr. Sanatkumar Kochunni
Mr. Iyengar V. Gopalan
Dr. A.K. Saxena
Mr. R. Ravindra Kumar

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

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

DIRECTORS INTEREST IN SHARES OR DEBENTURES

No director who held office at the end of the financial year had an interest in shares or debentures of the Company or related corporations, according to the Register required to be kept under Section 164 of the Singapore Companies Act, Cap. 50.

OPTION TO TAKE UP UNISSUED SHARES

During the financial year, there were no shares of the Company issues by virtue of the exercise of an option to take up unissued shares.

OPTION EXERCISED

During the financial year, there were no shares issued by virtue of exercise of an option to take up unissued shares.

UNISSUED SHARES UNDER OPTION

At the end of the financial year, there were no unissued shares of the Company under option.

DIRECTORS' STATEMENT

AUDIT COMMITTEE

The Audit Committee ("AC") carried out its functions in accordance with section 201B (5) of the Singapore Companies Act, Cap. 50. It reviewed the audit plans of the internal and external auditors of the Company, and reviewed the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors.

The AC convened four meetings during the year. The AC has also met with internal and external auditors at least once a year.

AUDITOR

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment as auditor.

ON BEHALF OF THE DIRECTORS

....

G. Srinivasan
Chairman

....

R. Ravindra Kumar
Director

Singapore
March 6, 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF INDIA INTERNATIONAL INSURANCE PTE LTD

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of India International Insurance Pte Ltd (the "Company") which comprise the statement of financial position of the Company as at December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Company for the year then ended, and notes to the financial statement, including a summary of significant accounting policies, as set out on pages 26 to 82.

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

Basis of Opinion

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

Other Matters

The financial statements of the Company for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements in their report dated March 21, 2016.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Directors' Statement but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Letter to S`hareholders, Financial Highlights, Corporate Governance Statement, which are expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF INDIA INTERNATIONAL INSURANCE PTE LTD

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Letter to Shareholders, Financial Highlights, Corporate Governance Statement, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibility of Management and Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

(b) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(c) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Report on Other Legal and Regulatory Requirements

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

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 6, 2017

STATEMENT OF FINANCIAL POSITION

As at December 31, 2016

	Note	2016 S$	2015 S$
Assets			
Fixed assets	7	912,359	676,072
Investment property	9	8,876,473	8,917,690
Financial assets			
Held-to-maturity	8	253,853,037	251,125,933
Available-for-sale	8	102,045,951	104,959,678
Mortgage loans	8	700,000	700,000
Reinsurers' share of technical reserves			
Reserve for unexpired risks	14	11,796,464	15,333,938
Deferred acquisition costs	14	(3,058,890)	(3,577,438)
Loss reserves	15	132,929,981	136,314,353
Amount retained by ceding companies		259,472	260,284
Balances due from policyholders, agents and reinsurers	10	72,099,362	80,409,353
Prepayments		98,360	124,701
Other debtors	11	9,585,429	10,873,624
Cash on deposits	12	301,519,990	313,388,810
Cash and bank balances	12	2,697,641	3,653,400
Total Assets		**894,315,629**	**923,160,398**
Equity and Liabilities			
Equity attributable to owners of the Company			
Share capital	16	50,000,000	50,000,000
Retained earnings		374,562,284	355,606,608
Fair value adjustment reserves	23	13,520,867	15,654,691
Total Equity		**438,083,151**	**421,261,299**
Liabilities			
Technical reserves			
Reserve for unexpired risks	14	68,645,646	78,331,169
Deferred acquisition costs	14	(8,913,271)	(10,884,895)
Loss reserves	15	317,407,258	341,716,495
Provision for deferred taxation	21	2,598,542	2,964,307
Tax payables	21	4,376,348	5,562,337
Balances due to agents	8	33,311	264,873
Balances due to reinsurers	8	61,374,319	66,530,662
Other creditors and accruals	13	10,710,325	17,414,151
Total Liabilities		**456,232,478**	**501,899,099**
Total Equity & Liabilities		**894,315,629**	**923,160,398**

See accompanying notes to financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended December 31, 2016

	Note	2016		2015	
		S$	S$	S$	S$
Gross premiums			157,182,110		180,343,416
Underwriting profit			2,863,093		2,184,977
Investment and interest income	19		18,876,849		19,237,188
Gain on sale of investments			782,794		526,659
Other (expense)/income	20		(215,170)		2,062,688
			22,307,566		24,011,512
Write back for bad and doubtful debts		694,116		490,577	
Provision for diminution in value of investments		(49,876)		(2,359,116)	
Gain on foreign exchange		5,265,407		14,950,190	
Depreciation on investment property		(41,217)		(42,274)	
			5,868,430		13,039,377
Profit before taxation			28,175,996		37,050,889
Taxation expenses	21		(4,220,320)		(5,451,831)
Profit for the year			23,955,676		31,599,058
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Net loss on available-for-sale financial assets			(2,531,190)		(7,991,667)
Income tax relating to available-for-sale financial assets			397,366		1,321,797
Other comprehensive income for the year, net of tax			(2,133,824)		(6,669,870)
Total comprehensive income for the year			21,821,852		24,929,188

See accompanying notes to financial statements.

REVENUE ACCOUNT

For the financial year ended December 31, 2016

	Note	TOTAL 2016 S$	TOTAL 2015 S$	FIRE 2016 S$	FIRE 2015 S$	MARINE 2016 S$	MARINE 2015 S$	MISC 2016 S$	MISC 2015 S$
Underwriting income									
Gross premiums less return premiums		157,182,110	180,343,416	25,349,499	25,100,499	61,648,462	73,974,063	70,184,149	81,268,854
Less: Reinsurance premiums		59,609,679	67,774,407	21,631,173	21,382,366	12,384,538	15,532,103	25,593,968	30,859,938
Net premiums		97,572,431	112,569,009	3,718,326	3,718,133	49,263,924	58,441,960	44,590,181	50,408,916
Decrease/(increase) in reserve for unexpired risks	14	4,694,973	7,268,640	26,882	(708,480)	2,878,531	1,379,651	1,789,560	6,597,469
Total underwriting income		102,267,404	119,837,649	3,745,208	3,009,653	52,142,455	59,821,611	46,379,741	57,006,385
Underwriting outgo									
Claims paid less recoveries		96,853,606	105,051,371	4,069,636	2,354,576	55,256,481	57,687,261	37,527,489	45,009,534
(Decrease)/increase in loss reserve	15	(20,924,865)	(12,882,285)	(939,760)	1,905,000	182,615	5,152,087	(20,167,720)	(19,939,372)
Commissions – net incurred	17	11,779,671	15,495,773	(1,928,068)	(820,876)	10,316,641	12,169,187	3,391,098	4,147,462
Management expenses	18	11,695,899	9,987,813	1,886,254	1,390,120	4,587,254	4,096,845	5,222,391	4,500,848
Total underwriting outgo		99,404,311	117,652,672	3,088,062	4,828,820	70,342,991	79,105,380	25,973,258	33,718,472
Underwriting profit transferred to income statement		2,863,093	2,184,977	657,146	(1,819,167)	(18,200,536)	(19,283,769)	20,406,483	23,287,913

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN EQUITY

For the financial year ended December 31, 2016

	Share capital	Retained earnings	Fair value adjustment reserves	Total
	S$	S$	S$	S$
2016				
Balance as at January 1, 2016	50,000,000	355,606,608	15,654,691	421,261,299
Profit for the year	–	23,955,676	–	23,955,676
Other comprehensive income for the financial year	–	–	(2,133,824)	(2,133,824)
Total comprehensive income for the financial year	–	23,955,676	(2,133,824)	21,821,852
Dividends (Note 22)	–	(5,000,000)		(5,000,000)
Balance as at December 31, 2016	50,000,000	374,562,284	13,520,867	438,083,151
2015				
Balance as at January 1, 2015	50,000,000	327,757,550	22,324,561	400,082,111
Profit for the year	–	31,599,058	–	31,599,058
Other comprehensive income for the financial year	–	–	(6,669,870)	(6,669,870)
Total comprehensive income for the financial year	–	31,599,058	(6,669,870)	24,929,188
Dividends (Note 22)		(3,750,000)		(3,750,000)
Balance as at December 31, 2015	50,000,000	355,606,608	15,654,691	421,261,299

See accompanying notes to financial statements.

CASH FLOW STATEMENT

For the financial year ended December 31, 2016

	2016	2015
	S$	S$
Operating activities		
Profit before taxation	28,175,996	37,050,889
Adjustments for:		
Depreciation of fixed assets	174,574	157,572
Depreciation on investment property	41,217	42,274
Investments – provision for diminution in value	49,876	2,359,116
- gain on sale	(782,794)	(526,659)
Fixed Assets gain on sale	(18,056)	–
Investment and interest income	(18,876,849)	(19,237,188)
Write back of bad and doubtful debts	(694,116)	(490,577)
Operating cash flow before changes in working capital	8,069,848	19,355,427
Decrease in reserve for unexpired risks - Gross	(7,713,899)	(5,426,816)
Decrease/(increase) in reserve for unexpired risks - Reinsurance	3,018,926	(1,841,824)
Decrease in loss reserve - Gross	(24,309,237)	(43,992,225)
Increase in loss reserve - Reinsurance	3,384,372	31,109,940
Decrease in debtors and prepayments	10,572,059	11,619,631
Decrease in creditors	(12,009,881)	(3,148,694)
Cash flows (used in) generated from operations	(18,987,812)	7,675,439
Investment and interest income received	18,624,246	19,037,746
Income taxes paid	(5,374,709)	(6,360,008)
Net cash flows (used in) from operating activities	(5,738,275)	20,353,177
Investing activities		
Purchase of fixed assets	(442,079)	(200,392)
Purchase of marketable securities & other investments	(14,378,480)	(32,114,126)
Proceeds from sale of fixed assets	49,275	–
Sale of investments & marketable securities	12,766,830	4,095,986
Net cash flows used in investing activities	(2,004,454)	(28,218,532)
Financing activity		
Dividends paid representing cash used in financing activity	(5,000,000)	(3,750,000)
Net decrease in cash and cash equivalents	(12,742,729)	(11,615,355)
Cash and cash equivalents at beginning of year (Note 12)	316,776,860	328,392,215
Cash and cash equivalents at end of year (Note 12)	304,034,131	316,776,860

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

	2016	2015
	S$	S$
Cash and bank balances	2,697,641	3,653,400
Cash on deposits	301,519,990	313,388,810
	304,217,631	317,042,210
Less Cash collateral (Note 12)	183,500	265,350
Cash and cash equivalents	304,034,131	316,776,860

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

<u>For the financial year ended December 31, 2016</u>

1. GENERAL

The Company (Registration Number 198703792K) is incorporated in Singapore. It is owned by all the state owned insurance companies of the Government of India, namely General Insurance Corporation of India, National Insurance Co. Ltd, New India Assurance Co. Ltd, Oriental Insurance Co. Ltd and United India Insurance Co. Ltd, which are all incorporated in India. The address of the Company's principal place of business and registered office is at:

India International Insurance Pte Ltd
64 Cecil Street
#04/#05/#06-02
IOB Building
Singapore 049711

The financial statements are expressed in Singapore dollars.

The principal activities of the Company are to undertake the business of insurance and reinsurance of all classes of the general insurance and to perform investment functions incidental thereto. The financial statements of the Company for the year ended December 31, 2016 were authorised for issue by the Board of Directors on March 6, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 *Basis of accounting*

The financial statements are prepared in accordance with the historical cost basis, except as discussed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards in Singapore (FRSs).

The preparation of the financial statements in conformity with FRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. These estimates and assumptions affect the reported amounts of assets and liabilities at the measurement date as well as affecting the reported income and expenses for the year. Although the estimates are based on management’s best knowledge and judgement of current facts as at the measurement date, the actual outcome may differ from the estimates, possibly significantly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Notes 2.10 and 3.

The financial statements of the Company have been prepared under the historical cost basis except for available-for-sale financial assets that have been measured at their fair values.

All assets and liabilities are presented in the statement of financial position of the Company in order of liquidity as this presentation is more relevant for the insurance industry.

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 *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 which are effective for annual periods beginning on or after 1 January 2016. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Company.

2.3 *Standards issued but not yet effective*

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

Description	**Effective for annual period beginning on or after**
Amendments to FRS 7 Statement of Cash Flows: *Disclosure Initiative*	1 January 2017
Amendments to FRS 12 Income Taxes *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
FRS 109 *Financial Instruments*	1 January 2018
FRS 115 *Revenue from Contracts with Customers (with clarifications issued)*	1 January 2018
FRS 116 *Leases*	1 January 2019

Except for FRS 109, Management expects that the adoption of the above standards 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 FRS 109 is described below.

FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Company to make changes to its current systems and processes.

FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is currently assessing the impact of FRS 109 and plans to adopt the standard on the required effective date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 *Revenue recognition*

(a) ***Premium income***

Premium income on direct insurance business is recognised at the time a policy is issued, which approximates the inception date of the risk. Reinsurance premium income is recognised when advised up to the time of closing the books.

(b) ***Investment income***

Dividend income is recognised as and when received while rental and interest income are accounted for using effective interest method.

2.5 *Product classification*

All the Company's existing products are insurance contracts as defined in FRS 104 *Insurance Contracts*. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or where at inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life time, even if the insurance risk reduces significantly during the period.

2.6 *Reinsurance*

The Company assumes and or cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts due to reinsurers are determined in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract.

2.7 *Reserves for unexpired risks*

Reserves for unexpired risks comprises the sum of unearned premium reserves and premium deficiency reserves. Premium deficiency reserves are derived using actuarial methods on loss statistics and are recognised when the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date for any line of business exceeds the unearned premium reserves.

The unearned premium reserves are computed on the following basis:

(a) 365^{th} method for all direct and facultative reinsurance classes of business other than marine cargo, for which 25% is applicable;

(b) in the case of all classes of treaty reinsurance business, other than marine cargo, 40% of the premiums and for marine cargo, 25% of the premiums; and

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NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.7 *Reserves for unexpired risks (cont'd)*

(c) the actual acquisition cost is taken into account in the computation in respect of direct and facultative reinsurance business, except for marine cargo.

2.8 *Deferred acquisition costs*

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs ("DAC") are calculated using the 365^{th} method on actual commission. All other acquisition costs are recognised as an expense when incurred.

An impairment review is performed at each reporting date and, if required, the carrying value is written down to the recoverable amount.

2.9 *Claims paid and provision for outstanding claims*

Claims are charged against the insurance revenue account when incurred based on the estimated liability for compensation owed to policyholders or damage suffered by third party claimants. They comprise direct and indirect claims settlement costs including loss adjustment expenses and professional fees, and arise from events that have occurred up to the statement of financial position date even if they have not been reported to the Company.

Provision is made for the estimated cost of all claims incurred but not settled at the date of the statement of financial position less reinsurance recoveries, using the best information available at the time. In addition, provision for claims incurred but not reported is made based on the independent actuarial assessment as at reporting date as required under the Insurance Act. The Company does not discount its liabilities for outstanding claims.

Any reduction or increase in the provision is dealt with in the insurance revenue account of the year in which the reduction or increase arises. Any difference between the estimated cost and subsequent settlement is dealt with in the insurance revenue account of the year in which settlement takes place. For claims from reinsurance, an additional provision is made based on developmental trends as discerned in the running-off of outstanding claims in respect of prior underwriting years.

As explained in Notes 2.10 and 3, the assumptions used to estimate the provision require judgment and are subject to uncertainty.

2.10 *Insurance contract liabilities – Assumptions and sensitivities*

The major classes of general insurance written by the Company include motor, fire, workmen compensation, personal accident, travel, marine cargo and hull. For general insurance contracts, claims provisions (comprising provision for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the statement of financial position date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

The provisions are refined continuously as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported.

The measurement process primarily includes projection of future claims costs through a combination of actuarial and statistical projection techniques like the Chain Ladder and Bornheutter-Ferguson method. Claims provisions are separately analysed by loss adjustors or separately projected by the actuaries. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Assumptions

(a) Process used to decide on assumptions

The best estimates of claim liabilities have been determined from the projected ultimate claim liabilities based on the incurred loss development, the paid loss development, the Bornhuetter Ferguson, or the expected loss ratio methods.

The selected loss development factors have mostly been based on the historical development pattern from the reported loss development triangles. Judgment was used whenever there was a wide variability in the past development factors due to a small claims sample or due to a fairly new class of business. Also, development factors which seemed abnormal would have been disregarded in selecting the loss development factors.

For most classes of business, the incurred loss development method has been used to select the ultimate best estimates for 2016 and prior accident/underwriting years. The Bornhuetter Ferguson method, along with the expected loss ratio method, was also considered in the selection of the ultimate loss estimates for the most recent accident/underwriting year, and for classes of business with a small claims sample or in cases where little claim information was available as of the valuation date.

Acquisition expenses are assumed to have been incurred at the date of writing the policy and hence does not form part of the loss reserving exercise.

Non-reinsurance recoveries, including salvage and subrogation, were not specifically analysed in this valuation. However, they would implicitly be allowed for in our valuation method, where past recovery patterns are assumed to continue into the projected future years.

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

The actuarial liabilities have been estimated without discounting for future investment earnings. This is a conservative approach.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

(a) Process used to decide on assumptions (cont'd)

No explicit inflation adjustment has been made to claim amounts payable in the future. This inflation is, however, implicitly allowed for in the valuation method, where past inflation patterns are assumed to continue into the projected future years.

The principal assumption underlying the estimates is the Company's past claims development experience is representative of the future as well. This includes assumptions in respect of initial expected loss ratios used, first year incurred loss development factors used, claims handling costs and the assumed provision for adverse deviation ("PAD") factor used for each accident/underwriting year. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

(b) Change in assumptions and sensitivity analysis

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

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 December 31, 2016. In this context, the outstanding claim and premium liabilities are defined as the total claim and premium liabilities for both Singapore Fund and Offshore Fund business combined respectively, including provision for adverse deviation (these are referred to as "the base scenario" in the sensitivity analysis summary).

The key assumptions considered in the sensitivity analysis of the claim liabilities include:

- a 5 percentage increase or decrease in the assumed first incurred loss development factor for each line of business;
- a 5 percentage point increase or decrease in the assumed level of indirect claim handling expenses; and
- a 5 percentage point increase or decrease in the assumed PAD factor for each line of business.

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 line of business in the calculation of the unexpired risk reserve ("URR");
- a 5 percentage point increase or decrease in the assumed level of management expense ratio for each line of business; and
- a 5 percentage point increase or decrease in the assumed PAD factor for each line of business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

(b) Change in assumptions and sensitivity analysis (cont'd)

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. The sensitivity results are not intended to capture all possible outcomes significantly more adverse or favourable results are possible.

Claim liability sensitivity analysis
S$

Assumption	+5%[(1)]	Net	–5%[(1)]
Reported total actuarial claims liability		184,477,277	
Initial Expected Loss Ratio[2]	190,059,042		178,895,511
First Incurred Development Factor[3]	184,664,518		184,272,877
Claim Handling Expenses[4]	198,953,008		170,001,545
Provision for Adverse Deviation[5]	191,094,193		177,860,361

Premium liability sensitivity analysis
S$

Assumption	+5%[(1)]	Net	–5%[(1)]
Reported total actuarial premium liability		50,994,801	
Ultimate Loss Ratio	53,470,712		48,518,892
Management expense ratio	54,734,805		47,440,367
Provision for Adverse Deviation[5]	52,760,925		49,228,680

Change in claim liability sensitivity analysis
S$

Assumption	+5%[(1)]	Net	–5%[(1)]
Reported total actuarial claims liability		184,477,277	
Initial Expected Loss Ratio[2]	5,581,766		(5,581,766)
First Incurred Development Factor[3]	187,241		(204,400)
Claim Handling Expenses[4]	14,475,731		(14,475,731)
Provision for Adverse Deviation[5]	6,616,916		(6,616,916)

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

(b) Change in assumptions and sensitivity analysis (cont'd)

Change in premium liability sensitivity analysis
S$

	Net	
Assumption	+5%(1)	–5%(1)
Reported total actuarial premium liability	50,994,801	
Ultimate Loss Ratio	2,475,910	(2,475,910)
Management expense ratio	3,740,003	(3,554,435)
Provision for Adverse Deviation[5]	1,766,123	(1,766,123)

Percentage change in claim liability sensitivity analysis

	Net	
Assumption	+5%(1)	–5%(1)
Reported total actuarial claims liability	184,477,277	
Initial Expected Loss Ratio[2]	3%	-3%
First Incurred Development Factor[3]	0%	0%
Claim Handling Expenses[4]	8%	-8%
Provision for Adverse Deviation[5]	4%	-4%

Percentage change in premium liability sensitivity analysis

	Net	
Assumption	+5%(1)	–5%(1)
Reported total actuarial premium liability	50,994,801	
Ultimate Loss Ratio	5%	-5%
Management expense ratio	7%	-7%
Provision for Adverse Deviation[5]	3%	-3%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

(b) Change in assumptions and sensitivity analysis (cont'd)

Notes:

(1) Sensitivity analysis assesses impact of a +/- 5% additive change in assumption.

(2) Initial expected loss ratio sensitivity analysis applies to 2016 accident year.

(3) First incurred development factor sensitivity assess impact of a +/- 5% multiplicative change in assumption. The sensitivity applies to 2016 accident year.

(4) Claims handling expense assumption in sensitivity analysis changed from X% to X% +5% and X% to X% -5% of best estimate liability.

(5) The sensitivity analysis is applied to the PAD factors before the credit for diversification is applied.

2.11 *Reinsurance – Assumptions and methods*

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amount recoverable from reinsurers are estimated in manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurer's share of technical provisions.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

2.12 *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions and improvements are capitalised and expenditure for repairs and maintenance are recognised in profit or loss. When assets are sold or retired, their cost and accumulated depreciation and impairment are removed from the financial statements and any gain or loss resulting from their disposal is included in profit or loss.

Where an indication of impairment exists, the carrying amounts is assessed and written down to their recoverable amounts. If, in subsequent periods, circumstances and events that led to the provision for impairment in value cease to exist, a write-back up to the full provision may be made, net of depreciation which would have been charged had the provision not been made.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.12 *Fixed assets (cont'd)*

An item of fixed assets is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in the profit or loss on the year the asset is de-recognised.

2.13 *Depreciation*

Depreciation of all fixed assets is calculated to write off the cost on reducing balance method over their expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

Motor vehicles	20%
Computers, office equipment	15%
Furniture and fittings	10%

2.14 *Financial assets*

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

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. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase 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.

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

Financial assets classified as held for trading are included in the category "financial assets at fair value through the profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

The Company does not designate any financial assets not held for trading as financial assets at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.14 *Financial assets (cont'd)*

(b) *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold the assets to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount and minus any reduction for impairment or uncollectibility. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(c) *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. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for sale financial assets are measured at fair value. Any gains or losses from changes in value of the fair value asset are recognised in the comprehensive income, except the impairment losses, foreign exchange gain 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.15 *Impairment*

The Company assesses at each statement of financial position date whether there is any objective evidence that a non-financial or financial asset is impaired.

(a) *Non-financial assets*

The carrying amounts of the assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in profit or loss and revenue account.

(i) Calculation of recoverable amount

The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment loss

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All other reversals of impairment are recognised in profit or loss and revenue account.

(b) *Financial assets*

(i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised 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 assets' original effective interest rate. The amount of the loss is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.15 *Impairment (cont'd)*

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

(i) Assets carried at amortised cost (cont'd)

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset. To determine whether there is objective evidence that an impairment loss on financial assets has been incurred; the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Assets carried at cost

If there is objective evidence that an impairment loss on an unlisted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

(iii) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to the profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.16 *Investment property*

Investment property is initially recorded at cost. Subsequent to recognition, investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation of investment property is calculated to write off the cost on reducing balance method over the expected useful lives of the asset concerned. The principal annual rate used for this purpose is:

Investment property : 2.5% p.a.

Investment property is derecognised when either it is disposed or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

2.17 *Balances due from Policyholders, Agents, Ceding Companies and Reinsurers*

Balances due from Policyholders, Agents, Ceding Companies and Reinsurers are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.14.

An allowance is made for uncollectible amounts when there is objective evidence that the Company will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in the Note 2.15.

2.18 *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and short term deposits carried in the statement of financial positions are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.14.

2.19 *Balances due to Agents, Reinsurers and Other Creditors*

Balances due to Agents, Reinsurers and Other Creditors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.20 *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 resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.21 *Taxation*

(a) *Current tax*

Current 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 end of each reporting period. Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(b) *Deferred income tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at end of each reporting period 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 tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred income tax relating items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred 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 end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.21 *Taxation (cont'd)*

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

Deferred tax assets and 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 same taxation authority.

2.22 *Foreign currency*

The financial statements are presented in Singapore dollars, which is also the Company's functional currency.

Monetary assets and liabilities in foreign currencies are translated into Singapore dollars at rates of exchange closely approximating those ruling at end of each reporting period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Transactions in foreign currencies are recorded at rates prevailing on transaction dates. Exchange differences arising on the settlement of monetary item or on translating monetary item at end of each reporting period are recognised in profit or loss.

2.23 *Dividend distribution*

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders.

2.24 *Employee benefits*

As required by the 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.

2.25 *Derecognition of financial assets and liabilities*

(a) *Financial assets*

A financial asset (or, where applicable a part of a financial asset) is derecognised where:

– The contractual rights to receive cash flows from the asset have expired;

– The Company retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 *De-recognition of financial assets and liabilities (cont'd)*

(a) *Financial assets (cont'd)*

– The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in profit or loss.

(b) *Financial liabilities*

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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.26 *Operating leases*

(a) The Company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

(b) The Company as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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);

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.27 *Related parties (cont'd)*

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

(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).

2.28 *Financial liabilities*

Initial recognition and measurement

Financial liabilities are recognised 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 liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

2.29 *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position, when and only, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. MANAGEMENT OF INSURANCE RISK AND INHERENT UNCERTAINTY IN ACCOUNTING ESTIMATES

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

As general insurance business encompass a wide range of different insurance products, a prudent management of risks is fundamental to our business. This safeguards not only the interest of our shareholders but also that of our customers. The Company has developed a robust underwriting framework to ensure all risks accepted meet with our guidelines and standards.

The Company's business is primarily derived from Singapore and the region. Geographically, there is an inherent concentration of insurance risks in the Company's insurance portfolio. The Company has developed a reinsurance management strategy which manages such concentration of insurance risks based on historical experience of loss frequency and severity of similar risks and in similar geographical zones. The primary objectives of our reinsurance management strategy include protection of shareholders' fund, smoothing out the peaks and troughs of our underwriting result, providing us with competitive advantage, sound and diversified reinsurance securities and developing long-term strategic partnership with key reinsurers.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

3. MANAGEMENT OF INSURANCE RISK AND INHERENT UNCERTAINTY IN ACCOUNTING ESTIMATES (cont'd)

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The principal uncertainty in the Company's financial statements primarily arises in the technical provisions which include the premium and claim liabilities. The premium liabilities comprise reserve for unexpired risks, net of deferred acquisition cost while the claims liabilities comprise provision for outstanding claims and their values are carried in the statement of financial position as disclosed in Notes 14 and 15 to the financial statements.

Generally, premium and claim liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future premium and claim liabilities will not develop exactly as projected and may vary from our projection.

The other uncertainties arising under insurance contracts include:

– uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;

– uncertainty as to the extent of policy coverage and limits applicable; and

– uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Company. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, evolving judicial interpretation, legislative changes and claims handling procedures.

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

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise available-for-sale investments, held to maturity investments, cash and short term deposits, other receivables and payables. The Company has various other financial assets and liabilities such as insurance receivables and payables, which arise directly from its operations.

The primary objective of the Company's risk and financial management framework is to have efficient and effective risk management systems in place. The Company has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers.

The board of directors approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The key financial risks include exposure to underwriting, credit, liquidity risk, currency, price and interest rate risk arise in the normal course of business.

The Company is a Singapore based direct insurer. The table below sets out the composition of gross written premium for current year.

	2016	2015
Marine and aviation	39%	41%
Fire	16%	14%
Motor	29%	28%
Workmen's compensation	8%	9%
Miscellaneous	8%	8%
	100%	100%

The Company's overall business strategies, its tolerance of risks and its general risk management philosophy are determined by management in accordance with prevailing economic and operating conditions.

There has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risks.

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) ***Underwriting risk***

The Company principally issues the following types of general insurance contracts: motor, household, fire, marine, commercial and business interruption. Risks under non-life insurance policies usually cover twelve month duration.

Underwriting risks include the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks with a balanced mix and spread of business classes of business and by observing underwriting guidelines and limits, conservative estimation of the claims provisions, and high standards applied to the security of reinsurers. The Company adopted the actuary's view on its claims and premium liabilities at reporting date. The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. hurricane earthquakes and flood damages). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management.

The table below sets out the concentration of the claims and premium liabilities (in percentage terms):

	Net claims liabilities 2016	Net premium liabilities 2016	Net claims liabilities 2015	Net premium liabilities 2015
Marine and aviation	42%	58%	37%	58%
Fire	5%	7%	5%	7%
Motor	28%	12%	31%	19%
Workmen's compensation	11%	15%	11%	11%
Miscellaneous	14%	8%	16%	5%
	100%	100%	100%	100%

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) *Credit risk*

Credit risk represents the loss that would be recognised if counterparties to insurance, reinsurance and investment transactions failed to perform as contracted. Credit evaluations are performed on all new brokers, reinsurers, financial institutions and other counterparties. The company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. Net exposure limits are set for each counterparty or company of counterparties. Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year.

The Company views the management of credit risk as a fundamental and critical part of operations. In respect of amounts due from policyholder, agents and reinsurers and other receivables, the management has a credit policy in place and the exposure to credit risk is actively monitored on an ongoing basis. Loans are only given to selected high net worth individuals and companies with credible and good financial backgrounds. All loans are either backed by guarantees obtained from substantial financial institutions or quality collateral. At end of the reporting period, there are no significant concentrations of credit risk. The maximum exposure to credit risks is represented by the carrying amount of each financial asset on the statement of financial position date. Company minimises credit risk by dealing exclusively with good credit rating counterparties.

Age wise analysis of financial assets past due but not impaired

	Not past due and not impaired	Past due but not impaired			Total
		< 3 months	3 months to 9 months	9 months and above	
	S$	S$	S$	S$	S$
31 December 2016					
Balances due from policy holders, agents, ceding companies and reinsurers	34,371,024	9,524,055	20,577,744	7,626,539	72,099,362
31 December 2015					
Balances due from policy holders, agents, ceding companies and reinsurers	32,289,172	17,499,450	17,591,877	13,028,854	80,409,353

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<u>For the financial year ended December 31, 2016</u>

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Credit risk exposure of the Company according to rating of the counterparties

	AAA	AA	BBB	BB	Not rated	Total
	S$	S$	S$	S$	S$	S$
31 December 2016						
HTM*	8,802,342	45,804,907	87,995,757	28,493,713	82,756,318	253,853,037
AFS*- Debt	–	–	13,866,365	11,124,268	8,711,669	33,702,302
AFS*- Equity	–	–	–	–	65,223,829	65,223,829
AFS*- Pref shares	–	–	–	–	3,119,820	3,119,820
Mortgage loan	–	–	–	–	700,000	700,000
Cash, bank balances and cash deposits		70,260,916	161,434,369	25,589,927	46,932,419	304,217,631
31 December 2015						
HTM*	8,277,855	51,204,824	90,378,250	21,071,801	80,193,203	251,125,933
AFS*- Debt	–	8,802,240	8,982,985	9,699,474	7,578,905	35,063,604
AFS*- Equity	–	–	–	–	66,803,024	66,803,024
AFS*- Pref shares	–	–	–	–	3,093,050	3,093,050
Mortgage loan	–	–	–	–	700,000	700,000
Cash, bank balances and cash deposits	–	73,838,667	159,710,008	34,288,837	49,204,698	317,042,210

Trade and other receivables that are neither past due nor impaired are credit worthy debtors with good payment records with the Company.

* HTM denotes Held-to-Maturity.
* AFS denotes Available-for-Sale.

(c) ***Liquidity risk***

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet its commitments. The Company manages this risk by monitoring daily and monthly projected and actual cash flows and by ensuring that a reasonable amount of financial assets are kept in liquid instruments at all times. The Company sets guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient fund being available to meet insurance and investment contracts obligations. The Company's excess-of-loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size. The Company does not require external funding in the foreseeable future.

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company:

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

	Statement of financial position amount S$	Up to 1 year S$	1-3 years S$	3-5 years S$	5-10 years S$	Over 10 years S$
31.12.2016						
Assets						
Held-to-maturity	253,853,037	30,322,776	56,970,761	67,290,178	95,769,322	3,500,000
Mortgage loan	700,000	–	700,000	–	–	–
AFS securities	102,045,951	102,045,951	–	–	–	–
Cash, bank balances and cash deposits	304,217,631	304,217,631	–	–	–	–
Balances due from policy holders, agents, ceding companies and reinsurers	72,099,362	72,099,362	–	–	–	–
Amount retained by ceding companies	259,472	259,472	–	–	–	–
Other debtors	9,585,429	9,585,429	–	–	–	–
Liabilities						
Balances due to agents	33,311	33,311	–	–	–	–
Balances due to reinsurers	61,374,319	61,374,319	–	–	–	–
Other creditors and accruals	10,710,325	10,710,325	–	–	–	–

	Statement of financial position amount S$	Up to 1 year S$	1-3 years S$	3-5 years S$	5-10 years S$	Over 10 years S$
31.12.2015						
Assets						
Held-to-maturity	251,125,933	57,453,790	40,126,006	63,056,834	88,489,303	2,000,000
Mortgage loan	700,000	–	700,000	–	–	–
AFS securities	104,959,678	104,959,678	–	–	–	–
Cash, bank balances and cash deposits	317,042,210	317,042,210	–	–	–	–
Balances due from policy holders, agents, ceding companies and reinsurers	80,409,353	80,409,353	–	–	–	–
Amount retained by ceding companies	260,284	260,284	–	–	–	–
Other debtors	10,873,624	10,873,624	–	–	–	–
Liabilities						
Balances due to agents	264,873	264,873	–	–	–	–
Balances due to reinsurers	66,530,662	66,530,662	–	–	–	–
Other creditors and accruals	17,414,151	17,414,151	–	–	–	–

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

Financial assets and liabilities up to 1 year maturity are current assets and current liabilities respectively.

Due to the nature of its business, the Company's net loss reserves and net reserve for unexpired risks are expected to be short-tail, but without contractual maturity date and likely to materialize within 7 years.

(d) ***Market risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to three types of market risks a) Foreign exchange risk b) Market price risk c) Market interest rates.

(i) ***Foreign exchange risk management***

The Company is exposed to the effects of foreign currency exchange rate fluctuations primarily because of its foreign currency denominated underwriting revenues (premiums) and expenses (claims). The currencies giving rise to this risk are primarily United States dollars (US$), British Pounds (GBP), Australian dollars (AUD), Thailand Baht (THB) and Malaysian ringgit (MYR). To mitigate this risk, the Company invests premiums received in US$, GBP, THB and MYR in the respective currency assets. The Company reviews periodically to ensure sufficient assets are maintained in the respective major currencies to meet the liabilities. The Company does not use derivative financial instruments to protect against volatility associated with foreign currency transactions and investments, and other financial assets and liabilities created in the ordinary course of business.

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) ***Market risk (cont'd)***

(i) ***Foreign exchange risk management (cont'd)***

The table below sets out financial assets, financial liabilities and policy liabilities, in the currencies in which they are denominated:

	HTM	AFS	Mortgage loans	Cash, bank balance and cash deposits	Amount due from policy holders, agents and reinsurers	Amount retained by ceding companies	Other debtors	Policy liabilities	Amount due to reinsurers	Other creditors & balance due to agents	Net currency exposure
2016											
Denominated currency											
S$	151,350,422	79,024,630	700,000	199,473,822	31,294,130	177,533	7,194,866	(93,764,742)	(57,560,685)	(10,187,640)	307,702,336
US$	102,502,615	18,333,384	-	102,041,989	28,551,062	12,112	2,518,109	(101,480,257)	(3,365,077)	(464,778)	148,649,159
GBP	-		-	318,662	117,885	-	6,508	(11,554)	184,087	8,821	624,409
AUD	-		-	-	(40,837)	-	-	(34,055)	(14,150)	(10)	(89,052)
THB	-	3,121,490	-	-	389,533	-	(4,144)	(802,428)	(18,105)	671	2,687,017
MYR	-	1,096,420	-	2,383,158	363,755	(6)	(59,651)	(612,935)	(107,694)	(7,487)	3,055,560
HKD	-	205,757	-	-	53,889	-	239,350	(9,734,867)	77,411	-	(9,158,460)
Others	-	264,270	-	-	11,369,945	69,833	(309,609)	(29,031,240)	(570,106)	(59,902)	(18,266,809)
	253,853,037	**102,045,951**	**700,000**	**304,217,631**	**72,099,362**	**259,472**	**9,585,429**	**(235,472,078)**	**(61,374,319)**	**(10,710,325)**	**435,204,160**

* - Amounts are reported in their Singapore Dollar equivalent

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) ***Market risk (cont'd)***

(i) ***Foreign exchange risk management (cont'd)***

The table below sets out financial assets, financial liabilities and policy liabilities, in the currencies in which they are denominated:

	HTM	AFS	Mortgage loans	Cash, bank balance and cash deposits	Amount due from policy holders, agents and reinsurers	Amount retained by ceding companies	Other debtors	Policy Liabilities	Amount due to reinsurers	Other creditors & balance due to agents	Net currency exposure
2015											
Denominated currency											
S$	155,924,415	81,365,504	700,000	200,556,238	37,912,559	177,633	7,207,774	(142,448,643)	(62,975,532)	(10,178,807)	268,241,141
US$	95,201,518	18,620,485	–	113,614,295	29,479,478	11,836	2,766,279	(83,285,575)	(2,842,618)	(3,158,876)	170,406,822
GBP	–	–	–	482,293	(44,609)	–	2,176	(3,737)	165,893	(3,402)	598,614
AUD	–	–	–	–	(7,612)	–	(10)	(45,666)	(20,018)	(469)	(73,775)
THB	–	3,332,710	–	–	146,950	–	–	(666,705)	(24,413)	185,010	2,973,552
MYR	–	1,166,032	–	2,389,384	528,610	(6)	27,938	(766,644)	(166,151)	(228,522)	2,950,641
HKD	–	191,196	–	–	350,181	–	256,999	(12,742,762)	138,700	(1,519,995)	(13,325,681)
Others	–	283,751	–	–	12,043,796	70,821	612,468	(21,132,184)	(806,523)	(2,773,963)	(11,701,834)
	251,125,933	104,959,678	700,000	317,042,210	80,409,353	260,284	10,873,624	(261,091,916)	(66,530,662)	(17,679,024)	420,069,480

* - Amounts are reported in their Singapore Dollar equivalent

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) ***Market risk (cont'd)***

(i) ***Foreign exchange risk management (cont'd)***

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency.

		2016		2015	
Currency	Change in variable	Impact on profit before tax	Impact on equity before tax*	Impact on profit before tax	Impact on equity before tax*
USD	3%	7,355,980	147,656	4,967,540	144,665
GBP	3%	19,079	–	17,958	–
AUD	3%	(1,650)	–	(2,213)	–
THB	3%	11,134	93,645	(10,775)	99,981
MYR	2%	51,442	21,928	35,692	23,321
HKD	3%	7,413	–	(405,506)	5,736
EUR	3%	–	–	(289,711)	–
USD	(3%)	(7,355,980)	(147,656)	(4,967,540)	(144,665)
GBP	(3%)	(19,079)	–	(17,958)	–
AUD	(3%)	1,650	–	2,213	–
THB	(3%)	(11,134)	(93,645	10,775	(99,981)
MYR	(2%)	(51,442)	(21,928)	(35,692)	(23,321)
HKD	(3%)	(7,413)	–	405,506	(5,736)
EUR	(3%)	–	–	289,711	–

*Excludes impact on profit before tax

(ii) *Price risk management*

The Company's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices. Strict investment guidelines are used to monitor the risks in the Company's investments.

The Company is exposed to equity price risk arising from its investment in quoted equity instruments. These instruments are quoted on the Singapore Exchange-Securities Trading Ltd (SGX-ST) in Singapore, Bursa Malaysia in Malaysia and are classified as available-for-sale financial assets. The Company does not have exposure to commodity price risk.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) ***Market risk (cont'd)***

(ii) *Price risk management (cont'd)*

Sensitivity analysis for equity price risk:

At the statement of financial position date if had been 10% higher/lower with all other variables held constant, the net equity would increase/decrease by approximately S$6,522,383 (2015 : S$6,680,302), arising as a result of an increase/decrease in the fair value of equity instruments classified as available-for-sale.

(iii) *Interest rate risk management*

The Company's earnings can be potentially affected by changes in market interest rates in view of the impact such fluctuations have on interest income from cash and cash equivalents, and other fixed income investments. In accordance with established investment guidelines, senior management regularly monitors the interest rate environment in order to assess and minimise risks to the Company's investment portfolio.

The Company's equities and debt securities portfolio is exposed to the volatility of these markets. To reduce its exposure to this risk, the Company spreads its investments across industries. The Company also selects companies and financial institutions with a sound financial track record to invest in. The Company has an investment committee to provide general overview of the investment policies of the Company and the senior management monitors actively the performance of the Company's investment portfolios on an ongoing basis.

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

4. RISK AND FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) ***Market risk (cont'd)***

(iii) *Interest rate risk management (cont'd)*

	Effective interest rate (per annum)	Within 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
		S$	S$	S$	S$	S$
2016						
Financial assets						
Held-to-maturity						
Debt securities	3.85%	30,322,776	56,970,761	67,290,178	99,269,322	253,853,037
Available-for-sale						
Debt securities						
- Listed	5.59%	–	–	–	32,223,468	32,223,468
- Unlisted	7.43%				1,478,834	1,478,834
Mortgage loan	3.30%	–	700,000	–	–	700,000
Cash, bank balances and cash deposits	1.00%-3.12%	304,217,631	–	–	–	304,217,631
2015						
Financial assets						
Held-to-maturity						
Debt securities	3.99%	57,453,790	40,126,006	63,056,834	90,489,303	251,125,933
Available-for-sale						
Debt securities						
- Listed	5.44%	–	–	–	30,637,162	30,637,162
- Unlisted	7.24%				4,426,442	4,426,442
Mortgage loan	4.05%	–	700,000	–	–	700,000
Cash, bank balances and cash deposits	1.10-3.13%	317,042,210	–	–	–	317,042,210

<u>Sensitivity analysis</u>

At the reporting date, if interest rates had been 50 basis points higher/lower with all other variables held constant, the Company's profit before tax would have been S$3,290,595 (2015: +/-S$3,019,659) higher/lower, arising as a result of higher/lower interest income.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

5. FAIR VALUE

Effective 1 January 2009, the Company adopted the amendment to FRS 107 which requires the disclosure of fair value measurement by level of the following hierarchy:

(a) Quoted price (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the assessment date. (Level 1)

(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. (Level 2)

(c) Unobservable inputs for the asset or liability. (Level 3)

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The available for sale investments are measured at fair value at 31 December 2016 and 2015 as follows:

2016	**Level 1** **S$**	**Level 2** **S$**	**Level 3** **S$**	**Total** **S$**
Financial assets				
Available for sale financial assets				
Equity shares				
Listed	63,406,661	–	–	63,406,661
Unit trusts	–	1,817,168	–	1,817,168
Debt securities				
Listed	32,223,468	–	–	32,223,468
Unlisted	–	1,478,834	–	1,478,834
Preference shares				
Listed	3,119,820	–	–	3,119,820

2015	**Level 1** **S$**	**Level 2** **S$**	**Level 3** **S$**	**Total** **S$**
Financial assets				
Available for sale financial assets				
Equity shares				
Listed	65,025,966	–	–	65,025,966
Unit trusts	–	1,777,058		1,777,058
Debt securities				
Listed	30,637,162	–	–	30,637,162
Unlisted	–	4,426,442		4,426,442
Preference shares				
Listed	3,093,050	–	–	3,093,050

5. FAIR VALUE (cont'd)

The fair values of listed equity shares, debt securities and preference shares are based on the quoted market bid prices at the reporting date due to existence of active market. These investments are included in Level 1.

The fair values of equity shares in unit trusts are based on published (unadjusted) prices at the reporting date. These investments are included in Level 2.

The fair values of unlisted debt securities are estimated based on the quotations obtained from independent pricing services (broker quotes/custodian quotes) due to the existence of active secondary and resale markets. These investments are included in Level 2.

In infrequent circumstances, where a valuation technique is based on significant unobservable input, such instruments are included in Level 3.

The net aggregate fair values of financial assets which are not carried at fair value in the statement of financial position as at 31 December are represented in the following table:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	S$	S$	S$	S$
Financial assets				
Held to maturity				
Listed debt securities	226,900,269	228,752,282	193,788,763	195,481,530
Unlisted debt securities*	23,305,768	23,290,240	53,477,580	54,095,329
Structured debt securities and others*	3,647,000	3,535,388	3,859,590	3,690,441
Total	253,853,037	255,577,910	251,125,933	253,267,300
Unrecognised gain		1,724,873		2,141,367

* *Unlisted debt securities are included under Level 2 and structured debt securities and others are included under Level 2.*

The fair value of structured debt securities and others are estimated based on quotes provided by independent brokers/custodians based on factors such as the underlying stock prices, market volatility and outstanding tenures of the instruments.

The carrying amounts of the other financial assets and liabilities that are not listed above approximate their fair values due to the relatively short term maturity of these financial instruments.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

6. RELATED PARTY DISCLOSURES

The following related party transactions took place between the Company and related parties during the financial year on terms agreed by the parties concerned:

Shareholders of the Company	2016 S$	2015 S$
Reinsurance premiums ceded	(28,143,602)	(28,689,436)
Reinsurance commission income	5,448,547	5,261,749
Premium reserve retained	(140,422)	(27)
Claims recoveries	23,248,673	31,992,606
Service division income	52,373	131,992

7. FIXED ASSETS

	Balance as at 1/1/16 S$	Additions S$	Disposals S$	Balance as at 31/12/16 S$
Cost				
Motor vehicles	186,073	259,888	(186,073)	259,888
Computers	1,175,574	154,301	(31,242)	1,298,633
Office equipment	225,124	2,480	–	227,604
Furniture and fittings	485,049	25,410	(3,544)	506,915
	2,071,820	442,079	(220,859)	2,293,040
Accumulated depreciation				
Motor vehicles	154,855	51,978	(154,855)	51,978
Computers	779,470	88,408	(31,242)	836,636
Office equipment	123,467	15,620	–	139,087
Furniture and fittings	337,956	18,568	(3,544)	352,980
	1,395,748	174,574	(189,641)	1,380,681
Net book value				
Motor vehicles	31,218			207,910
Computers	396,104			461,997
Office equipment	101,657			88,517
Furniture and fittings	147,093			153,935
	676,072			912,359

7. FIXED ASSETS (cont'd)

	Balance as at 1/1/15	Additions	Disposals	Balance as at 31/12/15
	S$	S$	S$	S$
Cost				
Motor vehicles	186,073	–	–	186,073
Computers	1,127,205	171,258	(122,889)	1,175,574
Office equipment	198,758	26,366	–	225,124
Furniture and fittings	482,979	2,768	(698)	485,049
	1,995,015	200,392	(123,587)	2,071,820
Accumulated depreciation				
Motor vehicles	147,050	7,805	–	154,855
Computers	787,118	115,241	(122,889)	779,470
Office equipment	105,528	17,939	–	123,467
Furniture and fittings	322,067	16,587	(698)	337,956
	1,361,763	157,572	(123,587)	1,395,748
Net book value				
Motor vehicles	39,023			31,218
Computers	340,087			396,104
Office equipment	93,230			101,657
Furniture and fittings	160,912			147,093
	633,252			676,072

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

8. FINANCIAL ASSETS

The Company's financial assets are summarised by measurement category below:

	2016	2015
	S$	S$
Held-to-maturity	253,853,037	251,125,933
Available-for-sale	102,045,951	104,959,678
Loans and receivables (including cash and cash equivalents)	386,861,894	409,285,471
Total financial assets	742,760,882	765,371,082

The assets included in each of the categories above are detailed in the tables below:

	2016	2015
	S$	S$
Held-to-maturity financial assets		
Debt securities		
- Listed	226,900,269	193,788,763
- Unlisted	23,305,768	53,477,580
- Structured debt securities and others	3,647,000	3,859,590
Total held-to-maturity financial assets	253,853,037	251,125,933

Held-to-maturity financial assets are carried at amortised cost using the effective interest method. The fair value of the held-to-maturity financial assets is S$255,577,910 (2015 : S$253,267,300).

	2016	2015
Available-for-sale financial assets	S$	S$
Equity securities		
- Listed	63,406,661	65,025,966
Unit trusts	1,817,168	1,777,058
	65,223,829	66,803,024
Debt securities		
- Listed	32,223,468	30,637,162
- Unlisted	1,478,834	4,426,442
	33,702,302	35,063,604
Preference shares		
- Listed	3,119,820	3,093,050
	3,119,820	3,093,050
Total available-for-sale financial assets	102,045,951	104,959,678

8. FINANCIAL ASSETS (cont'd)

Available-for-sale financial assets are reported at fair value, which are based on market prices as at statement of financial position date.

	2016	2015
	S$	S$
Mortgage loans	700,000	700,000

$700,000 of the secured loan remained the same as prior year and is receivable within 1 year. Interests are calculated with reference to the bank's prime lending rate.

Level 3 fair value measurement:

The fair value of the collaterals held on the mortgage loan is S$7,500,000 (2015 : S$7,500,000) which is determined by an independent valuer and is based on direct comparison method with transactions of comparable properties within the vicinity. In case of default by the borrower, the lender shall have a right to dispose of the collateral in order to recover the loan outstanding.

9. INVESTMENT PROPERTY

	2016	2015
	S$	S$
Location		
6 Raffles Quay, #22-01 to 07, Singapore		
At cost	9,619,025	9,619,025
Provision for depreciation	(742,552)	(701,335)
Total financial assets	8,876,473	8,917,690

Level 3 fair value measurement:

The fair value of the said property is estimated at S$24,000,000 (2015 : S$24,000,000), which is determined by an independent firm of professional valuers and based on direct comparison method, Collier's International Consultancy & Valuation, (Singapore) Pte Ltd. In estimating the fair value of the property, the highest and best use of the property is their current use. There has been no change to the valuation technique during the year. However, the investment is that reflects recent transaction prices for similar property stated at cost price after providing for the depreciation in accordance with the cost model of FRS 40 w.e.f. 1 January 2007.

10. BALANCES DUE FROM POLICYHOLDERS, AGENTS AND REINSURERS

	2016	2015
	S$	S$
Balances due from policyholders and agents	54,519,276	63,620,214
Balances due from reinsurers	22,327,585	22,177,500
Less: Allowance for impairment	(4,747,499)	(5,388,361)
	72,099,362	80,409,353

Balances due from policyholders, agents and reinsurers relate to a large number of diversified customers and therefore there is no significant concentration of credit risk. These balances are non-interest bearing and generally on a 60-90 days terms. The carrying amounts of these balances approximate their fair values.

Insurance receivables that are impaired

The Company's insurance receivables that are impaired at the end of the reporting period and the movement of allowances accounts used to record the impairment are as follows:

	2016	2015
	S$	S$
Insurance receivables – nominal amount	4,747,499	5,388,361
Less: Allowance for impairment	(4,747,499)	(5,388,361)
Net balance	–	–

	2016	2015
	S$	S$
Movement in allowance accounts:		
At 1 January	5,388,361	5,312,488
(Credit)/charge for the year	(640,862)	75,873
At 31 December	4,747,499	5,388,361

The amendments to FRS 32 clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also not be contingent on the future event and must be enforceable in the event of bankruptcy or insolvency of all the counterparties to the contracts. The Company currently offsets certain balances with the same counterparty as the Company has legal rights to set off the amounts and intends to settle on a net basis.

The Company has arrangements to settle the net amount due to or from, each counterparty on a 60-90 days term basis.

10. BALANCES DUE FROM POLICYHOLDERS, AGENTS AND REINSURERS (cont'd)

Amounts due from Policyholders, Agents and Reinsurers

	2016 S$'000 Gross carrying amounts	Gross amounts offset in the statement of financial position	Net amounts in the statement of financial position*
Description			
Balances due from policyholders, agents and reinsurers	80,931	(4,084)	76,847
Balances due to policyholders, agents and reinsurers	65,491	(4,084)	61,407
	2015 S$'000		
Description			
Balances due from policyholders, agents and reinsurers	255,284	(169,486)	85,798
Balances due to policyholders, agents and reinsurers	236,282	(169,486)	66,796

* Before allowance for impairment.

11. OTHER DEBTORS

	2016 S$	2015 S$
Accrued interest	4,878,110	4,625,508
Services division debtors	1,160,247	1,157,039
Others	3,658,562	5,255,823
Other debtors	9,696,919	11,038,370
Less: Provision for bad and doubtful accounts	(111,490)	(164,746)
Other debtors - net of provision	9,585,429	10,873,624

12. CASH AND BANK BALANCES, CASH ON DEPOSITS AND SHORT TERM INVESTMENTS

Included in the cash and bank balances are cash collaterals amounting to S$183,500 (2015: S$265,350) which pertain to cash held in trust for and on behalf of customers to whom performance bonds were issued.

The Company holds fixed deposits with financial institutions in Singapore dollar, United States dollar, Malaysian Ringgit and British Pound. The interest rate per annum ranges from 1.00%- 3.12% (2015: 1.05% - 3.08%).

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

13. OTHER CREDITORS AND ACCRUALS

	2016 S$	2015 S$
Services division creditors	6,643,239	6,643,239
Other creditors	3,753,375	10,697,305
Accrued expenses	313,711	73,607
Other creditors and accruals	10,710,325	17,414,151
Add:		
Balances due to agents	33,311	264,873
Balances due to reinsurers	61,374,319	66,530,662
Total financial liabilities carried at amortised cost	72,117,955	84,209,686

14. RESERVE FOR UNEXPIRED RISKS

	Fire S$	Marine S$	Misc S$	Total S$
2016				
Gross reserve in unexpired risks	11,560,856	33,236,265	23,848,525	68,645,646
Less: Gross deferred acquisition cost	(1,692,168)	(5,532,694)	(1,688,409)	(8,913,271)
	9,868,688	27,703,571	22,160,116	59,732,375
Reserve in unexpired risks on reinsurance ceded	(8,235,463)	1,513,524	(5,074,525)	(11,796,464)
Deferred acquisition cost on reinsurance ceded	2,017,370	293,427	748,093	3,058,890
	(6,218,093)	1,806,951	(4,326,432)	(8,737,574)
Net reserve in unexpired risks	3,325,393	34,749,789	18,774,000	56,849,182
Net deferred acquisition cost	325,202	(5,239,267)	(940,316)	(5,854,381)
	3,650,595	29,510,522	17,833,684	50,994,801
Movements in reserve for unexpired risks				
Balance as at 1 January 2016	3,677,477	32,389,053	19,623,244	55,689,774
Decrease in reserve for unexpired risks	(26,882)	(2,878,531)	(1,789,560)	(4,694,973)
Balance as at 31 December 2016	3,650,595	29,510,522	17,833,684	50,994,801

14. RESERVE FOR UNEXPIRED RISKS (cont'd)

	Fire	Marine	Misc	Total
	S$	S$	S$	S$
2015				
Gross reserve in unexpired risks	11,493,216	37,736,144	29,101,809	78,331,169
Less: Gross deferred acquisition cost	(1,543,977)	(6,616,463)	(2,724,455)	(10,884,895)
	9,949,239	31,119,681	26,377,354	67,446,274
Less:				
Reserve in unexpired risks on reinsurance ceded	(8,278,726)	956,435	(8,011,647)	(15,333,938)
Deferred acquisition cost on reinsurance ceded	2,006,964	312,937	1,257,537	3,577,438
	(6,271,762)	1,269,372	(6,754,110)	(11,756,500)
Net reserve in unexpired risks	3,214,490	38,692,579	21,090,162	62,997,231
Net deferred acquisition cost	462,987	(6,303,526)	(1,466,918)	(7,307,457)
	3,677,477	32,389,053	19,623,244	55,689,774
Movements in reserve for unexpired risks				
Balance as at 1 January 2015	2,968,997	33,768,704	26,220,713	62,958,414
Increase/(decrease) in reserve for unexpired risks	708,480	(1,379,651)	(6,597,469)	(7,268,640)
Balance as at 31 December 2015	3,677,477	32,389,053	19,623,244	55,689,774

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

15. LOSS RESERVES

	Fire S$	Marine S$	Misc S$	Total S$
2016				
Gross loss reserves	43,874,483	104,662,664	168,870,111	317,407,258
Reinsurance loss reserves	(34,035,444)	(28,054,611)	(70,839,926)	(132,929,981)
Net loss reserves	9,839,039	76,608,053	98,030,185	184,477,277
Movements in net loss reserves				
Balance at 1.1.2016	10,778,799	76,425,438	118,197,905	205,402,142
Less: Claims Paid	(18,744,975)	(71,659,305)	(60,080,215)	(150,484,495)
Add: Recoveries	14,675,339	16,402,824	22,552,726	53,630,889
	6,709,163	21,168,957	80,670,416	108,548,536
Incurred during the year	3,129,876	55,439,096	17,359,769	75,928,741
Balance at 31.12.2016	9,839,039	76,608,053	98,030,185	184,477,277
Net change in loss reserves	(939,760)	182,615	(20,167,720)	(20,924,865)
2015				
Gross loss reserves	50,728,390	112,050,901	178,937,204	341,716,495
Reinsurance loss reserves	(39,949,591)	(35,625,463)	(60,739,299)	(136,314,353)
Net loss reserves	10,778,799	76,425,438	118,197,905	205,402,142
Movements in net loss reserves				
Balance at 1.1.2015	8,873,799	71,273,351	138,137,277	218,284,427
Less: Claims Paid	(32,810,728)	(75,563,539)	(67,614,940)	(175,989,207)
Add: Recoveries	30,456,152	17,876,278	22,605,406	70,937,836
	6,519,223	13,586,090	93,127,743	113,233,056
Incurred during the year	4,259,576	62,839,348	25,070,162	92,169,086
Balance at 31.12.2015	10,778,799	76,425,438	118,197,905	205,402,142
Net change in loss reserves	1,905,000	5,152,087	(19,939,372)	(12,882,285)

The financial statements as at 31 December 2016 have included the effects of adjustments arising from the actuarial report prepared according to Section 37 of the Insurance Act, Cap 142 for the year then ended.

For the financial year ended December 31, 2016

15. LOSS RESERVES (cont'd)

Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net of reinsurance basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive accident and underwriting year at each reporting date, together with cumulative claims as at the current reporting date.

Development of gross of reinsurance cumulative claims - (in S$)

All Direct & Facultative Lines
As of 31 December 2016

Accident Year / Underwriting Year [1]	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims									
At the end of accident year/ underwriting year	132,622,883	148,832,475	141,942,044	160,525,129	165,815,032	127,440,618	128,852,839	195,722,955	
-one year later	135,683,493	141,572,589	167,279,621	187,774,900	188,407,253	159,151,427	218,953,597	–	
-two years later	135,221,558	142,904,759	168,733,115	184,515,512	190,698,374	208,318,022	–	–	
-three years later	137,608,138	136,639,158	159,508,643	181,312,802	177,632,660	–	–	–	
-four years later	136,767,036	129,635,475	154,776,666	130,718,693	–	–	–	–	
-five years later	130,432,726	126,263,918	131,521,748	–	–	–	–	–	
-six years later	127,552,814	86,192,807	–	–	–	–	–	–	
-seven years later	33,430,651	–	–	–	–	–	–	–	
Current estimate of ultimate claims	33,430,651	86,192,807	131,521,748	130,718,693	177,632,660	208,318,022	218,953,597	195,722,955	1,182,491,133
Cumulative payments	28,411,240	76,365,261	123,736,456	115,078,396	146,417,273	159,276,511	162,373,972	112,653,386	924,312,495
Gross outstanding claims liabilities	5,019,411	9,827,546	7,785,292	15,640,297	31,215,387	49,041,511	56,579,625	83,069,569	258,178,638
Best estimate of claims liabilities including claims handling expenses	5,158,489	10,096,564	8,071,758	16,199,078	32,189,073	50,632,775	58,220,168	85,554,002	266,121,907

For the financial year ended December 31, 2016

15. LOSS RESERVES (cont'd)

Development of gross of reinsurance cumulative claims - (in S$) (cont'd)

All Treaty Lines
As of 31 December 2016

Underwriting Year	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims									
At the end of underwriting year	263,692	-	–	96,554	-	–	–	–	
-one year later	287,461	-	–	958,685	-	–	–	–	
-two years later	353,226	-	–	958,685	-	–	–	–	
-three years later	348,004	-	–	-	-	–	–	–	
-four years later	348,004	-	–	958,685	-	–	–	–	
-five years later	379,536	-	–	-	-	–	–	–	
-six years later	379,536	-	–	-	-	–	–	–	
-seven years later	379,536	-	–	-	-	–	–	–	
						–	–	–	
Current estimate of ultimate claims	379,536	-	–	958,685	-	–	–	–	1,338,221
Cumulative payments	377,728	-	–	958,685	-	–	–	–	1,336,413
Gross outstanding claims liabilities	1,808	-	–	-	–	–	–	–	1,808
Best estimate of claims liabilities including claims handling expenses and net of unearned	1,844	-	–	-	–	–	–	–	1,844

Total All lines (Direct & Facultative, Treaty)

Best estimate of claims liabilities including claims handling expenses and net of unearned	266,123,751
Best estimate of claims liabilities in respect of 2006 and prior years	18,257,012
Total best estimate of claims liabilities	284,380,763
Provision for adverse deviation	33,026,495
Total outstanding claims liabilities as per actuarial report	**317,407,258**

Notes: (1) Cargo and Hull Direct & Facultative were previously analysed on an underwriting year basis. However, we understand that MAS has requested the Company to report losses on an accident year basis for these lines of business. The Company have thus changed the valuation basis to fulfil this requirement.
(2) Cumulative claim amounts at the end of the accident/underwriting year for all direct and facultative lines have been restated to reflect the estimated ultimate claims including the unearned amount as at the valuation date, for accident year / underwriting year 2009 and 2010.

For the financial year ended December 31, 2016

15. LOSS RESERVES (cont'd)

Development of gross of reinsurance cumulative claims - (in S$) (cont'd)

Total All Direct & Facultative Lines
As of 31 December 2016

Accident Year / Underwriting Year [1]	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims									
At the end of accident year / underwriting year	62,575,469	70,333,230	76,959,380	78,813,468	102,146,169	107,734,924	109,594,304	91,794,054	
-one year later	64,176,342	61,497,738	68,531,682	74,488,128	106,430,061	105,602,643	104,909,504	–	
-two years later	60,682,056	60,661,398	66,342,322	70,909,010	101,610,604	104,367,718	–	–	
-three years later	58,075,766	56,665,477	62,202,005	70,374,576	100,347,882	–	–	–	
-four years later	56,458,665	54,027,839	62,206,151	68,111,246	–	–	–	–	
-five years later	55,845,758	53,446,802	61,341,924	–	–	–	–	–	
-six years later	55,068,867	53,231,989	–	–	–	–	–	–	
-seven years later	55,534,967	–	–	–	–	–	–	–	
Current estimate of ultimate claims	55,534,967	53,231,989	61,341,924	68,111,246	100,347,882	104,367,718	104,909,504	91,794,054	639,639,284
Cumulative payments	53,574,692	50,500,455	57,938,687	62,317,297	90,898,533	81,403,086	71,228,258	27,119,434	494,980,442
Net outstanding claims liabilities	1,960,275	2,731,534	3,403,237	5,793,949	9,449,349	22,964,632	33,681,246	64,674,620	144,658,842
Best estimate of claims liabilities including claims handling expenses	2,099,353	3,000,552	3,689,703	6,352,730	10,423,036	24,555,896	35,321,788	67,159,052	152,602,110

For the financial year ended December 31, 2016

15. LOSS RESERVES (cont'd)

Development of gross of reinsurance cumulative claims - (in S$) (cont'd)

All Treaty Lines (S$)
As of 31 December 2016

Underwriting Year	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims									
At the end of underwriting year	263,692	-	–	–	–	–	–	–	
-one year later	288,213	-	–	–	–	–	–	–	
-two years later	360,288	-	–	–	–	–	–	–	
-three years later	348,196	-	–	–	–	–	–	–	
-four years later	348,004	-	–	–	–	–	–	–	
-five years later	379,536	-	–	–	–	–	–	–	
-six years later	379,536	-	–	–	–	–	–	–	
-seven years later	379,536	-	–	–	–	–	–	–	
					–	–	–	–	
Current estimate of ultimate claims	379,536	-	–	–	–	–	–	–	379,536
Cumulative payments	377,728	-	–	–	–	–	–	–	377,728
			–	–	–	–	–	–	
Net outstanding claims liabilities	1,808	-	–	–	–	–	–	–	1,808
Best estimate of claims liabilities including claims handling expenses and net of unearned	1,844	-	–	–	–	–	–	–	1,844

Total All lines (Direct & Facultative, Treaty)

Best estimate of claims liabilities including claims handling expenses and net of unearned	152,603,954
Best estimate of claims liabilities in respect of 2006 and prior years	12,818,948
Total best estimate of claims liabilities	165,422,902
Provision for adverse deviation	19,054,375
Total outstanding claims liabilities as per actuarial report and included in the statement of financial position	**184,477,277**

Notes: (1) Cargo and Hull Direct & Facultative were previously analysed on an underwriting year basis. However, we understand that MAS has requested the Company to report losses on an accident year basis for these lines of business. We have thus changed the valuation basis to fulfil this requirement.
(2) Cumulative claim amounts at the end of the accident/underwriting year for all direct and facultative lines have been restated to reflect the estimated ultimate claims including the unearned amount as at the valuation date, for accident year / underwriting year 2009 and 2010.

16. SHARE CAPITAL

	2016	2015
	S$	S$
Issued and fully paid	50,000,000	50,000,000

In accordance with the Companies (Amendment) Act 2005, 30 January 2006, the shares of the Company ceased to have a par value. The holders of the ordinary shares are entitled to receive dividends as and when declared by the Company.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support the business and maximise shareholder value. Capital includes equity attributable to the owners of the Company less the fair value adjustment reserves. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend pay-outs to shareholders. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

The Company is subject to minimum capital requirements under the Insurance Act. To determine its capital for regulatory purposes, the Company makes certain adjustments to the carrying values of its assets and liabilities. The regulatory capital requirement is determined by the application of statutory formulae to the Company's business information. Throughout the financial years 2016 and 2015, the Company complied fully with these capital requirements.

17. NET COMMISSION – EXPENSE/(INCOME)

	Fire	Marine	Misc	Total
	S$	S$	S$	S$
2016				
Gross commission expense	4,108,142	11,807,974	7,373,143	23,289,259
Less: Reinsurance commission income	(6,036,210)	(1,491,333)	(3,982,045)	(11,509,588)
	(1,928,068)	10,316,641	3,391,098	11,779,671
2015				
Gross commission expense	3,615,556	13,809,487	8,549,540	25,974,583
Less: Reinsurance commission income	(4,436,432)	(1,640,300)	(4,402,078)	(10,478,810)
	(820,876)	12,169,187	4,147,462	15,495,773

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

18. MANAGEMENT EXPENSES

	2016	2015
	S$	S$
Management expenses include:		
Compensation of key management personnel		
Short-term employee benefits	1,189,652	1,035,756
Contribution to CPF	69,671	46,752
Directors' fees	104,344	96,164
Other long-term benefits	24,768	8,196
Total (Management Personnel)	1,388,435	1,186,868
Salaries, bonuses and other allowances (Other staff)	5,266,656	4,773,191
Contribution to CPF (Other staff)	729,214	628,663
Total (Other staff)	5,995,870	5,401,854
Depreciation	174,574	157,572
Operating lease expense	1,170,509	1,170,509

19. INVESTMENT AND INTEREST INCOME

	2016	2015
	S$	S$
Interest income from:		
Held-to-maturity financial assets		
Debt securities listed	8,634,362	8,250,833
Debt securities unlisted	961,853	1,313,069
Total	9,596,215	9,563,902
Available-for-sale financial assets		
Listed debt securities	1,766,184	1,442,357
Unlisted debt securities	99,792	304,268
Total	1,865,976	1,746,625
Loans and receivables		
Mortgage loans	23,071	70,906
Fixed deposits and cash at bank	4,204,459	3,964,445
Total	4,227,530	4,035,351
Net rental income	634,605	638,900

19. INVESTMENT AND INTEREST INCOME (cont'd)

	2016	2015
	S$	S$
Dividend income and security lending fee from:		
Available-for-sale financial assets		
Equity securities		
- listed	2,424,280	3,064,250
Preference shares		
- listed	128,243	188,160
	2,552,523	3,252,410
Total investment and interest income	18,876,849	19,237,188

20. OTHER (EXPENSE)/INCOME

	2016	2015
	S$	S$
Services division income	111,670	195,887
Sundry credit balances (provision) write back	(625,445)	1,570,602
Miscellaneous income	298,605	296,199
	(215,170)	2,062,688

21. TAXATION

The major components of income tax expense for the years ended 31 December are:

	2016	2015
	S$	S$
Current	4,187,600	5,444,500
Deferred	31,600	6,700
Current year tax expense	4,219,200	5,451,200
Under provision in respect of previous year		
- Current	1,120	631
	4,220,320	5,451,831

A reconciliation between the tax provided for the current year and the tax on the pre-tax profits based on the normal corporate tax rate of 17% (2015 : 17%) is as follows:

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

21. TAXATION (cont'd)

	2016	2015
	S$	S$
Profit before tax	28,175,996	37,050,889
Tax expense on profit before tax at 17% (2015 : 17%)	4,789,919	6,298,651
Adjustments:		
Permanent differences/expenses not deductible for tax purposes	63,283	61,103
Difference in tax due to lower tax rate applicable on certain income	(248,689)	(296,827)
Exempt dividends	(371,099)	(490,238)
Under provision in respect of previous year	1,120	631
Others	(14,214)	(121,489)
	4,220,320	5,451,831

The deferred tax liability is as a result of:

	2016	2015
	S$	S$
Deferred tax liability		
Difference in depreciation	124,600	93,000
Deferred income tax related to other comprehensive income		
Net change in fair value adjustment reserve for available-for-sale financial assets	2,473,942	2,871,307
	2,598,542	2,964,307

The movements in tax payables and deferred tax liability are as follows:

	2016	2015
	S$	S$
Current tax payables		
Tax payables as at 1 January	5,562,337	6,477,214
Amounts charged to profit or loss	4,187,600	5,444,500
Tax paid during the year	(5,374,709)	(6,360,008)
Additional/(reversal of excess) provision for prior years	1,120	631
Tax payables as at 31 December	4,376,348	5,562,337

NOTES TO FINANCIAL STATEMENTS

For the financial year ended December 31, 2016

21. TAXATION (cont'd)

	2016	2015
	S$	S$
Deferred tax liability		
Deferred tax liability as at 1 January	2,964,307	4,279,404
Amounts charged to the profit or loss	31,600	6,700
Net change in fair value adjustment reserve for available-for-sale financial assets	(397,365)	(1,321,797)
Provision for deferred taxation as at 31 December	2,598,542	2,964,307

22. DIVIDENDS

	2016	2015
	S$	S$
First and final dividend of 10.0 cents per share based on 2015 results (2015 : 7.5 cents per share based on 2014 results)	5,000,000	3,750,000

23. FAIR VALUE ADJUSTMENT RESERVE

Fair value adjustment reserve consists of cumulative fair value changes of available-for-sale investments, net of deferred income tax, until they are derecognised or impaired.

	2016	2015
	S$	S$
Balance as at 1 January	15,654,691	22,324,561
Net change in the reserve, net of tax	(2,183,700)	(9,028,986)
Net impairment loss/recognised on investments	49,876	2,359,116
Balance as at 31 December	13,520,867	15,654,691
Net change in the reserve arises from:		
- Net loss on fair value changes during the financial year, net of tax	(1,400,906)	(8,502,327)
- Recognised in the profit or loss on disposal of investments, net of tax	(782,794)	(526,659)
Balance as at 31 December	(2,183,700)	(9,028,986)

24. OPERATING LEASE COMMITMENTS

As a Lessee:

Operating lease payments represent rentals payable by the company for its office properties. Leases are negotiated for an average term of 2 years (2015: 3 years) and rentals are fixed for an average of 2 years (2015: 3 years). The minimum lease payments are:

	2016	2015
	S$	S$
Within one year	1,200,830	1,170,509
After one year but not more than three years	1,200,830	–
	2,401,660	1,170,509

As a Lessor:

The Company has a rental operating lease agreement for its property at 6, Raffles Quay. The minimum lease payments receivable are:

	2016	2015
	S$	S$
Within one year	704,978	432,508
After one year but not more than three years	2,849,288	–
After fifth year	418,328	–
	3,972,594	432,508