Great American Insurance Company
(Incorporated in United States)
Singapore Branch
Company Registration No. T15FC0029B

Annual Financial Statements
31 December 2016

Great American Insurance Company
(Incorporated in the United States of America)
Singapore Branch

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(Incorporated in the United States of America)
Singapore Branch

Statement by Chief Executive

For the financial year ended 31 December 2016

In my opinion, the accompanying statement of comprehensive income, statement of financial position, statement of changes in head office account and statement of cash flows together with notes thereto of the Singapore Branch of Great American Insurance Company (the "Branch") are properly drawn up so as to give a true and fair view of the assets used in, and liabilities arising out of, the Branch's operations in Singapore as at 31 December 2016, and of the results of the Branch's operations in Singapore, changes in head office account and cash flows from such operations for the financial year then ended.

Chee Keng Koon
Chief Executive

Singapore
10 March 2017

Independent Auditor's Report

For the financial year ended 31 December 2016
To the member of Great American Insurance Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Singapore Operations of Great American Insurance Company (the "Branch"), pursuant to section 373 of the Singapore Companies Act, Cap. 50 (the "Act"). These financial statements comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in head office account and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

The Branch is a segment of Great American Insurance Company and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded therein.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Act and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the assets used in, and liabilities arising out of, the Branch's operations in Singapore as at 31 December 2016, and of the results, changes in head office account and cash flows of the Branch's operations in Singapore for the financial year ended on that date.

Basis for Opinion

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

Other Information

Management is responsible for other information. The other information comprises the Statement by Chief Executive included in page 1, but does not include the financial statements and our auditor's report thereon.

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

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

Independent Auditor's Report

For the financial year ended 31 December 2016
To the member of Great American Insurance Company

Responsibilities of Management and Directors for the Financial Statements

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

In preparing the financial statements, the Branch's management is responsible for assessing the Branch'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 the Branch's management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Branch's management.

Independent Auditor's Report

For the financial year ended 31 December 2016
To the member of Great American Insurance Company

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- Conclude on the appropriateness of the Branch's 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 Branch'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 Branch to cease to continue as a going concern.

- 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 Branch's management 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 examined by us relating to the Branch's operations in Singapore have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

10 March 2017

Great American Insurance Company
(Incorporated in the United States of America)
Singapore Branch

Statement of Comprehensive Income

For the financial year ended 31 December 2016

	Notes	2016 S$'000	11 March 2015 (date of registration) to 31 December 2015 S$'000
Gross written premiums		50,359	14,857
Outward reinsurance premiums		(9,815)	(5,352)
Net written premiums		40,544	9,505
Movement in net reserves for unexpired risks	6	(14,108)	(6,894)
Net earned premiums		**26,436**	**2,611**
Gross claims paid	5	(5,599)	(155)
Reinsurance claims recoveries	5	349	61
Net claims paid		(5,250)	(94)
Movement in net loss reserves	5	(14,812)	(1,962)
Net claims incurred		**(20,062)**	**(2,056)**
Commission expense		(8,853)	(2,224)
Commission income		692	238
Net commission expense		(8,161)	(1,986)
Movement in net deferred acquisition costs	7	2,768	1,405
Net incurred commission expense		**(5,393)**	**(581)**
Net underwriting profit/(loss)		**981**	**(26)**
Staff costs	14	(6,687)	(3,115)
Depreciation expense	4	(981)	(423)
Gain on foreign exchange		1,170	40
Other operating expenses	15	(4,208)	(2,499)
Operating and other expenses		**(10,706)**	**(5,997)**
Interest income on deposits		**76**	–
Other income	17	**42**	–
Loss before tax		**(9,607)**	**(6,023)**
Income tax expense	16	–	–
Loss for the financial year/period		**(9,607)**	**(6,023)**
Other comprehensive income for the financial year/period, net of tax		–	–
Total comprehensive loss for the financial year/period		**(9,607)**	**(6,023)**

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

Statement of Financial Position

As at 31 December 2016

	Notes	2016 S$'000	2015 S$'000
Assets			
Plant and equipment	4	3,683	4,210
Reinsurers' share of loss reserves	5	4,419	379
Reinsurers' share of reserves for unexpired risks	6	5,521	3,720
Deferred acquisition costs	7	4,561	1,579
Other receivables	8	816	548
Insurance receivables	9	21,922	9,822
Cash and cash equivalents	10	42,740	14,138
Total assets		**83,662**	**34,396**
Liabilities			
Loss reserves	5	21,193	2,341
Reserves for unexpired risks	6	26,523	10,614
Deferred acquisition costs from reinsurers	7	388	174
Amounts due to head office	18	–	3,269
Other creditors and accruals	11	2,622	1,796
Insurance payables	12	3,566	2,225
Total liabilities		**54,292**	**20,419**
Net assets		**29,370**	**13,977**
Head office account			
Head office contribution	13	45,000	20,000
Accumulated losses		(15,630)	(6,023)
Total head office account		**29,370**	**13,977**

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

Statement of Changes in Head Office Account

For the financial year ended 31 December 2016

	Head office contribution S$'000	Accumulated losses S$'000	Total head office account S$'000
Balance at 11 March 2015 (date of registration)	–	–	–
Fund contribution from head office	20,000	–	20,000
Total comprehensive loss for the financial period			
- Loss for the financial period, net of tax	–	(6,023)	(6,023)
Balance at 31 December 2015 and 1 January 2016	20,000	(6,023)	13,977
Fund contribution from head office	25,000	–	25,000
Total comprehensive loss for the financial year			
- Loss for the financial year, net of tax	–	(9,607)	(9,607)
Balance at 31 December 2016	45,000	(15,630)	29,370

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

Statement of Cash Flows
For the financial year ended 31 December 2016

	Notes	2016	11 March 2015 (date of registration) to 31 December 2015
		S$'000	S$'000
Operating activities			
Loss before tax		(9,607)	(6,023)
Adjustments for:			
Depreciation expense	4	981	423
Allowance for impairment of insurance receivables		95	–
Increase in gross reserves for unexpired risks		15,909	10,614
Increase in gross deferred acquisition costs		(2,982)	(1,579)
Increase in gross loss reserves		18,852	2,341
Increase in reinsurers' share of reserves for unexpired risks		(1,801)	(3,720)
Increase in reinsurers' share of deferred acquisition costs		214	174
Increase in reinsurers' share of loss reserves		(4,040)	(379)
Interest income		(76)	–
Operating cash flows before working capital changes		**17,545**	**1,851**
Increase in insurance receivables		(12,195)	(9,822)
Increase in other receivables		(267)	(548)
Increase in insurance payables		1,341	2,225
Increase in other creditors and accruals		826	1,796
Total changes in working capital		(10,295)	(6,349)
Net cash flows from/(used) in operating activities		**7,250**	**(4,498)**
Investing activities			
Purchase of plant and equipment	4	(454)	(4,633)
Interest received		75	–
Cash flows used in investing activities		**(379)**	**(4,633)**
Financing activities			
Capital contribution from head office	13	25,000	20,000
(Decrease)/increase in amounts due to head office		(3,269)	3,269
Cash flows from financing activities		**21,731**	**23,269**
Net increase in cash and cash equivalents		28,602	14,138
Cash and cash equivalents at beginning of financial year/period		14,138	–
Cash and cash equivalents at end of financial year/period	10	**42,740**	**14,138**

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

1. Corporate information

Great American Insurance Company, Singapore Branch ("the Branch") is a branch of Great American Insurance Company, incorporated in Ohio, United States. The Branch was registered under the Companies Act, Cap. 50, on 11 March 2015 and a license to carry on general insurance business in Singapore was granted by the Monetary Authority of Singapore ("MAS") on 15 May 2015.

The Branch is engaged principally in the underwriting of general and reinsurance insurance business. There were no significant changes in the nature of the principal activity during the financial year.

The registered office of the Branch is at 3 Temasek Avenue, #16-01, Centennial Tower, Singapore 039190.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

These financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") and Section 373 of the Singapore Companies Act, Cap. 50. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies are consistently applied in the financial statements.

The financial statements are prepared on a historical cost basis, except as disclosed in the accounting policies below.

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

The financial statements are presented in Singapore Dollars and rounded to the nearest thousands (S$'000) except when otherwise indicated.

2.2 *Changes in accounting policies*

The accounting policies used by the Branch are applied consistently in these financial statements. In the current financial year, the Branch has adopted all the new and revised standards that are effective for annual periods beginning on or after 1 January 2016. The adoption of these standards did not have any effect on the financial performance or position of the Branch.

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

2.3 *Standards issued but not yet effective*

The Branch has not adopted the following relevant standards that are issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to FRS 7 Disclosure Initiative	1 January 2017
Amendments to FRS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
FRS 109 Financial Instruments	1 January 2018
Amendments to FRS 104 Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts	1 January 2018
FRS 116 Leases	1 January 2019

Except for FRS 109, Amendments to FRS 104 and FRS 116, management expects that the adoption of the standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 109, Amendments to FRS 104 and FRS 116 are described below:

<u>FRS 109 *Financial Instruments*</u>

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.

(a) *Classification and measurement*

The Branch intends to measure its loans and receivables at amortised cost when it applies FRS 109. The Branch does not hold either held-to-maturity debt instruments, available-for-sale securities or held-for-trading equity securities at the end of the reporting period. The Branch does not expect any significant impact to arise from these changes.

(b) *Impairment*

FRS 109 requires the Branch to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Upon application of the expected credit loss model, the Branch expects a higher loss allowance resulting in a negative impact on equity but it will need to perform a more detailed assessment in the future to determine the extent of impact.

The Branch plans to defer the application of FRS 109 until 1 January 2021 by applying the temporary exemption from applying FRS 109 as introduced by the Amendments to FRS 104 Insurance Contracts.

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

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

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

The amendments introduce two alternative options for entities issuing contracts within the scope of FRS 104, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of FRS 109 for annual periods beginning before 1 January 2021 at the latest.

An entity may apply the temporary exemption from FRS 109 if: (i) it has not previously applied any version of FRS 109 and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying FRS 109 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied FRS 39 to these designated financial assets.

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

During 2016, the Branch performed an assessment of the amendments and reached the conclusion that its activities are predominantly insurance related as at 31 December 2016. As such, the Branch will apply the temporary exemption in its reporting period starting on 1 January 2018.

FRS 116 *Leases*

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees - leases of 'low value' assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Branch is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date.

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

2.4 *Plant and equipment*

(a) *Measurement*

All items of plant and equipment are initially recorded at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure relating to plant and equipment that has already been recognised is added to the carrying amount of the assets only when it is probable that future economic benefits associated with the item will flow to the Branch and the costs of the item can be reliably measured. All other repairs and maintenance expenses are recognised in profit and loss when incurred.

The cost of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

(b) *Depreciation*

Depreciation is calculated using the straight-line basis over the estimated useful life as follows:

Furniture and Fittings	-	5 years
IT Equipment (Computer Hardware)	-	3 years
IT Equipment (Server Hardware)	-	5 years
IT Equipment (Software)	-	5 years
Office Equipment	-	5 years
Motor Vehicles	-	5 years

The residual values, estimated useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of plant and equipment.

(c) *Disposal*

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

2 Summary of significant accounting policies (cont'd)

2.5 *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or whenever there is any evidence or indication that these assets may be impaired.

An impairment loss for an asset is reversed if, and only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at a revalued amount, in which case, such reversal is treated as a revaluation increase. An impairment loss is recognised in profit or loss in the period in which it arises.

2.6 *Financial assets*

Classification

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, depending on the purpose for which the assets are acquired.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

(b) Financial assets, available-for-sale

Financial assets, available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as current assets unless the investment matures or there is intention to dispose these assets more than 12 months after the reporting date.

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

2.6 *Financial assets (cont'd)*

Recognition and derecognition

Financial assets are recognised when, and only when, the Branch becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value. In the case of financial assets not at fair value through profit or loss, it will be directly attributable to the transaction costs. The Branch determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

All regular way purchases and sales of financial assets are recognised on the trade date (i.e. the date on which the Branch commits to purchase or sell the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place concerned.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Branch has also transferred substantially all risks and rewards of ownership.

Impairment of financial assets

The Branch assesses at each reporting date whether there is evidence that a financial asset or a group of financial assets is impaired and recognizes for impairment when such evidence arises.

Assets carried at amortised cost

If there is evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss will be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred), discounted at the financial asset's original effective interest rate/yield. The carrying amount of the asset will then be reduced and the loss will be recorded in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be identified objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss will be reversed. Any subsequent reversal of an impairment loss will be recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

2.7 *Insurance classification*

The Branch issues contracts that transfer significant insurance risk. An insurance contract is a contract under which the Branch (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Branch determines whether it has significant insurance risk by comparing benefits paid with benefits payable, if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remaining of its life-span, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

2.8 *Reinsurance*

The Branch cedes and assumes insurance and reinsurance risks in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Reinsurance liabilities represent balances due to reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policies and in accordance with the related reinsurance contracts. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Ceded reinsurance arrangements do not relieve the Branch from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

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

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

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

2.9 *General insurance underwriting results*

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

(a) *Gross premiums*

Gross premiums are recognised as income at the commencement date of the risk.

These premiums are recognised as revenue (earned premium) proportionally over the period of coverage. The portion of premiums received on in-force policies that relates to unexpired risks at the balance sheet date is reported as the reserves for unexpired risks.

(b) *Reinsurance premiums*

Inward reinsurance is recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance is accounted for in the same financial year as the original policy to which the reinsurance relates.

(c) *Unearned premium reserves*

Unearned premium reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies, treaties and facultative acceptances in force, and will be earned over the remaining terms of the policies, treaties and facultative acceptances. The unearned premium reserves are calculated on the 1/365th method.

(d) *Claims and claims related expenses*

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of outstanding claims is the best estimate of the expenditure required together with related claims expenses less recoveries to settle the present obligation at the reporting date.

Provision is made for the estimated cost of all claims incurred but not settled at the reporting date 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 the reporting date as required under the Insurance Act.

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

2.9 *General insurance underwriting results (cont'd)*

(e) *Acquisition costs and deferred acquisition costs ("DAC")*

Commission and other acquisition costs that are related to securing new insurance contracts and renewing existing contracts are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income or expenses.

Acquisition costs are deferred to the extent that the costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised based on the earnings profile over the term of expected future premiums. Amortisation is recognised in profit or loss.

2.10 *Receivables and payables related to insurance contracts*

Receivables and payables are recognised when due and they are measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance and other receivables are measured at amortised cost. It includes amounts due to and from agents, brokers and insurance contract holders.

2.11 *Insurance contract liabilities*

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise outstanding claims provision and provision for unearned premiums.

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Notification and settlement of certain types of claims can be delayed due to different circumstances, therefore, the ultimate cost of these claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using the standard actuarial claim projection techniques based on empirical data and current assumptions, this may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

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

2.11 *Insurance contract liabilities (cont'd)*

The provision for unearned premiums represents premiums received for risks that have not yet expired. The unearned premium reserves for all classes of business are calculated using the 1/365th method based on gross written premium less premiums on reinsurance. Premium deficiency reserves are derived using actuarial methods on the Branch's loss statistics. Generally, the reserve is released over the term of the insurance contract and is recognised as earned premium.

Liability adequacy test

At each reporting date, the Branch reviews its unexpired risks and a liability adequacy test is performed to determine if there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) taking into account loss adjustors' expense, if applicable. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in the profit or loss through the provision for liability adequacy.

2.12 *Provisions for other liabilities and charges*

Provisions for other liabilities and charges are recognised when the Branch has a present obligation 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 of the amount can be made. Provisions are reviewed at each reporting date and will be adjusted to reflect the current best estimate.

2.13 *Employee benefits*

(a) *Short-term benefits*

Wages, salaries, bonuses and Central Provident Fund ("CPF") contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees which increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(b) *Defined contribution plans*

As required by law, the Branch makes contributions to the CPF scheme in Singapore, a defined contribution pension scheme. CPF contributions are recognised as compensation expense in the same period as the employment that gives rise to the contributions.

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

2.14 *Currency translation*

The financial statements are presented in Singapore Dollars and rounded to the nearest thousands (S$'000). Singapore Dollar is also the functional currency of the Branch.

Transactions in foreign currencies are initially recorded in the functional currency at exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting date. All differences are taken to the profit or loss.

Non-monetary items in foreign currency measured in historical cost are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the profit or loss, except for differences relating to items where gains or losses are recognised directly in equity. The gain or loss is recognised net of the exchange component in equity.

2.15 *Cash and cash equivalents*

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank, short-term deposits and cash in hand.

2.16 *Operating leases*

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

2.17 *Taxation*

Current tax

Current tax assets and liabilities for the current period are recognised at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that are enacted or substantively enacted by the balance sheet date.

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

2.18 *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 Branch if that person:
- (i) Has control or joint control over the Branch;
- (ii) Has significant influence over the Branch; or
- (iii) Is a member of the key management personnel of the Branch or of a parent of the head office of the Branch.

(b) An entity is related to the Branch if any of the following conditions applies:
- (i) The entity and the Branch 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 Branch or an entity related to the Branch;
- (vi) The entity is controlled or jointly controlled by a person identified in (a); or
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting estimates, assumptions and judgements

The preparation of the Branch's financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

3.1 *Critical judgements made in applying accounting policies*

There are no critical judgements made by the management in the process of applying the Branch's accounting policies that has significant effect on the amount recognised in the financial statements, apart from those involving estimations and assumptions of the insurance contract liabilities, which have the most significant effect on the amounts recognised in the financial statements.

3.2 *Key sources of estimation uncertainty and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) *Impairment of insurance receivables and reinsurance assets*

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

Where there is objective evidence of impairment, the amount and timing of future cash flows will be estimated on historical loss experience for assets with similar credit risk characteristics. As at 31 December 2016, allowance for impairment loss recognised for insurance receivables amounted to S$101,000 (2015: S$Nil). There was no impairment loss recognised for reinsurance assets for the financial years ended 31 December 2016 and 2015.

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

3.2 *Key sources of estimation uncertainty and assumptions (cont'd)*

(b) *Valuation of general insurance contract liabilities*

The principal uncertainty in the Branch's financial statements primarily arises in the technical provisions, which include the provisions of premium and claim liabilities. The premium liabilities comprise provision for unexpired risks, net of deferred acquisition cost while the claim liabilities comprise provision for outstanding claims. Their values are carried in the statement of financial position as disclosed in Notes 5, 6 and 7 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 the 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 policy coverage and limits are 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 Branch. Following the identification and notification of an insured loss, there may still be uncertainty on the magnitude of the claim. There are many factors such as inflation, inconsistent judicial interpretations, legislative changes and claims handling procedures that will affect the level of uncertainty.

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

3.2 *Key sources of estimation uncertainty and assumptions (cont'd)*

(b) *Valuation of general insurance contract liabilities (cont'd)*

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

Sensitivity analysis

An analysis of the sensitivity around the various scenarios provide an indication of the adequacy of the Branch's estimation process in respect of its insurance contracts. The tables presented below demonstrate the sensitivity of insured liability estimates to the particular movements in the estimation process assumptions used. Certain assumptions can be expected to impact the liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

The analysis below has been prepared for a change in one variable with all other variables remaining constant and ignores changes in values of the related assets.

(i) Claim liabilities

2016	**Change in assumptions**	**Impact on gross claim liabilities**	**Impact on net claim liabilities**	**Net impact on loss before tax (Increase)/ decrease**
		S$'000	S$'000	S$'000
Ultimate Loss Ratio (all classes)	+5%	1,684	1,637	(1,637)
	-5%	(1,684)	(1,637)	1,637
Indirect Claim Handling Expenses	+1%	121	118	(118)
	-1%	(121)	(118)	118
Provision for Adverse Deviation	+5%	1,248	777	(777)
	-5%	(1,248)	(777)	777
2015				
Ultimate Loss Ratio (all classes)	+5%	177	153	(153)
	-5%	(177)	(153)	153
Indirect Claim Handling Expenses	+1%	17	16	(16)
	-1%	(17)	(16)	16
Provision for Adverse Deviation	+5%	132	88	(88)
	-5%	(132)	(88)	88

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

3.2 *Key sources of estimation uncertainty and assumptions (cont'd)*

(b) *Valuation of general insurance contract liabilities (cont'd)*

(i) Claim liabilities (cont'd)

The key assumptions considered in the sensitivity analysis of claims reported and loss adjustment expenses and claims incurred but not reported include ultimate loss ratio, indirect claim handling expenses and provision for adverse deviation.

(ii) Premium liabilities

2016	**Change in assumptions**	**Impact on gross premium liabilities** S$'000	**Impact on net premium liabilities** S$'000	**Net impact on loss before tax (Increase)/ decrease** S$'000
Expected Loss Ratio (all classes)	+5%	–	–	–
	-5%	–	–	–
Indirect Claim Handling Expenses	+1%	–	–	–
	-1%	–	–	–
Policy Maintenance Expenses	+1%	–	–	–
	-1%	–	–	–
Provision for Adverse Deviation	+5%	–	–	–
	-5%	–	–	–

2015	**Change in assumptions**	**Impact on gross premium liabilities** S$'000	**Impact on net premium liabilities** S$'000	**Net impact on loss before tax (Increase)/ decrease** S$'000
Expected Loss Ratio (all classes)	+5%	–	241	(241)
	-5%	–	–	–
Indirect Claim Handling Expenses	+1%	–	–	–
	-1%	–	–	–
Policy Maintenance Expenses	+1%	–	–	–
	-1%	–	–	–
Provision for Adverse Deviation	+5%	–	57	(57)
	-5%	–	–	–

The key assumptions considered in the sensitivity analysis of unearned premiums and unexpired portion of premiums include expected loss ratio, indirect claim handling expenses, policy maintenance expenses and provision for adverse deviation.

4. Plant and equipment

	Furniture and fittings S$'000	IT equipment hardware S$'000	IT equipment software S$'000	Office equipment S$'000	Motor vehicles S$'000	Total S$'000
Cost						
At 11 March 2015 (date of registration)	–	–	–	–	–	–
Additions	1,138	1,250	2,119	126	–	4,633
At 31 December 2015 and 1 January 2016	1,138	1,250	2,119	126	–	4,633
Additions	107	88	151	29	79	454
At 31 December 2016	1,245	1,338	2,270	155	79	5,087
Accumulated depreciation						
At 11 March 2015 (date of registration)	–	–	–	–	–	–
Charge for the financial period	146	107	156	14	–	423
At 31 December 2015 and 1 January 2016	146	107	156	14	–	423
Charge for the financial year	233	280	426	29	13	981
At 31 December 2016	379	387	582	43	13	1,404
Net book value						
31 December 2015	992	1,143	1,963	112	–	4,210
31 December 2016	866	951	1,688	112	66	3,683

5. Loss reserves

	2016 Gross S$'000	2016 Reinsurance S$'000	2016 Net S$'000	2015 Gross S$'000	2015 Reinsurance S$'000	2015 Net S$'000
Outstanding claims notified	15,635	(3,646)	11,989	1,078	(166)	912
Outstanding claims incurred but not reported (IBNR)	5,558	(773)	4,785	1,263	(213)	1,050
	21,193	(4,419)	16,774	2,341	(379)	1,962

Movement in loss reserves:

	2016 Gross S$'000	2016 Reinsurance S$'000	2016 Net S$'000	2015 Gross S$'000	2015 Reinsurance S$'000	2015 Net S$'000
At beginning of financial year/ period	2,341	(379)	1,962	–	–	–
Claims paid during the year/period	(5,599)	349	(5,250)	(155)	61	(94)
Claims incurred during the financial year/ period	24,451	(4,389)	20,062	2,496	(440)	2,056
At end of financial year/ period	21,193	(4,419)	16,774	2,341	(379)	1,962

5. Loss reserves (cont'd)

Loss development triangle

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

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

Analysis of claims development – Gross of reinsurance

		As at 31 December	
Accident Year	**2015**	**2016**	**Total**
Estimate of cumulative claims	S$'000	S$'000	S$'000
At the end of accident year	2,129		
One year later	2,474	21,933	
Current estimate of ultimate claims	2,474	21,933	24,407
Cumulative payments to-date	(1,357)	(4,399)	(5,756)
Gross outstanding claims liabilities	1,117	17,534	18,651
Claims handling expenses			546
Total best estimate of gross claims liabilities			19,197
Provision for adverse deviation			1,996
Total gross claims liabilities as per the statement of financial position			21,193

5. Loss reserves (cont'd)

Analysis of claims development – Net of reinsurance

Accident Year	**2015**	**2016**	**Total**
		As at 31 December	
Estimate of cumulative claims	S$'000	S$'000	S$'000
At the end of accident year	1,795		
One year later	1,919	18,414	
Current estimate of ultimate claims	1,919	18,414	20,333
Cumulative payments to-date	(1,136)	(4,211)	(5,347)
Net outstanding claims liabilities	783	14,203	14,986
Claims handling expenses			546
Total best estimate of net claims liabilities			15,532
Provision for adverse deviation			1,242
Total net claims liabilities as per the statement of financial position			16,774

6. Reserves for unexpired risks

		2016			**2015**	
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
At beginning of financial year/ period	10,614	(3,720)	6,894	–	–	–
Movement of reserve during the financial year/ period	15,909	(1,801)	14,108	10,614	(3,720)	6,894
At end of financial year/ period	26,523	(5,521)	21,002	10,614	(3,720)	6,894

7. Deferred acquisition costs

	2016 Gross S$'000	2016 Reinsurance S$'000	2016 Net S$'000	2015 Gross S$'000	2015 Reinsurance S$'000	2015 Net S$'000
At beginning of financial year/ period	1,579	(174)	1,405	–	–	–
Cost deferred during the financial year/period	2,982	(214)	2,768	1,579	(174)	1,405
At end of financial year/ period	4,561	(388)	4,173	1,579	(174)	1,405

8. Other receivables

	2016 S$'000	2015 S$'000
Security deposits	494	478
Down payments on system customisation	164	–
Prepayment	70	70
Salvage recoveries	66	–
Interest receivables and other receivables	22	–
	816	548

9. Insurance receivables

	2016 S$'000	**2015** S$'000
Amounts due from policyholders, agents and brokers	15,915	6,716
Amounts due from cedants	6,027	3,099
	21,942	9,815
Less: Allowance for impairment	(101)	–
	21,841	9,815
Reinsurance recoverables	81	7
Total insurance receivables	21,922	9,822

Insurance receivables relate to amounts due from policyholders, agents, brokers, cedants and reinsurers. The Branch has no credit risk concentration that may arise from the exposure of a single debtor or a group of debtors. The Branch's normal trade credit term ranges from 60 to 90 days. Other credit terms are assessed and approved on a case-by-case-basis. Other credit terms include instalment scheme granted.

Allowance for impairment relates to the provision made during the financial year. There was no write-back or write-off of impairment during the year. The Branch currently offsets balances with the same counterparty within the receivables. The Branch has the legal rights to set-off these amounts and intends to settle on a net basis.

The insurance receivables that are offset are as follows:

2016	**Gross carrying amount** S$'000	**Gross amount offset in the statement of financial position** S$'000	**Amount in the statement of financial position** S$'000
Due from policyholders, agents, brokers, cedants and reinsurers	23,459	(1,537)	21,922

2015	**Gross carrying amount** S$'000	**Gross amount offset in the statement of financial position** S$'000	**Amount in the statement of financial position** S$'000
Due from policyholders, agents, brokers, cedants and reinsurers	9,858	(36)	9,822

10. Cash and cash equivalents

	2016 S$'000	2015 S$'000
Deposits	25,913	–
Cash at banks	16,826	14,137
Cash in hand	1	1
	42,740	14,138

The deposits bear interest at rates ranging from 0.11% to 1% per annum (2015: S$Nil), and mature within 3 months from year end, except for a sum of S$577,000 of deposits held as collateral against performance bonds issued on behalf of policyholders of which S$145,000 matures within 3 months from year end and remaining S$432,000 expires after 3 months from year end.

Cash at banks represent non-interest bearing current accounts.

11. Other creditors and accruals

	2016 S$'000	2015 S$'000
Collateral held in respect of performance bonds (Note 10)	577	–
Other creditors	534	1,039
Accrued operating expenses	1,317	706
GST payable	194	51
	2,622	1,796

12. Insurance payables

	2016 S$'000	2015 S$'000
Due to policyholders	47	–
Amounts due to reinsurers	3,519	2,225
	3,566	2,225

12. Insurance payables (cont'd)

The Branch currently offsets balances with the same counterparty within the amount due to insurers. The Branch has the legal rights to offset these amounts and intends to settle on a net basis.

2016	**Gross carrying amount** S$'000	**Gross amount offset in the statement of financial position** S$'000	**Amount in the statement of financial position** S$'000
Due to reinsurers	3,735	(216)	3,519

2015	**Gross carrying amount** S$'000	**Gross amount offset in the statement of financial position** S$'000	**Amount in the statement of financial position** S$'000
Due to reinsurers	2,228	(3)	2,225

Insurance payables are non-interest bearing and the normal trade credit term granted to the Branch ranges from 60 to 90 days.

13. Head office account

During the financial year ended 31 December 2016, there was S$25,000,000 (2015: S$20,000,000) of fund injection from head office to fund the operation of the Branch.

14. Staff costs

	2016 S$'000	**2015** S$'000
Salaries and bonuses	5,463	2,671
CPF contributions	658	215
Allowances and other staff-related expenses	566	229
	6,687	3,115

15. Other operating expenses

	2016 S$'000	2015 S$'000
Other operating expenses include the following:		
Legal and professional fees	874	512
License and association fees	113	72
Operating lease expense (Note 17)	1,744	1,065
Allowance for impairment of insurance receivables	95	–
Other operating expenses	1,382	850
	4,208	2,499

16. Income tax

A reconciliation between the tax expense and the product of accounting loss multiplied by the applicable tax rate are as follows:

	2016 S$'000	2015 S$'000
Loss before tax	(9,607)	(6,023)
Tax at statutory tax rate of 17%	(1,633)	(1,024)
Adjustments:		
Non-deductible expenses	158	96
Benefit from enhanced deduction	(28)	(2)
Deferred tax assets not recognised	1,503	930
Income tax expense recognised in profit or loss	–	–

The Branch has accumulated unutilised tax losses of approximately S$14,316,000 (2015: S$5,476,000) available for offset against future taxable profits. No deferred tax asset has been recognised on these tax losses due to uncertainty of its recoverability against future taxable profits. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation.

17. Operating lease commitments as lessee and lessor

Future minimum rental payments for office premises and IT equipment of the Branch under non-cancellable operating lease at the end of the reporting period are as follows:

	2016 S$'000	**2015** S$'000
Within one year	1,940	1,776
After one year but not more than three years	5,379	2,502
More than three years	716	–
	8,035	4,278

Operating lease expense recognised as an expense in the profit or loss for the financial year ended 31 December 2016 amounted to S$1,744,000 (2015: S$ 1,065,000) (see Note 15).

In 2016, the Branch subleased part of its office space to its in-house agents. The subleased income of S$42,000 was recognised as other income for the financial year ended 31 December 2016. The future minimum rental receivable from the in-house agents are as follows:

	2016 S$'000	**2015** S$'000
Within one year	315	–
After one year but not more than three years	578	–
	893	–

18. Significant related party transactions

In addition to the transactions detailed elsewhere in the financial statements, during the financial year, the significant transactions between the Branch and related parties were as follows:

	2016 S$'000	**2015** S$'000
Head office:		
Reimbursement of IT charges	202	–
Pre-operating expenses and insurance software system	–	3,269
Related company:		
Reinsurance premiums ceded	–	38
Reinsurance commission income	–	(10)

Amounts due to head office were unsecured, interest-free and were repayable on demand.

Key management personnel

Key management personnel is defined as persons having authority and responsibility for planning, directing and controlling the activities of the Branch either directly or indirectly. The key management personnel compensation includes salary, bonus and other benefits computed based on the costs incurred by the Branch.

Key management personnel compensation is as follows:

	2016 S$'000	**2015** S$'000
Salaries and bonuses	971	524
CPF contributions	17	13
Allowances and other benefits	73	46
	1,061	583

19. Financial and insurance risk management objectives and policies

The Branch's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Branch's business whilst managing its liquidity, credit, interest rate, foreign currency, operational and insurance risks. The Branch operates within clearly defined guidelines approved by the Head Office and the Branch's policy is not to engage in speculative transactions. There has been no change to the Branch's exposure to these financial and insurance risks or the manner in which it manages and measures the risks.

19.1 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its contractual obligations as they become due because of the inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.

The Branch manages its operating cash flows and the availability of funding to ensure that repayment and funding obligations are met. As part of its overall prudent liquidity management, the Branch maintains sufficient levels of cash to meet its working capital requirements.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Branch's financial assets and financial liabilities at the end of the reporting period based on contractual maturities or expected repayment dates.

At 31 December 2016	**Within 1 year** S$'000	**1 - 3 years** S$'000	**Above 3 years** S$'000	**Total** S$'000
Financial assets:				
Insurance receivables	21,707	146	69	21,922
Other receivables excluding prepayment	252	494	–	746
Cash and cash equivalents	42,413	327	–	42,740
Total loans and receivables	64,372	967	69	65,408
Financial liabilities:				
Insurance payables	3,566	–	–	3,566
Other creditors and accruals excluding GST payable	2,275	153	–	2,428
Total financial liabilities at amortised cost	5,841	153	–	5,994

19. Financial and insurance risk management objectives and policies (cont'd)

19.1 Liquidity risk (cont'd)

At 31 December 2015	Within 1 year S$'000	1 - 3 years S$'000	Total S$'000
Financial assets:			
Insurance receivables	9,822	–	9,822
Other receivables excluding prepayment	48	430	478
Cash and cash equivalents	14,138	–	14,138
Total loans and receivables	24,008	430	24,438
Financial liabilities:			
Insurance payables	2,225	–	2,225
Other creditors and accruals excluding GST payable	1,505	240	1,745
Amounts due to head office	3,269	–	3,269
Total financial liabilities at amortised cost	6,999	240	7,239

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

Loss reserves and related reinsurers' share of loss reserves are excluded from the above analysis. Due to the nature of the insurance risks assumed by the Branch, management does not believe that it is practicable to estimate reliably the timing of the future cash flows arising from these liabilities and assets. The inherent liquidity risk assumed by the Branch in this respect is mitigated by the Branch and its ability to obtain cash advances, if required from its Head Office and reinsurers.

19.2 Credit risk

Credit risk refers to the risk that the counterparty default on its contractual obligations, resulting in financial loss to the Branch. Credit risks, or the counterparties defaulting risk, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored by strictly limiting the Branch's associations to business partners with high creditworthiness.

19. Financial and insurance risk management objectives and policies (cont'd)

19.2 Credit risk (cont'd)

Insurance receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Branch. Cash and cash equivalents that are neither past due nor impaired are placed with reputable financial institutions with high credit ratings and no history of default.

The age analysis of insurance receivables are as follows:

	2016	**2015**
	S$'000	S$'000
Up to 90 days	9,468	4,995
Above 90 days but not exceeding 180 days	7,471	4,159
Above 180 days but not exceeding 1 year	4,530	668
Above 1 year	453	–
	21,922	9,822

There is no other class of financial assets that is past due and/or impaired, except for insurance receivables where included in the insurance receivables is an amount of S$8,121,000 that is past due but not impaired. The Branch believes that the unimpaired amounts that are past due are still collectible in full, based on historical payment trends, subsequent receipts and extensive analysis of customer credit risk.

The age analysis of receivables that is past due but not impaired are as follows:

	2016	**2015**
	S$'000	S$'000
Up to 90 days	5,641	–
Above 90 days but not exceeding 180 days	1,772	–
Above 180 days but not exceeding 1 year	655	–
Above 1 year	53	–
	8,121	–

Financial assets that are past due and impaired are as follows:

	2016	**2015**
	S$'000	S$'000
Gross carrying amount	101	–
Allowance for impairment	(101)	–
	–	–

19. Financial and insurance risk management objectives and policies (cont'd)

19.3 Interest rate risk

Interest rate risk is the risk that changes in the interest rates will have an adverse financial effect on the Branch's financial condition and/or results.

The Branch's exposure to interest rate risk relates primarily to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The management considers the Branch's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

The following sensitivity analysis has been determined based on the exposure to interest rates for interest bearing bank balances at the reporting date and the stipulated changes taking place at the beginning of the financial year and held constant throughout the financial year.

If interest rates on interest bearing bank balances had been 50 basis points higher/lower and all other variables were held constant, the net loss before tax for the financial year ended 31 December 2016 would decrease/increase by approximately S$130,000 (2015: S$Nil).

The Branch currently has no borrowings and therefore, is not exposed to interest rate risk resulting from borrowings.

19. Financial and insurance risk management objectives and policies (cont'd)

19.4 **Foreign currency risk**

Foreign currency risk is the risk of loss resulting from changes in the exchange rates. Foreign currency risk is managed through risk limits and policies approved by the Branch.

The net unhedged financial assets and liabilities of the Branch as at the reporting date that are not denominated in their functional currency are as follows:

At 31 December 2016	Cash and cash equivalents S$'000	Insurance receivables S$'000	Other receivables excluding prepayment S$'000	Insurance payables S$'000	Other creditors and accruals excluding GST payable S$'000	Amounts due to head office S$'000	Net loss reserves S$'000	Net exposures S$'000
SGD	24,072	6,059	582	(216)	(2,202)	–	(10,846)	17,449
USD	18,668	15,863	164	(3,350)	(226)	–	(4,745)	26,374
MYR	–	–	–	–	–	–	(466)	(466)
IDR	–	–	–	–	–	–	(284)	(284)
PHP	–	–	–	–	–	–	(228)	(228)
AED	–	–	–	–	–	–	(93)	(93)
EUR	–	–	–	–	–	–	(68)	(68)
VND	–	–	–	–	–	–	(27)	(27)
THB	–	–	–	–	–	–	(16)	(16)
AUD	–	–	–	–	–	–	(1)	(1)
	42,740	21,922	746	(3,566)	(2,428)	–	(16,774)	42,460

19. Financial and insurance risk management objectives and policies (cont'd)

19.4 Foreign currency risk (cont'd)

At 31 December 2015	Cash and cash equivalents	Insurance receivables	Other receivables excluding prepayment	Insurance payables	Other creditors and accruals excluding GST payable	Amounts due to head office	Net loss reserves	Net exposures
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
SGD	10,012	3,418	478	(400)	(1,146)	–	(1,262)	11,100
USD	4,126	6,404	–	(1,825)	(599)	(3,269)	(643)	4,194
MYR	–	–	–	–	–	–	(45)	(45)
PHP	–	–	–	–	–	–	(12)	(12)
	14,138	9,822	478	(2,225)	(1,745)	(3,269)	(1,962)	15,237

19. Financial and insurance risk management objectives and policies (cont'd)

19.4 Foreign currency risk (cont'd)

Sensitivity analysis

The following table demonstrates the sensitivity of the Branch's loss before tax to a reasonably possible change in exchange rates of the following currencies against the functional currency of the Branch, Singapore Dollars (S$).

	Loss before tax Decrease/ (increase)	
	2016	**2015**
	S$'000	S$'000
USD/SGD		
Strengthened 5%	1,319	210
Weakened 5%	(1,319)	(210)
MYR/SGD		
Strengthened 5%	(23)	(2)
Weakened 5%	23	2
IDR/SGD		
Strengthened 5%	(14)	–
Weakened 5%	14	–
PHP/SGD		
Strengthened 5%	(11)	(1)
Weakened 5%	11	1
AED/SGD		
Strengthened 5%	(5)	–
Weakened 5%	5	–
EUR/SGD		
Strengthened 5%	(3)	–
Weakened 5%	3	–
VND/SGD		
Strengthened 5%	(1)	–
Weakened 5%	1	–
THB/SGD		
Strengthened 5%	(1)	–
Weakened 5%	1	–

19. Financial and insurance risk management objectives and policies (cont'd)

19.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. When controls fail, operational risks can cause reputational damage and will have legal or regulatory implications which may lead to financial loss.

The Branch has implemented a robust control framework through its Enterprise Risk Management framework. The Risk Management and Compliance department monitors, responds and manages the potential risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff training, self-review and evaluation procedures.

Business risks, such as, changes in environment, technology and the industry are monitored through the Branch's strategic planning and budgeting process and the risk management framework.

19.6 Insurance risk

Insurance risk is the risk of variations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of understanding. The Branch faces the possibility of incurring higher claims than expected owing to the nature of the claim, their frequency, the severity and the risk of legal or economic conditions changes or behavioral patterns affecting pricing and conditions of insurance or reinsurance cover.

The Branch manages its exposure to large losses and catastrophe events by purchasing various appropriate reinsurance covers.

The table below sets out the concentration of general insurance contracts by line of business during the financial years ended 31 December 2016 and 2015.

2016	Gross written premiums S$'000	Outward reinsurance premiums S$'000	Net written premiums S$'000
Engineering	1,526	(602)	924
General accident	1,211	(184)	1,027
General liability	786	(80)	706
Marine cargo	5,030	(735)	4,295
Marine hull	24,160	(4,902)	19,258
Marine liability	3,388	(1,297)	2,091
Personal accident	190	(19)	171
Professional liability	1,273	(117)	1,156
Property	1,507	(759)	748
Workmen compensation	4,834	(466)	4,368
Motor	6,454	(654)	5,800
	50,359	(9,815)	40,544

19. Financial and insurance risk management objectives and policies (cont'd)

19.6 Insurance risk (cont'd)

2015	**Gross written premiums** S$'000	**Outward reinsurance premiums** S$'000	**Net written premiums** S$'000
Engineering	356	(194)	162
General accident	251	(51)	200
General liability	123	(22)	101
Marine cargo	684	(198)	486
Marine hull	9,742	(2,812)	6,930
Marine liability	1,746	(1,599)	147
Personal accident	1	–	1
Professional liability	574	(104)	470
Property	186	(111)	75
Workmen compensation	1,194	(261)	933
	14,857	(5,352)	9,505

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Branch's future claims development will follow a similar pattern and industry statistics. This includes assumptions in respect of average claims costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, and internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivity analysis of the key assumptions used in this estimation process is found in Note 3.

20. Capital management

The primary objective of the Branch's capital management is to safeguard the Branch's ability to continue as a going concern, to maintain healthy capital ratios and to provide an adequate return to the shareholders. The Branch's capital is represented by the amount in the head office account comprising the capital contribution from the head office offset by accumulated losses.

The Branch is required to satisfy the Fund Solvency and Capital Adequacy Requirements prescribed under the Singapore Insurance Act (Chapter 142). The Branch monitors its capital level on a regular basis to assess whether such requirements are met, and reports to the MAS its fund solvency and capital adequacy positions at each quarter and annually. The Branch has complied with the solvency requirements during the financial years ended 31 December 2016 and 2015.

21. Authorisation of financial statements

The financial statements were authorised for issuance by the Chief Executive of the Branch on 10 March 2017.