Co. Reg. No. T09FC0054K

Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

Annual Financial Statements

31 December 2013

Building a better working world

Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

General Information

Chief Executive

Zaharudin bin Daud

Registered office

1 North Bridge Road
#08-01 High Street Centre
Singapore 179094

Auditor

Ernst & Young LLP

Bankers

Oversea-Chinese Banking Corporation Ltd
CIMB Bank Berhad
RHB Bank Berhad
Malayan Banking Berhad
United Overseas Bank Ltd
Bank of China

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Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

Statement by Chief Executive

In my opinion, the accompanying balance sheet, statement of comprehensive income, statement of changes in head office account and cash flow statement together with notes thereto of the Singapore Branch of Etiqa Insurance Berhad (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 2013, 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 ended 31 December 2013.

Zaharudin bin Daud
Chief Executive
Etiqa Insurance Berhad - Singapore Branch

Singapore

28 February 2014

Independent Auditor's Report
For the financial year ended 31 December 2013

To Etiqa Insurance Berhad

Report on the Financial Statements

We have audited the accompanying financial statements of the Singapore Branch of Etiqa Insurance Berhad (the "Branch"), pursuant to section 373 of the Singapore Companies Act, Chapter 50 (the "Act"). These financial statements, set out on pages 4 to 48, comprise the balance sheet as at 31 December 2013, and the statement of comprehensive income, statement of changes in head office account and cash flow statement for the financial ended 31 December 2013, and a summary of significant accounting policies and other explanatory information.

The Branch is a segment of Etiqa Insurance Berhad 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 locally.

Management's Responsibility 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 Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheet and to maintain accountability of assets.

Auditor's Responsibility

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

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

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

Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

Independent Auditor's Report
For the financial year ended 31 December 2013

To Etiqa Insurance Berhad

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the assets used in, and liabilities arising out of, the Branch's operations in Singapore as at 31 December 2013, and of the results, head office account and the cash flows from the Branch's operations in Singapore for the financial year ended 31 December 2013.

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

28 February 2014

Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

Balance Sheet as at 31 December 2013

	Note	31 December 2013 S$	31 December 2012 S$
Assets			
Property, plant and equipment	4	472,555	547,843
Intangible assets	5	79,947	55,753
Club membership		84,250	84,250
Available-for-sale investments	6	55,750,157	55,572,704
Reinsurers' share of reserve for unexpired risks	12	4,149,649	2,990,228
Deferred acquisition costs	13	4,018,684	3,666,646
Reinsurers' share of loss reserves	14	4,318,641	5,855,809
Insurance receivables	8	7,536,034	5,419,606
Other debtors and deposits	9	2,803,930	3,100,989
Interest and dividend receivable		465,559	459,713
Prepayment		13,949	22,961
Fixed deposits	20	56,354,306	54,419,289
Cash and fixed deposits – collaterals	21	2,466,911	2,946,147
Cash and bank balances	20	5,968,246	5,674,919
Total assets		144,482,818	140,816,857
Liabilities			
Loss reserves	14	54,506,170	60,460,189
Reserve for unexpired risks	12	28,603,021	24,436,356
Reinsurers' share of deferred acquisition costs	13	1,188,560	741,469
Provision for tax		(10,262)	13,379
Insurance payables	10	3,724,006	2,429,396
Other creditors and accruals	11	5,610,245	5,328,290
Total liabilities		93,621,740	93,409,079
Net assets		50,861,078	47,407,778
Financed by:			
Head office account		50,861,078	47,407,778

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

Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

Statement of Comprehensive Income
For the financial year ended 31 December 2013

	Note	31 December 2013 S$	31 December 2012 S$
Gross premiums written		40,748,412	38,207,302
Outward reinsurance premiums		(6,067,835)	(5,079,443)
Net written premiums		34,680,577	33,127,859
Movement in net reserve for unexpired risks	12	(3,007,244)	(2,041,629)
Net earned premiums		31,673,333	31,086,230
Gross claims paid		(23,469,941)	(22,457,582)
Reinsurance claims recoveries		2,840,934	2,247,452
Net claims paid	14	(20,629,007)	(20,210,130)
Movement in net loss reserves		4,416,851	2,730,196
Net claims incurred	14	(16,212,156)	(17,479,934)
Commission expense		(6,778,428)	(6,351,452)
Commission income		2,676,165	1,071,078
Movement in net deferred acquisition costs	13	(95,053)	202,369
Net incurred commission expense		(4,197,316)	(5,078,005)
Net underwriting profit		11,263,861	8,528,291
Staff costs	16	(5,585,685)	(4,756,623)
Depreciation of fixed assets	4	(130,993)	(126,806)
Amortisation of intangible assets	5	(26,666)	(30,039)
Other operating expenses	17	(2,220,517)	(2,138,272)
Investment income – net	18	2,237,105	4,459,129
Other income		27,413	7,924
		(5,699,343)	(2,584,687)
Profit before tax		5,564,518	5,943,604
Income tax benefit	19	–	–
Profit after tax		5,564,518	5,943,604
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net loss on available-for-sale investments	15	(2,314,835)	(522,112)
Other comprehensive (loss) for the financial year, net of tax		(2,314,835)	(522,112)
Total comprehensive income for the year		3,249,683	5,421,492

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

Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

Statement of Changes in Head Office Account
For the financial year ended 31 December 2013

	Current Account S$	Head Office Account S$	Retained earnings/ (Accumulated losses) S$	Fair value adjustment reserve S$	Total S$
31 December 2013					
Opening balance at 1 January 2013	628,944	48,893,254	(4,662,856)	2,548,436	47,407,778
Profit for the year, net of tax	–	–	5,564,518	–	5,564,518
Other comprehensive income for the financial year, net of tax	–	–	–	(2,314,835)	(2,314,835)
Total comprehensive income for the year	–	–	5,564,518	(2,314,835)	3,249,683
Grant of equity-settled share options to employees	54,179	–	–	–	54,179
Transaction for the year	149,438	–	–	–	149,438
Total transactions with head office	203,617	–	–	–	203,617
Closing balance at 31 December 2013	832,561	48,893,254	901,662	233,601	50,861,078
31 December 2012					
Opening balance at 1 January 2012	103,154	48,893,254	(10,606,460)	3,070,548	41,460,496
Profit for the year, net of tax	–	–	5,943,604	–	5,943,604
Other comprehensive income for the financial year, net of tax	–	–	–	(522,112)	(522,112)
Total comprehensive income for the year	–	–	5,943,604	(522,112)	5,421,492
Grant of equity-settled share options to employees	63,116	–	–	–	63,116
Transaction for the year	462,674	–	–	–	462,674
Total transactions with head office	525,790	–	–	–	525,790
Closing balance at 31 December 2012	628,944	48,893,254	(4,662,856)	2,548,436	47,407,778

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

Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

Cash Flow Statement
For the financial year ended 31 December 2013

	Note	31 December 2013 S$	31 December 2012 S$
Operating activities			
Profit before tax		5,564,518	5,943,604
Adjustments:			
Depreciation of property, plant and equipment		130,993	126,806
Amortisation of intangible assets		26,666	30,039
Dividend income		(337,825)	(196,651)
Interest income		(1,612,703)	(1,741,841)
Allowances for impairment loss on receivables - net		–	106,857
Write-off of fixed assets		–	1,482
Increase in net reserve for unexpired risks		3,007,244	2,041,629
(Decrease)/increase in net deferred acquisition costs		95,053	(202,369)
Decrease in net loss reserves		(4,416,851)	(2,730,196)
Net amortisation of discount/(premium) on government securities and bonds		172,374	(217,939)
Gain on disposal of investments		(381,264)	(2,836,051)
Impairment gain on investments		(311,452)	-
Operating cash flows before changes in working capital		1,936,753	325,370
Decrease/(increase) in:			
Cash in bank and fixed deposits - collaterals		479,236	792,757
Insurance receivables		(2,116,428)	(70,956)
Other debtors and deposits		297,059	(1,862,321)
Prepayment		9,012	3,305
Increase/(decrease) in:			
Insurance payables		1,294,610	449,304
Other creditors and accruals		281,955	(175,704)
Cash flows from/(used in) operations		2,182,197	(538,245)
Income taxes paid		(23,641)	(4,572)
Net cash flows from/(used in) operating activities		2,158,556	(542,817)
Investing activities			
Purchase of investments		(55,437,078)	(46,316,465)
Proceeds from sale and maturity of investments		53,465,131	46,317,027
Dividends received		337,825	196,651
Interest received		1,606,858	1,754,735
Purchase of property, plant and equipment		(55,705)	(54,247)
Purchase of intangible assets		(50,860)	(2,390)
Net cash flows (used in)/from investing activities		(133,829)	1,895,311
Financing activities			
Increase in amounts due to Head Office		203,617	525,790
Net cash flows (used in) /from financing activities		203,617	525,790
Net increase in cash and cash equivalents		2,228,344	1,878,284
Cash and cash equivalents at beginning of year	20	60,094,208	58,215,924
Cash and cash equivalents at end of year	20	62,322,552	60,094,208

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

1. Corporate information

The Branch is registered in Singapore. The registered office of the Branch is located at 1 North Bridge Road, #08-01 High Street Centre, Singapore 179094.

The Branch is the Singapore Branch of Etiqa Insurance Berhad ("Head Office"), which is incorporated in Malaysia. The immediate holding company is Mayban Ageas Holdings Berhad ("MAHB") and its ultimate holding company is Malayan Banking Berhad ("MBB"), both of which are incorporated in Malaysia. MBB is a licensed commercial bank listed on the main board of Bursa Malaysia Securities Berhad.

The principal activity of the Branch consists of underwriting general insurance business. There has been no significant change in the nature of this activity during the financial year. The major classes of general insurance written by the Branch include Motor, Workmen's Compensation, Property, Marine Cargo and General Accident

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS) and Section 373 of the Singapore Companies Act, Chapter 50.

The financial statements have been prepared on a historical cost basis except as stated otherwise in the accounting policies.

The financial statements are presented in Singapore Dollars (SGD or S$).

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Branch has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2013. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Branch.

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

2.2 *Changes in accounting policies*

Standards issued but are not yet effective

The Branch has not adopted the following relevant standard that has been issued but is not yet effective:

Description	*Effective for annual period beginning on or after*
Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014

Management expects that the adoption of the standard above will have no material impact on the financial statements in the period of initial application.

2.3 *Use of estimates, assumptions and judgements*

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 Branch's accounting policies. These estimates and assumptions affect the reported amounts of assets and liabilities at the balance sheet 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 including consultations with its Certified Actuary as at the balance sheet date, the actual outcome may differ from the estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

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

2.3 ***Use of estimates, assumptions and judgements (cont'd)***

Insurance contract liabilities - Estimation process, assumptions and sensitivities

The major classes of general insurance written by the Branch include Motor, Workmen's Compensation, Property, Marine Cargo and General Accident. For general insurance contracts, claims provisions (comprising provision for claims reported by policyholders and claims incurred but not reported - IBNR) 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 balance sheet date. The provisions are revised continuously as part of a regular ongoing process as claims are settled and further claims are reported.

(a) *Estimation process*

The claims provision estimation process involves estimation of reserve of outstanding reported claims (case reserves), and estimation of additional reserves for incurred but not reported (IBNR) claims and expected future movements in the estimated ultimate liabilities associated with outstanding reported claims (IBNER - incurred but not enough reported). Case reserves are set and periodically reviewed by the claims department. IBNR and IBNER reserves are determined based on the certified actuary's assessment. The total claims liabilities are subject to a quarterly actuarial review and at year end a formal actuarial report will be provided on the adequacy of the booked reserves.

In forming their view on the adequacy of the claims provisions, actuaries use a variety of statistical projection techniques like the Chain Ladder and Bornhuetter-Ferguson methods. Claims provisions are separately analysed by class of business. The claims provisions are intended to provide a 75% level of assurance of adequacy, and as such include a Provision for Adverse Deviation (PAD) beyond the expected value (best estimate) of the claims liabilities. The best estimates for premium liabilities have been determined such that the total liability provision would be adequate to pay for future claims and expenses in servicing the unexpired policies as of the valuation date. In calculating these premium liabilities for the various classes, the ultimate incurred loss of the individual class for the latest accident year is used to determine a suitable ultimate loss ratio. The results were used in this case to derive the premium liabilities.

No discounting is made to the recommended claim liability and premium liability provisions to allow for possible future investment earnings. In addition, no explicit inflation adjustment has been made to claim amount payable in future. This inflation is, however, implicitly allowed for in our valuation method, where past inflation patterns are assumed to continue into the projected future years. Given the relatively short run-off periods and the low prevailing interest rate environment, any discounting made is unlikely to result in any material impact.

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

2.3 ***Use of estimates, assumptions and judgements (cont'd)***

Insurance contract liabilities - Estimation process, assumptions and sensitivities (cont'd)

(b) *Assumptions*

The principal assumption underlying the actuarial estimate of the claims liabilities is that the past claims development experience of the Branch is indicative of likely future claims development, both in terms of expected amounts and variability around those expected amounts. In estimating the required claims provisions, actuaries also consider business strategy, trends in claims frequency and severity, rate of settlement, and the impact of changes in the underwriting and claims handling policies of the Branch, as well as the impact of external factors such as market practice, judicial decisions and government legislation. There is typically a lot of judgement involved in estimating the claims liabilities.

(c) *Sensitivities*

There is uncertainty inherent in the estimation process as the actual amount of ultimate claims can only be ascertained once all claims are closed. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Branch's estimation process in respect of its contracts and is summarised as follows:

	31 December 2013	
	Change in gross claims provision S$ million	**Change in net claims provision** S$ million
If the provision for adverse deviation (PAD) is changed by:		
+100%	+6.2	+5.4
-50%	-3.1	-2.7
If the ultimate loss ratio is changed by:		
+/-1%	+/-0.4	+/-0.3

(d) *Reinsurance - Assumptions and methods*

The Branch limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The amount recoverable from reinsurers is estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and is presented in the balance sheet as reinsurers' share of technical reserves. Even though the Branch 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. Summary of significant accounting policies (cont'd)

2.4 *Product classification*

Insurance contracts are those contracts under which the Branch 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. The significance of insurance risk is dependent on both the probability of an insurance event and 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 lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

2.5 *Revenue recognition*

(a) *Premium income*

For direct business, premium income is recognised at the commencement date of the risk. For reinsurance business, premium is accounted for based on cessions and statements received up to the time of closing of the books.

(b) *Investment income*

Dividend income is recognised when the Branch's right to receive payment is established and interest income is recognised using the effective interest method. Profits or losses on disposal of investments are taken to profit and loss account.

2.6 *Reserve for unexpired risks*

Reserve for unexpired risks represents the sum of unearned premium reserves and premium deficiency reserves.

Unearned premium reserves (except marine cargo) of short-term and long-term policies are calculated using the $1/24^{th}$ and $1/365^{th}$ method respectively based on gross premiums written after deducting premiums for reinsurances.

Unearned premium reserve for marine cargo is calculated using 25% on premium less reinsurance.

Premium deficiency reserves are determined by a qualified actuary in accordance with Section 37 of the Insurance Act, Cap.142.

2.7 *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 relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs ("DAC") of short-term and long-term policies are calculated using the $1/24^{th}$ and $1/365^{th}$ method respectively on the commission incurred for all classes of business except for marine cargo. All other acquisition costs are recognised as an expense when incurred.

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

2.8 *Claims and loss reserves*

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

Provision is made for the estimated cost of all claims incurred but not settled at the date of the balance sheet less reinsurance recoveries, using the best information available at the time. In addition, provision for claims incurred but not reported (IBNR) is made based on the independent actuarial assessment as at balance sheet date as required under the Insurance Act.

The Branch does not discount its liabilities for outstanding claims. Any outstanding claims movement is dealt with in profit and loss account of the year in which the reduction or increase arises. Any difference between the estimated cost and subsequent settlement is dealt with in profit and loss account of the year in which settlement takes place.

2.9 *Reinsurance*

The Branch 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.

2.10 *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably.

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

Leasehold buildings	-	50 years
Furniture and fittings	-	5 years
Motor vehicles	-	4 years
Office renovation	-	5 years
Office equipment	-	4 to 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

2.10 *Property, plant and equipment*

The residual value, useful life 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 property, plant and equipment.

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

2.11 *Intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit and loss account through the 'amortisation of intangible assets' line item.

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

Computer Software

The computer software is measured at cost less accumulated amortisation. The computer software is amortised on a straight-line basis over the estimated useful lives, which is 4 years.

2.12 *Financial assets*

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit and loss account, 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. The Branch classifies its financial assets into the following two categories: loans and receivables and available-for-sale financial assets comprising investments.

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

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

2.12 *Financial assets (cont'd)*

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 and loss account, directly attributable 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.

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

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that 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 period generally established by regulation or convention in the market place concerned.

(i) *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit and loss account when the loans and receivables are derecognised or impaired, and through the amortisation process.

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

Available-for-sale financial assets include quoted and unquoted investment securities that are designated as available-for-sale or are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit and loss account. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit and loss account as a reclassification adjustment when the financial asset is derecognised.

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

2.13 *Insurance receivables and other debtors*

Insurance receivables and other debtors are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated under Note 2.12.

If there is objective evidence that the insurance receivable is impaired, the Branch reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit and loss account. The Branch gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. Further details on the accounting policy for impairment of financial assets are stated in Note 2.16.

2.14 *Club membership*

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

2.15 *Impairment of non-financial assets*

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses are recognised in profit and loss account in those expense categories consistent with the function of the impaired assets, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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

2.15 *Impairment of non-financial assets (cont'd)*

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

2.16 *Impairment of financial assets*

The Branch assesses at each end of the reporting period whether there is any objective evidence that a financial asset is impaired.

(a) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Branch first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets 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 the estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit and loss account.

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.

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

2.16 Impairment of financial assets (cont'd)

(a) *Financial assets carried at amortised cost (cont'd)*

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Branch 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 to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit and loss account.

(b) *Financial assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

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

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit and loss account, is transferred from other comprehensive income and recognised in profit and loss account. Reversals of impairment losses in respect of equity instruments are not recognised in profit and loss account; increase in their fair value after impairment are recognised directly in other comprehensive income.

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

2.16 Impairment of financial assets (cont'd)

(c) *Available-for-sale financial assets (cont'd)*

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit and loss account. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit and loss account, the impairment loss is reversed in profit and loss account.

2.17 ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and fixed deposits, which are subject to an insignificant risk of changes in value.

2.18 ***Insurance payables and other creditors***

Insurance payables and other creditors are recognized when due and measured on initial recognition at fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

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

2.19 ***Provisions***

Provisions are recognised when the Branch has a present obligation (legal or constructive) where as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

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. Summary of significant accounting policies (cont'd)

2.20 *Employee benefits*

Defined contribution plan

As required by law, the Branch makes contributions to the Central Provident Fund ("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.

Employees' leave entitlement

Employees' entitlement to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to end of the reporting period.

Share-based compensation

The ultimate holding company's share-based compensation scheme, MBB Employee Share Options Scheme ("ESOS"), allows the Branch's employees to acquire ordinary shares of the ultimate holding company. The total fair value of share options granted to employees is recognised as an employee cost charged by the ultimate holding company over the vesting period and taking into account the probability that the options will vest.

The fair value of the share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable on vesting date. At each balance sheet date, the ultimate holding company revises its estimates of the number of options that are expected to become exercisable over the vesting period.

Settlement with the ultimate holding company in respect of the arrangement of the scheme is by cash over the vesting period.

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

2.21 *Taxes*

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Current income taxes are recognised in profit and loss account except to the extent that the tax relates to items recognised outside profit and loss account, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period 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 income tax assets are recognised for all deductible temporary differences, carry-forward of 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 and carry-forward of unabsorbed capital allowances and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the 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 tax assets are reassessed at the 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 recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at end of each reporting period.

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

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

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

2.22 *Functional and foreign currency*

(a) *Functional currency*

The financial statements of the Branch are presented in Singapore Dollars (SGD or S$), which is the functional currency of the Branch, as it best reflects the economic substance of the underlying events and circumstances relevant to the Branch.

(b) *Foreign currency transactions*

Transactions arising in foreign currencies during the year are converted to Singapore Dollars at rates closely approximating those ruling at transaction dates. Foreign currency denominated monetary assets and liabilities are translated into Singapore Dollars at exchange rates ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary 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. All exchange differences arising from conversion are included in profit and loss account. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value adjustment reserve under the Head Office account.

2.23 *Liability adequacy test*

At each balance sheet date, the Branch reviews all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Branch, contractual or otherwise, with respect to insurance contracts issued. In performing this review, the Branch compares current estimates of all future contractual cash flows against the carrying value of insurance contract liabilities. Where a shortfall is identified, an additional provision is recognised in profit and loss account.

The estimation of claim liabilities and premium liabilities performed at balance sheet date is part of the liability adequacy tests performed by the Branch. Based on this, all insurance contract liabilities as at balance sheet date are assessed to be adequate.

3. Management of insurance risk and inherent uncertainty in accounting estimates

Insurance risk is the risk of loss arising from the occurrence of an insured event under any one insurance contract. By the very nature of an insurance contract, this risk is random and therefore unpredictable. Such risk includes the pricing risk, claims reserving, underwriting risk and reinsurance risk.

For a portfolio of general insurance contracts, the prudent management of risks is fundamental to our business. To this end, the Branch has developed a risk management framework encompassing strategies on underwriting, reinsurance and provisioning of insurance liabilities to safeguard not only the interest of our shareholders, but also that of our customers. The Branch'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. Internal audit reviews are performed to ensure compliance with the Branch's guidelines and standards.

The Branch has established a robust underwriting framework to ensure all risks accepted meet with our guidelines and standards. Factors that aggravate insurance risk include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Branch seeks to minimise this risk with a balanced mix and spread between classes of business. The composition of the gross written premiums for the current financial year is set out below:

	Gross written premiums			
	31 December 2013		31 December 2012	
Class of business	S$	%	S$	%
Fire	10,287,221	25	7,982,847	21
Marine cargo	1,741,505	4	1,498,906	4
Marine Hull	49,382	–	38,040	–
Motor	10,175,352	25	11,614,674	30
Miscellaneous	18,494,952	46	17,072,835	45
Total	40,748,412	100	38,207,302	100

To manage the concentration of insurance risks based on the historical experience of loss frequency and severity of similar risks and in similar geographical zones, a reinsurance management strategy is developed with the primary objectives of protecting the insurance funds, smoothing out the peaks and troughs of our underwriting results, providing competitive advantage, applying high standards to security of reinsurers and developing long-term strategic partnership with key reinsurers.

3. Management of insurance risk and inherent uncertainty in accounting estimates (cont'd)

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 reflected in the financial statements of the Branch primarily in the technical provisions which include the premium and claims liabilities. The premium liabilities comprise reserve for unexpired risks, net of deferred acquisition costs while the claims liabilities comprise the loss reserves which include both outstanding claims notified and outstanding claims incurred but not reported ("IBNR"). The values of the premium and claims liabilities as at balance sheet date are set out under Notes 12, 13 and 14 to the financial statements.

The table below sets out the concentration of the premium and claims liabilities as at balance sheet date:

	31 December 2013			
	Gross premium liabilities		Net premium liabilities	
Class of business	S$	%	S$	%
Fire	8,282,077	34	7,402,959	34
Marine cargo	391,445	1	254,282	1
Marine hull	14,359	–	2,321	–
Motor	6,166,479	25	6,044,297	28
Miscellaneous	9,729,977	40	7,919,389	37
	24,584,337	100	21,623,248	100

	31 December 2013			
	Gross claims liabilities		Net claims liabilities	
Class of business	S$	%	S$	%
Fire	3,107,194	6	1,639,602	3
Marine cargo	595,542	1	315,670	1
Marine hull	–	–	–	–
Motor	26,960,223	49	25,593,319	51
Miscellaneous	23,843,211	44	22,638,938	45
	54,506,170	100	50,187,529	100

3. **Management of insurance risk and inherent uncertainty in accounting estimates (cont'd)**

	31 December 2012			
	Gross premium liabilities		Net premium liabilities	
Class of business	S$	%	S$	%
Fire	5,915,835	28	4,932,279	27
Marine cargo	328,092	2	235,843	1
Marine hull	14,187	–	–	–
Motor	6,168,477	30	6,083,800	33
Miscellaneous	8,343,119	40	7,269,029	39
	20,769,710	100	18,520,951	100

	31 December 2012			
	Gross claims liabilities		Net claims liabilities	
Class of business	S$	%	S$	%
Fire	4,771,193	8	1,858,452	4
Marine cargo	178,651	–	140,646	–
Marine hull	4,172	–	1,296	–
Motor	32,138,290	53	30,602,360	56
Miscellaneous	23,367,883	39	22,001,626	40
	60,460,189	100	54,604,380	100

Generally, premium and claims liabilities are determined based on previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Of particular relevance is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions, economic conditions and claims handling procedures. Other uncertainties affecting claims provisions include uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss and the magnitude of the claim as a result of the event occurring or following the identification and notification of an insured loss.

The estimates of premium and claims liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence, the actual future premium and claims liabilities may not develop exactly as projected and may vary from initial estimates.

4. Property, plant and equipment

	Leasehold buildings S$	Furniture and fittings S$	Motor vehicles S$	Office renovation S$	Office equipment S$	Total S$
Cost						
At 1 January 2012	419,832	22,119	151,700	16,025	253,098	862,774
Additions during the year	–	6,050	–	–	48,197	54,247
Write-off during the year	–	–	–	–	(136,967)	(136,967)
At 31 December 2012 and 1 January 2013	419,832	28,169	151,700	16,025	164,328	780,054
Additions during the year	–	1,001	–	–	55,704	55,705
Write-off during the year	–	–	–	–	(30,724)	(30,724)
At 31 December 2013	419,832	29,170	151,700	16,025	188,308	805,035
Accumulated depreciation						
At 1 January 2012	61,740	10,392	62,999	16,000	89,759	240,890
Charge for the year	24,696	4,686	37,925	25	59,474	126,806
Write-off during the year	–	–	–	–	(135,485)	(135,485)
At 31 December 2012 and 1 January 2013	86,436	15,078	100,924	16,025	13,748	232,211
Charge for the year	24,696	4,122	37,925	–	64,250	130,993
Write-off during the year	–	–	–	–	(30,724)	(30,724)
At 31 December 2013	111,132	19,200	138,849	16,025	47,274	332,480
Net book value						
At 31 December 2013	308,700	9,970	12,851	–	141,034	472,555
At 31 December 2012	333,396	13,091	50,776	–	150,580	547,843

5. Intangible assets

Computer software	31 December 2013 S$	31 December 2012 S$
Cost		
Balance at beginning of the year	125,248	122,858
Additions	50,860	2,390
Balance at end of the year	176,108	125,248
Accumulated amortisation		
Balance at beginning of the year	69,495	39,456
Amortisation for the year	26,666	30,039
Balance at end of the year	96,161	69,495
Net book value		
Balance at end of the year	79,947	55,753

6. Available-for-sale investments

	31 December 2013 S$	31 December 2012 S$
Quoted		
Equity investments	8,776,992	8,530,068
Bonds	26,865,683	27,616,500
Singapore government securities	14,726,731	12,702,308
	50,369,406	48,848,876
Unquoted		
Bonds	5,380,751	6,723,828
	55,750,157	55,572,704

Impairment loss

The Branch recognised an impairment loss of $ Nil (2012: Nil) pertaining to quoted equity investments carried at fair value in the profit and loss account during the financial year.

7. Deferred tax

At the end of the reporting period, deferred tax has not been recognised for the following temporary differences:

	31 December 2013 S$	31 December 2012 S$
Unabsorbed tax losses	518,675	4,970,516
Fair value adjustment reserve	(233,601)	(2,548,435)
Differences in accretion of premium on available-for-sale investments	224,167	51,794
Differences in depreciation	1,539,895	(266,093)
Temporary differences not recognised	2,049,136	2,207,782

Deferred tax assets have not been recognised because it is uncertain if future taxable profits will be available against which the Branch can utilise the benefits therefrom.

8. Insurance receivables

	31 December 2013 S$	31 December 2012 S$
(i) Arising from insurance and reinsurance contracts issued:		
Amount due from policyholders, agents, brokers and insurers	5,333,739	4,833,199
Inward treaty reserve deposit	240,768	200,800
Less: Allowance for impairment	(160,322)	(100,181)
	5,414,185	4,933,818
(ii) Arising from reinsurance contracts held:		
Amount due from reinsurers and brokers	2,151,588	575,668
Less: Allowance for impairment	(29,739)	(89,880)
	2,121,849	485,788
Total insurance receivables	7,536,034	5,419,606
Add: Cash and cash equivalents (Note 20)	62,322,552	60,094,208
Cash and fixed deposits - collaterals (Note 21)	2,466,911	2,946,147
Interest and dividend receivable	465,559	459,713
Other debtors and deposits (Note 9)	2,803,930	3,100,989
Total loans and receivables	75,594,986	72,020,663

8. Insurance receivables (cont'd)

Insurance receivables are non-interest bearing and are generally on 60 days premium warranty for direct insurance business from insureds who are individuals or 60 to 90 days' credit term for others.

Insurance receivables that are past due but not impaired

The Branch has amounts due from policyholders, agents, brokers, insurers and reinsurers amounting to S$1,009,807 (2012: S$1,226,666) that are past due at the balance sheet date but not impaired. These amounts are unsecured and the analysis of their aging at the balance sheet date is as follows:

	31 December 2013 S$	31 December 2012 S$
Past due but not impaired		
Less than 90 days	866,242	959,006
More than 90 days	143,565	267,660
	1,009,807	1,226,666

Insurance receivables that are impaired

The Branch has insurance receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Collectively impaired		Individually impaired	
	31 December 2013 S$	31 December 2012 S$	31 December 2013 S$	31 December 2012 S$
Insurance receivables - nominal amounts	512,256	821,754	–	–
Less: Allowance for impairment	(190,061)	(190,061)	–	–
	322,195	631,693	–	–
Movement in allowance accounts:				
Balance at beginning of the year	190,061	119,818	–	–
Charge for the year (Note 17)	–	70,243	–	–
Balance at end of the year	190,061	190,061	–	–

8. Insurance receivables (cont'd)

Receivables subject to offsetting arrangements

The Branch's insurance receivables and insurance payables that are offset are as follows:

As at 31 December 2013	Gross carrying amounts S$	Gross amounts offset in the balance sheet S$	Net amounts in the balance sheet S$
Insurance receivables	8,139,374	(603,340)	7,536,034
Insurance payables	–	(603,340)	–
As at 31 December 2012			
Insurance receivables	5,960,037	(540,431)	5,419,606
Insurance payables	–	(540,431)	–

9. Other debtors and deposits

	31 December 2013 S$	31 December 2012 S$
Staff advances	30,222	26,820
Funds placed with external fund manager	2,063,857	2,752,304
Other debtors	487,167	286,193
Sundry deposits	222,684	35,672
	2,803,930	3,100,989

10. Insurance payables

	31 December 2013 S$	31 December 2012 S$
<u>Arising from insurance contracts issued:</u>		
Amount due to policyholders, agents and brokers	121,728	117,163
<u>Arising from reinsurance contracts held:</u>		
Amounts due to reinsurers and brokers	3,602,278	2,312,233
Total insurance payables	3,724,006	2,429,396
Add: Other creditors and accruals (Note 11)	5,610,245	5,328,290
Total financial liabilities carried at amortised cost	9,334,251	7,757,686

Insurance payables are non-interest bearing and are generally on 90 days' credit term.

11. Other creditors and accruals

	31 December 2013 S$	31 December 2012 S$
Accrued operating expenses	1,759,908	1,487,324
Other creditors	1,383,426	894,389
Cash collaterals received in respect of performance bonds and agency contracts (see Note 21)	2,466,911	2,946,577
	5,610,245	5,328,290

The expected payable date of the other creditors and accruals is as follows:-

	31 December 2013 S$	31 December 2012 S$
Current	4,228,469	3,668,961
Non-current	1,381,776	1,659,329
	5,610,245	5,328,290

12. Reserve for unexpired risks

	31 December 2013			31 December 2012		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	S$	S$	S$	S$	S$	S$
Reserve for unexpired risks	28,603,021	(4,149,649)	24,453,372	24,436,356	(2,990,228)	21,446,128
Movement in reserve for unexpired risks:						
Balance at beginning of the year	24,436,356	(2,990,228)	21,446,128	22,108,710	(2,704,211)	19,404,499
Movement of reserve during the year	4,166,665	(1,159,421)	3,007,244	2,327,646	(286,017)	2,041,629
Balance at end of the year	28,603,021	(4,149,649)	24,453,372	24,436,356	(2,990,228)	21,446,128

13. Deferred acquisition costs

	31 December 2013			31 December 2012		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	S$	S$	S$	S$	S$	S$
Deferred acquisition costs	4,018,684	(1,188,560)	2,830,124	3,666,646	(741,469)	2,925,177
Movement in deferred acquisition costs:						
Balance at beginning of the year	3,666,646	(741,469)	2,925,177	3,266,019	(543,211)	2,722,808
Costs deferred during the year	352,038	(447,091)	(95,053)	400,627	(198,258)	202,369
Balance at end of the year	4,018,684	(1,188,560)	2,830,124	3,666,646	(741,469)	2,925,177

14. Loss reserves

	31 December 2013			31 December 2012		
	Gross S$	Reinsurance S$	Net S$	Gross S$	Reinsurance S$	Net S$
Outstanding claims notified	40,116,232	(2,419,928)	37,696,304	47,353,496	(4,483,776)	42,869,720
Outstanding claims incurred but not reported (IBNR)	14,389,938	(1,898,713)	12,491,225	13,106,693	(1,372,033)	11,734,660
	54,506,170	(4,318,641)	50,187,529	60,460,189	(5,855,809)	54,604,380
Movement in loss reserves:						
Balance at beginning of the year	60,460,189	(5,855,809)	54,604,380	65,513,808	(8,179,232)	57,334,576
Claims (paid)/ recovered during the year	(23,469,941)	2,840,934	(20,629,007)	(22,457,582)	2,247,452	(20,210,130)
Claims incurred during the year	17,515,922	(1,303,766)	16,212,156	17,403,963	75,971	17,479,934
Balance at end of the year	54,506,170	(4,318,641)	50,187,529	60,460,189	(5,855,809)	54,604,380

Reproduced below is an exhibit that shows the development of claims including both notified and IBNR claims over a period of time on a net and gross basis. The claims development tables disclosed below prior to 31 December 2009 reflect the claims experience of the Singapore Branch of Mayban General Assurance Berhad ("MGAB") which is relevant to the Branch since the Branch assumed the total claim liabilities of MGAB on 1 July 2009 pursuant to a scheme of transfer dated 20 February 2009 under Section 47 of the Insurance Act, Chapter 142.

The disclosure on claims development aims to compare the results of past valuations to the actual claims developed. This is useful to evaluate actual claims development against that assumed in past projections, however, it should be noted that the projected liabilities may not be consistently close to actual liabilities every year due to the random nature of claim incidence and amount. Hence, this comparison should not be used to evaluate past projections for accuracy.

14. Loss reserves (cont'd)

Analysis of claims development – Gross of reinsurance (in S$'000s)

	As at 31 December								
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
	S$	S$	S$	S$	S$	S$	S$		S$
Estimate of cumulative claims:									
At end of accident year	11,152 [b]	12,999 [b]	15,946 [b]	38,538 [b]	38,250 [b]	29,649 [c]	23,321 [c]	22,528 [c]	
One year later	25,574 [b]	27,933 [b]	35,459 [b]	36,275 [b]	38,102 [c]	27,503 [c]	20,962 [c]		
Two years later	26,190 [b]	28,703 [b]	36,838 [b]	36,597 [c]	34,801 [c]	26,673 [c]			
Three years later	26,654 [b]	29,531 [b]	37,658 [c]	36,739 [c]	33,619 [c]				
Four years later	27,003 [b]	31,168 [c]	37,374 [c]	36,582 [c]					
Five years later	27,380 [c]	31,165 [c]	37,163 [c]						
Six years later	27,392 [c]	30,965 [b]							
Seven years later	27,381 [c]								
Estimate of cumulative claims	27,381	30,965	37,163	36,582	33,619	26,673	20,962	22,528	235,873
Cumulative payments to-date	(27,256)	(30,316)	(36,126)	(34,088)	(28,178)	(17,360)	(10,999)	(6,416)	(190,739)
Gross outstanding claims liabilities	125	649	1,037	2,494	5,441	9,313	9,963	16,112	45,134
Unallocated loss adjustment expenses									1,018
Provision for prior accident years									2,180
Provision for adverse deviation									6,174
Total gross claims liabilities as per the balance sheet									54,506

Note:

a The valuation of the liabilities on the gross of reinsurance basis was done by the actuary for the first time during the financial year ended 30 June 2006. Hence, the estimates of cumulative claims as at prior years are not available.

b In the past (30 June 2011 and prior), gross valuation was performed at 30 June and hence, the "estimate of cumulative claims" was made as at 30 June, rather than 31 December.

c From 31 December 2011, gross valuation was performed based on data at 31 December and hence, the "estimate of cumulative claims" was made as at 31 December 2013.

14. Loss reserves (cont'd)

Analysis of claims development – Net of reinsurance (in S$'000s)

	As at 31 December								
	2006	2007	2008	2009	2010	2011	2012	2013	Total
	S$	S$	S$	S$	S$	S$	S$		S$
Estimate of cumulative claims:									
At end of accident year	22,094	24,089	30,594	36,428	34,143	25,955	21,511	21,038	
One year later	23,478	26,698	33,431	34,194	35,294	24,794	19,283		
Two years later	24,194	27,607	34,793	34,063	32,336	23,932			
Three years later	25,307	28,342	35,686	34,234	31,231				
Four years later	25,653	29,657	35,446	34,269					
Five years later	26,226	29,636	35,300						
Six years later	26,274	29,469							
Seven years later	26,268								
Estimate of cumulative claims	26,268	29,469	35,300	34,269	31,231	23,932	19,283	21,038	220,790
Cumulative payments to-date	(26,146)	(28,841)	(34,336)	(31,971)	(25,913)	(15,636)	(10,260)	(6,012)	(179,115)
Net outstanding claims liabilities	122	628	964	2,298	5,318	8,296	9,023	15,026	41,675
Unallocated loss adjustment expenses									939
Provision for prior accident years									2,135
Provision for adverse deviation									5,439
Total net claims liabilities as per the balance sheet									50,188

15. Fair value adjustment reserves

Fair value adjustment reserve represents the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed of or impaired.

	31 December 2013 S$	31 December 2012 S$
Balance at beginning of the year	2,548,436	3,070,548
Net change on available-for-sale financial assets:		
Provision for impairment (Note 18)	–	–
Net change on fair value changes during the financial year	(1,933,571)	2,313,939
Recognised in gain on disposal of investments in profit and loss account (Note 18)	(381,264)	(2,836,051)
Balance at end of the year	233,601	2,548,436

16. Staff costs

	31 December 2013 S$	31 December 2012 S$
Salaries and bonuses	4,766,511	4,032,088
Central Provident Fund contributions	392,434	367,099
Other employee-related costs		
- inclusive of apartment rental expense of S$102,166 (2012: S$76,053)	372,561	294,320
Share-based payments (Employee share option plans) (Note 23)	54,179	63,116
	5,585,685	4,756,623

17. Other operating expenses

Other operating expenses include the following:

	31 December 2013 S$	31 December 2012 S$
Foreign exchange loss, net	6,354	3,153
Operating lease expense	97,064	99,196
Allowances for doubtful debts*	–	106,857
Write-off of property, plant and equipment	–	1,482
Licence fee	60,000	60,000

*Allowances for doubtful debts comprise bad debts and insurance receivable impairment amounting to S$Nil (2012: S$36,614) and S$Nil (2012: S$70,243) respectively.

18. Investment income – net

	31 December 2013 S$	31 December 2012 S$
Loans and receivables:		
Interest income on fixed deposits	380,718	344,058
Available-for-sale investments:		
Dividend income from quoted equity investments	337,825	196,651
Interest income from government securities and bonds	1,231,985	1,397,783
Gain on disposal of investments	381,264	2,836,051
Impairment gain on investments	311,452	–
Net amortisation of (premium)/discount on government securities and bonds	(172,374)	217,939
Investment expenses	(233,765)	(533,353)
	2,237,105	4,459,129

19. Income tax expense

Major components of income tax expense for the year ended 31 December were:

	31 December 2013 S$	31 December 2012 S$
Current year tax expense		
- current year tax	–	–
- deferred tax income	–	–
	–	–

A reconciliation of the tax expense to the product of accounting profit multiplied by the statutory tax rate for the year ended 31 December is as follows:

	31 December 2013 S$	31 December 2012 S$
Profit before tax	5,564,518	5,943,604
Tax at the applicable rate of 17% (2012: 17%)	945,968	1,010,413
Expenses not deductible for tax purposes	38,546	31,945
Tax exemption	(25,925)	(25,925)
Utilization of unabsorbed losses	(756,813)	(1,016,433)
Others	(201,776)	–
Income tax benefit recognised in profit and loss account	–	–

The Branch has unutilised tax losses of approximately $518,675 (2012: $4,970,516) available for offset against future taxable profits. At the balance sheet date, no deferred tax asset has been recognised on these tax losses due to uncertainty of its realisation. The use of tax losses is subject to the agreement with the tax authorities and compliance with certain provisions of the tax legislation.

20. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	31 December 2013 S$	31 December 2012 S$
Cash and bank balances	5,968,246	5,674,919
Fixed deposits	56,354,306	54,419,289
	62,322,552	60,094,208

21. Cash and fixed deposits - collaterals

The Branch has fixed deposits of S$2,435,230 (2012: S$2,914,965) and cash in bank of S$500 (2012: S$500) held as collateral against performance bonds issued on behalf of policyholders throughout the period of the insurance policies and fixed deposits of S$31,181 (2012: S$30,982) held as agency collaterals. The fair value of the collaterals as at the balance sheet date approximates the carrying amount.

22. Significant related party transactions

(a) *Transactions with ultimate holding company*

The Branch has the following significant related party transactions with its ultimate holding company and the effects of these transactions on the basis determined between these parties are reflected in the financial statements:

	31 December 2013 S$	31 December 2012 S$
Interest income on fixed deposits	2,890	5,468
Commission expense	1,447,215	1,707,797
Premium income	9,032,573	10,442,187

(b) *Compensation of key management personnel*

	31 December 2013 S$	31 December 2012 S$
Short-term employee benefits	814,934	881,211

23. Employee benefits

Maybank Group Employee Share Scheme ("ESS")

The Maybank Group's Employees' Share Scheme ("ESS") is an equity-settled share-based compensation plan that allows the Group's Directors and employees to acquire shares of the Bank. It is governed by the by-laws approved by the MBB's shareholders at an Extraordinary General Meeting held on 13 June 2011. The ESS has been implemented on 23 June 2011 and is in force for a maximum period of seven years from the effective date for eligible employees and executive directors within Maybank Group.

The maximum number of ordinary shares of RM1 each in Maybank available under the ESS should not exceed 10% of the total number of issued and paid-up capital of Maybank at any point of time during the duration of the scheme.

During the financial year ended 31 December 2013, share-based payments of S$54,179 (2012: S$63,116) were recognised in profit and loss account.

24. Commitments

Operating lease commitments

The Branch leases its office equipment, office premises and staff accommodations under lease agreements that are not cancellable within a year. The leases contain renewable options. Future minimum lease payments for the leases with initial or remaining terms of one year or more are as follows :

	31 December 2013 S$	**31 December 2012** S$
Within one year	1,676,407	115,335
After one year but not more than five years	9,477,665	58,300
	11,154,072	173,635

25. Financial risk management objectives and policies

Exposure to interest rate, foreign currency, equity price, credit and liquidity risks arise in the normal course of the Branch's business.

The Branch's investment objective is to achieve a balance of capital growth and income over the medium and long-term period primarily through a diversified investment portfolio. Assets must be managed in a sound and prudent manner taking into account the profile of the liabilities of each fund and the impact on its solvency position. Investments made shall be in compliance with prevailing local regulatory and Head Office requirements.

Investment decisions are made by the Investment Committee (the "IC"). The IC had approved the appointment of the external discretionary investment manager to manage the Branch's investment portfolio. The role of the committee is to ensure that investment limits are complied with and decide on forward investment strategy.

In addition, insurers are required to comply with the Insurance Act and Regulations, as applicable, including guidelines on investment limits.

The following sections provide details regarding the Branch's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

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

Interest rate risk

The Branch's investment activities are inherently exposed to interest rate risk, which arises principally from differences in maturities or re-pricing of invested assets. In dealing with this risk, the Branch adopts an approach of focusing on achieving a desired overall interest rate profile, which may change over time, but operate within investment mandate laid down by investment committee.

The following table sets out the carrying amounts, by maturity of the Branch's financial instruments that are exposed to interest rate risk:

	Effective interest rate	Within 1 year S$	1 to 3 years S$	4 to 5 years S$	More than 5 years S$	Total S$
31 December 2013						
Financial assets						
Available-for-sale investments						
- Quoted bonds	2.761%	7,159,096	6,467,424	8,759,721	19,206,173	41,592,414
- Unquoted bonds	2.734%	2,263,148	1,039,004	–	2,078,599	5,380,751
Fixed deposits (excluding fixed deposits held as collaterals)	0.728%	56,354,306	–	–	–	56,354,306

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

Interest rate risk (cont'd)

	Effective interest rate	Within 1 year S$	1 to 3 years S$	4 to 5 years S$	More than 5 years S$	Total S$
31 December 2012						
Financial assets						
Available-for-sale investments						
- Quoted bonds	3.036%	1,295,125	10,736,883	11,332,159	16,954,641	40,318,808
- Unquoted bonds	2.312%	2,000,402	1,515,136	1,026,871	2,181,419	6,723,828
Fixed deposits (excluding fixed deposits held as collaterals)	0.69%	54,419,289	–	–	–	54,419,289

Sensitivity analysis for interest rate risk

At the balance sheet date, if SGD interest rates had been 30 basis points higher/lower with all other variables held constant, the Branch's profit before tax would have been S$169,063 (2012: S$163,258) higher/lower, arising mainly as a result of higher/lower interest income from fixed deposits, and the Branch's fair value adjustment reserve in equity before tax would have been S$450,928 (2012: S$630,000) lower/higher, arising mainly as a result of a decrease/increase in the fair value of fixed rate debt securities classified as available-for-sale.

Foreign currency risk

Investments denominated in foreign currencies are kept to the minimum. In complying with the foreign currency limit, active currency decisions are made when investing in foreign equities and bonds. Foreign currency risks in trade transactions are minimised by converting foreign currencies to Singapore dollars immediately upon receipt of funds.

Sensitivity analysis for foreign currency risk

Possible changes in currencies other than Singapore Dollars are not significant enough to cause significant, change to the profit after tax individually and collectively.

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

Equity price risk

Market price risk is the risk that the fair value or future cash flows of the Branch's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates). The Branch is exposed to equity price risk arising from its investment in quoted equity instruments and unquoted marketable unit trusts. These quoted equity instruments, listed on the stock exchange in Singapore or other regulated stock exchange overseas, and marketable unit trusts are classified as available-for sale financial assets.

At the balance sheet date, if the market prices of the equity investments and unit trusts had been 5% higher/lower with all other variables held constant, the Branch's fair value adjustment reserve in equity before tax would have been S$438,850 (2012: S$426,503) higher/lower, arising as a result of an increase/decrease in the fair value of equity instruments classified as available-for-sale.

Credit risk

Credit risk is the risk of loss as a result of counterparties to insurance, reinsurance and investment transactions failing to perform an obligation. In respect of insurance receivables and other receivables, the Branch has a credit policy in place and exposure to credit risk is actively monitored on an ongoing basis. For investment activities, counter-party limits are imposed and monitored at fund level. At balance sheet date, there is no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Financial assets that are neither past due nor impaired

Insurance receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Branch. Cash and cash equivalents, and investment securities that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default. Information regarding financial assets that are either past due or impaired is disclosed in Note 6 (Available-for-sale investments) and Note 8 (Insurance receivables).

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

Liquidity risk (cont'd)

Liquidity risk is the risk where an entity is unable to meet its financial obligations when they fall due. The Branch manages this risk by regularly monitoring projected and actual cash inflows and outflows and by ensuring that a reasonable amount of financial assets are kept in liquid instruments at all times.

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

	Within 1 year S$	1 to 3 years S$	3 to 5 years S$	More than 5 years S$	No maturity date S$	Total S$
31 December 2013						
Financial assets						
Available-for-sale investments	9,422,244	7,506,428	8,759,721	21,284,772	8,776,992	55,750,157
Insurance receivables	7,536,034	–	–	–	–	7,536,034
Interest and dividend receivable	465,559	–	–	–	–	465,559
Other debtors and deposits	2,803,930	–	–	–	–	2,803,930
Cash and cash equivalents	63,407,187	1,382,276	–	–	–	64,789,463
Total assets	83,634,954	8,888,704	8,759,721	21,284,772	8,776,992	131,345,143
Financial liabilities						
Insurance payables	3,724,006	–	–	–	–	3,724,006
Other creditors and accruals	4,227,969	1,382,276	–	–	–	5,610,245
Total liabilities	7,951,975	1,382,276	–	–	–	9,334,251

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

Liquidity risk (cont'd)

	Within 1 year S$	1 to 3 years S$	3 to 5 years S$	More than 5 years S$	No maturity date S$	Total S$
31 December 2012						
Financial assets						
Available-for-sale investments	3,295,528	12,252,018	12,359,030	19,136,060	8,530,068	55,572,704
Insurance receivables	5,419,606	–	–	–	–	5,419,606
Interest and dividend receivable	459,713	–	–	–	–	459,713
Other debtors and deposits	3,100,989	–	–	–	–	3,100,989
Cash and cash equivalents	61,381,026	1,659,329	–	–	–	63,040,355
Total assets	73,656,862	13,911,347	12,359,030	19,136,060	8,530,068	127,593,367
Financial liabilities						
Insurance payables	2,429,396	–	–	–	–	2,429,396
Other creditors and accruals	3,668,961	1,659,329	–	–	–	5,328,290
Total liabilities	6,098,357	1,659,329	–	–	–	7,757,686

* Amounts are recoverable or payable within twelve months after the reporting period is deem to be current and more than twelve months after the reporting period is deem to be non-current.

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

Fair values measurements

The Branch classifies fair value measurement using a fair value hierarchy that is dependent on the valuation inputs used as follows:

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

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

	Quoted prices in active markets for identical instruments (Level 1) S$	Significant other observable inputs (Level 2) S$	Significant unobservable inputs (Level 3) S$	Total S$
31 December 2013				
Recurring fair value measurements				
Financial assets:				
Available-for-sale investments (Note 6)	–	–	–	–
Quoted:				
- Equity investments	8,776,992	–	–	8,776,992
- Bonds	26,865,683	–	–	26,865,683
- Singapore government securities	14,726,731	–	–	14,726,731
Unquoted:				
- Bonds	–	5,380,751	–	5,380,751
	50,369,406	5,380,751	–	55,750,157

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

Fair values measurements (cont'd)

	Quoted prices in active markets for identical instruments (Level 1) S$	Significant other observable inputs (Level 2) S$	Significant unobservable inputs (Level 3) S$	Total S$
31 December 2012				
Recurring fair value measurements				
Financial assets:				
Available-for-sale investments (Note 6)				
Quoted:				
- Equity investments	8,530,068	–	–	8,530,068
- Bonds	27,616,500	–	–	27,616,500
- Singapore government securities	12,702,308			12,702,308
Unquoted:				
- Bonds	–	6,723,828	–	6,723,828
	48,848,876	6,723,828	–	55,572,704

Determination of fair value

Financial assets carried at fair value

The fair value of quoted equity investment, quoted bonds and Singapore government bonds classified as available-for-sale is determined by direct reference to the market price quoted on a stock exchange or active market at the end of reporting period. These instruments are included in Level 1.

The fair value of unquoted bonds is determined based on over-the-counter quotes at the balance sheet date. These are based on market observable inputs such as benchmark market rates of interest, reported trades and broker-dealer quotes available for these investments. These investments are included in Level 2.

During the year ended 31 December 2013 and 2012, there were no transfers of investments between Level 1, Level 2 and Level 3.

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

Fair values measurements (cont'd)

***Determination of fair value** (cont'd)*

Financial assets and liabilities whose carrying amounts approximate its fair value

Management has determined that the carrying amounts of cash and cash equivalents, insurance receivables, other debtors and receivables, insurance payables and other creditors and payables are reasonable approximation of fair values due to their relatively short-term maturity of these items.

26. Capital management

The Branch's primary source of funding is from its head office. Capital includes the head office amount less the fair value adjustment reserve. The Branch's objectives when managing capital are:

- to comply with the insurance capital requirements required by the Singapore insurance regulator, the Monetary Authority of Singapore ("MAS");
- to safeguard the Branch's ability to continue as a going concern so that it can continue to protect policyholders; and
- to provide an adequate return to head office by pricing insurance contracts that commensurates with the level of risk.

The Branch is required to satisfy the Fund Solvency and Capital Adequacy Requirements as prescribed under the Singapore Insurance Act (Chapter 142). Under the Risk-based Capital Framework regulation set by Monetary Authority of Singapore (MAS), insurers are required to satisfy a minimum capital adequacy ratio of 120%. In addition, MAS may direct different capital adequacy requirements for different insurers from time to time.

The Branch monitors its capital level on a regular basis to assess whether such requirements have been met, and reports to the MAS its fund solvency position at each quarter as well as annually. The Branch has complied with the above-mentioned solvency requirements during the financial year ended 31 December 2013.

28. Authorisation of financial statements

The financial statements of Etiqa Insurance Berhad, Singapore Branch for the year ended 31 December 2013 were authorised for issue by the Chief Executive of the Branch on 28 February 2014.

Etiqa Insurance Berhad

(Incorporated in Malaysia)

Singapore Branch

The following supplementary information does not form part of the audited statutory financial statement of the Branch

Etiqa Insurance Berhad
(Incorporated in Malaysia)
Singapore Branch

Supplementy information for the financial year ended 31 December 2013

This supplementary information has been prepared to fulfill the requirements of MAS Notice 124 “Public Disclosure Requirements” for the financial year ended 31 December 2013.

Corporate Governance Structure

The branch is under the purview of head office where the Board of Directors ("the Board") at the head office is committed to ensuring that the highest standards of corporate governance are practised within Etiqa Insurance Berhad (the “Company”). The key features of corporate governance structure includes:-

1) Board Responsibilities

   The Board approves the Company’s major investments, disposals and funding decisions and ensures the implementation of appropriate systems to manage risks and also reviews and approves the strategies and financial objectives to be implemented by the management.

2) Management Accountability

   The management is accountable for the execution of the enabling policies and attainment of the Company's corporate objectives.

3) Corporate Independence

   Material related party transactions have been disclosed in the note 22 of the financial statements of the Branch.

4) Internal Controls and Audit

   To establish internal controls which cover all levels of personnel and business processes.

5) Risk Management

   To oversee the senior management’s activities in managing the key risk areas of the Company.

6) Nomination and Remuneration Committee

   To establish a documented, formal and transparent procedure for the appointment of directors, Chief executive officer and key senior management.

7) Investment Committee (“IC”)

   To present an opinion on the long-term strategic investment policy.

Group policies implemented by the above committees are cascaded down to the Branch.

Risk and Capital Management Framework

The Risk Management Framework defines the governance structure to support the Risk Management process and to ensure strong risk management. In addition, it is set up to identify three levels:-

1) Clear risk objectives and business strategy;

    - To ensure the Group delivers sustainable growth

2) Comprehensive Risk Management Cycle;

    - All key risks are identified and appropriately managed.

3) Strong Risk Culture.

    - Ensure risk management is effectively carried out.

Asset-Liability Management ("ALCO")

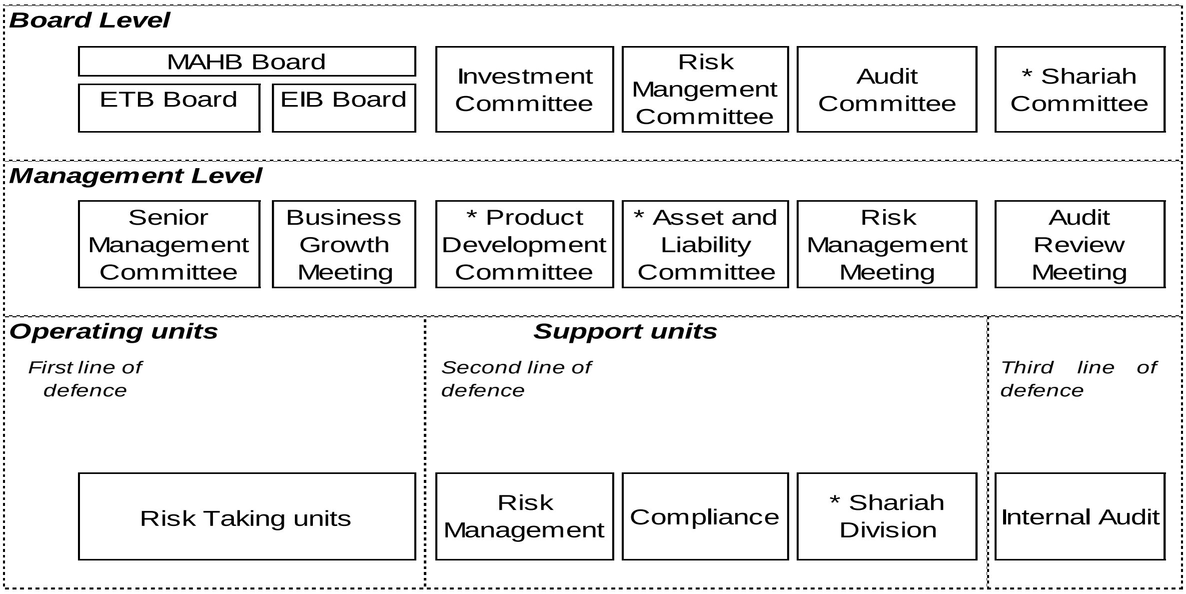
The ALCO is responsible to coordinate on-going controls over the financial/Investment risk position.

Risk and Capital Management Framework (cont'd)

Risk Governance Structure and Risk Organisation

The governance structure outlines the organisational structure, the hierarchy and the scope of responsibilities of all the Governance bodies involved in the risk management function.

Each of the Committees have its own terms of reference, roles and responsibilities, specific duties and level of authority.



* Shariah Committee, Product Development Committee, Asset and Liability Committee and Shariah Division are not applicable to the Branch.

The group's risk management approach is premised on three lines of defence – Risk Taking Units, Risk Control Units and Internal Audit.

1) Risk Taking Unit (First line of defence)

   Responsible for the day-to-day management of risks inherent in their business activities.

2) Risk control Unit (Second line of defence)

   Responsible for setting the risk management framework, adherence to it and developing tools and methodologies for the identification, measurement, monitoring and control.

3) Internal audit (Third line of defence)

   Internal audit checks and provides independent assurance of the effectiveness of the risk management.

Material insurance risks exposure

Management of insurance risk

Insurance risk is the risk of loss arising from the occurrence of an insured event under any one insurance contract. By the very nature of an insurance contract, this risk is random and therefore unpredictable. Such risk includes the pricing risk, claims reserving, underwriting risk and reinsurance risk. The Branch has developed a risk management framework encompassing strategies on underwriting, reinsurance and provisioning of insurance liabilities to safeguard not only the interest of our shareholders, but also that of our customers. For further details of management of insurance risk, please refer to note 3 of the financial statements for the Branch.

The use of reinsurance

The Branch reinsures its business to various reinsurers to limit its exposure to large insurance contracts and large claims. This includes various proportional reinsurance arrangements such as quota share and surplus treaties, to cover various classes such as Fire, Engineering and etc. The Branch has also entered into non-proportional treaties such as excess of loss cover for most business classes.

Concentration risk

Concentration risk refers to the risk of loss to a financial institution as a result of having too many outstanding loans concentrated in a particular instrument, with a particular type of borrower, or in a particular country.

The Branch's insurance contracts mostly cover perils and risks in Singapore. As such, the Branch's Concentration Risk is immaterial as the exposure to natural disasters in Singapore is minimal based on historical experience. However, the Branch is aware of the potential for extreme events to occur together and further increasing the concentration risk. Perils like floods, economic downturn and terrorism may present a level of variability and correlation in the future claim experience, but these concentration of risks are protected by the excess of loss reinsurance.

Insurance contract liabilities

For general insurance contracts, claims provisions (comprising provision for claims reported by policyholders and claims incurred but not reported - IBNR) 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 balance sheet date. The provisions are revised continuously as part of a regular ongoing process as claims are settled and further claims are reported. For further details on the assumptions, methodologies and sensitivity, please refer to the notes 2.3, 2.6 and 2.8 of the financial statements of the Branch.

Capital Adequacy

The unaudited Capital Adequacy Ratio of the Branch as at 31 December 2013 is 278% (2012: 240%).

No internal model has been used to determine the capital resources and requirements. However, a Stress Test model, based on the formulaic rules prescribed by the Risk-based Capital Framework from MAS has been used to determine the capital resources and requirement.

Investment Policy and Management

The investment policy ("the Policy") of the Investment Management Division ("IMD") is a framework for all investment management related activities undertaken by IMD. The Policy sets out the scope, responsibilities and guiding principles for investment management activities in IMD.

The objective of the IMD is to be fully responsible to protect its company's best interests by putting in place an effective decision making process.

The Etiqa Investment Committee ("EIB IC") is a governance body which carries an oversight function for Investment related activities. The meetings are to be held at least four (4) times a year.

Main responsibilities

(i) Responsible for the tactical investment policy carried out and the consequent results

(ii) Empowered to take ad hoc decisions as the occasion arises

Specific Duties

(i) To present an opinion on the long-term strategic investment policy including real estate, as a recommendation for the RMM/RMC/Board based on ALCO-advice.

(ii) To establish the tactical investment policy on the basis of the proposal by the investment manager.

(iii) To test the policy conducted by the Investment Manager against the strategic and tactical investment policy.

For information regarding the Branch's financial risk management objectives and policies including quantitative information (e.g. sensitivity to market variables and valuation etc.) about the Branch's financial instruments and other assets, please refer to notes 2.12 and 25 of the Branch's financial statements.

Etiqa Insurance Berhad
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Singapore Branch

Supplementy information for the financial year ended 31 December 2013

Financial performance by class of business

For internal management reporting purpose, the Branch monitors the financial performance via the different lines of business. For further information on the financial performance (including claims development) of the various lines of business, please refer to note 14 of the Branch's financial statement and Form 6 of the annual regulatory returns (that will be made available on the MAS website).

The above information has been compiled from various sources to meet the requirements of MAS Notice 124. For further information on the above (otherwise stated), refer to our Head office Audited Financial Statements for the year ended 31 December 2013.