ace insurance

2012 ANNUAL REPORT

CONTENTS

COUNTRY PRESIDENT'S STATEMENT

"We've outperformed the market with an overall growth of 11% over prior year"

2012 was a great year for ACE Singapore. The industry sector grew 4.7%; and within our focus segments, the industry grew 5.2%. As a company, we have outperformed the market with an overall growth of 11% over prior year, with $152.908mio of premiums generated.

Against the backdrop of intense competition, the team has done well to maintain strong underwriting discipline and a clear business development focus across product lines. The end result: a combined ratio of 78.6%, with an underwriting profit of $10.858mio; a 93% increase over prior year. The performance across the teams has been nothing short of exceptional. They are extremely dedicated to their work with robust support from our business enablers, Underwriting, Marketing, Finance, IT, Claims and Operations. Everyone played a critical role in the overall success of the company.

The strong focus on business development in our Property & Casualty (P&C) team resulted in stellar growth in our property portfolio – 65% over prior year. Financial Lines experienced moderate growth of 3.6%, with Casualty & Marine consolidating its position under the new leadership team. We did not renew certain major accounts due to incongruent claims experience, renewal terms and pricing. Despite this, we still managed an overall 5% growth over prior year for the P&C Division. The Combined Ratio of 68.2% is a real testimony to our underwriting discipline; an outstanding achievement from the P&C team. With an excellent blend of experience and energy, this team's bench strength has improved significantly over the last twelve months and will continue to make progress in all critical focus areas.

Our Accident & Health (A&H) portfolio registered a healthy 13.6% growth, driven primarily by new partnerships acquired in the last twelve months as well as new products introduced across sponsor partners. We have also emerged as one of the top three travel insurance providers in Singapore. Beyond strong growth in the direct marketing, worksite and travel segments, the renewed vigor and energy in the revitalized A&H Corporate team has been encouraging. Its operations had been re-engineered to provide quality service and support to our brokers and their valued clients. The combined ratio for the division was a sound 82.6% which was well within our expectations.

We have also redefined the strategic importance of the Personal Business Insurance (PBI) Division with regards to its product offering. The focus will be more consumer-centric, with new electronic devices protection and residential products being introduced. Synergies and hybrid programs with A&H will also be introduced to provide new offerings to our partners and to cater to the changing needs of consumers. Despite the strategic change in our focus away from Small and Medium Enterprises, the Division managed a growth of 30% for the overall personal lines portfolio. Under its new leadership, the team will capitalize on existing partnerships as well as expand its distribution network beyond traditional channels.

We are ready for the impending regulatory changes that will likely impact a wide spectrum of our operations, from capital to enterprise risk management, corporate governance to consumer marketing. Our strategy is to:

- boost our operational and systems capabilities to ensure these keep pace with the new regulatory environment;
- deliver effective platforms for our core distribution network;
- manage enterprise and business risks through robust modeling with an emphasis on capital impact;
- invest and grow our multi-national servicing capabilities and expand our multinational portfolio;
- innovate and enhance our existing product offerings across the P&C, A&H and PBI divisions; and
- expand our distribution network beyond the traditional insurance intermediary channels.

With the initiatives listed, our key differentiator has been and will always be the quality of our staff. A special thanks to our leadership team and all staff. The exceptional courage demonstrated in the face of challenges and the drive to work as a team to resolve issues is what makes this a remarkable organization.

With a dedicated team that is committed to winning together, ACE Singapore will continue to thrive and is poised to be a premier general insurer in this market.

Mack Eng
Country President


Winning Together
quality
service
teamwork
solutions
client focus
respect
integrity
excellence

ACE SINGAPORE'S LEADERSHIP TEAM

1. **Christopher Kee**
   Manager,
   Information Technology
2. **Shek Mee Hwang**
   Head of Personal &
   Business Insurance
3. **Carolyn cheong**
   Executive Manager, Claims
4. **Alina Ang**
   Chief Financial Officer
5. **Benjamin Carey**
   Head of Property &
   Casualty
6. **Kelvin Lim**
   Head of Accident & Health
7. **Jean Ong**
   Chief Risk &
   Compliance Officer
8. **Mack Eng**
   Country President

ACE SINGAPORE'S BUSINESS LEADERS

1. **Anantanate Phuthong**
   Head of Telemarketing
2. **Doris Kng**
   Manager,
   Casualty
3. **See Lye Guat**
   Manager,
   Multinational Servicing Unit
4. **Tricia Lim**
   Head of Travel Insurance
5. **Peter Schraa**
   Manager,
   Marine
6. **Aileen Tan**
   Head of Brokerage,
   Accident & Health
7. **Sharon Loh**
   Head of Worksite Marketing
8. **Jennifer Tan**
   Head of Operations
   & Learning
9. **Edwin Sim**
   Manager,
   Financial Lines
10. **Cassie Chen**
    Manager,
    Property & Techical Lines

ABOUT ACE SINGAPORE

ACE Insurance in Singapore is a member of the ACE Group of Companies, one of the world's largest multiline property and casualty insurers. With operations in 53 countries, ACE provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients. ACE Limited, the parent company of the ACE Group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 index.

Operating in Singapore since 1948, ACE Insurance has the technical expertise in risk management for all major classes of general insurance which includes Property & Casualty, Accident & Health and Personal & Business Insurance. The 'A+/Stable' financial strength and counterparty credit ratings by Standard & Poor's are indicative of the company's robust capitalization. In addition, the company's strong capacity to meet its financial commitments is underscored by the highest rating of 'axAAA' in Standard & Poor's ASEAN regional credit scale. In Singapore, ACE is the first insurance company to be assigned an ASEAN credit rating which complements S&P's global credit rating scale. ACE Insurance's ratings are reflective of its parent's rating. (ACE's core operating insurance companies are rated AA- for financial strength by Standard & Poor's and A+ by A.M. Best).

Over the years, the firm has established strong client relationships by offering responsive service, developing innovative products and providing market leadership built on financial strength. The company has also been awarded the Singapore Quality Class (SQC) certification by SPRING Singapore, the national standards and accreditation body. The SQC is a national recognition given to organizations that have achieved all-round business excellence.

Additional information can be found at: www.aceinsurance.com.sg

ACE Insurance, ACE Group of Companies and ACE Limited are registered trademarks of ACE Limited.

THE CAPABILITIES OF ACE SINGAPORE

Multinational and Global Program Solutions (GPS)

Multinational companies today operate in a constantly changing world. They face increased risks and have to adhere to numerous country-specific regulations. The ACE GPS℠ platform brings together all the assets of ACE – our dedicated professionals, international network, technological leadership and broad product array – and weaves these strengths into innovative insurance solutions to meet our clients' needs around the world.

Risk Engineering

ACE is one of the world's leading providers of risk engineering and risk benchmarking programs. We are able to compare risk management performances across different facilities and locations while assessing an organization's performance against best practices. Our programs help to increase risk awareness throughout an organization and help to inspire employees and management to make improvements.

Financial Lines

In these times of increasing litigation, ACE Financial Lines offers secure and stable professional and management liability coverages as a strategy for self-defense. With more than 60 years of experience in this area, ACE is an internationally acknowledged provider of directors & officers liability, professional liability and other financial insurance. ACE offers a range of products designed to offer high net line capacity to companies delivered by a dedicated team of professionals.

Property

Every business faces a unique set of risks and hazards, including the risk of terrorism. ACE through risk engineering can work with clients, risk managers and representative insurance brokers offering recommendations for overall risk prevention and loss mitigation. With a client list that includes many of the world's foremost companies, we have been helping clients design customized property risk management programs for more than two decades.

Energy and Utilities

The ACE Energy & Utilities unit brings together the experience and industry insight of underwriting professionals, combined with a deep understanding of our clients' needs. The team leverages on ACE's global strengths in this area of business to develop global and local solutions according to the client's requirements. We have a niche insurance model offering a full suite of Energy & Utilities related entities, encompassing coverage for Boiler & Machinery, Construction and Erection Exposures, Energy and Casualty Exposures, Onshore & Offshore Oil and Gas Facilities and Power & Utilities.

Casualty

As a leading underwriter of casualty risks all over the world, we offer risk managers and brokers a wide variety of innovative casualty products and services on a primary, excess or umbrella basis. We are committed to meeting clients' needs through the flexibility to manage most circumstances, a strong capital base that can handle major exposures and an international network of claims centres and risk control professionals who know how to help clients reduce risk and loss costs.

Environmental Risk

Pollution liabilities are no longer the impossible risk management problems they once were. Today, ACE provides Environmental Risk liability solutions that ranges from traditional risk transfer for simple operational exposures, to customized structured programs designed specifically for complex merger, acquisition or liability relief transactions. In addition, we are also able to help our clients identify potential risks as well as craft risk transfer and funding solutions to minimize bottom line impacts, while providing hands-on management for those liabilities through conclusion.

Marine

In today's global marketplace, business reputation and profitability depend upon the safe delivery of your cargo. Marine insurance protects you from financial losses resulting from the damage or loss of merchandise during the course of transit of export goods. As experts and one of the largest Marine Insurers in Marine Cargo Insurance, ACE understands the challenges faced and offers highly competitive rates and terms, risk management services, global claims services and support, recovery expertise and comprehensive coverage.



Accident and Health

Our Accident & Health Division has a world class team of people, products and facilities in the areas of Direct Marketing, Telemarketing and Corporate and Employee Solutions. Through Direct Marketing, we collaborate with Financial Institutions, Service Providers and Retailers in the region to jointly distribute insurance products to serve the diverse and growing needs of consumers, including lifestyle needs, such as dental healthcare. Our Accident & Health Corporate team works with brokers and agents to provide tailored solutions to companies seeking the best coverage and service for their clients. Lastly, through our Employee Solutions team, we provide solutions to improve employees' welfare, and enabling employees to receive the coverage they need.

Travel

ACE Travel Insurance helps thousands of travel industry partners to maximize their insurance-derived income while providing high quality coverage and service to millions of travelers globally. Our diverse product suite includes coverage for a broad range of travel-related risks, including medical expenses, personal accident protection, and inconveniences such as trip cancellation, flight delay and baggage loss, among many others. Customers can also have access to ACE Assistance, our travel assistance service, 24 hours a day, anytime, anywhere.

Personal and Business Insurance

Together with our selected partners, we are focused on developing customized solutions that are offered on a standalone basis or in accordance to the characteristics of the distribution channel and customer segmentations. We offer our individual consumers tailored property insurance programs for home-owners, landlords and renters that cover the building and/or contents, including personal valuables like fine art and jewelry against a variety of perils. In addition, to cater to the unique needs of today's increasingly digital, mobile and cashless society. We provide a range of products specially developed to protect portable personal devices such as mobile phones, laptop computers, cameras, tablets and credit cards from potential hazards such as theft and accidental damage.

ABOUT THE ACE GROUP

The ACE Group is one of the world's largest multiline property and casualty insurers. With operations in 53 countries, ACE provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

The company is distinguished by its broad product and service capabilities, exceptional financial strength, underwriting and claims handling expertise and local operations globally.

The insurance companies of the ACE Group serve multinational corporations and local businesses with property and casualty insurance and services; companies and affinity groups providing or offering accident and health insurance programs and life insurance to their employees or members; insurers managing exposures with reinsurance coverage; and individuals purchasing life, personal accident, supplemental health, homeowners, automobile and other specialty insurance coverage.

With more than $92 billion in assets and over $21 billion of gross written premiums in 2012, ACE's core operating insurance companies maintain financial strength ratings of AA- (Very Strong) from Standard & Poor's and A+ (Superior) from A.M. Best.

ACE Limited, the parent company of the ACE Group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 index.

ACE employees spending an afternoon volunteering at the Salvation Army Bukit Panjang Child Care Centre

ACE PHILANTHROPY

ACE supports the communities around the world in which our employees live and work through its established ACE Foundations and through company-sponsored volunteer initiatives.

We believe that positive contributions to the fabric of our communities return long-lasting benefits to society, our employees, and our company.

The mission of the ACE Charitable Foundation is to assist less fortunate individuals and communities in achieving and sustaining productive and healthy lives in geographic areas of significance to ACE. The ACE Charitable Foundation strives to accomplish this by focusing the majority of its funds on clearly defined projects that have measurable objectives and outcomes and solve problems in the following areas: education, poverty and health, and the environment. Particular consideration is given to opportunities where ACE employees' time and expertise can be utilized in addition to financial support.

ACE employees participated in the beach cleanup at the East Coast Park beach

Employee Engagement – Regional Day of Service

As a way of engaging employees, ACE encourages the development of local and regional initiatives which reflect our employees' commitment to the needs of the communities in which they live and work.

In October 2012, ACE Insurance in Singapore organized its inaugural Day of Service, during which over a hundred employees participated in the beach clean-up and volunteered at The Salvation Army Bukit Panjang Child Care Centre.

The event was part of the Regional Day of Service; focused on the ACE's worldwide philanthropic theme of the environment and education. A total of 78 employees from both the ACE Singapore branch and Asia Pacific Regional Office took part in cleaning up the East Coast Park beach while a group of 41 employees spent an afternoon volunteering at The Salvation Army Bukit Panjang Child Care Centre, teaching the 5 and 6 year olds how to make egg mayonnaise and ham sandwiches. The employees also distributed gifts to bring cheer to the children.

"This was the first time that we have co-organized our local Day of Service as a 'One-ACE' family where employees are dedicated to community service collectively across the region. Having attended the Bukit Panjang Child Care Centre event, I can truly say both the children and team enjoyed the time together. By giving them our time and showing them that we care, we hope to bring them hope and joy, even if it is just for half a day."

Mr. Mack Eng,
Country President of ACE Singapore

DIRECTORS’ REPORT
For the financial year ended 31 December 2012

DIRECTORS’ REPORT
For the financial year ended 31 December 2012

The directors present their report to the shareholder together with the audited financial statements of the Company for the financial year ended 31 December 2012.

Directors

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

Eric Sanderson
Mack Eng Lip Chian
Daniel Andrew Albert Vanderkemp

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors’ interests in shares or debentures

According to the register of directors’ shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares in, or debentures of, the Company or its related corporations, except as follows:

	Holdings registered in the name of director or nominee	
	At 31.12.2012	**At 1.1.2012**
ACE Limited, ultimate holding corporation		
Restricted stock award[1]		
Mack Eng Lip Chian	1,800	1,841
Daniel Andrew Albert Vanderkemp	4,695	4,150
Restricted stock options[1]		
Mack Eng Lip Chian	3,115	2,603
Daniel Andrew Albert Vanderkemp	5,273	5,273
Common shares at par value CH33.74 each		
Mack Eng Lip Chian	204	204
Daniel Andrew Albert Vanderkemp	–	3,802

[1] This refers to restricted stock award and stock options granted by ACE Limited (incorporated in Switzerland) under the Group’s 2004 Long-Term Incentive Plans.

Directors’ contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except that certain directors receive remuneration as a result of their employment with related corporations.

Share options

There were no options granted during the financial year to subscribe for unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Independent auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

Mack Eng Lip Chian
Director
26 April 2013

Daniel Andrew Albert Vanderkemp
Director

STATEMENT BY DIRECTORS

For the financial year ended 31 December 2012

In the opinion of the directors,

(a) the financial statements as set out on pages 26 to 74 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012 and of the results of the business, changes in equity and cash flows of the Company for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

Mack Eng Lip Chian
Director
26 April 2013

Daniel Andrew Albert Vanderkemp
Director

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACE INSURANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of ACE Insurance Limited set out on pages 26 to 74, which comprise the balance sheet as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

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

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 judgement, 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 controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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.

Opinion
In our opinion, the financial statements of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012, and of the results, changes in equity and cash flows of the Company for the financial year ended on that date.

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants
Singapore, 26 April 2013

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 31 December 2012

	Notes	2012 $	2011 $
Insurance premium revenue		**146,177,839**	138,124,294
Insurance premium ceded to reinsurers		**(106,000,960)**	(99,311,137)
Net insurance premium revenue	3	**40,176,879**	38,813,157
Fee income from insurance contracts		**37,386,891**	30,258,457
Investment income – Net	4	**2,792,843**	1,910,043
Other operating income	5	**232,102**	108,938
Income		**80,588,715**	71,090,595
Insurance claims and loss adjustment expenses		**(19,498,978)**	(30,497,445)
Insurance claims and loss adjustment expenses recovered from reinsurers		**10,733,661**	18,038,090
Net insurance claims	6	**(8,765,317)**	(12,459,355)
Expenses for acquisition of insurance contracts		**(31,194,281)**	(27,621,198)
Expenses for asset management services received		**(309,798)**	(208,917)
Operating expenses:			
– Employee benefits	7	**(17,472,187)**	(15,089,153)
– Depreciation expense	10	**(424,408)**	(519,246)
– Other operating expenses	8	**(11,216,092)**	(8,175,862)
		(29,112,687)	(23,784,261)
Expenses		**(69,382,083)**	(64,073,731)
Profit before income tax		**11,206,632**	7,016,864
Income tax expense	9(a)	**(1,139,003)**	(1,157,058)
Net profit		**10,067,629**	5,859,806
Other comprehensive income:			
Financial assets, available-for-sale:			
– Fair value gains during the financial year	18	**582,726**	1,166,511
– Fair value gains transferred to profit or loss on disposal	18	**(1,388,480)**	(3,849)
Impairment charge transferred to profit or loss		**–**	10,833
Income tax credit/(expense) on fair value changes	18	**127,602**	(237,984)
Other comprehensive income, net of tax		**(678,152)**	935,511
Total comprehensive income		**9,389,477**	6,795,317

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2012

	Notes	2012 $	2011 $
ASSETS			
Current assets			
Cash and cash equivalents	14	**16,898,834**	27,842,765
Financial assets, available-for-sale	11	**86,594,808**	75,774,385
Insurance receivables and other receivables	12	**51,722,864**	50,631,679
Reinsurance assets	13	**66,809,235**	86,084,435
		222,025,741	240,333,264
Non-current assets			
Property, plant and equipment	10	**556,329**	591,812
Reinsurance assets	13	**38,903,515**	34,538,830
		39,459,844	35,130,642
Total assets		**261,485,585**	275,463,906
LIABILITIES			
Current liabilities			
Insurance liabilities	13	**110,757,759**	126,672,774
Insurance payables and other payables	15	**37,129,048**	40,668,608
Current income tax liabilities	9(b)	**2,069,835**	2,177,978
		149,956,642	169,519,360
Non-current liabilities			
Insurance liabilities	13	**52,243,689**	49,764,874
Deferred income tax liabilities	16	**259,940**	420,030
		52,503,629	50,184,904
Total liabilities		**202,460,271**	219,704,264
NET ASSETS		**59,025,314**	55,759,642
EQUITY			
Share capital	17	**35,000,000**	35,000,000
Fair value reserve	18	**1,326,371**	2,004,523
Retained profits		**22,698,943**	18,755,119
Total equity		**59,025,314**	55,759,642

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2012

	Notes	Share capital $	Fair value reserve $	Retained profits $	Total equity $
2012					
Beginning of financial year		**35,000,000**	**2,004,523**	**18,755,119**	**55,759,642**
Total comprehensive income		–	(678,152)	10,067,629	9,389,477
Dividends paid	19	–	–	(6,123,805)	(6,123,805)
End of financial year		**35,000,000**	**1,326,371**	**22,698,943**	**59,025,314**
2011					
Beginning of financial year		**35,000,000**	**1,069,012**	**12,895,313**	**48,964,325**
Total comprehensive income		–	935,511	5,859,806	6,795,317
End of financial year		**35,000,000**	**2,004,523**	**18,755,119**	**55,759,642**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2012

	Notes	2012 $	2011 $
Cash flows from operating activities			
Net profit		**10,067,629**	5,859,806
Adjustments for:			
Income tax expense		**1,139,003**	1,157,058
Depreciation expense		**424,408**	519,246
Net gain on sale of available-for-sale financial assets		**(1,388,480)**	(3,849)
Unrealized foreign exchange loss, net		**1,099,069**	6,696
Interest income		**(1,404,363)**	(1,857,191)
Dividend income		–	(59,836)
Impairment charge on available-for-sale financial assets		–	10,833
Operating cash flow before working capital changes		**9,937,266**	5,632,763
Change in working capital:			
Insurance receivables and other receivables		**(936,379)**	(304,040)
Insurance payables and other payables		**(3,539,560)**	2,289,671
Net insurance liabilities		**1,474,315**	2,882,936
Cash generated from operations		**6,935,642**	10,501,330
Income tax paid – net	9(b)	**(1,279,634)**	(1,127,791)
Net cash provided by operating activities		**5,656,008**	9,373,539
Cash flows from investing activities			
Purchases of property, plant and equipment		**(388,925)**	(56,708)
Purchases of investments		**(98,175,781)**	(77,094,395)
Proceeds from sale of investments		**86,318,767**	72,568,996
Interest received		**1,769,805**	2,005,300
Dividends received		–	59,836
Net cash used in investing activities		**(10,476,134)**	(2,516,971)
Cash flows from financing activities			
Dividends paid to shareholder of the Company		**(6,123,805)**	–
Net cash used in financing activities		**(6,123,805)**	–
Net (decrease)/increase in cash and cash equivalents held		**(10,943,931)**	6,856,568
Cash and cash equivalents at beginning of financial year	14	**27,842,765**	20,986,197
Cash and cash equivalents at end of financial year	14	**16,898,834**	27,842,765

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

ACE Insurance Limited (the "Company") is incorporated and domiciled in Singapore. The address of its registered office is 600 North Bridge Road #04-02, Parkview Square, Singapore 188778.

The Company is licensed under the Insurance Act, Chapter 142 as a direct general insurer.

The principal activity of the Company consists of underwriting of general insurance including reinsurance of all classes of risks.

2. Significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of these financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The area involving a higher degree of judgement or complexity, or area where estimates and assumptions are significant to the financial statements is the estimation of ultimate liability arising from claims made under insurance contracts, disclosed in Note 13.

Interpretations and amendments to published standards effective in 2012

On 1 January 2012, the Company adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

(b) Revenue recognition

Premium on insurance contracts are recognized as written, at the time of inception of the policies.

Gross written premium is shown before movement in unearned premium provision and deduction of commission and are net of taxes or duties levied on premium.

2. Significant accounting policies (continued)

(b) Revenue recognition (continued)

Fee income from insurance contracts relates to income earned in acquiring new and/or renewing existing reinsurance contracts and certain insurance contracts and is recognized as revenue over the period in which the related services are performed.

Dividend income from investments is recognized when the right to receive payment is established.

Interest income is recognized using the effective interest method.

(c) Property, plant and equipment

All property, plant and equipment is initially recognized at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (Note 2(d)).

The cost of an item of property, plant and equipment initially recognized includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is recognized as part of the cost of property, plant and equipment if such obligation is incurred as a consequence of acquiring or using the asset.

Depreciation is calculated using the straight line basis to allocate their depreciable amounts over their estimated useful lives as follows:

Leasehold improvements	20% – 33 1/3%
Office equipment	20%
Furniture and fittings	20%
Computer equipment	20% – 33 1/3%

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognized in profit or loss when the changes arise.

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

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognized in profit or loss.

(d) Impairment of non-financial assets

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

2. Significant accounting policies (continued)

(d) Impairment of non-financial assets (continued)

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value in use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and the recoverable amount is recognized as an impairment loss in profit or loss.

An impairment loss of an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of impairment loss for an asset is recognized in profit or loss.

(e) Financial assets

(i) Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(1) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realized later than 12 months after the balance sheet date which are presented as non-current assets. Receivables arising from insurance contracts and other receivables are classified in this category. Insurance receivables comprise of amounts due from insured, agents, brokers and reinsurers.

(2) Financial assets, available-for-sale

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

2. Significant accounting policies (continued)

(e) Financial assets (continued)

(ii) Recognition and derecognition

Purchases and sales of investments are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognized in profit or loss. Any amount in the fair value reserve relating to that asset is reclassified to profit or loss.

(iii) Initial measurement

Financial assets are initially recognized at fair value plus transaction costs.

(iv) Subsequent measurement

Loans and receivables are subsequently carried at amortized cost using the effective interest method. Financial assets, available-for-sale are subsequently carried at fair value.

Interest and dividend income on financial assets, available-for-sale, are recognized separately in profit or loss.

Changes in the fair value of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analyzed into currency translation differences on the amortized cost of the securities and other changes; the currency translation differences are recognized in profit or loss and the other changes are recognized in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognized in the fair value reserve, together with the related currency translation differences.

(v) Impairment

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognizes an allowance for impairment when such evidence exists.

(1) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are evidence that these financial assets are impaired.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

2. Significant accounting policies (continued)

(e) Financial assets (continued)

(v) Impairment (continued)

(1) Loans and receivables (continued)

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the assets previously impaired is increased to the extent that the new carrying amount does not exceed the amortized cost had no impairment been recognized in prior periods.

(2) Financial assets, available-for-sale

In addition to the objective evidence of impairment described in Note 2 (e)(v)(1), a significant or prolonged decline in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

If any evidence of impairment exists, the cumulative loss that was recognized in the fair value reserve is reclassified to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any impairment loss previously recognized as an expense. The impairment losses recognized as an expense on equity securities are not reversed through profit or loss.

(f) Fair value estimation

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. When appropriate, quoted market prices or dealer quotes for similar instruments are used where appropriate. Valuation techniques, such as discounted cash flow analyzes, are also used to determine the fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortized cost approximate their carrying amounts.

2. Significant accounting policies (continued)

(g) Insurance payables

Insurance payables are initially measured at fair value and subsequently measured at amortized cost, using the effective interest method.

(h) Insurance

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Insurance contracts are classified depending on the coverage and the terms and conditions.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Professional and Directors and Officers insurance contracts mainly indemnify the Company's customers against the legal liability as well as liability as a result of a breach of duty owed in a professional capacity in connection with the customer's business.

Marine cargo and hull insurance contracts protect the Company's customers from the financial losses resulting from marine transportation and transit which can have a drastic impact to their business.

Accident and health insurance contracts protect the Company's customers from the consequences of events such as hospitalization, total permanent disability or death arising from accident or sickness or diagnosis for dreaded diseases. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

Political risk insurance contracts protect the Company's customers against financial losses caused by government action or political force majeure in respect of loans (export and pre-export finance), or sales, purchase or service contracts.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

2. Significant accounting policies (continued)

(h) Insurance (continued)

Credit insurance contracts protect the lenders involved in highly structured and/or secured trade transactions against default by a borrower/obligor due to either a political or credit event or protect exporters, contractors and sponsors against the calling of on-demand guarantees.

Return of Premiums Products Plans are contracts where all or part of the premium received will be refunded after a specified number of years if the policy criteria for refund are met. The ultimate outcome of this can only be determined upon the expiry of the policies under the Plan and a provision for premium refundable for this class of policies is calculated by the in-house actuary. The best estimate of provision for premiums refund is deducted from gross written premium.

(i) Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers (insurance receivables and other receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amount recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized when due.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment losses in profit or loss. The Company gathers objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held as loans and receivables. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 2(e).

(j) Insurance liabilities

(i) Unearned premium reserve/deferred acquisition cost

The portion of premium received on in-force contract that relate to unexpired risks at the balance sheet date is reported as unearned premium reserve.

2. Significant accounting policies (continued)

(j) Insurance liabilities (continued)

(i) Unearned premium reserve/deferred acquisition cost (continued)

Unearned premium reserve is calculated using the 1/365th method, except for direct marketing business which is calculated using the 1/24th method, on gross premiums written less return premiums, premiums on reinsurance and deferred acquisition costs.

Commission and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are netted off against unearned premium provision. All other costs are recognized as expenses when incurred.

Commission income and commission expense are deferred and subsequently amortized over the life of the policies as the premiums are ceded or earned.

Unearned premium provision also includes premium deficiency provisions which are derived using actuarial methods on the Company's loss statistics.

(ii) Outstanding claims reserves

Outstanding claims reserves are estimates of claims which have been incurred and reported to the Company and estimates of losses which have occurred, but not yet reported to the Company. Provision made for claims incurred but not reported (IBNR) is based on the amount calculated and determined by an Appointed Actuary as at the balance sheet date. Any deficiency is immediately charged to profit or loss.

In line with Section 37(1) (b) of the Insurance Act, an actuarial investigation is made on the claims liabilities and a provision for adverse deviation at a minimum 75% level of confidence is included in the loss reserves.

(k) Liability adequacy test

At the balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cashflows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss.

(l) Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating leases (net of any incentives received from the lessors) are recognized in profit or loss on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

2. Significant accounting policies (continued)

(m) Income taxes

Current income tax for current and prior periods is recognized at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognized for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset or liability in a transaction that affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognized as income or expense in profit or loss, except to the extent that the tax arises from a transaction which is recognized directly in equity. Deferred tax on temporary differences arising from the revaluation gains and losses on available-for-sale financial assets is charged or credited directly to equity in the same period the temporary differences arise.

(n) Provisions for other liabilities and charges

Provisions for other liabilities and charges are recognized when the Company has a legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

(o) Employee benefits

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid.

2. Significant accounting policies (continued)

(o) Employee benefits (continued)

(ii) Employee leave entitlement

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(iii) Share-based compensation

The Company's ultimate holding corporation operates several share based compensation plans as described in Note 17(b). The total amount of equity-settled transactions to be recognized over the vesting period is determined by reference to the fair value on the date of the grant. The cost of equity-settled transactions is recognized as an expense together with a corresponding increase in equity over the vesting period, and subsequently recharged by the Company's ultimate holding corporation.

(p) Currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Singapore Dollar, which is the functional currency of the Company.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at balance sheet date are recognized in profit or loss.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analyzed into currency translation differences on the amortized cost of the securities, and other changes. Currency translation differences on the amortized cost are recognized in profit or loss, and other changes are recognized in fair value reserve within equity.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Currency translation differences on non-monetary items, whereby the gain or loss is recognized in profit or loss are reported as part of the fair value gain or loss in profit or loss. Currency translation differences on non-monetary items whereby the gains or losses are recognized directly in equity, such as equity investments classified as available-for-sale financial assets are included in the fair value reserve.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

2. Significant accounting policies (continued)

(q) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, cash at bank and fixed deposits with financial institutions which are subject to an insignificant risk of change in value.

(r) Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grant are recognized in other operating income in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

(s) Share capital

Ordinary shares are classified as equity.

(t) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(u) Dividend

Dividends to the Company's shareholder are recognized when the dividends are approved for payment.

3. Net insurance premium revenue

	2012 $	2011 $
Short-term insurance contracts		
– gross written premium	151,950,794	136,818,557
– change in unearned premium reserve (Note 13(f)(ii))	(5,772,955)	1,305,737
Premium revenue arising from insurance contracts issued	146,177,839	138,124,294
Short-term reinsurance contracts		
– ceded written premium	(107,598,945)	(98,296,004)
– change in unearned premium reserve	1,597,985	(1,015,133)
Premium revenue ceded to reinsurers for insurance contracts purchased	(106,000,960)	(99,311,137)
Net insurance premium revenue	40,176,879	38,813,157

4. Investment income – Net

	2012 $	2011 $
Financial assets, available-for-sale:		
– dividend income	–	59,836
– interest income	1,382,624	1,844,106
Cash and cash equivalents:		
– Interest income from banks	21,739	13,085
Net realized gains on available-for-sale financial assets (Note 18)	1,388,480	3,849
Impairment charge on available-for-sale financial assets (Note 18)	–	(10,833)
	2,792,843	1,910,043

5. Other operating income

	2012 $	2011 $
Government grant	18,530	–
Recovery of expenses from a related corporation	48,769	6,475
Other miscellaneous income	164,803	102,463
	232,102	108,938

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

6. Net insurance claims

	2012 $	2011 $
Insurance claims and loss adjustment expenses		
– gross claims paid	**(39,665,345)**	(33,850,383)
– change in outstanding claims	**20,166,367**	3,352,938
	(19,498,978)	(30,497,445)
Insurance claims and loss adjustment expenses recovered		
– paid claims recovered	**27,242,161**	25,570,734
– change in outstanding claims	**(16,508,500)**	(7,532,644)
	10,733,661	18,038,090
Net insurance claims	**(8,765,317)**	(12,459,355)

7. Employee benefits

	2012 $	2011 $
Wages and salaries	**14,663,515**	12,677,952
Share-based remuneration expenses (Note 17(b))	**140,283**	158,386
Staff related expenses	**1,365,351**	1,057,418
	16,169,149	13,893,756
Employer's contribution to Central Provident Fund	**1,303,038**	1,195,397
	17,472,187	15,089,153

8. Other operating expenses

The following items have been included in other operating expenses during the financial year:

	2012 $	2011 $
Management fees	**3,629,949**	3,218,981
IT related expenses	**916,266**	871,216
Rental on operating lease	**1,418,231**	1,349,390
Currency exchange loss/(gain) – net	**2,015,928**	(133,614)
Impairment of insurance receivables	**(107,080)**	(1,610)
Sales incentives paid to sponsors	**52,117**	(324,382)
Other expenses	**3,290,681**	3,195,881
	11,216,092	8,175,862

9. Income tax

(a) Income tax expense

	2012 $	2011 $
Tax expense attributable to profit is made up of:		
– current income tax	**1,630,000**	1,274,227
– deferred income tax (Note 16)	**(32,488)**	(61,654)
	1,597,512	1,212,573
Over provision in prior financial years		
– current income tax	**(458,509)**	(55,515)
	1,139,003	1,157,058

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	2012 $	2011 $
Profit before income tax	**11,206,632**	7,016,864
Tax calculated at a tax rate of 17% (2011: 17%)	**1,905,127**	1,192,867
Effects of:		
– Income taxed at concessionary rate of 10%	**(318,961)**	–
– Expenses not deductible for tax purposes	**99,033**	66,496
– Income not subject to tax	–	(10,172)
– Singapore statutory stepped income exemption	**(25,925)**	(25,925)
– Tax incentives	**(61,762)**	(10,693)
Tax charge	**1,597,512**	1,212,573

(b) Movements in current income tax liabilities

	2012 $	2011 $
At beginning of financial year	**2,177,978**	2,087,057
Income tax paid	**(1,526,131)**	(1,750,050)
Income tax refunded	**246,497**	622,259
Tax payable on profit for current financial year	**1,630,000**	1,274,227
Over provision in tax expense	**(458,509)**	(55,515)
At end of financial year	**2,069,835**	2,177,978

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

10. Property, plant and equipment

	Leasehold improvements $	Office equipment $	Furniture and fittings $	Computer equipment $	Total $
2012					
Cost					
Beginning of financial year	3,019,990	897,184	1,448,004	1,869,243	7,234,421
Additions	236,703	9,718	74,815	67,689	388,925
End of financial year	3,256,693	906,902	1,522,819	1,936,932	7,623,346
Accumulated depreciation					
Beginning of financial year	2,901,533	849,582	1,431,650	1,459,844	6,642,609
Depreciation charge	157,908	43,733	24,306	198,461	424,408
End of financial year	3,059,441	893,315	1,455,956	1,658,305	7,067,017
Net book value					
End of financial year	**197,252**	**13,587**	**66,863**	**278,627**	**556,329**

	Leasehold improvements $	Office equipment $	Furniture and fittings $	Computer equipment $	Total $
2011					
Cost					
Beginning of financial year	3,019,990	889,039	1,448,004	1,820,680	7,177,713
Additions	–	8,145	–	48,563	56,708
End of financial year	3,019,990	897,184	1,448,004	1,869,243	7,234,421
Accumulated depreciation					
Beginning of financial year	2,723,803	796,090	1,400,879	1,202,591	6,123,363
Depreciation charge	177,730	53,492	30,771	257,253	519,246
End of financial year	2,901,533	849,582	1,431,650	1,459,844	6,642,609
Net book value					
End of financial year	**118,457**	**47,602**	**16,354**	**409,399**	**591,812**

11. Financial assets, available-for-sale

The movements during the year are as follows:

	2012 $	2011 $
Beginning of financial year	**75,774,385**	70,164,039
Additions	**98,175,781**	77,094,395
Fair value gains recognized in other comprehensive income	**582,726**	1,166,511
Amortization of premiums (net of discounts)	**(520,248)**	(74,866)
Disposals	**(86,318,767)**	(72,568,996)
Currency translation differences	**(1,099,069)**	(6,698)
End of financial year	**86,594,808**	75,774,385

Available-for-sale financial assets are analyzed as follows:

	2012 $	2011 $
Listed securities:		
Government securities – SGD	**39,209,281**	28,248,515
Government securities – USD	**14,927,275**	5,134,292
	54,136,556	33,382,807
Loan stocks in corporations – SGD	**22,590,440**	39,414,105
Loan stocks in corporations – USD	**9,867,812**	2,977,473
	32,458,252	42,391,578
	86,594,808	75,774,385

The loan stocks and government securities have maturity dates from January 2013 to December 2049 with the following weighted average effective interest rates:

	2012 $	2011 $
Singapore Dollar	**2.58%**	4.76%
United States Dollar	**2.76%**	3.27%

The exposure of investments to interest rate risks is disclosed in Note 22(a)(ii).

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

12. Insurance receivables and other receivables

	2012 $	2011 $
Receivables from insurance and reinsurance contracts:		
– related companies	**4,363,955**	7,201,262
– third parties	**44,407,639**	41,608,701
	48,771,594	48,809,963
Less provision for impairment of receivables		
– third parties	**(106,149)**	(249,463)
	48,665,445	48,560,500
Other receivables:		
– Prepayments	**147,391**	153,918
– Receivables from related companies	**514,443**	137,515
– Accrued interest receivable	**603,156**	448,350
– Rental and other deposits	**800,407**	634,602
– Sundry receivables	**992,022**	696,794
	3,057,419	2,071,179
Total insurance receivables and other receivables	**51,722,864**	50,631,679

The carrying amounts of the insurance receivables and other receivables approximate their fair values.

The receivables from related companies are unsecured, interest-free and are repayable on demand.

13. Insurance liabilities and reinsurance assets

	2012 $	2011 $
Gross		
Current:		
– outstanding claims reserves	**45,939,148**	67,962,123
– reserves for unearned premium*	**61,750,752**	55,977,797
– no claims bonus provision	**3,067,859**	2,732,854
	110,757,759	126,672,774
Non-current:		
– outstanding claims reserves	**47,665,588**	45,808,980
– provision for premiums refund	**4,578,101**	3,955,894
	52,243,689	49,764,874
Total insurance liabilities, gross	**163,001,448**	176,437,648
Recoverable from reinsurers		
Current:		
– outstanding claims reserves	**33,693,619**	54,566,804
– reserves for unearned premium	**33,115,616**	31,517,631
	66,809,235	86,084,435
Non-current:		
– outstanding claims reserves	**38,903,515**	34,538,830
Total reinsurer's share of insurance liabilities	**105,712,750**	120,623,265
Net		
Current:		
– outstanding claims reserves	**12,245,529**	13,395,319
– reserves for unearned premium provision	**28,635,136**	24,460,166
– no claims bonus provision	**3,067,859**	2,732,854
	43,948,524	40,588,339
Non-current:		
– outstanding claims reserves	**8,762,073**	11,270,150
– provision for premiums refund	**4,578,101**	3,955,894
	13,340,174	15,226,044
Total insurance liabilities, net	**57,288,698**	55,814,383

* Reserves for unearned premium are shown net of deferred acquisition cost.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

13. Insurance liabilities and reinsurance assets (continued)

Actuarial methods, assumptions and sensitivity analysis

(a) Methods

Four standard actuarial methods (Chain ladder on Incurred and Paid Claims, Bornhuetter-Ferguson and Average Incurred Cost Development) have been applied to each class of business to determine the undiscounted insurance liabilities. The selection of an appropriate method depends on the nature of the claim development and claim volatility. The Outstanding Liability is equal to the Case Estimates in situations where no further loss development is expected.

The insurance liabilities also include an appropriate allowance for allocated and unallocated future claim handling expenses. In addition, an administration expense reserve of 4.8% (2011: 4.8%) of gross premiums (or gross unearned premium reserve) and excess of loss ceded premiums has been included in the assessment of the premium liability.

(b) Assumptions

The following assumptions were used in determining the gross outstanding claim liabilities.

- *Discounted average weighted term to settlement*

  The discounted average weighted term to settlement is calculated separately by class of business based on historical payment patterns.

- *Ultimate claim number – current year*

  The ultimate claim number for the current accident year is estimated separately by class of business by projecting the number of claims reported to date based on historical reporting patterns.

- *Average claim size – current year*

  The average claim size for the current accident year is estimated separately by class of business by projecting the ultimate claims cost based on historical claim development patterns and dividing by the estimated ultimate claim number.

- *Unallocated claim expense rate (or indirect claim expense rate)*

  The unallocated claim expense rate is calculated separately by class of business based on historical unallocated claim expenses as a percentage of historical payments.

- *Discount rate*

  The discount rate is derived from market yields of government securities at the balance sheet date.

13. Insurance liabilities and reinsurance assets (continued)

(b) Assumptions (continued)

- *Inflation rate*

  The inflation rate is implicit in the valuation models used so no explicit inflation rate is used in the valuation. Movement in average claim size provides a de facto estimate of the inflation rate implied in the valuation.

(c) Sensitivity analysis

The Company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Company. The table below shows how a change in each assumption will affect the outstanding claims liabilities (net) and on profit or loss. As no explicit inflation rate is used in the valuation no sensitivity analysis is able to be carried out for a change in the inflation rate.

Variables	Change in variable	Increase/ (decrease) in liability $	Increase/ (decrease) in profit before tax $
Discounted average weighted term to settlement	+ 0.5 years	(30,634)	30,634
	– 0.5 years	29,261	(29,261)
Ultimate claim number – current year	+10%	1,482,624	(1,482,624)
	–10%	(1,482,624)	1,482,624
Average claim size – current year	+10%	1,482,624	(1,482,624)
	–10%	(1,482,624)	1,482,624
Unallocated claim expense rate	+1%	906,150	(906,150)
	–1%	(906,150)	906,150
Discount rate	+1%	(245,721)	245,721
	–1%	249,702	(249,702)

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For the financial year ended 31 December 2012

13. Insurance liabilities and reinsurance assets (continued)

(d) Process for determining risk margin

The overall risk margin was determined after allowing for uncertainty of the outstanding claim estimate. Uncertainty was analyzed for each class of business taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models and the general insurance environment.

The estimate of uncertainty is greater for long tailed classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The assumptions regarding uncertainty for each class were applied to the gross and net central estimates, and the results were aggregated to arrive at an overall provision which is intended to have a 75% probability of sufficiency. The risk margin applied in 2012 is 14.3% (2011: 14.3%).

(e) Claims development tables (for all lines)

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the sixteen most recent accident years:

Gross

Accident year	1997 to 2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	Total $
Estimate of ultimate claims costs:							
– at end of accident year		32,837,304	42,464,715	42,429,626	46,821,241	47,924,426	
– one year later		26,893,995	44,190,460	33,566,706	46,802,599	–	
– two years later		26,197,344	40,030,663	31,682,587	–	–	
– three years later		25,094,506	37,901,754	–	–	–	
– four years later		23,401,250	–	–	–	–	
– five years later		–	–	–	–	–	
Current estimate of cumulative claims	221,381,013	23,401,250	37,901,754	31,682,587	46,802,599	47,924,426	409,093,629
Cumulative payments to date	(216,506,385)	(19,368,535)	(33,302,152)	(24,835,635)	(25,424,406)	(10,039,619)	(329,476,732)
Outstanding claims – undiscounted	4,874,628	4,032,715	4,599,602	6,846,952	21,378,193	37,884,807	79,616,897
Discount	(7,148)	(13,205)	(12,815)	(26,074)	(84,216)	(177,194)	(320,652)
Outstanding claims	4,867,480	4,019,510	4,586,787	6,820,878	21,293,977	37,707,613	79,296,245
Risk margin							11,691,991
Claims handling costs							2,616,500
Total gross outstanding claims							93,604,736

13. Insurance liabilities and reinsurance assets (continued)

(e) Claims development tables (for all lines) (continued)

Net

Accident year	1997 to 2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	Total $
Estimate of ultimate claims costs:							
– at end of accident year		8,140,996	9,725,451	9,544,407	12,724,979	11,168,927	
– one year later		6,559,241	9,066,624	9,429,816	13,371,816	–	
– two years later		6,635,147	8,877,843	8,804,654	–	–	
– three years later		6,580,737	8,319,805	–	–	–	
– four years later		6,310,748	–	–	–	–	
– five years later		–	–	–	–	–	
Current estimate of cumulative claims	56,119,400	6,310,748	8,319,805	8,804,654	13,371,816	11,168,927	104,095,351
Cumulative payments to date	(55,218,687)	(5,530,570)	(7,563,425)	(7,147,190)	(9,330,169)	(3,486,047)	(88,276,089)
Outstanding claims – undiscounted	900,713	780,178	756,380	1,657,464	4,041,647	7,682,880	15,819,262
Discount	(1,179)	(1,194)	(1,977)	(6,153)	(13,349)	(28,378)	(52,230)
Outstanding claims	899,534	778,984	754,403	1,651,311	4,028,298	7,654,502	15,767,032
Risk margin							2,624,070
Claims handling costs							2,616,500
Total net outstanding claims							21,007,602

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

13. Insurance liabilities and reinsurance assets (continued)

(f) Movements in insurance liabilities and reinsurance assets

(i) Outstanding claims

Year ended 31 December	2012			2011		
	Gross $	**Reinsurance $**	**Net $**	Gross $	Reinsurance $	Net $
At beginning of year	**113,771,103**	**(89,105,634)**	**24,665,469**	117,124,041	(96,638,278)	20,485,763
Cash paid for claims settled in the year	**(39,665,345)**	**27,242,161**	**(12,423,184)**	(33,850,383)	25,570,734	(8,279,649)
Changes in the year	**19,498,978**	**(10,733,661)**	**8,765,317**	30,497,445	(18,038,090)	12,459,355
At end of year	**93,604,736**	**(72,597,134)**	**21,007,602**	113,771,103	(89,105,634)	24,665,469
Claims reported and loss adjustment expenses	**44,053,578**	**(34,364,686)**	**9,688,892**	58,713,484	(46,749,957)	11,963,527
Incurred but not reported	**37,859,168**	**(29,164,528)**	**8,694,640**	40,804,723	(31,141,644)	9,663,079
Provision for adverse deviation	**11,691,990**	**(9,067,920)**	**2,624,070**	14,252,896	(11,214,033)	3,038,863
At end of year	**93,604,736**	**(72,597,134)**	**21,007,602**	113,771,103	(89,105,634)	24,665,469

(ii) Reserves for unearned premium

	2012			2011		
	Gross $	**Reinsurance $**	**Net $**	Gross $	Reinsurance $	Net $
At beginning of year	**55,977,797**	**31,517,631)**	**24,460,166**	57,283,534	(32,532,764)	24,750,770
Changes in the year	**5,772,955**	**(1,597,985)**	**4,174,970**	(1,305,737)	1,015,133	(290,604)
At end of year	**61,750,752**	**(33,115,616)**	**28,635,136**	55,977,797	(31,517,631)	24,460,166

13. Insurance liabilities and reinsurance assets (continued)

(f) Movements in insurance liabilities and reinsurance assets (continued)

(iii) Refundable bonus provision

	2012 $	2011 $
At beginning of year	**2,732,854**	2,520,791
Provision for the year	**4,997,059**	4,496,105
Refunds during the year	**(4,662,054)**	(4,284,042)
At end of year	**3,067,859**	2,732,854

(iv) Provision for premiums refund

	2012 $	2011 $
At beginning of year	**3,955,894**	5,174,123
Provision for the year	**1,483,012**	1,019,641
Refunds during the year	**(860,805)**	(2,237,870)
At end of year	**4,578,101**	3,955,894

14. Cash and cash equivalents

	2012 $	2011 $
Cash on hand	**400**	400
Cash at bank	**2,226,177**	11,419,730
Fixed deposits with financial institutions	**14,672,257**	16,422,635
	16,898,834	27,842,765

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

14. Cash and cash equivalents (continued)

The carrying amounts of cash and cash equivalents approximate their fair values.

The Company has fixed deposits with financial institutions with an average maturity of 1 month (2011: 1 month) from the end of the financial year with the following weighted average effective interest rates:

	2012 **$**	2011 $
Singapore Dollar	**0.17%**	0.15%
United States Dollar	**0.07%**	0.16%

The exposure of cash and cash equivalents to interest rate risks is disclosed in Note 22(a)(ii).

15. Insurance payables and other payables

	2012 **$**	2011 $
Amount due to insureds, agents, brokers and reinsurers:		
– related companies	**24,621,313**	26,870,359
– third parties	**5,541,975**	5,723,533
	30,163,288	32,593,892
Other payables:		
– payables to related companies	**12,029**	429,360
– advanced premium received	**45,472**	1,177,675
– share-based remuneration payable	**632,141**	498,873
– sundry creditors	**1,472,591**	1,484,966
– GST payable	**1,282,480**	1,264,843
– accrued operating expenses	**3,521,047**	3,218,999
	6,965,760	8,074,716
Total insurance payables and other payables	**37,129,048**	40,668,608

The payables to related companies are unsecured, interest-free and are repayable on demand. The carrying amounts of insurance payables and other payables approximate their fair values.

16. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheet.

The movement in the deferred income tax account is as follows:

	2012 **$**	2011 $
Beginning of financial year	**420,030**	243,700
Tax (credit) / charge to:		
– Profit or loss (Note 9(a))	**(32,488)**	(61,654)
– Fair value reserve (Note 18)	**(127,602)**	237,984
End of financial year	**259,940**	420,030

The movement in the deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the financial year is as follows:

Deferred income tax liabilities:

	Accelerated tax depreciation $	**Fair value gains $**	**Others $**	**Total $**
At 1 January 2012	79,879	353,207	(13,056)	420,030
Credited to profit or loss	(22,452)	–	(10,036)	(32,488)
Credited to equity (Note 18)	–	(127,602)	–	(127,602)
At 31 December 2012	**57,427**	**225,605**	**(23,092)**	**259,940**
At 1 January 2011	128,477	115,223	–	243,700
Credited to profit or loss	(48,598)	–	(13,056)	(61,654)
Charged to equity (Note 18)	–	237,984	–	237,984
At 31 December 2011	**79,879**	**353,207**	**(13,056)**	**420,030**

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

17. Share capital

(a)

	No. of shares Issued	Share capital $
2012		
Beginning and end of financial year	**35,000,000**	**35,000,000**
2011		
Beginning and end of financial year	**35,000,000**	**35,000,000**

All issued ordinary shares are fully paid.

(b) Share based remuneration

ACE Limited, ultimate holding corporation has a restricted share grant plan, a restricted share option plan and an employee share purchase plan. The total share based remuneration expenses charged to profit or loss was $140,283 (2011: $158,386).

Restricted share grant plan

Under ACE Limited's 2004 Long Term Incentive Plan, 2,177 restricted common shares were awarded during the year ended 31 December 2012 and 2,333 common shares during the year ended 31 December 2011 to eligible employees of the Company. These shares vest at various dates over a 4-year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a group scheme with expenses incurred under the scheme charged out by ACE Limited to the Company on an annual basis. The annual expense is based on an amortized calculation that is reflective of the current year's expense portion of all restricted share grants issued in the current and prior years, and is consistent with the treatment required by FRS 102. There is no liability to the Company for the unamortized portion of the restrictive stock grants issued. The amortized calculation incorporates the fair market value of ACE Limited's common shares in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by ACE Limited to the eligible employees. The total value of the shares granted during the year was $110,795 (2011: $130,573).

Restricted share option plan

Under ACE Limited's 2004 Long Term Incentive Plan, restrictive share options were granted to eligible employees of the Company. The exercisable price of these options is the fair market value of ACE Limited's common shares at issue date. These options vest at various dates over a 3-year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a group scheme with expenses incurred under the scheme charged out by ACE Limited to the Company on an annual basis.

17. Share capital (continued)

(b) Share based remuneration (continued)

Restricted share option plan (continued)

The annual expense is based on an amortized calculation that is reflective of the current year's expense portion of all restricted share options issued in the current and prior years, and is consistent with the treatment required by FRS102. There is no liability to the Company for the unamortized portion of the restrictive stock options issued.

Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant. The total value of the options granted during the year was $29,488 (2011: $27,813).

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2012		2011	
	Average exercise price in SGD per share	**Options**	Average exercise price in SGD per share	Options
At 1 January		**7,287**		6,636
Granted	**89.84**	**1,816**	81.69	1,944
Transfer in	**76.72**	**180**	–	–
Exercised	**56.84**	**(921)**	58.22	(459)
Lapsed	**77.74**	**(298)**	62.53	(834)
At 31 December		**8,064**		7,287

In 2012, 1,816 options (2011: 1,944 options) were granted at $89.84 (2011: $81.69) per option and 4,528 options (2011: 3,631) are exercisable as at 31 December 2012. 921 (2011: 459) options were exercised during the year and the related weighted average share price of the options exercised was $56.84 (2011: $58.22) per share.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

17. Share capital (continued)

(b) Share based remuneration (continued)

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry Year	Exercise price SGD per share	Share options 2012	2011
2014	53.35	–	–
2015	54.48	**90**	180
2016	69.08	**380**	380
2017	68.76	**405**	405
2018	73.83	**705**	810
2019	47.17	**1,394**	1,908
2020	61.69	**1,564**	1,748
2021	76.72	**1,882**	1,856
2022	89.84	**1,644**	–
		8,064	7,287

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was $18.84 (2011: $18.49) per option. The significant inputs into the model were share price of $89.84 (2011: $81.69), at the grant date, the exercise price shown above, volatility of 30.0% (2011: 29.0%), dividend yield of 2.67% (2011: 2.23%), an expected option life of 5 years and an annual risk-free interest rate of 1.01% (2011: 2.17%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Employee share purchase plan

The Company collects monies from local eligible employees and acquires common shares in ACE Limited on behalf of the employees on a bi-annual basis. The price paid by the eligible employees is set at a discount of 15% to the fair value of the ordinary shares at the date of acquisition; this discount is incurred at the group level by ACE Limited and not charged to the Company. The total amount of discount applied to the employee share plan purchases in the current year was $14,072 (2011: $8,833).

17. Share capital (continued)

(c) Movements in share-based remuneration reserves

	2012 $	2011 $
Beginning of financial year	**–**	–
Increase in equity due to value of employee services (Note 7)	**140,283**	158,386
Transfer to share-based remuneration payables	**(140,283)**	(158,386)
End of financial year	**–**	–

18. Fair value reserve

	2012 $	2011 $
Beginning of financial year	**2,004,523**	1,069,012
Net fair value gains during the financial year	**582,726**	1,166,511
Deferred tax on fair value changes (Note 16)	**127,602**	(237,984)
Transfer to profit or loss on disposal (Note 4)	**(1,388,480)**	(3,849)
Impairment charge recognized in profit or loss (Note 4)	**–**	10,833
End of financial year	**1,326,371**	2,004,523

The fair value reserve is non-distributable.

19. Dividends

	2012 $	2011 $
Ordinary dividends paid		
Interim exempt (one-tier) dividend for 2012 of 17.50 cents (2011: nil) per share paid	**6,123,805**	–

NOTES TO THE FINANCIAL STATEMENTS
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20. Commitments

Operating lease commitments where company is a lessee

The Company leases various office spaces under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognized as liabilities, are as follows:

	2012 $	2011 $
Not later than one year	**2,834,967**	1,565,304
Later than one year but not later than five years	**4,266,411**	275,120
	7,101,378	1,840,424

21. Immediate and ultimate holding corporations

The Company is a wholly-owned subsidiary of ACE-INA Overseas Insurance Company Limited, incorporated in Bermuda.

The ultimate holding corporation is ACE Limited, incorporated in Switzerland.

22. Financial risk management

The Company's activities expose it to a variety of financial risks. The components of financial risk are market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk.

These financial risks arise from the investment and underwriting activities of the business. Investment activity of the business is exposed to the general and specific market movements. The underwriting activity of the business generates credit and liquidity risk through insurance and reinsurance receivables and payables.

The Company's overall risk management focuses to mitigate potential adverse effects of these risks on the financial performance of the Company. The notes below explain the management of financial risks.

Underwriting activity governance

The underwriting activity is governed by the Company's Risk Management Framework. In the framework, the Board of Directors has overall risk management responsibility of the Company and approves its risk management strategy ensuring key risks are identified and managed appropriately. The framework includes the following:

22. Financial risk management (continued)

Underwriting activity governance (continued)

i) Continuous identification of risks and the management of internal controls;

ii) Training and guidance of all relevant employees in the management of risk;

iii) Management reporting, monitoring and action to address significant issues adversely affecting the business;

iv) Implementation of loss prevention and control measures to reduce loss, injury, or damage;

v) Maintenance of the highest practicable protection standards against losses to assets and business interruption;

vi) Efficient management of information, records and loss recording systems;

vii) Implementation of proactive strategies to limit the liability of the Company and protect its reputation;

viii) Crisis management and recovery by planning for significant risks;

ix) Cost benefit management of insurance and other risk control programs; and

x) Clearly defined managerial responsibilities and controls.

Investment activity governance

The principal investment objective of the Company is to ensure that funds will be available to meet the Company's primary insurance and reinsurance obligations. Within this broad liquidity constraint, the investment portfolio's structure seeks to maximize return subject to specifically-approved guidelines of overall asset classes, credit quality, liquidity, and volatility of expected returns. As such, the Company's investment portfolio is invested primarily in investment-graded fixed-income securities as measured by the major rating agencies.

The management of the Company's investment portfolio is the responsibility of the Investment Committee which is accountable to ACE Asset Management Inc., incorporated in the United States of America, for monitoring, evaluating, development and coordination of the Company's investment related activities.

The Investment Committee is chaired by the Asia Pacific Regional Chief Financial Officer and is comprised of at least three members. Under the guidance of the ACE Asset Management Inc., the Investment Committee shall:

(i) establish recommended investment guidelines that are appropriate to the prescribed asset allocation targets;

(ii) monitor performance of investment returns, reporting and internal controls for all investment activities, foreign exchange, interest rate, liquidity and credit risks and to ensure appropriate systems in place for identifying and monitoring such risks; and

(iii) recommend the appointment of fund managers.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

22. Financial risk management (continued)

Investment activity governance (continued)

The investment management function is outsourced to Western Asset Management Company Pte Limited.

(a) Market risk

(i) Currency risk

The Company's currency risk arises mainly with respect to insurance business and investment activities transactions denominated in United States Dollar. United States Dollar liabilities are backed by assets in the underlying currency. Exposures to foreign currency risks are monitored on an on-going basis.

The Company's policy seeks to ensure an approximate currency match of assets and liabilities is maintained, with the bulk of surplus funds matched by Singapore Dollar and lesser surpluses held in United States Dollar.

22. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Company's currency exposure based on the information provided to key management is as follows:

	2012			
	SGD S$	USD S$	Others S$	Total S$
Financial assets				
Available-for-sale financial assets	61,799,721	24,795,087	–	86,594,808
Insurance receivables and other receivables	37,788,624	9,862,079	4,072,161	51,722,864
Reinsurance assets	66,931,907	35,057,204	3,723,639	105,712,750
Cash and cash equivalents	11,463,375	5,435,459	–	16,898,834
	177,983,627	75,149,829	7,795,800	260,929,256
Financial liabilities				
Insurance liabilities	112,246,224	41,487,247	9,267,977	163,001,448
Insurance payables and other payables	30,160,963	6,332,290	635,795	37,129,048
	142,407,187	47,819,537	9,903,772	200,130,496
Currency exposure	**–**	**27,330,292**	**(2,107,972)**	**–**

	2011			
	SGD S$	USD S$	Others S$	Total S$
Financial assets				
Available-for-sale financial assets	67,662,620	8,111,765	–	75,774,385
Insurance receivables and other receivables	37,083,999	11,289,547	2,258,133	50,631,679
Reinsurance assets	66,667,215	48,473,382	5,482,668	120,623,265
Cash and cash equivalents	17,904,110	9,938,655	–	27,842,765
	189,317,944	77,813,349	7,740,801	274,872,094
Financial liabilities				
Insurance liabilities	110,869,850	55,642,119	9,925,679	176,437,648
Insurance payables and other payables	27,788,540	10,949,569	1,930,499	40,668,608
	138,658,390	66,591,688	11,856,178	217,106,256
Currency exposure	**–**	**11,221,661**	**(4,115,377)**	**–**

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

22. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

If USD changes against the SGD by 5% (2011: 5%) with all other variables including tax rate being held constant, the effects arising from the currency exposure will be as follows:

	Increase / (Decrease)					
	2012			2011		
	Profit after tax	**Equity**		Profit after tax	Equity	
		Fair value reserve	**Total equity**		Fair value reserve	Total equity
	S$	**S$**	**S$**	S$	S$	S$
Increase/ (Decrease)						
USD against SGD						
– strengthened	105,211	1,028,996	1,134,207	129,061	336,638	465,699
– weakened	(105,211)	(1,028,996)	(1,134,207)	(129,061)	(336,638)	(465,699)

(ii) Interest rate risks

Cashflow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

The income and operating cash flows are substantially independent of the changes in market interest rates as the Company's investment policy is to only invest in fixed income securities.

A change of 25 basis points (2011: 25 basis points) for cash and bank deposits and a change of 50 basis points (2011: 50 basis points) in interest yield across all portfolio consecutively would increase/(decrease) the market value of the investment and equity by the amounts as shown below. This analysis assumes that all other variables remain constant.

22. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risks (continued)

	Increase / (Decrease)					
	2012			2011		
	Profit after tax	**Equity**		Profit after tax	Equity	
		Fair value reserve	**Total equity**		Fair value reserve	Total equity
	S$	**S$**	**S$**	S$	S$	S$
Cash and bank deposits						
– increased by (+25 bps) (2011: +25 bps)	1,336	–	1,336	2,715	–	2,715
– decreased by (–25 bps) (2011: –25 bps)	(1,336)	–	(1,336)	(2,715)	–	(2,715)
Available-for-sale financial assets						
– increased by (+50 bps) (2011: +50 bps)	–	(1,385,900)	–	–	(1,115,444)	–
– decreased by (–50 bps) (2011: –50 bps)	–	1,100,382	–	–	1,115,890	–

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The major classes of financial assets of the Company are insurance receivables, re-insurance assets, investments in bonds, cash and bank deposits.

Credit risk – investment

The Company is exposed to investment credit and price risk as a result of its holdings in fixed income and equity investments. The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments; setting maximum counterparty exposures and minimum weighted credit quality and individual issuer credit quality.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

22. Financial risk management (continued)

(b) Credit risk (continued)

Credit risk – insurance operations

The Company is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are:

(i) Reinsurers' share of provision for claims outstanding;

(ii) Debtors arising from reinsurers in respect of claims already paid;

(iii) Amount due from direct insurance and reinsurance policyholders; and

(iv) Amount due from direct insurance and reinsurance intermediaries.

Ceded reinsurance is used to manage and mitigate inwards direct insurance and reinsurance risk. Ceded reinsurance does not discharge the Company's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder.

With regard to direct insurance and reinsurance receivables, the Company operates a credit control committee to review all outstanding receivables, a process for monitoring credit risk from insurance operations.

The Company manages its credit risk through brokers and reinsurers that have good credit history. The Head Office approves such reinsurers based on a credit worthiness with a minimum A rating by the rating agencies.

The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

22. Financial risk management (continued)

(b) Credit risk (continued)

Credit risk – insurance operations (continued)

The credit risk for each class of financial instruments based on information provided to key management is as follows:

	Rating* (AAA to A) $	Rating* (BBB to B) $	Rating* (CCC to D) $	Unrated** $	Total $
As at 31 December 2012					
Insurance receivables and other receivables	5,199,038	312,001	–	46,211,825	51,722,864
Available-for-sale financial assets	77,705,120	5,207,844	–	3,681,844	86,594,808
Cash and cash equivalents	16,898,434	–	–	400	16,898,834
	99,802,592	**5,519,845**	**–**	**49,894,069**	**155,216,506**
As at 31 December 2011					
Insurance receivables and other receivables	5,982,593	238,207	–	44,410,879	50,631,679
Available-for-sale financial assets	69,970,384	5,678,395	125,606	–	75,774,385
Cash and cash equivalents	27,842,365	–	–	400	27,842,765
	103,795,342	**5,916,602**	**125,606**	**44,411,279**	**154,248,829**

* Based on public ratings assigned by external rating agencies including S&P, Moody's and A.M. Best.

** Unrated includes direct customers mainly for Accident & Health business.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

22. Financial risk management (continued)

(b) Credit risk (continued)

(i) Financial assets that are neither past due nor impaired

Bank deposits and investments in bonds are neither past due nor impaired. Bank deposits are placed with reputable banks and financial institutions, and investments are in bonds and government-related securities. The bond portfolio and funds placed with external manager are primarily invested in investment grade securities. Insurance receivables that are neither past due nor impaired are substantially companies with good collection track record with the Company.

There is no other class of financial assets that is past due and/or impaired except for insurance receivables.

The age analysis of insurance receivables is as follows:

	2012 **$**	2011 $
Neither past due nor impaired	**25,909,157**	36,921,591
Past due but not impaired		
Less than 3 months	**12,546,731**	7,050,326
Above 3 months but not exceeding 9 months	**9,522,267**	3,393,610
Above 9 months	**687,290**	1,194,973
	48,665,445	48,560,500

The carrying amount of insurance receivables individually determined to be impaired and the movement in the related allowance for impairment is as follows:

	2012 **$**	2011 $
Gross amount	**113,880**	249,463
Less: Allowance for impairment	**(113,880)**	(249,463)
	–	–
Beginning of financial year	**249,463**	402,994
Allowance made/(released)	**8,142**	(154,435)
Allowance utilized	**(143,499)**	–
Currency translation difference	**(226)**	904
End of financial year	**113,880**	249,463

The basis of determining impairment is set out in the accounting policy Note 2(e)(v)(1).

22. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk refers to the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. To manage liquidity risk, the Company monitors and maintains a level of cash and cash equivalents to finance the Company's operations and mitigate the effects of fluctuation in cash flows. The Company maintains its investment in fixed income instruments which are easily convertible to cash whenever needed.

The table below analyzes the maturity profile of the Company's financial liabilities based on contractual undiscounted cash flows.

	Less than 1 year $	**Between 1 and 5 years $**	**More than 5 years $**	**Total $**
As at 31 December 2012				
Insurance liabilities	74,965,561	85,635,291	3,126,485	163,727,337
Insurance payables and other payables	37,129,048	–	–	37,129,048
	112,094,609	**85,635,291**	**3,126,485**	**200,856,385**
As at 31 December 2011				
Insurance liabilities	92,761,578	81,528,390	3,220,820	177,510,788
Insurance payables and other payables	40,668,608	–	–	40,668,608
	133,430,186	**81,528,390**	**3,220,820**	**218,179,396**

(d) Capital risk

The Company's objectives when managing capital are:

- Comply with the insurance capital requirements as set out in the Insurance Act (Chapter 142) Insurance (Valuation and Capital) Regulations. In this respect the Company manages its capital on a basis of 120% of its minimum regulatory capital position. Management considers the current capital adequacy ratio of 228% (2011: 217%) sufficient to optimize shareholder's return and to support the capital required to write its business;

- Safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- Provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

22. Financial risk management (continued)

(d) Capital risk (continued)

In addition to other applicable regulatory requirements, insurers are required to maintain actuarial reserves under the Insurance Act (Chapter 142) to protect against the impact of large claims and catastrophes. The amount of the actuarial reserve is disclosed in Note 13.

(e) Fair value measurements

The following table presents the assets measured at fair value and classified by level of the following fair value measurement hierarchy:

- unadjusted quoted price 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 or indirectly (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

	Level 1 $	Level 2 $	Level 3 $	Total $
As at 31 December 2012				
Financial assets, available-for-sale	**11,046,690**	**75,548,118**	**–**	**86,594,808**
As at 31 December 2011				
Financial assets, available-for-sale	2,833,325	72,641,060	300,000	75,774,385

(f) Insurance risk

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

The Company's operations are diversified by line of business and the geographic spread of risk. A global approach to risk management allows the Company to underwrite and accept large insurance accounts.

22. Financial risk management (continued)

(f) Insurance risk (continued)

Clearly defined underwriting authorities, standards and guidelines are in place in the Company. Experienced underwriting teams maintain underwriting discipline through the use of pricing models, sophisticated catastrophe and risk management methodologies, and strict risk selection criteria. Qualified actuaries from the region work closely with the underwriting teams to provide additional expertise in the underwriting process. Centrally-coordinated reinsurance management facilitates appropriate risk transfer and efficient cost-effective use of external reinsurance markets. Reinsurers utilized by the Company must meet certain financial experience requirements and are put through a stringent financial review process in order to be pre-approved by the Head Office's Reinsurance Security Committee, comprising senior management personnel. As a result of these controls, reinsurance is placed with a select group of only the most financially secured and experienced companies in the reinsurance industry. Consistent approach to reserving practices and the settlement of claims are also ensured. In addition to these internal controls, the Company's operating units and functional areas are subject to review by the corporate audit team that regularly carries out operational audits.

The concentration of insurance risk before and after reinsurance by territory in relation to the major lines of business is summarized below, with reference to the carrying amount of the outstanding claims reserves (gross and net of reinsurance):

2012 Territory		Financial lines $	General liabilities $	Accident and health $	Fire $	Others $	Total $
Singapore	Gross	10,446,532	10,045,381	10,037,342	3,308,247	28,920,630	62,758,132
	Net	3,196,385	1,390,780	3,923,100	1,935,039	5,189,721	15,635,025
Middle East	Gross	17,448	22,102	–	2,704	183,300	225,554
	Net	5,258	6,594	–	1,393	54,033	67,278
Other Asian Countries	Gross	1,621,357	3,563,007	46,932	1,422,152	21,572,881	28,226,329
	Net	527,997	1,051,815	22,933	701,357	2,217,997	4,522,099
Europe & USA	Gross	48,150	1,379,496	25	220,954	746,096	2,394,721
	Net	14,511	401,794	12	159,469	207,414	783,200
Total	**Gross**	**12,133,487**	**15,009,986**	**10,084,299**	**4,954,057**	**51,422,907**	**93,604,736**
	Net	**3,744,151**	**2,850,983**	**3,946,045**	**2,797,258**	**7,669,165**	**21,007,602**

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2012

22. Financial risk management (continued)

(f) Insurance risk (continued)

2011 Territory		Financial lines $	General liabilities $	Accident and health $	Fire $	Others $	Total $
Singapore	Gross	33,764,537	12,228,586	7,528,053	5,744,968	21,203,429	80,469,573
	Net	4,395,001	1,625,606	2,906,374	1,285,725	4,848,935	15,061,641
Middle East	Gross	20,416	59,170	–	5,193	237,674	322,453
	Net	7,543	16,151	–	3,359	32,325	59,378
Other Asian Countries	Gross	1,767,826	3,682,978	1,147	1,994,703	22,341,326	29,787,980
	Net	672,982	1,285,968	527	1,163,510	5,552,046	8,675,033
Europe & USA	Gross	68,606	1,557,526	21	1,310,128	254,816	3,191,097
	Net	25,346	418,283	10	377,740	48,038	869,417
Total	Gross	35,621,385	17,528,260	7,529,221	9,054,992	44,037,245	**113,771,103**
	Net	5,100,872	3,346,008	2,906,911	2,830,334	10,481,344	**24,665,469**

23. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following significant transactions took place between the Company and related parties during the financial year at terms agreed between the parties:

(a) Sales and purchases of services

	2012 $	2011 $
Business from related companies		
Premium income	**11,423,566**	13,270,539
Commission expense	**(1,064,323)**	(926,652)
Claims paid	**(5,510,037)**	(1,336,760)
Business to related companies		
Premiums ceded	**(101,044,253)**	(87,589,785)
Commissions received	**34,747,250**	27,095,756
Claims recovered	**25,169,038**	23,749,715
General expenses billed to regional office	**1,471,798**	1,333,290
General expenses allocated by regional office	**(5,393,385)**	(4,556,853)
Information processing expenses billed by a related company	**(1,056,305)**	(912,540)
Service fees billed by related companies	**(402,947)**	(490,284)
Service fees billed to related companies	**62,000**	54,250

Outstanding balances at 31 December 2012, arising from sales/purchases of services, are set out in Notes 12 and 15, respectively.

23. Related party transactions (continued)

(b) Key management personnel compensation

The key management personnel compensation includes salary, bonus and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Company and when the Company did not incur any costs, the value of the benefit.

Key management personnel compensation is analyzed as follows:

	2012 **$**	2011 $
Salaries and other short-term employee benefits	**3,050,058**	2,284,315
Share based remuneration expenses	**54,723**	160,922
	3,104,781	2,445,237

The compensation to directors of the Company included in the above amounted to $ 476,491 (2011: $ 457,518).

24. New or revised accounting standards and interpretations

The mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Company's accounting periods beginning on or after 1 January 2013 or later periods and which the Company has not early adopted are:

- **Annual Improvements 2011** (effective for annual periods beginning on or after 1 January 2013). These annual improvements address six issues in the 2009 to 2011 reporting cycle. It includes changes to FRS 101 *First time adoption*, FRS 1 *Presentation of Financial Statements*, FRS 16 *Property, plant and equipment*, FRS 32 *Financial Instruments: Presentation* and FRS 34 *Interim Financial Reporting.*

- **Amendment to FRS 1 *Presentation of Items of Other Comprehensive Income*** (effective for annual period beginning on or after 1 July 2012). The amendment requires items presented in other comprehensive income ("OCI") to be separated into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

The management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in the future periods will not have a material impact on the financial statements of the Company in the period of their initial adoption.

25. Authorization of financial statements

These financial statements were authorized for issue in accordance with a resolution of the board of directors of ACE Insurance Limited on 26 April 2013.

ace insurance

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