EQ INSURANCE COMPANY LIMITED

Singapore

B++

Operating Company Non-Life

Ultimate Parent: Citystate Capital Asia Pte. Ltd.

EQ INSURANCE COMPANY LIMITED

5 Maxwell Road, #17-00 Tower Block MND Complex, Singapore 069110
Web: www.eqinsurance.com.sg
Tel.: 65-6223-9433 **Fax: 65-6224-3903**
AMB#: 086776 **AIIN#: AA-5760060**
Ultimate Parent#: 033486

BEST'S CREDIT RATING

Best's Financial Strength Rating: B++ **Outlook**: Stable
Best's Financial Size Category: VI

RATING RATIONALE

Rating Rationale: Established in 2007, EQ Insurance Company Limited (EQ) is a general insurer based in Singapore and a wholly owned subsidiary of Citystate Capital Asia Pte. Ltd. (CCA). EQ is a small participant in terms of market share in Singapore's general insurance business.

The assigned ratings consider EQ's adequate risk-adjusted capitalization, prudent investment portfolio and low underwriting leverage.

EQ's consistent returns from an investment portfolio comprised mainly of cash holdings have helped to sustain the company's overall profitability. Additionally, successive capital injections received from its parent company in excess of dividends paid have kept both gross and net underwriting leverage low.

Offsetting rating factors include a limited business profile. As a small participant in a mature market, EQ faces challenges in growing profitably. EQ's underwriting performance has trailed the general insurance average in Singapore primarily due to a higher-than-average claims ratio.

Positive rating momentum could result from achieving balanced and improved profitability while reaching projected top-line growth. Negative rating pressure could arise from a deterioration in operating performance due to expansion or a deterioration in its parent's financial condition.

FIVE YEAR RATING HISTORY

Date	Best's FSR
10/08/15	B++

BUSINESS PROFILE

Affiliations: EQ Insurance Company Ltd (EQ) was formerly known as Equatorial Reinsurance (Singapore) Ltd, which went into run-off in 1997. In February 2007, the Company received regulatory approval to operate as a non-life insurer based in Singapore. Equatorial Reinsurance (Singapore) Ltd, which was formerly known as United Asia Reinsurance (Singapore) Ltd, was established in Singapore in 1980 and wrote international reinsurance business. The Company went into run-off in 1997 and had ceased writing new business. Licensed in February 2007 by the regulator, the Monetary Authority of Singapore (MAS), to underwrite direct general insurance business in Singapore, the company was renamed EQ Insurance Company Ltd (EQ). EQ is a fully owned subsidiary of Citystate Insurance Holdings Pte Ltd (Citystate Insurance), a wholly owned by Citystate Capital Asia Pte Ltd (Citystate Capital). Citystate Capital is an insurance holding company headquartered in Singapore with a presence in Malaysia, Hong Kong, China, and India. The company is focused on building a dedicated and focused Pan Insurance Group in the Asia Pacific. Citystate Capital's subsidiaries operate in 2 business areas within the insurance industry namely, general insurance underwriting and insurance broking. The group's general insurance underwriting businesses held through its subsidiaries, namely EQ and Eka Lloyd Jaya (ELJ) in Indonesia.

Scope of Operations: The key line of business of EQ is motor which accounts for 37% of total gross premium written (GPW), which includes business derived from both private and commercial vehicles. Other major lines include work injury compensation (25%), health (10%), personal accident (9%) and bonds (6%). Geographically, all of EQ's premium revenue in 2014 was generated from the Singapore market. A significant portion of the EQ's GPW is generated through agents, which account for approximately 65% of GPW in 2014. Other distribution channel include brokers (28%), financial advisers (4%), direct (2%) and inward RI (1%). EQ has identified strategic priorities to achieve further growth, and the company is seeking to implement a growth strategy to increase its market presence in travel and health line of business on the back of rising aggregation of foreign nationals seconded to live in Singapore and abroad.

RISK MANAGEMENT

EQ's enterprise risk management (ERM) policy is built on promoting a risk culture throughout the Citystate Group. In 2014, EQ, jointly with its Parent, has completed its first own risk and solvency assessment (ORSA) report on a Group level for submission to the regulator. Through the ORSA process, it was identified that the insurance underwriting risk is the largest risk category which could potentially threaten the financial strength of the group, followed by financial risks. In response to these risks, mitigating actions are in place at the respective subsidiary levels in line with the Group's risk framework. As mitigation for the underwriting risks, underwriting, reinsurance, and claims authority limits are in place with strategic reinsurance and catastrophic covers. To mitigate financial risks, investments are guided by an investment guideline on portfolio mix and volatility types. Risk tolerances are first monitored on individual subsidiary level before it is reviewed at the group level. This Risk Management Policy and Risk Appetite Statements are formulated at the board level in collaboration with the Enterprise Risk Management (ERM) Committee. Risks tolerances are quantified according to the risk appetite Statements. Depending on the type and nature of risks, tolerances are reviewed and reported at different intervals. The ERM Committee would make a quarterly report to the EQ Board of Directors on adherence and matters concerning risk issues. Risks are categorized and managed under a number of risk dimensions. Along these risk dimensions, EQ has developed a 3-level risk matrix recognizing how each risk dimension will impact, likely to occur and expose our operation. Ownership of the reporting of the risk appetite-related concerns would fall on the Compliance Officer. The Compliance Officer would report material negative variances from the plan and their causes, as well as ERM's actions taken or planned to correct the variances.

OPERATING PERFORMANCE

Operating Results: With the exception of 2013, EQ's overall operating performance has been good, with both investment and underwriting contributing positively to overall results. EQ's average operating ratio was close to 90% during the five-year period from 2010 to 2014.

Underwriting Results: The five-year weighted average combined ratio from 2010 to 2014 was approximately 94%. Owing to intense competition in the market, underwriting profitability has been declining albeit remaining largely positive. In 2013, EQ registered an underwriting loss due to a review of its motor portfolio which resulted in higher claims reserves. This lead to an increase in loss ratio to approximately 72% from 64% in 2012. Underwriting results returned to the black in 2014 with a lower loss ratio of around 60%.

Investment Results: EQ's investments have been modest given its relatively prudent investment portfolio. The company was able to generate a stream of interest and dividend income from its equities and bonds holdings. Investment returns (excluding gains and losses) have been stable and averaged 2.5% for the last five years and when including gains and losses, these returns remained relative unchanged at 2.6%. Approximately 80% of total investment income is derived from dividend and interest income for the period of 2010-2014.

BALANCE SHEET STRENGTH

Capitalization: In the five years to 2014, EQ's capital had increased approximately by 63% from SGD 28.9 million to SGD 46.9 million due to capital injection received from its Parent and retained earnings after dividends. EQ's risk-adjusted capitalization level, as measured by Best's Capital Adequacy Ratio (BCAR), is adequate to support its current ratings. The key driver of risk-adjusted capital is EQ's exposure to net premium risks. Prospectively, the company's risk-adjusted capitalization is expected to remain relatively stable in the next three years, underpinned by projected growth in capital and surplus as well as net premium written. On the stressed scenario basis, the company is not heavily exposed to natural catastrophe given that all risks are written in Singapore. Additionally, the investment portfolio has been structured to be more resilient to market volatility.

Underwriting Leverage: Net and gross premium leverage amounted to 87% and 104%, respectively, as of fiscal year 2014, while the net claims reserve leverage ratio stood at 81% and the gross claims reserve leverage ratio was 90%. Given the management's cautious growth outlook, underwriting leverage is likely to remain stable in the next three years.

Loss Reserves: EQ reserves are determined internally, based largely on information derived from an external actuary best estimate at a 75% confidence level. The loss development analysis shows that EQ has a deficit on its loss reserves which could expose the company to shocks from any adverse claims experience. However, since 2013, the company has made improvements to its claims reserving process and initial reserves are set to reflect claims more accurately. Additionally, most of EQ's net reserves relate to short tail business. As a result, net insurance liabilities, derived with less estimation uncertainty, have a lower proportion of high volatility risks. In view of the above, improved reserve developments were seen in the motor class of business.

Investments: Investments amounting to SGD 101 million accounted for approximately 84% of EQ's total assets in 2014. These are primarily invested in cash (58% of investments) and bonds (31% of investments) with the remainder in equities (12% of investments). EQ's investment portfolio has a larger proportion of cash relative to the industry at large.

Summarized Accounts as of December 31, 2014

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

US $ per Local Currency Unit .7559 = 1 Singapore Dollar (SGD)

STATEMENT OF INCOME

	12/31/2014 SGD(000)	12/31/2014 USD(000)
Technical account:		
Direct premiums	48,840	36,918
Gross premiums written	48,840	36,918
Reinsurance ceded	8,143	6,155
Net premiums written	40,697	30,763
Increase/(decrease) in gross unearned premiums	-909	-687
Reinsurers share unearned premiums	-606	-458
Net premiums earned	41,000	30,992
Total underwriting income	41,000	30,992
Net claims paid	23,917	18,079
Net increase/(decrease) in claims provision	585	442
Net claims incurred	24,502	18,521
Management expenses	8,626	6,520
Acquisition expenses	5,632	4,257
Net operating expenses	14,258	10,778
Other technical expenses	1,277	965
Total underwriting expenses	40,037	30,264
Balance on technical account	963	728
Combined technical account:		
Direct premiums	48,840	36,918
Gross premiums written	48,840	36,918
Reinsurance ceded	8,143	6,155
Net premiums written	40,697	30,763
Increase/(decrease) in gross unearned premiums	-909	-687
Increase/(decrease) in reinsurers share unearned premiums	-606	-458
Net premiums earned	41,000	30,992
Total revenue	41,000	30,992
Net claims paid	23,917	18,079
Net increase/(decrease) in claims provision	585	442
Net claims incurred	24,502	18,521
Management expenses	8,626	6,520
Acquisition expenses	5,632	4,257
Net operating expenses	14,258	10,778
Other technical expenses	1,277	965
Total underwriting expenses	40,037	30,264
Balance on combined technical account	963	728

	12/31/2014 SGD(000)	12/31/2014 USD(000)
Non-technical account:		
Net investment income	2,165	1,637
Unrealised capital gains/(losses)	339	256
Profit/(loss) before tax	3,467	2,621
Taxation	-76	-57
Profit/(loss) after tax	3,543	2,678
Retained profit/(loss) for the financial year	3,543	2,678
Retained profit/(loss) brought forward	6,628	5,010
Retained profit/(loss) carried forward	10,171	7,688

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2014 SGD(000)	12/31/2014 USD(000)
Capital & surplus brought forward	43,404	32,809
Profit or loss for the year	3,543	2,678
Capital gains or (losses)	35	26
Total change in capital & surplus	3,578	2,705
Capital & surplus carried forward	46,982	35,514

ASSETS

	12/31/2014 SGD(000)	12/31/2014 % of total	12/31/2014 USD(000)
Cash & deposits with credit institutions	58,589	48.5	44,287
Bonds & other fixed interest securities	28,972	24.0	21,900
Shares & other variable interest instruments	11,787	9.8	8,910
Liquid assets	99,348	82.3	75,097
Unquoted investments	2,000	1.7	1,512
Total investments	101,348	83.9	76,609
Reins. sh. of tech. reserves - unearned premiums	3,935	3.3	2,974
Reinsurers' share of technical reserves - claims	4,154	3.4	3,140
Total reinsurers share of technical reserves	8,089	6.7	6,114
Deposits with ceding companies	13	0.0	10
Insurance/reinsurance debtors	8,750	7.2	6,614
Inter-company debtors	166	0.1	125
Other debtors	502	0.4	379
Total debtors	9,418	7.8	7,119
Fixed assets	763	0.6	577
Prepayments & accrued income	1,132	0.9	856
Total assets	120,763	100.0	91,285

LIABILITIES

	12/31/2014 SGD(000)	12/31/2014 % of total	12/31/2014 USD(000)
Capital	36,500	30.2	27,590
Paid-up capital	36,500	30.2	27,590
Non-distributable reserves	311	0.3	235
Retained earnings	10,171	8.4	7,688
Capital & surplus	46,982	38.9	35,514
Gross provision for unearned premiums	23,013	19.1	17,396
Gross provision for outstanding claims	42,374	35.1	32,031
Total gross technical reserves	65,387	54.1	49,426
Deposits received from reinsurers	172	0.1	130
Insurance/reinsurance creditors	5,122	4.2	3,872
Other creditors	2,618	2.2	1,979
Total creditors	7,740	6.4	5,851
Accruals & deferred income	482	0.4	364
Total liabilities & surplus	120,763	100.0	91,285

MANAGEMENT

Officers: Chief Executive Officer; Ronald Jue Seng Cheng, Company Secretary; Sharimala Rasanayagam, Company Secretary; Siew Kiang Sim

Directors: Tze Wen Leow (Chairman), Tee Chuan Ng, Tee Yen Ng, Anthony Ah Seng Tan, Phillip Eng Seong Tan.

REINSURANCE

The company's balance sheet is protected through proportional and excess of loss reinsurance programs. EQ utilizes excess of loss reinsurance for most of its business lines in view of its relatively low gross and net underwriting leverages. Additionally, facultative reinsurance is arranged for special lines or for large risks where additional capacity is required. The company has 7 reinsurance treaties placed for its core business and major products with no major changes to the reinsurance panel and treaty structures since their inception. Limits are designed to be large enough to absorb catastrophes and are expected to reduce gross and net retention per event to SGD 3.2 million and SGD 0.5 million respectively. As required by Law in Singapore, unlimited covers are purchased for motor third party bodily injury. EQ's panel of reinsurers is of high security quality where the majority of protection is provided by counterparties that more than meet this requirement. A policy is in place to ensure that no one reinsurer is to have more than 35% of each treaty.

BALANCE SHEET ITEMS

	SGD (000) 2014	SGD (000) 2013	SGD (000) 2012	SGD (000) 2011	SGD (000) 2010
Liquid assets	99,348	96,692	89,148	74,539	63,245
Total investments	101,348	99,285	92,213	81,159	64,952
Total assets	120,763	115,528	108,066	98,092	79,259
Total gross technical reserves	65,387	64,075	56,630	52,436	41,298
Net technical reserves	57,298	57,014	50,161	43,603	34,943
Total liabilities	73,781	72,125	65,032	62,935	50,363
Capital & surplus	46,982	43,403	43,034	35,157	28,896

INCOME STATEMENT ITEMS

	SGD (000) 2014	SGD (000) 2013	SGD (000) 2012	SGD (000) 2011	SGD (000) 2010
Gross premiums written	48,840	49,276	46,195	49,292	41,286
Net premiums written	40,697	39,893	37,853	36,088	32,203
Balance on technical account(s)	963	-2,442	1,481	2,451	3,164
Profit/(loss) before tax	3,467	-309	5,163	3,539	5,007
Profit/(loss) after tax	3,543	279	4,376	2,763	4,241

LIQUIDITY RATIOS (%)

	2014	2013	2012	2011	2010
Total debtors to total assets	7.8	6.7	7.6	7.2	8.8
Liquid assets to net technical reserves	173.4	169.6	177.7	170.9	181.0
Liquid assets to total liabilities	134.7	134.1	137.1	118.4	125.6
Total investments to total liabilities	137.4	137.7	141.8	129.0	129.0

LEVERAGE RATIOS (%)

	2014	2013	2012	2011	2010
Net premiums written to capital & surplus	86.6	91.9	88.0	102.6	111.4
Net technical reserves to capital & surplus	122.0	131.4	116.6	124.0	120.9
Gross premiums written to capital & surplus	104.0	113.5	107.3	140.2	142.9
Gross technical reserves to capital & surplus	139.2	147.6	131.6	149.1	142.9
Total debtors to capital & surplus	20.0	18.0	19.1	20.0	24.2
Total liabilities to capital & surplus	157.0	166.2	151.1	179.0	174.3

PROFITABILITY RATIOS (%)

	2014	2013	2012	2011	2010
Loss ratio	59.8	72.3	63.6	63.8	54.9
Operating expense ratio	35.0	31.4	31.1	27.6	27.3
Combined ratio	94.8	103.7	94.7	91.5	82.2
Other technical expense or (income) ratio	3.1	1.9	1.0	1.0	3.3
Net investment income ratio	5.3	5.6	9.8	3.1	6.2
Operating ratio	92.7	100.0	85.9	89.4	79.3
Return on net premiums written	8.7	0.7	11.6	7.7	13.2
Return on total assets	3.0	0.2	4.2	3.1	6.1
Return on capital & surplus	7.8	0.6	11.2	8.6	17.1

Why is this *Best's® Rating Report* important to you?

A Best's Rating Report from the A.M. Best Company showcases the **opinion** from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders, as well as its relative credit risk.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of the insurance companies since 1899.

A Best's Financial Strength Rating is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.

The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. The rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company or A.M. Best Europe – Rating Services Limited.

For the latest Best's Financial Strength Ratings along with their definitions and A.M. Best's Terms of Use, visit the A.M. Best website at **www.ambest.com.** You may also obtain AMB Credit Reports by visiting our site or calling our Customer Service department at +1-908-439-2200, ext. 5472. To expedite your request, please provide the company's identification number (AMB#).