EULER HERMES SINGAPORE BRANCH

(Incorporated in Belgium. Registration Number: T13FC0142K)

ANNUAL REPORT

For the financial year ended 31 December 2023

EULER HERMES SINGAPORE BRANCH
(Incorporated in Belgium. Registration Number: T13FC0142K)

ANNUAL REPORT
For the financial year ended 31 December 2023

Contents

	Page
Statement by Chief Executive	1
Independent Auditor's Report	2
Statement of Comprehensive Income Arising Out of Operations in Singapore	5
Statement of Assets Used in and Liabilities Arising Out of Operations in Singapore	6
Statement of Changes in Head Office Account	7
Statement of Cash Flows	8
Notes to the Financial Statements	9

EULER HERMES SINGAPORE BRANCH

STATEMENT BY CHIEF EXECUTIVE
For the financial year ended 31 December 2023

I, Domenico Lup, the Chief Executive Officer primarily responsible for the financial management of Euler Hermes Singapore Branch ("the Branch"), state that, in my opinion, the accompanying statement of comprehensive income arising out of operations in Singapore, statement of assets used in and liabilities arising out of operation in Singapore, statement of changes in head office account and statement of cash flows, and the related notes therein are properly drawn up in accordance with the provisions of the Singapore Companies Act 1967 and Singapore Financial Reporting Standards, so as to give a true and fair view of the assets used in and liabilities arising out of the Branch's operations in Singapore as at 31 December 2023, and of the results, changes in head office account and cash flows of the Branch's operations in Singapore for the financial year ended on that date.

Domenico Lup

Domenico Lup
Chief Executive
30 July 2024

INDEPENDENT AUDITOR'S REPORT TO EULER HERMES

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying financial statements of the Singapore operations of Euler Hermes ("the Branch") are properly drawn up in accordance with the provisions of the Companies Act 1967 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the assets used in, and liabilities arising out of, the Branch's operations in Singapore as at 31 December 2023, and of the result, changes in head office account and cash flows of the Branch's operations in Singapore for the year ended on that date.

What we have audited

The Branch is a segment of Euler Hermes and is not a separately incorporated legal entity. The accompanying financial statements, which we have audited pursuant to Section 373 of the Act, have been prepared from the records of the Branch and reflect only transactions recorded therein and comprise:

- the statement of comprehensive income arising out of operations in Singapore for the year ended 31 December 2023;
- the statement of assets used in and liabilities arising out of operations in Singapore as at 31 December 2023;
- the statement of changes in head office account for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of material accounting policy information.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Branch in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

EULER HERMES
(Incorporated in Belgium)
Singapore Branch

INDEPENDENT AUDITOR'S REPORT TO EULER HERMES (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

The Branch's management is responsible for the other information. The other information comprises the Statement by Chief Executive but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on the Audit of the Financial Statements (continued)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Branch's management.
- Conclude on the appropriateness of Branch management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records examined by us relating to the Branch's operations in Singapore have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 30 July 2024

EULER HERMES SINGAPORE BRANCH

STATEMENT OF COMPREHENSIVE INCOME ARISING OUT OF OPERATIONS IN SINGAPORE
For the financial year ended 31 December 2023

	Note	**2023**	2022 (restated)
		$'000	$'000
Insurance service revenue	4.1	**76,567**	54,678
Insurance service expense	11	**(81,273)**	(17,826)
Net income/(expense) from reinsurance contracts held	4.2	**8,373**	(26,340)
Insurance service result		**3,667**	10,512
Net finance expense from insurance contracts issued	12	**(304)**	(1,140)
Net finance income from reinsurance contracts held	12	**2,441**	3,271
Net insurance financial result		**2,137**	2,131
Net investment income/(expense)	12	**868**	355
Fee income	13	**125**	249
Other operating expense	13	**(15,275)**	(10,095)
(Loss)/Profit before income tax		**(8,478)**	3,152
Tax income/(expense)	14	**489**	(436)
(Loss)/Profit after income tax		**(7,989)**	2,716
Other comprehensive income			
Finance expense from insurance contracts issued	12	**(925)**	603
Finance income from reinsurance contracts held	12	**698**	(672)
FVOCI – changes arising during the period		**949**	(1,431)
Tax on other comprehensive income	14	**(123)**	248
Other comprehensive income, net of tax		**599**	(1,252)
Total comprehensive income for the year		**(7,390)**	1,464

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

EULER HERMES SINGAPORE BRANCH

THE STATEMENT OF ASSETS USED IN AND LIABILITIES ARISING OUT OF OPERATIONS IN SINGAPORE
As at 31 December 2023

	Note	**As at 31 December 2023**	As at 31 December 2022 (restated)	As at 1 January 2022 (restated)
		$'000	$'000	$'000
Assets				
Cash and cash equivalents	8	**16,670**	9,431	8,398
Fixed deposits	8	**2,638**	2,500	-
Financial assets at FVOCI	6	**57,422**	47,366	52,175
Prepayments and other receivables	7	**1,192**	803	780
Reinsurance contracts that are assets	4	**95,413**	31,339	31,118
Intangible assets	5	**186**	233	244
Deferred tax assets	10	**31**	-	-
Total assets		**173,552**	91,672	92,715
Head Office account				
Capital account		**115,236**	115,236	115,236
Accumulated losses		**(73,577)**	(65,588)	(68,304)
Fair value reserves		**(498)**	(1,285)	(91)
Insurance finance reserves		**(357)**	(169)	(111)
Total Head Office account		**40,804**	48,194	46,730
Liabilities				
Insurance contracts that are liabilities	4	**129,981**	40,146	43,447
Other payables	9	**2,767**	2,998	2,384
Deferred tax liabilities	10	**-**	334	154
Total liabilities		**132,748**	43,478	45,985
Total Head Office account and liabilities		**173,552**	91,672	92,715

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

EULER HERMES SINGAPORE BRANCH

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

For the financial year ended 31 December 2023

	Capital account $'000	Accumulated losses $'000	Fair value reserve $'000	Insurance finance reserve $'000	Total $'000
2023					
At 1 January 2023	115,236	(65,588)	(1,285)	(169)	48,194
Loss for the year	-	(7,989)	-	-	(7,989)
Insurance finance reserves – changes arising during the period, net of tax	-	-	-	(188)	(188)
FVOCI – changes arising during the period, net of tax	-	-	787	-	787
Total comprehensive income/(loss) for the year	-	(7,989)	787	(188)	(7,390)
At 31 December 2023	115,236	(73,577)	(498)	(357)	40,804
2022					
At 1 January 2022, as previously stated	115,236	(69,182)	(12)	-	46,042
Impact of initial application of FRS 117	-	799	-	(111)	688
Impact of initial application of FRS 109	-	79	(79)	-	-
Profit for the year	-	2,716	-	-	2,716
Insurance finance reserves – changes arising during the period, net of tax	-	-	-	(58)	(58)
FVOCI – changes arising during the period, net of tax	-	-	(1,194)	-	(1,194)
Total comprehensive income/(loss) for the year	-	2,716	(1,194)	(58)	1,464
At 31 December 2022	115,236	(65,588)	(1,285)	(169)	48,194

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

EULER HERMES SINGAPORE BRANCH

STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2023

	Note	2023 $'000	2022 (restated) $'000
Cash flows from operating activities			
(Loss)/Profit for the year		**(7,989)**	2,716
Adjustments for:			
- Interest income		**(1,258)**	(1,153)
- Amortisation of intangible assets	9	**92**	85
- Amortisation of financial assets, at FVOCI		**76**	287
- Loss on disposal/redemption of investment		**314**	511
- Tax expenses/(income)		**(528)**	417
- Net change in fair value of financial assets, at FVOCI		**787**	(1,194)
- Insurance contracts that are liabilities		**89,069**	(2,801)
- Reinsurance contracts that are assets		**(63,495)**	(779)
		17,068	(1,911)
Changes in working capital:			
- Prepayments and other receivables		**(1,656)**	(1,157)
- Other payables		**(231)**	614
Net cash generated from/(used in) operations		**15,181**	(2,454)
Income tax paid		**-**	-
Net cash generated from/(used in) operating activities		**15,181**	(2,454)
Cash flows from investing activities			
Fixed deposits placements		**(2,638)**	(2,500)
Fixed deposits withdrawal		**2,500**	-
Fixed deposits withdrawal		**(17,170)**	(5,338)
Redemption of financial assets, at FVOCI		**8,149**	10,273
Interest received		**1,272**	1,167
Additions to intangible assets		**(45)**	(74)
Net cash (used in)/generated from investing activities		**(7,932)**	3,528
Net increase in cash and cash equivalents		**7,249**	1,074
Cash and cash equivalents at 1 January		**9,431**	8,398
Effect of exchange rate fluctuations on cash held		**(10)**	(41)
Cash and cash equivalents at 31 December	13	**16,670**	9,431

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

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

1. Domicile and activities

The address of the principal place of business of Euler Hermes, Singapore Branch is 79 Robinson Road, #09-01, Singapore 068897. The Branch is registered under the Singapore Insurance Act 1966 to undertake credit insurance and reinsurance business.

The Singapore Branch is a segment of Euler Hermes, which is incorporated in Belgium and is not a separately incorporated legal entity. The records of the Branch contain evidence of the transactions which have been recorded locally. They do not necessarily reflect all transactions borne by the Head Office which may be applicable to the Branch. The results of the Branch are transferred to the Head Office account at the end of each financial year.

The immediate holding company is Euler Hermes SA, a company incorporated in Belgium. The ultimate holding company is Allianz SE, a company incorporated in Germany under the laws of Germany and the European Union.

The assets and liabilities of the Singapore Branch which relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act, 1966 (“the Insurance Act”). Such assets and liabilities are accounted for in the books of the insurance funds established under the Insurance Act. The net assets of the Branch held in the insurance funds must be sufficient to meet the solvency requirements stipulated in Section 17 of the Insurance Act at all times. Assets held in the insurance funds may be withdrawn by the Head Office only if the withdrawal meets the requirements stipulated in the Insurance Act and the Branch continues to be able to meet the solvency requirements of the Section 17 of the Insurance Act.

The Branch was registered in Singapore on 12 August 2013 as Euler Hermes Europe, Singapore Branch. It obtained its license to carry on insurance business in Singapore from the Monetary Authority of Singapore on 21 May 2014, and commenced operations upon the transfer of business from Euler Hermes Deutschland Aktiengesellschaft, Singapore Branch on 1 June 2014.

The Branch was renamed to Euler Hermes, Singapore Branch on 4 November 2014.

2. Material accounting policy information

2.1 Basis of preparation

The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act 1967 and Financial Reporting Standards in Singapore ("FRS").

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

2.2 Adoption of new and amended standards

On 1 January 2023 the Branch adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application and are relevant to its operations for the financial year. Except for *FRS 117 Insurance Contracts*, the adoption of these new or amended FRS and INT FRS did not result in changes to the Branch's accounting policies and had no material effect on the amounts reported for the current or prior financial years, or may have a material effect on future periods.

At the date of authorisation of these financial statements, the following FRS and amendments to FRS that are relevant to the Branch were issued but not effective 1 January 2024:

- Amendments to:
  - FRS 1: Classification of Liabilities as Current or Non-current
  - FRS 116: Lease Liability in a Sale and Leaseback

The Branch has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Branch has initially applied FRS 117 and FRS 109, including any consequential amendments to other standards, from 1 January 2023.

2. Material accounting policy information (continued)

2.2.1 FRS 117 Insurance Contracts

FRS 117 replaces FRS 104 Insurance Contracts for annual periods on or after 1 January 2023. FRS 117 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued and reinsurance contracts held by the Branch. The nature and effects of the key changes in the Branch's accounting policies to adopt FRS 117 are summarised below.

Due to significant changes to the accounting for insurance and reinsurance contracts, the Branch has restated certain comparative amounts and presented a third statement of assets used in and liabilities arising out of operations in Singapore ("statement of assets and liabilities") as at 1 January 2022.

Recognition, measurement, and presentation of insurance contracts

Under FRS 117, the Branch's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach ("PAA"). The PAA simplifies the measurement of insurance contracts in comparison with the General Measurement Model ("GMM") in FRS 117.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Branch under FRS 104 in the following key areas:

- The liability of remaining coverage ("LRC") reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided.

- Measurement of the LRC includes an adjustment for the time value of money and the effect of financial risk, where the premium due date and the related period of services are more than 12 months apart.

- Measurement of the LRC involves an explicit evaluation of risk adjustment for non-financial risk, when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve ("URR") provision).

- Measurement of the liability for incurred claims ("LIC") (previously provision for outstanding claims and incurred-but-not reported ("IBNR") claims) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Branch's obligation to pay other incurred insurance expenses.

- Measurement of the asset for remaining coverage ("ARC") (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

2. Material accounting policy information (continued)

2.2 Adoption of new and amended standards (continued)

2.2.1 FRS 117 Insurance Contracts (continued)

Recognition, measurement, and presentation of insurance contracts (continued)

Under FRS 104, all acquisition costs were recognised and presented as separate assets from the related insurance contracts ("deferred acquisition costs") until those costs were included in the statement of comprehensive income.

Under FRS 117, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. Insurance acquisition cash flows include those that are directly attributable to a group and to future groups that are expected to arise from renewals of contracts in that group.

Where such insurance acquisition cash flows are paid (or where a liability has been recognised applying another FRS standard) before the related group of insurance contracts is recognised, an asset for insurance acquisition cash flows is recognised. These assets are presented in the carrying amount of the related portfolio of contracts and are derecognised once the related contracts have been recognised and subsumed into the measurement at initial recognition of the insurance LRC of the related group.

Changes to presentation and disclosure

For presentation in the statement of assets and liabilities, the Branch aggregates insurance and reinsurance contracts issued and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance contracts issued that are assets ("Insurance contract assets")
- Portfolios of insurance contracts issued that are liabilities ("Insurance contract liabilities")
- Portfolios of reinsurance contracts issued that are assets ("Reinsurance contract assets")
- Portfolios of reinsurance contracts issued that are liabilities ("Reinsurance contract liabilities")

2. Material accounting policy information (continued)

2.2 Adoption of new and amended standards (continued)

2.2.1 FRS 117 Insurance Contracts (continued)

Changes to presentation and disclosure (continued)

Income and expenses from reinsurance contracts other than insurance finance income and expenses are now presented as a single net amount in the statement of comprehensive income under FRS 117. Under FRS 104, amounts recovered from reinsurers and reinsurance expenses were presented separately.

The line item descriptions in the statement of comprehensive income have been changed significantly. Under FRS 104, the Branch reported the following line items:

- Gross written premiums;
- Written premiums ceded to reinsurers;
- Change in gross provision for unearned premiums;
- Reinsurers’ share of change in provision for unearned premiums;
- Gross claims incurred; and
- Reinsurers’ share of claims incurred

Instead, FRS 117 requires separate presentation of:

- Insurance service revenue
- Insurance service expenses
- Net expense from reinsurance contracts held
- Net finance expense from insurance contracts issued
- Net finance income from reinsurance contracts held

The Branch provides disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts
- Significant judgements, and changes in those judgements, when applying FRS 117

2. Material accounting policy information (continued)

2.2 Adoption of new and amended standards (continued)

2.2.1 FRS 117 Insurance Contracts (continued)

Transition

Changes in accounting policies resulting from the adoption of FRS 117 have been applied using a full retrospective approach to the extent practicable. Under the full retrospective approach, at 1 January 2022, the Branch:

- Identified, recognised and measured each group of insurance and reinsurance contracts as if FRS 117 had always been applied;

- Derecognised any existing balances that would not exist had FRS 117 always applied

- Recognised any resulting net difference in equity.

2.2.2 FRS 109 Financial Instruments

FRS 109 replaced FRS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. However, the Branch elected, under the Amendments to FRS 104, to apply the temporary exemption from FRS 109, thereby deferring the initial application date of FRS 109 to align with the initial application of FRS 117. Adoption of FRS 109 did not have a significant impact on the Branch's financial statements.

The nature of the key changes in accounting policies are summarised, as follow:

Changes to classification and measurement

FRS 109 requires all financial assets to be assessed based on a combination of the Branch's business model for managing the assets and the assets' contractual cash flow characteristics.

2. Material accounting policy information (continued)

2.2 Adoption of new and amended standards (continued)

2.2.2 FRS 109 Financial Instruments (continued)

Changes to classification and measurement (continued)

The FRS 39 measurement categories for financial assets (fair value through profit or loss ("FVTPL"), available for sale ("AFS"), held-to-maturity ("HTM") and loans and receivables at amortised cost) have been replaced by:

- Financial assets at FVTPL, including equity instruments and derivatives.
- Debt instruments at fair value through other comprehensive income ("FVOCI"), with gains or losses recycled to the statement of comprehensive income on derecognition.
- Equity instruments at FVOCI, with no recycling of gains or losses to the statement of comprehensive income on derecognition.

The Branch's classification of its financial assets is explained in Note 2.5. The Branch determined that its classifications of financial assets and financial liabilities remain unchanged under FRS 109 from those under FRS 39. Debt instruments continue to be classified as financial assets measured at FVOCI due to the Branch's business model. Financial liabilities, non-insurance receivables and payables continue to be measured at amortised cost.

Changes to the impairment calculation

The adoption of FRS 109 has fundamentally changed the Branch's accounting for impairment losses for debt instruments held at FVOCI by replacing FRS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

2. Material accounting policy information (continued)

2.3 Functional and presentation currency

The financial statements are presented in Singapore dollars, which is the Branch's functional currency. The values have been rounded to the nearest thousand ($'000) except when otherwise indicated.

2.4 Insurance and reinsurance contracts

Introduction

Insurance contract is a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance risk is a risk, other than financial risk, transferred from the holder of a contract to the issuer. Insurance event is an uncertain future event covered by an insurance contract that creates insurance risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Policyholder is a party that has a right to compensation under an insurance contract if an insured event occurs.

Reinsurance contract is an insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Unit of account

The Branch manages insurance contracts issued by three product lines; traditional credit insurance, surety/bonding and transactional cover unit, where each product line includes contracts that are subject to similar risks. All insurance contracts within a product line represent a portfolio of contracts. Each portfolio is further disaggregated into groups of contracts that are issued within a calendar year (“annual cohorts”) and are further divided into respective profitability groups as follows:

- Contracts that are onerous at initial recognition;
- Contracts that at initial recognition have no significant possibility of becoming onerous subsequently;
- A group of remaining contracts.

These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. This level of granularity determines sets of contracts. The Branch uses significant judgement to determine at what level of granularity the Branch has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment. Such groups are not subsequently reconsidered.

For each portfolio of contracts, the Branch determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous as described below.

Contracts in different currencies fulfills the standard requirements of similar risks that are managed together. At the Branch, there is only one calculated currency per Group of Contract (“GoC”). In case of a GoC with contracts with different transaction currencies, a leading currency (“GoC currency”) is determined.

The Branch divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

The Branch has applied full retrospective approach for transition to FRS 117 as described in Note 2.2.1.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Unit of account (continued)

Before the Branch accounts for an insurance contract based on the guidance in FRS 117, it analyses whether the contract contains components that should be separated. FRS 117 distinguishes three categories of components that have to be accounted for separately:

- Cash flows relating to embedded derivatives that are required to be separated;

- Cash flows relating to distinct investment components; and

- Promises to transfer distinct goods or distinct non-insurance services.

The Branch has assessed its non-life insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another FRS. After separating any distinct components, the Branch applies FRS 117 to all remaining components of the (host) insurance contract. Currently, the Branch's products do not include any distinct components that require separation. The Branch has also assessed its reinsurance contracts and determine that there is no profit commission arrangement which may be regarded as a distinct investment component to be accounted separately.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Recognition

A group of contracts issued are initially recognised from earliest of the following:

- The beginning of the coverage period;
- The date when the first payment from the policyholder is due or actually received, if there is no due date; and
- When the Branch determines that a group of contracts becomes onerous

Insurance contracts acquired in a business combination or a portfolio transfer are accounted for as if they were entered into at the date of acquisition or transfer.

A group of reinsurance contracts held that covers the losses of separate insurance contracts on a proportionate basis (proportionate or quota share reinsurance) is recognised at the later of:

- the beginning of the coverage period of the group; or
- the initial recognition of any underlying insurance contract.

The Branch does not recognise a group of proportionate reinsurance contracts held i.e. quota share until it has recognised at least one of the underlying insurance contracts. For a group of non-proportionate reinsurance contracts held i.e. excess of loss is recognised at the beginning of the coverage period of that group.

Only contracts that meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria, subject to the annual cohorts (contracts that are issued within a calendar year) restriction. Composition of the groups is not reassessed in subsequent periods.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

De-recognition and modification

An insurance contract is derecognised when it is:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired)

- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Branch derecognises the initial contract and recognises the modified contract as a new contract.

When an insurance contract accounted for under the PAA is derecognised, adjustments to the fulfilment cash flows to remove relating rights and obligations and account for the effect of the derecognition result in the following amounts being charged immediately to profit or loss:

- If the contract is extinguished, any net difference between the derecognised part of the LRC of the original contract and any other cash flows arising from extinguishment;

- If the contract is transferred to the third party, any net difference between the derecognised part of the LRC of the original contract and the premium charged by the third party;

- If the original contract is modified resulting in its derecognition, any net difference between the derecognised part of the LRC and the hypothetical premium the entity would have charged had it entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Fulfilment cash flows within contract boundary

The fulfilment cash flows are the current estimates of the future cash flows within the contract boundary of a group of contracts that the Branch expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:

- are based on a probability weighted mean of the full range of possible outcomes;
- are determined from the perspective of the Group, provided the estimates are consistent with observable market prices for market variables; and
- reflect conditions existing at the measurement date.

An explicit risk adjustment for non-financial risk is estimated separately from the other estimates. For contracts measured under the PAA, unless the contracts are onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the LIC.

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation as discussed in Note 3 Discount Rates.

Risk of the Branch's non-performance is not included in the measurement of groups of insurance contracts issued. In the measurement of reinsurance contracts held, the probability weighted estimates of the present value of future cash flows include the potential credit losses and other disputes of the reinsurer to reflect the non-performance risk of the reinsurer.

The Branch uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held and such estimates for the groups of underlying insurance contracts.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Contract boundary

The measurement of a group of contracts includes all the future cash flows within the boundary of each contract in the group, determined as follows.

Insurance contracts issued

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Branch can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services).

A substantive obligation to provide services ends when:

- the Branch has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or

- the Branch has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The reassessment of risks considers only risks transferred from policyholders to the Branch, which may include both insurance and financial risks, but exclude lapse and expense risks.

Reinsurance contracts held

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Branch is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or

- has a substantive right to terminate the coverage.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Contract boundary (continued)

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts. The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Branch's substantive rights and obligations and, therefore, may change over time.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort.

If insurance acquisition cash flows are directly attributable to a group of contracts (e.g. non-refundable commissions paid on issuance of a contract), then they are allocated to that group and to the groups that will include renewals of those contracts.

If insurance acquisition cash flows are directly attributable to a portfolio but not to a group of contracts, then they are allocated to groups in the portfolio using a systematic and rational method.

Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognised in the balance sheet, a separate asset for insurance acquisition cash flows is recognised for each related group.

The asset for insurance acquisition cash flow is derecognised from the balance sheet when the insurance acquisition cash flows are included in the initial measurement of the related group of insurance contracts.

At the end of each reporting period, the Branch revises amounts of insurance acquisition cash flows allocated to groups of insurance contracts not yet recognised, to reflect changes in assumptions related to the method of allocation used.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Insurance acquisition cash flow (continued)

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, then the Branch:

a) recognises an impairment loss in the statement of comprehensive income so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group; and

b) if the asset relates to future renewals, recognises an impairment loss in thestatement of comprehensive income to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals and this excess has not already been recognised as an impairment loss under (a).

The Branch reverses any impairment losses in the statement of comprehensive income and increases the carrying amount of the asset to the extent that the impairment conditions have improved.

Other pre-recognition cash flows within the contract boundary

Before a group of insurance contracts is recognised, the Branch could recognise assets or liabilities for cash flows related to a group of insurance contracts other than insurance acquisition cash flows, either because of the occurrence of the cash flows or because of the requirements of another FRS standard. Cash flows are related to the group of insurance contracts if they would have been included in the FCF at initial recognition of the group if they had been paid or received after that date. Such assets or liabilities (referred to as ‘other pre-recognition cash flows’) are included in the carrying amount of the related portfolios of insurance contracts issued or in the carrying amount of the portfolios of reinsurance contracts held.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Measurement approach – Contracts measured under PAA

FRS 117 includes three measurement models, reflecting a different extent of policyholder participation in investment performance or overall insurance entity performance: the general measurement model ("GMM", also known as the building block approach), the variable fee approach ("VFA"), and the premium allocation approach ("PAA"). Insurance contracts without direct participation features are measured under the GMM or the PAA, if the respective eligibility criteria for the PAA are fulfilled. The Branch does not issue investment contracts with discretionary participation features.

The Premium Allocation Approach ("PAA") is a simplified approach for the measurement of the liability of remaining coverage an entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model (quantitative approach) or if the coverage period of each contract in the group of insurance contracts is one year or less (qualitative approach).

Insurance contracts issued

The Branch uses the Premium Allocation Approach ("PAA") as a simplified approach to the FRS 117 general model. Contracts with coverage periods one year or less automatically qualify for PAA. For contracts with coverage periods greater than one year, the Branch has assessed that there is no material difference in the measurement of the liability for remaining coverage ("LRC") between the PAA and the general model, therefore, these qualify for the simplified PAA approach.

When comparing the different possible measurements, the Branch considers the impact of the different release patterns of the LRC to the statement of comprehensive income and the impact of the time value of money. If significant variability is expected in the fulfilment cash flows during the period before a claim is incurred, then this criterion is not met. In assessing materiality, the Branch has also considered qualitative factors such as the nature of the risk and types of its lines of business. The Branch does not expect significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred.

Loss-occurring reinsurance contracts held

The coverage period of each contract in the group is one year or less.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Measurement approach – Contracts measured under PAA

Risk-attaching reinsurance contracts held

The Branch reasonably expects that the resulting measurement of the LRC would not differ materially from the result of applying the accounting policies under the GMM.

When comparing the different possible measurements, the Branch considers the impact of the different release patterns of the ARC to the statement of comprehensive income and the impact of the time value of money. If significant variability is expected in the fulfilment cash flows during the period before a claim is incurred, then this criterion is not met. In assessing materiality, the Branch has also considered qualitative factors such as the nature of the risk and types of its lines of business.

Initial measurement (Insurance contracts issued and reinsurance contracts held)

For a group of contracts that is not onerous at initial recognition, the Branch measures the LRC as:

- The premiums, if any, received at initial recognition
- Minus any insurance acquisition cash flows at that date, in line with the Branch's policy to amortise insurance acquisition cash flows for all contract durations
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows and
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Branch pays or receives before the group of insurance contracts is recognised.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Branch performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Branch recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Branch for the LRC for such onerous group depicting the losses recognised.

The Branch measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Measurement approach – Contracts measured under PAA

A loss-recovery component of the asset for remaining coverage for a group of reinsurance contract held will be established if it is determined that the reinsurance recoveries and commission income is greater than the reinsurance premiums and that the underlying contract is onerous.

Subsequent measurement (Insurance contracts issued and reinsurance contracts held)

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:

- The LRC; and
- The LIC, comprising the FCF related to past service allocated to the group at the reporting date.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

- The remaining coverage; and
- The incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

The Branch measures the carrying amount of LRC at the end of each reporting period as the LRC at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows, in line with the Branch's policy to amortise insurance acquisition cash flows for all contract durations
  Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group
- Minus the amount recognised as insurance revenue for the services provided in the period

The Branch estimates the LIC as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. They reflect current estimates from the perspective of the Branch, and include an explicit adjustment for non-financial risk ("the risk adjustment").

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Measurement approach – Contracts measured under PAA

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Branch recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Branch for the LRC for such onerous group depicting the losses recognised. Subsequently, the loss component is remeasured at each reporting date. Where applicable, resulting changes in the loss component are disaggregated between insurance service expenses and insurance finance income or expenses for the effect of the time value of money, financial risk and effect of changes therein.

Insurance acquisition cash flows are allocated on a straight-line basis based on the passage of time to profit or loss.

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

Discounting of LIC

According to FRS 117, all future cash flows under LIC should be discounted. For the insurance contracts measured under the PAA, the Branch decided to discount the future cash flows relating to incurred claims, even if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.

The Branch applies a bottom-up approach in which the basic risk-free liquid yield curves are usually derived from swap rates or government yields for the specific currency and adjusted for remaining credit risk. These risk-free liquid yield curves are then adjusted to reflect illiquidity of the underlying insurance liabilities based on reference portfolios.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Onerous contact and loss component

If facts and circumstances (e.g. an expected combined ratio above 100%) indicate that a group of insurance contracts measured under the PAA is onerous at initial recognition or subsequently becomes onerous, then the LRC would need to be increased by a loss component.

The difference between the carrying amount of the liability for remaining coverage determined under PAA and the fulfilment cash flows that relate to the remaining coverage of the group of contracts, applying the requirements of the GMM on cash flow estimation, discounting and risk adjustment calculation. If the fulfilment cash flows described above exceed the carrying amount calculated under PAA, the entity shall increase the LRC and recognise a loss component in income statement.

The Branch expects only limited impact on income statement as in its major portfolio, which is traditional credit insurance, all groups of insurance contracts have no significant possibility to become onerous due to contractual feature of limit with withdrawal and cancellation.

Risk Adjustment for non-financial risk

The risk adjustment reflects the compensation an entity would require for bearing non-financial risks, i.e. the uncertainty of cash flows that arise from insurance contracts, other than the uncertainty arising from financial risks. Such non-financial risks include insurance risks, lapse and expense risk. The Branch calculates the risk adjustment based on the Cost of Capital approach i.e. the present value of future costs of capital as prescribed by Allianz Group. The Cost of Capital rate had been set at 6% for the Branch and applied against the future costs of capital to derive the risk adjustment.

OCI option is also applied to risk adjustment presentation in the financial statement.

2. Material accounting policy information (continued)

2.4 Insurance and reinsurance contracts (continued)

Financial risk in LIC

The Branch has not identified inflation which is contractually linked to an index i.e. where the amounts to be paid are legally or contractually linked to an inflation-index such as a consumer price index. As a consequence, the Branch has not identified financial risk in the area of LIC.

Reinsurance contracts

To measure a group of reinsurance contracts held, the Branch applies mainly the same accounting policies that are applied to insurance contracts. The Branch measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

2. Material accounting policy information (continued)

2.5 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Branch becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date (that is, the date on which the Branch commits to purchase or sell the asset). Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired.

Classification and measurement of financial assets

Based on the applicable business model and the respective contractual cash flow characteristics, the Branch classifies a financial asset on initial recognition into one of the two measurement categories:

- amortised cost, or
- fair value through other comprehensive income

In accordance with FRS 109, investments in equity financial instruments are accounted at fair value. The Branch generally uses the irrevocable election at initial recognition to present subsequent changes in the instrument's fair value in other comprehensive income, provided that the instrument is not held for trading. Measurement at fair value through profit and loss is only applied in exceptional cases, e.g. in order to reduce an accounting mismatch that would otherwise arise or if the above-mentioned preconditions for fair value through other comprehensive income measurement are not fulfilled.

Classification and measurement of financial liabilities

In general, financial liabilities are classified as subsequently measured at amortised cost.

Measurement at fair value

The Branch carries certain financial instruments at fair value and discloses the fair value of all financial instruments.

Assets and liabilities measured or disclosed at fair value in the consolidated financial statements are measured and classified in accordance with the fair value hierarchy in FRS 113, which categorises the inputs to valuation techniques used to measure fair value into three levels.

2. Material accounting policy information (continued)

2.5 Financial instruments (continued)

Measurement at fair value (continued)

Level 1 inputs of financial instruments traded in active markets are based on unadjusted quoted market prices or dealer price quotations for identical assets or liabilities on the last exchange trading day prior to or at the reporting date, if the latter is a trading day.

Level 2 applies if the market for a financial instrument is not active or when the fair value is determined by using valuation techniques based on observable input parameters.

Level 3 applies if not all input parameters that are significant to the entire measurement are observable in the market. Accordingly, the fair value is based on valuation techniques using non-market observable inputs. Valuation techniques include the discounted cashflow method, comparison to similar instruments for which observable market prices exist, and other valuation models. Appropriate adjustments are made, for example, for credit risks.

For fair value measurements categorised as level 2 and level 3, the Branch uses valuation techniques consistent with the three widely used valuation techniques listed in FRS 113:

- Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

- Cost approach: Amount that would currently be required to replace the service capacity of an asset (current replacement cost).

- Income approach: Conversion of future amounts such as cash flows or income to a single current amount (present value technique).

2. Material accounting policy information (continued)

2.5 Financial instruments (continued)

Measurement at fair value (continued)

Impairments

The Branch assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at AC and FVOCI. The Branch recognises a loss allowance for such losses at each reporting date. The measurement of the ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit loss

FRS 109 outlines a three-stage model for impairment, based on changes in credit quality since initial recognition, as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1, and it has its credit risk continuously monitored by the Branch.

- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to Stage 2, but it is not yet deemed to be credit-impaired.

- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of the lifetime ECL that results from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on the ECL on a lifetime basis.

- A pervasive concept in measuring the ECL in accordance with FRS 109 is that it should consider forward-looking information.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

2. Material accounting policy information (continued)

2.5 Financial instruments (continued)

Measurement at fair value (continued)

Expected credit loss (continued)

The following diagram summarises the impairment requirements under FRS 109 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses

<u>Measuring ECL – Explanation of inputs, assumptions and estimation techniques</u>

The ECL is measured on either a 12-month ("12M") or lifetime basis, depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. The ECL is the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (according to the definition of default and credit-impaired assets above), either over the next 12 months ("12M PD") or over the remaining lifetime ("Lifetime PD") of the obligation.

- The EAD is based on the amounts that the Branch expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

- The LGD represents the Branch's expectation of the extent of loss on a defaulted exposure. The LGD varies by type of borrower, type and seniority of claim, and availability of collateral or other credit support. The LGD is expressed as a percentage loss per unit of exposure at the time of default ("EAD"). The LGD is calculated on a 12M or lifetime basis,

- Where the 12M LGD is the percentage of loss expected to be made if the default occurs in the next 12 months, and the lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

2. Material accounting policy information (continued)

2.5 Financial instruments (continued)

Expected credit loss (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (that is, the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original EIR or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a financial instrument portfolio from the point of initial recognition throughout the lifetime of the financial instrument. The maturity profile is based on historical observed data, and it is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Forward-looking economic information is also included in determining the 12M and Lifetime PD, EAD and LGD.

Subsequent measurement

Financial assets at fair value through other comprehensive income

These investments include debt financial assets that are held within a “hold and sell” business model and whose contractual cash flows are solely payments of principal and interest on the principal amount outstanding (“SPPI”).

In addition, investments in equity instruments that are designated to be measured at fair value through other comprehensive income are presented in this line item. As prescribed by FRS 109, amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Instead, the Branch accounting policies foresee that the cumulative amounts are transferred directly within equity upon derecognition of an investment in an equity instrument that is measured at fair value through other comprehensive income.

Investments at amortised cost

Investments at amortised cost relate to debt financial assets that are held within a “hold to collect” business model and whose contractual cash flows are solely payments of principal and interest on the principal amount outstanding (“SPPI”).

2. Material accounting policy information (continued)

2.6 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Branch at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

2.7 Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Branch and the cost of the asset can be measured reliably. After recognition, an intangible asset with finite useful life is carried at cost less accumulated amortisation and impairment losses, if any. An intangible asset with finite useful life is amortised in the profit or loss on a straight-line basis so as to write off the cost of the intangible asset over its estimated useful life, from the date on which it is available for use.

Intangible asset relates to software developed by the Branch.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Branch intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

2. Material accounting policy information (continued)

2.7 Intangible assets (continued)

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful lives are as follows:

Capitalised development costs - 5 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate. The effects of any revision are recognised in profit or loss when the changes arise. The Branch does not have any intangible assets with an infinite useful life.

2.8 Provisions

A provision is recognised if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2.9 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in Head Office account or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

2. Material accounting policy information (continued)

2.9 Tax (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Branch takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Branch believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Branch to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

2.10 Income from ordinary activities

Income from ordinary activities can comprise items measured and recorded in accordance with FRS 117 or FRS 109. This aggregate has a broader meaning than turnover, as it also incorporates investment income.

Turnover comprises insurance revenue (former earned premiums) and commissions and other operating revenues.

Insurance revenue

As the Branch provides insurance contract services under the group of insurance contracts, it reduces the LRC and recognises insurance revenue. The amount of insurance revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration that the Branch expects to be entitled to in exchange for those services.

The Branch recognises insurance revenue based on the passage of time over the coverage period of a group of contracts.

Service revenue

Service revenues comprise enquiry and monitoring charges invoiced in respect of risk management and prevention on behalf of policyholders, and fees for the collection of disputed receivables.

2. Material accounting policy information (continued)

2.10 Income from ordinary activities (continued)

Insurance services expenses

Insurance service expenses include the following:

- Incurred claims and benefits, excluding investment components reduced by loss component allocations;
- Other incurred directly attributable expenses, including amounts of any other pre-recognition cash flows assets (other than insurance acquisition cash flows) derecognised at the date of initial recognition;
- Insurance acquisition cash flows amortisation;
- Changes that relate to past service – changes in the FCF relating to the LIC; and
- Changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses; and
- Insurance acquisition cash flows assets impairment, net of reversals

Amortisation of insurance acquisition cash flows is based on the passage of time.

Other expenses not meeting the above categories are included in other operating expenses in the statement of comprehensive income.

Net income/expense from reinsurance contracts held

The Branch presents financial performance of groups of reinsurance contracts held on a net basis in net income (expenses) from reinsurance contracts held, comprising the following amounts:

- Reinsurance expenses including reinsurance brokerage fees;
- Incurred claims recovery, excluding investment components reduced by loss-recovery component allocations;
- Other incurred directly attributable expenses;
- Changes that relate to past service – changes in the FCF relating to incurred claims recovery;
- Effect of changes in the risk of reinsurers' non-performance; and
- Amounts relating to accounting for onerous groups of underlying insurance contracts issued:
  - Income on initial recognition of onerous underlying contracts;
  - Reversals of a loss-recovery component other than changes in the FCF of reinsurance contracts held; and
  - Changes in the FCF of reinsurance contracts held from onerous underlying contracts.

2. Material accounting policy information (continued)

2.10 Income from ordinary activities (continued)

Net income/expense from reinsurance contracts held *(continued)*

Reinsurance expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Branch expects to pay in exchange for those services.

The Branch recognises reinsurance expenses based on the passage of time over the coverage period of a group of contracts.

Ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are netted off in reinsurance expense.

Insurance finance income/expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money;
- The effect of financial risk and changes in financial risk;
- Interest accreted on the LIC and loss component; and
- The effect of changes in interest rates and other financial assumptions.

Insurance finance income/expenses (continued)

The Branch disaggregates changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses.

The Branch has applied the OCI option and disaggregates the insurance finance income or expenses. The impact on the LIC and loss components from changes in discount rates is recognised within the OCI, in line with the accounting for assets backing the portfolio of insurance contracts. The Branch systematically allocates expected total insurance finance income or expenses over the duration of the group of contracts to profit or loss using discount rates determined on initial recognition of the liability for incurred claims and loss component for the group of contracts.

3. Critical accounting estimates and judgements in applying accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

LRC

Profitability grouping

The Branch assesses the profitability of group of contracts by disaggregating each portfolio of insurance contracts as described in Note 2.4 Unit of Account.

For contracts measured under PAA, the Branch assesses any facts and circumstances that indicate that a group of contracts has become onerous at any time during the coverage period. If such indication exists, the Branch calculates the loss component as the difference between the LRC and the fulfilment cash flows relating to the future services of that group. No such indication exists for the Branch.

Discount rates

Bottom-up approach is applied in the determination of the discount rates for the different insurance contracts of the Branch. Cash flows are discounted using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts issued and reinsurance contracts held (known as illiquidity premiums). The Branch determines the yield curves using commercially available currency-specific rates and illiquidity premiums.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Discount rates (continued)

Discount rates applied for discounting of future cash flows are listed below:

	As at 31 December 2023			
	1 year	**3 years**	**5 years**	**10 years**
Insurance contracts assets/ liabilities	3.85%	3.31%	3.22%	3.24%
Reinsurance contracts assets/ liabilities	3.85%	3.31%	3.22%	3.24%

	As at 31 December 2022			
	1 year	**3 years**	**5 years**	**10 years**
Insurance contracts assets/ liabilities	4.87%	4.28%	4.14%	4.04%
Reinsurance contracts assets/ liabilities	4.87%	4.28%	4.14%	4.04%

	As at 1 January 2022			
	1 year	**3 years**	**5 years**	**10 years**
Insurance contracts assets/ liabilities	0.81%	1.43%	1.76%	1.95%
Reinsurance contracts assets/ liabilities	0.81%	1.43%	1.76%	1.95%

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Branch requires for bearing the uncertainty about the amount and timing of the cash flows that arise from the non-financial risk of groups of insurance contracts issued and reinsurance contracts held. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount, reflecting estimates of uncertainty, diversification benefits and expected favourable and unfavourable outcomes. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Branch to the reinsurer.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Risk adjustment for non-financial risk (continued)

The Branch calculates the risk adjustment based on the Cost of Capital approach i.e. the present value of future costs of capital as prescribed by Allianz Group. The Cost of Capital rate had been set at 6% for the Branch and applied against the future costs of capital to derive the risk adjustment. The resulting amount of the calculated risk adjustment corresponds to a confidence level at 31 December 2023 of 59% (31 December 2022: 60%; and 1 January 2022: 59%).

The methods and assumptions used to determine the risk adjustment for non-financial risk were not changed in 2023 and 2022.

Estimation of future cash flow

In estimating future cash flows relating to LIC included in the contract boundary, the Branch considers the range of all possible outcomes in an unbiased way specifying the amount of cash flows, timing and probability of each scenario reflecting conditions existing at the measurement date, using a probability-weighted average expectation. The probability-weighted average represents the probability-weighted mean of all possible scenarios. In determining possible scenarios, the Branch uses all the reasonable and supportable information available to them without undue cost and effort, which includes information about past events, current conditions, and future forecasts.

Cash flow estimates include external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures. Assumptions used to develop estimates about future cash flows are reassessed at each reporting date and adjusted where required.

Allocation of assets for insurance acquisition cash flows

The Branch allocates the asset for insurance acquisition cash flows to an associated group of contracts and to any future groups that include the contracts that are expected to arise from the renewals of the contracts in that group using a systematic and rational method. In doing so, the Branch estimates the expected contracts to be included within a future group or the number of renewals that may arise from an original group when allocating the asset.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Insurance and reinsurance finance income or expenses

Insurance finance income or expenses comprise of interest accretion on prior years and interest accretion on current accident year. The interest accretion on prior years is calculated applying a formula which adds the opening discount rate and change in discount rate on prior years from opening to closing discount rate. The interest accretion on current accident year is calculated applying a formula which adds the current period average discount rate and change in discount rate in current year from average to closing discount rate.

4. Insurance and reinsurance contracts

The following table show the composition of insurance and reinsurance contract balances.

Insurance and reinsurance contract balances

		2023	
	Current S$'000	**Non-current S$'000**	**Total S$'000**
- Liability for remaining coverage	(9,459)	-	(9,459)
- Liability for incurred claims	(81,430)	(39,092)	(120,522)
Insurance contracts that are liabilities	(90,889)	(39,092)	(129,981)
- Asset for remaining coverage	3,636	-	3,636
- Asset for incurred claims	59,672	32,105	91,777
Reinsurance contracts that are assets	63,308	32,105	95,413

		2022	
	Current S$'000	**Non-current S$'000**	**Total S$'000**
- Liability for remaining coverage	6,252	-	6,252
- Liability for incurred claims	(26,924)	(19,474)	(46,398)
Insurance contracts that are liabilities	(20,672)	(19,474)	(40,146)
- Asset for remaining coverage	2,650	-	2,650
- Asset for incurred claims	17,673	11,016	28,689
Reinsurance contracts that are assets	20,323	11,016	31,339

4. Insurance and reinsurance contracts (continued)

4.1 Roll-forward of net asset or liability for insurance contracts issued showing the LRC and the LIC

The following table analyze the movements in the insurance contract liabilities during the reporting period.

		2023				
		LRC		LIC		
		Excluding loss component $'000	Loss component $'000	Present value of future cash flows $'000	Risk adjustment for non-financial risk $'000	Total $'000
Net opening insurance liabilities		(6,252)	-	45,528	870	40,146
Insurance revenue		(76,567)	-	-	-	(76,567)
Insurance service expenses						
Incurred claims and other insurance service expenses		-	-	55,660	944	56,604
Amortisation of insurance acquisition cash flows		7,899	-	-	-	7,899
Changes that relate to past service – changes in the FCF relating to the LIC		-	-	16,622	147	16,769
Total insurance service results		(68,668)	-	72,282	1,091	4,705
Finance expenses from insurance contracts issued		(168)	-	1,357	40	1,229
Total changes in the statement of comprehensive income		(68,836)	-	73,639	1,131	5,934
Investment components		-	-	-	-	-
Cash flows						
Premiums received	a	112,155	-	-	-	112,155
Claims and other expenses paid		-	-	(8,098)	-	(8,098)
Salvages received		-	-	7,451	-	7,451
Insurance acquisition cash flows		(27,608)	-	-	-	(27,607)
Total cash flows		84,547	-	(646)	-	83,901
Net closing insurance contract liabilities		9,459	-	118,521	2,001	129,981

Notes:

a. Any refunds of premiums and transferred consideration as disclosed in Note 17 have been included within the line.

4. Insurance and reinsurance contracts (continued)

4.1 Roll-forward of net asset or liability for insurance contracts issued showing the LRC and the LIC (continued)

		2022				
		LRC		LIC		
		Excluding loss component $'000	Loss component $'000	Present value of future cash flows $'000	Risk adjustment for non-financial risk $'000	Total $'000
Net opening insurance liabilities		(1,660)	-	44,133	974	43,447
Insurance revenue		(54,678)	-	-	-	(54,678)
Insurance service expenses						
Incurred claims and other insurance service expenses		-	-	32,562	172	32,734
Amortisation of insurance acquisition cash flows		6,078	-	-	-	6,078
Changes that relate to past service – changes in the FCF relating to the LIC		-	-	(20,717)	(267)	(20,984)
Total insurance service result		(48,601)	-	11,845	(95)	(36,850)
Finance expenses from insurance contracts issued		758	-	(212)	(9)	537
Total amounts recognized in other comprehensive income		(47,842)	-	11,633	(104)	(36,313)
Investment components		-	-	-	-	-
Cash flows						
Premiums received	a	55,213	-	-	-	55,213
Claims and other expenses paid		-	-	(12,063)	-	(12,063)
Salvages received		-	-	1,825	-	1,825
Insurance acquisition cash flows		(11,963)	-	-	-	(11,963)
Total cash flows		43,250	-	(10,238)	-	33,012
Net closing insurance contract liabilities		(6,252)	-	45,528	870	40,146

Notes:

a. Any refunds of premiums have been included within the premiums received disclosures

4. Insurance and reinsurance contracts (continued)

4.2 Roll-forward of net asset or liability for reinsurance contracts held showing the asset for remaining coverage ("ARC") and the asset for incurred claims ("AIC")

The following tables analyse the movements in reinsurance contract balances during the reporting period.

	2023				
	ARC		AIC		
	Excluding loss-recovery component S$	Loss-recovery component S$	Estimates of the present value of future cash flows S$	Risk adjustment for non-financial risk S$	Total S$
Net opening reinsurance contract assets	2,650	-	28,073	616	31,339
Reinsurance expenses	(43,396)	-	-	-	(43,396)
Incurred claims recovery			28,427	721	29,148
Changes that relate to past service – changes in the FCF relating to incurred claims recovery	-	-	22,462	158	22,620
Effect of changes in the risk of reinsurer's non-performance	-	-	1	-	1
Net income/(expense) from reinsurance contracts held	(43,396)	-	50,890	879	8,373
Insurance finance income from reinsurance contracts held	2,221	-	882	37	3,140
Total changes in the statement of comprehensive income	(41,175)	-	51,772	916	11,513
Investment components	-	-	-	-	-
Cash flows					
Premiums paid net of ceding commission and other directly attributable expenses paid	42,161	-	-	-	42,161
Recoveries from reinsurance	-	-	10,400	-	10,400
Total cash flows	42,162	-	10,400	-	52,561
Net closing reinsurance insurance contract assets	3,636	-	90,245	1,532	95,413

4. Insurance and reinsurance contracts (continued)

4.2 Roll-forward of net asset or liability for reinsurance contracts held showing the asset for remaining coverage ("ARC") and the asset for incurred claims ("AIC") (continued)

	2022				
	ARC		AIC		
	Excluding loss-recovery component S$	Loss-recovery component S$	Estimates of the present value of future cash flows S$	Risk adjustment for non-financial risk S$	Total S$
Net opening reinsurance contract assets	2,224	-	28,203	691	31,118
Reinsurance expenses	(31,673)	-	-	-	(31,673)
Incurred claims recovery			13,754	98	13,852
Changes that relate to past service – changes in the FCF relating to incurred claims recovery	-	-	(8,364)	(161)	(8,525)
Effect of changes in the risk of reinsurer's non-performance	-	-	5	-	5
Net income/(expense) from reinsurance contracts held	(31,673)	-	5,395	(63)	(26,341)
Insurance finance income from reinsurance contracts held	2,852	-	(241)	(12)	2,599
Total changes in the statement of comprehensive income	(28,821)	-	5,154	(75)	(23,742)
Investment components	-	-	-	-	-
Cash flows					
Premiums paid net of ceding commission and other directly attributable expenses paid	29,247	-	-	-	29,247
Recoveries from reinsurance	-	-	(5,284)	-	(5,284)
Total cash flows	29,247	-	(5,284)	-	23,963
Net closing reinsurance insurance contract assets	2,650	-	28,073	616	31,339

5. Intangible assets

	Computer software	
	2023	2022
	$'000	$'000
Cost		
At 1 January	**541**	467
Additions	**45**	74
At 31 December	**586**	541
Accumulated amortisation		
At 1 January	**308**	223
Amortisation charge	**92**	85
At 31 December	**400**	308
Net book value		
At 31 December	**186**	233

6. Financial assets, at FVOCI

	2023	2022
	$'000	$'000
Financial assets, at FVOCI are analysed as follows:		
Government debt securities	**52,172**	39,460
Corporate debt securities	**5,250**	7,906
	57,422	47,366

The financial assets, at FVOCI are denominated in Singapore dollars and the current portion of financial assets, at FVOCI is $4,246,783 (2022: $7,947,793).

7. Prepayments and other receivables

	2023	2022
	$'000	$'000
Service fee receivables	**692**	434
Other receivables	**496**	363
Prepayments	**4**	6
	1,192	803

The non-trade amounts owing from related corporations are unsecured, interest-free and no fixed term of repayment.

8. Cash and cash equivalents and fixed deposits

	2023	2022
	$'000	$'000
Cash at bank	**16,670**	9,431
Fixed deposits	**2,638**	2,500

Fixed deposits bear interest rates of 4.8% (2022: 3.83%) per annum and have an average maturity of 58 days (2022: 59 days) from the end of the financial year.

9. Other payables

	2023	2022
	$'000	$'000
Amount due to related corporations		
- non-trade	**2,470**	2,728
Sundry creditors	**13**	-
Accrued operating expenses	**284**	270
	2,767	2,998

Other payables are current and due within the next financial year.

10. Deferred tax

Recognised deferred tax assets/liabilities

Deferred tax assets/liabilities are attributable to the following:

	2023	2022 (restated)
	$'000	$'000
Financial assets at FVOCI	**78**	240
Recognition of FRS 117	**(47)**	(574)
	31	(334)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relate to the same tax authority.

10. Deferred tax

Recognised deferred tax assets/liabilities (continued)

Movement in temporary differences during the year

	At 1 January 2022 (restated) $'000	Recognised in PL/OCI* (Note 8) $'000	At 31 December 2022 (restated) $'000	Recognised in PL/OCI* (Note 8) $'000	**At 31 December 2023 $'000**
Deferred tax (liabilities)/assets					
Financial assets at FVOCI	3	237	240	(162)	**78**
Recognition of FRS 117	(157)	(417)	(574)	527	**(47)**
	(154)	(180)	(334)	365	**31**

* Other comprehensive income

Deferred tax (liabilities)/assets are non-current.

11. Insurance service expense

The breakdown of amortisation of insurance acquisition cash flows, incurred claims, changes in liabilities for incurred claims relating to current and past service and other insurance service expenses as below:

	2023 $'000	2022 (restated) $'000
Incurred claims and other insurance service expenses	(46,729)	(27,052)
Changes to liabilities for incurred claims relating to past service	(16,770)	20,984
Amortisation of insurance acquisition cash flows	(7,899)	(6,078)
Directly attributable maintenance expenses	(9,875)	(5,680)
Total insurance service expenses	(81,273)	(17,826)

12. Net investment income and net insurance finance expenses

The table below presents the total investment income and insurance finance result recognised in profit or loss and OCI in the period:

	2023	2022 (restated)
Net investment income	**$'000**	$'000
Interest revenue	**1,182**	866
Realised losses on sale of financial assets	**(314)**	(511)
Net investment income recognised in profit or loss	**868**	355
Net finance expense from insurance contracts issued		
Interest accreted using locked-in rate	**(527)**	(310)
Changes in interest rate	**(925)**	603
Effects of movement in exchange rates	**223**	(830)
Total net finance expense from insurance contracts issued	**(1,229)**	(537)
Represented by:		
Amounts recognised in profit or loss	**(304)**	(1,140)
Amounts recognised in other comprehensive income	**(925)**	603
Net finance income from reinsurance contracts held		
Interest accreted using locked-in rate	**407**	285
Changes in interest rate	**698**	(672)
Effects of movement in exchange rates	**2,034**	2,986
Total net finance income from reinsurance contracts held	**3,139**	2,599
Represented by:		
Amounts recognised in profit or loss	**2,441**	3,271
Amounts recognised in other comprehensive income	**698**	(672)

13. Other operating expenses

(a) Fee income

	2023	2022 (restated)
	$'000	$'000
Service fees	**125**	249

(b) Other operating expenses

	2023	2022 (restated)
	$'000	$'000
Professional fees	**320**	344
Group IT expenses	**915**	632
Management fees	**14,273**	13,207
World agency program management fees	**808**	883
Unrealised foreign exchange losses	**3,954**	3,534
Withholding taxes	**42**	4
Other expenses	**4,478**	137
	24,790	18,741
Less: Directly attributable maintenance expenses	**(4,137)**	(4,398)
Less: Directly attributable acquisition expenses	**(5,378)**	(4,248)
	15,275	10,095

14. Tax income/expense

	2023	2022 (restated)
	$'000	$'000
Tax expenses attributable to profit or loss is made up of:		
Current tax expense	-	-
Deferred tax expense (Note 10)	489	(436)
Tax expenses attributable to other comprehensive income is made up of:		
Current tax expense	-	-
Deferred tax expense (Note 10)	(123)	248

14. Tax income/expense (continued)

Reconciliation of effective tax rate

The tax on loss before tax differs from theoretical amount that would rise arising the Singapore Standard rate of income tax as follows:

	2023 **$'000**	2022 (restated) $'000
(Loss)/Profit before income tax	**(8,478)**	3,152
Income tax calculated using Singapore tax rates of 17% (2022: 17%)	**(1,441)**	536
Offshore insurance fund taxed at a lower rate of 10% (2022: 10%) instead of at 17%	**530**	207
Current year losses for which no deferred tax asset was recognised	**1,400**	(1,179)
	489	(436)

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Branch can utilise the benefits.

	2023 **$'000**	2022 (restated) $'000
Tax losses carried at 10%	**36,962**	29,391
Tax losses carried at 17%	**40,080**	39,662

15. Significant related party transactions

During the year, apart from the balances and transactions disclosed elsewhere in these financial statements, the Branch had the following significant transactions with its related parties:

	2023 **$'000**	2022 $'000
Head Office		
Management fee paid/payable	**(355)**	(349)
Other related corporations		
Reinsurance premium received/receivable	**42,047**	3,005
Claims recovered/recoverable	**(700)**	2,770
Commission received/receivable	**26,462**	15,428
World agency program management fees received/ receivable	**454**	413
Reinsurance premium paid/payable	**(69,506)**	(41,103)
Claims paid/payable	**(2,462)**	(945)
Commission paid/payable	**(16,944)**	(1,329)
World agency program management fees paid/payable	**(1,409)**	(1,196)
Management fees paid/payable	**(14,273)**	(12,858)
IT expenses paid/payable	**(960)**	(711)

16. Insurance and financial risk management

Risk management is integral to the whole business of the Branch. Management continually monitors the Branch's risk management process to ensure that an appropriate balance between risk and control is achieved. They are guided by risk management policies and guidelines set by the Head Office as part and parcel of its overall business strategies and philosophy. To facilitate the task of monitoring these exposures, established processes are in force. Regular reviews by management are also conducted to ensure effectiveness and compliance with established policies and guidelines.

(a) Risk capital management

The Branch's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of its business. The Branch has no borrowings or contingent liabilities as at 31 December 2023 and 31 December 2022.

All insurers and reinsurers that carry on insurance business in Singapore are registered with the Monetary Authorities of Singapore (MAS) and are subject to the prudential standards which set out the basis for calculating the fund solvency requirements (FSR) and capital adequacy requirement (CAR) which is a minimal level of capital that must be held to meet policyholders' obligations. The FSR and CAR apply a risk-based approach to capital adequacy and are determined to be the sum of the aggregate of the total risk requirement of all insurance funds established and maintained by the reinsurer under the Insurance Act. It is the Branch's policy to hold capital levels in excess of the minimum Branch's FSR of 100% of total risk requirements for Singapore Insurance Funds and at least 150% of CAR. As at 31 December 2023, the Branch's CAR was 188% (2022: 407.17%).

There were no breaches of externally imposed capital requirements and there were no changes in the Branch's approach to capital management during the year.

(b) Risk management objectives and policies for mitigating insurance risk

In the normal course of its business activities, the Branch is exposed to a variety of insurance risks. These include underwriting and concentration risks. The management of these risks is discussed below:

Underwriting risk

Underwriting risks include the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting insurance pricing and conditions of insurance or reinsurance cover.

16. Insurance and financial risk management (continued)

(b) Risk management objectives and policies for mitigating insurance risk (continued)

Underwriting risk (continued)

The risk under any one insurance contract is the possibility that the 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. For the portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk the Branch faces under the insurance contracts is that the actual claims payment exceeds the carrying amount of the insurance liabilities.

To manage the underwriting function, the Branch carries out qualitative and quantitative risk assessments on all buyers and insurers before deciding on an approved credit limit. It also uses an internal credit score card to determine the credit scoring of a buyer and to analyse the buyer's credit score over time and against other companies. Policies in riskier markets may be rejected or charged a higher premium accompanied by stricter terms and conditions commensurate with the risks. Credit reviews and buyer visits are also conducted in the evaluation of the credit worthiness of the buyers. The Branch as well as the Head Office regularly review the markets where business is written, and the performance of their insurance business.

Reinsurance strategy

The Branch cedes 65% to 95% (2022: 65% to 95%) of its total written premium under a quota-share reinsurance arrangement. The Branch also has an excess of loss and a stop-loss reinsurance arrangement.

Sensitivities of insurance risk

The LIC is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, profit/loss before tax ("PBT" or "LBT") and equity for reasonably possible movements in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each parameter, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non-linear. The method used for deriving sensitivity information and significant assumptions did not change.

16. Insurance and financial risk management (continued)

(b) Risk management objectives and policies for mitigating insurance risk (continued)

Sensitivities of insurance risk (continued)

		2023 Impact on			
	Change in assumptions	LBT, gross of reinsurance $'000	LBT, net of reinsurance $'000	Head office account, gross of reinsurance $'000	Head office account, net of reinsurance $'000
Risk adjustment	+5%	(99)	(23)	(99)	(23)
	-5%	99	23	99	23
Yield curve	+1%	1,254	252	1,254	252
	-1%	(1,293)	(230)	(1,293)	(230)

		2022 Impact on			
	Change in assumptions	PBT, gross of reinsurance $'000	PBT, net of reinsurance $'000	Head office account, gross of reinsurance $'000	Head office account, net of reinsurance $'000
Risk adjustment	+5%	(43)	(13)	(43)	(13)
	-5%	43	13	43	13
Yield curve	+1%	461	63	461	63
	-1%	(475)	(63)	(475)	(63)

16. Insurance and financial risk management (continued)

(b) Risk management objectives and policies for mitigating insurance risk (continued)

Claims development

(i) Analysis of claims development – gross of reinsurance
Gross discounted liabilities for incurred claims – 2023 (SGD'000)

	Underwriting/Attachment year*						
	2018	2019	2020	2021	2022	2023	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of undiscounted ultimate gross claims:							
At end of underwriting year	29,114	29,028	24,166	28,422	23,044	56,486	
1 year later	13,497	26,227	11,392	18,548	27,719		
2 years later	14,127	20,239	10,202	13,376			
3 years later	12,681	11,100	9,274				
4 years later	10,682	41,057					
5 years later and above	14,568						
Current estimates of ultimate gross claims	14,568	41,057	9,274	13,376	27,719	56,486	162,490
Cumulative gross claims payments	(9,706)	(7,499)	(3,743)	(4,110)	(5,119)	(1,353)	(31,530)
Gross unpaid claims for underwriting years from 2018 to 2023	4,862	33,558	5,531	9,266	22,600	55,133	130,950
Gross unpaid claims for prior underwriting years							14,748
Unpaid claims related to unearned exposures							(32,873)
Unallocated loss adjustment expenses reserves							945
Effect of discounting							(4,796)
Effect of risk adjustment for non-financial risk							2,000
Bonus and rebates reserves and claims payables							9,548
Gross liabilities for incurred claims (Note 4)							120,522

16. Insurance and financial risk management (continued)

(b) Risk management objectives and policies for mitigating insurance risk (continued)

Claims development (continued)

(i) Analysis of claims development – gross of reinsurance (continued)
Gross discounted liabilities for incurred claims – 2022 (SGD'000)

	Underwriting year						
	2017	2018	2019	2020	2021	2022	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of undiscounted ultimate gross claims:							
At end of underwriting year	20,399	29,114	29,028	24,166	28,422	23,044	
1 year later	19,432	13,497	26,227	11,392	18,548		
2 years later	16,175	14,127	20,239	10,202			
3 years later	13,092	12,681	11,100				
4 years later	12,913	10,682					
5 years later and above	12,617						
Current estimates of ultimate gross claims	12,617	10,682	11,100	10,202	18,548	23,044	86,193
Cumulative gross claims payments	(11,429)	(8,414)	(9,267)	(3,266)	(3,323)	(620)	(36,319)
Gross unpaid claims for underwriting years from 2017 to 2022	1,189	2,268	1,833	6,936	15,225	22,424	49,875
Gross unpaid claims for prior underwriting years							2,867
Unpaid claims related to unearned exposures							(15,200)
Unallocated loss adjustment expenses reserves							3,236
Effect of discounting							(2,237)
Effect of risk adjustment for non-financial risk							870
Bonus and rebates reserves and claims payables							6,988
Gross liabilities for incurred claims (Note 4)							46,398

16. Insurance and financial risk management (continued)

(b) Risk management objectives and policies for mitigating insurance risk (continued)

(ii) Analysis of claims development – net of reinsurance
Net discounted liabilities for incurred claims – 2023 (SGD'000)

	Underwriting/Attachment year*						
	2018	2019	2020	2021	2022	2023	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of undiscounted ultimate net claims:							
At end of underwriting year	6,950	6,804	11,221	11,953	8,319	8,900	
1 year later	2,236	5,178	3,510	5,384	3,201		
2 years later	3,803	4,138	3,068	5,308			
3 years later	3,385	2,601	2,722				
4 years later	3,058	3,090					
5 years later and above	3,289						
Current estimates of ultimate net claims	3,289	3,090	2,722	5,308	3,201	8,900	26,510
Cumulative net claims payments	(2,920)	(3,057)	(1,553)	(599)	(17)	(888)	(9,034)
Net unpaid claims for underwriting years from 2018 to 2023	369	33	1,168	4,710	3,184	8,013	17,476
Net unpaid claims for prior underwriting years							373
Unpaid claims related to unearned exposures							2,530
Unallocated loss adjustment expenses reserves							945
Effect of discounting							405
Effect of risk adjustment for non-financial risk							469
Net bonus and rebates reserves and claims payables							6,547
Net provision for insurance claims (Note 4)							28,745

16. Insurance and financial risk management (continued)

(b) Risk management objectives and policies for mitigating insurance risk (continued)

(iii) Analysis of claims development – net of reinsurance (continued)
Net discounted liabilities for incurred claims – 2022 (SGD'000)

	Underwriting year						
	2017	2018	2019	2020	2021	2022	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of undiscounted ultimate net claims:							
At end of underwriting year	4,698	6,950	6,804	11,221	11,953	8,319	
1 year later	4,342	2,236	5,178	3,510	5,384		
2 years later	3,965	3,803	4,138	3,068			
3 years later	3,381	3,385	2,601				
4 years later	3,600	3,058					
5 years later and above	3,586						
Current estimates of ultimate net claims	3,583	3,058	2,601	3,068	5,384	8,319	26,014
Cumulative net claims payments	(3,097)	(3,104)	(3,179)	(1,653)	(608)	(213)	(11,854)
Net unpaid claims for underwriting years from 2017 to 2022	486	(46)	(578)	1,415	4,776	8,106	14,161
Net unpaid claims for prior underwriting years							(109)
Unpaid claims related to unearned exposures							(5,682)
Unallocated loss adjustment expenses reserves							3,236
Effect of discounting							(327)
Effect of risk adjustment for non-financial risk							254
Net bonus and rebates reserve and claims payables							6,176
Net provision for insurance claims (Note 4)							17,709

.

* As at 31 Sep 2023 onwards, the reserving approach has changed from underwriting year to attachment year for all classes except Bonding.

16. Insurance and financial risk management (continued)

(b) Risk management objectives and policies for mitigating insurance risk (continued)

(ii) Analysis of claims development – net of reinsurance (continued)

Concentration risk

Concentration limits are set to avoid heavy concentration within a specific industry or country. The concentration of insurance risk before and after reinsurance by the type of insurance risk accepted is summarised below:

	Insurance revenue $'000	Reinsurance income/ (expenses) $'000	Net exposure $'000
2023			
Trade Credit Insurance	62,450	(10,792)	51,658
Bonding	14,117	2,419	16,536
	76,567	8,373	68,194
2022			
Trade Credit Insurance	50,972	(24,046)	75,018
Bonding	3,706	(2,294)	6,000
	54,678	(26,340)	81,018

Maximum limits are set for buyer credit limits and higher limits require special approval. There is also monthly monitoring and reporting of any heavy concentration of risk exposure towards any industry, country, buyer and client limits. Buyer credit limits and client facility limits are reviewed on a regular basis to track any deterioration in their financial position that may result in a loss to the Branch.

16. Insurance and financial risk management (continued)

(c) Financial risk management

Transactions in financial instruments may result in the Branch assuming financial risks. These include credit risk, liquidity risk and market risk. The management of these risks is discussed below:

(i) Credit risk

Credit risk represents the exposure to the risk that any of the Branch's business partners should fail to meet their contractual obligations (mainly relating to insurance and investment transactions). In the case of the Branch's core insurance operations, credit risk might arise if a policyholder or broker fails to meet its obligations. The Branch views the management of credit risk as a fundamental and critical part of operations and therefore adopts a very selective policy as regards the choice of its business partners. The receivables' ageing, credit-worthiness of the past and present business partners and security rating of its insurance partners where available are reviewed regularly. Allowances are set aside in the financial accounts for non-recoverability due to the default by the business partners, in line with established Branch policy.

Similarly on investment operations, the Branch's investments are directed by the Head Office, which adopts very stringent quantitative and qualitative criteria, including financial statement analysis, type of securities, credit ratings and quality of management in selecting issuers of financial instruments that the Branch invests in.

The maximum exposure to credit risk is normally represented by the carrying amount of each financial asset in the financial statements, although in the case of insurance receivables, it is fairly common practice for accounts to be settled on a net basis. In such cases, the maximum exposure to credit risk is expected to be limited to the extent of the amount of financial assets that has not been fully offset by other financial liabilities with the same counterparty.

Cash placed with banks and financial institutions which are regulated. Management does not expect any of its counterparties to fail to meet its obligations.

The table below summarises the types of debt securities held by the Branch and the credit ratings which are based on Standard & Poor's financial strength rating. The debt securities comprise of Singapore government and corporate debt securities.

Fixed income investments are assessed using stringent investment criterion which include, but are not limited to, a thorough analysis of each debt security's terms and conditions, the availability and quality of the guarantor, as well as financial strength of the issuer.

16. Insurance and financial risk management (continued)

(c) Financial risk management (continued)

(i) Credit risk (continued)

	Financial strength rating			
	AAA	A- to AA+	BBB- to BBB+	Total
	$'000	$'000	$'000	$'000
2023				
Debt securities:				
Singapore Government bonds	52,173	-	-	52,173
Public authorities and corporate bonds	2,001	2,247	1,001	5,249
Cash and cash equivalents	-	2,638	-	2,638
Fixed deposit	-	16,670	-	16,670
Reinsurance contract assets	-	95,413	-	95,413
	54,174	116,968	1,001	172,143
2022				
Debt securities:				
Singapore Government bonds	25,493	2,214	-	27,707
Public authorities and corporate bonds	14,940	3,728	991	19,659
Cash and cash equivalents	-	9,431	-	9,431
Fixed deposit	-	2,500	-	2,500
Reinsurance contract assets	-	31,339	-	31,339
	40,433	49,212	991	90,636

16. Insurance and financial risk management (continued)

(c) Financial risk management (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulties in meeting obligations associated with financial instruments.

The Branch has to meet its liabilities as and when they fall due, notably from claims arising from its insurance contracts. There is therefore a risk that the cash and cash equivalents held will not be sufficient to meet its liabilities when they become due. The Branch manages this risk by setting minimum limits on the maturing assets that will be available to settle these short-term liabilities.

Given the high level of credit quality in the Branch’s financial assets and duration of less than 12 months for the substantial part of the investment portfolio, the Branch is able to quickly liquidate its investments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In addition, the Branch has cash and cash equivalents of $16.7 million (2022: $9.4 million) to meet its liquidity requirements.

16. Insurance and financial risk management (continued)

(c) Financial risk management (continued)

(ii) Liquidity risk (continued)

The table below summarises the maturity profile of the insurance liabilities of the Branch based on the remaining estimated obligations.

	$'000						
Insurance contract liabilities	**Up to 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
FY 2023	71,882	20,704	7,060	3,425	2,012	5,891	**110,974**
FY 2022	19,936	11,662	5,858	1,948	1	5	**39,410**

Non-insurance contract liabilities are expected to be paid within less than 1 year, comprising mainly of payables and accruals.

The Branch's insurance contracts issued and reinsurance contracts held have zero amounts that are payable on demand.

(iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Equity price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

The Branch is not exposed to any equity price risk.

16. Insurance and financial risk management (continued)

(c) Financial risk management (continued)

(iii) Market risk (continued)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Branch is exposed to the effects of foreign currency exchange rate fluctuations, in currencies such as US Dollar, Euro and Indonesian Rupiah, primarily because of its foreign currency denominated underwriting revenues (i.e. premiums) and expenses (i.e. claims).

In order to minimise the foreign exchange risks, management under the direction of the Head Office closely monitors the Branch's foreign currency liabilities to ensure that they are closely matched against the appropriate financial assets to the extent that it is prudent to do so. The Branch does not use derivative financial instruments to hedge its foreign currency risks.

The Branch's exposures to foreign currency in Singapore Dollar equivalent are as follows:

	US Dollar	Euro	Malaysian Ringgit	Other foreign currencies
	$'000	$'000	$'000	$'000
2023				
Prepayments and other receivables	290	157	-	139
Cash and cash equivalents	10,348	486	-	-
Fixed deposits	2,638	-	-	-
Reinsurance contract assets	50,032	(19)	-	-
Insurance contract liabilities	(10,939)	(10,721)	(6,828)	(9,689)
Other payables	533	(1,632)	(1)	(357)
	52,902	(11,729)	(6,829)	(10,001)
2022				
Prepayments and other receivables	366	161	-	(111)
Cash and cash equivalents	5,252	201	-	-
Reinsurance contract assets	10,816	1,222	-	-
Insurance contract liabilities	(8,059)	224	1,669	(226)
Other payables	392	(1,508)	-	(244)
	8,767	300	1,669	(581)

16. Insurance and financial risk management (continued)

(c) Financial risk management (continued)

(iii) Market risk (continued)

Sensitivity analysis

A 10% strengthening of the Singapore Dollar against the following currencies at the reporting date would (decrease)/increase profit or loss by the amounts shown below respectively. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit or loss (decrease)/ increase $'000	Head Office account (decrease) /increase $'000
2023		
US Dollar	(5,290)	(5,290)
Euro	1,173	1,173
Malaysian Ringgit	683	683
Others	1,000	1,000
2022		
US Dollar	(877)	(877)
Euro	(30)	(30)
Malaysian Ringgit	(167)	(167)
Others	58	58

A 10% weakening of Singapore Dollar against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to the impact of changes in market interest rates on interest income from cash and cash equivalents and fixed income investments.

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

16. Insurance and financial risk management (continued)

(c) Financial risk management (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

The Branch does not use derivative financial instruments to hedge its interest rate risks.

Sensitivity analysis

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity through OCI movements. There is no impact on the profit or loss. The correlation of variables will have a significant effect in determining the ultimate impact of interest rate risk, but to demonstrate the impact due to changes in variables, variables have been changed on an individual basis. It should be noted that movements in these variables are non–linear.

	Net impact on equity	
	2023	**2022**
	$'000	**$'000**
+50bps parallel increase		
Debt securities	(287)	(237)
Total Impact	163	156
-50bps parallel increase		
Debt securities	287	237
Total Impact	(178)	(163)

The deposits with financial institutions generally mature or will re-price within the next 12 months and earn interest at prevailing market interest rates.

Interest rate risk sensitivity analysis on insurance contract liabilities and reinsurance contract assets is presented along with insurance risk variables within Note 16(b).

16. Insurance and financial risk management (continued)

(c) Financial risk management (continued)

(iii) Market risk (continued)

Estimation of fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Branch.

Investments in debt securities

The fair value of Singapore Government bonds is based on quoted market prices at the reporting date.

Other financial assets and liabilities

The carrying amounts of other financial assets and liabilities with a maturity of less than one year (including insurance and other receivables, cash and cash equivalents, fixed deposits, insurance and other payables) are assumed to approximate their fair values because of the short period to maturity.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

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

16. Insurance and financial risk management (continued)

(c) Financial risk management (continued)

(iii) Market risk (continued)

Accounting classifications and fair values

The table below summarises the financial assets and financial liabilities carried at fair values:

	Fair value			
	Level 1	Level 2	Level 3	Total
2023				
Financial assets at FVOCI	57,422	-	-	57,422
2022				
Financial assets at FVOCI	47,366	-	-	47,366

There were no transfers of Level 1, Level 2 and Level 3 during the years ended 31 December 2023 and 2022.

17. Transfer of Oceania Business

On 1 January 2023, Euler Hermes, Hong Kong Branch had transferred its Oceania assumed business portfolio, which is marketed by Allianz Australia Insurance Limited, to Euler Hermes Singapore Branch by way of novation of reinsurance agreements for strategic and operational reasons. Subsequent to the transfer, premiums arising from the Oceania assumed business were paid directly to Euler Hermes Singapore Branch instead of Euler Hermes, Hong Kong Branch.

Details of the transferred consideration and the net liabilities acquired are as follows:

Purchase consideration, inflow of cash received in exchange for liabilities acquired

	SGD'000
Cash consideration received	15,171

The liabilities recognised as a result of the acquisition are as follows:

	Acquisition date fair value SGD'000
Liabilities for incurred claims	10,316
Liabilities for remaining coverage	4,855
Net liabilities acquired	15,171

There were no assets for insurance acquisition cash flows identified at the date of the transaction, relating to the rights to obtain future insurance contracts that are renewal of the contracts or future insurance contracts where the acquirer is required to pay the insurance acquisition cash flows that the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.

18. Authorisation of financial statements

The financial statements were authorised for issue by the Branch's management on 30 July 2024.