

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

ANNUAL REPORT

For the financial year ended 31 December 2018

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EULER HERMES SINGAPORE BRANCH

STATEMENT BY CHIEF EXECUTIVE

For the financial year ended 31 December 2018

I, Clemens Philippi, 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, statement of financial position, 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, Cap. 50 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 2018, 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.



Clemens Philippi
Chief Executive

30 MAY 2019

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, Chapter 50 ("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 2018 and of the result, changes in head office account and cash flows of the Branch's operation 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 in 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 2018;
- the statement of assets used in and liabilities arising out of operations in Singapore as at 31 December 2018;
- the statement of changes in head office account and reserves 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 significant accounting policies.

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.

INDEPENDENT AUDITOR'S REPORT TO EULER HERMES (continued)

Other matter

The financial statements for the preceding financial year were reported on by an audit firm other than PricewaterhouseCoopers LLP. The auditor's report dated 31 May 2018 issued by the predecessor audit firm on the financial statements for the financial year ended 31 December 2017 was unqualified.

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

INDEPENDENT AUDITOR'S REPORT TO EULER HERMES (continued)

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

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 operation in Singapore have been properly kept in accordance with the provisions of the Act.



PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 30 May 2019

EULER HERMES SINGAPORE BRANCH

STATEMENT OF COMPREHENSIVE INCOME ARISING OUT OF OPERATIONS IN SINGAPORE

For the financial year ended 31 December 2018

	Note	2018 \$	2017 \$
Income			
Gross written premiums		45,366,251	35,499,714
Change in gross provision for unearned premiums	4	(9,547,863)	(10,543,934)
Gross earned premiums		35,818,388	24,955,780
Written premiums ceded to reinsurer		(38,104,739)	(30,803,150)
Reinsurer's share of change in the provision for unearned premiums	4	8,688,442	9,578,776
Net earned premiums		6,402,091	3,731,406
Commission income	4	8,231,656	6,997,024
Net foreign exchange (loss)/gain		2,962,459	(2,353,369)
Other income		1,245,293	756,482
Net income before claims and expenses		18,841,499	9,131,543
Expenses			
Gross claims incurred	4	(6,821,957)	(34,526,838)
Reinsurer's share of claims incurred	4	2,465,986	41,056,695
Net claims incurred		(4,355,971)	6,529,857
Provision for bonus and rebates		(94,823)	(190,147)
Commission expense	4	(6,374,405)	(3,825,903)
Management expenses		(15,694,151)	(15,663,244)
Expenses		(26,519,350)	(13,149,437)
Profit/(Loss) before income tax		(7,677,851)	(4,017,894)
Income tax expense	5	—	—
Loss for the year transferred to Head Office account		(7,677,851)	(4,017,894)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		2,207	(90,829)
Other comprehensive income transferred to Head Office account, net of tax		2,207	(90,829)
Total comprehensive income for the year		(7,675,644)	(4,108,723)

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 2018

	Note	2018 \$	Restated 2017 \$	Restated 2016 \$
Assets				
Intangible assets	6	350,841	–	–
Reinsurer's share of insurance contract provisions	4	100,448,659	139,199,021	96,196,748
Deferred acquisition costs (DAC)	4	5,022,262	3,109,752	1,889,400
Investment in debt securities	7	62,998,700	36,832,550	10,034,500
Insurance receivables	8	32,781,521	25,421,529	24,704,189
Other receivables	9	1,825,893	2,912,912	1,807,197
Fixed deposits		–	8,000,000	13,129,574
Cash and cash equivalents	10	10,077,589	46,607,942	59,379,046
Total assets		213,505,465	262,083,706	207,140,654
Head Office account				
Capital account		115,235,883	115,235,883	115,235,883
Accumulated losses		(53,225,587)	(45,547,736)	(41,529,842)
Fair value reserves		(96,429)	(98,636)	(7,807)
Total Head Office account		61,913,867	69,589,511	73,698,234
Liabilities				
Insurance contract provisions	4	121,260,955	159,595,565	123,779,410
Deferred reinsurance commission (DRC)	4	8,512,897	4,774,672	2,709,365
Insurance payables	11	18,143,029	23,949,993	6,602,150
Other payables	12	3,674,717	4,173,965	351,495
Income tax payable		–	–	–
Total liabilities		151,591,598	192,494,195	133,442,420
Total Head Office account and liabilities		213,505,465	262,083,706	207,140,654

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

EULER HERMES SINGAPORE BRANCH

STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT AND RESERVES

For the financial year ended 31 December 2018

	Capital account \$	Accumulated losses \$	Fair value reserve \$	Total \$
At 1 January 2018	115,235,883	(45,547,736)	(98,636)	69,589,511
Total comprehensive (loss)/income for the year				
Net loss for the year	-	(7,677,851)	-	(7,677,851)
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	-	-	2,207	2,207
Total other comprehensive income	-	-	2,207	2,207
Total comprehensive (loss)/income for the year	-	(7,677,851)	2,207	(7,675,644)
At 31 December 2018	115,235,883	(53,225,587)	(96,429)	61,913,867
At 1 January 2017	115,235,883	(41,529,842)	(7,807)	73,698,234
Total comprehensive (loss)/income for the year				
Net loss for the year	-	(4,017,894)	-	(4,017,894)
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	-	-	(90,829)	(90,829)
Total other comprehensive income	-	-	(90,829)	(90,829)
Total comprehensive (loss)/income for the year	-	(4,017,894)	(90,829)	(4,108,723)
At 31 December 2017	115,235,883	(45,547,736)	(98,636)	69,589,511

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 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Loss for the year		(7,677,851)	(4,017,894)
Adjustments for:			
Interest income		(1,392,140)	(819,756)
Amortisation of available-for-sale securities		430,926	63,274
Fair value gain/(loss)		2,207	(90,829)
		<u>(8,636,858)</u>	<u>(4,865,205)</u>
Changes in working capital:			
Insurance contract provisions and DAC/DRC	4	2,241,467	(6,341,163)
Insurance receivables		(7,328,205)	(717,340)
Other receivables		782,968	(908,469)
Insurance payables		(5,806,964)	17,347,843
Other payables		(499,248)	3,822,470
Net cash from/(used in) operations		<u>(19,246,840)</u>	<u>8,338,136</u>
Income tax paid		—	—
Net cash from/(used in) operating activities		<u>(19,246,840)</u>	<u>8,338,136</u>
Cash flows from investing activities			
Fixed deposits withdrawal		8,000,000	5,129,574
Purchase of available-for-sale securities		(72,812,088)	(26,861,324)
Redemption of available-for-sale securities		46,200,000	—
Interest received		1,679,416	622,510
Additions to intangible assets		(350,841)	—
Net cash used in investing activities		<u>(17,283,513)</u>	<u>(21,109,240)</u>
Cash flows from financing activity			
Capital injection from Head Office		—	—
Net cash from financing activity		<u>—</u>	<u>—</u>
Net decrease in cash and cash equivalents		<u>(36,530,353)</u>	<u>(12,771,104)</u>
Cash and cash equivalents at 1 January		46,607,942	59,379,046
Cash and cash equivalents at 31 December	10	<u>10,077,589</u>	<u>46,607,942</u>

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

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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 12 Marina View, #14-01 Asia Square Tower 2, Singapore 018961. The Branch is registered under the Singapore Insurance Act, Chapter 142 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 Group SA, a company incorporated in France. 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, Chapter 142 ("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 18 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 18 of the Insurance Act.

The Branch was registered in Singapore on 12 August 2013 as Euler Hermes Europe, Singapore Branch. It obtained its licence 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

2.3 Functional and presentation currency

The financial statements are presented in Singapore dollars, which is the Branch's functional currency.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements made by management in applying accounting policies that have the most significant effect on the financial statements is included in Note 13 – *Accounting estimates and judgements in applying accounting policies*.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Branch to all periods presented in these financial statements.

3.1 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.1 Foreign currency transactions (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated 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. Foreign currency differences arising on translation are recognised in profit or loss.

3.2 Classification of insurance contracts

Contracts under which the Branch accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a 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. Insurance contracts may also transfer some financial risk.

The Branch issues bond and credit insurance contracts which provide insurance coverage against non-payment risks arising from commercial events. Commercial events may be due to protracted default in payments or insolvency of the buyer. The Branch issues short-term comprehensive contracts where the period of coverage is usually a year or less.

These contracts are regarded as insurance contracts for the purposes of FRS 104 *Insurance Contracts* and are classified together in these financial statements.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.3 Recognition and measurement of insurance contracts

Written premiums

Premium income is recognised upon inception of the risk regardless of the period of the policy.

Written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Written premiums include adjustments to premiums written in prior financial years. Premiums are disclosed gross of commission payable to intermediaries, excluding taxes and levies based on premiums.

Insurance receivables and payables

Insurance receivables and insurance payables are recognised when due. These include amounts due to and from insurance and reinsurance contract holders. They are measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, receivables and payables are measured at amortised cost, using the effective interest rate method. Insurance receivables and insurance payables are derecognised based on the same derecognition criteria as financial assets and liabilities respectively, as described in Note 3.4.

The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If there is objective evidence that the insurance receivable is impaired, the Branch reduces the carrying amount of the insurance receivable and recognises that impairment loss in profit or loss. The Branch gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets, as described in Note 3.6.

Provision for unearned premiums

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the 1/365th method.

An additional provision is made for unexpired risk reserves where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the provision for unearned premiums in relation to such policies and is included in the provision for unearned premiums.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.3 Recognition and measurement of insurance contracts (continued)

Deferred acquisition costs (DAC)

Acquisition costs are deferred and amortised over the period of the insurance cover. The deferred acquisition costs comprise the proportion of the commissions incurred in connection with the acquisition or renewal of insurance contracts that relate to the unearned premiums.

Claims incurred and provision for insurance claims

Claims incurred comprise claims and claims handling expenses paid during the financial year, net of subrogation recoveries, and changes in the provision for insurance claims.

Provision for insurance claims comprise provisions for the Branch's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and an appropriate prudential margin. Provision for insurance claims are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provision for insurance claims are discounted where there is a particularly long period from incident to claims settlement and where a suitable claims pattern from which to calculate the discount exists.

Whilst management considers that the provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the year in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed annually.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.3 Recognition and measurement of insurance contracts (continued)

Reinsurance

The Branch cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risk. Assets, liabilities, income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contract because the reinsurance arrangements do not relieve the Branch from its direct obligations to its policyholders.

Premiums ceded and reinsurance commission income are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if, and only if, there is objective evidence, as a result of an event that occurred after its initial recognition, that the Branch may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Branch will receive from the reinsurer.

The Branch gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets, as described in Note 3.6.

Commission expense

Commission expense paid to intermediaries (brokers/agents/fronters) upon acquiring new and renewal insurance business is recognised in profit or loss. Commission expense is deferred and amortised on a pro-rata basis over the period of the contracts.

Commission income

Commission income comprises reinsurance and profit commissions received or receivable which do not require the Branch to render further service. Commission income is deferred and amortised on a pro-rata basis over the period of the contracts.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.3 Recognition and measurement of insurance contracts (continued)

Liability adequacy test

The liabilities of the Branch under insurance contracts are tested for adequacy by comparing the expected future contractual cash flows with the carrying amount of the insurance contract provisions for net unexpired risks and net insurance claims. Where an expected shortfall is identified, additional provisions are made for unexpired risks or insurance claims and the deficiency is recognised in profit or loss.

3.4 Financial instruments

Non-derivative financial assets

The Branch initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Branch becomes a party to the contractual provisions of the instrument.

The Branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred assets. Any interest in transferred financial assets that is created or retained by the Branch is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Branch has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Branch classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, fixed deposits and insurance and other receivables.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits with maturities of three months or less from the balance sheet date that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments.

Bank deposits with maturities of over three months from balance sheet date are classified separately as fixed deposits.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified in any of the previous categories. Available-for-sale financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than for impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in the Head Office account. When an investment is derecognised, the gain or loss accumulated in the fair value reserve in the Head Office account is reclassified to profit or loss.

Available-for-sale financial assets comprise investment in debt securities.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

Non-derivative financial liabilities

The Branch initially recognises financial liabilities on the trade date at which the Branch becomes a party to the contractual provision of the instrument.

The Branch derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Branch has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Branch recognises financial liabilities initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities comprise insurance and other payables.

3.5 Intangible assets

Intangible asset relates to software developed by the Company.

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 Company 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.5 Intangible assets (continued)

Amortisation

Amortisation is calculated based on the cost of the asset, less its residual value.

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 of the current and comparative periods are as follows:

Capitalised development costs	–	5 years
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3.6 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event(s) has occurred after the initial recognition of the asset, and that the loss event(s) has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Branch on terms that the Branch would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.6 Impairment (continued)

Loans and receivables

The Branch considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Branch uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When the Branch considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in the fair value reserve in the Head Office account to profit or loss. The cumulative loss that is reclassified from Head Office account to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

Changes in cumulative impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent year, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed. The amount of the reversal is recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.6 Impairment (continued)

Non-financial assets

The carrying amounts of the Branch's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

3.7 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.

3.8 Revenue recognition

Insurance income

The accounting policy in relation to revenue from insurance contracts is disclosed in Note 3.3.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.8 Revenue recognition (continued)

Investment income

Investment income comprise of interest income on available-for-sale financial assets which is recognised as it accrues in profit or loss, using the effective interest method.

3.9 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 on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Branch expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. 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, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.10 Interpretations and amendments to published standards effective in 2018

On 1 January 2018, the Branch adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. The adoption of the new or amended FRS and INT FRS did not result in substantial changes to the Branch's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

3.11 Temporary exemption from FRS 109 – Financial instruments

According to FRS 104 Amendments, the Branch made the assessment based on the financial position of 31 December 2015, concluding that the carrying amount of the Branch's liabilities arising from contract within the scope of FRS 104 was significant compared to the total carrying amount of all its liabilities and the percentage of the total carrying amount of all its liabilities connected with insurance relative to the total carrying amount of all its liabilities is greater than 90 percent. There had been no significant change in the activities of the Branch since then that requires reassessment. Therefore, the Branch's activities are predominantly connected with insurance, meeting the criteria to apply for temporary exemption from FRS 109.

- (i) The table below presents the fair value of the following groups of financial assets under FRS 109 as at 31 December 2018 and fair value changes for the year ended 31 December 2018:

	Fair value as at 31 December 2018 \$	Fair value changes for the year ended 31 December 2018 \$
Financial assets with contractual terms that give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding ("SPPI"):		
- Investment in debt securities	62,998,700	2,207
- Cash and cash equivalents	10,077,589	–
- Other receivables (excluding prepayments)	1,201,539	–
Financial assets that are managed and whose performance are evaluated on a fair value basis	–	–
Financial assets with contractual terms that do not give rise on SPPI	–	–
	74,277,828	2,207

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

3. Significant accounting policies (continued)

3.11 Temporary exemption from FRS 109 – Financial instruments (continued)

- (ii) The table below presents the credit risk exposure for aforementioned financial assets with contractual terms that give rise on SPPI:

	Carrying amount as 31 December 2018 \$	Fair value as at 31 December 2018 \$
AAA	62,998,700	62,998,700
AA	10,077,589	10,077,589
Not rated	1,201,539	1,201,539

For financial assets measured at amortised cost, the carrying amount is equal to their fair values. There is no financial asset measured at amortised cost that have high credit risk as at balance sheet date.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

4. Insurance contract provisions

	Note	2018			2017		
		Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
(i) Summary of total insurance contract provisions							
– Unearned premiums	(ii)	(35,498,897)	25,668,524	(9,830,373)	(25,951,034)	16,980,082	(8,970,952)
– Insurance claims	(iii)	(85,762,058)	74,780,135	(10,981,923)	(133,644,531)	122,218,939	(11,425,592)
		<u>(121,260,955)</u>	<u>100,448,659</u>	<u>(20,812,296)</u>	<u>(159,595,565)</u>	<u>139,199,021</u>	<u>(20,396,544)</u>
(ii) Movement in unearned premiums							
Balance at beginning of the year		(25,951,034)	16,980,082	(8,970,952)	(15,407,100)	7,401,306	(8,005,794)
Movements during the year		(9,547,863)	8,688,442	(859,421)	(10,543,934)	9,578,776	(965,158)
Balance at end of the year	(i)	<u>(35,498,897)</u>	<u>25,668,524</u>	<u>(9,830,373)</u>	<u>(25,951,034)</u>	<u>16,980,082</u>	<u>(8,970,952)</u>
(iii) Movement in insurance claims							
Balance at beginning of the year		(133,644,531)	122,218,939	(11,425,592)	(108,372,310)	88,795,442	(19,576,868)
Claims paid		54,704,430	(49,904,790)	4,799,640	9,254,617	(7,633,199)	1,621,418
Claims incurred		(6,821,957)	2,465,986	(4,355,971)	(34,526,838)	41,056,696	6,529,858
Balance at end of the year	(i)	<u>(85,762,058)</u>	<u>74,780,135</u>	<u>(10,981,923)</u>	<u>(133,644,531)</u>	<u>122,218,939</u>	<u>(11,425,592)</u>

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

4. Insurance contract provisions (continued)

	Note	2018		2017	
		DAC	DRC	DAC	DRC
(iv) Movement in DAC/DRC					
Balance at beginning of the year		3,109,752	(4,774,672)	1,889,400	(2,709,365)
Movements during the year	v	1,912,510	(3,738,225)	1,220,352	(2,065,307)
Balance at end of the year		5,022,262	(8,512,897)	3,109,752	(4,774,672)
(v) Commission expense/commission income					
Commission payable/(receivable) during the year		8,286,915	(11,969,881)	5,046,255	(9,062,331)
Change in DAC/DRC	iv	(1,912,510)	3,738,225	(1,220,352)	2,065,307
Commission expense/(income)		6,374,405	(8,231,656)	3,825,903	(6,997,024)

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

4. Insurance contract provisions (continued)

The table below shows the minimum regulatory Capital Adequacy Ratio ("CAR") that must be held by the Branch in addition to their insurance liabilities. The minimum required CAR must be maintained at all times throughout the year.

	2018 \$	2017 \$
Financial resources available to cover regulatory requirements	<u>49,557,623</u>	<u>45,645,779</u>
Capital Adequacy Ratio held	605.03%	293.22%
Minimum regulatory Capital Adequacy Ratio	<u>120.00%</u>	<u>120.00%</u>

5. Income tax expense

	2018 \$	2017 \$
Current tax expense	<u>—</u>	<u>—</u>
<i>Reconciliation of effective tax rate</i>		
Loss before income tax	<u>(7,677,851)</u>	<u>(4,017,894)</u>
Income tax calculated using Singapore tax rates of % 17% (2017: 17%)	(1,305,235)	(683,042)
Offshore insurance fund taxed at a lower rate of 10% (2017: 10%) instead of at 17%	448,046	462,368
Current year losses which no deferred tax asset was recognised	<u>857,189</u>	<u>220,674</u>
	<u>—</u>	<u>—</u>

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

5. Income tax expense (continued)

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.

	2018 \$	2017 \$
Tax losses carried at 10%	20,460,310	14,059,655
Tax losses carried at 17%	36,436,904	35,159,706

6. Intangible assets

Computer software

	2018 \$	2017 \$
Cost		
At 1 January	-	-
Additions	350,841	-
At 31 December	350,841	-
Accumulated amortisation		
At 1 January	-	-
Amortisation charge	-	-
At 31 December	-	-
Carrying amounts		
At 31 December 2018	350,841	-

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

7. Investment in debt securities

	2018 \$	2017 \$
Debt Securities:		
– available-for-sale	<u>62,998,700</u>	<u>36,832,550</u>

The debt securities, being Singapore Government bonds, are denominated in Singapore dollars and will mature within 12 months (2017: mature within 24 months).

8. Insurance receivables

	2018 \$	2017 \$
Amounts due from brokers, agents and fronters:		
– trade balances	30,789,101	24,579,223
– deposits withheld by cedants	2,183,904	2,166,116
Impairment losses	(191,484)	(1,323,810)
	<u>32,781,521</u>	<u>25,421,529</u>

Trade balances includes transactions with related corporations that are unsecured.

Concentration of credit risk relating to amounts owing by policyholders and brokers is limited due to the Branch's many varied policyholders and brokers who are internationally dispersed. The Branch's historical experience in the collection of insurance receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Branch's insurance receivables.

The credit risk and allowance for impairment of insurance receivables are disclosed in Note 15.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

9. Other receivables

	2018 \$	2017 \$
Amounts owing from related corporations – non trade	785,601	1,472,005
Interest receivable	190,348	477,624
Other receivables	225,590	696,976
Loans and receivables	1,201,539	2,646,605
Prepayments	624,354	266,307
	<u>1,825,893</u>	<u>2,912,912</u>

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

Other receivables are due within the next financial year.

10. Cash and cash equivalents

	2018 \$	2017 \$
Deposits with financial institutions	–	25,487,220
Cash at bank	10,077,589	21,120,721
	<u>10,077,589</u>	<u>46,607,941</u>

The effective interest rate per annum relating to deposits with financial institutions, at the reporting date for the Branch is Nil (2017: 0.89%).

11. Insurance payables

	2018 \$	2017 \$
Amounts due to brokers, agents and fronters:		
– Third-parties	3,899,933	5,505,229
– Related corporations – trade	14,243,096	18,444,764
	<u>18,143,029</u>	<u>23,949,993</u>

Insurance payables are due in accordance with regular policy terms within the next financial year.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

12. Other payables

	2018	2017
	\$	\$
Amount due to related corporations		
– non-trade	2,985,350	3,644,777
Provision for bonus and rebates	379,817	316,861
Sundry creditors	10,190	76,478
Accrued operating expenses	299,272	135,849
	<u>3,674,717</u>	<u>4,173,965</u>

Other payables are due within the next financial year.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

13. Accounting estimates and judgements in applying accounting policies

The following are critical accounting judgements or estimates made by the management in applying accounting policies:

Process involved in determining insurance claim liabilities

Given the nature of the insurance industry, it is difficult to predict with certainty the ultimate cost of claims, both reported and unreported. Therefore, to ensure objectivity as well as to comply with the requirements of the Singapore Insurance Legislation, the Branch has appointed an independent actuary to assess the adequacy of the Branch's insurance liabilities on an annual basis. As set out in Note 3.3, a deficit arising from the liability adequacy test is recognised in profit or loss for the year.

The data used for determining the expected ultimate claim liabilities is collated internally relating to business underwritten by the Branch. This is further supplemented by externally available information on industry statistics and trends.

The Chain Ladder, the Incurred Bornhuetter-Ferguson ("IBF") and the Expected Loss Ratio ("ELR") methods are the main actuarial reserving methods used.

The Chain Ladder method is based on cumulative paid claims on the assumption that the data reflects a stable development pattern that is suitable for projecting future claims amount as settlement is quite prompt.

The IBF method assumes that the claims experience for an underwriting year will produce a particular loss ratio and then blends this assumption with the actual claims experience as it emerges.

The ELR method assumes ultimate claims costs are determined by applying the expected loss ratios to the estimated earned premiums (or contract value) for the respective underwriting years. The expected loss ratios are based on the Branch's past loss ratios, as well as benchmark loss ratios based on industry statistics.

The Branch is covered by a proportional, an excess of loss and a stop-loss reinsurance arrangement. Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims liabilities.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

13. Accounting estimates and judgements in applying accounting policies (continued)

Process involved in determining insurance claim liabilities (continued)

To the extent that the statistical method uses historical claims development information, it is assumed that the historical claims development pattern will recur in the future. There are however reasons why this may not be the case and such reasons include:

- changes in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends or interpretation of policy conditions that might affect the future reporting and development of claims; and
- random fluctuations, including the impact of a higher frequency of large losses.

The Branch's reserving methodology is intended to result in the most likely or expected outcome for the ultimate loss settlement by analysing the historical claim payments to identify possible trends in order to project future claim payments. A provision for adverse deviation ("PAD"), is calculated based on a 75% level of sufficiency, having regard to Singapore Insurance Legislation administered by the Monetary Authority of Singapore and uncertainty introduced by limitations of available data. Possible uncertainties include those related to the selection of models and assumptions, the statistical uncertainty, the general business and economic environment, and the impact of legislative reform. Management provided for PAD based on the independent actuary's inputs. An allowance for the cost of handling claims is also made.

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, future claims experience might deviate, possibly materially from the projections. Among other reasons, this is because the ultimate claim amount will be affected by future external events, for example, changes in the interpretation of policy conditions and the attitudes of claimants towards settlement of their claims.

Accounting judgements and sensitivities

As mentioned above, provision for claims liabilities also includes a provision for adverse development which will provide a 75% probability of adequacy for the claims provision.

Based on the current assumption of a 18% (2017: 18%) PAD on the best estimate of the claims liabilities, the provision for claims liabilities (including PAD) net of reinsurance is \$10,981,923 (2017: \$11,425,592). Changing the PAD to either 20% or 10%, the resulting net provision will be as follows:

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

13. Accounting estimates and judgements in applying accounting policies (continued)

Process involved in determining insurance claim liabilities (continued)

	PAD 20% \$	PAD 10% \$
2018		
Provision for claims liabilities, net of reinsurance	11,168,057	10,237,386
2017		
Provision for claims liabilities, net of reinsurance	11,619,246	10,650,976

Process involved in determining premium liabilities

The methodology for the determining of premium liabilities is as follows:

- the unearned premiums are multiplied by the selected loss ratio for the 2018 underwriting year. This amount, together with an allowance for future expenses including claims handling and maintenance expense forms the best estimate of the Unexpired Risk Reserve ("URR");
- the URR is then further loaded with a PAD margin to provide a 75% probability of sufficiency; and
- this URR with PAD is then compared to the Branch's held unearned premiums reserve, and the higher of the two is the final provision for unearned premiums.

Accounting judgements and sensitivities

As mentioned above, URR includes a PAD which is intended to provide a 75% probability of sufficiency. Management provided for the PAD based on the independent actuary's inputs.

Based on the current assumption of 27% (2017: 27%) PAD, URR (including PAD) is \$5,929,406 (2017: \$5,503,157). However, since the Branch's held unearned premiums reserve is \$13,321,008 (2017: \$10,635,871) which is higher than URR including PAD, changing the PAD to either 30% or 20% will have no significant impact on the premium liabilities.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

14. 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:

	2018 \$	2017 \$
Head Office		
Management fee paid/payable	(104,947)	(181,511)
Other related corporations		
Commission received/receivable	8,231,656	6,997,024
Reinsurance premium paid/payable	(38,104,739)	(30,803,150)
Claims recovered/recoverable	49,904,790	7,633,199
IT expenses paid/payable	(246,732)	(191,051)
Commission paid/payable	(1,250,282)	(563,958)
Management fee paid/payable	(13,787,913)	(14,284,110)
World agency program management fees paid/payable	(1,260,491)	(917,737)

15. 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 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(a) Risk management objectives and policies for mitigating insurance 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 97.75% 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

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

Claims development

(i) Analysis of claims development – gross of reinsurance

	2013 and prior* \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	Total \$'000
Estimate of ultimate claims:							
At end of underwriting year	100,867	18,608	39,666	24,592	20,399	29,114	
1 year later	94,085	19,500	150,064	18,733	19,432		
2 years later	98,445	25,024	174,348	6,344			
3 years later	95,312	22,806	181,241				
4 years later	92,726	15,596					
5 years later and above	92,416						
Current estimates of ultimate claims	92,416	15,596	181,241	6,344	19,432	29,114	344,143
Cumulative payments	(92,216)	(14,303)	(140,806)	(4,974)	(5,920)	(49)	(257,772)
Gross outstanding claim	200	1,789	40,436	1,369	13,512	29,065	86,370
Unallocated loss adjustment expenses						842	
Effect of discounting							(1,323)
Unpaid claims related to unearned exposures							(13,210)
Provision for adverse deviation							13,082
Gross provision for insurance claims (Note 4(iii))							<u>85,762</u>

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)
- (a) Risk management objectives and policies for mitigating insurance risk (continued)
- (ii) Analysis of claims development – net of reinsurance

	2013 and prior* \$'000	Underwriting year					Total \$'000
		2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	
Estimate of ultimate claims:							
At end of underwriting year	32,673	5,563	10,297	5,280	4,698	6,930	
1 year later	30,710	5,214	35,364	3,137	4,520		
2 years later	28,478	4,431	33,079	1,262			
3 years later	27,978	3,854	47,945				
4 years later	27,151	3,376					
5 years later and above	27,067	3,376	47,945	1,262	4,520	6,930	91,100
Current estimates of ultimate claims	(27,016)	(3,278)	(46,304)	(1,097)	(1,893)	(14)	(79,602)
Cumulative payments	51	98	1,641	165	2,627	6,916	11,498
Net outstanding claim							842
Unallocated loss adjustment expenses							(181)
Effect of discounting							(2,852)
Unpaid claims related to unearned exposures							1,675
Provision for adverse deviation							<u>10,982</u>
Net provision for insurance claims (Note 4(iii))							

* As at 31 May 2014, Head Office of Euler Hermes was restructured. As part of the restructuring, a new Singapore branch was formed on 1 June 2014. Following the restructuring, claim liabilities were transferred to the new branch. The valuation of claims liabilities transferred reflected as 2013 above were carried out on an accident year basis, while the valuations for the subsequent underwriting years were conducted on an underwriting year basis.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(a) 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. 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.

(b) 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) Financial risk management (continued)

(i) Credit risk (continued)

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 and fixed deposits are 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 entirely of Singapore government 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.

	Financial strength rating		
	AAA \$	A to AA \$	Total \$
2018			
Debt securities:			
Singapore Government bonds	62,998,700	–	62,998,700
Cash and cash equivalents	–	10,077,589	10,077,589
	62,998,700	10,077,589	73,076,289
2017			
Debt securities:			
Singapore Government bonds	36,832,550	–	36,832,550
Fixed deposits	–	8,000,000	8,000,000
Cash and cash equivalents	–	46,607,941	46,607,941
	36,832,550	54,607,941	91,440,491

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Impairment

The Branch considers financial strength of the policyholders and brokers, notified disputes and collection experience in determining which assets should be impaired.

The table below shows the ageing of insurance receivables that were due at the end of the year.

	2018	2017
	\$	\$
Insurance receivables		
Current to 6 months	15,408,758	9,681,832
Past due 7 to 12 months	4,423,206	6,853,238
Past due more than 12 months	13,141,041	10,210,269
	32,973,005	26,745,339
Less: Allowance of impairment	(191,484)	(1,323,810)
	32,781,521	25,421,529

The movement in the allowance for impairment in respect of insurance and other receivables during the year was as follows:

	2018	2017
	\$	\$
At beginning of the year	1,323,810	1,323,810
Impairment loss recognised	191,484	–
Amounts utilised/reversed	(1,323,810)	–
At end of the year	191,484	1,323,810

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) 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 \$10 million (2017: \$47 million) to meet its liquidity requirements.

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

	Up to 1 year \$	More than 1 year \$	Total \$
2018			
Net insurance claims	10,981,923	—	10,981,923
Insurance payables	18,143,029	—	18,143,029
	<u>29,124,952</u>	<u>—</u>	<u>29,124,952</u>
2017			
Net insurance claims	9,425,187	2,000,405	11,425,592
Insurance payables	23,949,993	—	23,949,993
	<u>33,375,180</u>	<u>2,000,405</u>	<u>35,375,585</u>

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) Financial risk management (continued)

(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.

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 Indian Rupee, 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Market risk (continued)

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

	US Dollar \$	Euro \$	Indonesian Rupiah \$	Other foreign currencies \$
2018				
Insurance receivables	12,170,809	8,219,046	3,084,646	7,091,071
Cash and cash equivalents	5,234,729	2,181,330	—	—
Insurance payables	(12,540,848)	(3,242,626)	(664,418)	(674,115)
	4,864,690	7,157,750	2,420,228	6,416,956

	US Dollar \$	Euro \$	Indonesian Rupiah \$	Other foreign currencies \$
2017				
Insurance receivables	13,339,912	1,152,293	1,667,777	4,143,255
Cash and cash equivalents	14,014,784	2,287,107	—	—
Insurance payables	(10,082,941)	(11,343,335)	(178,634)	(1,389,685)
	17,271,755	(7,903,935)	1,489,143	2,753,570

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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Market risk (continued)

	Profit or loss (decrease)/ increase \$
2018	
US Dollar	(486,469)
Euro	(715,775)
Indonesian Rupiah	(242,023)
Others	<u>(641,696)</u>
2017	
US Dollar	(1,727,176)
Euro	790,394
Indonesian Rupiah	(148,914)
Others	<u>(275,357)</u>

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 other fixed income investments.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Market risk (continued)

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.

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

The tables below summarise the effective interest rates at the reporting date for interest-bearing assets, together with the contractual maturity dates of those assets.

	Effective interest rate %	Up to 1 year \$	1 to 5 years \$	Total \$
2018				
Debt securities				
– available-for-sale	2.08	62,998,700	–	62,998,700
Cash and cash equivalents				
– deposits with financial institutions	–	10,077,589	–	10,077,589
Total		<u>73,076,289</u>	<u>–</u>	<u>73,076,289</u>
2017				
Debt securities				
– available-for-sale	1.65	26,834,550	9,998,000	36,832,550
Fixed deposits	0.13	8,000,000	–	8,000,000
Cash and cash equivalents				
– deposits with financial institutions	0.89	25,487,220	–	25,487,220
Total		<u>60,321,770</u>	<u>9,998,000</u>	<u>70,319,770</u>

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

Sensitivity analysis

A change of 50-basis points for all interest-bearing debt securities, with all other variables and assumptions held constant, would have increased/(decreased) comprehensive income and equity approximately \$314,994 (2017: \$184,163).

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) 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, and 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).

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Insurance and financial risk management (continued)

(b) 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
<u>2018</u> Investment in debt securities	62,998,700	–	–	62,998,700
<u>2017</u> Investment in debt securities	36,832,550	–	–	36,832,550

There were no transfers of Level 1, Level 2 and Level 3 during the years ended 31 December 2018 and 2017.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

16. New or revised accounting standards and interpretations

The branch has not early adopted any mandatory standards, amendments and interpretations to existing standards that have been published but are only effective for the Branch's accounting periods beginning on or after 1 January 2019. The branch does not expect that adoption of these accounting standards or interpretations will have a material impact on the Branch's financial statements.

17. Prior year adjustment

As at 31 December 2016, insurance payables were overstated by \$10,811,319 as a result of oversight and as at 31 December 2017, \$2,994,601 has been reclassified from insurance payables to other payables.

The prior year adjustment has been made by restating each of the affected financial statement line items in the respective prior periods as follows:

	31 December 2017 \$	Increase/ (decrease) \$	31 December 2017 (Restated) \$	31 December 2016 \$	Increase/ (decrease) \$	31 December 2016 (Restated) \$
Statement of financial position (extract)						
Other payables	1,179,364	2,994,601	4,173,965	351,495	–	351,495
Insurance payables	37,755,912	(13,805,920)	23,949,993	17,413,469	(10,811,319)	6,602,150
Accumulated losses	56,359,055	(10,811,319)	45,547,736	52,341,161	(10,811,319)	41,529,842

18. Comparative figures

Certain comparatives have been re-presented to be consistent with current year's presentation.

19. Authorisation of financial statements

The financial statements were authorised for issue by the Branch's management on 30 May 2019.