

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

ANNUAL REPORT
For the financial year ended 31 December 2021

EULER HERMES SINGAPORE BRANCH

(Incorporated in Belgium. Registration Number: T13FC0142K)

ANNUAL REPORT

For the financial year ended 31 December 2021

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 2021

I, Shanij Aboo, 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 2021, 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.

Shanij Aboo

Shanij Aboo
Chief Executive

28 April 2022

INDEPENDENT AUDITOR'S REPORT TO EULER HERMES

For the financial year ended 31 December 2021

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, 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 2021, 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 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 2021;
- the statement of assets used in and liabilities arising out of operations in Singapore as at 31 December 2021;
- 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 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)
For the financial year ended 31 December 2021

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.

INDEPENDENT AUDITOR'S REPORT TO EULER HERMES (continued)
For the financial year ended 31 December 2021

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 operation in Singapore have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 28 April 2022

EULER HERMES SINGAPORE BRANCH**STATEMENT OF COMPREHENSIVE INCOME ARISING OUT OF OPERATIONS IN SINGAPORE***For the financial year ended 31 December 2021*

	Note	2021 \$	2020 \$
Income			
Gross written premiums		50,226,236	42,506,786
Change in gross provision for unearned premiums	5	2,119,474	(1,039,095)
Gross earned premiums		52,345,710	41,467,691
Written premiums ceded to reinsurer		(41,136,081)	(34,929,245)
Reinsurer's share of change in the provision for unearned premiums	5	(2,759,784)	673,650
Net earned premiums		8,449,845	7,212,096
Commission income	5	14,215,636	12,130,551
Net foreign exchange loss		(1,309,970)	(321,093)
Other income	7	1,089,329	1,885,653
Net income before claims and expenses		22,444,840	20,907,207
Expenses			
Gross claims incurred	5	(12,323,262)	(32,244,678)
Reinsurer's share of claims incurred	5	8,243,883	23,943,893
Net claims incurred		(4,079,379)	(8,300,785)
Provision for bonus and rebates		73,939	5,392
Commission expenses	5	(8,021,060)	(7,737,413)
Management expenses	8	(13,495,117)	(13,891,020)
Expenses		(25,521,617)	(29,923,826)
Loss before income tax		(3,076,777)	(9,016,619)
Income tax expense	6	-	-
Loss for the year		(3,076,777)	(9,016,619)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		(1,025,438)	700,113
Tax on other comprehensive income	16	148,480	(100,343)
Other comprehensive (loss)/income, net of tax		(876,958)	599,770
Total comprehensive loss for the year		(3,953,735)	(8,416,849)

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 2021*

	Note	2021 \$	2020 \$
Assets			
Intangible assets	9	243,808	271,036
Deferred tax assets	16	2,966	-
Reinsurer's share of insurance contract provisions	5	59,165,368	56,530,702
Deferred acquisition costs (DAC)	5	4,935,593	3,833,438
Available-for-sale debt securities	10	52,174,891	51,440,310
Insurance receivables	11	35,045,419	31,575,776
Other receivables	12	454,760	563,683
Prepayments	12	3,818,784	4,075,026
Cash and cash equivalents	13	8,397,796	9,274,337
Total assets		164,239,385	157,564,308
Head Office account			
Capital account		115,235,883	115,235,883
Accumulated losses		(69,181,798)	(66,105,021)
Fair value reserves		(11,826)	865,132
Total Head Office account		46,042,259	49,995,994
Liabilities			
Insurance contract provisions	5	85,036,252	78,285,418
Deferred reinsurance commission (DRC)	5	9,376,123	10,001,418
Deferred tax liabilities	16	-	145,514
Insurance payables	14	21,017,537	17,347,421
Other payables	15	2,767,214	1,788,543
Total liabilities		118,197,126	107,568,314
Total Head Office account and liabilities		164,239,385	157,564,308

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 2021*

	<u>Capital account</u> \$	<u>Accumulated losses</u> \$	<u>Fair value reserve</u> \$	<u>Total</u> \$
2021				
At 1 January 2021	115,235,883	(66,105,021)	865,132	49,995,994
Net loss for the year	-	(3,076,777)	-	(3,076,777)
Net change in fair value of available- for-sale financial assets, net of tax	-	-	(876,958)	(876,958)
Total comprehensive loss for the year	-	(3,076,777)	(876,958)	(3,953,735)
At 31 December 2021	<u>115,235,883</u>	<u>(69,181,798)</u>	<u>(11,826)</u>	<u>46,042,259</u>
2020				
At 1 January 2020	115,235,883	(57,088,402)	265,362	58,412,843
Net loss for the year	-	(9,016,619)	-	(9,016,619)
Net change in fair value of available- for-sale financial assets, net of tax	-	-	599,770	599,770
Total comprehensive (loss)/income for the year	-	(9,016,619)	599,770	(8,416,849)
At 31 December 2020	<u>115,235,883</u>	<u>(66,105,021)</u>	<u>865,132</u>	<u>49,995,994</u>

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 2021*

	Note	2021 \$	2020 \$
Cash flows from operating activities			
Loss for the year		(3,076,777)	(9,016,619)
Adjustments for:			
- Interest income (gross of amortisation of premium on available-for-sale debt securities)		(1,264,996)	(1,356,001)
- Amortisation of intangible assets		77,098	72,953
- Amortisation of premium on available-for-sale debt securities		536,545	452,683
- Loss/(Gain) on disposal/redemption of investment		6,441	(678,050)
- Net change in fair value of available-for-sale financial assets, net of tax		(876,958)	599,770
		<u>(4,598,647)</u>	<u>(9,925,264)</u>
Changes in working capital:			
- Insurance contract provisions and DAC/DRC		2,388,718	1,767,603
- Insurance receivables		(3,501,938)	6,127,857
- Other receivables		(57,179)	5,543
- Prepayments		256,242	(963,011)
- Insurance payables		3,670,116	(5,091,653)
- Other payables		978,671	(846,002)
Net cash used in operations		<u>(864,017)</u>	<u>(8,924,927)</u>
Income tax paid		-	-
Net cash used in operating activities		<u>(864,017)</u>	<u>(8,924,927)</u>
Cash flows from investing activities			
Fixed deposits withdrawal		-	1,500,000
Purchase of available-for-sale debt securities		(52,174,891)	(51,440,310)
Redemption of available-for-sale debt securities		50,748,843	59,704,757
Interest received		1,395,205	1,463,469
Additions to intangible assets		(49,870)	(48,953)
Net cash (used in)/generated from investing activities		<u>(80,713)</u>	<u>11,178,963</u>
Net (decrease)/increase in cash and cash equivalents			
		(944,729)	2,254,036
Cash and cash equivalents at 1 January		9,274,337	7,009,570
Effect of exchange rate fluctuations on cash held		68,189	10,731
Cash and cash equivalents at 31 December	13	<u>8,397,796</u>	<u>9,274,337</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 2021

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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

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 accounting policies in Note 3.

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 4 - Critical accounting estimates and judgements in applying accounting policies.

2.5 Interpretations and amendments to published standards effective in 2021

On 1 January 2021, 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

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.

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. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising from the available-for-sale debt securities which are recognised in other comprehensive income.

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 2021*

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 1/360th 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 2021*

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 is 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 is 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.

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 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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021*

3. Significant accounting policies (continued)

3.3 Recognition and measurement of insurance contracts (continued)

Reinsurance (continued)

Premiums ceded and reinsurance commission income are presented in the statement of comprehensive income and statement of assets used in and liabilities arising out of operation in Singapore 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/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.

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 liabilities. 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

3. Significant accounting policies (continued)

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. They are presented to non-current assets unless the instrument mature or management intends to dispose of the assets within 12 months after the balance sheet date.

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.

Financial assets and liabilities are offset and the net amount is presented in the statement of assets used in and liabilities arising out of operations in Singapore 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 accumulated impairment losses.

Loans and receivables comprise cash and cash equivalents and insurance and other receivables.

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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021*

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale. 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 available-for-sale debt securities.

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 assets used in and liabilities arising out of operations in Singapore when, and only when, the Branch has a legally enforceable 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.

Non-derivative financial liabilities comprise insurance and other payables.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

3. Significant accounting policies (continued)

3.5 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.

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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

3. Significant accounting policies (continued)

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 has occurred after the initial recognition of the asset, and that the loss event 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. In addition, for investment in available-for-sale debt securities, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021*

3. Significant accounting policies (continued)

3.6 Impairment (continued)

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.

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. The impairment loss recognised as an expense is not reversed through profit or loss in subsequent period.

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 to which the asset belongs (if the asset does not generate cash inflows that are largely independent of those from other assets) is the higher 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 within the CGU on a pro rata basis.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021*

3. Significant accounting policies (continued)

3.6 Impairment (continued)

Non-financial assets (continued)

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 or amortisation, 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 Investment income

Investment income comprises 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

3. Significant accounting policies (continued)

3.9 Tax (continued)

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.

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.

4. Critical accounting estimates and judgements in applying accounting policies

The following are critical accounting estimates or judgements 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.

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

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

Process involved in determining claim liabilities (continued)

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.

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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***4. Critical accounting estimates and judgements in applying accounting policies**
(continued)***Process involved in determining insurance claim liabilities*** (continued)

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.

The Branch systematically and periodically reviews the provisions established and adjusts the loss estimation process in an effort to achieve minimum variation between the actual final outcome and the original projection.

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% (2020: 18%) PAD on the best estimate of the claims liabilities, the provision for claims liabilities (including PAD) net of reinsurance is \$12,107,513 (2020: \$8,631,653). Changing the PAD to either 20% or 10%, the resulting net provision will be as follows:

	20%	<u>PAD</u>	10%
	\$		\$
2021			
Provision for claims liabilities, net of reinsurance	12,312,715		11,286,664
2020			
Provision for claims liabilities, net of reinsurance	8,777,953		8,046,457

EULER HERMES SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

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

Process involved in determining premium liabilities

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

- the unearned premiums as set out in Note 3.3 are multiplied by the selected loss ratio. 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 assumptions 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 32% (2020: 32%) PAD, URR (including PAD) is \$12,917,864 (2020: \$13,137,467). However, since the Branch’s unearned premium reserve is \$18,203,901 (2020: \$19,291,043) which is higher than URR including PAD, changing the PAD to either 40% or 30% 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 2021***5. Insurance contract provisions**

	Note	<u>Gross</u> \$	<u>2021</u> <u>Reinsurance</u> \$	<u>Net</u> \$	<u>Gross</u> \$	<u>2020</u> <u>Reinsurance</u> \$	<u>Net</u> \$
(i) Summary of total insurance contract provisions							
Non-current							
– Unearned premiums	(ii)	(26,819,683)	17,896,159	(8,923,524)	(28,182,020)	19,687,794	(8,494,226)
– Insurance claims	(iii)	(18,340,639)	13,162,406	(5,178,233)	(15,478,391)	11,448,483	(4,029,908)
		<u>(45,160,322)</u>	<u>31,058,565</u>	<u>(14,101,757)</u>	<u>(43,660,411)</u>	<u>31,136,277</u>	<u>(12,524,134)</u>
Current							
– Unearned premiums	(ii)	(14,716,852)	9,877,005	(4,839,847)	(15,473,990)	10,845,153	(4,628,837)
– Insurance claims	(iii)	(25,159,078)	18,229,798	(6,929,280)	(19,151,017)	14,549,272	(4,601,745)
		<u>(39,875,930)</u>	<u>28,106,803</u>	<u>(11,769,127)</u>	<u>(34,625,007)</u>	<u>25,394,425</u>	<u>(9,230,582)</u>
Balance at end of the year		<u>(85,036,252)</u>	<u>59,165,368</u>	<u>(25,870,884)</u>	<u>(78,285,418)</u>	<u>56,530,702</u>	<u>(21,754,716)</u>
(ii) Movement in unearned premiums							
Balance at beginning of the year		(43,656,010)	30,532,947	(13,123,063)	(42,616,915)	29,859,297	(12,757,618)
Movements during the year		2,119,474	(2,759,784)	(640,310)	(1,039,095)	673,650	(365,445)
Balance at end of the year	(i)	<u>(41,536,536)</u>	<u>27,773,163</u>	<u>(13,763,373)</u>	<u>(43,656,010)</u>	<u>30,532,947</u>	<u>(13,123,063)</u>
(iii) Movement in insurance claims							
Balance at beginning of the year		(34,629,408)	25,997,755	(8,631,653)	(45,650,382)	38,657,359	(6,993,023)
Claims paid		3,452,953	(2,849,434)	603,519	43,265,652	(36,603,497)	6,662,155
Claims incurred		(12,323,262)	8,243,883	(4,079,379)	(32,244,678)	23,943,893	(8,300,785)
Balance at end of the year	(i)	<u>(43,499,717)</u>	<u>31,392,204</u>	<u>(12,107,513)</u>	<u>(34,629,408)</u>	<u>25,997,755</u>	<u>(8,631,653)</u>

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***5. Insurance contract provisions (continued)**

	Note	2021		2020	
		<u>DAC</u> \$	<u>DRC</u> \$	<u>DAC</u> \$	<u>DRC</u> \$
(iv) Deferred acquisition cost (DAC)/deferred reinsurance commission (DRC)					
Non-current liabilities/(assets)		3,186,858	(6,041,681)	2,474,666	(6,448,964)
Current liabilities/(assets)		1,748,735	(3,334,442)	1,358,772	(3,552,454)
		<u>4,935,593</u>	<u>(9,376,123)</u>	<u>3,833,438</u>	<u>(10,001,418)</u>
(v) Movement in DAC/ (DRC)					
Balance at beginning of the year		3,833,438	(10,001,418)	4,028,678	(10,433,130)
Movements during the year	(vi)	1,102,155	625,295)	(195,240)	431,712
Balance at end of the year		<u>4,935,593</u>	<u>(9,376,123)</u>	<u>3,833,438</u>	<u>(10,001,418)</u>
(vi) Commission expense/(income)					
Commission payable/(receivable) during the year		9,123,215	(13,590,341)	7,542,173	(11,698,839)
Change in DAC/DRC	(iv)	(1,102,155)	(625,295)	195,240	(431,712)
Commission expense/(income)		<u>8,021,060</u>	<u>(14,215,636)</u>	<u>7,737,413</u>	<u>(12,130,551)</u>

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***5. 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.

	2021	2020
	\$	\$
Financial resources available to cover regulatory requirements	35,793,513	39,397,628
Capital Adequacy Ratio held	418.70%	644.91%
Minimum regulatory Capital Adequacy Ratio	125.00%	125.00%

6. Income tax expense

	2021	2020
	\$	\$
Current tax expense	-	-

Reconciliation of effective tax rate

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

	2021	2020
	\$	\$
Loss before income tax	(3,076,777)	(9,016,619)
Income tax calculated using Singapore tax rates of 17% (2020: 17%)	(523,052)	(1,532,825)
Offshore insurance fund taxed at a lower rate of 10% (2020: 10%) instead of at 17%	95,066	260,336
Current year losses which no deferred tax asset was recognised	427,986	1,272,489
	-	-

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.

	2021	2020
	\$	\$
Tax losses carried at 10%	28,295,449	26,937,357
Tax losses carried at 17%	43,600,566	41,881,883

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***7. Other income**

	2021	2020
	\$	\$
Interest income	728,451	903,319
Fair value (loss)/gain on disposal of available-for-sale debt securities	(6,441)	678,050
Service revenue	367,319	304,284
	<u>1,089,329</u>	<u>1,885,653</u>

8. Management expenses

	2021	2020
	\$	\$
Professional fees	305,184	309,496
Group IT expenses	463,146	394,173
Management fees	11,850,425	11,813,461
World agency program management fees	756,107	698,863
Provision for doubtful debts	84,300	310,444
Withholding taxes	7,802	184,538
Other expenses	28,153	180,045
	<u>13,495,117</u>	<u>13,891,020</u>

9. Intangible assets

	<u>Computer software</u>	
	2021	2020
	\$	\$
Cost		
At 1 January	416,567	367,614
Additions	49,870	48,953
At 31 December	<u>466,437</u>	<u>416,567</u>
Accumulated amortisation		
At 1 January	145,531	72,578
Amortisation charge	77,098	72,953
At 31 December	<u>222,629</u>	<u>145,531</u>
Net book value		
At 31 December	<u>243,808</u>	<u>271,036</u>

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***10. Available-for-sale debt securities**

	2021	2020
	\$	\$
Debt Securities:		
- available-for-sale	52,174,891	51,440,310

The debt securities, being Singapore Government and Corporate bonds are denominated in Singapore dollars and the current portion is \$11,079,939 (2020: \$5,041,905).

11. Insurance receivables

	2021	2020
	\$	\$
Amounts due from policyholders, brokers and fronters:		
- Third parties	29,596,455	28,726,713
- Related corporations	5,074,303	2,464,265
Deposits withheld by cedants	1,355,111	1,276,337
Allowance for impairment losses	(980,450)	(891,539)
	<u>35,045,419</u>	<u>31,575,776</u>

Trade balances includes transactions with related corporations and third parties that are unsecured.

Concentration of credit risk relating to amounts owing by policyholders, brokers and fronters 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 18.

Insurance receivables are current and due within the next financial year.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***12. Other receivables and prepayments**

	2021	2020
	\$	\$
Amounts owing from related corporations - non-trade	133,835	122,334
Interest receivable	202,950	333,159
Other receivables	117,975	108,190
	<u>454,760</u>	<u>563,683</u>
 Prepayments	 <u>3,818,784</u>	 <u>4,075,026</u>

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

Other receivables are current and due within the next financial year. The current portion for prepayments is \$1,067,131 (2020: \$886,459).

13. Cash and cash equivalents

	2021	2020
	\$	\$
Cash at bank	<u>8,397,796</u>	<u>9,274,337</u>

14. Insurance payables

	2021	2020
	\$	\$
Insurance payables:		
- Third-parties	3,854,595	3,595,410
- Related corporations	17,162,942	13,752,011
	<u>21,017,537</u>	<u>17,347,421</u>

Insurance payables are current and 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 2021***15. Other payables**

	2021	2020
	\$	\$
Amount due to related corporations		
- non-trade	2,170,780	1,198,627
Provision for bonus and rebates	382,766	413,694
Sundry creditors	-	1,922
Accrued operating expenses	213,668	174,300
	<u>2,767,214</u>	<u>1,788,543</u>

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

16. Deferred tax***Recognised deferred tax assets/(liabilities)***

Deferred tax assets/(liabilities) are attributable to the following:

	2021	2020
	\$	\$
Available-for-sale debt securities	<u>2,966</u>	<u>(145,514)</u>

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.

Movement in temporary differences during the year

	At 1 January <u>2020</u> \$	Recognised in OCI* \$	At 31 December <u>2020</u> \$	Recognised in OCI* \$	At 31 December <u>2021</u> \$
Deferred tax assets/ (liabilities)					
Available-for-sale debt securities	(45,171)	(100,343)	(145,514)	148,480	2,966

* Other comprehensive income

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

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***17. 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:

	2021	2020
	\$	\$
Head Office		
Management fee paid/payable	(286,117)	(210,023)
Other related corporations		
Commission received/receivable	13,590,341	11,698,839
Management fees received/ receivable	293,311	241,267
Reinsurance premium paid/payable	(41,136,081)	(34,929,245)
Claims recovered/recoverable	2,849,434	36,603,497
IT expenses paid/payable	(440,802)	(422,008)
Commission paid/payable	(1,750,067)	(1,638,066)
Management fees paid/payable	(12,014,940)	(12,783,695)
World agency program management fees paid/payable	(1,070,921)	(1,025,476)

18. 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 2021 and 31 December 2020.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021*

18. Insurance and financial risk management (continued)**(a) Risk capital management (continued)**

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 2021, the Branch's CAR was 418.70% (2020: 644.91%).

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.

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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***18. Insurance and financial risk management** (continued)**(b) Risk management objectives and policies for mitigating insurance risk**
(continued)***Underwriting risk*** (continued)

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% (2020: 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.

Sensitivity analysis

A 5-percentage-points change in the initial expected loss ratio applied to claim liability for underwriting years which are considered not fully developed, with other variables and assumptions held constant, is estimated to change as follows:

	2021	2020
	\$'000	\$'000
Impact on profit before tax:		
Change in loss ratio (+5 percentage points)	1,723	2,385
Change in loss ratio (-5 percentage points)	(1,723)	(2,361)
	<hr/>	<hr/>
Impact on Head Office account:		
Change in loss ratio (+5 percentage points)	1,430	1,979
Change in loss ratio (-5 percentage points)	(1,430)	(1,960)
	<hr/>	<hr/>

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***18. 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***

	Underwriting year						
	<u>2016 and prior*</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimate of ultimate claims:							
At end of underwriting year	294,992	20,399	29,114	29,028	24,166	28,422	
1 year later	308,613	19,432	13,497	26,227	11,392		
2 years later	295,597	16,175	14,127	20,239			
3 years later	273,378	13,092	12,681				
4 years later	261,531	12,913					
5 years later and above	260,958						
Current estimates of ultimate claims	260,958	12,913	12,681	20,239	11,392	28,422	346,605
Cumulative payments	(259,150)	(11,487)	(8,537)	(9,296)	(2,473)	(1,030)	(291,971)
Gross outstanding claim	1,808	1,426	4,145	10,943	8,920	27,392	54,634
Unallocated loss adjustment expenses							1,020
Effect of discounting							(564)
Unpaid claims related to unearned exposures							(18,225)
Provision for adverse deviation							6,636
Gross provision for insurance claims (Note 5(iii))							<u>43,500</u>

* 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 2021***18. 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)

	Underwriting year						Total \$'000
	2015 and prior* \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000	
Estimate of ultimate claims:							
At end of underwriting year	157,611	24,592	20,399	29,114	29,028	24,166	
1 year later	270,400	18,733	19,432	13,497	26,227		
2 years later	289,880	6,344	16,175	14,127			
3 years later	289,253	6,436	13,092				
4 years later	266,941	7,033					
5 years later and above	254,498						
Current estimates of ultimate claims	254,498	7,033	13,092	14,127	26,227	24,166	339,143
Cumulative payments	(253,518)	(5,913)	(11,828)	(9,456)	(7,538)	(366)	(288,619)
Gross outstanding claim	980	1,120	1,264	4,671	18,689	23,800	50,524
Unallocated loss adjustment expenses							689
Effect of discounting							(123)
Unpaid claims related to unearned exposures							(21,743)
Provision for adverse deviation							5,282
Gross provision for insurance claims (Note 5(iii))							<u>34,629</u>

* 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 2021***18. 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**

	Underwriting year						Total
	2016 and prior*	2017	2018	2019	2020	2021	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimate of ultimate claims:							
At end of underwriting year	73,052	4,698	6,950	6,804	11,221	11,953	
1 year later	67,221	4,342	2,236	5,178	3,510		
2 years later	48,409	3,965	3,803	4,138			
3 years later	43,977	3,381	3,385				
4 years later	45,433	3,600					
5 years later and above	46,034						
Current estimates of ultimate claims	46,034	3,600	3,385	4,138	3,510	11,953	72,619
Cumulative payments	(44,030)	(3,105)	(3,145)	(3,276)	(1,466)	(359)	(55,382)
Net outstanding claim	2,003	495	240	862	2,044	11,594	17,237
Unallocated loss adjustment expenses							1,020
Effect of discounting							(159)
Unpaid claims related to unearned exposures							(7,837)
Provision for adverse deviation							1,847
Net provision for insurance claims (Note 5(iii))							<u>12,108</u>

* 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 2021***18. 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)**

	Underwriting year						Total
	2015 and prior*	2016	2017	2018	2019	2020	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimate of ultimate claims:							
At end of underwriting year	43,989	5,280	4,698	6,950	6,804	11,221	
1 year later	67,772	3,137	4,342	2,236	5,178		
2 years later	64,084	788	3,965	3,803			
3 years later	47,621	749	3,381				
4 years later	43,228	854					
5 years later and above	44,579						
Current estimates of ultimate claims	44,579	854	3,381	3,803	5,178	11,221	69,016
Cumulative payments	(43,402)	(690)	(3,219)	(3,500)	(3,205)	(762)	(54,778)
Net outstanding claim	1,177	164	162	303	1,973	10,459	14,238
Unallocated loss adjustment expenses							689
Effect of discounting							(31)
Unpaid claims related to unearned exposures							(7,581)
Provision for adverse deviation							1,317
Net provision for insurance claims (Note 5(iii))							<u>8,632</u>

* 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 2021***18. 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, with reference to the gross and net written premiums:

	<u>Gross written premiums</u> \$'000	<u>Net written premiums</u> \$'000
2021		
Trade Credit Insurance	47,360,993	8,997,495
Bonding	2,865,243	92,660
	<u>50,226,236</u>	<u>9,090,155</u>
2020		
Trade Credit Insurance	39,369,991	7,605,833
Bonding	3,136,795	(28,292)
	<u>42,506,786</u>	<u>7,577,541</u>

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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021*

18. 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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***18. Insurance and financial risk management (continued)****(c) Financial risk management (continued)****(i) Credit risk (continued)**

	Financial strength rating				Total \$
	AAA \$	A- to AA+ \$	BBB- to BBB+ \$	Unrated \$	
2021					
Debt securities:					
Singapore					
Government bonds	21,685,402	2,342,385	1,053,140	-	25,080,927
Public authorities and corporate bonds	15,894,752	11,199,212	-	-	27,093,964
Cash and cash equivalents	-	8,397,796	-	-	8,397,796
	<u>37,580,154</u>	<u>21,939,393</u>	<u>1,053,140</u>	<u>-</u>	<u>60,572,687</u>
2020					
Debt securities:					
Singapore					
Government bonds	22,210,819	-	-	-	22,210,819
Public authorities and corporate bonds	12,038,336	16,113,705	1,077,450	1,077,450	29,229,491
Cash and cash equivalents	-	9,274,337	-	-	9,274,337
	<u>34,249,155</u>	<u>25,388,042</u>	<u>1,077,450</u>	<u>1,077,450</u>	<u>60,714,647</u>

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.

	Gross \$	Allowance of impairment \$	Net \$
2021			
Current to 6 months	14,390,466	(247,957)	14,142,509
Past due 7 to 12 months	3,175,992	(95,005)	3,080,987
Past due more than 12 months	18,459,411	(637,488)	17,821,923
	<u>36,025,869</u>	<u>(980,450)</u>	<u>35,045,419</u>

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***18. Insurance and financial risk management (continued)****(c) Financial risk management (continued)****(i) Credit risk (continued)***Impairment (continued)*

	<u>Gross</u> \$	Allowance of <u>impairment</u> \$	<u>Net</u> \$
2020			
Current to 6 months	9,160,290	(129,134)	9,031,156
Past due 7 to 12 months	2,923,968	(92,568)	2,831,400
Past due more than 12 months	20,383,057	(669,837)	19,713,220
	<u>32,467,315</u>	<u>(891,539)</u>	<u>31,575,776</u>

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

	2021 \$	2020 \$
At beginning of the year	891,539	572,326
Impairment loss recognised	200,682	423,604
Amounts reversed	(111,771)	(104,391)
At end of the year	<u>980,450</u>	<u>891,539</u>

(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 \$8.4 million (2020: \$9.3 million) to meet its liquidity requirements.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***18. Insurance and financial risk management (continued)****(c) Financial risk management (continued)****(ii) Liquidity risk**

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

	<u>Up to 1 year</u> \$	<u>More than 1 year</u> \$	<u>Total</u> \$
2021			
Insurance contract provisions, net of reinsurers' share and deferred commission (Note 5)	13,354,834	16,956,580	30,311,414
Insurance payables	21,017,537	-	21,017,537
	<u>34,372,371</u>	<u>17,384,308</u>	<u>51,328,951</u>
2020			
Insurance contract provisions, net of reinsurers' share and deferred commission (Note 5)	11,424,264	16,498,432	27,922,696
Insurance payables	17,347,421	-	17,347,421
	<u>28,771,685</u>	<u>16,498,432</u>	<u>45,270,117</u>

(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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***18. 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:

	<u>US Dollar</u> \$	<u>Euro</u> \$	<u>Malaysian Ringgit</u> \$	<u>Other foreign currencies</u> \$
2021				
Insurance receivables	10,756,518	6,263,670	3,379,290	13,218,359
Other receivables	(108,514)	131,030	(57)	(7,085)
Cash and cash equivalents	4,067,424	214,281	-	(1)
Insurance payables	(17,711,332)	(948,131)	(4,201)	(41,402)
Other payables	-	(1,121,272)	(10,881)	-
	<u>(2,995,904)</u>	<u>4,539,578</u>	<u>3,364,151</u>	<u>13,169,871</u>
2020				
Insurance receivables	8,269,644	7,482,299	3,173,908	10,370,251
Other receivables	(60,207)	122,492	(57)	(6,843)
Cash and cash equivalents	2,330,831	846,080	-	(1)
Insurance payables	(13,434,866)	(1,033,338)	(1,673)	(60,281)
Other payables	-	(866,253)	(17,466)	-
	<u>(2,894,598)</u>	<u>6,551,280</u>	<u>3,154,712</u>	<u>10,303,126</u>

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***18. 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)/ <u>increase</u> \$
2021	
US Dollar	299,590
Euro	(453,958)
Malaysian Ringgit	(336,415)
Others	<u>(1,316,987)</u>
2020	
US Dollar	289,460
Euro	(655,128)
Malaysian Ringgit	(315,471)
Others	<u>(1,030,313)</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 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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***18. 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.

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
	%	\$	\$	\$
2021				
Debt securities				
- available-for-sale	2.23	11,079,939	41,094,952	52,174,891
Cash and cash equivalents				
- deposits with financial institutions	-	8,397,796	-	8,397,796
Total		<u>19,477,735</u>	<u>41,094,952</u>	<u>60,572,687</u>
2020				
Debt securities				
- available-for-sale	2.71	5,041,905	46,398,405	51,440,310
Cash and cash equivalents				
- deposits with financial institutions	-	9,274,337	-	9,274,337
Total		<u>14,316,242</u>	<u>46,398,405</u>	<u>60,714,647</u>

The 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 debt securities, with all other variables and assumptions held constant, would have increased/(decreased) comprehensive income and equity approximately \$260,874 (2020: \$257,201).

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021*

18. 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, 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 2021***18. 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			Total
	Level 1	Level 2	Level 3	
2021				
Available-for-sale debt securities	52,174,891	-	-	52,174,891
2020				
Available-for-sale debt securities	51,440,310	-	-	51,440,310

There were no transfers of Level 1, Level 2 and Level 3 during the years ended 31 December 2021 and 2020.

19. Comparative figures

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

20. New or revised accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Branch. These standards are not expected to have a material impact on the Branch in the current or future reporting periods and on foreseeable future transactions.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021*

20. New or revised accounting standards and interpretations (continued)

In March 2018, the ASC has issued FRS 117 Insurance Contracts, effective for annual reporting periods beginning on or after 1 January 2021. FRS 117 Insurance Contracts will replace the current FRS 104 Insurance Contracts standard. FRS 117 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, FRS 117 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. In November 2019, IASB proposed to defer IFRS 17 (equivalent of FRS 117) and the temporary IFRS 9 (equivalent of FRS 109) exemption available to insurers until the financial period beginning on or after 1 January 2021. Subsequently, IASB proposed in June 2020 to defer IFRS 17 and extend the temporary IFRS 9 exemption available to insurers until the financial period beginning on or after 1 January 2022. The proposed deferral was published in the Exposure Draft amendments to IFRS 17 for public consultation which ended on 25 September 2020. IASB subsequently decided on 17 March 2020 that the effective date of the Standard will be deferred to annual reporting periods beginning on or after 1 January 2023. IASB also decided to extend the exemption currently in place for some insurers regarding the application of IFRS 9 Financial Instruments to enable them to implement both IFRS 9 and IFRS 17 at the same time.

In November 2020, the ASC has issued the amendments to FRS 117, together with the amendments to FRS 104: Extension of the Temporary Exemption from Applying FRS 109 (the "Amendments"). The Amendments defer the initial application of FRS 117, as well as FRS 109 for eligible entities, to annual reporting periods beginning on or after 1 January 2023.

21. 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.

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***21. Temporary exemption from FRS 109 – Financial instruments (continued)**

- (i) The table below presents the fair value of the following groups of financial assets under FRS 109 and fair value changes:

	Fair value as at 31 December 2021 \$	Fair value changes for the year ended 31 December 2021 \$
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	52,174,891	(876,958)
- Cash and cash equivalents	8,397,796	-
- Other receivables (excluding prepayments)	454,760	-
	<u>61,027,447</u>	<u>(876,958)</u>

	Fair value as at 31 December 2020 \$	Fair value changes for the year ended 31 December 2020 \$
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	51,440,310	599,770
- Cash and cash equivalents	9,274,337	-
- Other receivables (excluding prepayments)	563,683	-
	<u>61,278,330</u>	<u>599,770</u>

EULER HERMES SINGAPORE BRANCH**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2021***21. 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 2021 \$	Fair value as at 31 December 2021 \$
AAA	37,580,154	37,580,154
A- to AA+	21,939,393	21,939,393
BBB- to BBB+	1,053,140	1,053,140
Not rated	454,759	454,759
	<hr/>	<hr/>
	Carrying amount as 31 December 2020 \$	Fair value as at 31 December 2020 \$
AAA	34,249,155	34,249,155
A- to AA+	25,388,042	25,388,042
BBB- to BBB+	1,077,450	1,077,450
Not rated	563,683	563,683
	<hr/>	<hr/>

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.

22. Authorisation of financial statements

The financial statements were authorised for issue by the Branch's management on 28 April 2022.