

Euler Hermes Singapore Branch

The following supplementary information does not form part of the audited statutory financial statements of Euler Hermes Singapore Branch

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This Disclosure is a supplementary note to the audited financial statements which are publicly available both on the website of the Monetary Authority of Singapore and from the Accounting and Corporate Regulatory Authority. This Disclosure, read in conjunction with the audited financial statements, is issued pursuant to MAS Notice 124 – Public Disclosure Requirements.

Euler Hermes Group

Euler Hermes (EH) Group is the world's leading provider of trade-related insurance solutions helps customers worldwide to trade wisely and develop their business safely. Its financial solidity, risk analysis and integrated global structure enable the Group to provide companies of all sizes with the domestic and export market knowledge and support they need to successfully manage their trade receivables in changing economic environments.

EH Singapore (EHSG) has been active in Singapore since 2000 and has a mature operation with clients in Singapore, Malaysia, Thailand, India, Indonesia and Philippines. We are proud of the services we are offering and we are poised to develop them further.

EHSG offers credit insurance, debt collection services and bonding to various clients from small and medium enterprises to multi-national companies.

With a dedicated team made up of a wide variety of nationalities, we have combined experience in credit insurance, understanding of local economies and financial analysis skills to help clients identify risks. Even more importantly, we help clients develop an effective export risk management plan.

Business Review of EHSG

Gross written premiums increased from SGD 21.8m in 2013 to SGD28.7m in 2014. This was due to high new business and renewal in credit insurance. Reinsurance cession decreased from SGD 17.9m to SGD14m. Net claims incurred decreased slightly from SGD 4m to SGD 2m.

Investment income increased from SGD 283K to SGD 630K.

Corporate Governance

EHSG leverages on the governance framework of EH Group. EH Group has a comprehensive governance framework in place which describes how the company is

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directed, administrated and controlled. EH Group promotes a strong risk management culture supported by a robust risk, compliance and corporate governance structure.

EH Group is headed by a Board of Management, which is in turn overseen by a Supervisory Board supported by an Audit and Risk Committee and a Nomination and Remuneration Committee. The leadership and management powers assumed by the Board of Management are clearly separated from the oversight powers exercised by the Supervisory Board. The Supervisory Board permanently oversees the management of EH Group by the Board of Management. The organization adopted by EH Group, which is based on the separation of executive and oversight functions, ensures a balance of powers. The managers of Group functions provide the foundations of the Group's operational management.

In order to distinguish between management of risk and independent oversight, the risk governance framework is structured along three lines of defense. First line of defense comprises of risk taking units. In Singapore Branch, they are Risk Underwriting, Market Management, Commercial Underwriting and Distribution (MMCD). Risk Underwriting needs to follow quantitative limits set in the "Risk Underwriting Quality Standards". MMCD needs to follow EH Group Pricing Strategy that is aligned with the business strategy, profitability targets and reinsurance program. Commercial Underwriting adopts a risk based approach for pricing its business activities. This ensures EH Group is adequately capitalized against the risk taken. EHSG's investment function is handled by finance department. All investment decisions need to be approved by EH Group Treasury.

Risk Management, Actuarial, Compliance, Credit Insurance Modelling make up the second line of defense to ensure EH Group has a robust system of governance. Risk Management provides a consistent framework for all risk activities across EH Group, protect the capital base of EH Group and support the value creation in EH Group, etc. Actuarial function coordinates calculation of technical provision, ensures the appropriateness of the methodologies and underlying models used and provides an opinion on the overall underwriting policy, etc. Compliance is to support EH Group to embed compliance with laws, regulations, business principles, rules of conduct and established good business practices. Credit Insurance Modelling is responsible for the maintenance of the core of the internal model, detecting any non-compliance with regulation. For EHSG, EH Group will issue guidelines regarding risk management, actuarial and compliance. It is the responsibility of CFO of EHSG to ensure these guidelines are adhered. EH Group provides actuarial services on reserving for EHSG. An external actuary, Deloitte, is also engaged to provide independent view on reserving.

EH Group has an annual audit program. This program bases on risk mapping and a pragmatic approach to requirements. The audit program is the subject of a discussion, communication and validation process with operational staff, General Management and Audit Committees. Finally the program is validated via a presentation to the EH

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Audit Committee for approval. EH Group will carry out full and transversal audits of EH branches. For example, EH Group is doing functional audit in management & governance, accounting & controlling & reporting, payment cycle and fronting for EHSB.

Investment and Asset-Liability Management

EH Group monitors investment at group level. Investment function is at head office instead of delegating to regional or branch offices. EH Group has Investment Management Framework stating the requirements for managing and steering the investment of EH Group. The Framework also states minimum requirements for the implementation of new financial instruments, the management of derivatives and foreign exchange risk.

EHSB only invests in cash deposit and short term SGD government bonds.

Solvency Margin

The capital adequacy ratio (CAR) of EHSB as at 31 December 2014 was 182%, which was above regulatory requirement. EHSB leverages on EH Group Risk Policy, which aims to fulfill all regulatory solvency requirements at the Group and Branch level. Therefore, risk appetite and limits are in place to ensure an adequate buffer above these requirements. Risk appetite and limits are based on a thorough understanding of the risks involved and enterprise wide risk governance and management.

The following stress test analyses are performed:

1. Decrease of 10% to 15% in equity price, varying by market
2. Decrease of 5% to 35% in property prices, varying by country and type of property
3. Increase in the sovereign yield curve, varying by the term of the bond and market
4. Increase in credit spreads on bonds vary by market
5. Changes in exchange rates to the US dollar ranging from -15% to 0% against a basket of global and regional currencies
6. The default of the largest individual buyer
7. 50% higher claims inflation than actual
8. Lower reinsurance recoverable resulting from the default of the largest reinsurer.