Euler Hermes Ré SA

Solvency and Financial Condition Report (SFCR)

Based on 31/12/2020 figures

Contents

Executive Summary

The Solvency and Financial Condition Report (SFCR) is a reporting requirement implemented as part of Solvency II (SII).

The scope of this report covers the following topics in relation to EH Ré SA's business: business and performance, system of governance, risk profile, valuation for solvency purposes and capital management.

Business and performance (A)

EH Ré SA is a reinsurance company based in Luxembourg that is 100% owned by Euler Hermes Reinsurance AG (EH Re AG). The business is focused on a single SII Line of Business (LoB): "9. Credit and Suretyship and guarantee insurance".

EH Ré SA accepts risk from several material geographical regions: Northern Europe, Asia and Pacific (APAC) and Run-off from France, Mediterranean countries, Middle East and Africa (MMEA). From underwriting year 2020 onwards, Greece stopped ceding to EH Ré SA and now cedes directly to EH Re AG.

In 2020, EH Ré SA's Gross Earned Premiums were at EUR 300mn, decreasing by 34.8% compared to 2019, while Gross Claim costs have decreased by 142mn compared to 2019. This evolution is mainly due to State support schemes in place for Belgium, Netherlands and UK that are ceding 50% (BE) and 90% (UK & NL) of their premium and claims to the State.

The investment income stood at EUR -0.9mn, significantly down compared to 2019, driven by lower FX result (EUR 2.0mn in 2020 versus EUR -1.8mn in 2019). FX results are caused by the movement on GBP and USD.

System of governance (B)

EH Ré SA management is organized around two management bodies, the Board of Directors (BoD) and the Board of Management (BoM). To assist those management bodies in their tasks, both of them have established various committees.

EH Ré SA has also implemented four independent Key Functions (Internal Audit, Compliance, Risk and Actuarial), constituting the second and third level of its "three lines of defense" organization.

To ensure the well-functioning of these functions, EH Ré SA has set up the Risk Policy Framework (RPF) which is a set of policies, standards and guidelines overarching the risk management system of EH Ré SA. It includes but is not limited to high Fit and Proper standard for its BoD members, BoM members and Key Function holders, as well as a set of other policies that oversee principles and governance of Key Functions.

In the Luxembourg regulation, there is a process (**Circular letter 19/5 introducing forms for the notification of natural persons subject to CAA supervision)** for all new BoD members, BoM members and Key function holders from July 1st, 2019 onwards to comply with the local requirements.

The Risk Function measures and assesses EH Ré SA's risks through processes among which the Own Risk and Solvency Assessment (ORSA) and the Top Risk Assessment (TRA). The latter covers strategic risks which cannot be modelled and Board members are defined as owners, responsible for the assessment as well as the definition and set up of appropriate risk mitigation plans.

Risk profile (C)

Risk is measured and steered based on the Standard Formula. The resulting risk profile provides an overview of how risks are distributed over different risk categories and determines the regulatory capital requirements in accordance with SII.

This chapter provides an overview of the risk categories contributing to EH Ré SA's Solvency Capital Requirement (SCR) of EUR 68mn.

EH Ré SA provide qualitative and quantitative information on risk exposures, concentrations, mitigation and sensitivities for the following risk categories: market, counterparty default, non-life underwriting, operational, liquidity, and any other material risks.

Valuation for solvency purposes (D)

EH Ré SA's assets and liabilities are presented and reconciled in Market Value Balance Sheet (MVBS) and local Luxembourg GAAP (LuxGAAP).

There was no significant change to the recognition and valuation of material classes of assets and liabilities during the reporting period.

Excess of Assets over Liabilities (EoAL) of 2020 is valuated at EUR 111mn on an MVBS basis. The total value of assets and liabilities stood at EUR 471mn and EUR 360mn, of which EUR 279mn of Technical Provisions (TP). Assets have been invested in alignment with the Prudent Person Principle.

Capital management (E)

EH Ré SA own funds are exclusively composed of basic own funds.

EH Ré SA complies with CAA regulatory requirements and its solvency ratio is in line with its Capital Management strategy.

The SII ratio of EH Ré SA is at 224% and the Minimum Capital Requirement (MCR) amounts to EUR 17mn.

A. Business and performance

A.1. Business

A.1.1. Legal entity, auditor and supervisor

A.1.1.1. Name and legal form

Name and legal form	Euler Hermes Ré SA
Address	534, rue de Neudorf, L-2220 Luxembourg
Website	www.eulerhermes.com

Euler Hermes Ré SA is referred to as EH Ré SA throughout this document. EH Ré SA's legal company form is a limited company ("société anonyme (SA)") with the registration number B 36134.

A.1.1.2. Supervisor

Name	Commissariat aux assurances (CAA)
Address	7, boulevard Joseph II, L-1840 Luxembourg

A.1.1.3. Auditor

Name	PwC
Address	2. rue Gerhard Mercator B.P. 1443, L-1014 Luxembourg

A.1.2. Group structure and qualified holdings

EH Ré SA is a fully owned subsidiary of EH Re AG, Switzerland.

In 2019, EH Re AG together with EH Group and Allianz Group has initiated the project 'REACH' with the aim of reviewing EH RE AG's legal and shareholder structure. The main project steps have been finalized on August 1st, 2020. Governance structures have been implemented to keep EH Re AG within the operational and risk environment of EH Group. The changes had to be reflected in the by-laws of EH Re AG and FINMA has approved those on August 20th, 2020.

The project REACH was composed of three steps:

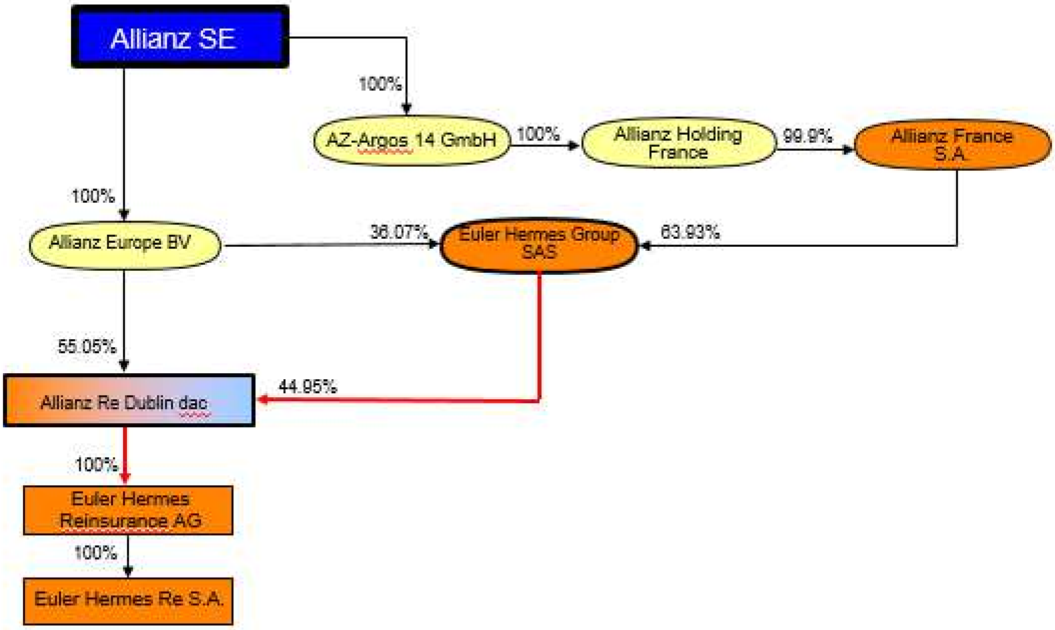
- Step 1: Allianz Re Dublin dac (AZRD), an Irish reinsurer, was placed by Allianz Europe Ltd, a Dutch company, directly under Allianz Europe B.V., another Dutch company, which holds 100% of the shares in Allianz Europe Ltd, by way of dividend distribution in kind;

- Step 2: Sale of the 36% stake held directly by Allianz SE in EH Group to Allianz Europe BV;

- Step 3: EH Group contributed its 100% shareholding in EH RE AG to AZRD. In return, EH Group received newly issued shares in AZRD. As a result of this step, AZRD became the sole shareholder of EH Re AG; the shareholders of AZRD is EH Group and Allianz Europe BV.

Below is a simplified group structure chart which details the shareholders and legal links to its parent entities and its material related undertakings.

Figure 1: **EH Ré SA simplified Group structure**



A.1.3. Material lines of business and geographical areas

EH Re AG and EH Ré SA are the EH Group reinsurance companies providing reinsurance solutions and capacity to all EH Group companies. In addition, it covers the related non-consolidated companies in Austria, Portugal, Israel and Solunion, the Euler Hermes' Joint Venture with Mapfre for the Spanish and Latin American countries and the surety & guarantee business of the worldwide Allianz entities.

Since the beginning of 2012, EH Ré SA has started to assume not only trade credit insurance from EH Group companies, but also surety & guarantee and fidelity business although most of this business is now directly ceded to EH Re AG.

Mainly the business from the EH business units located in the European Union (EU) is ceded to EH Ré SA with the exception of the German, French and Italian branches of Euler Hermes SA (EH SA) whereas the Asian Pacific branches of EH SA started to cede directly to EH Ré SA from the underwriting year 2016. From the underwriting year 2018 onwards, Acredia & Cosec stopped ceding to EH Ré SA and now cede directly to EH Re AG. From the underwriting year 2020 onwards, Greece stopped ceding to EH Ré SA and now cedes directly to EH Re AG.

Thus, EH Ré SA has two main LoBs: credit insurance, surety, and guarantee. For the purposes of SII reporting, these LoBs fit into the SII LoB: "9. credit and suretyship insurance".

A.1.4. Significant and subsequent events

The Covid-19 pandemic, which started in the first months of 2020, has gradually affected the whole world and caused a human crisis of historic scale. It has also plunged the world economy into the deepest recession since World War II. Global real Gross Domestic Product (GDP) growth contracted by

-3.9% in 2020 against -1.5% in 2009. Europe has been one of the hardest-hit regions due to its stringent response to the epidemic, registering a recession of -6.8%.

The recession would have been worse in the absence of a swift public response to the crisis. Most policymakers around the globe reacted immediately with unprecedented fiscal and monetary measures to avoid a liquidity squeeze and compensate for double-digit losses of companies' turnover growth due to the forced closure of the Covid-19 sensitive sectors. Strong public support has also helped avoid significant falls in households' disposable incomes and employment losses.

Various governments, especially in Europe, have included the credit insurance sector in their response to the crisis. In order not to dry up the capacity on the market, they have requested the credit insurance companies to maintain their coverage, in exchange for state support for the sector. This support has taken the shape of the so-called "State Schemes" that are in the majority of the cases, proportional reinsurance treaties whereby the local Euler Hermes (EH) entities cede a significant share of their business to the States. Those schemes have had a very significant impact on the 2020 net earned premiums of EH Ré SA.

The crisis has also called for a response from the company itself. From an organizational perspective, the employees of the servicing entities (EH RE AG and AON Insurance Managers) have been using home working and remote communication techniques. By doing so, EH Ré SA has ensured the continuity of the service to the ceding business units.

From a business perspective, the EH ceding entities to EH Ré SA have reacted by permanently adjusting the value of limits accepted and the price of the policies to the circumstances.

A.2. Underwriting Performance

As part of EH Group, EH Ré SA performs analyses and discloses its reports and publications on an IFRS basis.

A.2.1. Aggregated underwriting performance

The following table summarizes EH Ré SA's underwriting performance at an aggregated level:

Figure 2: **EH Ré SA aggregated Underwriting Performance**

In EUR mn	4Q 2020	4Q 2019	Δ	%
Turnover	300	460	-160	-35%
Claims costs	-84	-226	142	-63%
Gross operating expenses	-103	-151	48	-32%
Gross technical result	112	83	29	35%
Outward result	-103	-76	-27	36%
Technical result	9	8	1	26%

At the end of December 2020, EH Ré SA's turnover was at EUR 300mn, -34.8% down compared to 2019. In 2020, gross Claims costs amounted to EUR -84mn down by -62.7% compared to 2019. These evolutions are the combination of State support schemes being implemented in the Northern Region and Greece now ceding to EH RE AG directly.

The Gross operating expenses were at EUR -103mn, -31.7% lower than last year. The inward cost ratio has slightly increased by +1% from 33% in 2019 to 34% in 2020 mainly due to higher commission rates paid for the cession related to the World Agency's policies.

In 2020, the Outward result was EUR -103mn increasing by 35.9% compared to 2019. This increasing cost of retrocession is mainly due to the lower gross claims cost which led to a higher Gross technical result. The Quota Share retrocession rates for Premium (90%) and Claims (91%) to EH RE Switzerland are in line with the treaty rules. Accordingly, the EH Ré SA's net technical result was EUR 9.5mn compared to EUR 7.5mn in 2019.

A.2.2. Underwriting performance by material geographical area and line of business

The following table summarizes the underwriting performance split by regions and LoBs.

Figure 3: **EH Ré SA Underwriting performance per regions and LoBs as of 4Q 2020 in EUR mn**

Key figures per region	Trade Credit business							Surety & guarantee business	Fidelity
	EH NEUR	EH FRANCE	EH APAC	EH MMEA	EH WA	Others	**Trade Credit business TOTAL**		
Gross earned premiums	**-134**	**-3**	**-58**	**0**	**-94**	**0**	**-289**	**-11**	**0**
vs 4Q 2019	-249	-1	-58	-13	-125	0	-447	-14	0
Total Claims	**45**	**-1**	**7**	**-5**	**45**	**-5**	**86**	**2**	**0**
vs 4Q 2019	104	0	45	2	33	-2	181	44	0
Loss Ratio	**-34%**	**33%**	**-12%**	**0%**	**-48%**	**0%**	**-30%**	**-18%**	**0%**

(1): Others include Solunion, Accredia & Cosec (run off business who now cedes to EH Re AG)

The evolutions are mainly explained by the following movements:

- Trade credit:
  - "Others" is related to ceded run-off business only, as the new business is ceded to EH Re AG directly, therefore only claims run-off is being ceded;
  - Northern Europe: this region continues to cede its Trade Credit LoB to EH Ré SA, but due to the implementation of State schemes the premium and claims ceded have strongly decreased;
  - MMEA includes Italy, Greece and Turkey: Italy and Greece are ceding run-off business only, explaining the decrease in Gross earned premium of EUR -13mn compared to 2019. Turkey only holds an internal Stop Loss towards EH Re SA, retroceding their normal business to EH RE AG directly;
  - APAC is ceding to EH Ré SA as from the treaty year 2016 onwards. Its claims ratio went down in 2020 due to lower claims activity, the better than expected closing of the claim "Uttam Galva" and the absence of Large Losses resulting in material release of Large Loss IBNR.
- Surety & guarantee business:

- The premium and claims decrease is mainly driven by Northern Europe. Since treaty year 2017 this LoB is ceded to EH Re AG directly and only run-off is remaining in EH Ré SA, therefore the premium ceded to EH Ré SA decreased compared to 2019.

A.3. Investment Performance

As part of EH Group, EH Ré SA performs analyses and discloses its reports and publications on an IFRS basis.

A.3.1. Income and expenses arising from investments

The following table summarizes EH Ré SA's investment performance at an aggregated level:

Figure 4: **EH Ré SA aggregated Investment Performance**

In EUR mn	4Q 2020	4Q 2019	Δ	%
Current income from Equity	0	0	0	0
Current income from Bond	1.2	1.7	-0.5	-25%
current income Real Estate 3rd party	0	0	0	0
Current income from Cash and Other	0	0	0	0
Current investment income	1.2	1.7	-0.5	-25%
FX result (net)	-1.8	2.0	-3.8	-187%
Investment Expenses	0.2	0.2	0	-0%
Realized gains/losses	-0.1	0.8	-0.9	-108%
Total investment income (incl. interest expenses)	-0.9	4.3	-5.2	-120%

The investment income stood at EUR -0.9mn, significantly down compared to 2019, driven by lower FX results (EUR 2.0mn in 2020 versus EUR -1.8mn in 2019). FX results are caused by the movement on GBP and USD.

A.3.2. Gains and losses recognized directly in equity

Figure 5: **EH Ré SA Gains and losses recognized directly in equity**

In EUR mn	Subscribed capital	Revenue reserve	Unrealized gains & losses	Shareholder equity
Opening balance shareholder equity	16.2	91.6	1.8	109.6
Net income of the current year		6.5		6.5
AFS, Bonds investments, unrealized gains/losses			1.3	1.3
Closing balance shareholder equity	16.2	98.1	3.1	117.4

The overall equity increase is mainly due to the increase in net results.

A.3.3. Investments in securitization

EH Ré SA invested in covered and mortgage securities.

The following table summarizes the details of those investments.

Figure 6: **EH Ré SA Investment in securitization**

In EUR mn	4Q 2020		4Q 2019	
	Exposure	Exposure as % of total financial assets	Exposure	Exposure as % of total financial assets
Mortgages	7	3.8%	7	3.8%
Covered	41	21.7%	40.4	21.8%
Securitization	48	25.4%	**47.4**	**25.5%**

The rationale behind those investments is disclosed below:

- Mortgages: in 2020, the mortgages amounted to EUR 7mn, stable compared to 2019;
- Covered: exposure in covered bonds in 2020 was stable compared to 2019.

Allocation in securitized assets is analyzed on a yearly basis during the Strategic Asset Allocation process and validated during Financial Committees.

Risk and return profile of the portfolio is assessed and analyzed in line with the risk-bearing capacity and financial KPIs.

A.4. Performance of other activities

EH Ré SA did not have any other source of income and expenses during the reporting period.

A.5. Any other information

There is no other material information regarding EH Ré SA's business and performance to be disclosed.

B. System of governance

The BoD has established an effective system of governance which provides for sound and prudent management and is proportionate to the nature, scale and complexity of the operations of EH Ré SA.

- Written policies covering risk, internal control, internal audit, actuarial Function, compliance and outsourcing have been implemented and are regularly reviewed;
- The system of governance is well structured around the committees and Key Functions with the three lines of defense principle being respected;
- The current owners of the governance functions are all Fit and Proper;
- The risk management system covers underwriting and reserving, investment and Asset Liability Management (ALM), Operational Risk management and reinsurance and other risk mitigation techniques;
- EH Ré SA conducts at least every year an ORSA that takes into account the overall solvency needs, the risk profile and Risk Appetite and the requirements regarding the determination of the TP.

B.1. General information on the system of governance

B.1.1. Structure of the system of governance

There have not been any material changes in the system of governance over the reporting period.

The governance bodies mentioned below meet at the following frequencies:

- The BoD meets as often as necessary and at least three times a year;
- The Audit Committee takes place at minimum twice a year;
- The Financial Committee (FiCo) takes place during or before each BoD meeting;
- The BoM meets as often as required in the interests of EH Ré SA, generally on a bi-weekly basis;
- The Risk Committee (RiCo) takes place on a quarterly basis;
- The Loss Reserve Committee (LRC) takes place at least 4 times a year; EH Ré SA is integrated in the EH Group LRC;
- The Underwriting Committee takes place on a quarterly basis;
- The Integrity Committee takes place at least bi-annually.

B.1.1.1. The Board of Directors

The role of the BoD is to decide on the strategy of EH Ré SA, the budget, the appointment of the key managers (BoM), review the quarterly accounts, solvency as well as other topics of interests for EH Ré SA. It defines the strategic objectives and oversees their implementation. Also, it defines the financial strategy.

The board meetings’ agenda are clarified below:

- At the first board meeting of the year (taking place in March/April), the annual accounts of the previous year have to be presented and compared to the initial budget;
- At the second respectively third board meeting of the year (taking place in September/October), the half-year accounts have to be presented and compared to the budget;
- At the last board meeting of the year (taking place in November/December), the budget for the next year has to be presented;
- At each board meeting, a comparison between the budget and the actual must be presented.

In addition, any other topic in relation to the management and the interests of EH Ré SA will be proposed at the agenda for discussion.

B.1.1.2. The Audit Committee

The BoD of EH Re AG set up during one of its first meetings an Audit Committee which is common for both reinsurance entities, EH Re AG and EH Ré SA. Until 2016 the Audit Committee of EH RE AG also covered EH Ré SA, but with changed FINMA requirements and changes in Luxembourg law, it is necessary to set up a separate Audit Committee for EH Ré SA. Since December 2017 EH Ré SA has its own Audit Committee.

Without prejudice to the responsibility of the members of the administrative or supervisory bodies, or of other members who are appointed by the general meeting of shareholders of the audited entity, according to the Luxembourg law the audit committee shall, inter alia:

a) Inform the administrative or supervisory body of the audited entity of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process;

b) Monitor the financial reporting drawing-up process and submit recommendations or proposals to ensure its integrity;

c) Monitor the effectiveness of the undertaking's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the audited entity, without breaching its independence;

d) Monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the “*Commission de Surveillance du Secteur Financier* (CSSF)” pursuant to Article 26(6) of Regulation (EU) No 537/2014;

e) Review and monitor the independence of the “*réviseurs d'entreprises agréés”* (approved statutory auditors) or the “*cabinets de révision agréés”* (approved audit firms), or, where appropriate, the audit firms in accordance with Articles 19 to 25 of this law and Article 6 of Regulation (EU) No 537/2014, in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of that regulation;

f) Be responsible for the procedure for the selection of "*réviseur(s) d'entreprises agréé(s)*" (approved statutory auditor(s)) or "*cabinet(s) de révision agréé(s)*" (approved audit firm(s)) or, where appropriate, audit firm(s) and recommend the "*réviseur(s) d'entreprises agréé(s)*" (approved statutory auditor(s)) or *"cabinet(s) de révision agréé(s)"* (approved audit firm(s)) or, where appropriate, audit firm(s) to be appointed in accordance with Article 16 of Regulation (EU) No 537/2014 except when Article 16(8) of that regulation is applied.

Besides the above listed legally required tasks, the Audit Committee is in charge of the following topics:

- Internal Audit activity review (annual report, specific review if requested);
- Annual Audit Program review (final validation has to be provided by the EH Group' Shareholder Audit Committee);
- If needed, audit program modification in coordination with the Group Audit Director;
- Review of Legal and Compliance report.

B.1.1.3. The Financial Committee

The FiCo reviews the investment strategy of EH Ré SA, reports the financial performance of the investments portfolio and gives recommendations to the management according to the guidelines defined by the Group FiCo and the strategy defined by the BoD. It meets before or during each BoD meeting.

B.1.1.4. The Board of Management

There is no specific BoM of EH Ré SA. However, EH Ré SA outsources the usual tasks of the BoM to the BoM of EH Re AG.

Also, there is a management body including the EH Re management team and AON Insurance Managers (Luxembourg) S.A. empowered through a Mandate Agreement. The key decisions on the management of EH Ré SA are taken by at least two members of the BoD and/or by the BoM of EH Re AG duly empowered through the Service Level Agreement (SLA). The daily administrative management of EH Ré SA as well as the contacts with the local authorities are outsourced to AON.

The main tasks and responsibilities of the BoM is the daily management of EH Ré SA within the scope of the strategy defined by the BoD.

The BoM is a decision-making body exercising its power collectively. However, the duties and responsibilities for managing EH Ré SA are allocated among its members with the BoD approval.

The members represent the key functions of EH Ré SA: General Management, Finance, Operations, Compliance and Underwriting. The BoM shares the supervision of the activities and functions within EH Ré SA. Each member has to inform the other members about his areas of responsibilities and actions implemented in the scope of these responsibilities. Also, each member informs the other in case of any change in processes and/or operational methods in his area of responsibilities impacting or not the other functions.

B.1.1.5. The Risk Committee

Since both EH Re AG and EH Ré SA, referred to as Euler Hermes Reinsurance (EH Re), are fully integrated from an administrative perspective as well as from a business perspective, their risk profile is overseen within the same RiCo which has a global view on both entities.

The EH Re RiCo has a specific and key role within the EH Re (including both EH Re AG and EH Ré SA) risk management system along with the other Committees (i.e. the investment strategy and underwriting strategy). It ensures transparency on EH Re capitalization and risk profile, the monitoring of the implementation of the SII directives within EH Re, establishing a comprehensive risk culture and processes within EH Ré SA by means of open communication and a common understanding of the risk profile.

B.1.1.6. The Loss Reserve Committee (LRC)

Since 3Q 2020. EH Ré SA has no longer a separate LRC (jointly with EH Re AG), but is integrated in the EH Group LRC.

The role of the EH Re LRC was to validate the level of the IFRS technical reserves for loss payments and salvages & subrogation of EH Re (including both EH Re AG and EH Ré SA) to be booked in the EH Re AG and EH Ré SA financial statements at the end of each quarter. The objectives were:

- To maintain adequate technical reserves within EH Re AG and EH Ré SA balance sheet ensuring the companies have at any time sufficient reserves to face its operational commitments;
- To monitor the claims' developments of the ceding EH Group and affiliated companies and eventually propose additional reserve depending on the economic environment and/or the closest claims' development situation;
- To monitor and reconcile the estimated cessions of the ceding EH and affiliated companies with the reserve booking information as per date of the EH Re LRC; and
- To ensure the consistency of EH Re's reserving with EH Group's booking rules and guidelines.
- These tasks are now part of the EH Group LRC where EH Ré SA is represented jointly with EH Re AG.

B.1.1.7. The Underwriting Committee

As for the RiCo, EH Re AG and EH Ré SA are automatically within the scope of the Underwriting Committee which has a global view on both entities.

The role of the EH Re Underwriting Committee is to review the business placed within EH Re's treaties across all LoBs and from all cedants (EH Group, Allianz and Non-Allianz Group) to ensure reinsurance coverage and profitability across the portfolio. The objectives are:

- To review the performance of business lines being written;
- To review the aggregation of risks being underwritten;
- To review the products that are being placed within the treaties;
- To review all special acceptances that fall outside of the standard coverage;
- To review and update on actual and potential large claims; and
- To review the monitoring and reporting of exposures across business lines.

B.1.1.8. The Integrity Committee

As for the RiCo, EH Re AG and EH Ré SA share the same Integrity Committee which has a consolidated view on both entities.

The EH Re (including EH Re AG and EH Ré SA) Integrity Committee is a governance body that aims to provide oversight over the prevention and detection of fraud, corruption and corporate wrong-doing, including the handling of whistleblowing cases. The objectives are:

- To establish a corporate sense of integrity standards;
- Coordinate among various functions (Compliance, Legal, Audit, Risk, Communications and Human Resources) and monitor jointly activities in the field of corruption, fraud and whistleblowing;
- Instill a corporate sense on integrity risks, support and validate compliance risk assessments (e.g. corruption and fraud);
- Ensure transparency and reporting to EH Re compliance and/or EH Group Compliance, coordinate actions about cases including whistleblowing; and
- To ensure appropriate and consistent responses to misconduct.

B.1.1.9. Key Functions

EH Ré SA has the following independent Key Functions:

- Head of Internal Audit, outsourced to EH Group. The Head of Internal Audit participates in the Audit Committee;
- The Compliance function is outsourced to EH Re AG. The Chief Compliance Officer has a matrix manager who is the EH Group Compliance Officer. The Chief Compliance Officer is also invited to the Integrity Committee, BoM and RiCo meetings where they present the compliance status and issues;
- The Risk function is outsourced to EH Group Risk. There is a quarterly EH Re RiCo where the risk status is presented. The CRO is also in direct contact with the CAA;
- Responsible Actuary (Actuarial Function) is outsourced outsource to EH Group Actuarial Function. The Responsible Actuary prepares the quarterly LRC and presents it. The Responsible Actuary is also invited to the RiCo.

Regarding SII regulation, Compliance, Actuarial Function and Internal Audit operate within the risk management framework which is composed of three lines of defense.

Detailed information on activities, processes, implementation and independence of the four independent Key Functions mentioned above is disclosed in the following sections.

B.1.2. Remuneration policy

The Remuneration policy cannot be applied to EH Ré SA due to the fact the company has no employee.

B.2. Fit and Proper requirements

B.2.1. Description of requirements for « Fit & Proper »

A Fit and Proper standard for Senior Management and Key Function holders across EH Ré SA is established to define core principles (general principles, Fitness and Propriety) and processes.

B.2.1.1. Roles requiring Fit & Proper assessment

Luxembourg Fit and Proper requirement "**Circular letter 19/5 introducing forms for the notification of natural persons subject to CAA supervision"** which is effective from 1 July 2019.

Fit & Proper assessment must be carried out for individuals appointed within EH Ré SA's scope. This includes the following people:

- **Members of the BoD** are responsible for overseeing and advising the BoM on carrying out the business;
- **Senior Management** is defined as members of the BoM, which is the collective body responsible for the steering of EH Ré SA.

Key Function holders are the persons responsible for carrying out the independent key control functions. They are the heads of the respective departments with direct access to the BoM. For each Key Function there is one Key Function holder. The Key Function staff comprises further persons working within Key Functions, including those with a direct reporting line to the Key Function holders and, in addition, experts with independent decision rights.

Each Key Function holder and the Key Function staff must demonstrate the Fitness & Propriety required to fulfill the tasks assigned to him/her on an ongoing basis.

B.2.1.2. Details on Fit & Proper requirements

B.2.1.2.1. Fitness

The qualifications, knowledge, and experience required depend on the position.

Members of the BoD have to:

- Understand the business conducted by EH Ré SA;
- Be able to assess the risks involved;
- Enforce changes in management.

Members of the BoM and Senior Management collectively possess qualification, knowledge and expertise about:

- Insurance and financial markets;
- The business strategy and business model of EH Ré SA;
- EH Ré SA's system of governance;
- Financial and actuarial analysis; and

- Regulatory framework and requirements.

Appropriate diversity of qualifications, knowledge and experience within the BoM are ensured and the collective fitness is maintained at all times when changes occur within the BoM.

Each **Key Function holder** must possess the fitness required to fulfill the tasks assigned to him by the policy of the respective Key Function, if any, and applicable law.

In cases where a Key Function is outsourced according to the EH Ré SA Outsourcing policy, the Fitness requirements for the person are identical to those applying to the respective Key Function holder himself.

B.2.1.2.2. Propriety

The Propriety assessment consists in the consideration of any hint which may cast doubt on a person's Propriety. Such hints are:

- Any conviction of a criminal offense, in particular offenses under any financial services legislation, breaches of companies, insolvency, and consumer protection laws;
- Any conviction of a relevant disciplinary or administrative offense;
- Any administrative sanctions for non-compliance with any financial services legislation and any current investigation or enforcement action by any regulatory or professional body;
- Any relevant inconsistency with regard to a candidate's education or professional experience; and
- Any further circumstance resulting in the risk of financial crime, non-compliance with law or the jeopardizing of the sound and prudent management of EH Ré SA business.

B.2.2. Description of processes and procedures in place

Sound processes during recruiting, regular and ad hoc reviews, as well as appropriate training, are necessary to ensure Fitness and Propriety. These processes are outlined below. They are used by the respective HR function for every hiring, promotion, transfer, ongoing, and ad hoc assessment.

B.2.2.1. Processes and procedures for ensuring Fitness and Propriety at recruitment

EH Ré SA ensures that, during the recruiting process of any member of the **Senior Management** or of a **Key Function holder**, whether internal or external to the EH Group, their Fitness and Propriety are assessed. An employment or service contract may only be entered into after the successful completion of the following recruiting process:

- Job descriptions or fitness criteria checklists are used to fill open positions for members of Senior Management other than members of the BoM and for Key Functions, both internally and externally;
- All candidates submit a curriculum vitae at the beginning of the recruiting process, except for internal candidates for Key Function staff positions who have been employed by EH Group for more than four years;

- The final candidate for a position within the Senior Management or as Key Function holder is subject to a background check including copies of his required qualifications, a proof of good reputation and of no previous bankruptcy, a reference check, and a public media search conducted by the recruiting HR function.

Members of the BoD are elected by the shareholders. All candidates nominated for election must fulfill the applicable Fit and Proper requirements.

B.2.2.2. Processes for ensuring ongoing Fitness and Propriety

Members of the BoD can be subject to further Fit & Proper assessments according to local laws and regulations.

Fitness and Propriety of members of Senior Management and Key Function holders are reviewed on an ongoing basis and confirmed through annual performance reviews which include:

- The assessment of integrity and trust which both form an integral part of the mandatory behavioral targets; and
- The assessment of the leadership and management skills as applicable, as well as the relevant knowledge for the specific role and the relevant Fitness criteria checklist or job description.

Additionally, Career Development Conferences (CDCs) are performed annually, where persons of a certain seniority level including Senior Management and Key Function members are assessed on their sustained performance and Fitness in their current role as well as their potential to carry out new roles.

Ad hoc reviews are required in certain situations, which give rise to questions regarding a person's Fitness or Propriety, e.g. in case of:

- Relevant breach of the EH Ré SA Code of Conduct;
- Failure to submit required self-disclosure statements, e.g. statements of accountability or disclosure of security trading;
- Investigation or any other procedure possibly leading to a conviction of a criminal, disciplinary or administrative offense (in the case of an administrative or disciplinary offense, the relevance to the EH Ré SA business and the person's position are taken into account), or to administrative sanctions for non-compliance with any financial services legislation;
- Evidence of financial or accounting irregularities in her/his field of responsibility;
- Signs of indebtedness such as undisputed writs of execution or garnishment for payments owed by the Key Function holder;
- Evidence of procedure to withdraw a professional license or exam against the person;
- Substantiated complaint within EH Ré SA (e.g., whistleblowing) or from supervisors; and
- A "does not meet" or "partially meets" rating within the annual performance assessment or in case of "low sustained performance" in the CDC (left boxes in the performance and potential matrix).

In the context of an ad hoc review, not only the particular circumstance which gave rise to it, but the Fitness and Propriety of the person concerned as a whole are reassessed.

B.2.2.3. Outsourcing of a Key Function

In cases where a Key Function is outsourced according to the EH Ré SA outsourcing policy, the Due Diligence of the Provider by the Business Owner includes a description of the Fit & Proper Test procedures used by the Provider to ensure the Fitness and Propriety of its personnel.

B.2.2.4. Assessment results

Based on the information gathered during recruiting, a regular or ad hoc review, or an outsourcing Due Diligence, each case must be assessed individually, considering the following:

- As regards Fitness, if it appears that a member of the Senior Management, a Key Function member, or a candidate to such a position lacks requisite knowledge, competencies, or skills, it is considered whether such deficiency can be remediated through specific professional training and if so, the person must be provided with such training;
- As regards Propriety, in addition to any indication of a possible lack of Propriety, factors to be considered include the type of misconduct or conviction, the severity of the case, the level of appeal, the lapse of time since, and the person's subsequent conduct, as well as the person's level of responsibility within EH Ré SA and the relevance of the finding for the respective position (i.e. the position's exposure to integrity and fraud risks).

If a person on the BoD, in a Senior Management role or Key Function member is assessed as not Fit or not Proper, EH Ré SA must ensure careful review of the findings and consultation of the relevant departments/persons, and take appropriate action as follows:

- If it appears during the recruiting process: such candidate is not appointed or recruited;
- If a regular or ad hoc review shows that the person can no longer be considered Fit and Proper for his/her position: the person must be removed from the position without delay, in accordance with applicable employment law.

B.3. Risk management system including the Own Risk and Solvency Assessment

B.3.1. Description of Risk Management System

B.3.1.1. Three lines of defense

As required by SII, EH adopted a "Three lines of defense" model for risk governance, with clear responsibilities between the different organizational functions and graded control responsibilities as described hereafter:

Figure 7: Three-lines of defense model

Board
Strategy, Risk Appetite and policy

First line: Risk ownership	Second line: Risk control and monitoring	Third line: Independent assurance
EH Risk taking business units supported by the management Delegated authority from the Board to: • Develop and implement the Internal Model; • Measure and manage business performance; • Develop and implement internal control and risk management framework; • Ensure that the business is managed within the agreed Risk Appetite.	**EH Risk, Actuarial, and Compliance Functions** Provides objective oversight of the management of risk. Key responsibilities include: • Design and deployment of overall Internal Model governance framework; • Development and monitoring of policies and procedures; • Monitoring adherence to framework and strategy; • Compliance rules.	**EH Internal Audit Functions** Provides independent assurance across the first and second lines. Its activities include particularly: • an independent assessment of the effectiveness and efficiency of the Internal Control System including the activities exercised by the first and second lines; and • a respective report to the relevant Board of Management.

The first line of defense is implicated in the day-to-day management of activities and the management of risk and controls.

The second line of defense is in charge of performing independent controls and challenging the day-to-day management of activities and controls carried out by the first line. This role belongs to the specific independent key control functions: Actuarial, Risk, Legal, Accounting & Reporting, and Compliance.

The third line of defense provides independent assurance with respect to the first and second lines of defense in the form of periodic assessments (Internal Audit).

B.3.1.2. Risk Governance structure

Effective risk management is based on a common understanding of Risks, clear organizational structures, and comprehensively defined risk management processes.

EH Ré SA BoM is responsible for sound organizational and operational structures and procedures to ensure compliance with the risk management policy. More specifically, the responsibilities are:

- Supporting the first line of defense by helping ensure employees at all levels of EH Ré SA are aware of the risks related to their business activities and how to properly respond to them;
- Implementing EH Ré SA risk policy into EH Ré SA system of governance and in particular EH Ré SA corporate rules as appropriate to EH Ré SA business and risks;
- Developing and implementing EH Ré SA Risk Strategy, Appetite and limits in line with EH Ré SA business strategy and the Group Risk Strategy;
- Establishing a Risk Function responsible for the independent risk oversight under the responsibility of the EH Ré SA board member in charge of Finance;
- Implementing the risk management framework and corresponding processes, including the solvency assessment; and

- Approving the IM on an annual basis and ensuring it fits the company’s risk profile.

The Risk Function is responsible for:

- Supporting the first line of defense by helping ensure employees at all levels of EH Ré SA are aware of the risks related to their business activities and how to properly respond to them;
- Regularly reviewing, on at least an annual basis, the consistency between the Risk Strategy and business strategy, and proposing changes to the Risk Strategy and Risk Appetite to the BoM;
- Assessing on a regular basis the adequacy of the Risk Policy Framework towards the fulfillment of regulatory requirements and achievement of the Risk Strategy and ensuring updates occur as appropriate, specifically with respect to the risk policy and standards for the management of:
    - Underwriting and reserving;
    - ALM;
    - Investment Risk;
    - Liquidity Risk;
    - Concentration Risk;
    - Operational Risk;
    - Reinsurance and other insurance risk mitigation techniques.
- Overseeing the execution of the risk management processes;
- Monitoring and reporting EH Ré SA risk profile including the calculation and reporting of the RC;
- Supporting the BoM through the analysis and communication of risk management related information and by facilitating the communication and implementation of its decisions;
- Escalation to the BoM in case of material and unexpected increases of risk exposure;
- Reporting the solvency assessment as well as any further material risk management related information to EH Group Risk function; and
- All operational activities around the maintenance, ongoing monitoring, validation, and improvement of the IM and its components.

The Risk Function is under the competence field of the BoD member in charge of functions related to Actuarial Function, Risk, and Compliance. It has intense interfaces and close cooperation with other functions.

The Chief Risk Officer (CRO), as head of the risk management department to which the Risk Function has been assigned, is the relevant Key Function holder. He possesses the qualification, experience, and knowledge required to manage the risks relative to the responsibilities of its role.

The Risk Committee (RiCo) is responsible for:

- Preparing and proposing to the BoM the Risk Strategy, Risk Appetite, and limits;
- Operational execution of the risk limit framework and overseeing the risk management system;
- Preparing and proposing to the BoM the solvency assessment; and

- Defining and operationalizing group-wide risk standards (including the corporate rules of the Risk Policy Framework).

The Financial Committee (FiCo) is responsible for approving individual financing transactions in line with Risk Capital (RC) considerations and analyzing EH Ré SA's investments in light of the Risk Policy.

B.3.1.3. Risk management processes

EH Ré SA establishes for all material quantified and non-quantified risks a comprehensive risk management process which incorporates:

- Risk identification;
- Risk assessment;
- Risk response and control activities;
- Risk monitoring; and
- Risk reporting.

The process is implemented and conducted within the confines of a clearly defined Risk Strategy and Risk Appetite and periodically assessed for adequacy.

At a minimum, EH Ré SA follows the hereunder quantitative and qualitative risk management process requirements:

- **Solvency assessment**: a comprehensive assessment of all risks inherent to the business in order to determine whether current and future capital will be sufficient to ensure on-going solvency against these risks. The solvency assessment constitutes the ORSA. EH Ré SA BoM discusses the solvency assessment, takes appropriate actions based on the findings, and reports the outcome to their local Supervisor;
- **RC calculation**: EH Ré SA calculates the RC for all material risks of its Market, Credit, Business and Operational Risks (using the Integrated Risk and Control System (IRCS) and Scenario Analysis (ScA), further details can be found in section C.5.1), as well as Underwriting Risk on a quarterly basis;
- **Top Risk Assessment (TRA)**: a periodic analysis of all material quantified and non-quantified risks to identify and remediate significant threats to financial results, reputation, operational viability, and the delivery of key strategic objectives. The TRA covers all risk categories as well as concentration and emerging risks. EH Ré SA performs an annual full run exercise as well as a quarterly review and monitoring of the TRA and reports their results to EH Group Risk function;
- **Risk Policy Framework (RPF)**: The RPF is a set of policies, standards, and guidelines overarching the Risk Management System of EH Ré SA. It describes the core risk management principles, processes, and key definitions to ensure all material risks are managed within the Risk Appetite. The monitoring of the EH Ré SA RPF is realized on a yearly basis by EH Group Risk function through a statement of accountability (SoA);
- **Further risk management processes**: in addition to the TRA, EH Ré SA manages all material risks of all risk categories through the application of specific risk management processes;

- **Risk management Framework Quality Assurance:** self-assessment of the effectiveness of the Risk Function, as well as implementation maturity of the risk management framework and corresponding risk management processes, are performed at EH Group level.

B.3.2. Description of ORSA process

The ORSA is a comprehensive assessment of all risks inherent to the business in order to determine whether current and future capital will be sufficient to ensure ongoing solvency against these risks. It goes beyond the determination of capital needs provided solely through the application of risk capital models by additionally considering stress scenarios, model limitations, and other non-modelled risks and how these risks translate into capital needs or are otherwise mitigated.

The ORSA draws upon the whole Risk Management system in order to conclude on the risk profile adequacy and ensures consideration of risks and capital needs from an integral part of the business decision-making process of the company.

B.3.2.1. ORSA process

Figure 8: **ORSA macro process**

The ORSA process is executed through five main steps:

- Update and alignment of the Risk Appetite and risk limits with the business strategy and check the alignment with EH Group requirements;
- Identification of all risks and controls to be considered, by performing several approaches;
- Assessment of all risks based on the SM. Moreover, projections of own funds, RC and solvency ratio under base case and stress scenarios;
- Steering of the overall solvency needs in quantitative terms with a qualitative description of all material risks. Then, demonstration of the compliance of the future business with the Risk Strategy;
- Reporting of the performed results and analysis by filling the ORSA report and releasing it to all relevant stakeholders. The report has to then be validated by EH Ré SA BoD before any official communication. Appropriate results are shared with other relevant reporting/ analysis processes.

Even if no system could capture all risks, existing processes and measures allow identifying EH Ré SA to identify main risks and handling them efficiently, allowing the BoD to make appropriate decisions.

B.3.2.2. ORSA governance

The BoD challenges and validates the annual ORSA report.

EH Ré SA outsources its management including the BoM's duties to the BoM of EH Re AG through a Service Level Agreement (SLA). Accordingly, the BoM is actively:

- Ensuring proper implementation of its standard;
- Challenging the outcome of the ORSA and signing-off the ORSA Results Report; and
- Instructing on any follow-up actions to be taken.

The RiCo is responsible for:

- Overseeing the development and implementation of the ORSA process;
- Reviewing and pre-approving the ORSA Results Report prior to submission to the BoD;
- Monitoring the execution of any follow-up actions; and
- Requesting performance of a non-regular ORSA after any events potentially altering the last overall ORSA conclusions.

Responsibilities of the Risk function under the lead of the CRO include:

- Coordinating the ORSA process and preparing the ORSA Report for both regular (annually) and non-regular (upon request of the RiCo) ORSA;
- Annually assessing the compliance of the ORSA report/process with regulatory requirements;
- Reporting on the results of the ORSA to the RiCo and distributing the final ORSA Results Report to all staff with a role in the decision making processes related to business strategy, risk strategy, and risk and capital management;
- Advising the BoD regarding the ORSA results; and
- Communicating with supervisory authorities.

B.3.2.3. Capital management strategy

EH Ré SA has set in place the following target capitalization ratios and limits:

- EH Ré SA targets to stay around or above Management ratio in the normal course of business;
- The Management Ratio, as well as an Alert and Action Barrier, are defined in the EH Ré SA Risk Appetite;
- In case of a breach of these barriers, the BoD will evaluate the situation in their next regular board meeting and decide on any potential countermeasures to get back to the Management Ratio. In particular, any capital held in excess of the target management ratio is deemed excess capital. This excess capital shall be made available to EH Ré SA as early as possible over the plan horizon;
- If EH Ré SA drops below the Alert Barrier, a contingency plan must be submitted to the BoM to recover its solvency position within due time;

- If EH Ré SA falls below the Action Barrier during the course of the year but stays above the Minimum Capital Ratio, it is still expected to pay out the planned dividend while any adjustments will be considered to the planned dividends over the remaining plan horizon;
- If EH Ré SA falls below the Minimum Capital Ratio, the BoD will take measures to re-establish the Minimum Capital Ratios in due time.

B.4. Internal control system

B.4.1. Description of internal control system

B.4.1.1. Internal control framework

The internal control framework is laid out in EH Ré SA'S governance and control policy, as approved by the BoD.

EH Ré SA applies an IRCS to support effective management of Operational Risks, including reporting risks and compliance risks (e.g. information security, business continuity outsourcing and legal). The EH Ré SA internal control system has the following objectives:

- To safeguard EH Ré SA's existence and business continuity;
- To create a strong control environment, by ensuring that all personnel are aware of the importance of internal control and their role in the internal control system;
- To conduct control activities that are commensurate with the risks carried by EH Ré SA's activities and processes;
- To provide relevant information to the management bodies as part of their decision-making processes; and
- To ensure compliance with the applicable laws and regulations.

With respect to the areas of control, activities, and reporting aspects, the controls are performed within EH Ré SA in accordance with requirements regarding independence. They are incorporated into EH Ré SA operational and organizational configuration and subject to continual review.

The EH Ré SA Internal Control function is part of the Risk function. The internal control system encompasses different control concepts. Besides general aspects related to any control and in addition to the risk management framework, specific controls are also performed, in particular around entity level controls, financial reporting, IT, risk capital calculation, underwriting (including products and distribution) investments, and protection/resilience. They are supplemented by management reports.

When needed, internationally recognized control frameworks such as the COSO framework (the Committee of Sponsoring Organizations of the Treadway Commission's internal control - Integrated Framework) and the COBIT framework (Control Objectives for Information and Related Technologies) may be used.

B.4.1.2. General control elements

The following principles and approach serve as guidance for the implementation of EH Ré SA's internal control system:

- It is important to safeguard the separation of duties to avoid excessive risk-taking and potential conflicts of interest;
- Material decisions must be taken by at least two representatives of the operational entity under review, even if, under local regulations, EH Ré SA may be represented by a single person (four-eyes principle);
- In the interests of sound business judgment, the decision-making processes must be applied at all management levels that hold relevant information, notably through impartial access to necessary information;
- The Committee of Sponsoring Organizations (COSO) framework and part of the Control Objectives for Information and Related Technologies (COBIT) model apply to the financial reporting process; and
- It is important to maintain structured, documented processes for which key controls are in place and function effectively.

Specific control areas include:

- Integrated Risk and Control System (IRCS);
- Controls around information security:
    - Information security framework for IT security: EH has developed and operates the Group Information Security Framework (GISF) for IT security;
    - IT controls around financial reporting.
- Controls around the SCR;
- Controls around Underwriting and Products; and
- Controls over investments.

B.4.2. Compliance Function

B.4.2.1. Assigned Compliance Risk Areas

The Compliance Function develops, implements, and oversees the compliance framework for the Assigned Compliance Risk Areas. The Assigned Compliance Risk Areas are the following:

- Fraud and corruption;
- Money laundering and terrorism financing;
- Economic sanctions;
- Capital markets compliance;
- Data privacy;
- Antitrust compliance;
- Sales practices compliance/customer protection;
- Regulatory compliance; and
- Foreign account tax compliance act.

B.4.2.2. Compliance Management System

As part of the internal control system of EH, the Compliance Function exercises a set of activities mainly by establishing and maintaining an adequate and effective Compliance Management System, reflecting the actual risk exposure and the principle of proportionality. The Compliance Management System includes the following tasks:

- Perform compliance risk assessment;
- Monitor legal changes;
- Establish a compliance plan;
- Compliance reporting on a regular basis to the top management (BoM as well as BoD)
- Compliance incident handling and crisis management;
- Compliance quality assurance; and
- Clear assignment of compliance responsibilities.

The Compliance Function escalates on an ad hoc basis severe instances of non-compliance or material changes in the compliance risk exposure to the Senior Management.

B.4.2.3. Governance of the Compliance Function

The BoM is responsible for sound organizational and operational structures and procedures at its level to ensure compliance with the compliance policy. It establishes and maintains an appropriate and effective Compliance Function. It must decide on and clearly assign the relevant risk areas for the Compliance Function.

The Compliance Function holder is responsible for the implementation of EH compliance principles and procedures. He possesses the qualification, experience, and knowledge required to manage the compliance risk relative to the responsibilities of his role. He has a direct reporting line to the Head of EH Group Compliance and is given direct access to the BoM.

The Compliance Function has regular interfaces and close cooperation with other functions. It has the right to communicate with any employee and obtain access to any information, records or data necessary to carry out its responsibilities, to the extent permitted by law.

B.5. Internal Audit Function

B.5.1. Internal Audit within EH Ré SA

The Internal Audit function of EH Ré SA is outsourced to EH Group Internal Audit. The scope of EH Group Internal Audit includes all the OEs of EH Group. The function is managed by the Chief Audit Executive (CAE). The CAE reports to the Chairperson of the Board of Management and to the Audit, Risk & Compliance Committee, and functionally to the Allianz Group Audit Manager.

In EH Ré SA’s Three Lines of Defense Model, the Internal Audit function acts as a “Third and Last Line of Defense”. The main task of Internal Audit is to support the organization in accomplishing its objectives by using a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This is achieved by independent, objective assurance and consulting activities designed to add value and improve the organization’s operations.

The implementation of the Internal Audit function within EH Group is defined in the “Group Audit Policy” as well as in the supplemental “Standard Audit Manual”, which defines basic principles, tasks, methods as well as processes. Among other things, this includes the definition of the audit universe, i.e. the areas and topics which need to be audited to ensure adequate coverage of all relevant activities, procedures, and processes in all areas. The frequency and sequence of the audits in the course of the five-year audit cycle are then determined using a risk-based approach, in which risk ratings are assigned to all areas and topics. The resulting annual audit plan is approved by the chairperson of the BoM and the Audit Committee. In case it is needed, ad-hoc audits may be executed. The execution of an audit is concluded by an audit report, which is generally shared with the auditees as well as with the BoM. Management is responsible for implementing related corrective actions and for remediating identified audit findings. The Internal Audit function monitors the implementation of the auditee’s plans to remediate deficiencies.

B.5.2. Internal Audit Function activities

The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. Therefore, internal audit activities are geared towards helping the company mitigate risks as well as further assist in strengthening the organization’s governance processes and structures.

In accordance with the definition of Internal Audit as outlined in the Group Audit Policy, Internal Audit must support the company's management to reduce and mitigate risks, as well as to assist in strengthening the organization’s governance processes and structures by reviewing activities and procedures in all areas, without scope limitation, with the following objectives of:

- Safeguarding the company's assets;
- Assessing alignment with the company’s strategies, objectives, and risks of the organization;
- Strengthening effective Internal Control and Risk Management/Controlling Systems by assessing and evaluating their design and operational adequacy and effectiveness;
- Strengthening compliance with legal and supervisory regulations, as well as corporate principles and guidelines; and
- Assessing effective and efficient organizational performance management and accountability.

Internal audit main activities are:

- Issuance of an audit report for each audit which includes detailed results and appropriate recommendations as well as a summary of the most important results including an overall assessment of the auditee’s risk and internal control status;
- Performance of follow-up actions and implementation of escalation steps that are outlined and prescribed within the Standard Audit Manual (SAM) especially when deficiencies are not remediated in a timely or appropriate manner;
- Advising on internal control-related topics to EH Ré SA management.

B.5.3. Independence and objectivity of the Internal Audit Function

The Internal Audit function has a high organization independence, which corresponds to their function as “Last Line of Defense”.

In order to ensure the objectivity and the independence of the Internal Audit Function, the following specific requirements have been set:

- No auditor holds an operational position;
- Any bonus received by Internal Audit function representatives is based exclusively on achieving qualitative individual targets rather than on the financial results;
- Internal auditors and the Internal Audit Function have the authority to express assessment and recommendations but cannot give orders (except in cases of suspicion of illegal activities/fraud);
- The Chief Audit Executive (CAE) reports directly to the EH Group CEO and to the Audit Committee. The CAE has regular direct interaction with the CEO and the Chair of the Audit Committee;
- EH internal audit has the right to communicate with any employee and obtain information, records, or data necessary to carry out its responsibilities, to the extent legally permitted. EH internal audit has the responsibility and the right to review activities, procedures, and processes in all areas of the EH Group, without limitation;
- Internal auditors are to perform their duties in an unbiased manner; audit findings are to be based upon facts and supported by sufficient documented evidence;
- To ensure the independence and objectivity of internal auditors during audit assignments, the "Allianz Standard Audit Manual" states rules regarding the assignment of auditors. These include besides other to avoid the assignment of internal auditors on audits within the business area in which the respective auditor has been working in the last 12 months, in order to avoid a potential conflict of interests;
- Finally, the representative of EH Group Audit must confirm to the chairperson of the BoM and the Audit Committee at least annually, the independence of the internal audit activity.

B.6. Actuarial Function

B.6.1. Role of the Actuarial Function

In accordance with the operational and governance structure of EH Ré SA, Actuary falls within the competence field of the BoD member in charge of functions related to Actuarial, Risk, and Compliance.

The responsible for the Actuarial Function is an expert in the fields of actuarial and financial mathematics.

The Actuarial Function of EH Ré SA is outsourced to EH Re AG.

The EH Ré SA BoM is responsible for sound organizational and operational structures and procedures to ensure compliance with the actuarial policy. It establishes and maintains an appropriate and effective Actuarial Function, in proportion to EH Ré SA's risk exposure. It decides on and clearly assigns the relevant tasks for the Actuarial Function. The Actuarial Function holder is approved by the EH Ré SA BoM.

The Actuarial Function holder is defined as the Responsible Actuary. The nomination of the EH Ré SA Actuarial Function holder is pre-aligned with the EH Group Actuarial Function holder. He is responsible for the implementation of the EH Group's Actuarial Function principles and procedures and is empowered by local management to fulfill this task. The EH Ré SA Actuarial Function has direct access to the EH Ré SA BoM.

An appropriate committee structure or comparable management meetings is set up in order to enable the Actuarial Function to fulfill its roles and responsibilities. The Actuarial Function holder is a member of the LRC.

The Actuarial Function has intense interfaces and close cooperation with other functions.

The Actuarial Function (as a second line of defense function) and the Internal Audit Function (third line of defense) are separated with no reporting of one function into the other. However, this does not exclude jointly exercise specific tasks in the course of investigations.

Actuarial tasks are included in the audit program and methodology of the Internal Audit Function, including a periodic assessment of the adequacy and effectiveness of the Actuarial Function. The head of the Internal Audit Function keeps the Actuarial Function holder informed of any audit findings relating to actuarial tasks – and vice versa.

Upon request, the EH Internal Audit Function holder can attend the LRC at her own discretion especially in order to test the operational effectiveness of the committee.

B.6.2. Actuarial function activities

The tasks and processes described in the following section apply to the actuarial function:

- Reporting of an Actuarial Function Report on an annual basis;
- Coordination of the calculation and monitoring of technical reserves;
- Opinion on underwriting, pricing, and product development on an annual basis;
- Opinion on the reinsurance policy and program on an annual basis;
- Contribution to risk management by providing an actuarial perspective which is materialized through the following items:
    - Delivery of data and results for the parameterization of RC models;
    - Assessment of insurance risks;
    - Providing all the results and conclusions resulting from the analyses to Risk function on a regular basis as well as to the RiCo or comparable management meetings.
- Reporting quarterly about TP level to the LRC, communicates on its adequacy, and gets LRC approval regarding the level of those TP;
- The setup of the Reserve Risk funding risk model and validates the capital level related to EH Ré SA TP. It also contributes to the setup of an effective risk management system.

When he establishes a report, the Responsible Actuary produces and signs an independent opinion on the actuarial processes and on the calculation stemmed from them.

B.7. Outsourcing

B.7.1. Roles and responsibilities

The BoM is responsible for sound organizational and operational structures and procedures to ensure compliance with the outsourcing policy. More specifically, its responsibilities are:

- Implementing the outsourcing policy into EH Ré SA's system of governance;
- Ensuring definition and implementation of processes for monitoring, steering, and reviewing the outsourcing of functions or services;
- Ensuring that an outsourcing function is established; and
- Approving outsourcing where required.

The designated Business Owner ensures adherence to the outsourcing policy and fulfills all tasks that have been assigned to EH Ré SA in the outsourcing policy with respect to the outsourcing(s) for which he is responsible. In particular, the designated Business Owner is in charge of:

- Assessing whether an arrangement with a service provider qualifies as outsourcing, and if so, whether the outsourced function/Service is a Key Function or a Critical or Important function or Services (CIFS);
- Setting-up the necessary Business Plan and risk assessment including the screening of any outsourcing against the criteria of the outsourcing policy;
- Undertaking Due Diligence with regard to the Provider;
- Involving the Local Legal Support in the drafting of the Outsourcing agreement and involving the relevant Key Functions, the Operating Entity's (OE) Privacy Function, Business Continuity Officer, and EH Group IT Security Officer;
- Providing regular performance report to the BoM when outsourcing Key Functions or other CIFS;
- Monitoring the outsourcing and making amendments to the outsourcing where necessary; activities of the Business Owner should include:
    a) Demand Management;
    b) Service Quality Management;
    c) Control and Security Management; and
    d) Finance Management.
- Adequately documenting each individual step of the outsourcing process and delivering the outsourcing agreement and key supporting documentation
- Taking the appropriate measures in case of any adverse event or termination of the outsourcing; and
- In case of termination, assessing together with the local function whether any claims against the Provider may/shall be asserted.

The Outsourcing Function is in charge of storing, keeping, and updating all outsourcing agreements as well as monitoring the implementation of the outsourcing process and provide support to the designated Business owner in performing his tasks.

EH Re AG CFAO and EH Re AG Compliance Officer ensure the correct implementation of outsourcing policy, supports the Business Owner on the qualification of the outsourcing and drafts/reviews the outsourcing agreement, and notify any conflict with local law to group Legal or supervisory authority.

The Risk function monitors and oversees the management of the outsourcing risk in the context of IRCS as well as supports the Business Owner in the risk assessment and Due Diligence process.

B.7.2. Description of the outsourcing policy

B.7.2.1. Outsourcing processes

A function or Service qualifies as outsourcing if it could otherwise have been exercised by EH Ré SA itself and if it is essential to the operation of EH Ré SA as it would be unable to deliver its services to its customers without the outsourced Function or Service.

The detected outsourcing contracts are then categorized into two types:

- Outsourcing of Key functions (Risk Management, Internal Audit, Compliance, Actuarial, Legal and Accounting & Reporting);
- Outsourcing of Critical or Important Functions or Services (CIFS): Function or Service that is essential to the operation of EH Ré SA, activities that directly affect the customer.

The outsourcing process consists of four major phases:

- **The decision phase** which involves the business plan and risk assessment as to whether the function or Service is outsourced. It consists in the main following steps:
    - Assessing whether the outsourced function/Service is Key Function or a CIFS;
    - Establishing a Business Plan which outlines the rationale for as well as the expected economics and operational benefits of the envisaged outsourcing;
    - Conducting a risk assessment, i.e. identifying, analyzing and rating, in particular, the operational, financial, strategic, reputational, and any concentration risks associated with the outsourcing, as well as defining strategies to mitigate or manage these risks.
- **The implementation phase** which regards the provider selection and the setup of a written outsourcing agreement:
    - The Provider selection consists in the conduction of Due Diligence in order to assess the main risks in the Provider's context and identify risk mitigation strategies with key indicators. It ensures that the Provider has the legal, financial, and technical ability to perform the functions or services to be outsourced in a reliable way according to standards for the whole duration of the outsourcing agreement;
    - The written outsourcing agreement provides, in particular, a description of Services, responsibilities, quality/security standards, and where appropriate KPIs to measure performance as well as feasible mitigation measures and key controls to be performed by the Provider Provider's obligation on confidentiality and cooperation, termination rights and notice periods;
    - In case of sub-outsourcing, the outsourcing agreement includes the need for prior approval by EH Ré SA, and the fact that the Provider's duties and responsibilities under the outsourcing agreement remain unaffected by the sub-outsourcing;

  - A contingency plan which describes the potential emergency event and how to remediate is required, as well periodically testing where necessary. The outsourcing also has to be notified to the CAA;
  - In case of group internal outsourcing, the process is lighter with less detailed Due Diligence and the possibility to rely on past (up to one year) Due Diligence with a systematic assessment of potential conflict of interests.
- **The operational phase** consists of maintaining a process to regularly monitor the Provider's performance, financial stability, and compliance with the outsourcing agreement as well as the effectiveness of its key control inventory:
  - EH Ré SA should take appropriate actions if the Provider's performance or risk management is materially deficient;
  - A report on Provider's performance is sent to the BoM on an annual basis.
- **The exit phase** shall be included in case EH Ré SA decides to terminate the outsourcing and thus needs to ensure it has the capacities to insource the outsourced function or service to another Provider before the termination of the current outsourcing agreement. All relevant information and data provided to or generated by the Provider are to be returned or destroyed.

B.7.3. Outsourcing of critical or important operational functions

The following table relates CIFS Functions that have been outsourced:

Figure 9: **EH Ré SA CIFS/Key Functions outsourced**

Category	Internal or External Outsourcing	Outsourced process / function	Provider's country
CIFS	Internal	Accounting / Reporting	Switzerland
CIFS	External	Local Lux Accounting and tax	Luxembourg

There was a re-assessment of the contract with AON from Key Function to CIFS compared to 2019. Moreover, there is one more contract regarding Back Office Competence Center with EH SA where the category assessment is still opened.

B.8. Any other information

EH Ré SA does not have any other information to disclose.

C. Risk profile

C.1. Underwriting Risk

C.1.1. Description of the measures used

EH Ré SA's risk is measured and steered based on the Standard Formula. This applies in particular to the measure of Non-Life Underwriting risk.

C.1.2. Description of the risk exposure

EH Ré SA's Non-Life Underwriting risk is composed of:

- **Premium and reserve risk**: the risk that actual claims for the business in the current year develop adversely relative to expected claims ratios;
- **Lapse risk**: the risk of loss following higher than expected lapses;
- **Catastrophe risk**: the risk of loss resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

At the end of 2020, the capital requirement for Non-Life Underwriting risk amounted to EUR 72mn.

C.1.3. Risk concentration

Please refer to section C.3.3 for a description of the material risk concentrations to which EH Ré SA is exposed.

C.1.4. Risk mitigation

The internal control system comprises various control concepts. Besides general elements related to any control activities and in addition to the Risk Management Framework, specific controls are utilized, in particular for underwriting. They are supplemented by management reports and policies (rules and guidelines). Improvement is expected on the availability of committees' minutes to ensure that non-profitable policies are actually discussed.

C.2. Market Risk

C.2.1. Description of the measures used

EH Ré SA's risk is measured and steered based on the Standard Formula. This applies in particular to the measure of Market risk.

C.2.2. Description of the risk exposure

Market Risk includes the following risks:

- **Interest Rate Risk**: the risk of loss following adverse market developments impacting interest rates;

- **Equity Risk**: the risk of loss following adverse developments impacting the equity market or the value of participations;
- **Property Risk**: the risk of loss arising from changes in the market value of real estate investments;
- **Spread Risk**: the risk of loss following adverse market developments impacting credit spreads;
- **Currency Risk**: the risk of loss following adverse market developments impacting foreign currency exchange rates;
- **Concentration Risk**.

At the end of 2020, the capital requirement for Market risk amounted to EUR 13mn.

C.2.3. Description of assets invested

EH Ré SA actively manages its investment portfolio and is actively taking investment risks in a controlled and limited manner. This is based on the firm belief that by taking risks on the investment side additional value can be generated on a mid to long-term basis, i.e. that the additional return on investments overcompensates the additional cost of capital in the mid-to long-run.

This approach results in a mid to long-term focused investment policy with an emphasis on Strategic Asset Allocation (SAA) and the goal of realizing the long-term risk premium of asset classes.

Tactical Asset Allocation (TAA) is used on a limited basis as an enhancement to the SAA in order to profit from market opportunities. The investment activities follow the general principles of a congruent ALM with a sufficient duration and currency matching within prescribed limits. All technical reserves are supported by investments made by the Investment and Treasury Group (ITG) with respect of local regulation.

EH Ré SA's investment strategy aims for a positive global mid-to long-term (3-5 years) risk-adjusted after-tax investment return considering:

- Local as well as group-wide external and internal regulations, and policies;
- Risk-bearing capacity and risk tolerance of EH Ré SA's and its shareholders;
- General principles of a congruent ALM;
- Return objectives, expectations, and risk tolerance of the shareholders; and
- Expectations of external parties (e.g. regulators, rating agencies, clients).

The following principles apply:

- Prudent Person Principle: EH Ré SA only invests in assets and instruments whose risks can be properly measured, managed, and controlled, taking into account the assessment of its overall solvency needs. In particular, assets held to cover the TP are also invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities;
- Focus on liquid, high quality, low-risk assets: The predominant portion of the portfolio is invested in cash and liquid, tradable, high-quality securities, mainly: developed market treasuries and government-related bonds, covered bonds. Further diversification in credit investments (e.g. corporate bonds, asset-backed securities /mortgage-backed securities, emerging market bonds) is allowed within pre-defined risk limits. Main technical reserves are supported

by investments in cash and fixed income securities. Parts of the reserves and the economic net asset value might be invested in equity and real estate within pre-defined risk limits;

- Asset Liability Management: The duration differences between assets and liabilities and the net foreign currency exposure are regularly monitored and appropriate actions and hedges are executed;
- Diversification: Diversification is a central part of the investment policy and is to be pursued with regards to the SAA, the geographical implementation, the number of counterparties;
- Avoiding investments that threaten EH Ré SA's reputation.

C.2.4. Risk concentration

EH Ré SA diversifies its risks across geographical areas and does not rely on one specific country or economy.

EH Ré SA diversifies its portfolio across issuers and does not rely on one specific issuer regardless of its credit quality.

C.2.5. Risk mitigation

Market Risk mitigation is performed by applying investment strategies to mitigate high volatility assets as well as regular monitoring of the investments and to ensure the diversification of the portfolio. These strategies are defined in order to maintain the risk appetite within the financial limits set in EH Ré SA Risk Appetite which are related to the interest rate, the equity, the foreign exchange, and the financial value at risk. Additionally, the SAA is a target asset allocation set yearly by the FiCo in order to ensure a balance between assets yields and the related RC. Quarterly, the FiCo reviews the SAA so it reflects the Risk Appetite defined within EH Ré SA. The FiCo also discusses every decision concerning investment strategy. This way EH Ré SA can effectively monitor investment risks.

As of 2020, no breach has been identified over the SAA.

C.3. Counterparty default Risk

C.3.1. Description of the measures used

EH Ré SA's risk is measured and steered based on the Standard Formula. This applies in particular to the measure of Counterparty Default risk.

C.3.2. Description of the risk exposure

Counterparty Default risk covers the following risk exposures:

- Risk-mitigating contracts, such as reinsurance arrangements;
- Receivables from assumed reinsurance;
- Any other credit exposures which are not covered in the market risk spread risk sub-module including e.g. cash at bank, deposits with ceding institutions, guarantees, etc.

At the end of 2020, the capital requirement for Counterparty Default risk amounted to EUR 9mn.

C.3.3. Risk concentration

For EH Ré SA, two kinds of monitoring have to be considered:

- Monitoring of the exposures at Group level;
- Monitoring of the reinsurance exposure limits at EH Ré SA level.

The monitoring processes and conclusions are summarized hereafter.

C.3.3.1. Monitoring of exposure at EH Group level

Trade Credit Insurance is the core business of EH. Thus, at EH Group level, several processes are in place to monitor the portfolio quality and risk:

- **Large risks management process:** the methodology is to identify the largest and most sensitive buyers and ensure there is a granular review of each risk. A standard template that presents the key metrics and proprietary analysis maximizing the expertise and local knowledge has been defined from each country. Buyers under this process are validated by several credit committees depending on their size;
- **Concentration risk management processes:** the evolution of the total exposure is monitored through three different dimensions to avoid concentration risk: the grade, the country, and the trade sector. The portfolio is strongly diversified on each of these dimensions. EH has succeeded in allocating its exposure in a well-proportioned manner and thus limiting the risk that may arise from a trade sector dependency or from a certain category of buyers or countries. Both the most sensitive buyers and the most sensitive countries are closely monitored.

C.3.3.2. Monitoring of reinsurance exposures at EH Ré SA level

EH Re has its own set of limits, depending on country grades, buyers rating, and Legal Entities (LEs)/Regions. Based on the information reported by the reinsured LEs/Regions, EH Ré SA monitors its reinsurance limits on a quarterly basis. As of 4Q 2020, the exposures limits are under control:

- Individual buyer limits: there are no exposures which are above 100%, before taking into account any Usage Given Default (UGD) or Loss Given Default (LGD);
- Global buyer limit: 3.16% of global usage (slightly increased compared to 4Q 2019);

  The Global usage represents the EH Group “per buyer risk” in excess of EUR 10mn in proportion to the EH Re special Limit in place on an aggregated basis.

C.3.4. Risk mitigation

EH monitors its counterparty default risk through the credit rating of the panel of external counterparties. EH external counterparties must be rated A by the Standard & Poor’s rating agency (in line with Allianz rules) and must provide collaterals in the case of a downgrade in credit rating below A.

The internal control system comprises various control concepts. Besides general elements related to any control activities and in addition to the Risk Management Framework, specific controls are utilized, in particular for counterparty default. They are supplemented by management reports and policies (rules and guidelines). Improvement is expected on the availability of committees' minutes to ensure that non-profitable policies are actually discussed.

C.4. Stress tests and scenario analysis

EH Ré SA has designed and implemented a firm-wide program covering stress testing, reverse stress testing, and scenario analysis.

For stress tests, EH Ré SA usually follows standard shocks in line with European Insurance and Occupational Pensions Authority (EIOPA) recommendations. For scenario analysis and reverse stress tests, a dedicated process is run by the EH Ré SA panel of experts which is made of risk, business, and economic experts who meet on an annual basis to identify up to 5 most relevant stress scenarios for the year to come. These scenarios are subsequently proposed to the EH Ré SA RiCo for review and selection.

C.4.1. Standard financial stress scenarios (N-1)

EH Ré SA solvency position is challenged on an annual basis against a set of financial stress tests recommended by Allianz and in line with EIOPA recommendations. In 2019, the following scenarios were analyzed:

- Equity drop: -30% in market values of all equity investments;
- Interest rates up: +100 bps in interest rate;
- Interest rates down: -100 bps in interest rate;
- Credit spread: +100 bps in credit spread on corporate and asset-backed security bonds;
- Combined scenario: -30% in market values of all equity investments and -100 bps interest rate.

None of these scenarios causes a major decrease of SII ratios.

C.4.1.1. Scenario analysis

As introduced above, EH Group panel has identified and proposed to EH Ré SA RiCo a set of relevant 'business' scenarios for analysis. The following scenarios have been approved by EH RiCo for analysis:

- 2008/2009 financial crisis: The scenario consists of replicating the macroeconomic and financial market shocks observed on the EH Ré SA risk profile during the financial crisis over 2008 and 2009. This scenario is designed to be a recurrent scenario as it serves as a benchmark given its severity level since 1929;
- Nuclear scenario: this scenario is designed to capture the potential impact of a nuclear exposure in a nuclear plant in Asia;
- US-China Trade War: This scenario is designed to capture the potential effects of an extended trade war between US and China.

Under such scenarios, EH Ré SA's solvency position would remain well above regulatory requirements at the end of 2019.

The scenario applicable to 2020 are run and approved during the first semester and will be subsequently integrated into the ORSA report.

C.5. Liquidity Risk

C.5.1. Description of the measures used

Liquidity Risk is measured and steered based on the projection of liquidity resources and needs over different time horizons and in both current and stressed market conditions.

C.5.2. Description of the risk exposure

Liquidity risk is the risk that EH Ré SA might not be able to meet its payment obligations as and when they fall due.

Liquidity Risk management is a component of EH Ré SA's Risk Appetite and is a core part of the financial planning, taking into account the cash flow schedule as well as the capital allocation process.

In accordance with the Liquidity Risk Management Standard, an analysis is performed on a quarterly basis to identify liquidity resources and liquidity needs and to project the evolution of EH Ré SA's liquidity ratio over different time horizons and under both the current and stressed conditions.

In this approach, the liquidity ratio is defined as the fraction of liquidity needs over liquidity resources:

- Liquidity resources mainly come from premiums, reinsurance receivables, and investment inflow;
- Liquidity needs mainly include claims and related expenses, reinsurance payables, operating expenses, dividends, and planned purchase or re-purchase of assets.

The projection of liquidity resources and needs under current market conditions shows that EH Ré SA would be able to maintain its liquidity within its Risk Appetite in a base case situation.

As in 2019, liquidity risk is not a material risk in 2020 but it is part of EH Ré SA's risk profile.

C.5.3. Risk concentration

EH Ré SA is not exposed to any material liquidity risk concentration.

C.5.4. Risk mitigation

According to EH Ré SA's Risk Appetite, the following thresholds have been defined for the liquidity ratio management:

- Ratio>100%: Red (action level);
- 100%>Ratio>95%: Amber (alert level);
- Ratio<95%: Green.

In case of a breach, depending on materiality, different escalation procedures are in place :

Condition	Consequence
No warning level (<95%)	No further actions are required by the Risk function.
Warning level (95%-100%)	Explanation of status in liquidity risk report by the Risk function.
Limit breach (>100%)	EH Ré SA prepares a remediation plan to bring back the liquidity ratio in the green zone. The remediation plan is proposed to the RiCo for approval and further notified to the BoD.

C.5.5. Expected profit included in future premiums

EH Ré SA's expected profits included in future premiums (EPIFP) amount to EUR 71.0mn.

C.5.6. Risk sensitivity

EH Ré SA identified several liquidity stress scenarios and chose to perform the one which appeared to be the most relevant in 2020: a deterioration of the market conditions leading to an economic crisis, a recession event which implies an increase of the claim frequency for credit insurers.

Thus, a combination of a market stress scenario and a recession scenario (reserve risk and credit risk) was simulated.

In this combined stress scenario, the liquidity ratio calculated at 4Q 2020 remains below the 95% alert level for the different time horizons, which shows that EH Ré SA is able to maintain its liquidity within its Risk Appetite in an extreme stress situation thanks to the adequate liquidity of its assets.

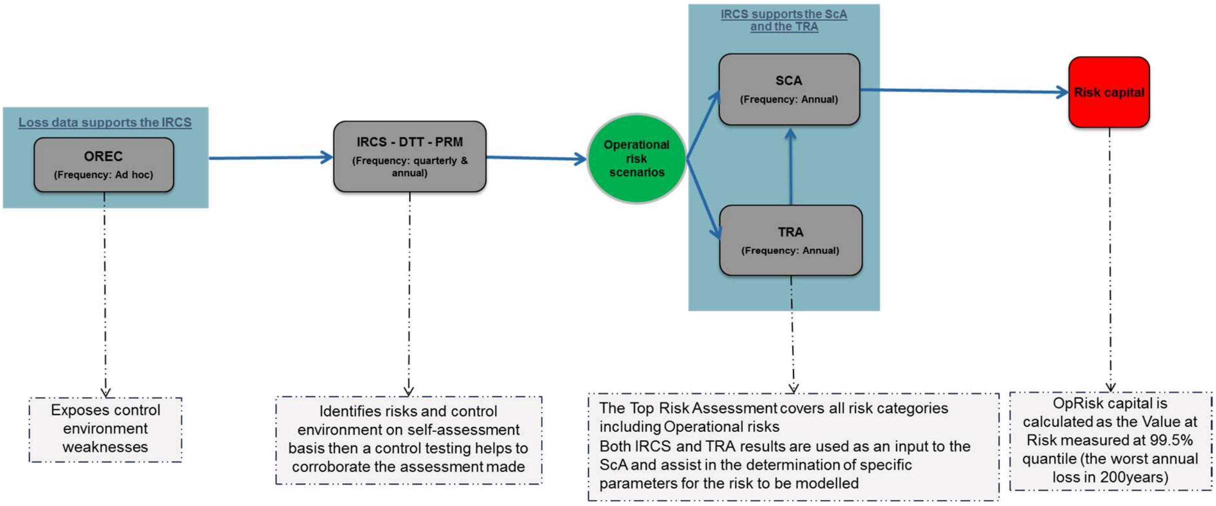
C.6. Operational Risk

C.6.1. Description of the measures used

The operational risk management framework establishes the core approach by which operational risks are managed. Legal and compliance risk are included, while strategic and reputational risk events are excluded. The management framework aims to:

- Generate awareness of the operational risks;
- Learn from past operational errors and events that either did or could have resulted in an operational loss;
- Reduce operational losses and other indirect consequences, including reputational damage and missed opportunities, resulting from the occurrence of operational risk events and;
- Enable management to conclude on the effectiveness of the internal control system (i.e. the portion related to operational risk management).

Figure 10: **Operational Risk management overview**



In accordance with EH risk policy framework, EH Ré SA has implemented comprehensive Operational Risk Management (ORM) processes, aiming at keeping the Operational Risks under control. Hereafter are briefly described each process:

- **The Operational Risk Event Capture (OREC):** Information regarding actual operational risk-related losses, gains and near-misses that have occurred is recorded via the OREC process. This information is used to support and corroborate the identification and assessment of risk during the IRCS process, as well as the assessment of control effectiveness;

- **The Integrated Risk and Control System (IRCS):** The IRCS is a risk management process by which EH Ré SA ensures, through the performance of a qualitative based analysis, that significant operational risks are identified, assessed, and prioritized for improved management and ensured that the controls underlying their management are effective;

- **Deficient Tracking Tool (DTT)**: DTT is a process linked to IRCS-Financial Reporting which aims to reference all controls which have been identified as deficient outside the regular IRCS control testing phase;

- **Project Risk Management (PRM):** The objective of the initial project risk assessment on one hand is to ensure that projects, including the transition to Business-as-usual (BAU), are delivered on time, on budget, and of adequate quality on the other hand it is to ensure that future BAU risks are recognized during project initiation and prior to project approval so that sufficient budget is provided for implementing adequate mitigation measures as well as automated controls for the future BAU;

- **The Top Risk Assessment Process (TRA):** This is a structured and systematic process implemented at EH Ré SA level whose objective is to identify and remediate significant threats to financial results, reputation, operational viability, and the delivery of key strategic objectives, regardless of whether they can be quantified or not;

- **Scenario Analysis (SCA):** Each year, “Scenario Analysis” workshops are organized with EH Ré SA experts in order to set the IM parameters to be used to calculate the Operational RC.

C.6.2. Description of the risk exposure

Hereafter is disclosed EH Ré SA's definition of Operational Risk, as well as several sub-categories of this risk:

- **Operational Risk:** the risk of loss resulting from inadequacies or failures in processes or controls due to technical resources, people, organization, or external factors;
- **Legal Risk:** the risk of loss caused by non-compliance with existing or new legislation or supervisory regulations, disadvantageous changes to existing laws or supervisory regulations, as well as the risk of a loss resulting from material litigation or regulatory proceedings, in particular through disadvantageous interpretations of laws by courts. Furthermore, Legal Risk includes losses due to ambiguity of laws or unfavorable contract clauses. Legal Risk does not constitute a separate risk category, as it is captured within the Operational Risk;
- **Financial Misstatement Risk:** The risk of loss caused by issuing external financial reports which are not fairly stated in all material respects. Financial Misstatement Risk is partially covered within the Operational Risk.

C.6.3. Risk concentration

EH Ré SA is not exposed to any material risk concentration regarding Operational Risk.

C.6.4. Risk mitigation

The processes aiming to mitigate the operational risk are described under section C.6.1. In addition, EH Ré SA does use insurance as a specific risk mitigation technique for Operational Risk targeting especially Cyber risk.

C.7. Reputational Risk

C.7.1. Description of the measures used

Direct reputational risks are measured through a risk assessment methodology, which depends on the nature of the risk:

- If the identified risk does not relate to one of the pre-defined sensitive business areas then the general reputational risk assessment methodology (the reputational risk matrix) must be applied;
- If the identified risk relates to one of the sensitive business areas or sensitive countries established as part of the reputational risk strategy then the corresponding guideline must be applied.

Indirect reputational risks apply the same reputational risk assessment methodology used for direct reputational risks.

C.7.2. Description of the risk exposure

Reputational risk is defined as an unexpected drop in the value of in-force business or value of future business caused by a decline in the reputation of EH Ré SA from the perspective of its stakeholders. Reputational risk can also bear either a direct or an indirect negative impact on the Allianz share price and the brand reputation metrics.

The potential for direct reputational risk is always considered throughout the course of all business activities. Indirect reputational risks are considered through the Top Risk Assessment (TRA) and IRCS processes.

C.7.3. Risk Mitigation

With regards to the monitoring, EH Group has implemented several methods to oversee that allow EH Ré SA to benefit from:

- Media coverage regarding EH at different level (Monthly Media Monitoring);
- Summary of current EH media issues that might be raised by media;
- Reporting to the Group RiCo on a quarterly basis of all direct reputational risks identified and assessed as exceeding EH Group's Risk Appetite (Scale of moderate or severe).

In case of breaches, a referral process has been defined and implies the involvement of the ESG Office, Compliance, Risk, and all Head of Commercial underwriters.

C.8. Other material risks

EH Ré SA is not concerned with any other material risks.

C.9. Any other information

EH Ré SA does not have any other information regarding the risks being disclosed in the above.

D. Valuation for solvency purposes

D.1. Assets

D.1.1. Valuation of assets

The following table summarizes the amounts for EH Ré SA assets in MVBS and LuxGAAP valuations.

Figure 11: Asset (MVBS vs LuxGAAP)

In EUR mn	MVBS	LuxGAAP
Goodwill	0	0
Deferred acquisition costs	0	27.6
Intangible assets	0	0
Deferred tax assets	2.1	0
Pension benefit surplus	0	0
Property, plant & equipment held for own use	0	0
Investments (other than assets held for index-linked and unit-linked contracts)	185.9	181.1
Property (other than for own use)	0	0
Holdings in related undertakings, including participations	0	0
Equities	0	0
Equities – listed	0	0
Equities – unlisted	0	0
Bonds	170.9	166.1
Government Bonds	73.3	71.2
Corporate Bonds	90.5	87.8
Structured notes	0	0
Collateralized securities	7.0	7.0
Deposits other than cash equivalents (2)	15.0	15.0
Loans and mortgages	21.1	0
Reinsurance recoverable from:	260.5	362.4
Non-life and health similar to non-life	260.5	362.4
Non-life excluding health	260.5	362.4
Deposits to cedants	0.2	0.2
Insurance and intermediaries receivables	0	74.9
Reinsurance receivables	0	0
Receivables (trade, not insurance)	0.4	21.5
Own shares (held directly)	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0
Cash and cash equivalents	1.0	1.0
Any other assets, not elsewhere shown	0	0.8
Total assets	**471.2**	**669.5**

Hereafter is an overview of valuation methods between MVBS and LuxGAAP values related to the assets.

Asset account	MVBS valuation	LuxGAAP valuation	Differences
Deferred acquisition costs	N/A	This is the discounted value.	The difference comes from the fact that in the SII balance sheet, DAC are canceled and taken into account in the Best Estimates of technical provisions.
Deferred tax assets	Deferred tax assets are recognized at their fair value.	N/A	The difference comes from the fact that In LuxGAAP, DTA are not recognized.
Bonds (government & corporate)	This line item is valuated on the basis of IFRS standard.	This is the amortized acquisition costs.	The difference of EUR 4.9mn is due to Local GAAP adjustments.
Loans and mortgages	Loans and mortgages are valued at amortized cost.	Loans and mortgages are recognized at nominal value.	In MVBS, the asset is higher by EUR 21.1mn compared to LuxGAAP because it includes the cash pooling amounts.
Deposits other than cash equivalents	Deposits other than cash equivalent are evaluated on the basis of the IAS 39 principle.	In LuxGAAP, the amount is reclassified as "Any other assets, not elsewhere shown".	There is no difference in the overall amount.
Reinsurance recoverable from non-life excluding Health	The calculation of reinsurance recoverable leads either to the recognition of reinsurance recoverable calculated as a whole or the BE for the reinsurance recoverable. No Risk Margin (RM) is reported in the section of the reinsurance recoverable as the RM recognized within the TP is already net of reinsurance. However, a Counterparty Default Adjustment (CDA) has to be calculated. The BE of TP has to be calculated gross.	In LuxGAAP, the amount recognized as a provision is the BE of the amount required to settle the obligation at the reporting date. This provision does not exceed in amounts the sum which is necessary.	In LuxGAAP, the asset is higher by EUR 101.9mn compared to MVBS due to following reasons: - In MVBS, not overdue receivables and payables are reclassified to technical provisions (+26.9mn) - Conceptual differences within the premium provisions presentation i.e ceded future profit vs. ceded UPR and refunds (+75mn) - no discounting in LuxGAAP.
Insurance and intermediaries receivables	Insurance and intermediaries include the MVBS adjustment and are recognized at amortized cost..	This is at the lower of their nominal and probable realizable value	The difference of EUR 74.5mn is due to the adjustments performed on MVBS side
Receivables (trade, not insurance)	Receivables (trade, not insurance) are recognized at amortized cost.	In LuxGAAP, receivables (trade, not insurance) are valuated at the lowest value between the nominal value and the probable realizable value. The amount recognized is adjusted if the recovery of the receivables is partly or fully compromised.	In LuxGAAP, the asset is higher by EUR 21.1mn compared to MVBS because it includes the interests on investment the withholding tax, and the cash pooling amounts.

Asset account	MVBS valuation	LuxGAAP valuation	Differences
Cash and cash equivalents	This line item is valuated on the basis of IFRS standard.	This is the nominal value.	There is no difference in the overall amount.
Any other assets, not elsewhere shown	This line item is valuated on the basis of IFRS standard	This is the nominal value.	The difference comes from accrued interests which are taken into account of the SII value of investments, whereas it is disclosed as accrued income in the LuxGAAP balance sheet.

D.1.2. Material financial assets

The default valuation method for assets and liabilities (other than TP) under SII is the use of quoted market prices in active markets for the same assets or liabilities.

The use of quoted market prices is based on the criteria for active markets as defined in IFRS.

Where the criteria for active markets are not satisfied, EH Ré SA uses alternative valuation methods.

When using alternative valuation methods, EH Ré SA relies as little as possible on entity-specific inputs and makes maximum use of relevant market inputs. If relevant observable inputs are not available, EH Ré SA uses unobservable inputs reflecting the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

The valuation technique used is consistent with one or more of the following approaches:

- Market approach: this approach uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or group of assets and liabilities;
- Income approach: this approach converts future amounts, such as cash flows or income or expenses, to a single current amount;
- Cost approach or current replacement: the cost approach reflects the amount that would be required currently to replace the service capacity of an asset.

The following table summarizes the different valuation methods used classified by class of assets and the alternative valuation methods used if the asset class price is not quoted on an active market for the same assets.

Figure 12: **Valuation methods by asset classes**

MVBS asset	Valuation method	Specificities when alternative valuation method
Cash and cash equivalents	Alternative valuation methods	Valuated at purchase price
Corporate Bonds	Quoted market price in active markets for the same assets	
	Alternative valuation methods	Valuated at purchase price
Collateralized securities	Alternative valuation methods	Valuated at purchase price
Deposits to cedants	Alternative valuation methods	Valuated at purchase price
Deposits other than cash equivalents	Alternative valuation methods	Valuated at purchase price
Loans and mortgages	Alternative valuation methods	Valuated at purchase price
Government Bonds	Quoted market price in active markets for the same assets	
	Alternative valuation methods	Valuated at purchase price

D.2. Technical Provisions

D.2.1. Valuation of Technical Provisions (TP) for solvency purposes

Figure 13: **The table below summarizes the TP amounts by SII LoB Technical provisions (In EUR mn)**

4Q 2020	Credit and suretyship insurance (MVBS)
Gross Best Estimate	270.9
Ceded Best Estimate	-260.5
Risk Margin	8.1
Net Technical Provisions	18.5

D.2.1.1. Basis

The value of the TP corresponds to the current amount required to transfer all insurance obligations immediately to another insurance entity. TP consist of the claims provision, premium provision and risk margin, together they constitute the Best Estimate Liabilities (BEL).

BELs are defined as the weighted average of future cash flows, taking into account the time value of money (the present value of future cash flows), determined from the relevant risk-free interest rate curve published by EIOPA, with the application of the correction for volatility (risk-free). Due to the time required to dispose of the curve published by EIOPA, the Allianz Group derives the discount interest rate curve, which may differ slightly from that published by EIOPA.

The BEL is calculated gross, without deduction of claims arising from reinsurance contracts. Gross and Ceded amounts are calculated separately.

The projected cash flows used in the calculation of the BELs include all the cash inflows and outflows required to meet the insurance and reinsurance obligations in the existing portfolio (or run-off) whose projection horizon must cover the whole life.

The ceded BELs are estimated by netting the gross BELs. The ceded BELs are adjusted by the CDA.

D.2.1.2. Methods and assumptions

The calculation of the BEL is based on up-to-date and credible information, realistic assumptions and is performed using actuarial and statistical methods relevant to each LoB.

Each provision is calculated by LoB, gross, and ceded. Regardless of the LoB, the approach taken is the same, and the methods and assumptions used are based on the actual exposure and experience of that LoB.

BELs are based on IFRS GAAP reserves (Loss Reserves, Premium Reserves, and Other Reserves), loss and expenses ratios.

D.2.2. Level of uncertainty

D.2.2.1. Stochastic reserving

Stochastic simulations ("Monte Carlo") are conducted on the IFRS claims reserves for all LoBs in order to provide reserve distributions around the quantitative BE reserves.

D.2.2.2. Sensitivity Studies on Technical Provisions

The premium reserves reflect the present value of all future outflows less inflows from future events post the valuation date that will be incurred under the insurer's existing policies that have not yet expired.

Hence, future outflows (i.e. future claims and administrative costs) and future inflows (i.e. future premiums) are taken into account in the premium reserves estimation. The future outflows are estimated via an adjusted combined ratio. As this parameter is a key driver of the premium reserves level, the sensitivity of (undiscounted) premium provisions on changing combined ratios has been tested.

D.2.3. Material changes in calculation assumptions for Technical Provisions

In 2019, all not-overdue payables/receivables were reclassified to Technical Provisions. EH has considered the nature of payables/receivables with regard to inward or outward business, e.g. payables/receivables with inward business partners are reclassified to gross premium provisions with receivables decreasing and payables increasing the reserves.

In 2020 the CR assumptions were updated on a quarterly basis to properly reflect Covid-19 impact and uncertainties.

D.2.4. Differences with Technical Provisions in financial statements

In MVBS, the gross TP amount as of 4Q 2020 was at EUR 279mn. In LuxGAAP the amount was at EUR 542mn. This difference is explained by the fact that in MVBS, the position includes claims provision, premium provision, and the RM, all according to the actuarial calculations whereas in LuxGAAP, it includes Unearned Premium Reserve (UPR), claims reserves, Bonus and rebates, Salvages and the equalization reserve.

D.2.5. Matching Adjustment

EH Ré SA does not apply a matching adjustment.

D.2.6. Volatility Adjustment

In accordance with the technical guidance provided by EIOPA and Allianz, the discount effect is currently calculated by taking into account the Volatility Adjustment (VA) inside the risk-free SWAP (yield) curves. A sensitivity study has been performed where only the EUR SWAP curve with and without VA is applied to the cash flows, i.e. omitting the impact of different settlement currencies. The impact of the VA is negligible.

D.2.7. Transitional risk-free interest rate-term structure

EH Ré SA does not apply the transitional risk-free interest rate-term structure referred to in Article 308c of Directive 2009/138/EC.

D.2.8. Transitional deduction

EH Ré SA does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

D.2.9. Recoverable from mitigation techniques

In 2020, EH Ré SA had reinsurance recoverable of nearly EUR 260.1mn. The recoverable are coming from non-life excluding health.

There was no recoverable from SPVs.

D.3. Other liabilities

D.3.1. Valuation of other liabilities

The following table summarizes the amounts for EH Ré SA other liabilities, classified by other liabilities classes as disclosed in the QRT, for both MVBS and LuxGAAP valuations.

Figure 14: **Other liabilities (MVBS vs LuxGAAP)**

In EUR mn	MVBS	LuxGAAP
Other Technical Provisions	0	0
Contingent liabilities	0	0
Provisions other than Technical Provisions	0	0
Pension benefit obligations	0	0
Deposits from reinsurers	0.2	0.2
Deferred tax liabilities (1)	35.3	0
Derivatives	0	0
Debts owed to credit institutions	0	0
Financial liabilities other than debts owed to credit institutions	3.7	0
Insurance & intermediaries payables (2	0	19.5
Reinsurance payables (3)	0	28.7
Payables (trade, not insurance)	0.1	4.2
Subordinated liabilities	41.3	33.1
Subordinated liabilities not in basic own funds	0	0
Subordinated liabilities in basic own funds	41.3	33.1
Any other liabilities, not elsewhere shown (4)	0.3	26.0
Total other liabilities	**81.0**	**111.6**

Hereafter is an overview of valuation methods between MVBS and LuxGAAP values related to the other liabilities:

Asset account	MVBS valuation	LuxGAAP valuation	Differences
Deposits from reinsurers	Deposits from reinsurers are recognized at nominal value.	Deposits from reinsurers are recognized at nominal value.	No difference between MVBS and LuxGAAP.
Deferred Tax Liabilities (DTL) (1)	Deferred taxes are evaluated on the basis of the IAS 12 principles.	In LuxGAAP, DTL are not recognized.	On 31 December 31st, 2020, the total deferred tax liabilities equaled EUR 35.3mn (MVBS value). DTL are mainly due to temporary differences due to the claims equalization reserve. In LuxGAAP, the liability is lower by EUR 35.3mn compared to MVBS because deferred taxes are not recognized in LuxGAAP.
Financial liabilities other than debts owed to credit institutions	Financial liabilities are measured on initial recognition amount.	Financial liabilities are measured at nominal value or probable repayment value.	In MVBS, the liability is higher by EUR 3.7mn compared to LuxGAAP because the position includes liability from Cash-pooling where on LuxGAAP the position is included in Payables (trade, not insurance).

Asset account	MVBS valuation	LuxGAAP valuation	Differences
Insurance & intermediaries payables [(2)]	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) and only include amounts past due for payment.	In LuxGAAP, insurance & intermediaries payables are recognized at their repayment value.	In LuxGAAP, the liability is higher by EUR 19.5mn compared to MVBS. The difference comes from the reclassification done on the MVBS accounts.
Payables (trade, not insurance)	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) and only include amounts past due for payment.	In LuxGAAP, payables are recognized at their repayment value.	In LuxGAAP, the liability is higher by EUR 4.1mn compared to MVBS. The difference comes from the reclassification done on the MVBS accounts.
Reinsurance payables [(3)]	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) and only include amounts past due for payment.	In LuxGAAP, reinsurance payables are recognized at their repayment value.	In LuxGAAP, the liability is lower by EUR 28.7mn compared to MVBS because in MVBS, the position includes reinsurance liabilities and the actuarial adjustment whereas only reinsurance liabilities are considered in LuxGAAP.
Subordinated liabilities	In MVBS the amount includes the subordinated loan to EHRE AG.	This is the reimbursement value	In LuxGAAP, the liability is lower by EUR 8.2mn compared to MVBS because of different Market Value of the subordinated loan in MVBS.
Any other liabilities, not elsewhere shown [(4)]	*"Any other liabilities, not elsewhere shown"* include any liabilities not included in the other balance sheet items and, thus, represent a miscellaneous category.	In LuxGAAP, the following positions are included: DAC retroceded, Other taxes, Other payables, and the loan interests.	In LuxGAAP, the liability is higher by EUR 25.7mn because the MVBS position only includes Other payables.

D.3.2. Employee benefits

EH Ré SA does not have any employee and thus does not recognize any employee benefit.

D.4. Any other information

There is no other information to disclose with regards to valuation for solvency purposes.

E. Capital Management

E.1. Own funds

E.1.1. Information on the own funds

E.1.1.1. Management of the own funds

Capital poses the central resource for EH Ré SA to support the multiple activities. It ties to EH Ré SA Risk Strategy which defines the relevant Risk Appetite with regard to the risk-bearing capacity including EH Ré SA's capital and solvency targets as well as risk limits, thus implementing the EH Ré SA's business strategy. Capital management describes the set of activities undertaken by EH Ré SA to ensure its adequate capitalization. The following principles are applied:

- Capital management protects the Group's capital base and supports effective capital management on EH Group level in line with the Group risk policy. It allocates capital to the underlying risk drivers under the budget limited by the Risk Strategy and with the target of optimizing the expected return under this constraint. Risk considerations and capital needs are integrated into management and decision-making processes. This is done by the attribution of risk and allocation of capital to the various segments, LoBs, and investments;
- EH Ré SA facilitates the fungibility of capital from a group-wide perspective by pooling/up-streaming available excess capital to EH Group while at the same time ensuring a sufficient level of capital is held at EH Ré SA level. This includes a consideration of a buffer above the minimum capital ratio to take into account potential market volatility;
- EH Ré SA ensures to comply with regulatory MCR;
- Capital is centrally managed in accordance with Group-wide rules and allocated to the benefit of the Group and its shareholders;
- EH Ré SA capitalization is managed using adequate buffers above minimum regulatory and where applicable rating agency requirements. Excess capital not required for business purposes over the (three years) plan horizon will be up-streamed by EH Ré SA;
- Capital management seeks to add economic value over the cost of capital;
- EH management is committed to having shareholders participate in the economic development of the Group through dividend payments;
- The capital allocation for steering the business is based on the Internal Risk Capital Model also taking into account other constraints (such as rating and liquidity);
- The RC for New Business will be allocated top-down to LoBs that produce the highest returns on RC applying the principles of portfolio management. Return on RC aims to ensure that EH Ré SA is adequately compensated for the risk to which it is exposed.

Please refer to section B.3.3.3 for further details on the capital management strategy in place in 2020.

E.1.1.2. Description of the own funds

Own funds are defined as the excess of assets over liabilities, reduced by the amount of own shares (held directly and indirectly) and the foreseeable dividends. The own funds are distinguished into basic own funds and ancillary own funds. Basic own funds are defined as the excess of assets over liabilities plus any qualifying subordinated liabilities. Ancillary own funds are defined as any capital resources other than basic own funds that could be called up in order to absorb losses. Ancillary own funds are off-balance sheet and require regulatory approval in order to qualify.

Figure 15: **Own funds evolution (MVBS)**

In EUR mn	4Q 2020	4Q 2019	Δ	%
Total assets	471,.3	613.4	-142.1	-23.2%
Total liabilities	360.0	507.2	-147.2	-29.0%
Excess of assets over liabilities	111.3	106.2	5.1	4.8%
Subordinated liabilities	41.3	33.4	748.0	24.0%
Available Capital	152.6	139.5	13.1	9.4%

The Eligible Own Funds increased by EUR 13.1mn (+9.4%) from EUR 139.5mn to EUR 152.6mn between 2019 and 2020.

The evolution of the excess of assets over liabilities is mainly linked to the positive net income of the period for EUR 6.5mn. Other movements more or less offset each other.

The subordinated debt provided by EH Re AG has been revalued at fair value, bringing the value of this debt to EUR 41.3mn.

As of 4Q 2020 EH Ré SA own funds are of high quality, all classified for 98.6% as basic own funds in Tier 1 in terms of available own funds to meet the SCR. Part of this Tier 1 own funds, the subordinated liabilities (28% of total own funds), are classified as restricted. The tier 3 consists of the deferred tax on the revaluation of the subordinated loan.

Figure 16: **Composition of own funds (MVBS)**

In EUR mn	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 3
Ordinary share capital (gross of own shares)	**16.2**	16.2	0.0	0.0
Reconciliation reserve	**93**	93	0.0	0.0
Subordinated liabilities	**41.3**	0.0	41.3	0.0
Deferred taxes	**2.1**	0.0	0.0	2.1
Total basic own funds after deductions	**152.6**	109.1	41.3	2.1

As per 31st December 2020, the nominal value of the subordinated liabilities was EUR 33.4mn. This amount has been revalued at fair value to EUR 41.3mn for MVBS purposes. A deferred tax has been computed on the revaluation for an amount of EUR 2.1mn. This subordinated debt has been provided by EH Re AG for an undefined period (with a minimum of 5 years) and bears an interest that is equal to the higher of:

- Euribor 1 year + 0.20 ;

- The rate accepted by the Swiss tax authorities on loans with similar conditions (this reference to the Swiss tax rate is a change vs prior years).

E.1.1.3. SCR and MCR covers

The following table summarizes the available amounts of own funds to cover the MCR and SCR.

Figure 17: **Own funds available/eligible to meet the MCR/SCR (MVBS)**

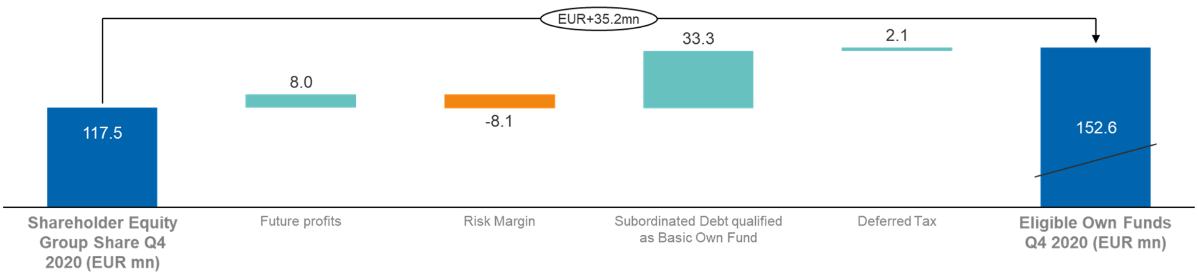
In EUR mn	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Total available own funds to meet the SCR	**152.6**	109.2	41.3	0.0	2.1
Total available own funds to meet the MCR	**150.5**	109.2	41.3	0.0	0.0
Total eligible own funds to meet the SCR	**152.6**	109.2	27.3	14.0	2.1
Total eligible own funds to meet the MCR	**139.8**	109.2	27.3	3.3	0.0

NB: Restricted Tier 1 should not account for more than 20% of total Tier 1 eligible own funds in terms of available own funds to meet the SCR. If restricted own funds go above this limit, they can be considered as Tier 2.

E.1.1.4. Differences between valuation in financial statements and for solvency purposes

The figures hereunder intend to show the main differences between IFRS Equity and MVBS Equity:

Figure 18: **Bridge IFRS equity – Basic Own Funds as of 31.12.2020 (in EUR mn)**



As seen on the graph, the future profits and the risk margin compensate each other almost exactly. The subordinated debt impacts this reconciliation only for EUR 33.33mn, ie the nominal value of the debt. This is because the revaluation process commented above is a pure MVBS process that decreases the excess of assets over liabilities to increase the value of the debt.

The local GAAP equity is EUR 16.2mn, made of EUR 61.00mn subscribed capital and EUR -44.88mn capital unpaid. The difference between this local GAAP equity and the IFRS equity of EUR 117.5mn consists mainly of:

- The inclusion in the IFRS equity of the equalization reserve of EUR 132.5mn booked in local GAAP, diminished from the corresponding deferred tax;

- The inclusion in the IFRS equity of EUR 3.1mn unrealized capital gains on bonds, diminished from the corresponding deferred tax.

E.1.1.5. Description of items deducted from own funds

EH Ré SA does not have any ring-fenced or matching adjustment portfolio.

EH Ré SA does not have any item deducted from own funds.

E.1.2. Additional ratios

EH Ré SA does not disclose any other additional ratios.

E.1.3. Loss absorbency mechanism

Except subordinated liabilities for which information has been disclosed under section E.1.1.2, EH Ré SA does not have any other own funds item to which Article 71 (1)(e) of the Delegated Regulation applies.

E.1.4. Reconciliation reserve

The following table summarizes the calculation of the reconciliation reserve.

Figure 19: **Breakdown of the reconciliation reserve (MVBS)**

In EUR mn	Total
Excess of assets over liabilities	111.3
Other basic own fund items	-18.3
Reconciliation reserve	93

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1.1. Evolution of SCR and MCR ratios

The table below shows the evolution of the SCR standalone components between 2019 and 2020:

Figure 20: **Breakdown of the SCR**

in EUR mn	4Q 2020	4Q 2019	Δ	%
Market	13.3	16.1	-2.8	-17.5%
Counterparty default	9.4	20.4	-11.0	-54.0%
Non-Life	72.0	77.3	-5.4	-7.0%
Total Standalone RC (excl. Operational Risk)	**94.6**	**113.8**	**-19.2**	**-16.9%**
Diversification impact	-13.0	-18.9	5.8	-30.9%
SCR before Residual, Operational Risk, Taxes	**81.6**	**95.0**	**-13.4**	**-14.1%**

in EUR mn	4Q 2020	4Q 2019	Δ	%
Operational	9.0	13.8	-4.8	-34.8%
Loss-absorbing capacity of deferred taxes	-22.6	-27.1	4.5	-16.7%
SCR excluding capital add-on	**68.0**	**81.7**	**-13.7**	**-16.7%**
Capital add-on already set	0.0	0.0	0.0	0%
SCR	**68.0**	**81.7**	**-13.7**	**-16.7%**

Available own funds	152.6	139.5	13.1	9.4%
SII ratio	224%	171%	54%	31.4%

At 4Q 2020, EH Ré SA's MCR amounted to EUR 17mn, decreasing by 17% since 2019.

E.2.2. Standard formula and Undertaking Specific Parameters

EH Ré SA does not use Undertaking Specific Parameters.

E.2.3. Inputs to calculate the MCR

The MCR for EH Ré SA based on the SM is shown below for 4Q 2020. The MCR equals the floor of 25% of the SCR. The calculation approach, which is the one recommended by the EIOPA, is the same as in 2019 and is explained in the table below.

Figure 21: MCR calculation (in EUR mn)

IM/SM	MCR	AMCR	SCR	MCR linear	45% SCR	25% SCR	MCR combined
SM	17.0	1.2	68.0	4.7	30.6	17.0	17.0

E.2.4. Material changes to SCR and MCR

Based on the previous analyses, there was no material change affecting both EH Ré SA's SCR and MCR.

E.3. Use of the duration-based Equity Risk sub-module in the calculation of the Solvency Capital Requirement

EH Ré SA does not use the duration-based Equity Risk sub-module in the calculation of its SCR as it is not applicable to its business.

E.4. Data quality

EH Group has implemented a data quality Key Performance Indicator (KPI) system across the whole company in accordance with the SII expectations. This system is designed to identify the issues that might occur on the data and the IT systems involved in the calculation of the RC requirements on all EH LEs and so on EH Ré SA as well.

The KPIs are consolidated and reported to the EH Group Data Quality (DQ) Committee through the data quality dashboards. These KPIs are reported separately: KPIs per risk type on one side and IT KPIs on the other side.

The quality of the data used at EH Ré SA to calculate the RC is under control as no KOs were reported for EH Ré SA as of 4Q 2020.

E.5. Non-compliance with the MCR and non-compliance with the SCR

EH Ré SA is compliant with both MCR and SCR

E.6. Any other information

EH Ré SA does not have any additional disclosures regarding its capital management.

Appendix 1: Key terms and abbreviations

Terms / Abbreviations	Description
ALM	Asset Liability Management
APAC	Asia and Pacific
BE	Best Estimate
BEL	Best Estimate Liabilities
BoD	Board of Directors
BoM	Board of Management
BU	Business Unit
CAA	Commissariat aux Assurances
CAE	Chief Audit Executive
CAT risk	Catastrophic risk
CDA	Counterparty Default Adjustment
CDC	Career Development Conference
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CEO	Chief Executive Officer
CIFS	Critical or Important function or Services
COBIT	Control Objectives for Information and Related Technologies
COSO	Committee of Sponsoring Organizations
CRO	Chief Risk Officer
CSSF	Commission de Surveillance du Secteur Financier
CVaR	Credit Value at Risk
DAC	Deferred Acquisition Costs
DTL	Deferred Tax Liabilities
DQ	Data Quality
EAD	Exposure at Default
EEA	European Economic Area
EH	Euler Hermes
EH Group	Euler Hermes Group
EH Re	Euler Hermes Reinsurance
EH Re AG	Euler Hermes Reinsurance AG
EH Ré SA	Euler Hermes Reinsurance SA
EH SA	Euler Hermes SA
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, Social and Governance
EU	European Union
EUR	Euro
FiCo	Financial Committee
FP	Future Premiums
FX	Exchange rate
G/L	Gains/Losses
GDP	Gross Domestic Product
HR	Human Resource
IFRS	International Financial Reporting Standards

Terms / Abbreviations	Description
IM	Internal Model
IMAP	Internal Model Approval Process
IR	Interest Rate
IRCS	Integrated Risk & Control System
IT	Information Technology
ITG	Investment and Treasury Group
KPI	Key Performance Indicator
LGD	Loss Given Default
LoB	Line of Business
LRC	Loss Reserve Committee
LuxGAAP	Luxembourg GAAP
MAAC	Model and Assumptions Approval Committee
MCR	Minimum Capital Requirement
MMEA	Mediterranean countries, Middle East and Africa
MO	Model Owner
MVBS	Market Value Balance Sheet
OE	Operating Entity
OREC	Operational Risk Event Capture
ORM	Operational Risk Management
ORSA	Own Risk and solvency assessment
PAAC	Parameters & Assumptions Approval committee
PD	Probability of Default
PR	Premium Received
QRT	Quantitative Reporting Templates
RADAR	Risk Function following the Risk Assessment, Diagnostics, Analysis and Reporting process
RC	Risk Capital
RIC	Risk Information and Claims
RiCo	Risk Committee
RM	Risk Margin
SA	Société Anonyme
SAA	Strategic Asset Allocation
SAM	Standard Audit Manual
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SII	Solvency II
SLA	Service Level Agreement
SM	Standard Model
Solunion	Spain and Latin America (excl. Brazil) entities
SPV	Special Purpose Vehicle
TAA	Tactical Asset Allocation
TCI&S	Trade Credit Insurance & Suretyship
TP	Technical Provisions
TRA	Top Risk Assessment

Terms / Abbreviations	Description
UGD	Usage Given Default
UPR	Unearned Premium Reserve
VA	Volatility Adjustment
VAC	Validation Coordinator
VaR	Value at Risk
XoL	Excess of Loss

Appendix 2: Publically disclosed QRTs

Publically disclosed quantitative reporting templates (QRTs) can be found on the Euler Hermes Group main website: https://www.eulerhermes.com

Appendix 3: Disclaimer

To the best of the Company's knowledge, the information contained herein is accurate and reliable as of the date of publication. However, the Company does not assume any liability whatsoever for the accuracy and completeness of the information contained herein.