Euler Hermes SA

Solvency and Financial Condition Report (SFCR)

Fiscal Year 2021

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Entreprise d'assurance belge agréée sous le code 418
Immatriculée au Registre des Personnes Morales (Bruxelles)
sous le n° 0403 248 596
Branches: 07,09,13,14,15,16

Contents

Summary

Business and performance (A)

EH SA is an insurance company based in Brussels, Belgium that is 100% owned by Euler Hermes Group SAS (EH Group). EH SA's main Solvency II (SII) line of business (LoB) is credit and suretyship insurance, which represents over 92.6% of earned premium in 2021.

EH SA operates 20 branches and has 44 subsidiaries worldwide. The material geographical regions are the DACH region (Germany (DE), Austria, and Switzerland), the France region, the Northern region, the Mediterranean countries, Middle East and Africa region (MMEA), and the Asia and Pacific region (APAC).

During the first months of 2020, the Covid-19 pandemic, which started then, has gradually affected the whole planet and caused a human crisis of historic scale. 2021 was a year of uneven recovery, after the deep global recession experienced in 2020, the deepest recession since World War II (WWII). Global real GDP grew by +5.4%, after a -3.4% contraction in 2020. The robust overall number for 2021 masks divergences at several levels.

Advanced economies saw a more forceful economic rebound than emerging markets, driving a larger share of global growth than during the pre-pandemic normal. This relative outperformance was mostly the result of more leeway for significant policy support, along with better and faster access to vaccines against Covid-19.

Another level of heterogeneity that marked 2021 is across sectors. Even though not as much as in 2020, contact-intensive sectors continued to be affected by intermittent sanitary restrictions while others benefitted from the release of pent-up demand. In advanced economies, consumer demand was exceptionally strong for durable goods.

The uneven recovery of the global economy and ad-hoc shocks created imbalances that led to supply chain disruptions. 2021 saw record high shipping prices, lengthening of delivery times, and a rise in the price of imported inputs and goods. Here again, not all regions were affected the same way, with Asia-Pacific better shielded and Europe the most vulnerable.

State intervention was still in place in 2021, leading to the Euler Hermes Global Insolvency Index declining for the second consecutive year in 2021 (-6% estimated after -12% in 2020). Strong cash balances, as well as rising profitability and capex, also cushioned the impact of higher costs for companies in the US and the Eurozone.

Indeed, starting in 2020, 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 a 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 been treated as ceded reinsurance. They have obviously had a very significant impact on the 2020 and the 2021 net earned premiums of EH SA.

Government support schemes dedicated to credit insurance business are currently in place in the following countries: Germany, Belgium, the Netherlands, Denmark, Norway, UK, France, and Italy.

All those state support programs have been presented as “reinsurance schemes” in the accounts.

In 2021, the impact from those schemes on the EHSA consolidated accounts is negative on a net basis by EUR -148mn, of which EUR -143mn ceded premiums, EUR -51mn ceded claims, and EUR 46mn commissions.

Furthermore, Euler Hermes launched over 2021 a global rebranding initiative, aiming at strengthening the Allianz master brand as well as creating new opportunities for Euler Hermes. As from the March 28th, 2022 the new brand name of the Euler Hermes group is Allianz Trade, while the legal names used by all Euler Hermes entities will remain the same.

System of governance (B)

EH SA management structure is organized around the Board of Directors (BoD) and the Management Committee (MC). The BoD set up two specialized advisory committees, namely the Audit, Risk and Compliance Committee and the Nomination and Remuneration Committee. Similarly, the MC has established various operational committees to assist it in its tasks.

EH SA has also implemented four independent control functions (Internal Audit, Compliance, Risk Management and Actuarial) constituting the 2nd[1] and 3rd of its “three lines of defence” organization.

EH SA has put in place different frameworks to support the roles and responsibilities of these functions. It includes the monitoring and implementation of the Solvency 2 Policies across all legal entities within EH SA. The Solvency 2 policies cover different key topics (Risk Policy, Capital Management, Actuarial, Legal, etc.) and are updated closely with all stakeholders on an annual basis.

EH 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 SA.

The Own Risk and Solvency Assessment (ORSA) is a set of processes assessing the overall solvency needs over the planning horizon. It constitutes a decision-making tool for the Management Committee and an effective instrument for the steering of the company’s business for the BoD. The ORSA report based on 4Q 2021 figures will be submitted to the NBB on June 30th, 2022 at the latest.

Risk profile (C)

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

This section provides an overview of the risk categories contributing to EH SA’s Solvency Capital Requirement (SCR) of EUR 609mn.

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[1] with the addition of the two key functions as “designated key functions”: Legal and Accounting & Reporting

Qualitative and quantitative information on risk exposures, concentrations, mitigation, and sensitivities have been provided for the following risk categories: market, credit, non-life underwriting, operational, liquidity, and reputational risks.

Valuation for solvency purposes (D)

EH SA's assets and liabilities are presented and reconciled in Market Value Balance Sheet (MVBS) and local Belgian Generally Accepted Accounting Principles (BeGAAP).

Total assets at the end of 2021 amounted to EUR 3,893.0mn on an MVBS basis. Assets have been invested in alignment with the prudent person principle.

Total liabilities at the end of 2021 amounted to EUR 2,740.4mn on a MVBS basis, of which EUR 1,676.7mn of Technical Provisions (TP). The Volatility Adjustment (VA) impact is null.

Capital management (E)

EH SA own funds are exclusively composed of basic own funds. The SII own funds are composed of 94.0% of Tier 1 unrestricted. The rest of the own funds is classified as Tier 3.

EH SA complies with the National Bank of Belgium (NBB) regulatory requirements and is in line with its capital management strategy in terms of solvency.

The Minimum Capital Requirement (MCR) ratio stands at 476% and the SCR ratio at 174.6%. EH SA is not foreseeing any breach of its SCR or MCR.

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 SA
Address	Avenue des arts 56, 1000 Brussels, Belgium
Website	www.eulerhermes.com

Euler Hermes SA is referred to as EH SA throughout this document. EH SA's legal company form is a limited company (société anonyme) with the registration number BE 0403.248.596.

A.1.1.2. Supervisor

Name	National Bank of Belgium
Address	Boulevard de Berlaimont 14, 1000 Brussels, Belgium

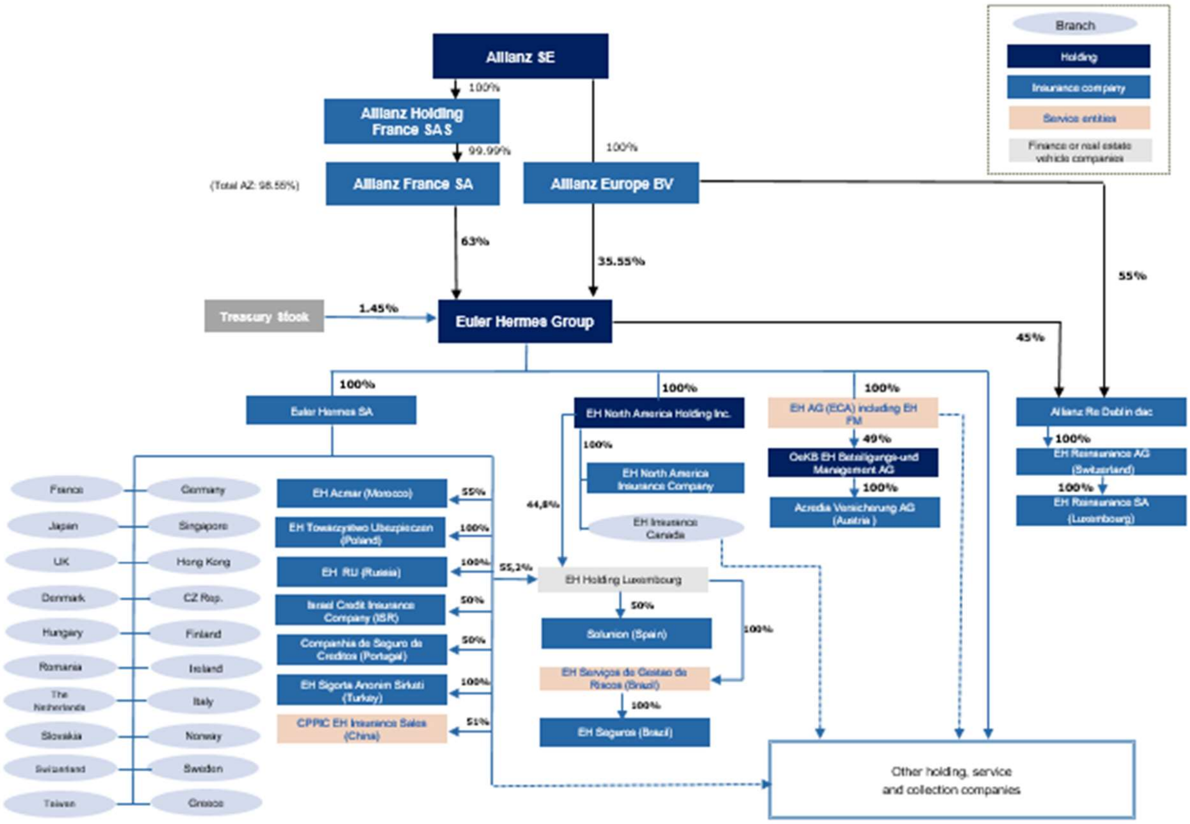
A.1.2. Auditor

Name	PwC
Address	Brussels National Airport 1K, 1930 Zaventem

A.1.3. Group structure and qualified holdings

EH SA, located in Belgium, is a part of EH Group, located in France. Below is a simplified group structure chart for EH SA as of 31.12.2021, which also details the percentage ownership and legal links to its parent entities and its material-related undertakings.

EH Group simplified group structure as of 31.12.2021



At the end of 2021, EH SA number of shares is 2,925,155 of which 78,340 are own shares. The remaining shares are held by EH Group.

The structure of the Group is virtually unchanged, except on the captive side, where EH Group now owns shares (45%) in Allianz Re Dublin, which in turn holds 100% of Euler Hermes Reinsurance AG.

A.1.4. Material lines of business and geographical areas

A.1.4.1. Geographical areas

EH SA operates 20 branches located in France, Germany, Japan, Singapore, UK, Hong Kong, Denmark, Czech Republic, Hungary, Finland, Romania, Ireland, Netherlands, Italy, Slovakia, Norway, Switzerland, Sweden, Taiwan, and Greece.

EH SA additionally has 44 subsidiaries worldwide including numerous different service companies as well as seven insurance legal entities (among which EH Poland which does its own reporting).

A.1.4.2. Lines of Business

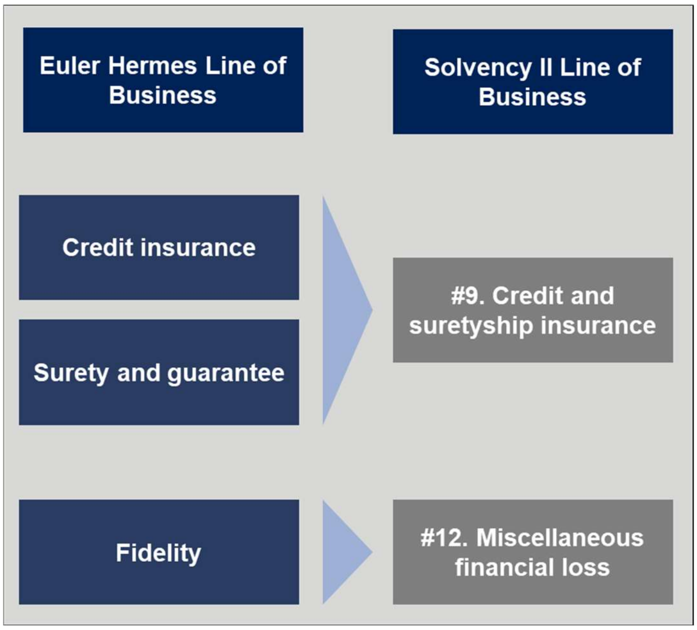
EH SA has three main LoBs: Credit Insurance, Surety and guarantee business and Fidelity.

For the purposes of SII reporting, the chart below describes the mapping of each of the EH SA's LoBs into the SII LoBs:

- #9. Credit and suretyship insurance
- #12. Miscellaneous financial loss

The credit and suretyship insurance LoB is considered to be the only material LoB as it generates over 92.6% of EH SA earned premium.

LoBs within EH SA



A.1.5. Significant and subsequent events

Several significant events occurred in 2021 for the EH Group in general and EH SA in particular:

- Various governments, especially in Europe, have requested in 2020 the credit insurance companies to maintain their coverage, in exchange for a state support for the sector. This support has taken the shape of the so-called "State Schemes". Those State Schemes are in essence proportional reinsurances schemes with the various States, and have been treated as such in the accounts. They were in place in the following countries: Germany, Belgium, the Netherlands, Denmark, Norway, UK, France, and Italy. Originally foreseen until December 31st, 2020, they have been extended until June 30th, 2021;
- In 2012 the former headquarter of EH (1 Rue Euler, 75008 Paris, France) was brought into an OPCI, the OPCI "EH Real Estate", in which EH SA holds 60% of the capital, the remaining 40% are in the hands of the minority shareholder, who financed the refurbishment of the building; to ensure the liquidity of this stake, EH has granted a put option to the minority shareholders. The minority shareholders have expressed in 2021 the wish to exert their option, leading to the booking per 31/12/2021 of a decrease in the consolidated IFRS equity of EH Group and EHSA, by EUR -110mn, the fair value of the option.

A.2. Underwriting Performance

As part of EH Group, EH SA performs analyses and discloses its reports and publications on an International Financial Reporting Standards (IFRS) basis.

A.2.1. Aggregated underwriting performance

The **turnover** consists of earned premiums generated by direct insurance and assumed business and service revenues provided to policyholders or third parties.

Credit insurance policies are designed to cover the risk of non-payment by the policyholder's customers.

Premiums are based mainly on policyholders' sales or their outstanding customer risk, which also depends on their sales.

Service revenues consist mainly of two types of service fees:

- **Information fees:** these consist of billings for research and analysis carried out to provide policyholders with the required credit insurance cover, and of amounts billed for monitoring the solvency of their customers;
- **Collection fees:** these correspond to amounts billed for debt collection services provided to policyholders and to companies that are not policyholders.

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

Figure 1: **EH SA aggregated underwriting performance (IFRS)**

In EUR mn	2021	2020	Δ	%
Turnover	1,841	1,714	127	7.4%
Claims costs	-596	-882	286	-32.4%
Gross operating expenses	-637	-625	-12	1.9%
Gross technical result	607	206	401	194.1%
Outward result	-593	-259	-334	128.7%
Technical result	14	-53	67	-127.1%

A.2.1.1. Turnover

In 2021, turnover amounted to EUR 1,841mn, increasing by 7.4% compared to 2020.

Gross earned premiums amounted to EUR 1,807mn in 2021, increasing by 7.5% compared to last year. This increase is linked on the one end to the price increase campaign launched and executed by EH in 2020, and, on the other end, to the rebound of the turnover of the customers of EH, which forms the basis for the premium computation in many cases.

Service revenues are negatively affected by the low level of collection fees, induced by the low level of claims.

A.2.1.2. Claims costs

Claims costs were at EUR 596mn, down by -32.4% compared to last year, due to the historically low claims following the massive support of States to the economy worldwide, a lower level of large cases.

Gross claims costs for the Current Year were at EUR 983mn, down -8.9% compared to last year.

Gross run-offs were still positive and amounted to EUR 387mn, compared to EUR 197mn last year.

A.2.1.3. Outward result

Further to the Covid-19 crisis, many states have requested Credit insurers to enter governmental agreements to support the economy. State support schemes have been signed and are effective in the following countries: Germany, France, UK, Italy, Belgium, Netherlands, Denmark and Norway. All state support programs are presented as "reinsurance schemes".

In 2021, the impact from those schemes on EH SA P&L is negative by EUR -148mn, of which EUR -143mn ceded premiums, EUR -51mn ceded claims and EUR 46mn commissions.

Those State Schemes, combined with the original proportional cession program of EHSA, has brought the cession rate of EHSA above 80% over the whole year 2021.

It also appears that the business ceded to the various States was very profitable, showing a low loss ratio; all those elements combined make that the outward result is very negative in 2021, at EUR 593mn.

A.2.1.4. Gross operating expenses

Gross operating expenses increased by 1.9% compared to the previous year, thus at a slower pace than the revenues.

This slower pace is linked to action plans enforced to reduce expenses, implemented gradually from Q1 2020, and consisting mainly of hiring freeze, salary freeze, cuts on external expenses and travel limitations.

Some costs have increase though:

- HR expense, mainly because additional temporary resources to face higher workload;
- Group recharges, partly because of changes in allocation keys following tax and audit recommendations, and partly because of the IT redeployment performed at Group level, recharged to the group entities.
- Unexpected rebranding costs.

A.2.2. Underwriting performance by material line of business

As per section A.1.4.2. of this report, the only SII LoB considered material at EH SA is credit and suretyship insurance. The following table summarizes EH SA's underwriting performance for this LoB.

Figure 2: **Credit and suretyship insurance underwriting performance (IFRS)**

In EUR mn	2021	2020	Δ	%
Turnover	1,698	1,588	110	6.9%
Claims costs	-485	-805	320	-39.7%
Gross operating expenses	-602	-589	-13	2.2%
Gross technical result	611	194	417	215.7%
Outward result	-604	-255	-350	137.3%
Technical result	6	-61	67	-110.1%

As seen in the section above, both the technical result at aggregated level and technical result of EH SA's credit and suretyship insurance increased by EUR 67mn compared to last year. Credit and suretyship insurance remain, by far, the most significant business line of EH SA and it is the most affected by the State Schemes.

A.2.3. Underwriting performance by material geographical area

A.2.3.1. DACH region

This region includes the direct insurance and assumed reinsurance business carried out by the entities operating in Germany and Switzerland.

Figure 3: **DACH region underwriting performance (IFRS)**

In EUR mn	2021	2020	Δ	%
Turnover	582	584	-2	-0.3%
Claims costs	-220	-259	39	-15.2%
Gross operating expenses	-185	-193	8	-4.3%
Gross technical result	177	131	46	34.8%
Outward result	-168	-122	-46	37.7%
Technical result	9	9	0	-3.1%

In 2021, turnover remained stable compared to 2020, driven by a slight decrease of gross earned premiums compensated by higher services revenues. The commercial development of TCI has remained below expectation, while more rebates than anticipated have been paid. Fidelity remained well above plan with good new business.

Claims costs decreased by -15.2% and reached EUR 220mn at the end of 2021. The claim frequency and severity has remained low in TCI; this has been partly compensated by some new large losses in Surety.

The outward result amounted to EUR -168mn, compared to EUR -122mn last year, mostly explained by the low claims level.

A.2.3.2. France region

Figure 4: **France region underwriting performance (IFRS)**

In EUR mn	2021	2020	Δ	%
Turnover	354	335	20	5.8%

Claims costs	-116	-208	93	-44.4%
Gross operating expenses	-117	-107	-10	9.5%
Gross technical result	122	20	102	518.8%
Outward result	-91	-33	-58	177.0%
Technical result	31	-13	44	-330.8%

France recorded a 5.8% increase in turnover, fueled mainly by the recovery of the policyholders' turnover. Service revenues remained disappointing though.

Claims costs stood at EUR 116mn, decreasing by -44.4% compared to last year. In 2021, claims remained under "normal" level due to the State support to the economy. As a consequence of low claims development, a significant run-off has been booked, as a consequence of the downwards revision of the ultimate loss ratio on attachment year 2020.

The outward result amounted to EUR -91mn, increasing by 177.0% compared to last year, due to a far higher technical result.

A.2.3.3. Northern Region

This region includes the direct insurance and assumed reinsurance business in Northern European countries (Belgium, Netherlands, UK, Ireland, Finland, Sweden, Denmark and Norway) and Eastern Europe (Hungary, Czech Republic, Romania, Slovakia and Russia).

Figure 5: **Northern region underwriting performance (IFRS)**

In EUR mn	2021	2020	Δ	%
Turnover	463	414	49	11.7%
Claims costs	-140	-211	71	-33.4%
Gross operating expenses	-170	-171	1	-0.5%
Gross technical result	152	32	120	371.4%
Outward result	-160	-44	-116	266.6%
Technical result	-8	-12	4	-31.2%

Turnover increased by 11.7% compared to last year, mostly on TCI and World Program business. Main driver for the increase is policyholders' turnover evolution and executed price increases.

Claims costs reached EUR 140mn, down -33.4% compared to 2020, mainly thanks to the run off performance, mainly linked to release of provisions.

Outward result amounted to EUR -160mn, compared to EUR -44mn last year, consequence here again of the implementation of States Schemes (Belgium, Netherlands, UK, Denmark and Norway) and of the improved techncial result.

A.2.3.4. Mediterranean countries, Middle East and Africa region (MMEA)

This region includes the direct insurance and assumed reassurance business in Italy, Greece, Gulf and South Africa countries.

Figure 6: **MMEA region underwriting performance (IFRS)**

In EUR mn	2021	2020	Δ	%
Turnover	290	243	46	19.0%
Claims costs	-89	-146	56	-38.6%
Gross operating expenses	-99	-94	-4	4.4%
Gross technical result	101	3	98	3362.5%
Outward result	-119	-24	-95	397.8%
Technical result	-18	-21	3	-15.6%

Turnover was at EUR 290mn, up 19.0% compared to the prior year thanks to good TCI, Bonding and World Program performance.

Claims cost dropped to 89mn, 38.6% lower than the prior year, as higher claims costs on the current attachment year were more than offset by the higher release of run-offs.

The Outward result was EUR-119mn, compared to EUR-24mn last year; this variation is driven by State Scheme implementation in Italy at the very end of 2020 and the improved technical result.

A.2.3.5. Asia and Pacific region (APAC)

This region includes all the direct insurance and assumed reinsurance activities carried out by branches based in Asia (Japan, Hong Kong, Taiwan and Singapore) and Oceania (Australia and New Zealand).

Figure 7: **APAC region underwriting performance (IFRS)**

In EUR mn	2021	2020	Δ	%
Turnover	153	138	15	10,7%
Claims costs	-31	-58	27	-46,0%
Gross operating expenses	-67	-60	-7	11,1%
Gross technical result	55	20	35	173,2%
Outward result	-55	-37	-18	49,1%
Technical result	0	-17	17	-101,4%

Turnover stood at EUR 153mn, increased by 10.7% compared to last year. The increase is mainly driven by portfolio evolution and policyholders’ turnover.

Claims costs amounted to EUR 31mn, significantly down by 46.0% compared to last year. It is mainly due to low claim environment and a higher run-off.

Outward result stood at EUR -55mn, below the prior year by EUR -18mn.

A.3. Investment Performance

A.3.1. Income and expenses arising from investments

Figure 8: **EH SA investment performance**

In EUR mn	2021	2020	Δ	%
Current income from Equity	44	46	-2	-4.5%
Current income from Bond	14	15	-1	-9.2%
current income Real Estate 3rd party	0	0	0	26,2%
Current income from Cash and Other	0	0	0	-106,7%
Current investment income	58	62	-4	-6,0%
FX result (net)	3	-1	4	-318,8%
Investment Expenses	-7	-8	1	-11,7%
Interest Expenses	-5	-3	-2	77,2%
Trading - non operating (include LTI)	0	0	0	-117,9%
Real. G/L, imp. (net) equities	1	0	1	133,4%
Real. G/L, imp. (net) fixed inc	1	6	-5	-84,8%
Real. G/L, imp. (net) inv. Prop.	-	-	-	-
Realized gains/losses	2	7	-5	-68,8%
Total investment income (incl. interest expenses)	51	57	-5	-9,5%

The main providers of dividends (income from equity) remain EH Collection (EUR 20mn vs EUR 10mn last year) and EH Services Italia (EUR 13.9mn vs EUR 11.9mn in 2020).

The decrease in revenues from bonds is explained by lower investment yields, in spite of higher assets under management in 2021, as a consequence of additional investments.

Investment expenses are in line with last year.

A.3.2. Gains and losses recognized directly in equity

In 2021, IFRS shareholder equity was at EUR 928mn, decreasing by EUR 154mn compared to 2020 where it amounted to EUR 1,082mn. The evolution of the IFRS shareholder equity over the reporting period is mainly explained by:

- The recognition of a put liability for EUR -110mn reflecting the obligation, according the shareholders agreement, to buy the minority investors shares of 40% into the OPCI EH Real Estate;
- A dividend distribution of EUR -50mn;
- The negative variation in unrealized gains and losses for EUR -10.6mn;
- The net actuarial loss on pension reserve for EUR -9.3mn.

Compensated by the following positive changes:

- A positive result of the year of EUR 13.4mn;

  The change in foreign exchange reserve for EUR 12.9mn, mainly on the British Pound (EUR 4.5mn), on Hong Kong Dollar (EUR 2.5mn), on Swiss Franc (EUR 1.8mn), on Shekel (EUR 1.6mn) on the Singapour Dollar (EUR 1.5mn) and the Czech Koruna (EUR 1.2mn).

A.3.3. Investments in securitization

The following table presents EH SA's investments in securitization (MVBS) between 2020 and 2021 including the exposure in these investments.

Figure 9: **Investments in securitization (MVBS)**

In EUR mn	2021		2020	
	Exposure	Exposure as % of total financial assets	Exposure	Exposure as % of total financial assets
Asset-Backed Securities	30	1,4%	0	0,3%
Collateralized	98	4,5%	143	3,7%
Covered	399	18,3%	221	19,0%
Securitization	527	24,2%	364	22,9%

The rationale behind those investments is disclosed below:

- Covered bonds exposure has increased due to increase of asset base and higher interest rate that facilitate investment in the asset class;
- Collateralized exposure has decreased;
- ABS exposure has increased due to new fund selected and very interesting risk/return profile for the portfolio.

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

The risk/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 SA has identified one source of material income and expenses in 2021 outside of those from underwriting and investments (using a threshold of EUR 1mn in order to determine materiality), which are detailed hereafter.

Restructuring expenses: in 2021, EH SA recognized restructuring charges mainly on IT decommissioning and HR expenses for a total amount of EUR -45.0mn (compared to EUR -14.4mn in 2020). The IT restructuring expenses (EUR -23.1mn) are legacy systems decommissioning costs, in order to set the new IT platform. The remaining costs (-22.0mn) relate mostly to the launch of non-IT productivity initiatives in DACH, Northern Europe and MMEA.

A.5. Any other information

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

B. System of governance

B.1. General information on the system of governance

B.1.1. Structure of the system of governance

EH SA management structure is organized around the BoD and the MC. In order to enhance the effectiveness of the oversight of EH SA activities, functioning and risk profile, the BoD has set up two specialized advisory committees, namely the Audit, Risk and Compliance Committee and the Nomination and Remuneration Committee.

The rules governing the responsibilities, composition and functioning of the BoD, the MC and the specialized committees are set out in the following sections.

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

B.1.1.1. Board of Directors

In general, the BoD has the final responsibility and the power to perform all acts necessary or useful for achieving EH SA corporate purpose, with the exception of those reserved to EH SA General Meeting of Shareholders by law or the articles of association of EH SA.

In accordance with SII regulation, the BoD has delegated all of its management powers to the MC, with the exception of determining overall policy and of acts reserved to the BoD by the Belgian Companies Code, the SII regulation and the overarching circular on the system of governance. Accordingly, the Board is tasked in particular with:

- Defining EH SA overall strategy and objectives as well as the risk policy, including the general exposure limits, as well as the integrity policy; and
- Carrying out effective oversight of EH SA activities.

EH SA is duly bound by special representatives, appointed at the initiative of the MC, within the limits of their mandates.

B.1.1.2. Management Committee

The MC is therefore in charge of the effective management and direction of EH SA activities (including the day-to-day management), within the framework of the strategy defined by the BoD.

The MC is accountable to the BoD and reports to it on the performance of its functions. In addition, the MC represents EH SA in its relations with staff, customers, insurance companies, authorities in Belgium and abroad.

To assist it in its tasks, the MC has established various operational committees. These operational committees are advisory committees to the MC and they act on the delegated authority of the latter.

- The **Reinsurance Committee** analyses reinsurance structures and conditions;

- The **Finance Committee (FiCo)** analyses EH SA and group's investments in light of the risk management policy;
- The **Risk Underwriting Committee (SCRUM)** is responsible for establishing procedures, structures and systems for managing Credit Risk exposure within EH SA;
- The **Risk Committee (RiCo)** oversees the rules, procedures and actions taken to identify, evaluate and control current and future risk within EH SA to ensure adherence to the Risk Strategy and Risk Appetite set by the BoD;
- The **Loss Reserve Committee (LRC)** determines, in accordance with IFRS, the amount of claims reserves, recoveries and costs related to the management of claims;
- The **Marketing & Commercial Committee** is a platform for the exchange of best practices in sales, marketing and distribution across the group's regions and branches;
- The **Project Investment Committee** decides on EH SA investments in any project, IT-related or otherwise, with a value of more than 100K€ or that involves more than 100 working days;
- The **Compensation Committee**: without prejudice to the powers of the Nomination and Remuneration Committee, the Compensation Committee oversees decisions relating to the remuneration of employees of EH SA and its subsidiaries;
- The **Product Committee** evaluates each new product and approves its launch;
- The **Protection and resilience Committee** monitors and controls all security and Business Continuity Management issues;
- The **Governance & Control Committee** purpose is to discuss and decide on questions in regard to EH SA overall governance and control framework;
- The **Financial Reporting and Disclosure Committee (FRDC)** acts as an advisory body for the Management Committee of EH SA in fulfilling its responsibilities with respect to external reporting for public disclosure.

B.1.1.3. Audit, Risk and Compliance Committee

The BoD decided to create one committee to take on the duties assigned to the Risk Committee and the Audit Committee, namely the Audit, Risk and Compliance Committee. The tasks of the Audit, Risk and Compliance Committee are as follows:

- Audit duties:
  - Monitoring the financial reporting process and, more specifically, the process of preparing financial statements (both statutory and consolidated);
  - Monitoring the financial policy;
  - Monitoring the effectiveness of EH SA internal control and risk management systems;
  - Monitoring Internal Audit, its activities and its effectiveness;
  - Monitoring the statutory audit of the statutory and consolidated annual financial statements, including following up the statutory auditor's questions and recommendations;
  - Monitoring the appointment process for statutory auditors and, where appropriate, renewing the auditor's term of office, making reasoned recommendations to that effect to the BoD;
  - Examining and monitoring the independence of the statutory auditor.

- Tasks related to risk management:
    - Monitoring the Risk Strategy;
    - Monitoring the functioning of the Risk Management function;
    - Monitoring the process of appointing independent valuers and the performance of their duties.
- Tasks related to compliance:
    - Monitoring the Compliance Strategy;
    - Maintaining an understanding of current laws and regulations concerning the corporate compliance program and integrity related standards;
    - Coordinating its actions with the Chief Compliance Officer.

At least once a year, the Audit, Risk and Compliance Committee reports to the BoD on the performance of its duties and, as a minimum, when it is drawing up the statutory and consolidated financial statements and, if applicable, the summary financial statements intended for publication. The Committee presents at least one report on each of these subjects to the BoD each year.

B.1.1.4. Nomination and Remuneration Committee

The BoD decided to set up a single committee, the Nomination and Remuneration Committee, responsible for both the nomination of candidates and remuneration of members, given the complementary nature of those tasks. The Nomination and Remuneration Committee's duties are as follows:

- In the area of nomination, the Committee:
    - Makes reasoned recommendations and proposals to the BoD regarding the appointment of members of the BoD, the MC and the specialized committees;
    - Gives an opinion on nominations made by shareholders;
    - Verifies the integrity, competence, experience and independence of each candidate;
    - Considers the desirability of renewing appointments and draws up a succession plan for corporate officers;
    - Defines the independence criteria for members of the BoD, organizes a procedure for selecting the Board's future independent members and performs its own assessment of the potential candidates before approaching them in any way; ensures that the independent members of the BoD meet the independence criteria throughout their term of office;
    - Obtains drafts of agreements which results or could in a conflict of interest for members of the BoD and the MC and, where appropriate, gives its opinion to the BoD or the MC;
    - Analyses all external functions performed by the corporate officers and ensures that they do not hold an unlawful combination of offices.
- In the area of remuneration, the Committee:
    - Issues an opinion on EH SA remuneration policy;
    - Prepares discussions on remuneration, particularly remuneration that has an impact on EH SA risk and risk management and on which the BoD is called upon to decide;

- Provides direct oversight of the remuneration allocated to the Heads of independent key control functions.

The Nomination and Remuneration Committee submits an annual remuneration report to the BoD and reviews the information provided to shareholders in the annual report relating to corporate officers' remuneration, the principles and methods applied for determining managers' remuneration, and for the allocation and exercise of share purchase or subscription options.

B.1.1.5. Key functions

EH SA has the following Solvency II independent control functions:

- Head of Internal Audit;
- Head of Compliance;
- Head of Risk Management;
- Head of Actuarial Function.

Regarding SII regulation, Compliance, Actuarial Function, Risk Management and Internal Audit operate within the three lines of defence model. A chart in section B.3.1.4 of this report discloses further details on the objectives of the three lines of defence governance.

Based on the implementation of the three lines of defence model, policies and processes in place, the Key Functions are deemed as well defined and appropriate in having the necessary authority, resources and operational independence to carry out their tasks. Detailed information on activities, processes, implementation and independence of the four independent control functions mentioned above is disclosed in the following sections.

Furthermore, EH SA considers that "legal" and "accounting and reporting" are of particular importance for its activities and organization, and has opted to deem as "designated key functions" of EH SA.

B.1.2. Remuneration policy

EH SA has put in place a remuneration policy aligned with the business strategy, risk profiles, targets and risk management practices, including the interest and long-term results of EH SA.

The remuneration policy promotes sound and efficient risk management and does not encourage the taking of risk beyond the risk tolerance of EH SA.

B.1.2.1.1. Remuneration of directors

The remuneration of directors includes the following components:

- Fixed compensation:
    - The non-executive directors and the chairperson of the BoD are entitled to an annual compensation paid in two installments;
    - The executive directors are compensated on an overall basis by EH Group for all their mandates related to the group and receive no specific additional remuneration for their mandates as directors within EH SA;

- Variable compensation: no variable compensation (whether in cash or in the form of stock options, shares, etc.) is allocated to the directors for their mandates;
- In addition, the independent directors who are members of the BoD's committees (Audit, Risk and Compliance Committee and Nomination and Remuneration Committee) receive an annual remuneration for their mandate within these committees. An additional remuneration is also allocated to the Chairperson of the Audit, Risk and Compliance Committee and the Chairperson of Nomination and Remuneration Committee, respectively.

B.1.2.1.2. Remuneration of the Management Committee members

The members of the MC are compensated on an overall basis by EH Group SAS, the group's holding company, for all their mandates related to the group. They receive no specific additional remuneration for their mandates as members of the MC within EH SA.

Due to legislation resulting from the revised European Shareholder Directive, a new group executives' compensation system has been implemented. The new compensation structure continues to follow the principles of sustainable performance and alignment with business strategy, market trends and applicable laws. The changes relate mainly to the discontinuation and reallocation of the mid-term bonus (MTB) which was one of the three variable bonuses (along with the annual bonus and RSU long-term incentive).

As from January 1st, 2020, the new group compensations system described above applies to members of the MC and certain top executives.

B.1.2.1.3. Remuneration of other senior management

The remuneration of other risk takers is composed of two elements:

- An annual fixed part, representing the main part of the total remuneration; and
- A variable part representing the rest of the total remuneration.

Heads of independent control functions are not subject to any financial and business targets, in order to allow them to exercise their functions independently from the financial performance of EH SA.

B.1.2.2. Assessment of Performance

The performance of Risk Takers is subject to an assessment based on 50% of financial targets and on 50% of individual targets. Heads of independent control functions are not subject to any financial or business targets, in order to allow them to exercise their functions independently from the financial performance of EH SA. Any payout can be reduced partially or in full in the case of a breach of the code of conduct, risk limits, compliance requirements or comparable criteria deemed relevant.

B.1.2.2.1. Pension plan

Heads of independent control functions and Risk Takers are not eligible for a supplementary pension plan (top hat scheme or "retraite chapeau"). They are eligible for a supplementary defined-contribution pension plan subject to the country's local pension system.

B.2. Fit and Proper requirements

B.2.1. Description of requirements for Fit & Proper

The application of the SII regulation requires a high Fit and Proper standard for Senior Management and Key Function holders across EH SA. For these positions, a policy establishes the core principles (general principles, fitness and propriety) and processes necessary to ensure sufficient knowledge, experience and professional qualifications as well as the necessary integrity and soundness of judgment.

B.2.1.1. Roles requiring regulatory Fit & Proper assessment

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

- **Senior Management** is defined as the persons effectively running the Company;
- Further to the Senior Management, the scope of the Fit & Proper is as follows:
    - Member of the BoD;
    - Members of the MC (whether a board member or not) and their direct reports;
    - Heads of independent control functions: Actuarial, Compliance, Internal Audit and Risk Management, including persons working within these functions;
    - Heads of regions, direct reports and regional holders of independent control functions;
    - Heads (or "Country Managers") of the branches of EH SA, and their direct reports as well as the local holders of the independent control functions
- **Independent Control Function holders** are the persons responsible for carrying out their the following functions:
    - Compliance;
    - Risk Management;
    - Actuarial;
    - Internal Audit.

For each SII independent control function, there is one Independent Control Function Holder. The independent control function's staff comprises of additional persons working within the functions, including those with a direct reporting line to the Independent Control Function Holders and, in addition, experts with independent decision rights.

B.2.1.2. Details on Fit & Proper requirements

B.2.1.2.1. Details on Fitness requirements

A person is considered **Fit** if his/her professional qualifications, knowledge and experience are adequate to enable sound and prudent fulfillment of his/her role. This includes leadership experience and management skills, as well as the relevant qualifications, knowledge and experience for the specific role. The qualifications, knowledge and experience required depend on the position.

The members of the BoD collectively possess qualification, knowledge and expertise about:

- The business, economic and market environment in which EH SA operates;
- The business strategy and business model of EH SA;
- EH SA's system of governance;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

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

While each individual member of the MC is not expected to possess expert knowledge, competence and experience within all areas of EH SA, he/she must possess the qualification, experience and knowledge, which are necessary for carrying out the specific responsibilities within the MC assigned to him/her.

Members of the Senior Management other than members of the MC must possess the qualification, experience and knowledge as outlined with regard to the MC to the extent they are relevant for their responsibility. This depends on the degree of autonomy within the overall organization of EH SA which the branch, organizational unit or regional business division has for the business.

Each Key Function holder must possess the Fitness required to fulfil the tasks assigned to him/her 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 SA outsourcing policy, the Fitness requirements for the person are identical to those applying to the respective Key Function holder himself/herself.

B.2.1.2.2. Details on Propriety requirements

A person is considered **Proper:** if he/she is of good repute and integrity, considering his/her character, personal behavior and business conduct, including criminal, financial and supervisory aspects. Propriety includes honesty and financial soundness required for him/her to fulfill his/her position in a sound and prudent manner.

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

- Any occupational prohibitions referred to in Article 41 of the SII regulation;
- Any conviction of a criminal offence, breaches of companies, insolvency and consumer protection laws;
- Any conviction of a relevant disciplinary or administrative offence;
- 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 SA business.

B.2.2. Description of processes and procedures in place

The Fit & Proper assessment checklist has been reviewed and distributed to all Heads of HR. It gives a definition of the controls that are carried out at each employee level and for each situation (appointment, transfer, departure, ad hoc, etc.).

The HR department adheres closely to these guidelines to ensure that each person who joins EH SA fulfils the professional experience and integrity requirements laid down in the Fit & Proper policy.

In addition, the process of the NBB's prior approval and regulatory reporting requirements is described in the EH SA policy application note. The managers with the support of HR, Legal and Compliance teams collaborate together on this process.

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

EH 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 a recruiting process as described below:

- Job descriptions/Fitness requirements for the position;
- Curriculum vitae/background checks;
- Interviews;
- Assessment by NBB.

Members of the BoD are appointed and reappointed by the General Shareholders' Meeting, on the recommendation of the Nomination and Remuneration Committee. Reasoned proposals and recommendations from the Nomination and Remuneration Committee are transmitted to the General Shareholders' Meeting.

Members of the MC are appointed and reappointed by the BoD, on the recommendation of the Nomination and Remuneration Committee.

B.2.2.2. Processes for ensuring ongoing Fitness and Propriety

A person's Fitness and Propriety is assessed on a regular basis, to ensure ongoing Fitness and Propriety of the person for his position, for instance, as part of annual performance reviews or Career Development Conferences.

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

- Relevant breach of the EH SA Code of Conduct;
- Failure to submit required self-disclosure statements;
- Investigation or any other procedure possibly leading to a conviction of a criminal, disciplinary or administrative offence or to administrative sanctions for non-compliance with any financial services legislation; and

- Substantiated complaint within EH SA (e.g. whistleblowing) or from supervisors.

B.2.2.3. Other processes

In cases where a Key Function is outsourced according to the EH SA outsourcing policy, the Due Diligence of the Provider by the Business Owner comprises a description of the process used by the Provider to ensure the Fitness and Propriety of its staff to provide the service.

At the date of the writing of the narrative report, no Key Function is outsourced.

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

EH SA ensures that, on an on-going basis, relevant professional training, including e-learning, is available (internally or via external providers) to the Senior Management and Key Function holders, to enable them to constantly meet the fitness requirements of their roles.

B.3. Risk management system and ORSA process

B.3.1. Description of risk management system

For all material quantitative and qualitative risks, a comprehensive Risk Management framework is in place and incorporates risk identification, risk assessment, risk response and control activities, risk monitoring and risk reporting.

The framework is implemented and conducted within a clearly defined Risk Strategy and Risk Appetite and periodically assessed for adequacy.

B.3.1.1. Risk strategy and objectives

EH SA's BoD establishes and adheres to a Risk Strategy and associated Risk Appetite, which is derived from, and consistent with, EH SA's business strategy. The Risk Strategy reflects the general approach towards the management of all material risks arising from the conduct of business and the pursuit of business objectives. The Risk Appetite elaborates on the risk strategy through the establishment of a specific level of risk tolerance for all material quantified and non-quantified risks. The level of risk tolerance is defined in order to take into account shareholders' expectations and requirements imposed by regulators and rating agencies. The Risk Strategy and Appetite are reviewed at least once a year and monitored on a quarterly basis and, if deemed necessary, adjusted and communicated to all stakeholders.

B.3.1.2. Processes

Appropriate risk mitigation techniques are employed to address instances where identified risks exceed, or otherwise breach, the established Risk Appetite (e.g. limit breaches). Where such cases occur, clear courses of action designed to resolve the breach are initiated, such as the adjustment of the risk appetite following a business review, the purchase of (re-)insurance, the strengthening of the control environment, or a reduction in, or hedging against, the underlying asset or liability giving rise to the risk.

The Risk Strategy and corresponding Risk Appetite are transferred into standardized limit management processes covering all quantified risks throughout the company and taking into account the effects of risk diversification and risk concentration. A clearly defined and strict limit breach reporting and escalation process ensures that risk tolerance limits and target ratings for top risks (including for non-quantified risks) are adhered to and that, as appropriate, remediation activities are taken immediately if limits are exceeded.

Early warning systems such as the monitoring of limits, the consideration of emerging risks during the performance of the TRA (Top Risk Assessment), and new product approval processes are established to identify new and emerging risks, including complex risk structures. Risks identified through early warning systems are subject to continuous monitoring and regular reviews and, where appropriate, pre-emptive risk mitigation techniques.

B.3.1.3. Risk Policy Framework

The Risk Policy Framework (RPF) is a set of policies, standards, and guidelines overarching the Risk Management System of EH SA. It describes the core risk management principles, processes, and key definitions to ensure all material risks are managed within the Risk Appetite and it is monitored by the Risk function.

- A Policy is a set of basic principles formulated and enforced by the governing body of an organization, to direct and limit its actions in pursuit of its long-term goals.
- Standard outlines detailed operational actions required to be taken in relation to a particular matter.
- Functional Rules provide guidance and advice on the implementation of particular matters, which may be the subject of legislation, a Policy, Standard, or business requirement.

Euler Hermes SA has rolled out its Risk Policy Framework in line with EH Group and Allianz Group requirements across all the Regions by taking into account its business specificities. The Risk Policy Framework is composed of several documents of which the Risk Policy (incl. EH Risk Strategy & Risk Appetite Policy) represents the core document. The Risk Policy is reviewed on an annual basis and ad hoc basis and is approved by the Management Committee.

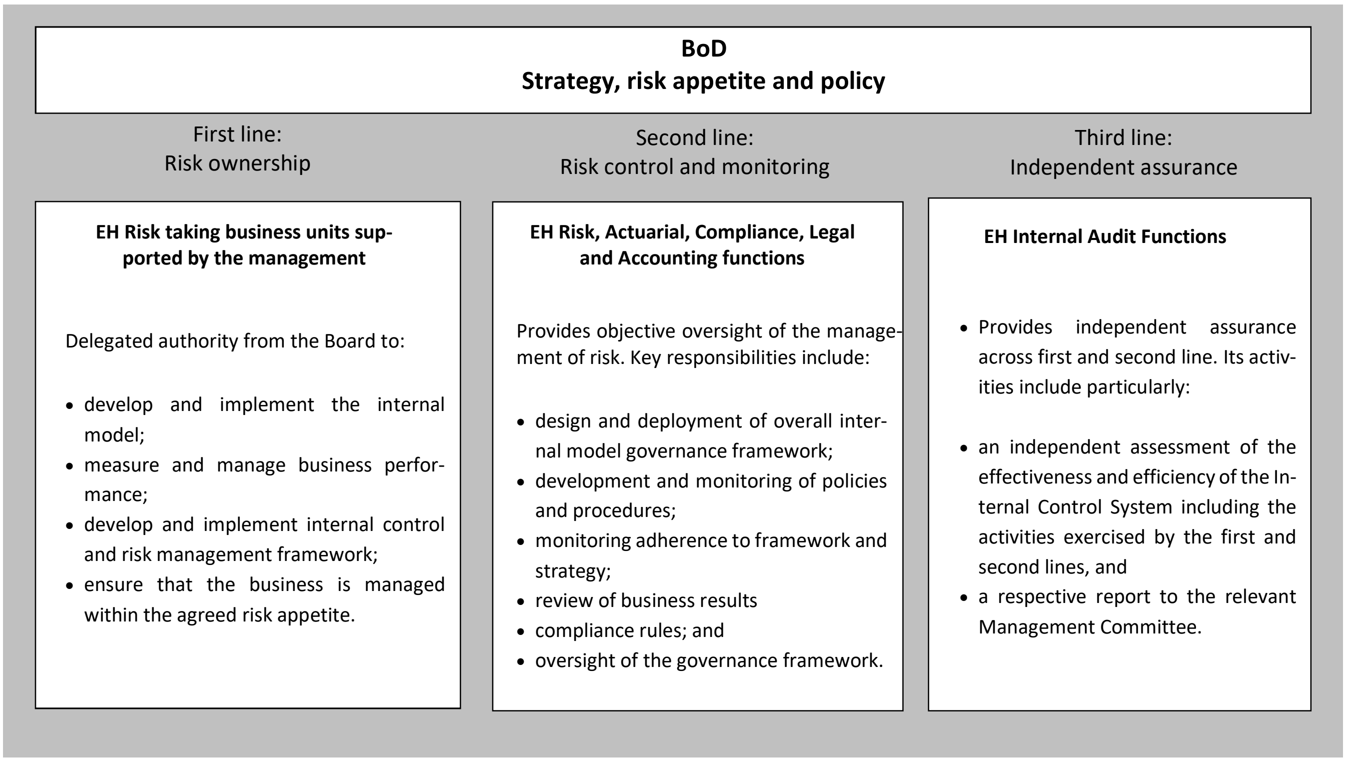
All RPF documents (policies, standards, and guidelines) have a designated owner which is responsible for the update, validation, and communication of the document to the Regions**.**

EH SA designated owners have to sign off a Statement of Accountability (SoA) to ensure that all documentation under their area of responsibility is fully implemented and compliant with EH requirements.

B.3.1.4. Three Lines of Defence

EH SA has adopted the "three lines of defence" model for risk governance, with clear responsibilities between the different organizational functions. It defines as the first line of defence Operating Business, as second-line control functions, e.g., Actuarial, Compliance, Legal[2], Accounting & Reporting, and Risk functions, and as third-line Internal audit. This model is described hereafter:

Figure 10: "Three lines of defence" model



B.3.2. Risk function

B.3.2.1. Duties of the Risk function

The Risk function has the following duties:

- To protect EH SA and achieve a source of competitive advantage through better risk quantification and risk management;
- To enable business decisions and an effective risk culture through trust-based business partnerships;
- To continuously improve EH global risk network, leadership, and technical skills as well as the interaction with the business;

[2] In addition to the Independent Control Functions determined by the Solvency II Law (Actuarial, Internal Audit, Compliance and Risk), Legal and Accounting & Reporting have been designated as key functions.

- To provide an effective, independent risk oversight, comprehensive governance system, and risk control framework;
- To efficiently meet external requirements (regulators, EH Group, Allianz, rating agencies); and
- To coordinate the production of the quantitative Solvency II reporting (QRT) and the ORSA report.

B.3.2.2. Independence

As required by Solvency II regulation, EH SA Risk function is an integral part of the "Three Lines of Defence" concept and operates with a degree of independence.

The Risk function is under the competence field of the Chief Executive Officer (CEO).

The Chief Risk Officer (CRO) is the key function holder operationally responsible for the Risk function. The CRO reports hierarchically to the CEO and has a functional reporting line to the Chief Financial Officer (CFO) due to the Solvency II Quantitative reportings (QRTs) and the ORSA report. The CRO possesses the qualification, experience, and knowledge required to manage the risks relative to the responsibilities of its role in alignment with the fit and proper standard.

The Risk function has a standing within the EH SA's organizational structure that ensures to maintain the necessary independence from the first line of defence functions. Necessary independence means that no undue influence is exercised over the Risk function, for instance in terms of reporting, objectives, target setting, and compensation or by any other means.

The Risk function 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 legally permitted. Notwithstanding, information access can be restricted to dedicated risk personnel contingent upon prior agreement with the CRO.

B.3.3. Governance of the Internal Model

B.3.3.1. Responsibilities

The **MC** is responsible for approving the application and use of the IM for calculating the SCR. In addition, the MC is responsible for confirming the ongoing appropriateness of the IM at least annually by signing off the Annual Validation Report.

The **EH SA CRO** is responsible for ensuring compliance with the EH Group standards on model governance, which are aligned with Allianz central standards. Responsibilities of the EH SA CRO include:

- Ensuring model validation is performed and documented in accordance with the EH Group standards on model governance, i.e. adequate independence and skills of model reviewers;
- Ensuring that the persons providing expert judgment possess adequate skills and experience;
- Ensure that the risk function has the necessary resources to endorse its responsibilities;
- Ensuring that all relevant documentation in the model inventory and the IM Approval Process documentation repository is kept complete and up-to-date in particular after a model change and that the documentation standards are fulfilled.

The following roles, consisting of either an individual or group of individuals, are established in order to facilitate adherence with the requirements of EH SA's standards:

- **Model Approvers** are responsible for:
  - Initial approval of the models they are responsible for;
  - Deciding on a remediation plan if the validation results for models they are responsible for indicating findings that have to be addressed.
- **Model Owners** are responsible for:
  - Ensuring the existence of adequate model documentation;
  - Developing model in accordance with the established design requirements;
  - Overseeing the implementation of model controls;
  - Carrying through activities to assess the appropriateness of the results produced by the model;
  - Assessing the data quality and defining appropriate data update cycles;
  - Signing-off of expert judgment.
- **Independent Reviewers** may be independent internal or external parties and are responsible for independent validation of models and reporting of the results according to the specifications in the guideline for model validation.
- The EH SA **Model Governance Coordinator** supports the EH SA CRO by:
  - Gaining approval of the validation plan by the local RiCo;
  - Coordinating the Annual Model Validation plan within the relevant legal entity;
  - Collecting suitability assessment results from Model Owners and documenting these in the relevant template for EH SA;
  - Gathering independent validation results of local model components and documenting these in the local Annual Validation Report for EH SA;
  - Following-up the status of the local remediation plans and disclosing status of open and closed findings in the local Annual Validation Report;
  - Regularly communicating the status of local validation plan to the model governance coordinator at Group level;
  - Coordinating the execution of the Annual Model Validation Report.
- The **Actuarial Function** is involved in modeling topics affecting their area of expertise, including dependencies with other risks.

B.3.3.2. Governance of Trade Credit Insurance & Surety Model

As EH SA core business is trade credit insurance and surety for which a specific IM has been developed The following refers to the governance of this model.

EH SA CRO is responsible for ensuring and supporting an adequate Trade Credit Insurance & Surety RC process from the data collection to the reporting and review of results. It covers:

- Accurate, complete, and timely delivery of data inputs;

- High process quality standard as per internal requirements;
- Evidence of controls of data delivery and sign off;
- An audit track document covering the data preparation, storage of data, and analysis of impact is an important component of the data input;
- The organization of a Parameters & Assumptions Approval Committee (PAAC) to approve the model calibration;
- Robust and complete justification and documentation of expert judgments;
- The implementation of an adequate validation process in the Business Unit (BU);
- The release of a statement of accountability to EH SA Risk Management.

If the data requirements or data quality standards are not fulfilled, EH SA CRO is in charge of initiating their correction.

A PAAC is organized every quarter, at BU and Group level, with various stakeholders (i.e. Risk Underwriting, Reinsurance, Finance, Actuarial) in order to review and approve the expert judgment as well as the parameters that will feed the TCI&S calculation process PAAC documentation includes a detailed view on parameters assumptions and setting to ensure a transparent and robust approval process.

B.3.3.3. Material changes to the Internal Model governance

The main change in 2021 pertains to the improvements brought on the classification of findings, tiering of risk modules, tracking of locally raised findings, and central storage of limitations.

No other material update occurred in 2021.

B.3.3.4. Description of the validation process

B.3.3.4.1. Validation plan

The validation plan ensures that the IM components are reviewed on a regular basis in compliance with their expected validation cycle, taking into account their materiality and known limitations. The Validation Coordinator together with the Model Owners will define a validation plan as per EH Group standards on model governance and aligned with Allianz requirements.

B.3.3.4.2. Validation results

Model validation results are summarized in technical model validation reports which contain the model suitability status, as well as findings and proposed recommendations to address identified model limitations. The reports are ultimately reviewed by the Model and Assumptions Approval Committee (MAAC) and/or the RiCo and signed-off by the MC.

The report details the findings identified during the model review taking into account the materiality and/or the potential impact on capital misstatement.

B.3.3.4.3. Validation recommendations follow-up

Planned remediation activities are monitored using a central inventory tool and a progress status report is presented to the MAAC and/or RiCo on a quarterly basis.

The effective resolution of validation findings is reported both in the respective validation reports and updated in the central inventory tool.

Ultimately, a status update is provided in the annual validation report for MC approval with potential impact on both RC requirements as well as on model uses.

As already highlighted under B.3.3.3, the follow-up process has been subject to improvements in 2021.

B.3.3.4.4. Escalation Procedure

The escalation procedure is necessary in case of disagreement on the validation outcome.

The escalation procedure starts with an escalation notice submitted by the Model Owner to the validation team/responsible with whom there is a disagreement. The notice includes a concise summary of the concern/issue and must be communicated as promptly as possible and substantiated with the necessary evidence against the validation outcome. The Group CRO as well as the Validation Coordinator are copied in this notification.

B.3.4. Conduct of an internal risk and solvency assessment

The Own Risk and Solvency Assessment (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-modeled 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 to the Risk Appetite and ensures consideration of risk capital needs from an integral part of the business decision-making process of the company.

Performance of the ORSA is realized by a regular comprehensive annual assessment of overall solvency needs and preparation of a corresponding report, as well as a non-regular (i.e. ad-hoc) assessment following significant changes in the risk profile.

EH SA’s ORSA report is reviewed once a year.

B.3.4.1. ORSA process

Figure 11: **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 of the alignment with EH Group's requirements;
- Identification of all risks and controls to be considered by performing several approaches;
- Assessment of all risks based on the IM and additional risk assessment methods for risks not covered by the IM. In addition, projections of own funds, risk capital, 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 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 then to be validated by the MC 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 at EH SA allow identifying main risks and handling them efficiently, allowing the BoD to make appropriate decisions.

B.3.4.2. ORSA governance

- The BoD is responsible for signing-off the final report;
- The MC is actively:
  - Ensuring proper implementation of its standard;
  - Challenging the outcome of the ORSA and doing a pre-approval signing of the report; and
  - Instructing on any follow-up actions to be taken.
- The RiCo is responsible for:
  - Overseeing the ORSA process;
  - Reviewing and pre-approving the ORSA results prior to submission to the MC;
  - Monitoring quarterly all the ORSA components and the execution of any follow-up actions;
  - Requesting performance of a non-regular ORSA after any events that could substantially alter the overall conclusion of the most recent ORSA.
- The CRO is responsible for:
  - Coordinating the ORSA process and preparing the ORSA Report for both regular and non-regular 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 them to all key stakeholders related to business strategy, Risk Strategy, and Risk and Capital Management;
- Advising the MC regarding the ORSA results;
- Communicating with supervisory authorities.

B.4. Internal control system

B.4.1. Internal control framework

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

EH SA has set up a Governance and Control Committee in order to discuss and decide on questions in regard to the EH SA and Group's overall governance and control framework. It aims in particular at reinforcing the interaction and collaboration between Key Control Functions in relation to governance and control-related topics.

The EH SA internal control system has the following objectives:

- To safeguard EH SA ability to operate as a going concern and the continuity of its business;
- To create a solid control environment, by ensuring that every member of personnel is aware of the importance of internal control and the role that they must play in the internal control system;
- To perform control procedures that are commensurate with the risk carried by EH SA's activities and processes;
- To provide relevant information to the management bodies as part of their decision-making processes;
- 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 SA in accordance with requirements regarding independence. They are incorporated into EH SA operational and organizational configuration and subject to continual review. 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.

The EH SA Internal Control function is part of the Risk Management function. In particular, it identifies any material errors in the Company's consolidated financial statements and management reports. Alongside these controls, reports are submitted to management.

B.4.2. General and specific control elements

The following key principles govern the processes and the manner in which governance and controls are organized at EH SA:

- Central, regional and local roles and responsibilities must be strictly defined;

- It is important to safeguard the separation of tasks to avoid excessive risk-taking and potential conflicts of interest;
- Important decisions must be taken by at least two representatives of the operational entity under review, even if, under local regulations, EH SA may be represented by a single person (four-eyes principle);
- In the interests of sound commercial judgment, the decision-making processes must be applied at all management levels that hold relevant information, notably through impartial access to necessary information;
- To facilitate communication throughout EH SA, English is the common language used at EH SA;
- Steps must be taken to ensure that all members of personnel are aware of the importance of internal controls through the clear definition and communication of roles and responsibilities and the provision of suitable training;
- It is important to maintain structured, documented processes for which key controls are in place and function effectively;
- The COSO, the COBIT, and the ITGC framework apply to the financial reporting process.

According to the COSO description, there are five components of internal control:

- Control environment (awareness among personnel of the need for internal control);
- Risk assessment (factors that may have a bearing on the achievement of objectives);
- Control activities (notably the application of standards and procedures);
- Information and communication of data required to manage and control activity;
- Monitoring of control systems.

EH SA applies the three-lines-of-defence internal control model as described in section B.3.1.4.

The "Governance & Control" policy clearly states what is expected of each line of defence and each control function. It also determines how controls are organized across the central, regional, and local functions.

Each corporate rule must be approved as part of a documented procedure.

The internal control system encompasses different control concepts. In addition to general aspects related to control activities, the following specific controls are also performed:

- Controls over Operational and Compliance risks
- Controls over financial reportings risks
- Controls over IT risks;
- Controls over the Solvency Capital Requirement;
- Controls over the underwriting of insurance risks;
- Controls over investments.

B.5. Compliance Function

B.5.1. Compliance tasks

The compliance function is a key function within the Internal Control System of the company as outlined in its Governance and Control Policy and required under the Solvency II regime. The main compliance tasks are:

- Identification and assessment of compliance risk that can result from a failure to comply with external requirements;
- Advisory role, which includes providing advice to senior management on applicable laws and regulations as well as on principles and procedures to achieve compliance;
- Monitoring to ensure compliance with applicable external requirements (defined as the current laws, regulations and regulatory requirements relevant to the EH SA's activities) and appropriate effective internal procedures;
- Training, contact point and awareness-raising in respect to applicable compliance responsibilities.

The Chief Compliance Officer draws up a compliance plan, on the basis of which the compliance function carries out its activities. The plan covers all EH SA's businesses and is reviewed for necessary changes at least on an annual basis.

B.5.2. Independence of the compliance function

The compliance function is an integral part of the "Three-Lines-of-Defence" concept described in the company's Solvency II Governance and Control Policy as well as the Compliance Policy. It has sufficient authority to maintain its independence at all times:

- The compliance function has an own Solvecy II policy desctibing its formal status and standing within the EH SA's organizational structure;
- The accredited Chief Compliance Officer reports directly to a member of the MC;
- Direct reporting lines are in place from the local compliance functions to the respective regional compliance funcions and to the Chief Compliance Officer;
- The outsourcing of the compliance function is prohibited and the integrity framework is set up in accordance with applicable laws and regulations.

B.6. Internal Audit Function

B.6.1. Implementation of the Internal Audit Function

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 to mitigate risks as well as further assist in strengthening the organization's governance processes and structures.

In our Three Lines of Defence Model, the Internal Audit function acts as a "Third and Last Line of Defence". 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.

In accordance with the definition of Internal Audit as outlined in the Audit Policy, Internal Audit supports the management to reduce and mitigate risks, as well as to assist in strengthening the 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.

Audit work involves generating an audit plan, examining and evaluating the information available, reporting on the results, and following up on recommendations.

The implementation of the Internal Audit function within EH is defined in the "Audit Policy" as well as in the supplemental "Standard Audit Manual", which define 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 is then determined using a risk-based approach. The resulting annual audit plan is approved by the chairperson of the MC and the Audit, Risk and Compliance 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 amongst others shared with the auditee as well as with the MC and the Audit Risk and Compliance Committee. Management is responsible for implementing related corrective actions and for remediating identified audit findings. The Internal Audit function monitors the implementation of the action plans to remediate deficiencies.

The Internal Audit team keeps the Chairperson of the MC and the MC regularly informed of the implementation of the audit plan. The Head of Internal Audit reports quarterly to the Audit, Risk and Compliance Committee regarding audit results and management responsiveness and has a regular exchange with the Chair of the Audit, Risk and Compliance Committee. Moreover, an annual activity report is generated and reported to the MC and the Audit, Risk and Compliance Committee.

B.6.2. Independence of the Internal Audit Function

The scope of EH Group Internal Audit includes all the OEs of Euler Hermes Group. The function is managed by the Head of Internal Audit, which reports to the Chairperson of the MC and to the Audit, Risk and Compliance Committee, and functionally to the Allianz Group Audit Manager.

In our Three Lines of Defence Model, the Internal Audit function acts as a "Third and Last Line of Defence". 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 Internal Audit function has a high organizational independence, which corresponds to their function as "Last Line of Defence". The Internal Audit function must have a standing strong enough to ensure the necessary independence. "Necessary independence" means that no undue influence is exercised over the function, for instance in terms of reporting, the setting of objectives or targets, compensation, or by any other means. The Internal Audit function must avoid conflicts of interest in fact or appearance.

Compliance with the above principles is ensured through adequate reporting lines and information rights. In addition, the Head of Internal Audit reports directly to the chairperson of the MC. The Head of Internal Audit has regular exchanges with the chairperson of the MC as well as with the chairperson of the Audit, Risk and Compliance Committee. A strong functional reporting line exist to Allianz Group Audit and local issues identified can be addressed.

The Internal Audit function has the right to directly communicate with any employee and obtain access to any information, records, or data it requires to fulfill its responsibilities – all to the extent legally permitted. It has both the responsibility and the right to review activities, procedures, and processes in all areas of the Group, without any 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. Internal auditors and the Internal Audit function have the authority to express assessments and recommendations but cannot give orders (except in cases of suspicion of illegal activities/fraud) and do not implement operational processes. To ensure 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 potential conflict of interests.

In addition, in order to ensure independent judgement, any bonus received by Internal Audit function representatives is based exclusively on achieving qualitative individual targets rather than on the financial and business results of EH SA.

Finally, the local Chief Audit Executive confirms to the chairperson of the MC and the Audit, Risk and Compliance Committee annually the independence of the internal audit activity.

B.7. Actuarial Function

B.7.1. Role of the Actuarial Function

B.7.1.1. Duties

The Actuarial function performs independent assessment and oversight of EH SA by way of the tasks related to the technical provisions, expressing an opinion on the insurance company's general underwriting policy and reinsurance arrangements, contributing to the effective implementation of the risk management system and issuing an opinion on the profit-sharing and rebate policy.

In his/her reports, the Actuarial Function Holder issues a signed, independent opinion on the actuarial process and the resulting calculations. He is not eligible for bonuses linked to the performance of the Company.

B.7.1.2. Functioning

EH SA's Actuarial function is based around three pillars:

- The MC, which ensures that the Company's Actuarial function is properly organised. Some of its members take part in quarterly LRC meetings and take the function's findings into account when making their decisions;
- EH SA's Actuarial Function holder is responsible for checking that the different regions and branches have properly implemented the various actuarial activities accordingly to Group standards. It is also responsible for communicating the results of its work at Audit, Risk and Compliance committee meetings and in the various reports it is required to produce;
- The reserving actuary of EH's regions or branches, who is responsible for implementing the various actuarial activities in line with the standards imposed by the Actuarial Function holder of EH SA, EH Group and the Allianz group. He/she is also responsible for communicating the results of their work to the Actuarial Function in the various regional reports he/she is required to produce.

B.7.2. Status of the Actuarial Function

The Actuarial Function holder is an expert in actuarial science and financial mathematics adherent to the code of ethics as well as the policies and standards imposed by the EH Group and the Allianz group.

Every year, the Actuarial function is required to give its reasoned opinion on technical reserves, product profitability, reinsurance and profit sharing.

The annual opinion issued by the Actuarial Function holder in compliance with regulatory, contractual and bylaw measures and on the status of provisions are presented in the activity report of the actuarial function. This report is approved by the MC and the BoD, sent to all other Key Functions, and filed with the NBB.

The Actuarial function is both operationally and independent from the EH SA's business and operational functions and any function likely to create a conflict of interest. Hierarchically the Actuarial Function Holder reports to the CEO.

B.8. Outsourcing

B.8.1. Description of the outsourcing policy

Outsourcing, which is defined in Article 15, 54° of the SII Law, is calling on third parties to exercise activities or implement procedures, which would otherwise have been exercised by the insurance company itself. The outsourcing can be for services rendered to insureds (call centres, etc.), or administrative work (bookkeeping, claims settlement, investment management, etc.) and support functions (IT, data management, etc).

In accordance with chapter 7 of the NBB Circular 2016_31 updated in May 2020 and the NBB Circular 2020_018 / Recommendations of the Bank on outsourcing to cloud service providers, EH SA has developed its Global Outsourcing Policy (GOP).

CIFS (Critical or Important Function or Service) means that the Service or the Function is essential for EH SA and without it, the company would be unable to deliver its services to customers anymore. Key Functions are in scope.

The EH SA's outsourcing rules follow 4 lifetime phases:

- The decision phase dedicated mainly to the establishment of a business plan and perform a risk assessment concluding on the feasibility of outsourcing a service or not;
- The implementation phase to assess and select the provider and conclude the outsourcing agreement;
- The operational phase to monitor and steer the outsourcing arrangement;
- The exit phase to manage the continuity (reversibility and data security) and issues related to the termination of an outsourcing contract.

B.9. Any other information

EH SA's system of governance is considered adequate and there is no additional material information to disclose regarding its system of governance.

The current version of the Articles of Association is the version dated December 29th, 2017.

C. Risk profile

C.1. Underwriting Risk

C.1.1. Description of the measures used

EH SA’s non-life underwriting risk is measured and steered based on the IM. Further details on the methodologies used within the IM for Underwriting Risk can be found in section E.4.2.2.

C.1.2. Description of the risk exposure

EH SA’s underwriting risk includes the following risks:

- **Non-life underwriting risk:**
    - **Premium risk**: the risk that actual claims for the business in the current year develop adversely relative to expected claims ratios;
    - **Reserve risk**: the risk of adverse developments in best-estimate reserves over a one-year time horizon, resulting from fluctuations in the timing and/or amount of claims settlement.
- **Life underwriting risk:**
    - **Longevity risk**: the risk of adverse developments in best estimate longevity resulting in an increase of pension benefit obligations (this risk is related to the German pension fund).
- **Business risk:**
    - **Lapse risk:** the risk that renewal rates for existing contracts drop, leading to lower contribution margin;
    - **Cost risk:** the risk of not writing new business and thus not earning sufficient premiums to cover fixed acquisition costs.

At the end of 2021, the capital requirement for non-life underwriting risk amounted to EUR 161mn before diversification.

The capital requirement for life underwriting risk amounted to EUR 35mn before diversification.

The capital requirement for business risk amounted to EUR 5mn before diversification.

C.1.3. Risk concentration

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

C.1.4. Risk mitigation

Besides other risk mitigation techniques, for EH SA, reinsurance is the only material instrument to mitigate underwriting risk and to optimize the risk profile. The reinsurance of Euler Hermes is organized centrally via the fully owned subsidiaries EH Re AG (CH) and EH Ré SA (LUX).

In order to form its opinion on the effectiveness of reinsurance arrangements, the Actuarial Function Holder attends Reinsurance Committees for Euler Hermes Group, where the reinsurance treaties and strategy are discussed. Moreover, he is a member of the quarterly Loss Reserve meetings for EH Re AG, where the estimated cessions of EH entities to EH Re AG are monitored.

On top of that, EH applies an Integrated Risk and Control System (IRCS) to support effective management of reporting risks, compliance risks, and other operational risks (e.g. information security, business continuity, outsourcing, legal). The IRCS constitutes a harmonization with respect to the principles, processes, methodologies (e.g. risk assessment, issue classification), and reporting formats employed by key control functions as part of their responsibility to oversee operational risk management by the business.

Specifically, with respect to the internal control system of EH, the IRCS provides a robust control effectiveness assessment covering the most important Market Management, Commercial Underwriting and Distribution (MMCD) process, and IT level controls ("key controls") relied upon to mitigate significant MMCD operational risks.

C.2. Market Risk

C.2.1. Description of the measures used

EH SA's market risk is measured and steered based on the IM. Further details on the methodologies used within the IM for Market Risk can be found in section E.4.2.2.1.

C.2.2. Description of the risk exposure

EH SA's market risk includes the following risks:

- **Interest rate risk:** the risk of loss following adverse market developments impacting interest rates;
- **Inflation risk:** the risk of loss following adverse market developments impacting inflation rates;
- **Equity risk:** the risk of loss following adverse developments impacting the equity market or the value of participations;
- **Equity volatility risk:** the risk of loss following adverse developments impacting the implied volatility of equity options;
- **Real estate risk:** the risk of loss arising from changes in the market value of real estate investments;
- **Credit spread risk:** the risk of loss following adverse market developments impacting credit spreads;
- **FX Risk:** the risk of loss arising from changes in foreign currency exchange rates;

At the end of 2021, the capital requirement for market risk amounted to EUR 477mn before diversification.

C.2.3. Description of assets invested

EH 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 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 Asset Liability Management (ALM) with a sufficient duration and currency matching within prescribed limits. All technical reserves are supported by investments made by Investment and Treasury Group (ITG) in respect with local regulation.

EH 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 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 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 SA's reputation.

C.2.4. Risk concentration

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

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

Moreover, EH SA does not foresee any specific risk concentration over the business-planning period.

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 SA Risk Appetite which are related to the interest rate, the equity, the foreign exchange and the financial value at risk.

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. On a monthly basis, the investment department is monitoring current allocation vs SAA. On a quarterly basis, SAA figures and asset allocation limits are presented to FiCo in order to ensure that it reflects the Risk Appetite defined within EH SA. The FiCo also discusses every decision concerning investment strategy. This way EH SA can effectively monitor investment risks.

Moreover, the derivative instruments can be used insofar as they contribute clearly to a reduction of risks or facilitate efficient portfolio management.

C.3. Credit Risk

C.3.1. Description of the measures used

EH SA’s credit risk is measured and steered based on the IM. Further details on the methodologies used within the IM for Credit Risk can be found in section E.4.2.2.2.

C.3.2. Description of the risk exposure

Credit Risk is the risk of changes in the market value of the portfolio over a given time horizon (1 year), resulting from changes in credit quality of exposures in the portfolio. It includes both default risk and migration risk – the risk of loss of economic value for credit exposures because of deterioration in credit quality.

Within EH SA, Credit risk includes the following sub-risks:

- Counterparty risk: includes issuer risk and sovereign risk and is related to loans and structured transactions like Asset-Backed Securities (ABS), Over The Counter (OTC) derivatives, reinsurance, credit insurance, and financial guarantees;
- Credit insurance risk: the risk of losses on the insurance portfolio due to non-payment of invoices resulting from insolvency or protracted default of the buyer;

- Country risk (transfer risk): the risk that an obligor will not be able to meet its cross-border payment obligations because capital transfer is prohibited or restricted (e.g. by a sovereign act), for instance by currency moratoria, freezing of money, repatriation of capital.

At the end of 2021, the capital requirement for credit risk amounted to EUR 249mn before diversification.

C.3.3. Risk concentration

Credit insurance risk represents the main sub-risk for EH SA due to its core business, which is Trade Credit Insurance. Thus, several processes have been put in place to closely monitor the EH SA's 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 SA 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 countries are closely monitored.

C.3.4. Risk mitigation

EH SA makes use of the following risk mitigation techniques to limit and contain its credit risk:

- **For insurance credit risk management:** various reinsurance treaties are put in place, either proportional or non-proportional, single year or multi-years, across its business units and through EH Group reinsurance captives as well as external reinsurers. EH SA reviews on a yearly basis the effectiveness of its reinsurance treaties on its risk profile and amend them consistently with the evolution of its risk appetite. On a quarterly basis, EH SA RiCo monitors the reinsurance impact on its risk profile.
- **Risk underwriting mitigation**: Along with reinsurance, EH SA also utilizes monitoring and control techniques through the definition and implementation of an adjusted risk underwriting stance, as well as risk action plans to anticipate material deviations from its risk appetite. On a quarterly basis, the PAAC monitors the effectiveness of the mitigation actions on its insurance portfolio's key indicators.
- **For investment credit risk management:** EH SA uses mainly hedging strategies to protect its investment portfolio from adverse market events. On a quarterly basis, the FiCo monitors the effectiveness of the proposed strategies and amend them as appropriate.

C.4. Stress tests and scenario analysis

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

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

C.4.1. Standard financial stress scenarios

EH SA's solvency position is challenged on an annual basis against a set of different financial stress scenarios in line with the EIOPA recommendations. In 2021, the following scenario effects were analyzed:

- Equity drop: -30% in market values of all equity investments;
- Interest rates up: +100 basis points (bps) in interest rate;
- Interest rates down: -100 bps in interest rate;
- Credit spread: +50 bps in credit spread;
- Combined scenario: -30% in market values of all equity investments and -50 bps interest rate.

None of these scenarios cause a major decrease in SII ratios.

C.4.2. Scenario analysis

To complete the analysis about the resilience of its solvency positions, EH SA has developed additional scenario analysis. Note that the scenario applicable to 2021 are run and approved during the half of the year and will be subsequently integrated into the ORSA report in June 2022. Thus, analysis of solvency position included in this section is issued from scenario analysis performed as of 4Q 2020.

EH SA panel of experts has identified and proposed to the EH SA RiCo a set of relevant 'business' scenarios for analysis:

- 2008/2009 financial crisis: the financial crisis is designed to be a recurrent scenario as it serves as a benchmark given its severity level;
- Nuclear scenario: this scenario is designed to capture the potential impact of a nuclear exposure in a nuclear plant in Asia;

Under such scenarios, EH SA's solvency position at the end of 2020 would remain above regulatory requirements.

C.5. Liquidity Risk

C.5.1. Description of the measures used

Liquidity Risk is not measured and steered based on the IM, but 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 SA might not be able to meet its payment obligations as and when they fall due.

Liquidity Risk management is a component of EH 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 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 SA would be able to maintain its liquidity within its Risk Appetite in a base case situation.

As in 2020, liquidity risk is not a material risk in 2021 but it is part of EH SA's risk profile.

C.5.3. Risk concentration

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

C.5.4. Risk mitigation

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

- Ratio>100%: Red (action level);
- 100%>Ratio>80%: Amber (alert level);
- Ratio<80%: Green.

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

Condition	Consequence
No warning level (<80%)	No further actions are required by the Risk function.
Warning level (80%-100%)	Explanation of status in liquidity risk report by the Risk function.
Limit breach (>100%)	EH SA prepares a remediation plan. The approval of the remediation plan is required. The approving function will depend on the size of the liquidity gap.

C.5.5. Expected Profits Included in Future Premiums

EH SA's Expected Profits Included in Future Premiums amounts to EUR 250.3mn.

C.5.6. Stress tests and scenario analysis

EH SA identified several liquidity stress scenarios and chose to perform the one that appeared to be the most relevant in 2021: a deterioration of the market conditions leading to an economic crisis, a recession event that implies an increase in 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 2021 remains below the 80% alert level for the different time horizons, which shows that EH 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

Operational risk is the risk of loss resulting from:

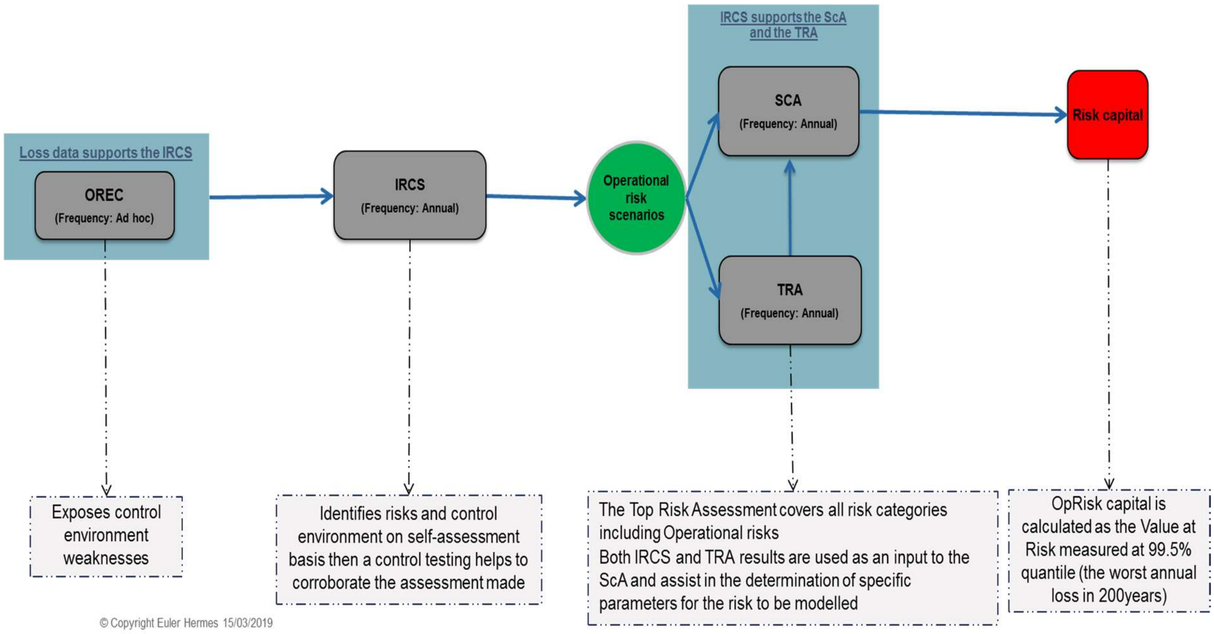
- Inadequate or failed internal processes;
- Human errors;
- Systems and technical failures; and
- External events.

Legal and compliance risk are included, while strategic and reputational risk events are excluded.

The operational risk management framework establishes the core approach by which operational risk is managed. Specifically, the management framework aims to:

- Generate awareness of the operational risk;
- 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 12: Operational Risk management overview



In accordance with EH risk policy framework, EH SA has implemented comprehensive Operational Risk Management (ORM) processes, aiming at keeping the Operational Risk under control. Each process is briefly described hereafter:

- **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 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.

- **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 a 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 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 Euler Hermes 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 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.

At the end of 2021, the capital requirement for operational risk amounted to EUR 53.7mn before diversification.

C.6.3. Risk concentration

EH 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 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

EH SA has set up a management process depending on whether the root cause of the reputational risk is considered direct or indirect in nature.

If a direct reputational risk is recognized for a proposed or ongoing business transaction, it is required to perform a reputational risk assessment. The reputational risk assessment is performed through the reputational risk matrix that provides a reputational risk score on a scale of 1-5 based on an assessment of (potential) stakeholder perception:

- If a risk is assessed as having a reputational risk score of 3 or higher the escalation process defined must be applied;

- If a risk is assessed as having a reputational risk score of 2 or lower, no escalation process is required. Hence, it is at the discretion of the first line of defence to decide whether the risk shall be accepted or only accepted under conditions.

Note that the Commercial undewriter with the support of the communication function are responsible for the reputational risk assessment.

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

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 SA from the perspective of its stakeholders.

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

To monitor the direct reputational risk management activities, EH SA has implemented several methods that allow EH SA to benefit from:

- Media coverage analysis regarding Euler Hermes; and
- Reporting to the RiCo on a quarterly basis of all direct reputational risks identified and assessed as exceeding EH SA's Risk Appetite.

In case of breaches, a referral process has been defined and implies the involvement of the following stakeholders: Communication department, Risk function, Commercial underwriter's function, BoM and Allianz GFRC.

C.8. Any other information

At EH, a strong Environmental, Social, and Governance (ESG)/sustainability due diligence is applied to the two key counterparts: the insured client and their clients (the buyers). The ESG assessment of the insured clients is managed by the commercial underwriting team, whereas the buyers' ESG assessment process is managed by the credit underwriting team. The ESG Office supports the ESG integration for both functions.

The management of ESG risks is not only key for portfolio profitability, but also the reputation of EH. To ensure a systematic ESG risk assessment during the commercial underwriting process, the definition of ESG risks was included in EH internal rules and ESG risks are reviewed on a case-by-case basis by the underwriters generating the deals. By systematically integrating ESG factors in the assessment of current and future deals, EH reinforces its role as a strong ESG partner for its clients.

In 2021, EH's ESG approach in credit risk underwriting was updated to ensure all large risks are systematically reviewed. It was decided to look at each company's ESG controversy score with additional due diligence through a threshold model that helps identify potential structural issues.

D. Valuation for solvency purposes

D.1. Assets

D.1.1. Valuation of assets

The following table summarizes the amounts of EH SA assets, classified by asset classes as disclosed in the Quantitative Reporting Templates (QRT), for both MVBS valuation and BeGAAP valuation.
It is to be noted that the BeGAAP balance sheet disclosed in this report is aligned to the balance sheet presentation in MVBS.

Figure 13: Asset (MVBS vs BeGAAP) as of 31.12.2021

In EUR mn	MVBS	BeGAAP
Goodwill		0.0
Deferred acquisition costs		0.0
Intangible assets	113.8	49.8
Deferred tax assets	63.3	0.0
Pension benefit surplus	0.0	0.0
Property, plant & equipment held for own use	154.0	25.1
Investments (other than assets held for index-linked and unit-linked contracts)	2,294.5	2,054.9
Property (other than for own use)	4.7	0.2
Holdings in related undertakings, including participations	604.3	417.3
Equities	13.3	39.2
Equities – listed	0.0	0.0
Equities – unlisted	13.3	39.2
Bonds	1424.6	1425.4
Government Bonds	428.0	428.9
Corporate Bonds	996.6	996.4
Structured notes	0.0	0.0
Collateralized securities	0.0	0.0
Collective Investments Undertakings	195.8	121.9
Derivatives	7.8	6.9
Deposits other than cash equivalents	44.1	44.1
Other investments	0.0	0.0
Assets held for index-linked and unit-linked contracts	0.0	0.0
Loans and mortgages	199.9	198.2
Loans on policies	0.0	0.0
Loans and mortgages to individuals	0.0	0.0
Other loans and mortgages	199.9	198.2
Reinsurance recoverables from:	685.7	1,877.8
Non-life and health similar to non-life	685.7	1,877.8
Non-life excluding health	685.7	1,877.8
Health similar to non-life	0.0	0.0
Life and health similar to life, excluding health and index-linked and unit-linked	0.0	0.0
Health similar to life	0.0	0.0
Life excluding health and index-linked and unit-linked	0.0	0.0
Life index-linked and unit-linked	0.0	0.0
Deposits to cedants	2.1	2.1
Insurance and intermediaries receivables	122.2	489.4
Reinsurance receivables	0.0	45.8
Receivables (trade, not insurance)	147.3	177.0
Own shares (held directly)	30.1	0.0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.0	0.0
Cash and cash equivalents	71.5	71.5
Any other assets, not elsewhere shown	9.4	9.4
Total assets	**3,893.0**	**5,001.2**

Hereafter is an overview of valuation and recognition bases applied for assets positions recognized within EH SA.

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
Goodwill	Goodwill is not recognized in MVBS	In BeGAAP, goodwill is recorded if the acquisition cost of an insurance portfolio is higher than the net value of the company. It is generally depreciated over five years.	There is no significant difference between the MVBS and BeGAAP value in 2021
Deferred Acquisition Costs (DAC)	In MVBS, acquisition costs are considered to be included in the calculation of the BE of the TP. Therefore, DAC are not recognized.	In BeGAAP, only the brokerage part of DAC is recognized. Moreover, in Belgian statutory accounts, DAC are recognized directly within the TP.	There is no significant difference between the MVBS and BeGAAP value in 2021
Intangible assets	In MVBS, intangible assets other than goodwill are valued at zero unless there is a value for the same or similar asset that has been derived from quoted market prices in active markets. If so they are recognized at their market value.	In BeGAAP, Intangible assets other than goodwill are recorded at: • Their acquisition value or contribution value; or • Production value (limit: prudent estimation of their value in use or their future profit contribution) Intangible assets are depreciated according to Belgian accounting standards	Under MVBS, intangible assets have been valued at zero because there is usually no active market for intangible assets, prices are not available to the public, or the intangible asset is unique. Thus in BeGAAP, the asset is higher by EUR 49.8mn compared to MVBS. However, since EH SA has a reclassed contingent liability under MVBS (not present in BeGAAP) of EUR -113.8mn, mainly following the put-option on OPCI, the difference changes to EUR 64.0mn.
Deferred Tax Assets	The principles of IAS 12 are applied for deferred taxes under MVBS.	In BeGAAP, the following deferred taxes are recognized: • Deferred taxes on realized gains on intangible assets, tangible assets, and securities issued by the Belgian public sector, whereas the taxation of such gains is deferred; and • Foreign deferred taxes of the same nature as those mentioned previously.	In BeGAAP, no DTA is recognized thus the asset is lower by EUR 63.3mn compared to MVBS.

[3] The materiality threshold is considered from EUR 1mn.

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
Property, plant & equipment held for own use	In MVBS, property, plant, and equipment are measured at fair value. Right-of-Use (RoU) assets recognized under IFRS 16 are considered to be a proxy for SII fair values.	In BeGAAP, they are recorded at their historical value. Investment properties are depreciated each year while no depreciation charge is recorded on the lands. At EH SA, investment properties are depreciated over 33 years. Revaluation is permitted in certain cases.	In BeGAAP, the asset is lower by EUR 128.9mn compared to MVBS due to: • revaluation at fair value in MVBS (EUR -18.3mn) • recognition of Right of Use assets in MVBS in accordance with IFRS 16, but not in BeGAAP (EUR -110.6mn).
Property (other than for own use)	In MVBS, property (other than for own use) is measured at fair value.	In BeGAAP, property (other than for own use) recognition and valuation follow the same rules as property, plant, and equipment held for own use.	In BeGAAP, the asset is lower by EUR 4.5mn compared to MVBS because of a revaluation at fair value in MVBS.
Holdings in related undertakings, including participations	In MVBS, participations and related undertakings are valued at a quoted market price in an active market, if available. If there is no quoted market price, then they are valued using either the Adjusted Equity method or the adjusted IFRS equity method.	In BeGAAP, participations (also called investments in subsidiaries and affiliates) are recorded at their acquisition value. Impairment tests are performed at each closing date.	In BeGAAP, the asset is lower by EUR 187mn compared to MVBS because MVBS is reevaluated at fair value and due to depreciation booked on subsidiaries in BeGAAP.
Equities	Both listed and unlisted equities are valued at fair value in MVBS. In exceptional cases, IAS 39 allows available-for-sale equities not to be measured at fair value but cost.	In BeGAAP, investments (equities included) are recorded at their amortized cost. Impairments can be recorded	In BeGAAP, the asset is higher by EUR 25.9mn compared to MVBS because of the following adjustments: • In MVBS, own shares are recognized under the own shares asset line at an amount of EUR 30.1mn whereas in BeGAAP own shares are recognized under the equities asset line at an amount of EUR 34.6mn. The difference in amount is due to the recognition at fair value in MVBS versus recognition at acquisition cost in BeGAAP. • Equities are revaluated at fair value in MVBS.
Bonds	All Bonds items are valued at fair value in MVBS.	In BeGAAP, investments (bonds included) are recorded at their amortized cost. Impairments can be recorded.	In BeGAAP, the asset is higher by EUR 0.8mn compared to MVBS because in MVBS bonds are recorded at fair value.

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
Collective investments undertakings	The interests in collective investments undertakings are measured at fair value in MVBS.	In BeGAAP, collective investments undertakings follow the same rules as for bonds.	In BeGAAP, the asset is lower by EUR 74.0mn compared to MVBS because in MVBS collective investments undertakings are revaluated at fair value.
Derivatives	Derivatives are measured at fair value in MVBS.	In BeGAAP, Derivatives follow the same rules as bonds.	In BeGAAP, the asset is lower by EUR 0.9mn compared to MVBS because in MVBS derivatives are revaluated at fair value.
Deposits other than cash equivalents	Due to the short-term nature of the deposits, BeGAAP value is considered to be a good proxy of the fair value of the deposits.	In BeGAAP, Deposits other than cash equivalents are recorded at their amortized cost.	There is no significant difference between MVBS and BeGAAP
Other investments	Other investments include investments not covered by positions of investments indicated above. They are measured at fair value in MVBS	In BeGAAP, other investments follow the same rules as bonds.	There is no significant difference between MVBS and BeGAAP
Loans and mortgages	In MVBS, EH recognizes Loans and mortgages at fair value.	In BeGAAP, Loans and mortgages follow the same rules as for bonds.	The asset is EUR 0.7mn lower in BeGAAP due to a loan that has been impaired in BeGAAP
Reinsurance recoverables from Non-life excluding Health	The calculation of reinsurance recoverables leads either to the recognition of reinsurance recoverables 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) is calculated.	In BeGAAP, the reinsurance share of reserves is calculated based on the TP and the applicable cession rates agreed in the reinsurance treaties: reinsurance share in Unearned Premium Reserve (UPR); claims provisions; provision for bonus and rebates.	In BeGAAP, the asset is higher by EUR 1,192.1mn compared to MVBS for the following reasons: • In MVBS, only overdue receivables and payables are recorded (EUR +631mn) • Difference in recognition of ceded portion of premium reserves (EUR +273mn) • In addition, in BeGAAP salvages reserves are presented differently. Gross salvage reserve is presented as a liability in SII and as an asset in BeGAAP, salvage reserve ceded is presented as an asset in SII and presented as a

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
			liability in BeGAAP (EUR +285mn) • In BeGAAP there is no discounting.
Deposits to cedants	Deposits to cedants include deposits relating to reinsurance accepted. In MVBS, deposits to cedants are valued at market value but due to short-term nature of deposits, the nominal value is considered to be a good proxy of the market value of the deposits.	Under BeGAAP, deposits to cedants are recorded at their nominal value.	Thus, there is no difference between MVBS and BeGAAP
Insurance and intermediaries receivables	In MVBS, insurance and intermediaries receivables are recognized at fair value. Insurance and intermediaries receivables are amounts past–due for payment by policyholders, insurers, and other linked to insurance business, that are not included in cash–in flows of technical provisions. It shall include receivables from reinsurance accepted. Amounts are past-due when the payment has not been made as of its due date. Premiums written but not yet due are not shown as premium written and are not recognized as receivable but included in the TP. Additionally, valuation allowances have to be eliminated.	In BeGAAP, insurance receivables are recorded at their nominal value. Premiums written but not yet due are recognized as receivable.	In BeGAAP, the asset is higher by EUR 367.2mn compared to MVBS because : • In MVBS, only overdue receivables and payables are recorded in MVBS • Premium written but not yet due are recognized as receivables in BeGAAP and as TP in MVBS;
Reinsurance receivables	In MVBS, reinsurance receivables are recognized at fair value. Reinsurance receivables are amounts past–due by reinsurers and linked to ceded reinsurance business that are not included in reinsurance recoverables. Examples include: the amounts past due from receivables from reinsurers that relate to settled claims of policyholders or beneficiaries; receivables from reinsurers in relation to other than insurance events or settled insurance claims,	In BeGAAP, reinsurance receivables are recorded at their nominal value.	In BeGAAP, the asset is lower by EUR 45.8mn compared to MVBS because • Some assets are netted with liabilities in BeGAAP while in MVBS, assets have to be un-netted (EUR -122.9mn) • EBNR ceded are presented as an asset in MVBS and deducted from TP in BeGAAP (EUR +168.7mn)

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
	for example, commissions. Amounts are past-due when the payment has not been made as of its due date. Additionally, valuation allowances have to be eliminated in the MVBS.		
Receivables (trade, not insurance)	Due to the short-term nature of the receivables amortized cost value is considered to be fair value. However, since valuation allowances have to be eliminated in the MVBS, the receivables might have to be adjusted.	In BeGAAP, other receivables are recorded at their nominal value.	In BeGAAP, the asset is lower by EUR 29.8mn compared to MVBS because of the following adjustments: • In MVBS, depreciation of a receivable from EH SA subsidiaries, amounting to its own funds, because they were negative: EUR +37.4mn; • Some assets are netted with liabilities in BeGAAP while in MVBS, assets have to be un-netted. In MVBS there is also a regrouping difference: EUR -7.6mn
Own shares	In MVBS, own shares have to be reported on the asset side with their fair value.	In BeGAAP, own shares are recognized at their acquisition cost.	In BeGAAP, the asset is lower by EUR 30.1mn compared to MVBS because in MVBS, own shares are recognized under the own shares asset line at an amount of EUR 30.1mn whereas in BeGAAP own shares are recognized under the equities asset line at an amount of EUR 34.6mn. The difference in amount is due to the recognition at fair value in MVBS versus recognition at acquisition cost in BeGAAP.
Cash and cash equivalents	Bank accounts are not netted off, thus only positive accounts are recognized in MVBS. Bank overdrafts are to be shown within liabilities unless where both, the legal right of offset and demonstrable intention to settle net exist. Cash and cash equivalents are measured at market value.	In BeGAAP, cash and cash equivalents are measured at nominal value. Negative bank balances have to be reclassified to the short-term financial liabilities in the annual accounts (per financial institution).	There is no significant difference between MVBS and BeGAAP.

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
Any other assets, not elsewhere shown	Depending on the nature of the item, a revaluation at fair value could occur in MVBS.	The recognition basis depends on the nature of the item.	There is no significant difference between MVBS and BeGAAP.

D.1.2. Changes to the recognition and valuation bases used or to estimations

There are no changes to the recognition and valuation bases used or to estimations compared to last year.

D.1.3. Assumptions and judgments on the future and other major sources of estimation uncertainty

There are no specific assumptions or judgments about the future and other major sources of estimation uncertainty.

D.1.4. 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 SA uses alternative valuation methods.

When using alternative valuation methods, EH 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 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.

For every class of assets, an alternative valuation method is used if the asset class price is not quoted on active markets for the same assets. The following table summarizes the different valuation methods used classified by class of assets.

Figure 14: Valuation methods by assets class as of 31.12.2021

MVBS asset	Valuation method
Cash and cash equivalents	Quoted market price in active markets for the same assets
	Alternative valuation methods
Collective Investment Undertakings	Quoted market price in active markets for the same assets
	Alternative valuation methods
Corporate Bonds	Quoted market price in active markets for the same assets
	Alternative valuation methods
Deposits to cedants	Alternative valuation methods
Collateralized securities	Quoted market price in active markets for the same assets
Deposits other than cash equivalent	Alternative valuation methods
Equities – unlisted	Alternative valuation methods
Government Bonds	Alternative valuation methods
	Quoted market price in active markets for the same assets
Loans and Mortgages	Alternative valuation methods
Other Investments	Alternative valuation methods
Participations and related undertakings	Adjusted equity methods (applicable for the valuation of participations)
	IFRS equity methods (applicable for the valuation of participations)
	Alternative valuation methods
Property (other than for own use)	Alternative valuation methods
Property, plant & equipment held for own use	Alternative valuation methods
Own shares	Alternative valuation methods
Derivatives	Alternative valuation methods

All related undertakings have been valued either with Adjusted Equity Methods or with IFRS equity methods.

D.1.5. Financial and operating leases

EH SA occupies property in many locations under various long-term leases and has entered into various leases covering the long-term use of data processing equipment and other office equipment.

As a lessee, as of 31 December 2021, the maturities for the lease liabilities were as follows:

Figure 15: Lease liabilities by maturities as of 31.12.2021 (IFRS)

In EUR mn	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than 1 year	30.4	-1.0	29.4
1 to 5 years	105.0	-2.1	102.9
More than 5 years	64.4	-0.5	63.9
Total	199.8	-3.6	196.2

D.1.6. Material deferred tax assets

On 31st December 2021, the total DTA equalled EUR 63.3mn (MVBS value). They were recognized on MVBS adjustments of which DTA on the cancellation of intangible assets.

The following table discloses the applicable tax rates of the main countries within the scope of EH SA.

Figure 16: Applicable tax rates

Country	2021	2020
Belgium	25.00%	25.00%
France	25.83%	25.83%
Germany	31.00%	31.00%
Italy	24.00%	24.00%
United-Kingdom	25.00%	19.00%
Netherlands	25.80%	25.00%
Switzerland	19.00%	20.00%
Poland	19.00%	19.00%

D.2. Technical Provisions

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

The table below shows, at a detailed level, the amounts of Best Estimate Liabilities (BEL) and TP for SII business lines.

Figure 17: SII Technical Provisions as of 31.12.2021 (in EUR mn)

Technical Provisions Aggregates	Credit and suretyship insurance	Miscellaneous financial loss	Total
Premium Provision	-168,1	-3,7	-171,9
Claims Provision	1.541,0	258,4	1.799,5
Risk Margin	47,0	2,2	49,1
Gross TP	1.419,9	256,9	1.676,7
Ceded TP	-475,4	-210,7	-686,1
Net TP	944,5	46,2	990,7

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 RM, claims provision and premium provision constitute the 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 BEL 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 Best-Estimate liabilities are estimated by netting the gross Best-Estimate liabilities. The ceded Best-Estimate liabilities 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 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.2.1.3. Best estimate of the premium provision

In accordance with the SII directive and internal policies, the BE of the premium provision is calculated as the expected present value of future cash inflows and outflows, including future claims, premiums, and expenses related to existing contracts.

In order to determine these cash flows, the following are taken into consideration:

- IFRS UPR;
- Future premiums (FP);
- Future Combined Ratio (CR).

To calculate the premium provision, the IFRS UPR plus FP, adjusted to allow for future premium development arising from mid-term adjustments or cancellations, is used as an adjusted exposure measure.

FP is future premium that a policyholder is contractually bound to (incl. tacit renewals), however not yet paid/written. The method for calculating IFRS premium reserves is specified in the Reserving Guidelines, basically, it is a deterministic calculation, done policy by policy, weighting recorded premiums vis-à-vis the duration of the underlying risks and the type of insurance policy contract.

Future CRs are derived from the projections done during the Planning Dialogue exercise (budget or business plan).

Euler Hermes calculates the BE of premium provisions for each legal entity, at product level, gross and ceded, by multiplying future CR assumptions, derived separately for each line of business, are applied to the adjusted exposure to obtain an estimate of future claims.

For illustrative purposes, find below simplified formulas for the premium provision.

$$\text{Premium Provision}_{gross} = (UPR_{gross} + FP_{gross}) * CR_{gross} – DAC_{gross} – FP_{gross} + IME$$
$$\text{Premium Provision}_{ceded} = (UPR_{ceded} + FP_{ceded}) * CR_{ceded} – DAC_{ceded} – FP_{ceded}$$

A payment pattern is applied to each element of the premium provision to obtain future cash flows, which are discounted by taking the risk-free curve into consideration at the valuation date increased by VA.

Referring to contract boundaries, it is to be noted that EH can, depending on the contract wording, unilaterally terminate or amend credit lines related to the risks covered in some of its contracts at any time.

Following a strict interpretation of article 18 of the SII Delegated Acts EH is considering the scenario of canceling all limits (where applicable, i.e. If policy wording allows for limit canceling and if premium depends on limit/covered amount) when calculating the future premium (as part of premium provisions).

In 4Q 2019, following BAFIN request, all not-overdue payables/receivables were reclassified to Premium Provisions.

D.2.1.4. Best estimate of the claims provision

In accordance with the SII Directive and with the actuarial policy of the Euler Hermes and Allianz group, the BE of the claims reserve is calculated as the expected present value of future cash flows relating to claims that have occurred but not yet fully paid, including settlement costs direct and indirect.

The claims provision is based on the IFRS claims provision, with the addition of an allowance for future claims handling and investment management expenses. A payment pattern derived from historical data for each LoB is applied to each element of the claims provisions to obtain future cash flows, which are discounted to reflect the time value of money in line with SII requirements.

In particular, the BE of the non-discounted claims provision is obtained through the adoption of statistical-actuarial methodologies and coincides with the amount of the loss reserves on the financial statements prepared in accordance with IFRS standards. In order to determine the present value of the future cash flows, appropriate paying patterns are taken into consideration and the risk-free curve at the valuation date increased by the VA.

IFRS claims provisions are estimated using actuarial methods (e.g. Expected Loss Ratio, Chain-Ladder, and Bornhuetter & Ferguson) collectively called as triangles. Loss development triangles show how claims develop overtime, allowing the actuary to extrapolate future evolution of occurred claims. It is part of the exercise to do an analysis on the reserve segmentation, the existence or not of outliers, and possible trends. Based on this analysis and the inputs received from different departments (e.g. claims, reinsurance, product, finance, and risk) the actuary should adapt the coefficients to better reflect the expected future claims development.

The Unallocated Loss Adjustment Expense (ULAE) reserve is calculated by paid to paid method. This method says that ULAE reserve should be estimated by applying the ratio between ULAE and CLAIMS paid over the loss reserves.

D.2.1.5. Investment management expenses

Investment management expenses need to be included according to Article 31 of the delegated act. Following Allianz guidance, they are determined as 1.5 bp of the net BE TP which is then split into two parts related to gross claims and gross premium provisions based on the share of those in the net BE (without future premium). Investment management expenses are not ceded.

D.2.1.6. Risk Margin

The market value of liabilities is defined as the discounted BE reserve plus a RM, also known as Market Value Margin, representing the cost of capital to run off the business until final settlement. In other words, the RM is the cost of holding the necessary capital in excess of the best-estimate of the liabilities. Hence, the RM is an integral part of the market value of liabilities and links the calculation of liabilities to risk models.

The calculation of the RM is based on the assumption that the whole portfolio of (re)insurance obligations, including any related reinsurance contracts is transferred to another (re)insurance undertaking – called reference undertaking - immediately (i.e. T=0).

The transfer scenario is defined such that only non-hedgeable risks need to be considered. Especially it is assumed that the transfer of insurance and reinsurance obligations includes any reinsurance contracts relating to these obligations and that the reference undertaking is assumed not to have any (re)insurance obligations and any own funds before the transfer takes place. Only after the transfer of the portfolio the reference undertaking would raise eligible own funds, these assets are considered to be selected in such a way that they minimize the SCR for Market Risk that the reference undertaking is exposed to. For non-life insurance obligations, Market Risk can be considered to be nil as a result of the above 'transfer' assumptions.

The risk categories to be captured are:

- Underwriting Risk with respect to the transferred business: premium reserve RC and claims reserve RC. (The Premium RC is adjusted to reflect the legally bound future premium only, called Premium Reserve RC.)
- Credit Risk with respect to reinsurance contracts, SPVs, intermediaries, and any other material exposures
- Operational Risk

EH SA bases the calculation of RM on the IM SCR. For the RM calculation, one of the main inputs is the RC.

For Reserve Risk and Premium Reserve Risk a roll-forward approach is used which is in line with the usual approach for those risks. Hence, previous year Model results are used.

D.2.1.7. Counterparty Default Adjustment

In order to separate the individual risks as specified under SII, a CDA is calculated. In the calculation, the risk mitigation effect of reinsurance is taken into account even though the risk of the counterparties' default remains. This has to be considered separately and an adjustment is made to the reinsurance recoveries in form of the CDA.

The following (simplified) version of the CDA is calculated:

$$CDA = -max\left\{(1-RR) \times \frac{PD}{1-PD} \times Dur_{mod} \times BE_{rec}; 0\right\}$$

Where:

- RR = Recovery Rate = the possible % of retrieval even after a Reinsurer defaults
- PD = Probability of Default of the counterparty within the next 12 months
- Dur_{mod} = modified Duration of the (ceded) recoverables
- BE_{rec} = Best-Estimate of the (ceded) recoverables, i.e. The total ceded reserves

The motivation of the formula is detailed below:

- The formula is a time-discrete simplification of the time-continuous formula with "ln(1-PD)" inside, i.e. the 1st order Taylor-Approx;
- The CDA is like the expected loss for ceded recoverables with a duration of "Dur_{mod}" years.

D.2.2. Level of uncertainty

In this section is shown both the uncertainty of undiscounted claims reserves estimations (i.e. Stochastic reserve analysis) as well as the sensitivity of TP on certain input parameters.

D.2.2.1. Stochastic Reserving

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

The table below lists the ratio (RC/Res) between net claims reserves (Res) and the 1-year net reserve risk capital.

Figure 18: **Uncertainty of reserves as of 31.12.2021 (in EUR mn)**

Net reserve as of YE 2021	1 year net RC	RC/Res	1 year net CoV of underlying PRISM run
452.5	155.4	34.35%	12,05%

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 CR. 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 and is quite significant.

Figure 19: **Sensitivity of undiscounted premium provisions before reclassifications to CRs changes (MVBS figures) as of 31.12.2021**

Undiscounted premium provisions (in EUR mn)	Base Case	-2% CR	+2% CR
Gross	155,1	135,3	174,9
Net	238,7	233,8	243,6

Furthermore, the impact of a 5% change in the UPR on the premium reserves level has been tested. Results are displayed in the table below.

Figure 20: **Sensitivity of undiscounted premium provisions before reclassifications to UPR changes (MVBS figures) as of 31.12.2021**

Undiscounted premium provisions (in EUR mn)	Base Case	-5% UPR	+5% UPR
Gross	155,1	158,2	152,0
Net	238,7	230,7	246,6

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

In November 2019, Allianz Group Accounting & Reporting has published the requirement for MVBS to reclassify all not-overdue payables/receivables to Technical Provisions. In view of timeframe & deadlines EH agreed with AZ on the simplification to consider the reclassified amounts under “premium provisions” (gross/ceded) in order to limit reconciliation issues with the IFRS-claims reserves and the impacts on Risk Capital side. However, 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 and 2021, 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

The following table discloses the reconciliation between TPs as disclosed in financial accounting statements and TPs as disclosed for solvency purposes.

Figure 21: **Reconciliation between financial statements TP and TP for solvency purposes**

GAAP BRIDGE	GROSS	
in EUR mn	2021	2020
Be-GAAP	2,586.0	2,367.2
Equalization reserve	-112.2	-137.9
S&S reclassification	-163.0	-195.8
DAC reclassification	50.0	43.7
Other	-9.4	0.0
IFRS	2,351.4	2,077.2
Premium reserves	-585.4	-513.7
Premium provision	153.5	218.0
Loss reserve discount	3.3	-0.9
Risk margin	49.1	35.8
IME	0.0	0.0
Reclass. receivables/payables not yet due	-295.1	-122.0
Other	0.0	0.0
MVBS TP	1,676.7	1,694.4

The main differences between the financial accounting statements and the TP for solvency purposes are given for the following reasons:

- Due to its nature, Equalization Reserves are not allowed under IFRS/MVBS;
- Gross salvage reserve is presented as a liability in SII and as an asset in BeGAAP, salvage reserve ceded is presented as an asset in SII and presented as a liability in BeGAAP;
- Deferred acquisition costs are not recognized in SII valuation and presented as a liability in BeGAAP;
- On IFRS and BeGAAP the premium reserves reflect the unearned part of the written premium, calculated policy by policy, prorata temporis based on the number of days between the closing date of the calculation period and the expiration of the contract. While for MVBS, premium provisions reflect the expected present value of future cash inflows and outflows, including future claims, premiums and expenses related to existing contracts;
- Loss reserve discounting: MVBS TP reflect the present value of the liabilities, while BeGAAP and IFRS reserves are undiscounted;
- Risk Margin and IME are relevant components of MVBS TP that are not required under BeGAAP nor IFRS.
- MVBS TP only includes insurance receivables and payables which are past due, and amounts not yet due are excluded.

D.2.5. Matching Adjustment

EH 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 is applied with and without VA to the cashflows, i.e. omitting the impact of different settlement currencies. Doing this results in almost the same discounted reserves for the LEs with a high share of EUR.

Figure 22: **BEL sensitivity to VA (in EUR mn)**

Net BEL	Discounted BEL		Estimated sensitivity	Estimated sensitivity %
	EUR SWAP - VA	EUR SWAP		
941,5	945,8	946,1	-0,3	-0,04%

As shown in the table above, the impact of the VA is null.

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

EH 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 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 2021, EH SA had reinsurance recoverables of nearly EUR 685,7mn. The recoverables are coming from credit and surety insurance and miscellaneous LoBs. Of these recoverables, EUR 1,317.5mn come from claims provisions and EUR -631.4mn from Premium Provisions. It has to be noted that there were no recoverables from SPVs.

D.3. Other liabilities

D.3.1. Valuation of other liabilities

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

Figure 23: **Other liabilities (MVBS vs BeGAAP) as of 31.12.2021**

Other liabilities (In EUR mn)	MVBS	BeGAAP
Other technical provisions		0.0
Contingent liabilities	0.0	0.0
Provisions other than technical provisions	76.4	74.8
Pension benefit obligations	230.0	230.0
Deposits from reinsurers	4.8	4.8
Deferred tax liabilities	45.6	25.2

Other liabilities (In EUR mn)	MVBS	BeGAAP
Derivatives	0.0	0.0
Debts owed to credit institutions	20.0	20.0
Financial liabilities other than debts owed to credit institutions	266.2	151.13
Insurance & intermediaries payables	12.4	146.3
Reinsurance payables	0.0	432.8
Payables (trade, not insurance)	190.2	190.1
Subordinated liabilities	0.0	0.0
Subordinated liabilities not in Basic Own Funds	0.0	0.0
Subordinated liabilities in Basic Own Funds	0.0	0.0
Any other liabilities, not elsewhere shown	218.0	173.1
Total other liabilities	**1,063.7**	**1,424.1**

Hereafter is an overview of valuation and recognition bases applied for assets positions recognized within EH SA.

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[4]

Contingent liabilities	In MVBS, the IFRS definition of contingent liabilities is applied. A contingent liability is defined as:
	• a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
	• a present obligation that arises from past events but is not recognized because
	  ○ it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
	  ○ the amount of the obligation cannot be measured with sufficient reliability.
	
	In MVBS contingent liabilities are recognized in the MVBS if material.
		In BeGAAP, contingent liabilities are not recognized on the balance sheet.	The contingent liability is reclassed to intangible assets in MVBS as disclosed above in section D.1.1. Valuation of Assets and as a result there is no difference between MVBS and BeGAAP.

[4] The materiality threshold is considered from EUR 1mn.

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[4]
Provisions other than Technical Provisions	IFRS values can be used for SII reporting purposes.	In BeGAAP, provisions are recorded to cover all planned or expected risks and charges.	In BeGAAP, the liability is lower by EUR 1.6mn compared to MVBS because a historical booking on provisions.
Pension benefit obligations	IAS 19 is considered a reasonable approach in valuing pension liabilities for SII purposes.	In BeGAAP, EH SA records a provision for a pension plan in the statutory accounts only if the assets of the plan are lower than the minimum reserves as defined under the Belgian law. In addition to that, EH SA decided to record the provisions for pensions based on IAS 19R.	There is no significant difference between MVBS and BeGAAP.
Deposits from reinsurer	In MVBS, deposits from reinsurers are recorded at market value.	In BeGAAP, deposits from reinsurers are recognized at their nominal value.	There is no significant difference between MVBS and BeGAAP.
Deferred Tax Liabilities (DTL)	The principles of IAS 12 are applied for deferred taxes under MVBS.	In BeGAAP, DTL are recognized on: • Realized gains on intangible assets, tangible assets and securities issued by the Belgian public sector, whereas the taxation of such gains is deferred; and • Foreign deferred taxes of the same nature as those mentioned in the above	In BeGAAP, the liability is lower by EUR 20.4mn compared to MVBS because DTL are not recognized in BeGAAP except tax debt related to the equalization reserve write-down in the German branch (booked on a deferred tax account in BeGAAP only).
Debts owed to credit institutions	In MVBS, debts owed to credit institutions are measured at fair value. Adjustments for own credit standing are excluded in MVBS.	In BeGAAP, debts owed to credit institutions are recognized at their nominal value.	There is no significant difference between MVBS and BeGAAP.
Financial liabilities other than debts owed to credit institutions	In MVBS, financial liabilities other than debts owed to credit institutions are recorded at fair value. Adjustments for own credit standing are excluded in MVBS.	In BeGAAP, financial liabilities other than debts owed to credit institutions are recognized at their nominal value.	In BeGAAP the liability is lower by EUR 115.1mn due to the recognition of lease liabilities in MVBS but not in BeGAAP.
Insurance & intermediaries payables	In MVBS, payables are recognized at the amounts actually due on repayment (i.e., their settlement amount) but only include amounts past due for payment. Insurance and intermediaries payables are amounts past–due to policyholders, insurers and other business linked to insurance, but that are not technical provisions. Includes amounts past–due to (re)insurance intermediaries (e.g. commissions due to intermediaries but not yet paid by the group). It shall include payables from reinsurance	In BeGAAP, insurance and intermediaries payables are recorded at their nominal value.	In BeGAAP, the liability is higher by EUR 133.9mn because: • EBNR ceded are presented as an asset in MVBS and deducted from TP in BeGAAP (EUR +168.7mn) • Only overdue receivables and payables are recorded in MVBS (EUR -34.8mn in BeGAAP)

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[4]
	accepted. Amounts are past-due when the payment has not been made as of its due date.		
Reinsurance payables	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) but only include amounts past due for payment. Reinsurance payables are amounts payable, past–due to reinsurers (in particular current accounts) other than deposits linked to reinsurance business, that are not included in reinsurance recoverables. Includes payables to reinsurers that relate to ceded premiums. Amounts are past-due when the payment has not been made as of its due date.	In BeGAAP, reinsurance payables are recorded at their nominal value.	In BeGAAP, the liability is higher by EUR 432.8mn compared to MVBS because of the following adjustments: • Some liabilities are netted with assets in BeGAAP while in MVBS liabilities have to be un-netted: -124.3mn; • Only overdue receivables and payables are recorded in MVBS (EUR +557.1mn in BeGAAP)
Payables (Trade, not Insurance)	Payables are generally recognized at the amounts actually due on repayment (i.e., their settlement amount). Due to their short-term nature, the settlement amount is considered to be a good proxy of the fair value for MVBS.	In BeGAAP, trade payables are recorded at their nominal value. They are composed of fiscal and social debts.	There is no significant difference between MVBS and BeGAAP.
Any other liabilities not elsewhere shown	Depending on the nature of the item, a revaluation at fair value could occur in MVBS.	The recognition basis depends on the nature of the item.	In BeGAAP, the liability is lower by EUR 44.9mn compared to MVBS because of the following adjustments: • Some liabilities are netted with assets in BeGAAP while in MVBS liabilities have to be un-netted: -11.6mn; • Recognition in BeGAAP of dividend to be paid (EUR 60mn) in 2022.

D.3.2. Financial liabilities

The pricing of loans within EH SA takes into consideration volume and term of a loan by applying market interest rates existing at inception (benchmark rates) with adjustments for various market factors described herein, in particular the credit worthiness of the debtor, exchange risks and particular features of the facility, e.g. collateral, subordination (credit spread).

a. Benchmark rate

The relevant benchmark rate depends on the coupon format of the debt instrument. For instruments with a floating rate coupon, the benchmark rate is the respective EURIBOR or LIBOR Rate (as of the date of loan inception) for a given currency (benchmark rate). The choice of the relevant EURIBOR or LIBOR-rate depends on the coupon re-set frequency.

For instruments with a fixed rate coupon the appropriate benchmark rate is the swap-rate of the relevant currency and with the same term as the underlying debt instrument.

b. Credit spread

The benchmark rate is increased by the credit spread, which is determined by the risk profile associated with the underlying debt instrument, including its final maturity. The basis for the determination of the credit spread is given by:

- Spreads as observed in the secondary market (or, if available recent primary market levels) of directly comparable transactions;
- And/or comparable credit default swap (CDS) levels;
- And/or relevant indices provided by agencies such as S&P, Bloomberg, etc.

In addition, the credit spread shall also include EH SA credit spread.

D.3.3. Leasing arrangements

Refer to section D.1.5 for information regarding leasing arrangements.

D.3.4. Deferred Tax Liabilities

On December 31st 2021, DTL equaled EUR 45.6mn (MVBS value). DTL are mainly due to temporary differences on TP, provisions for pension obligations and revaluation of available for sales investments.

D.3.5. Economic benefits

Economic benefits could be generated for example by growth in gross domestic product with the economy, which could have an impact on the exposure. However, this is taken into account when defining the assumptions to assess the outflows generated by the insurance business.

D.3.6. Employee benefits

In accordance with the regulatory environment and collective agreements, EH SA has established defined-contribution and defined benefit pension plans (company or multi-employer) in favor of employees.

Defined-contribution plans are funded through independent pension funds or similar organizations. Contributions fixed in advance (e.g. Based on salary) are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no obligation beyond payment of the contributions.

During the year end December 31st, 2021, EH SA recognized expenses for defined-contribution plans of EUR 2.2mn (EUR 2.3mn in 2020). Additionally, EH SA paid contributions for state pension schemes of EUR 17.0mn in 2021 (EUR 19.0mn in 2020).

There also exist multiple Defined Benefit Plans within different EH SA branches.

The following tables (IFRS) show respectively the breakdown of the employee benefits by the nature of the liability and the breakdown of the employee benefits by nature of the assets.

Figure 24: **Employee benefits breakdown by nature of liability and asset as of 31.12.2021 (IFRS figures)**

In EUR mn	Total
Actuarial obligation - Total - Opening	-707.4
Current period service cost	-15.4
Interest on obligation	-5.3
Employee contributions	-2.5
Plan amendment	2.4
Acquisitions/disposals of subsidiaries	-
Plan curtailments	-
Plan settlements	-
Actuarial gains (losses) due to a change in assumptions	3.5
Actuarial gains (losses) due to a change in experience	-9.0
Benefits paid	17.0
Currency translation difference	0.2
Other	-0.2
Removal of the discretionary clause	-
Actuarial obligation - Total - Closing	-716.8

Fair value of plan assets - Total - Opening	489.6
Interest income on plan assets	3.8
Actuarial gains (losses) due to a change in experience	-8.6
Employee contributions	2.2
Employer contributions	10.8
Acquisitions/disposals of subsidiaries	-
Plan curtailments	-
Plan settlements	-
Benefits paid	-11.3
Currency translation difference	-0.1
Other	0.1
Fair value of plan assets - Total - Closing	486.5

Net commitments <0	-230.3
Net commitments >0	0

Multiple assumptions are used for the calculation of employee benefits:

- Discounting rates;
- Inflation rates;
- Expected rate of salary increase;
- Plan retirement age, as well as others actuarial and financial assumptions that are relevant.

Estimation of the future benefit payments of the employee of the German entities (IFRS figures).

D.3.7. Contingent liabilities

EH SA does not recognize a contingent liability in MVBS.

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 SA to support its multiple activities. It ties to the EH SA's Risk Strategy, which defines the relevant Risk Appetite with regard to the risk-bearing capacity including EH SA's capital and solvency targets as well as risk limits, thus implementing EH SA's business strategy. Capital management describes the set of activities undertaken by EH 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 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 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 SA level. This includes a consideration of a buffer above the Minimum Capital Ratio to take into account potential market volatility;
- EH SA ensures to comply with regulatory Minimum Capital Requirement;
- Capital is centrally managed in accordance with Group-wide rules and allocated to the benefit of the Group and its shareholders;
- EH SA capitalization is managed using adequate buffers above minimum regulatory. Excess capital not required for business purposes over the (three years) plan horizon should be upstreamed by EH SA;
- EH SA management is committed to have shareholders participating in the economic development of the Group through dividend payments;
- The capital allocation for steering the business is based on the IM also taking into account other constraints (such as rating and liquidity);

Please refer to section B.3.1.2 for further details on the capital management strategy.

E.1.1.2. Description of the own funds

The following table discloses the composition of SII own funds as well as its variation over 2021:

Figure 25: Evolution of own funds (MVBS)

In EUR mn	2021	2020	Δ	%
Total assets	3,779.2	3,838.2	-59.0	-2%
Total liabilities	2,626.7	2,696.5	-69.8	-3%
Excess of assets over liabilities before Look Through	1,152.5	1,141.7	10.8	1%
Look Through (OPCI)	114.9	108.9	6.0	6%
Excess of assets over liabilities after Look Through	1,267.5	1,250.6	16.9	1%
Minority OPCI	-114.9	-108.9	-6.0	6%
Foreseeable dividends	-60.0	-50.0	-10.0	20%
Own Shares	-30.1	-29.9	-0.2	1%
SII Own funds	1,062.5	1,061.9	0.6	0%

The table here above shows that the Excess of Assets over Liabilities is increasing by EUR 10.8 mn between 2020 and 2021.

The main elements explaining this increase are:

- The positive net income is EUR +13.4mn for the year,
- The positive impact of future profits is EUR +41.2mn mainly due to the change of the Combined Ratio net (Credit : from 110% to 95.6% / Fidelity: from 45.4% to 11.7%).
- The positive change of contingent liabilities & other receivables after tax for EUR +16.7mn mostly related to the UK pension Liability for EUR 19.2mn.
- The cancellation of goodwill and intangible assets for EUR +14.4mn due to cumulated IT assets depreciation
- The FX reserve change for EUR +12.9mn mainly on the British Pound (EUR 4.5mn), on Hong Kong Dollar (EUR 2.5mn), on Swiss Franc (EUR 1.8mn), on Shekel (EUR 1.6mn), on the Singapore Dollar (EUR 1.5mn) and on the Czech Koruna (EUR 1.2mn).

All those movements are positive and are partly compensated by those negative movements :

- The foreseeable dividend to be paid in 2022 of EUR -60mn
- The negative Deferred Tax and other changes for EUR -17.0mn
- a negative impact of Risk Margin for EUR -13.3mn mainly due to increase in the Risk Charge Percentage (from 103% to 154%)
- AFS OCI reserve change for EUR -10.6mn mainly due to Bonds portfolio disposals
- Actuarial Gain or Loss Pension reserve for EUR -9.3mn

EH SA own funds are exclusively composed of basic own funds. The own funds are composed of Tier 1 unrestricted for more than 94% and of Tier 3 for the rest. EH SA does not have any ancillary own funds. The available own funds were used for all calculations in this report. The table below summarizes EH SA own funds composition:

Figure 26: Composition of own funds as of 31.12.2021 (MVBS)

Basic own funds (In EUR mn)	Total	Tier 1 - unrestricted	Tier 3
Ordinary share capital (gross of own shares)	229.4	229.4	0.0
Share premium account related to ordinary share capital	179.8	179.8	0.0
Reconciliation reserve	589.9	589.9	0.0
An amount equal to the value of net DTA	63.3	0.0	63.3
Total basic own funds after deductions	1,062.4	999.1	63.3

As shown in the following table, EH SA own funds composition remained relatively stable over 2021. The value of the DTA is increasing slightly.

Figure 27: Composition of own funds as of 31.12.2021 (MVBS)

Basic own funds (In EUR mn)	Total	Tier 1 - unrestricted	Tier 3
Ordinary share capital (gross of own shares)	229.4	229.4	0.0
Share premium account related to ordinary share capital	179.8	179.8	0.0
Reconciliation reserve	596.3	596.3	0.0
An amount equal to the value of net DTA	56.4	0.0	56.4
Total basic own funds after deductions	1,061.9	1,005.5	56.4

E.1.1.3. SCR and MCR covers

The table below summarizes available and eligible amounts of own funds to cover both SCR and MCR.

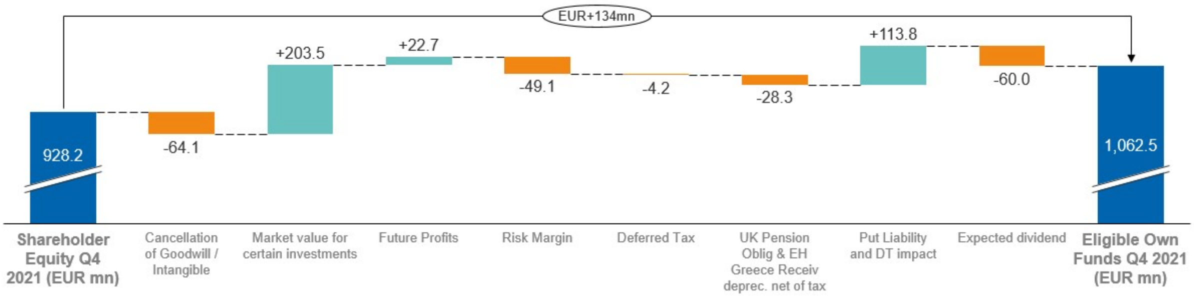
Figure 28: Available and eligible own funds to meet SCR and MCR as of 31.12.2021 (MVBS)

Eligible own funds (In EUR mn)	Total	Tier 1 – unrestricted	Tier 3
Total available own funds to meet the SCR	1,062.4	999.1	63.3
Total available own funds to meet the MCR	999.1	999.1	0.0
Total eligible own funds to meet the SCR	1,062.4	999.1	63.3
Total eligible own funds to meet the MCR	999.1	999.1	0.0

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

Evaluated from IFRS balance sheet, MVBS aims at showing an economic valuation of all assets and liabilities. Nevertheless, there are some differences between the two valuation methods, which are monitored. The figures hereunder intend to show the main differences.

Figure 29: **Bridge EoAL IFRS – basic own funds as of 31.12.2021 (in EUR mn)**



Considering assumptions as of the end of year 2021, the eligible SII own funds value are EUR 1,063mn compared to EUR 928mn in IFRS.

E.1.1.5. Description of items deducted from own funds

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

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

E.1.2. Additional ratios

EH SA does not disclose any other additional ratios.

E.1.3. Loss absorbency mechanism

EH SA does not have any own funds item related to Article 71 (1) (e) of the Delegated Regulation.

E.1.4. Reconciliation reserve

The following table summarizes the calculation of the reconciliation reserve.

Figure 30: **Breakdown of the reconciliation reserve as of 31.12.2021 (MVBS)**

Reconciliation reserve (In EUR mn)	Total
Excess of assets over liabilities	1,152.5
Own shares (held directly and indirectly)	-30.1
Foreseeable dividends, distributions, and charges	-60.0
Other basic own fund items	-472.6
Reconciliation reserve	589.9

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Evolution of SCR and MCR ratios

The table below shows the evolution of EH SA's SCR between 2020 and 2021.

Figure 31: **Breakdown of the SCR**

In EUR mn	2021	2020	Δ	%
Market	477	377	99	26%
Credit	249	230	19	8%
P/C Underwriting risks	161	126	35	28%
L/H Underwriting risks	35	39	-4	-11%
Business Risk	5	5	0	8%
Operational Risk	54	56	-3	-5%
Total Standalone RC	980	834	146	17%
Diversification effect	-487	-398	-89	22%
Total Diversified RC	493	436	57	13%
Capital Add-on	140	128	12	9%
Tax impact	-25	-27	2	-8%
SCR	609	537	72	13%

In 2021, the following model changes have been implemented:

- Major model changes (ESG inflation and RP revalidation 2019 follow-up) filed by Allianz did not result in material impacts for EH SA,
- Other minor/immaterial model changes have been implemented, that did not result in a major impact for EH SA.

Moreover, capital requirements related to the UK Pension Fund, which are assessed based on the Standard Formula, are integrated through an add-on.

In 2021, EH SA's MCR amounted to EUR 210.0mn, increasing by +15% compared to 2020, driven by the increase in non-life technical provisions. The MCR ratio stood at 476%, decreasing by -13% compared to 2020 due to the increase in MCR partly offset by the decrease in eligible own funds over the period.

E.2.2. Standard formula and Undertaking Specific Parameters

As EH SA is using an IM, it does not disclose any regulatory points related to the standard formula, including Undertaking Specific Parameters.

E.2.3. Inputs to calculate the MCR

The MCR for EH SA based on the IM is shown in the table below for 4Q 2021. MCR is calculated according to the methodology defined by SII regulation. The MCR equals the linear MCR for the IM as described by the following table.

Figure 32: MCR calculation (In EUR mn)

MCR	AMCR	SCR	MCR	45% SCR	25% SCR	MCR combined
210.0	3,70	608.5	210.0	273.8	152.1	210.0

E.2.4. Material changes to SCR and MCR

There were no material changes to EH SA's SCR and MCR in 2021 except those described in the previous section.

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

EH SA does not use the duration-based Equity Risk sub-module in the calculation of its SCR as the SCR is assessed based on an Internal Model.

E.4. Differences between the standard formula and any Internal Model used

E.4.1. Description of the Internal Model

E.4.1.1. Purposes for using an Internal Model

EH SA has implemented an IM for the computation of the SCR attached to the credit and surety portfolio.

The standard formula has several limitations for the representation of the Credit and Surety risk, starting from its classification as the premium risk. These limitations are overcome by using an IM, and especially a Credit Risk type model for the Trade Credit Insurance & Surety (TCI&S) LoB. Such a model is also better aligned to the way the risk profile is steered.

The following elements are considered as limitations in the standard formula applied to credit and surety risk:

- Classification of TCI&S risk as premium risk while the underlying risk drivers are credit-related;
- Separate consideration of Cat Risk while it is an inherent part of the underlying credit insurance risk;
- Partial applications of non-proportional treaties such as Stop Loss;
- Underestimation of non-linear risk mitigation features present in the policies;
- Backward-looking view on risk mitigation measures implemented in policies.

E.4.1.2. Structure of the Internal Model

A Credit Risk model is essentially a two-steps approach:

- Simulation of the exposure which is defaulting leading to define the Exposure at Default (EAD);
- Application of the mitigation factors either present in policies, in the reinsurance treaties or other mitigation clauses leading to define the ultimate loss borne by the insurance company.

This modeling framework allows capturing of all the necessary feature of EH SA risk profile by:

- Providing one loss distribution covering all loss scenarios and events;
- Reflecting directly in the loss distribution risk mitigation features (either present in policy or a reinsurance treaty);
- Reflecting directly in the loss distribution risk mitigation features attached to the policies;
- Reflecting portfolio evolution through the use of the most recent exposure;
- Reflecting management actions by taking into account risk underwriting stance and risk action plans in the calibration of the model parameters.

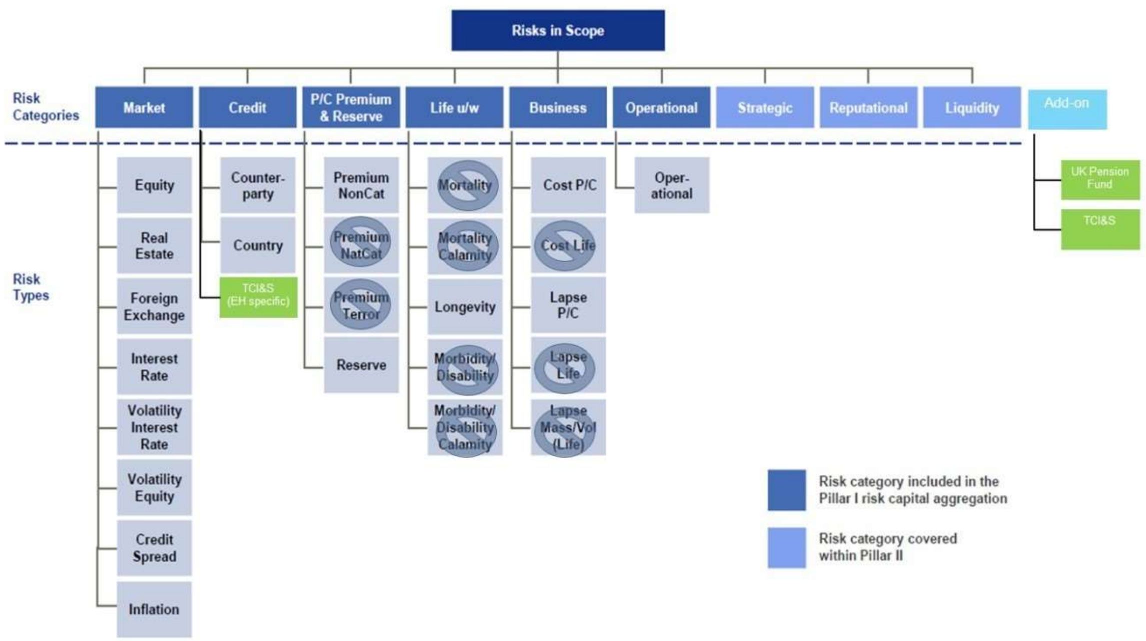
E.4.1.3. Scope of the Internal Model

The EH SA Internal RC model covers:

- All of its major reinsurance operations through its TCI&S, underwriting (P&C Premium and Reserve & Business) and operational risk models;
- Its investment portfolio through its market risk and credit risk models;
- Its German Pension Funds through its longevity risk model.

The chart below depicts the scope and structure of the IM:

Figure 33: IM scope as of 31.12.2021



N.B.: The excluded risks do not apply to EH SA's risk profile

E.4.2. Methodologies

E.4.2.1. Process within the Internal Model

EH SA uses a full IM to calculate its RC. The main methodologies and assumptions used in its IM are detailed in the following sections.

Risk	Risk measure	Quantile	Additional information
Market risk	VaR	99,5%	All risk factors have distributions calibrated using historical observation of weekly time series
Reserve risk	VaR	99,93%	A bootstrap approach is used to obtain a risk distribution.
Credit risk for reinsur-ance and investment modelling	CVaR	99,5%	For investment portfolio, EAD and Loss Given Default (LGD) are estimated following a linear model derived from a statistical analysis of historic data by asset classes.
Credit risk for trade credit insurance & surety	CVaR	99,5%	In the case of Trade Credit Insurance, a particular limit/exposure default is triggered if an invoice sent by the policyholder is not paid by the buyer. In general, such a default event is reported as an insured claim. The central element of the model is to determine in a particular scenario: • Whether or not a claim is to be expected on a counterpart; • Whether or not the triggered claim will lead to an indemnification by EH SA; • Whether or not EH SA can recover part of the indemnified amount later on. The capacity of the buyers/counterparties to fulfil their commitments (e.g. to pay the received invoices) can depend either on its own actions but also on the economic environment. As a consequence, EH SA judged that the commonly used credit factor modelling that distinguishes an idiosyncratic risk and a systemic risk is considered as the most adequate for the simulation of losses in the TCI&S portfolio.

E.4.2.2. Difference between standard model and Internal Model

E.4.2.2.1. Market Risk

The scopes of IM & Standard Model (SM) computations are identical for the Market Risk. It covers the EH SA investment portfolio and EH SA’s share of the German pension fund. There are however, some differences in risk as some risks covered in the Market Risk of the SM are covered in the Credit Risk of the IM.

Hereafter is an overview of the main differences between the Market Risk sub-modules of the SM and the IM:

- Credit Spread Risk: the IM approach allows for a significant diversification between the asset classes.
- Foreign Exchange Risk: the IM allows for different shocks for the different currencies and for diversification.
- Interest Rates Risk: In the IM, changes in the yield curve such as twists are considered, shifts for long-term are set. Additionnally, there is diversification in the IM.
- Equity Risk: the average shock level is slightly higher in the IM.
- Property Risk: the average shock level is lower in the IM.

Other differences come from difference in granularity/calibration between the two models.

Note also that sovereign bonds from the European Economic Area (EEA), AAA and AA rated non-EEA sovereign bonds, supranational, and mortgage loans on residential property are not exempt from Spread Risk in the IM.

E.4.2.2.2. Credit Risk

The IM Credit Risk covers some components of the SM Market Risk and of the non-life Underwriting Risk. The SM counterparty default risk components are all covered by the IM Credit Risk.

The IM Credit Risk covers risks, which are not covered in the SM (counterparty risk on European State bonds and counterparty risk on the SCR equivalent losses ceded to reinsurers).

As a consequence, these differences added to the differences in classification/granularity and calibration between the models and the differences in modelling (discrete approach for SM vs stochastic approach for IM) explain the differences in Credit Risk.

E.4.2.2.3. Life Risks

The life risk bears only on the German defined benefit pension fund. For the SM, EH SA has taken the decision not to model this risk in application of the EIOPA rules.

E.4.2.2.4. Non-Life Risks

Both models capture the same types of risks EH SA is facing but following different classification and methods. Both models cover:

- The Premium, Reserve and Business Risks due to non-renewal of policies;
- The ordinary claims level and the extraordinary claims level (recession, single loss events).

The classification is different between the two models. All risks (Premium, Reserve and Business) are under Non-Life Risk for the SM while the equivalent of the Premium Risk of the TCI&S business is classified under Credit Risk for the IM and the Lapse Risk is under Business Risk. This has a double impact: representation and diversification.

On the TCI&S portfolio, EH SA has developed its own model that has been classified as Credit Risk. This IM presents the following significant differences with the SM:

- Computation at the level of the risk: buyer level (i.e. client of the policyholder);
- Random scenario generation to simulate the loss distribution allowing for covering different extreme scenario which are embedded in the Premium Risk and not captured in parallel.

The results of the IM and its comparison to the SM shows that the difference is due to two main reasons: first, the non-justified calibration of the recession risk by EIOPA and second, to the fact that the calibration of the Premium Risk by EIOPA is not in line with EH own experience (EIOPA is roughly 50% higher than EH own calibration using EIOPA method), while the contribution of the large/single losses to the SCR are equivalent.

E.4.2.2.5. Business Risks

Both models try to capture the deterioration of future earnings following a shock in terms of commercial activity. In the IM, the business risk has two components:

- One not comparable with the SM (the cost risk related to new production);
- One which is partially comparable with the SM (lapse Risk – loss of operating profit due to a less performant than anticipated renewal campaign). The calibration is not comparable and therefore the results are not directly comparable

E.4.2.2.6. Operational Risk

The SM and IM approaches are significantly different. The IM is based on own expert scenarios of Operational Risk while the SM is based across the industry calibration. As a consequence, EH SA will not comment on the difference between the two models.

E.4.2.2.7. Diversification

The diversification mechanisms are significantly different due to:

- Different risk taxonomies (classification of risks) and underlying risk factors;
- Calibration factors which are different (in particular for the Operational Risk which is diversified in the IM and not in the SM);
- Different computation approaches (discrete for SM vs stochastic for IM).

Given the major differences highlighted above, it is difficult to compare diversification drivers and benefits between the SM and IM.

E.4.2.2.8. Tax relief

The tax relief methodology is identical between SM and IM computation. Both methodologies calculate per branch the minimum of:

- The tax rate multiplied by the RC (if necessary splitting the RC per tax rate category); and
- The DTL in the MVBS.

E.4.3. Data quality

EH SA 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.

The KPIs are consolidated and reported to different committees 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 SA to calculate the RC is under control: 4786 of KPIs in total are controlled as of 4Q 2021, only 0.2% of the KPIs are identified as “KO”.

E.4.4. Risks not covered by standard formula but covered by Internal Model

Please refer to section E.4.2.2 of this report for differences in the risks and methodologies used between the SM and the IM. In particular, differences in business risk are described in section E.4.2.2.5.

E.5. Non-compliance with the MCR and/or with the SCR

E.5.1. Non-compliance with the MCR

EH SA is compliant with the MCR.

E.5.2. Non-compliance with the SCR

EH SA is compliant with the SCR.

E.6. Any other information

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

Appendix 1: Key terms and abbreviations

Terms / Abbreviations	Description
ABS	Asset Backed Securities
ALM	Asset Liability Management
APAC	Asia and Pacific
BAU	Business as usual
BE	Best Estimate
BEL	Best Estimate Liabilities
BeGAAP	Belgian Generally Accepted Accounting Principles
BoD	Board of Directors
BoF	Basic Own Funds
BU	Business Unit
CAT	Catastrophe
CDA	Counterparty Default Adjustment
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIFS	Critical or Important Functions or Services
COBIT	Control Objectives for Information and Related Technologies
COSO	Committee of Sponsoring Organizations
CR	Combined Ratio
CRO	Chief Risk Officer
CVaR	Credit Value at Risk
DAC	Deferred acquisition costs
DACH	Germany, Austria and Switzerland
DE	Germany
DTA	Deferred Tax Assets
DTL	Deferred Tax Liabilities
EAD	Exposure at Default
EEA	European Economic Area
EH	Euler Hermes
EH Re	Euler Hermes Reinsurance
EH Re AG	Euler Hermes Reinsurance AG
EH Ré SA	Euler Hermes Reinsurance SA
EIOPA	European Insurance and Occupational Pensions Authority
EoAL	Excess of Assets over Liabilities
EU	European Union
EUR	Euro
FiCo	Finance Committee
FP	Future Premiums
FX	Exchange rate
G/L	Gains/Losses
HKD	Hong Kong Dollar

Terms / Abbreviations	Description
HR	Human Resource
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IM	Internal Model
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
LTI	Long-Term Incentives
MAAC	Model and Assumptions Approval Committee
MC	Management Committee
MCR	Minimum Capital Requirement
MMCD	Market Management, Commercial and Distribution
MMEA	Mediterranean countries, Middle East and Africa
MVBS	Market Value Balance Sheet
NBB	National Bank of Belgium
OPCI	« Organisme de Placement Collective en Immobilier »
OREC	Operational Risk Event Capture
ORM	Operational Risk Management
ORSA	Own Risk and Solvency Assessment
OTC	Over The Counter
P&C	Property & Casualty
PAAC	Parameters & Assumptions Approval Committee
PRISM	P&C Insurance Risk Model
QRT	Quantitative Reporting Templates
RC	Risk Capital
RiCo	Risk Committee
RM	Risk Margin
RPF	Risk Policy Framework
SA	Société Anonyme
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SII	Solvency II
SM	Standard Model
SPV	Special Purpose Vehicle
TP	Technical Provisions
TRA	Top Risk Assessment
UK	United Kingdom

Terms / Abbreviations	Description
ULAE	Unallocated Loss Adjustment Expenses
UPR	Unearned Premium Reserve
USD	United States Dollar
VA	Volatility Adjustment
VaR	Value at Risk

Appendix 2: Publically disclosed QRTs

Publically disclosed Quantitative Reporting Templates can be found on the EH Group main website: http://www.eulerhermes.com/

Appendix 3: Disclaimer

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