EH Re SA

Solvency and Financial Condition Report 2022

Allianz Trade is the trademark used to designate a range of services provided by Euler Hermes.

Contents

Executive Summary

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

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

Business and performance (A)

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

EH Ré SA accepts risk from several material geographical regions: Northern Europe, Asia and Pacific (APAC) and Run-off from France, Mediterranean countries, Middle East and Africa (MMEA). From underwriting year 2021 onwards, Poland stopped ceding to EH Ré SA[1] and now cedes directly to EH Re AG.

In 2022, EH Ré SA's Gross Earned Premiums were at EUR 454mn, increasing by 35% compared to 2021, while Gross Claim costs have increased by EUR 88mn compared to 2021. Gross Earned Premiums and Claim costs are increasing again due to business volumes increase following economic recovery.

The investment income stood at EUR 2.0mn and is unchanged compared to 2021, driven by higher income from bonds results (EUR 1.3mn in 2022 versus EUR 1mn in 2021) offset by lower results from FX (EUR -0.3mn) due to market volatility.

System of governance (B)

EH Ré SA system of governance is set in compliance with key regulatory requirements contained in CAA circulars[2] LC19/5 (notification of natural persons subject to CAA supervision), LC22/15 (composition and organization of BoD) and LC21/12 (Solvency 2 key functions).

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

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

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

[1] Only a marginal cession for Stop Loss remains

[2] CAA circulars are available here: https://www.caa.lu/fr/documentations/circulaires

and Key Function holders, as well as a set of other policies that oversee principles and governance of Key Functions.

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

Risk profile (C)

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

This chapter provides an overview of the risk categories contributing to EH Ré SA’s Solvency Capital Requirement (SCR) of EUR 89.7mn.

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

Valuation for solvency purposes (D)

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

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

Excess of Assets over Liabilities (EoAL) of 2022 is valuated at EUR 95.6mn on an MVBS basis. The total value of assets and liabilities stood at EUR 570.2mn and EUR 474.6mn, of which EUR 412.7mn of Technical Provisions (TP) representing EUR 74.3mn on a net basis. Assets have been invested in alignment with the Prudent Person Principle.

Capital management (E)

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

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

The SII ratio of EH Ré SA at year end 2022 is at 144% and the Minimum Capital Requirement (MCR) amounts to EUR 22mn.

A. Business and performance

A.1. Business

A.1.1. Legal entity, auditor and supervisor

A.1.1.1. Name and legal form

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

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

A.1.1.2. Supervisor

Name	Commissariat aux Assurances (CAA)
Address	11, rue Robert Stumper L-2557 Luxembourg

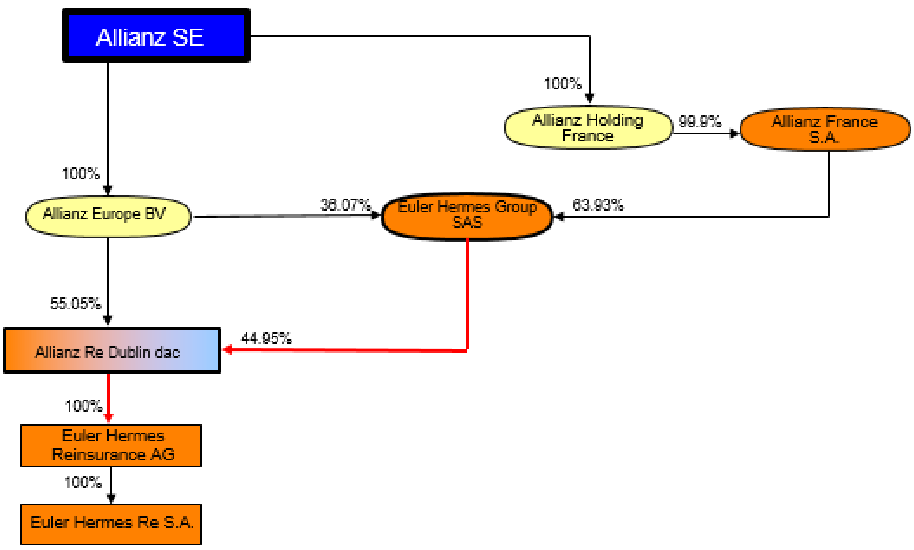
A.1.1.3. Auditor

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

A.1.2. Group structure and qualified holdings

EH Ré SA is a fully owned subsidiary of EH Re AG, Switzerland. The details can be seen in the simplified group structure chart in figure 1.

Figure 1: EH Ré SA simplified Group structure



A.1.3. Material lines of business and geographical areas

EH Re AG and EH Ré SA are the reinsurance companies fully steered by the Allianz Trade Group (AZT) even if technically directly and indirectly owned by Allianz Re Dublin dac providing reinsurance solutions and capacity to all AZT companies. In addition, it covers the related non-consolidated companies in Austria, Portugal, Israel and Solunion, the AZT Joint Venture with Mapfre for the Spanish and Latin American countries and the surety & guarantee business of the worldwide Allianz entities.

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

Mainly the business from the AZT business units located in the European Union (EU) is ceded to EH Ré SA with the exception of the German, French, Greek and Italian branches of Euler Hermes SA (EH SA) whereas the Asian Pacific branches of EH SA started to cede directly to EH Ré SA from the underwriting year 2016. From the underwriting year 2018 onwards, Acredia & Cosec stopped ceding to EH Ré SA and now cede directly to EH Re AG. From the underwriting year 2020 onwards, Greece stopped ceding to EH Ré SA and now cedes directly to EH Re AG. From underwriting year 2021 onwards, Poland stopped ceding to EH Ré SA[3] and now cedes directly to EH RE AG incl. its Run-Off business.

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

A.1.4. Significant and subsequent events

2022 was a year of slowed recovery after the deep global recession experienced in 2020 and a strong recovery in 2021. Global real GDP is expected to land around +3% after a +6% increase in 2021.

2022 was mainly marked by the Ukraine - Russia war which has led to a global shock on trade, energy prices and ultimately to global inflation which is expected to land around +8.6%. This war event has generated a +10% increase in the 2022 Allianz Trade global insolvency index vs 2021 with diverse pictures across countries with US showing a +2% increase while the main EU countries show an average +25% increase (but yet below pre-Covid levels by circa -10%). This has also reflected in the insurance portfolio evolution where claims’ frequency increase is slowly confirmed whereas severity remains low given the improved quality of the portfolio rating.

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

Compared to 2022, the panel of external reinsurers has been extended. Apart from smaller changes, the overall reinsurance structures of EH Re will mostly remain unchanged in 2023. An additional Group Stop Loss Layer above and in addition to the Original Stop Loss treaty has been purchased for 2023 and will cover the net retention of EH Re and the ceding entities.

Outlook 2022

After a tumultuous year, AZT anticipate lackluster growth in 2023, followed by differing recovery paths across countries in 2024. Global growth is likely to slow to +1.4% in 2023 (after +2.9% in 2022) and to

[3] Only a marginal cession for Stop Loss remains

recover modestly to +3.1% in 2024, with significant divergence across countries. Advanced economies will register a shallow recession of -0.1% in 2023 (after growth of +2.5% in 2022), followed by a rebound to below-potential growth of +1.5% in 2024.

We expect energy prices will remain high over the coming two years. Despite some easing in demand due to the global recession penciled in for 2023 and gas-demand destruction, we believe markets will remain tight and prices high for the next couple of years.

Global trade continues to slow as industrial activity recedes despite easing supply-side constraints. Oversupply in the manufacturing sector has worsened since Q3 2022, notably in Europe. Hence, the manufacturing sector is expected to remain in recession in 2023 due to lower demand, mainly for consumer-driven industries, and a more pronounced destocking process from corporates in sectors where oversupply is highest. The largest cliff is expected in cyclical sectors such as construction, consumer goods (electronics, household equipment etc.) and retail. We expect supply chains to continue to normalize, supported by slowing demand and China's reopening.

Inflation will remain uncomfortably high over the near term, averaging 6.4% at the global level in 2023 before receding to 3.9% in 2024. It should continue to remain strong over the coming quarters (despite strong disinflationary base effects in 2023), with core inflation remaining rather sticky this year. Besides the lower contribution from supply chains and a negative contribution from demand and monetary policy, a stronger euro should reduce inflation by around -1pp in 2023-24. In advanced economies, we expect inflation to reach 4.7% in 2023 (down from 7.4% in 2022). Continued wage pressures coupled with persistently high energy and food prices will keep inflation at 2.4% until late 2024, especially in Europe.

A.2. Underwriting Performance

As part of AZT Group, EH Ré SA performs analyses and discloses its reports and publications on an IFRS 4 basis.

A.2.1. Aggregated underwriting performance

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

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

In EUR mn	4Q 2022	4Q 2021	Δ	%
Turnover	454	336	118	35%
Claims costs	-181	-93	-88	95%
Gross operating expenses	-177	-121	-56	47%
Gross technical result	97	123	-26	-21%
Outward result	-108	-110	3	-2%
Technical result	-11	13	-24	-188%

At the end of December 2022, EH Ré SA's turnover is at EUR 454mn, 35% up compared to 2021. In 2022, gross Claims costs amount to EUR -181mn up by 95% compared to 2021. These evolutions are driven by the removal of the State Support Schemes at the end of June 2021 and by increased business volumes.

The Gross operating expenses are at EUR -177mn, 47% higher than last year. The inward cost ratio has slightly increased by +3% from 36% in 2021 to 39% in 2022 mainly due to higher commission rates paid for the cession of Line of Business Non-WA (NEUR 38% + 1.5% and APAC 36.5% + 3%) and WA + 2% from 34% to 36%.

In 2022, the Outward result is at EUR -108mn decreasing by 2% compared to 2021. The Quota Share retrocession rates for Premium (90%) and Claims (88%) to EH Re AG are in line with the treaty rules. Accordingly, the EH Ré SA's net technical result is a loss of EUR 11mn compared to a profit of EUR 13mn in 2021. This loss is driven by the increase of the cost ratio on the assumed business in 2022 at 39% (vs 36% in 2021), whereas there is a fixed commission rate on the retroceded side at 35%.

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

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

Figure 3: **EH Ré SA Underwriting performance per regions and LoBs in EUR mn**

Key figures per Region in EUR mn	Trade Credit business							Surety & guarantee business	Fidelity
	AZT NEUR	AZT FRANCE	AZT APAC	AZT MMEA	AZT MNC	External cedents	TOTAL Trade Credit business		
Gross earned premiums	**-223**	**0**	**-77**	**0**	**-150**	**0**	**-450**	**-4**	**0**
vs 4Q 2021	-148	0	-58	-2	-122	0	-330	-6	0
Total Claims	**100**	**-2**	**22**	**-1**	**71**	**1**	**191**	**-10**	**0**
vs 4Q 2021	64	-2	6	-5	34	2	99	-6	0
Loss Ratio	**-46%**	**n/a**	**-30%**	**n/a**	**-48%**	**n/a**	**-43%**	**224%**	**n/a**

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

The evolutions are mainly explained as follow:

- Trade credit:
    - "External cedents" is related to ceded run-off business from Acredia, Cosec, Solunion and Allianz OEs, as the new business is ceded to EH Re AG directly, therefore only claims run-off is being ceded;
    - Northern Europe: In 2022 the complete portfolio from Poland has been transferred to EH Re AG, therefore Poland does not cede anymore its Trade Credit business to EH Ré SA. Since the State Support Schemes have stopped by end of June 2021, premium and claims ceded are increasing again;
    - MMEA includes Italy, Greece and Turkey: Italy and Greece are ceding run-off business only, explaining the low level of Gross earned premium. Turkey only holds an internal Stop Loss towards EH Ré SA, retroceding their normal business to EH Re AG directly;
    - APAC is ceding to EH Ré SA as from the treaty year 2016 onwards. The Loss ratio CY and PY in 2022 is driven by large loss IBNR, moving reserves from PY to CY.
- Surety & guarantee:

- The premium and claims decrease is mainly driven by Northern Europe. Since treaty year 2017 this LoB is ceded to EH Re AG directly and only run-off is remaining in EH Ré SA, therefore the premium ceded to EH Ré SA decreased compared to 2021.

A.3. Investment Performance

As part of AZT, EH Ré SA performs analyses and discloses its reports and publications on an IFRS 4 basis.

A.3.1. Income and expenses arising from investments

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

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

In EUR mn	4Q 2022	4Q 2021	Δ	%
Current income from Equity	0	0	0	0
Current income from Bond	1.3	1.0	0.3	29%
current income Real Estate 3rd party	0	0	0	0
Current income from Cash and Other	0	0	0	0
Current investment income	1.3	1.0	0.3	29%
FX result (net)	0.9	1.2	-0.3	-26%
Investment Expenses	0.2	0.2	0.0	-11%
Realized gains/losses	0.0	-0.1	0	-46%
Total investment income (incl. interest expenses)	2.0	2.0	0.0	1%

The investment income stood at EUR 2.0mn, stable compared to 2021, driven by higher current income from Bond (EUR 1.3mn in 2022 versus EUR 1.0mn in 2021) offset by lower income on FX (EUR -0.3mn).

A.3.2. Gains and losses recognized directly in equity

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

In EUR mn	Subscribed capital	Revenue reserve	Unrealized gains & losses	Share-holder equity
Opening balance shareholder equity	16.2	98.6	-11.8	103.0
Net income of the current year		-6.4		-6.4
AFS, Bonds investments, unrealized gains/losses				0.0
Closing balance shareholder equity	16.2	92.2	-11.8	96.6

The overall equity decrease is mainly due to the loss on the net income.

A.3.3. Investments in securitization

EH Ré SA invested in covered and mortgage securities. The following table summarizes the details of those investments.

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

In EUR mn	4Q 2022		4Q 2021	
	Exposure	Exposure as % of total financial assets	Exposure	Exposure as % of total financial assets
Mortgages	0	0.00%	7	3.58%
Covered	56.9	31.71%	49.5	25.24
Securitization	56.6	31.71%	**48**	**28.81%**

The rationale behind those investments is explained below:

- Mortgages: in 2022, the mortgages were fully refund;
- Covered: exposure in covered bonds in 2022 is higher compared to 2021 following the reinvestment of mortgage amount.

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

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

A.4. Performance of other activities

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

A.5. Any other information

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

B. System of governance

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

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

B.1. General information on the system of governance

B.1.1. Structure of the system of governance

There have not been any material changes in the system of governance over the reporting period. Nevertheless, EH Ré SA is currently analyzing the impact of the new requirements contained in circular LC22/15 and shall report changes in the next year report.

The governance bodies mentioned below meet at the following frequencies:

- The BoD meets as often as necessary and at least three times a year;
- The Audit Committee takes place at minimum twice a year;
- The Financial Committee (FiCo) takes place during or before each BoD meeting;
- The BoM meets as often as required in the interests of EH Ré SA, generally on a bi-weekly basis;
- The Risk Committee (RiCo) takes place on a quarterly basis;
- The Loss Reserve Committee (LRC) takes place at least 4 times a year; EH Ré SA is integrated in the AZT Group LRC;
- The Underwriting Committee takes place on a quarterly basis;
- Since 2021, there is no stand-alone Integrity Committee but an integrated one with the AZT Group Integrity Committee;
- The Compliance Committee takes place minimum two times per year;
- The Special Approval Committee meets whenever there are sensitive policies escalated by the Regions requiring external reinsurance approval.

B.1.1.1. The Board of Directors

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

The board meetings' agenda over the year is detailed below:

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

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

B.1.1.2. The Audit Committee

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

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

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

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

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

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

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

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

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

Since December 2017 EH Ré SA has its own Audit Committee.

B.1.1.3. The Financial Committee

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

B.1.1.4. The Board of Management

There is no specific BoM of EH Ré SA. EH Ré SA outsources the activities dedicated to the BoM to the BoM of EH Re AG.

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

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

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

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

B.1.1.5. The Risk Committee

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

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

B.1.1.6. The Loss Reserve Committee (LRC)

Following the capital restructuring project REACH in 2020, there is no longer a stand-alone LRC for the EH Re entities, and these are integrated in the AZT Group LRC. The EH Re AG CEO (Chairman of the Board of EH Ré SA) is a voting member within the AZT Group LRC with regards to EH Re related decisions.

B.1.1.7. The Underwriting Committee

Since both EH Re AG and EH Ré SA, referred to as Euler Hermes Reinsurance (EH Re), are fully integrated from an administrative and business perspective, the Underwriting Committee has a global view on both entities.

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

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

B.1.1.8. The Special Approval Committee

The SACo acts as a gatekeeper to the Special Approvals sent to the Reinsurers. Its perimeter comprises all the Special Approvals which have to be requested to the Reinsurers as per the AZT Group Reinsurance treaties and AZT Group Underwriting rules. Accordingly, the purpose of the SACo is to discuss, review and validate specific policies escalated by the AZT Regions when external Reinsurance Approval is required according to the terms & conditions of the AZT Reinsurance treaties. The SACo has all authorities on deciding which Special Approval should be submitted to the external reinsurers for approval. Escalation of the SACo will be with the Company Board of Management.

The SACo will meet whenever there are sensitive policies escalated by the Regions requiring external Reinsurance approval. According to the Reinsurance Underwriting Rules and processes, all these sensitive policies and cases may be submitted to EH Re. Accordingly, EH Re will select the policies or cases to be presented to the SACo when these are not compliant with the Reinsurance treaties according to the last updated Product List including the products' main specificities (ie. Risk tenor, maximum liability per Policy or Risk) approved by the external Reinsurers.

Typically, the policies or cases for the SACo are the following ones:

- Significant deviations with the "standard" wording/clauses of existing policies;
- Generally excluded business (ie., Seller Risk, insurers' default cover, Medium Term (Non-Capital Goods), Financial Guarantee etc.);
- Requests which might cause issues from an Underwriting perspective for the AZT external Reinsurers;
- Requests which might be detrimental to the AZT reputation;
- Material portfolio changes with significant impact on the AZT Risk Profile;
- Requests which might have an impact on the AZT Reinsurance terms & conditions in case of significant losses;

The SACo is fully entitled by the AZT Group BoM to decide on the policies and/or cases presented to the Committee which will be submitted to the external reinsurers for approval.

The SACo will ensure adequate reporting, when necessary, to third parties both external (reinsurance market including Allianz) and internal (EH Reinsurance Committee).

B.1.1.9. Compliance Committee

EH Ré SA has implemented a Compliance Committee which covers the following duties of the compliance key function holder:

- Direct reporting line to the BoD;
- Maintaining an understanding of current laws and regulations concerning the corporate compliance program and integration of related standard;
- Advising the BoD on compliance with laws, regulations and internal policies adopted pursuant to the local Insurance Supervisory Law;
- Identification, assessment and reporting significant compliance risks;
- Establishment and implementation of a compliance plan (considering all activities of the Company and their exposure to compliance risk), to be approved by the BoD;
- Assessment of the adequacy of measures to prevent non-compliance;
- Assessment of the possible impact of any changes in the legal environment on the operations of the undertaking concerned;
- Ensuring a regulatory monitoring process regarding compliance activities and its effectiveness;

- Reviewing the adequacy and effectiveness of the compliance control environment and making recommendations as to the content of the Code of Conduct & Business Ethics and the Compliance Policy;

- Instilling a corporate sense on the Company's risks of unlawful and unethical conduct based on Compliance Risk Assessments (e.g. regulatory compliance, corruption and fraud);

- Coordinating its actions with the Head of Compliance;

- Reviewing all Compliance reports in in order to ensure adequate response to any regulatory compliance and integrity related process weaknesses;

- Ensuring that Compliance has the necessary resources to carry out the compliance plan.

B.1.1.10. Key Functions

EH Ré SA has the following independent Key Functions:

- The Audit function is outsourced to AZT Group. The key function holder participates to the Audit Committee;
- The Compliance function is outsourced to EH Re AG. EH Ré SA Chief Compliance Officer has a matrix manager within the AZT Group Compliance function. The Chief Compliance Officer chairs the Compliance Committee and is invited to BoM and RiCo meetings where the compliance status and issues are presented;
- The Risk function when it comes to risk capital computation is outsourced to AZT Group Risk. The other activities are managed by the local CRO. There is a quarterly EH Re RiCo where the risk profile is monitored;
- Responsible Actuary (Actuarial Function) is outsourced to AZT Group Actuarial Function. The Responsible Actuary prepares the quarterly LRC and presents it. The Responsible Actuary is also invited to the RiCo.

Regarding SII regulation, Compliance, Actuarial, Risk and Internal Audit functions operate within the risk management framework made of three lines of defense.

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

BoD Fit and Proper assessment has been performed and results will be presented on 24.03.2023 during the Compliance meeting. Key function Fit and Proper assessment was not due in 2022 (every 3 years).

B.1.2. Remuneration policy

Following the release of circular LC22/15 and the need to change the organization of the Audit Committee, a new remuneration policy has been released and approved on 21.11.2022 by the BoD.

B.2. Fit and Proper requirements

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

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

B.2.1.1. Roles requiring Fit & Proper assessment

Luxembourg Fit and Proper requirement are contained in circulars LC19/15, LC22/15 and LC21/12 previously mentioned.

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

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

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

B.2.1.2. Details on Fit & Proper requirements

B.2.1.2.1. Fitness

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

Members of the BoD have to:

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

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

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

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

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

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

B.2.1.2.2. Propriety

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

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

B.2.2. Description of processes and procedures in place

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

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

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

- Job descriptions or fitness criteria checklists are used to fill open positions for members of Senior Management other than members of the BoM and for Key Functions, both internally and externally;
- All candidates submit a curriculum vitae at the beginning of the recruiting process, except for internal candidates for Key Function staff positions who have been employed by AZT Group for more than four years;
- The final candidate for a position within the Senior Management or as Key Function holder is subject to a background check including copies of his required qualifications, a proof of good reputation and of no previous bankruptcy, a reference check, and a public media search conducted by the recruiting function. The final candidate must complete a template according to Circular letter 19/5.

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

B.2.2.2. Processes for ensuring ongoing Fitness and Propriety

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

The CAA specifies its requirements relating to key functions, in particular to their independence, the combination of key functions with other mandates or responsibilities, the fit & proper requirements of the key functions, the continuous and period fit & proper assessment and the application of the proportionality principle in the Circular letter 21/12 referring to the key function holder's regular assessment.

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

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

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

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

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

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

B.2.2.3. Outsourcing of a Key Function

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

B.2.2.4. Assessment results

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

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

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

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

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

B.3.1. Description of Risk Management System

B.3.1.1. Three lines of defense

As required by SII, EH Ré SA has adopted the "Three lines of defense" model for risk governance, with clear responsibilities between the different organizational functions. It defines as the first line of defense Operating Business, as second-line control functions, e.g., Actuarial, Compliance, Legal[4], Accounting & Reporting, and Risk, and as third-line Internal audit. This model is described hereafter:

[4] 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.

Figure 7: Three-lines of defense model

Board
Strategy, Risk Appetite and policy

First line:
Risk ownership

EH Risk taking business units supported by the management

Delegated authority from the Board to:
- Develop and implement the Internal Model;
- Measure and manage business performance;
- Develop and implement internal control and risk management framework;
- Ensure that the business is managed within the agreed Risk Appetite.

Second line:
Risk control and monitoring

EH Risk, Actuarial, Compliance, Legal and Accounting functions

Provides objective oversight of the management of risk. Key responsibilities include:
- Design and deployment of overall Internal Model governance framework;
- Development and monitoring of policies and procedures;
- Monitoring adherence to framework and strategy;
- Compliance rules.

Third line:
Independent assurance

EH Internal Audit Functions

Provides independent assurance across the first and second lines. Its activities include particularly:
- an independent assessment of the effectiveness and efficiency of the Internal Control System including the activities exercised by the first and second lines; and
- a respective report to the relevant Board of Management.

B.3.1.2. Risk Governance structure

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

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

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

The Risk Function is responsible for:

- Supporting the first line of defense by helping ensure employees at all levels of EH Ré SA are aware of the risks related to their business activities and how to properly respond to them;
- Regularly reviewing, on at least an annual basis, the consistency between the Risk Strategy and business strategy, and proposing changes to the Risk Strategy and Risk Appetite to the BoM;
- Assessing on a regular basis the adequacy of the Risk Policy Framework towards the fulfillment of regulatory requirements and achievement of the Risk Strategy and ensuring updates occur

as appropriate, specifically with respect to the risk policy and standards for the management of:

  - Underwriting and reserving;
  - ALM;
  - Investment Risk;
  - Liquidity Risk;
  - Concentration Risk;
  - Operational Risk;
  - Reinsurance and other insurance risk mitigation techniques.

- Overseeing the execution of the risk management processes;
- Monitoring and reporting EH Ré SA risk profile including the calculation and reporting of the RC;
- Supporting the BoM through the analysis and communication of risk management related information and by facilitating the communication and implementation of its decisions;
- Escalation to the BoM in case of material and unexpected increases of risk exposure;
- Reporting the solvency assessment as well as any further material risk management related information to AZT Group Risk function; and

The Risk Function is under the competence field of the CEO. It has intense interfaces and close cooperation with other functions, including Actuarial and Compliance.

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

The Risk Committee (RiCo) is responsible for:

- Preparing and proposing to the BoM the Risk Strategy, Risk Appetite, and limits;
- Operational execution of the risk limit framework and overseeing the risk management system;
- Preparing and proposing to the BoM the solvency assessment; and
- Defining and operationalizing group-wide risk standards (including the corporate rules of the Risk Policy Framework).

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

B.3.1.3. Risk management processes

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

- Risk identification;
- Risk assessment;

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

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

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

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

B.3.2. Description of ORSA process

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

The ORSA draws upon the whole Risk Management system in order to conclude on the Risk Profile adequacy 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 Ré SA's ORSA report is reviewed once a year.

B.3.2.1. ORSA process

Figure 8: **ORSA macro process**

The ORSA process is executed through five main steps:

- Update and alignment of the Risk Appetite and risk limits with the business strategy and check the alignment with AZT Group requirements;
- Identification of all risks and controls to be considered, by performing several approaches;
- Assessment of all risks based on the SM and additional risk assessment methods for risks not covered by the SM. Moreover, projections of own funds, RC and solvency ratio under base case and stress scenarios;
- Steering of the overall solvency needs in quantitative terms with a qualitative description of all material risks. Then, demonstration of the compliance of the future business with the Risk Strategy;
- Reporting of the performed results and analysis by filling the ORSA report and releasing it to all relevant stakeholders. The report has to then be validated by EH Ré SA BoD before any official communication. Appropriate results are shared with other relevant reporting/ analysis processes.

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

B.3.2.2. ORSA governance

The BoD challenges and validates the annual ORSA report.

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

- Ensuring proper implementation of its standard;

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

The RiCo is responsible for:

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

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

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

B.3.2.3. Capital management strategy

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

- EH Ré SA targets to stay around or above Management ratio in the normal course of business;
- The Management Ratio, as well as an Alert and Action Barrier, are defined in the EH Ré SA Risk Appetite policy;
- In case of a breach of these barriers, the BoD will evaluate the situation in their next regular board meeting and decide on any potential countermeasures to get back to the Management Ratio. In particular, any capital held in excess of the target management ratio is deemed excess capital. This excess capital shall be made available to EH Ré SA as early as possible over the plan horizon;
- If EH Ré SA drops below the Alert Barrier, a contingency plan must be submitted to the BoM to recover its solvency position within due time;
- If EH Ré SA falls below the Action Barrier during the course of the year but stays above the Minimum Capital Ratio, it is still expected to pay out the planned dividend while any adjustments will be considered to the planned dividends over the remaining plan horizon;
- If EH Ré SA falls below the Minimum Capital Ratio, the BoD will take measures to re-establish the Minimum Capital Ratios in due time.

B.4. Internal control system

B.4.1. Description of internal control system (ICS)

B.4.1.1. Internal control framework

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

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

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

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

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

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

B.4.1.2. General control elements

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

- It is important to safeguard the separation of duties to avoid excessive risk-taking and potential conflicts of interest;
- Material decisions must be taken by at least two representatives of the operational entity under review, even if, under local regulations, EH Ré SA may be represented by a single person (four-eyes principle);

- In the interests of sound business judgment, the decision-making processes must be applied at all management levels that hold relevant information, notably through impartial access to necessary information;
- The Committee of Sponsoring Organizations (COSO) framework and part of the Control Objectives for Information and Related Technologies (COBIT) model apply to the financial reporting process; and
- It is important to maintain structured, documented processes for which key controls are in place and function effectively.

Specific control areas include:

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

B.4.2. Compliance Function

B.4.2.1. Assigned Compliance Risk Areas

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

- Fraud and corruption;
- Money laundering and terrorism financing;
- Economic sanctions;
- Data privacy;
- Antitrust compliance;
- Regulatory compliance;
- Foreign account tax compliance act;
- Outsourcing requirements; and
- Fit and Proper Policy and Assessment.

B.4.2.2. Compliance Management System

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

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

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

B.4.2.3. Governance of the Compliance Function

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

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

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

B.5. Internal Audit Function

B.5.1. Internal Audit within EH Ré SA

The Internal Audit function of EH Ré SA is outsourced to AZT group. The key function holder sits on the EH Ré SA Audit Committee and is a member of the BoD.

In EH Ré SA the Internal Audit function acts as a “Third and Last Line of Defense”. The main task of Internal Audit is to support the organization in accomplishing its objectives by using a systematic disciplined approach to assess the effectiveness and efficiency of the internal control system including the activities performed by the first and second lines of defense.

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 defines basic principles, tasks, methods as well as processes. Among other things, this includes the definition of the audit universe, i.e. the areas and topics which need to be audited to ensure adequate coverage of all relevant activities, procedures, and processes in all areas. The frequency and sequence of the audits are then determined using a risk-based approach, in which risk ratings are assigned to all areas and topics. The resulting annual audit plan is approved by the EH Ré SA Audit Committee. In case it is needed, ad-hoc audits may be executed.

B.5.2. Internal Audit Function activities

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

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

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

Internal audit main activities are:

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

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

The Internal Audit function has a high organizational independence, which corresponds to their function as "Last Line of Defense".

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

- No auditor holds an operational position;
- Any bonus received by Internal Audit function representatives is based exclusively on achieving qualitative individual targets rather than on the financial results;
- Internal auditors and the Internal Audit Function have the authority to express assessment and recommendations;
- The Chief Audit Executive (CAE) reports directly to the AZT Group CEO, as well as to the EH Audit, Risk and Compliance Committee and to the EH Ré SA Audit Committee.
- EH internal audit has the right to communicate with any employee and obtain information, records, or data necessary to carry out its responsibilities, to the extent legally permitted. EH

internal audit has the responsibility and the right to review activities, procedures, and processes in all areas of AZT Group, without limitation;

- Internal auditors are to perform their duties in an unbiased manner; audit findings are to be based upon facts and supported by sufficient documented evidence;
- To ensure the independence and objectivity of internal auditors during audit assignments, the “Allianz Standard Audit Manual” states rules regarding the assignment of auditors. These include besides other to avoid the assignment of internal auditors on audits within the business area in which the respective auditor has been working in the last 12 months, in order to avoid a potential conflict of interests;
- Finally, the representative of AZT Group Audit confirms annually the independence of the internal audit activity.

B.6. Actuarial Function

The Actuarial Function coordinates the calculation of technical provisions of EH Ré SA and expresses – for the joint reinsurance activities of EH Ré SA and EH Re AG – an opinion on the company’s general underwriting policy and reinsurance arrangements and contributes to the effective implementation of the risk management system.

The Actuarial Function Holder and its team are experts in actuarial science and financial mathematics adherent to the code of ethics as well as the policies and standards imposed by the AZT Group and the Allianz group. The Actuarial Function issues its opinion in a dedicated report that is approved by the BoD of EH Ré SA.

The Actuarial Function Holder is organizationally linked to the BoD member in charge of Actuarial, Risk, and Compliance, but has also regular and direct access to the whole BoM of EH Ré SA. There are no dependencies to operational functions nor any eligibilities to performance-related bonuses that might create a conflict of interest.

While the Actuarial Function holder is responsible for the implementation of the AZT Group’s Actuarial Function principles and procedures in EH Ré SA, the EH Ré SA BoM remains responsible for adequate organizational and operational structures and for empowering the Actuarial Function to perform its tasks.

B.7. Outsourcing

B.7.1. Roles and responsibilities

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

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

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

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

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

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

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

EH Ré SA also needs to comply with the various local rules from Luxembourg (Articles 65 & 81 of the Law of 7 December 2015 on the insurance sector, circulars LC21/15 from Nov 1st 2021 and LC22/16 from Nov 1st 2022).

B.7.2. Description of the outsourcing policy

B.7.2.1. Outsourcing processes

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

The outsourcing process consists of four major phases:

- **The decision phase** which involves the business plan and risk assessment as to whether the function or Service is outsourced. It consists in the main following steps:
    - Assessing whether the outsourced function/Service is Key Function or a CIFS;
    - Establishing a Business Plan which outlines the rationale for as well as the expected economics and operational benefits of the envisaged outsourcing;
    - Conducting a risk assessment, i.e. identifying, analyzing and rating, in particular, the operational, financial, strategic, reputational, and any concentration risks associated with the outsourcing, as well as defining strategies to mitigate or manage these risks.
- **The implementation phase** which regards the provider selection and the setup of a written outsourcing agreement:
    - The Provider selection consists in the conduction of Due Diligence in order to assess the main risks in the Provider's context and identify risk mitigation strategies with key indicators. It ensures that the Provider has the legal, financial, and technical ability to perform the functions or services to be outsourced in a reliable way according to standards for the whole duration of the outsourcing agreement;
    - The written outsourcing agreement provides, in particular, a description of Services, responsibilities, quality/security standards, and where appropriate KPIs to measure performance as well as feasible mitigation measures and key controls to be performed by the Provider including Provider's obligation on confidentiality and cooperation, termination rights and notice periods;
    - In case of sub-outsourcing, the outsourcing agreement includes the need for prior approval by EH Ré SA, and the fact that the Provider's duties and responsibilities under the outsourcing agreement remain unaffected by the sub-outsourcing;
    - A contingency plan which describes the potential emergency event and how to remediate is required, as well periodically testing where necessary. The outsourcing also has to be notified to the CAA;
    - In case of group internal outsourcing, the process is lighter with less detailed Due Diligence and the possibility to rely on past (up to one year) Due Diligence with a systematic assessment of potential conflict of interests.
- **The operational phase** consists of maintaining a process to regularly monitor the Provider's performance, financial stability, and compliance with the outsourcing agreement as well as the effectiveness of its key control inventory:
    - EH Ré SA should take appropriate actions if the Provider's performance or risk management is materially deficient;
    - A report on Provider's performance is sent to the BoM on an annual basis.

- **The exit phase** shall be included in case EH Ré SA decides to terminate the outsourcing and thus needs to ensure it has the capacities to insource the outsourced function or service to another Provider before the termination of the current outsourcing agreement. All relevant information and data provided to or generated by the Provider are to be returned or destroyed.

B.7.3. Outsourcing of functions

The following table lists the activities and functions that have been outsourced as per the circular LC22/16:

Figure 9: EH Ré SA outsourced activities

ID	Nature	Company Name	Location	Contract	Assessment of CIFS- Lux regulation LC 22-16
1	General (External)	AON Insurance Managers (Luxembourg) SA	Luxembourg	Service agreement, Representative office	Yes- outsourcing of main activities
2	Intercompany	Euler Hermes SFAC Asset Management (Euler Hermes Asset Management France)	France	Portfolio Management	Yes- considering the contribution to revenues and profits
3	Intercompany	Euler Hermes Re AG	Switzerland	Support from EH RE AG to EH Ré SA to complete the daily work: BoM activities, General services, Actuarial, Risk Management, Compliance and Audit services	Yes- outsourcing of main activities
4	Intercompany	Euler Hermes Services	France	Management Services	Yes- outsourcing of main activities
5	Intercompany	Euler Hermes SA	Belgium	Management fee	Yes- outsourcing of main activities

Outsourcing of activities listed under nr 3 covers all key functions of EH Ré SA. EH Ré SA applies all the principles contained in its outsourcing policy, including local regulatory rules.

B.8. Any other information

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

C. Risk profile

C.1. Underwriting Risk

C.1.1. Description of the measures used

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

C.1.2. Description of the risk exposure

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

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

At the end of 2022, the capital requirement for Non-Life Underwriting risk amounted to EUR 88.3mn.

C.1.3. Risk concentration

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

C.1.4. Risk mitigation

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

C.2. Market Risk

C.2.1. Description of the measures used

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

C.2.2. Description of the risk exposure

Market Risk includes the following risks:

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

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

At the end of 2022, the capital requirement for Market risk amounted to EUR 10mn.

C.2.3. Description of assets invested

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

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

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

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

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

The following principles apply:

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

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

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

C.2.4. Risk concentration

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

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

C.2.5. Risk mitigation

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

As of 2022, no breach has been identified over the SAA.

C.3. Counterparty default Risk

C.3.1. Description of the measures used

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

C.3.2. Description of the risk exposure

Counterparty Default risk covers the following risk exposures:

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

At the end of 2022, the capital requirement for Counterparty Default risk amounted to EUR 18mn.

C.3.3. Risk concentration

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

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

The monitoring processes and conclusions are summarized hereafter.

C.3.3.1. Monitoring of exposure at AZT Group level

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

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

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

EH Re has its own set of limits, depending on country grades, buyers rating, and Legal Entities (LEs)/Regions. Based on the information reported by the reinsured LEs/Regions, EH Ré SA monitors its reinsurance limits on a quarterly basis. As of 4Q 2022, the exposures limits are under control with no exposures are above 100% usage.

C.3.4. Risk mitigation

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

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

C.4. Stress tests

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

For stress tests, EH Ré SA usually follows standard shocks in line with European Insurance and Occupational Pensions Authority (EIOPA) recommendations.

C.4.1. Standard financial stress scenarios

EH Ré SA solvency position is challenged on an annual basis against a set of financial stress tests in line with EIOPA recommendations. In 2022, the following scenarios were analyzed:

- Equity drop: -30% in market values of all equity investments;
- Interest rates up: +100 bps in interest rate;
- Interest rates down: -100 bps in interest rate;
- Credit spread: +50 bps in credit spread on corporate and asset-backed security bonds;
- Combined scenario: -30% in market values of all equity investments and -50 bps interest rate.

None of these scenarios causes a significant decrease of SII ratio.

C.5. Liquidity Risk

C.5.1. Description of the measures used

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

C.5.2. Description of the risk exposure

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

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

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

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

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

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

As in 2021, liquidity risk is not a material risk in 2022 but fully part of EH Ré SA's risk profile.

C.5.3. Risk concentration

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

C.5.4. Risk mitigation

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

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

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

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

C.5.5. Expected profit included in future premiums

EH Ré SA's expected profits included in future premiums (EPIFP) amount to EUR 75mn.

C.5.6. Risk sensitivity

EH Ré SA identified several liquidity stress scenarios (premium, claims and combined scenario) and has run them over the course of 2022.

None of the stress scenario has led to a breach in the liquidity alert level for the different time horizons, which shows that EH Ré SA is able to maintain its liquidity within its Risk Appetite during adverse conditions.

C.6. Operational Risk

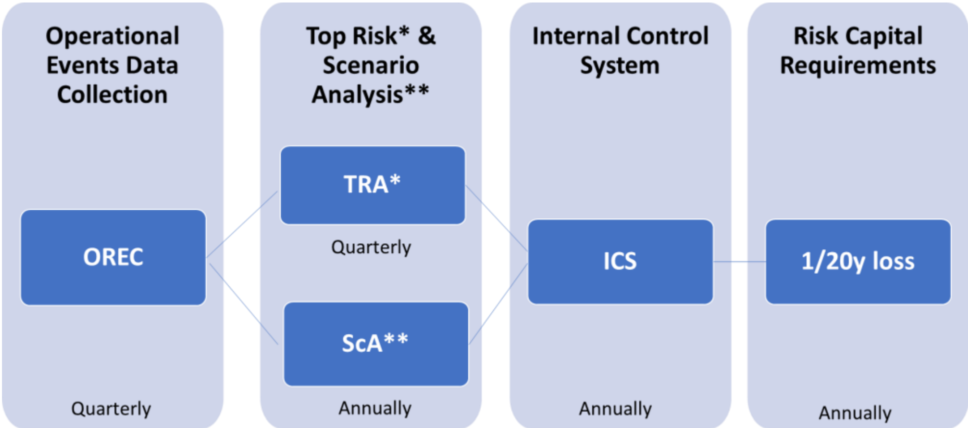
C.6.1. Description of the measures used

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

- Generate awareness of the operational risks;
- Learn from past operational errors and events that either did or could have resulted in an operational loss;

- Reduce operational losses and other indirect consequences, including reputational damage and missed opportunities, resulting from the occurrence of operational risk events and;
- Enable management to conclude on the effectiveness of the internal control system (i.e. the portion related to operational risk management).

Figure 10: Operational Risk management overview



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

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

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

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

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

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

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

C.6.2. Description of the risk exposure

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

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

C.6.3. Risk concentration

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

C.6.4. Risk mitigation

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

C.7. Reputational Risk

C.7.1. Description of the measures used

EH Ré 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 defense to decide whether the risk shall be accepted or only accepted under conditions.

The evaluation of the direct reputational risks is performed by the first line of defence and the communication function with the support of sustainability office. The Communication functionhas the ultimate responsibility for direct reputational risk's assessment within AZ Trade. 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 Ré 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 inherent in the operations of EH Ré SA and are not related to specific business transactions. Indirect reputational risks are considered through the Top Risk Assessment (TRA) and ICS processes.

C.7.3. Risk Mitigation

To monitor the direct reputational risk management activities, AZT Group has implemented several methods to oversee that allows EH Ré SA to benefit from:

- A review of commercial deals to take into consideration the potential implication of reputational risk issues;
- Media coverage analysis regarding AZT; and
- Reporting to the AZT Group RiCo on a quarterly basis of all direct reputational risks identified and assessed as exceeding AZT Group’s Risk Appetite.

In case of breaches, a referral process has been defined and implies the involvement of the following stakeholders: AZT Group Communication department, AZT Group Risk function, Commercial underwriter’s function, AZT Group BoM and Allianz Group Finance and Risk Committee (GFRC).

C.8. Other material risks

At AZT level, a strong Environmental, Social, and Governance (ESG) 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 AZT. To ensure a systematic ESG risk assessment during the commercial underwriting process, the definition of ESG risks was included in AZT 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, AZT reinforces its role as a strong ESG partner for its clients.

Since 2021, AZT 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.

C.9. Any other information

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

D. Valuation for solvency purposes

D.1. Assets

D.1.1. Valuation of assets

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

Figure 11: Asset (MVBS vs LuxGAAP)

In EUR mn	MVBS	LuxGAAP
Goodwill	0	0
Deferred acquisition costs	0	22.0
Intangible assets	0	0
Deferred tax assets	0	0
Pension benefit surplus	0	0
Property, plant & equipment held for own use	0	0
Investments (other than assets held for index-linked and unit-linked contracts)	177.7	192.9
Property (other than for own use)	0	0
Holdings in related undertakings, including participations	0	0
Equities	0	0
Equities – listed	0	0
Equities – unlisted	0	0
Bonds	177.7	192.9
Government Bonds	84.3	91.1
Corporate Bonds	93.4	101.8
Structured notes	0	0
Collateralized securities	0.0	0.0
Deposits other than cash equivalents (2)	0.0	0.0
Loans and mortgages	52.1	0
Reinsurance recoverable from:	338.4	479.3
Non-life and health similar to non-life	338.4	479.3
Non-life excluding health	338.4	479.3
Deposits to cedants	0.1	0.1
Insurance and intermediaries receivables	0	52.0
Reinsurance receivables	0	0
Receivables (trade, not insurance)	0.2	52.3
Own shares (held directly)	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0
Cash and cash equivalents	1.8	1.8
Any other assets, not elsewhere shown	0	0.7
Total assets	**570.3**	**801.0**

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

Asset account	MVBS valuation	LuxGAAP valuation	Differences
Deferred acquisition costs	N/A	This is the discounted value.	The difference comes from the fact that in the SII balance sheet, DAC are canceled and considered in the Best Estimates of technical provisions.
Bonds (government & corporate)	This line item is valuated on the basis of IFRS standard.	This is the amortized acquisition costs.	The difference of EUR 15.2mn is due to Local GAAP adjustments.
Loans and mortgages	Loans and mortgages are valued at amortized cost.	Loans and mortgages are recognized at nominal value.	In MVBS, the asset is higher by EUR 52.1mn compared to LuxGAAP because it includes the cash pooling amounts.
Deposits other than cash equivalents	Deposits other than cash equivalent are evaluated on the basis of the IAS 39 principle.	In LuxGAAP, the amount is reclassified as "Any other assets, not elsewhere shown".	There is no difference in the overall amount.
Reinsurance recoverable from non-life excluding Health	The calculation of reinsurance recoverable leads either to the recognition of reinsurance recoverable calculated as a whole or the BE for the reinsurance recoverable. No Risk Margin (RM) is reported in the section of the reinsurance recoverable as the RM recognized within the TP is already net of reinsurance. However, a Counterparty Default Adjustment (CDA) has to be calculated. The BE of TP has to be calculated gross.	In LuxGAAP, the amount recognized as a provision is the BE of the amount required to settle the obligation at the reporting date. This provision does not exceed in amounts the sum which is necessary.	In LuxGAAP, the asset is higher by EUR 140.9mn compared to MVBS due to following reasons: - In MVBS, not overdue receivables and payables are reclassified to technical provisions (+15.0mn) - Conceptual differences within the premium provisions' presentation i.e ceded future profit vs. ceded UPR and refunds (+125.9mn) - No discounting in LuxGAAP.
Insurance and intermediaries receivables	Insurance and intermediaries include the MVBS adjustment and are recognized at amortized cost.	This is at the lower of their nominal and probable realizable value	The difference of EUR 52mn is due to the adjustments performed on MVBS side
Receivables (trade, not insurance)	Receivables (trade, not insurance) are recognized at amortized cost.	In LuxGAAP, receivables (trade, not insurance) are valuated at the lowest value between the nominal value and the probable realizable	In LuxGAAP, the asset is higher by EUR 52.1mn compared to MVBS because it includes the cash pooling amounts, incl. interests.

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

D.1.2. Material financial assets

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

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

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

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

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

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

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

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

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

D.2. Technical Provisions

EH Ré SA calculates its technical provisions according to Articles 76 and 77 of the Directive 2009/138/EC. Technical provisions (TP) are calculated as the sum of best estimate liabilities plus a risk margin (RM). Following Allianz Group recommendations, the volatility adjustment on risk-free interest rates according to Article 77d of the Directive 2009/138/EC is used.

D.2.1. Technical Provisions

EH Ré SA follows the Allianz Group approach, which implies the “best estimate” to be conceptually similar to US-GAAP/IFRS4 and interpret it as “company’s best estimate”, i.e. considering quantitative as well as qualitative information.

Figure 13: **Technical Provisions**

B/S Liabilities (in kEUR)	2022	2021
1. BEL Claims provisions	-476.736	-388.878
1.1 Undiscounted BEL claims provisions IFRS	-478.596	-377.216
1.2 Discount	16.653	1.365
1.3 Payables/Receivables	-14.787	-13.023
1.4 Other (IME)	-6	-5
2. BEL Premium provisions	72.727	102.073
2.1 Future Claims/Expenses + IME	-206.729	-200.283
2.2 Discount	6.006	900
2.3 Payables/Receivables	38.625	77.789
2.4 Future Premiums + Rebates	234.826	223.666
3. Risk Margin	-8.697	-7.426
4. Technical Provision	-412.706	-294.232

B/S Assets (in kEUR)	2022	2021
1. Reinsurance Recoverables claims provisions	409.720	335.207
1.1 Undiscounted reinsurance recoverables IFRS	424.140	336.098
1.2 Discount	-14.421	-891
1.3 Payables/Receivables	0	0
1.4 Other	0	0
2. Reinsurance recoverables premium provisions	-71.266	-84.546
2.1 Future Claims/Expenses	185.108	178.101
2.2 Discount	-5.242	-809
2.3 Payables/Receivables	-38.116	-59.335
2.4 Future Premiums + Rebates	-213.015	-202.504
3. Counterparty default adjustment (CDA)	-44	-34
4. Reinsurance recoverable under SII	338.410	250.627

Net TP	**-74.296**	**-43.605**

The main movements compared to prior year arise from increases of claims provisions due to expected backlog of Covid19 effects until 1H2022 respectively the economic worsening driven by the Ukraine-Russia conflict. It has to be noted, that – due to accounting limitations – the total of ceded payables/receivables is shown under premium provisions only, while part of it belongs to claims provisions.

D.2.2. Calculation Principles

The best estimate liabilities comprise both claims and premium provisions. Claims provisions comprise best estimates of claims reserves, including loss adjustment expenses and salvages and subrogation. Premium provisions are defined as the expected present value of future in- and outgoing cash flows including future premium payments, future claims, and future expenses.

EH Ré SA's claims provisions are based on the calculations of AZT Group internal cedents, where the reserves calculation follows the Reserving Guidelines of AZT Group.

The premium provisions are derived from various budget and policy-information, which could be expressed in terms of the following simplified formula:

$$\text{Premium Provision} = (\text{UPR} + \text{FP}) * \text{CR} – \text{DAC} – \text{FP} + \text{IME}$$

whereas

- UPR = Unearned Premium Reserves
- FP = Future premiums (calculated from individual policy-information) that policyholders are contractually bound to (incl. tacit renewals) *)
- CR = (Future/Budget) Combined Ratio
- DAC = Deferred Acquisition Costs
- IME = Investment Management Expenses; these need to be included according to Article 31 of the Delegated Act. Following Allianz guidance, their amount is determined as 1.5 bp of the net best estimate Technical Provisions.

*) With respect to *contract boundaries* a specific feature of Credit Insurance business has to be noted: EH SA 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. Therefore, following a strict interpretation of Article 18 of the SII Delegated Act, AZT considers for the calculation of future premiums, the *"canceling all limits" scenario* (for all policies where the wording allows to do so and where premiums depends on the limit amount).

The cashflow-pattern for claims and premium provisions are annually updated on basis of paid-claims triangles.

The discounting of (weighted) future cash-flows happens on basis of the risk-free interest rate curve corrected for a volatility adjustment. Due to timing constraints, AZT uses yield curves provided by Allianz Group, which are basically identical to the EIOPA-curves.

Following a BAFIN request, Allianz Group Accounting & Reporting required since EoY 2019 all entities including EH Ré SA to (re)classify all not-overdue payables/receivables into Premium Provisions. As these components are driven by occasionally accounting situations and – during 2020 and 2021 massively by state-schemes procedures – it has been decided to separate this component from the "actuarial" components in the aforementioned table.

On top of the best-estimate of the liabilities, Solvency II requires an allowance for the cost of holding non-hedgeable risk capital. This Risk Margin (RM) represents the cost of capital to run off the business in case of an immediate transfer of business to another company until final settlement. EH Ré SA calculates the RM on basis of the Standard Formula.

The reinsurance recoverables are calculated by a simple netting-down approach in view of the plain 90% Quota-Share reinsurance cessions of EH Ré SA to the mother company EH Re AG.

EIOPA guidelines stipulate that recoverables from reinsurance contracts take account of expected losses due to counterparty default. This amount is called Counterparty Default Adjustment (CDA). EH Ré SA considers the risk mitigation effect of reinsurance in its calculations, even though the risk of counterparty default remains. The latter is considered separately and reinsurance recoverables are adjusted accordingly, however, the CDA is immaterial compared to the amount of reserves ceded.

D.2.3. Comparison between LU-GAAP and Solvency-II

The Technical Provisions in LU-GAAP and MVBS/Solvency-II differ which is explained by the deviating components thereunder, e.g. the Equalization Reserve that does conceptually not exist under MVBS. The following table discloses those differences for the sake of transparency.

Figure 14: **Technical Provisions – MVBS vs LU-GAAP**

GAAP BRIDGE	GROSS	
in EUR mn	2022	2021
LU-GAAP	686,0	628,5
Unearned Premium Reserves	29,4	31,7
Claims Outstanding	499,8	423,8
Bonus & Rebate Reserves	33,8	40,9
Equalization Reserve	123,0	132,1
MVBS TP gross	412,7	294,2
Claims provisions	476,7	388,9
Premium provisions	-72,7	-102,1
Discount (Claims + Premiums)	-22,7	-2,3
Risk margin	8,7	7,4
Reclassifications (Claims + Premiums)	-23,8	-64,8

D.3. Other liabilities

D.3.1. Valuation of other liabilities

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

Figure 15: **Other liabilities (MVBS vs LuxGAAP)**

In EUR mn	MVBS	LuxGAAP
Other Technical Provisions	412.7	665.2
Contingent liabilities	0	0
Provisions other than Technical Provisions	0	0
Pension benefit obligations	0	0
Deposits from reinsurers	0.1	0.1
Deferred tax liabilities (1)	27.2	0
Derivatives	0	0
Debts owed to credit institutions	0	0
Financial liabilities other than debts owed to credit institutions	0.2	0
Insurance & intermediaries payables (2	95.6	19.3
Reinsurance payables (3)	0	46.0
Payables (trade, not insurance)	0.2	0.8
Subordinated liabilities	38.4	33.1
Subordinated liabilities not in basic own funds	0	0
Subordinated liabilities in basic own funds	38.4	33.1
Any other liabilities, not elsewhere shown (4)	4.2	19.7
Total other liabilities	**578.7**	**784.1**

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

Liability account	MVBS valuation	LuxGAAP valuation	Differences
Deposits from reinsurers	Deposits from reinsurers are recognized at nominal value.	Deposits from reinsurers are recognized at nominal value.	No difference between MVBS and LuxGAAP.
Deferred Tax Liabilities (DTL) (1)	Deferred taxes are evaluated on the basis of the IAS 12 principles.	In LuxGAAP, DTL are not recognized.	On 31.12.2022, the total deferred tax liabilities equaled EUR 27.2mn (MVBS value). DTL are mainly due to temporary differences due to the claims equalization reserve. In LuxGAAP, the liability is lower by EUR 27.2mn compared to MVBS because deferred taxes are not recognized in LuxGAAP.
Insurance & intermediaries payables (2)	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) and only include amounts past due for payment.	In LuxGAAP, insurance & intermediaries payables are recognized at their repayment value.	In LuxGAAP, the liability is lower by EUR 76.3mn compared to MVBS. The difference comes from the reclassification done on the MVBS accounts.

Liability account	MVBS valuation	LuxGAAP valuation	Differences
Payables (trade, not insurance)	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) and only include amounts past due for payment.	In LuxGAAP, payables are recognized at their repayment value.	In LuxGAAP, the liability is higher by EUR 0.6mn compared to MVBS. The difference comes from the reclassification done on the MVBS accounts.
Reinsurance payables (3)	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) and only include amounts past due for payment.	In LuxGAAP, reinsurance payables are recognized at their repayment value.	In LuxGAAP, the liability is higher by EUR 46mn compared to MVBS because in MVBS, the position includes reinsurance liabilities and the actuarial adjustment whereas only reinsurance liabilities are considered in LuxGAAP.
Subordinated liabilities	In MVBS the amount includes the subordinated loan to EH Re AG.	This is the reimbursement value	In LuxGAAP, the liability is lower by EUR 5.3mn compared to MVBS because of different Market Value of the subordinated loan in MVBS.
Any other liabilities, not elsewhere shown (4)	*"Any other liabilities, not elsewhere shown"* include any liabilities not included in the other balance sheet items and, thus, represent a miscellaneous category.	In LuxGAAP, the following positions are included: DAC retroceded, Other taxes, Other payables, and the loan interests.	In LuxGAAP, the liability is higher by EUR 15.5mn because the MVBS position only includes Other payables.

D.3.2. Employee benefits

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

D.4. Any other information

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

E. Capital Management

E.1. Own funds

E.1.1. Information on the own funds

E.1.1.1. Management of the own funds

Capital is the central resource for EH Ré SA to support its multiple activities. It ties to EH Ré SA Business and Risk Strategy which defines the relevant Risk Appetite with regard to the risk-bearing capacity. This includes EH Ré SA's capital and solvency targets as well as the risk limits. Capital management describes the set of activities undertaken by EH Ré SA to safeguard its solvency position. The following principles are applied:

- Capital management protects the EH Ré SA capital base and supports effective capital management on AZT Group level in line with the Group risk policy. It allocates capital to the underlying risk drivers under the budget limited by the Risk Strategy and with the target of optimizing the expected return under this constraint. Risk considerations and capital needs are integrated into management and decision-making processes. This is done by the attribution of risk and allocation of capital to the various segments, LoBs, and investments;
- EH Ré SA facilitates the fungibility of capital from a group-wide perspective by pooling/upstreaming available excess capital to AZT Group while at the same time ensuring a sufficient level of capital is held at EH Ré SA level. This includes a consideration of a buffer above the minimum capital ratio to consider potential market volatility;
- EH Ré SA ensures to comply with regulatory MCR[5];
- Capital is centrally managed in accordance with Group-wide rules and allocated to the benefit of the Group and its shareholders;
- EH Ré SA capitalization is managed using adequate buffers above minimum regulatory and where applicable rating agency requirements. Excess capital not required for business purposes over the (three years) plan horizon is up-streamed by EH Ré SA;
- Capital management seeks to add economic value over the cost of capital;
- AZT management is committed to having shareholders participate in the economic development of the Group through dividend payments;
- The capital allocation for steering the business is based on the Internal Risk Capital Model also considering other constraints (such as rating and liquidity);
- The RC for New Business will be allocated top-down to LoBs that produce the highest returns on RC applying the principles of portfolio management. Return on RC aims to ensure that EH Ré SA is adequately compensated for the risk to which it is exposed.

Please refer to section B.3.2.3 for further details on the capital management strategy in place in 2022.

[5] And the latest 22/03 (i.e. 15/03 update) regulation on the MCR floor set at EUR 3.9mn

E.1.1.1. Description of the own funds

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

Figure 16: Own funds evolution (MVBS)

In EUR mn	4Q 2022	4Q 2021	Δ	%
Total assets	570.2	490.4	79.8	16.2%
Total liabilities	474.6	368.2	106.4	28.9%
Excess of assets over liabilities	95.6	122.2	-26.6	-21.7%
Subordinated liabilities	34.0	38.4	-4.4	-11.5%
Available Capital	129.6	160.6	-31.0	-19.3%

The Eligible Own Funds decreased by EUR -31.0mn (-19.3%) from EUR 160.6mn to EUR 129.6mn between 2021 and 2022.

The evolution of the excess of assets over liabilities is mainly linked to the negative net income of the period for EUR -6.4mn, the negative change of the AFS OCI for EUR -13.1mn and the dividends paid for EUR -12.4mn. Other movements more or less offset each other.

The subordinated debt provided by EH Re AG has been revalued at fair value, bringing the value of this debt to EUR 34mn.

As of 4Q 2022 EH Ré SA own funds are of high quality, all classified for 100% as basic own funds in Tier 1 in terms of available own funds to meet the SCR. Part of this Tier 1 own funds, the subordinated liabilities (26% of total own funds), are classified as restricted. The tier 3 consists of the deferred tax on the revaluation of the subordinated loan.

Figure 17: Composition of own funds (MVBS)

In EUR mn	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 3
Ordinary share capital (gross of own shares)	**16.2**	16.2	0.0	0.0
Reconciliation reserve	**79.4**	79.4	0.0	0.0
Subordinated liabilities	**34.0**	0.0	34.0	0.0
Deferred taxes	**0**	0.0	0.0	0.0
Total basic own funds after deductions	**129.6**	95.6	34.0	0.0

As per 31st December 2022, the nominal value of the subordinated liabilities was EUR 33.2mn. This amount has been revalued at fair value to EUR 34.0mn for MVBS purposes. This subordinated debt has been provided by EH Re AG for an undefined period (with a minimum of 5 years) and bears an interest that is equal to the higher of:

- Euribor 1 year + 0.20;

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

E.1.1.2. SCR and MCR covers

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

Figure 18: Own funds available/eligible to meet the MCR/SCR (MVBS)

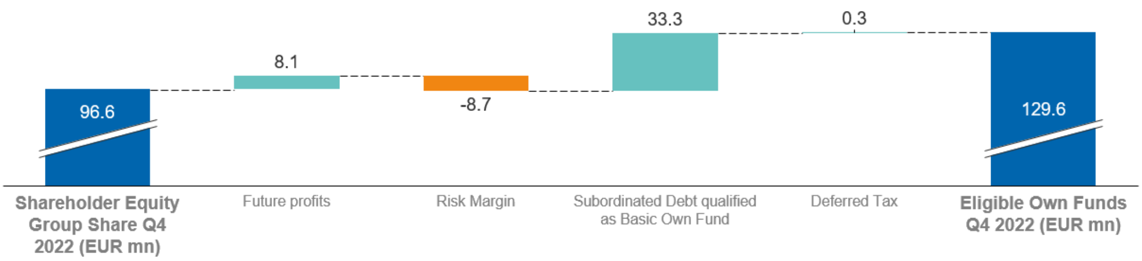
In EUR mn	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Total available own funds to meet the SCR	**129.6**	95.6	34.0	0.0	0.0
Total available own funds to meet the MCR	**129.6**	95.6	34.0	0.0	0.0
Total eligible own funds to meet the SCR	**129.6**	95.6	23.9	10.1	0.0
Total eligible own funds to meet the MCR	**124.0**	95.6	23.9	4.5	0.0

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

E.1.1.3. Differences between valuation in financial statements and for solvency purposes

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

Figure 19: Bridge IFRS equity – Basic Own Funds as of 31.12.2022 (in EUR mn)



As seen on the graph, the future profits and the risk margin compensate each other almost exactly. The subordinated debt impacts this reconciliation only for EUR 33.3mn, ie the nominal value of the debt. This is because the revaluation process commented above is a pure MVBS process that decreases the excess of assets over liabilities to increase the value of the debt.

The local GAAP equity is EUR 16.2mn, made of EUR 61.0mn subscribed capital and EUR -44.8mn capital unpaid. The difference between this local GAAP equity and the IFRS equity of EUR 117.5mn consists mainly of:

- The inclusion in the IFRS equity of the equalization reserve of EUR 114.5mn booked in local GAAP, minus the corresponding deferred tax;

- The inclusion in the IFRS equity of EUR 3.0mn unrealized capital gains on bonds, minus the corresponding deferred tax.

E.1.1.4. Description of items deducted from own funds

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

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

E.1.2. Additional ratios

EH Ré SA does not disclose any other additional ratios.

E.1.3. Loss absorbency mechanism

Except subordinated liabilities for which information has been disclosed under section E.1.1.1, EH Ré SA does not have any other own funds item to which Article 71 (1)(e) of the Delegated Regulation applies.

E.1.4. Reconciliation reserve

The following table summarizes the calculation of the reconciliation reserve.

Figure 20: **Breakdown of the reconciliation reserve (MVBS)**

In EUR mn	Total
Excess of assets over liabilities	95.6
Other basic own fund items	-16.2
Reconciliation reserve	79.4

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1.1. Evolution of SCR and MCR ratios

The table below shows the evolution of the SCR standalone components between 2021 and 2022:

Figure 21: **Breakdown of the SCR**

in EUR mn	4Q 2022	4Q 2021	Δ	%
Market	10	10,9	-0,9	-8%
Counterparty default	18,1	10,1	8	79%
Non-Life	88,3	84,6	3,7	4%
Total Standalone RC (excl. Operational Risk)	116,4	105,5	10,9	10%
Diversification impact	-14,6	-12,0	-2,6	-22%
SCR before Residual, Operational Risk, Taxes	101,8	93,5	8,3	9%

in EUR mn	4Q 2022	4Q 2021	Δ	%
Operational	15,2	10,1	5,1	50%
Loss-absorbing capacity of deferred taxes	-27,1	-25,8	1,3	5%
SCR excluding capital add-on	89,9	77,8	9,8	13%
Capital add-on already set	0.0	0.0	0.0	0%
SCR	89,9	77,8	9,8	13%

Available own funds	129.6	160.6	-31.0	-19%
SII ratio	144%	207%	-18%	-87%

At 4Q 2022, EH Ré SA's MCR amounted to EUR 22mn, increasing by 16% since 2021 (EUR 19mn).

E.2.2. Standard formula and Undertaking Specific Parameters

EH Ré SA does not use Undertaking Specific Parameters.

E.2.3. Inputs to calculate the MCR

The MCR for EH Ré SA based on the SM is shown below for 4Q 2022. The MCR equals the floor of 25% of the SCR. The calculation approach, which is the one recommended by the EIOPA, is the same as in 2021 and is explained in the table below.

Figure 22: MCR calculation (in EUR mn)

IM/SM	MCR	AMCR	SCR	MCR linear	45% SCR	25% SCR	MCR combined
SM	22.4	1.3	89.7	16.9	40.4	22.4	22.4

E.2.4. Material changes to SCR and MCR

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

E.2.5. Material changes to SCR and MCR

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

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

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

E.4. Data quality

AZT Group has implemented a data quality Key Performance Indicator (KPI) system across the whole company, including EH Ré SA, in accordance with the SII requirements. 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 across all AZT Les, including EH Ré SA.

The KPIs are consolidated and reported to the AZT Group Data Quality (DQ) Committee through the data quality dashboards. These KPIs are separately reported between risk type KPIs and IT KPIs.

The quality of the data used at EH Ré SA to calculate the RC is appropriate as no KOs were reported for EH Ré SA as of 4Q 2022.

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

EH Ré SA is compliant with both MCR and SCR.

E.6. Any other information

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

Appendix 1: Key terms and abbreviations

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

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

Terms / Abbreviations	Description
VAC	Validation Coordinator
VaR	Value at Risk
XoL	Excess of Loss

Appendix 2: Publically disclosed QRTs

Publically disclosed quantitative reporting templates (QRTs) can be found on the Allianz Trade main website: https://www.allianz-trade.com/en_global/regulation.html

Appendix 3: Disclaimer

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