



EULER HERMES

Euler Hermes Reinsurance AG

Financial Condition Report

Based on 31/12/2019 figures

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Executive Summary

Reporting and disclosure of its financial situation is a fundamental part of the relationship between an insurance company and its stakeholders, including supervisors and other third parties.

Among these reporting and disclosure requirements, the Financial Condition Report (FCR) production is set out in the Circular Public Disclosure 2016/2 of the Swiss Financial Market Supervisory Authority (FINMA). It contains information that is required for the purposes of supervision.

The qualitative and quantitative information disclosed in this report is based on the situation at the end of year (EoY) 2019.

The EUR/CHF rates used in this report are the year-end rates presented by Euler Hermes Reinsurance AG (EH Re AG) in its financial statements for Balance Sheet (for 2019 results: 1 EUR= 1.0870 CHF, for 2018 results: 1 EUR = 1.12553 CHF; Note that the 2018 exchange rate has been adjusted in order to match the Quantitative Templates in the Appendix).

In order to fulfil the reporting and disclosure obligations, EH Re AG, as a Solo reinsurance entity, put in place the present FCR, using the structure and containing the information requested in the Circular Public Disclosure 2016/2:

- A description of the business activities;
- A description of the performance (underwriting, financial and others);
- A description of the system of governance and risk management;
- A description, separately for each category of risk, of the risk profile;
- A description of the balance sheet valuation (assets, liabilities and risk margin);
- A description of the capital management;
- A description of the solvency requirements.

Below are described the key elements developed in each of these sections.

Business activities (A)

EH Re AG is a fully owned subsidiary of Euler Hermes Group SAS, the French holding company of Euler Hermes Group (EH Group). EH Group is a fully owned subsidiary of Allianz. EH Re AG is the EH Group reinsurance company providing reinsurance solutions and capacity for commercial Trade Credit, Surety & guarantee and Fidelity business to all EH Group companies.

EH Re AG also owns 100% of the shares of EH Ré SA, the other reinsurance entity of EH Group.

EH Re AG and Euler Hermes Reinsurance SA (EH Ré SA) reinsure business of some joint ventures with external companies as well as the worldwide Surety & guarantee business of Allianz entities from 2014 onwards.

The only material structural change in 2020 is for TCU Business, previously this was ceded on a Variable Quota Share (VQS) basis with EH Group Retention at 15m EUR. This has been simplified for 2020 with the business ceded in line with normal WA business on a QS Basis, an additional XoL protection has been purchased at EUR 15 million (EH Group) so that Group retention remains unchanged. This result in a circa EUR 4 million premium saving vs the previous year. Capital Cost for the new TCU structure is an additional EUR 9 million (as the VQS is more capital efficient than the XoL under the Internal Model). However this is offset by a EUR 52 million Capital Benefit due to increased Budgeted Premiums.

Company success (B)

Earned premiums have decreased by CHF 122 Million (-10%), from CHF 1,176 Million to CHF 1,054 Million mainly impacted by the new cession structure of the EH US Trade Credit business being ceded directly to the external market since attachment year 2019, being partially compensated by the increased volume of inwards premium from EH ceding companies in Surety & guarantee and Fidelity lines of business (LoBs).

The net financial result has increased from CHF 7.3 million to CHF 36.3 million in 2019. This development mainly came from significantly lower realized and unrealized losses on investments (CHF 4.2 million vs. CHF 17.6 million), higher write-ups on investments (CHF 9.6 million vs. CHF 0.2 million) and higher interest income from the fixed income portfolio (CHF 26.3 million vs. CHF 23.0 million) due to a more favorable market environment in the second half of 2019. Within the volatile environment of the financial markets and the low interest rates, the focus was on securing the capital base and diversifying the investments.

Governance and risk management (C)

EH Re AG management is organized around two management bodies, the Board of Directors (BoD) granted with the executive decision-making power and the Board of Management (BoM) which takes all fundamental business decisions unless reserved to the BoD.

EH Re AG has also implemented four independent key functions (Risk Management, Compliance, Actuarial which is outsourced to EH SA and Internal Audit which is performed at EH Group level), constituting the 2nd and 3rd level of its “three lines of defense” organization.

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

The Risk Management function measures and assesses EH Re AG’s risks through processes among which the Swiss Solvency Test (SST), 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 (D)

EH Re AG considers the main following risks in its risk profile: insurance, market, credit, liquidity, operational, reputational and concentration.

The Insurance, Market and Credit Risk are considered and monitored through the Target Capital (TC) of the SST as well as other quantitative limits. EH Re AG's TC was at CHF 629 Million at the end of December 2019, down by CHF 62 Million compared to 2018. The decrease is explained by various assumptions changes with impact on insurance risk and a specific model change for the calculation of the risk margin.

EH Re AG diversifies its risk by using different diversification approaches: a Strategic Asset Allocation (SAA) for Market Risk and across investment styles and asset managers and by geography and industry for Credit Risk. There is no foreseeable specific risk concentration over the business planning period.

Moreover, the forecast and stress simulations performed on liquidity demonstrate that EH Re AG is able to keep its liquidity within its Risk Appetite.

Valuation (E)

The EH Re AG's assets and liabilities are presented and reconciled in Market Consistent Balance Sheet (MCBS) and local Swiss GAAP.

Overall, EH Re AG's Risk Bearing Capital (RBC) amounts to CHF 1'067 Million, down by 10% compared to 2018, after deduction of a planned dividend of CHF 210 Million. It is exclusively composed of basic own funds, with no particular restrictions on it.

Capital management & Solvency requirements (F&G)

EH Re AG complies with FINMA regulatory requirements and is in line with its Capital Management strategy in terms of solvency.

The SST Ratio is at 172.5%, down compared to the 175.2% ratio of 2018 and still well above the action barrier SST Ratio of 120% defined in EH Re AG Risk Appetite.

For steering reasons and alignment with Group Risk Appetite and processes, EH Re AG also monitors a Solvency II ratio. It has significantly decreased from 166% at EoY 2018 to 152% at EoY 2019.

A. Business activities

A.1. Business overview

A.1.1. Business overview

EH Re AG is a fully owned subsidiary of Euler Hermes Group SAS, the French holding company of the EH Group. EH Re AG is the EH Group reinsurance company providing reinsurance solutions and capacity for commercial Trade Credit, Surety & Guarantee, and Fidelity business to all EH Group companies. Also, it covers the related non-consolidated companies in Austria, Portugal, Israel and Solunion, the Euler Hermes' Joint Ventures with Mapfre for the Spanish and Latin American countries.

Since the beginning of 2014, EH Re AG has started to assume not only TCI from EH companies, but also Surety & Guarantee and Fidelity business from EH Group companies as well as from Allianz companies and part of the Mapfre Surety & Guarantee business.

EH Re AG is the center of excellence in terms of EH Group Reinsurance by centralizing the reinsurance needs of the EH companies and retroceding partially the risks to the worldwide reinsurance market.

EH Re AG partly reinsures its business to Allianz as well as to others external reinsurers

The net result of EH Re AG in 2019 is CHF 212 Million, down by CHF 4 Million (2%) compared to 2018.

A.1.2. Business outlook

The Covid-19 Pandemic is currently affecting all aspects of personal and professional lives, the health of the world's population, global economic performance and the financial markets. Despite all these uncertainties, EH Re AG is very well prepared for the situation. This applies both to keeping operations going and to the good capital position in times of crisis. EH Re AG is prepared to ensure the work can continue, even if the restrictions on public life are tightened.

Without the effects from the Covid-19 Pandemic crisis, premiums were expected to further grow in 2020. European governments have started to roll out public guarantees with a not yet quantified impact on the turnover and the result of EH Re AG. Risk action plans have been implemented to protect the whole Euler Hermes Group. The main focus will remain on the quality of the portfolio, the underwriting excellence and cost controlling to ensure a sustainable operating profit.

Our revised expectations for 2020 take into consideration the continuous uncertainty of the world economy and a severe recession in 2020 with global insolvencies likely to increase in 2020, but large bankruptcies being avoided by state intervention.

Accordingly, EH Re AG could expect a decrease in Gross Earned Premium as the premium earned by the insurance companies are based on the turnover of the policyholders. An increase in claim costs is also expected driven by a higher number of companies defaulting in a recession environment.

Therefore Risk action plans have been activated to reduce the exposure and the subsequent risks covered.

Compared to 2019, the overall reinsurance structures of EH Re AG will mostly remain unchanged in 2020 with adjustments for governance schemes to protect the global economy. The Group Stop Loss treaty implemented since underwriting year 2019 will continue to cover the net retention of EH Re AG and the ceding entities.

The financial markets are expected to deteriorate even more than already started since February 2020 before they are expected to recover towards the end of 2020. They are expected to remain extremely volatile and interest rates low. Accordingly, EH Re will pursue its "safety-oriented" and diversified investment strategy in line with the EH and Allianz Group's Investments Rules. EH Re has taken the decision to sell its 100% subsidiary EH Ré SA in Luxembourg in the near future. A buyer has not been found, but the initiative will be continued in 2020 despite the difficult economic environment.

A.2. Legal Entity & Group Structure and Related Party Transactions

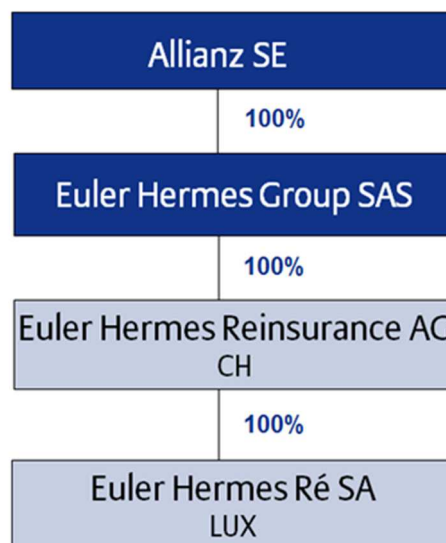
A.2.1. Legal Entity & Group structure

EH Re AG has its registered office in Wallisellen, Switzerland:

Euler Hermes Reinsurance AG
Richtiplatz 1
CH-8304 WALLISELLEN
SWITZERLAND

EH Re AG is part of the EH Group of which EH Group SA is the parent company. The chart below shows a simplified structure of the shareholders and subsidiaries of EH Re AG:

Figure 1: EH Re AG simplified group structure



A.2.2. Related Party Transactions

A.2.2.1. Insurance relationships

As the EH Group reinsurance company, EH Re AG has reinsurance relationships with several other Legal Entities (LEs) of EH and Allianz Group, by means of reinsurance treaties.

A.2.2.2. Financial relationships

EH Re AG has one significant inter-company loan with EH Ré SA, amounting to CHF 36 Million. At constant FX rates, this amount remained stable compared to previous year.

A.2.2.3. Operational relationships

EH Re AG has set up several contracts and Service Level Agreements (SLA) to outsource some activities to other LEs within the Group, in line with the EH Outsourcing Policy.

Amongst these outsourcing agreements, some are significant either because of the nature of the outsourced activity or because of the amount of the charged services:

- The actuarial function is outsourced to Euler Hermes SA (EH SA);
- EH SA Risk provides support regarding the computation of the Capital Requirement, Risk Governance framework and Solvency related reporting activities;
- EH Services provides advices and services to support activities, notably in fields of risk underwriting, information and claims management, commercial and marketing, financial services and other support (except Information Technology (IT));

EH Group provides assistance regarding the IT-related activity: applications development, maintenance and run; Investment Accounting is outsourced to EH SA.

A.2.2.4. Legal ownership

EH Re AG has investments in affiliated enterprises for a total of CHF 208mn, as follows:

- EH Ré SA: CHF 75 Million, corresponding to 100% share in the capital;
- EH Patrimonia SA: CHF 116 Million, corresponding to 35% in the capital;
- EH South Express SA: CHF 17 Million, corresponding to 49% share in the capital.

A.3. External auditor

The 2019 Financial Statements were audited by:

PricewaterhouseCoopers AG (represented by Enrico Strozzi)
Birchstrasse 160
CH-8050 ZÜRICH
<https://pwc.ch/de.html>

PwC's opinion on the 2019 statutory accounts is that EH Re AG *"complies with Swiss law and the company's articles of incorporation"*.

Also, PwC stated that during their audit they *"have not encountered any misstatements, corrected or uncorrected, in performing the audit that could have a significant impact on the closing process or the annual financial statements"*.

PwC was approved as statutory auditors during the Annual General Meeting on May 28th, 2019 for the financial year 2019.

A.4. Supervisory authority

The supervisory authority of EH Re AG is FINMA:

Swiss Financial Market Supervisory Authority (FINMA)
Laupenstrasse 27
CH-3003 BERN
<https://www.finma.ch/en/>

A.5. Significant events in 2019 and subsequent events

At the present time, the coronavirus pandemic is currently affecting all aspects of personal and professional lives, the health of the world's population, global economic performance and the financial markets. Despite all these uncertainties, EH Re AG is very well prepared for the situation. This applies both to keeping operations going and to the good capital position in times of crisis. The great majority of EH Re AG operations have now switched to home working and this has been achieved almost unnoticed. By doing so, EH Re AG is prepared to ensure work can continue even if the restrictions on public life are tightened.

EH Re AG did not manage to find a buyer for its 100% subsidiary EH Ré SA in 2019 but still plans to sell it in the near future.

B. Company success

B.1. Underwriting performance

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

Figure 2: EH Re AG aggregated underwriting performance

in CHF million	EoY 2019	EoY 2018	Var	%
Earned premiums for own account	1,054	1,176	-122	-10%
Other income from insurance business	1	1	0	-8%
Total income from the insurance business	1,055	1,177	-122	10%
Claims expenses for own account	-495	-559	64	-11%
Acquisition and administration costs for own account	-355	-385	30	-8%
Total expenses from the insurance business	-850	-944	94	-10%
Underwriting result	205	233	-28	-12%

Earned premiums have decreased by CHF 122 Million (-10%), from CHF 1,176 Million to CHF 1,054 Million mainly impacted by the new cession structure of the EH US Trade Credit business being ceded directly to the external market since attachment year 2019. This has been partially compensated by the increased volume of inwards premium from EH ceding companies in Surety & guarantee and Fidelity lines of business.

Since the underwriting year 2019, the EH US Trade Credit business is being ceded directly to the external market. The business of the prior years is still ceded to EH Re AG, as well as EH US World Agency Facultative, Surety & guarantee line of business. EH RE AG also continues to provide Excess of Loss cover for the EH US Trade Credit line of business.

The cost of claims have decreased by CHF 64 Million (-11%), from CHF 559 Million to CHF 495 Million, the loss ratio is quite stable decreasing from 47.5% to 47.0%. This development is mainly impacted by Trade Credit whereas Surety & Guarantee claim costs have increased. They remain stable in Fidelity. Loss ratios in Trade Credit (45% vs. 47%) and Fidelity (55% vs. 56%) have improved whereas the loss ratio in Surety & Guarantee has increased (62% vs. 53%).

The expenses decreased in 2019 by CHF 30 Million (-8%), from CHF 385 Million to CHF 355 Million mainly impacted by a decrease in commissions paid on the proportional treaties. Overall the cost ratio increased (33.6% vs. 32.7%). Net expenses have increased for Surety & Guarantee and Fidelity, but decreased for Trade Credit Net cost ratio is at 32.5% for Trade Credit, at 39.4% for Surety & Guarantee and at 37% for Fidelity.

The underwriting result shows a profit of CHF 205 Million, below 2018 (-12%) with a small increase in the net combined ratio (80.6% vs. 80.3%) mainly due to a lower claims ratio overcompensated with a higher cost ratio. The underwriting result in Surety & guarantee and Fidelity have decreased, but was compensated by the results in Trade Credit. The net combined ratio shows the same trends as the underwriting results in the respective LoBs (Line of Business).

B.2. Financial performance

The following table summarizes EH Re AG's financial performance at an aggregate level:

Figure 3: EH Re AG aggregated financial performance

in CHF million	EoY 2019	EoY 2018	Var	%
Interests and dividends	26.3	23.0	3.3	15%
Realized gains on investments	6.1	7.2	-1.1	-15%
Write ups of investments	9.6	0.2	9.4	
Investment income	42.0	30.4	11.6	38%
Investment management expenses	-2.3	-1.8	-0.5	24%
Realized losses on investments	-1.0	-6.7	5.7	-84%
Unrealized losses on investments	-3.2	-10.9	7.7	-71%
Investment expenses	-6.5	-19.4	12.9	-67%
Investment result	35.5	10.9	24.9	225%
Realized & unreal. currency gains	12.9	10.0	2.9	28%
Other financial income	12.9	10.0	2.9	28%
Realized & unreal. currency losses	-12.1	-13.6	1.5	-11%
Other financial expenses	-12.1	-13.6	1.5	-11%
Financial result	36.3	7.3	29.0	-71%

B.2.1. Analysis per nature of income and expenses

The net financial result has increased from CHF 7.3 million to CHF 36.3 million in 2019. This development mainly came from significantly lower realized and unrealized losses on investments (CHF 4.2 million vs. CHF 17.6 million), higher write-ups on investments (CHF 9.6 million vs. CHF 0.2 million) and higher interest income from the fixed income portfolio (CHF 26.3 million vs. CHF 23.0 million) due to a more favorable market environment in the second half of 2019. Within the volatile environment of the financial markets and the low interest rates, the focus was on securing the capital base and diversifying the investments.

B.2.2. Analysis per class of assets

B.2.2.1. Investment income

in CHF Million	EoY 2019	EoY 2018	Var	%
Bonds	34.4	23.8	10.6	45%
Intercompany loans	0.3	0.3	0.0	-4%
Shares	0.0	-0.1	0.1	-100%
Bond funds	6.2	5.7	0.5	9%
Private equity fund of funds	0.4	0.1	0.3	0%
Other securities	0.3	0.1	0.2	453%
Deposits retained on assumed business	0.3	0.3	0.0	0%
Cash	0.1	0.2	-0.1	-18%
Investment income	42.0	30.4	11.6	38%

Despite the decrease in the total value of the investments by CHF 186 Million between the SST report and the Annual Report (Swiss GAAP), the investment income increased significantly (increase by CHF 11.6 Million in 2019, up to CHF 42.0 Million). This is mainly caused by write-ups booked in 2019.

In 2019 EH Re AG shows the following investment income per asset classes:

- Bonds: income of CHF 34.4 Million, CHF 10.6 Million increase. The higher income on bonds is caused by higher write-ups and more favourable market environment in the second half of 2019.
- Intercompany loans: stable income of CHF 0.3 Million,
- Shares: income of CHF 0.03 Million, CHF 0.1 Million increase,
- Bond Funds: income of CHF 6.2 Million, CHF 0.5 Million increase,
- Private equity funds of funds: income of CHF 0.4 Million, CHF 0.4 Million increase,
- Other securities: income of CHF 0.2 Million, CHF 0.1 Million increase.
- Deposits retained on assumed business: stable income of CHF 0.3 Million,
- Cash: income of CHF 0.1 Million, slight decrease of CHF 0.1 Million.

In 2018 and 2019 there was no income from investments in affiliated enterprises and property funds.

B.2.2.2. Investment expenses

in CHF Million	EoY 2019	EoY 2018	Var	%
Bonds	3.1	10.2	-7.1	-70%
Bond funds	0.6	9.2	-8.6	-94%
Property funds	0.1	0.0	0.1	0%
Other securities	2.7	0.0	2.7	0%
Investment income	6.5	19.4	-12.9	-66%

Total Investment Expenses decreased by CHF 12.9 Million, down to CHF 6.5 Million, mainly caused by decrease in realized and unrealized losses on investments.

In 2019, investment expenses according to asset classes were as follows:

- Bonds: expense of CHF 3.1 Million, CHF 7.1 Million decrease. The lower expenses on bonds are mainly due to lower write downs in 2019,
- Bond Funds: expense of CHF 0.6 Million, CHF 8.6 Million decrease. The lower expenses on bonds funds are mainly due to lower realized losses and lower write downs in 2019,
- Property funds: expense of CHF 0.1 Million, slight increase,
- Other securities: expense of CHF 2.7 Million, CHF 2.7 Million increase. The higher expenses on other securities are mainly due to higher write downs in 2019.

B.3. Performance of other activities

EH Re AG does not have any other source of incomes and expenses over the reporting period.

C. Governance and risk management

C.1. Governance framework

C.1.1. Overview

EH Re AG has a Board of Directors (BoD) and a Board of Management (BoM).

EH Re AG has also implemented the following Key Functions:

- Risk function;
- Compliance function;
- Actuarial function which is outsourced to EH SA;
- Internal Audit function which is performed at EH Group level.

To ensure the well-functioning of these functions, EH Re AG targets a high Fit and Proper standard for Senior Management and Key Function holders across the company.

Core principles and processes are defined to ensure sufficient knowledge, experience and professional qualifications as well as the necessary integrity and soundness of judgment.

C.1.2. Board of Directors (BoD)

C.1.2.1. Role and responsibilities of the BoD

The BoD has executive decision-making power for EH Re AG. It defines the strategic targets and supervises the BoM. The BoD defines the BoM's priorities and objectives on an annual basis. It regularly gathers information on the business through the BoD meetings, the BoD Committees as well as from the BoM, other specific reports and regular exchanges with the Chief Executive Officer (CEO) and other BoM members.

In particular the BoD has the following tasks:

- Executive management and supervision of the company and issuance of relevant instructions;
- Determination of the basic organizational structures of the company (financial, legal and operational organization);
- Organization of the accounting, financial controls and financial planning;
- Appointment and revocation of BoM members and representatives of the company and the determination of signature authorities;
- Supervision of the BoM and of the whole management of the company regarding the compliance with laws, articles of association, regulations and directives;
- Preparation of the annual Management Report and the General Assembly including the resolutions passed within the General Assembly;
- Resolutions about capital increases and resulting changes of the Articles of Association;
- Official information to the ad-hoc authorities in case of insolvency;

- Check of the qualification of the External Auditors in case of specific missions required by law.

The BoD decides about all business matters and legal transactions with fundamental scope for EH Re which are not limited to the general assembly or another body of the company via law or articles of association or via these Governance Structure.

Unless the law, the Articles of Association or the Governance Structure do not specify anything else, the management of the company is delegated to the CEO.

In order to prepare, execute or supervise the business, the BoD may set-up specific committees and allocate tasks to the individual members of the BoD or the other committees.

C.1.2.2. Composition of the BoD

Until 13th December 2019, the BoD was composed of the following members:

- Frédéric Bizière, Chairman, member of the BoM of EH Group;
- Dr. Bernd Lehmann, CEO of EH Belgium;
- Roland van Malderghem, external BoD member.

On 13th December 2019 an extraordinary general assembly took place. Bernd Lehmann gave his resignation and Wilfried Verstraete became a new Board member. In the subsequent BoD circular resolution on 16th December 2019, Wilfried Verstraete was appointed Chairman. The commercial register entry took place on 28th January 2020.

C.1.2.3. BoD committees

The BoD establishes the following permanent committees:

- The Audit & Risk Committee (ARC) supported by the BoD within the scope of its supervision, finance and risk control as well as the preparation of the Financial Statements of EH Re;
- The Financial Committee (FiCo) supported by the BoD within the scope of its supervision of the investment strategy and assets management.

Until 13th December 2019, the ARC was composed of the following members:

- Roland van Malderghem, Chairman;
- Frédéric Bizière;
- Dr. Bernd Lehmann.

With the personnel changes listed in C.1.2.2. from 16th December 2019 onwards, the ARC was composed of the following members:

- Roland van Malderghem, Chairman;

- Wilfried Verstraete;
- Frédéric Bizière.

Until 13th December 2019, the FiCo was composed of the following members:

- Frédéric Bizière, Chairman
- Bernd Lehmann
- Roland van Malderghem

With the personnel changes listed in C.1.2.2. from 16th December 2019 onwards, the FiCo was composed of the following members:

- Wilfried Verstraete, Chairman;
- Frédéric Bizière;
- Roland van Malderghem.

The BoD can establish other specific committees according to the management/supervision needs and in the interest of EH Re AG. Other committees are set up and put under the responsibility of the BoM according to management specific requirements

The constitution, organization, roles and responsibilities of the Committees are defined in the “Governance Structures” of the committees approved by the BoD.

C.1.3. Board of Management (BoM)

C.1.3.1. Role and responsibilities of the BoM

The BoM takes all fundamental business decisions unless reserved to the BoD according to the law or the Articles of Association.

The BoM meetings are called regularly by the CEO and have the purpose of information, consulting and decision-taking regarding all important and cross-functional business topics, the determination of a consistent business strategy as well as the coordination with EH Group functions, activities and entities.

Furthermore each BoM member leads his/her assigned areas within the scope of the ordinary business activity independently.

C.1.3.2. Composition of the BoM

During the year 2019, the composition of the BoM remains the same as in 2018:

- Benoît des Cressonnières, CEO of EH Re AG ;
- Birte Inninger, Chief Financial and Administrative Officer (CFAO) of EH Re AG;

- Nigel Pryor, Chief Underwriting Officer (CUO) of EH Re AG.

C.1.4.Key functions

C.1.4.1. Key functions in the organization

To ensure an appropriate and rigorous system of governance, EH Re AG has defined Key Functions that address all areas of the company.

As of 31.12.2019 the key function holders remain the same as in 2018:

- Internal Audit function: EH Group Head of Internal Audit;
- Compliance function: EH Re AG Compliance Officer;
- Risk function: EH Re AG Chief Risk Officer (CRO);
- Actuarial function: Head of Group Loss Reserving (EH Re AG Responsible Actuary).

C.1.4.2. Internal Audit function

The internal audit function is outsourced to EH Group Internal Audit. The scope of EH Group Internal Audit includes all the LEs of the Euler Hermes Group. The function is managed by the Chief Audit Executive (CAE). The CAE reports to the EH Group CEO and to the EH Group Audit, Risk & Compliance Committee. The CAE reports to EH Re AG Audit and Risk Committee.

C.1.4.2.1. Roles and responsibilities

The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.

The main task of Internal Audit is to support the organization in accomplishing its objectives by using a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This is achieved by independent, objective assurance and consulting activities designed to add value and improve the organization's operations.

Therefore, Internal Audit activities are geared towards helping the company to mitigate risks as well as further assist in strengthening the organization's governance processes and structures. As such, Internal Audit is a key function within the internal control system of Euler Hermes.

In the Three Lines of Defense Model, the Internal Audit function acts as a "Third and Last Line of Defense". See also section C.2.1.2.

C.1.4.2.2. Independence

The Internal Audit function has a standing within the EH Re AG organizational structure that ensures the necessary independence. Necessary independence means that no undue influence is exercised over the Internal Audit function.

C.1.5. Fit & Proper policy

EH Re AG Fit and Proper Policy facilitates the implementation of regulatory requirements and safeguards a high Fit and Proper standard across Euler Hermes for Senior Management.

For these positions, the Policy describes core principles and processes to ensure sufficient knowledge, experience and professional qualifications as well as the necessary integrity and soundness of judgment.

C.1.5.1. Definition of Fitness & Propriety

A person is considered Fit if his/her professional qualifications, knowledge and experience are sufficiently adequate to enable sound and prudent fulfilment of his/her role. Fitness includes leadership experience and management skills, the relevant qualifications, other technical skills, qualification, knowledge and experience for the specific role as well as common behaviours and values. A person is considered "Proper" if he/she is of good repute and integrity, considering his/her character, personal behaviour and business conduct, including criminal, financial and supervisory aspects. Propriety includes honesty and financial soundness required for him/her to fulfil his/her position in a sound and prudent manner.

C.1.5.2. Processes for ensuring Fitness and Propriety

Sound processes during recruiting and regular and ad hoc reviews as well as appropriate training are necessary to ensure Fitness and Propriety.

C.1.5.2.1. Members of the BoD

Members of the BoD are appointed by the General Assembly every year, unless specific rules provide otherwise. All members must fulfil the applicable Fit and Proper requirements and must be approved by FINMA.

C.1.5.2.2. Senior Management and/or Key Function members

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

C.1.5.2.3. Ad hoc reviews

Ad hoc reviews are required in certain extraordinary situations which give rise to questions regarding a person's Fitness or Propriety.

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

C.1.5.2.4. Outsourcing of a Key Function

In cases where a Key Function is outsourced in accordance with the EH Re AG Outsourcing Policy a due diligence of the Provider by the Business Owner is performed. It includes a description of the Fit & Proper Test procedures used by the Provider to ensure the Fitness and Propriety of its personnel and a written confirmation that the Provider's personnel working within the outsourced Key Function is Fit and Proper.

C.1.5.2.5. Assessment results

Based on the information gathered at the time of recruiting, regular or ad hoc review or outsourcing due diligence, each case is assessed individually either at EH Re AG or at EH Group level.

In case the person / body responsible for the assessment concludes that the Senior Management or Key Function holder subject to the assessment is not or no longer Fit or Proper, the person is removed from the position without delay, in accordance with applicable employment law.

C.1.5.2.6. Documentation

The Human Resources function retains all documents collected or established as part of recruiting, performance reviews and Career Development Conferences.

C.1.5.3. Training

EH Re AG ensures that, on an on-going basis, relevant professional training is available to Senior Management and Key Function members, to enable them to continuously meet the Fitness requirements of their roles.

Learning and development training programs offered internally ensure a deep understanding of the strategic priorities of Euler Hermes as well as the building of executive skills and abilities. All Senior Management and Key Function members take part in courses relevant for their Fitness at least once within a three-year period.

In support of Propriety, the Compliance function provides regular training on ethical business behavior such as conflicts of interest, anti-fraud and anti-corruption and other topics, providing employees with clear rules for proper behavior, both for themselves and their teams.

C.2. Risk management system

C.2.1. Risk management framework

C.2.1.1. Risk governance structure

The ARC is responsible for:

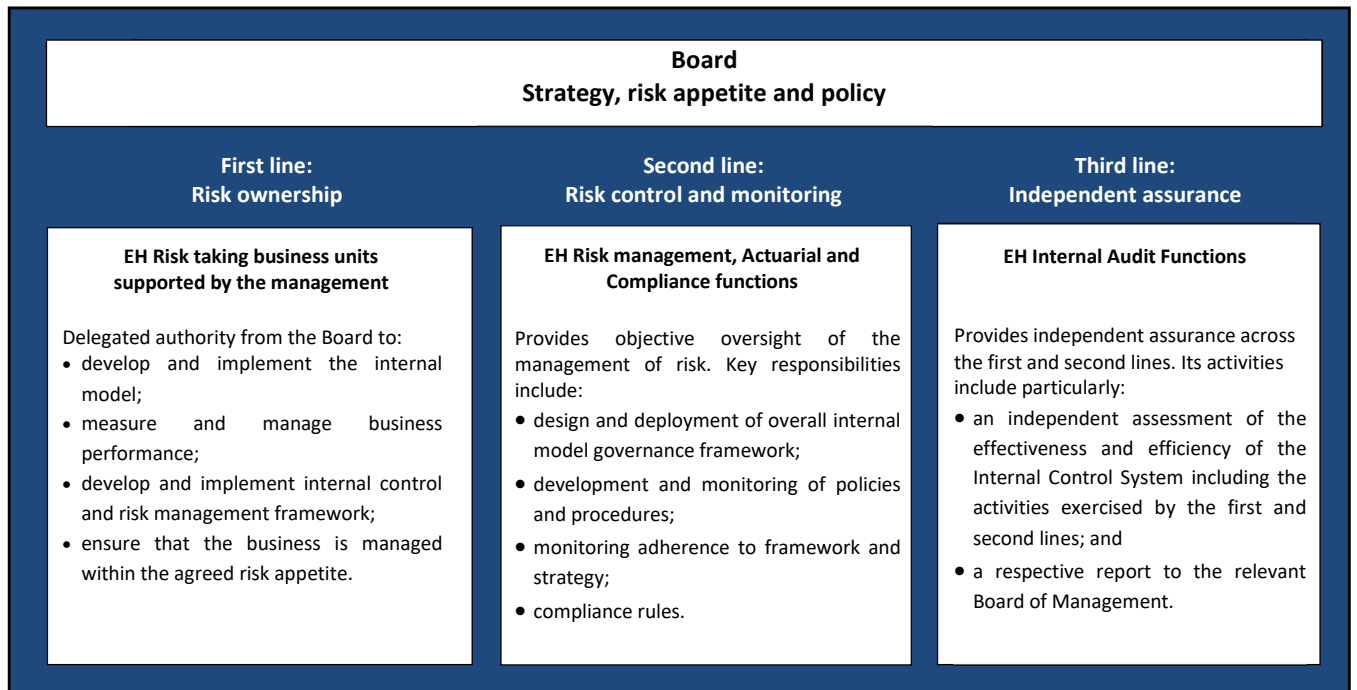
- Preparing and proposing the Risk Strategy, Risk Appetite and Limits to the BoM;
- Operational execution of the Limits framework and overseeing the Risk management system;
- Preparing and proposing the Solvency Assessment to the BoM;
- Defining and operationalizing group-wide Risk Standards (including the corporate rules of the RPF).

The FiCo is responsible for approving individual Financing Transactions in line with risk capital considerations.

C.2.1.2. Three-lines-of-defence organization

As required by Solvency II, EH and therefore EH Re AG has adopted a “three-lines-of-defence” organization, with clear responsibilities between the different organizational functions as described hereafter:

Figure 4: “Three lines of defence” model



C.2.2. Risk strategy and risk appetite

The Risk Strategy reflects the general approach towards the management of all material risks arising from the conduct of business and the pursuit of business objectives.

The Risk Appetite elaborates on the Risk Strategy through the establishment of the specific level of risk tolerance for all material quantified and non-quantified risks, and thereby the desired level of

confidence, in relation to clearly defined risk and performance criteria, taking into account shareholders' expectations and requirements imposed by regulators and rating agencies.

The Risk Strategy and Risk Appetite are reviewed at least once a year by the BoD, along the Planning Dialogue process during which the business strategy and projections are set. This ensures that the business strategy and Risk Strategy are aligned. The Risk Appetite is then adjusted accordingly.

The whole process of setting / revising the business strategy, Risk Strategy and Risk Appetite is a top-down process, cascaded from the Group to the LEs, i.e. to EH Re AG. The cascading process is performed through dedicated meetings between the Group and EH Re AG top management, aiming at aligning the Group expectations and EH Re AG forecasts.

EH Re AG Risk Appetite is monitored quarterly by the ARC; in case of breaches, action plans are set up and monitored quarterly by the ARC. Its components are described in more details in section D.1.

C.3. Internal control system

C.3.1. Internal Control Framework principles

The internal control framework is laid out in EH Re AG Governance and Controls Policy, as approved by the BoM.

The internal control system has the following objectives:

- To create a solid control environment, by ensuring that every member of personnel is aware of the importance of internal control and the role that they must play in the internal control system
- To perform control procedures that are commensurate with the risks carried by EH Re AG activities and processes
- To provide relevant information to the management bodies as part of their decision-making processes
- To ensure compliance with the applicable laws and regulations

With respect to the areas of control, activities and reporting aspects, the controls are performed within EH Re AG in accordance with requirements regarding independence.

The internal controls describe all the activities undertaken by and within EH Re AG specific control objectives, such that the controls are put in place and applied across all segments and sectors of activity. These controls ensure a permanent assessment of the effectiveness of relevant processes and procedures, their coherence and their proportional nature within EH Re AG, as well as the potential actions that may be taken to rapidly address any deficiencies.

The internal control system encompasses different control concepts. In addition to general aspects related to control activities, specific controls are also performed. Alongside these controls, reports are submitted to management.

The centralization of the internal control-related information within the EH Group is assumed by the EH Group Risk based on the “Governance and Control Policy”.

The EH Re AG Risk function fulfils both a support role and an oversight role within the internal control system.

C.3.2. General elements of the internal control system framework

C.3.2.1. Key functions and three-lines-of-defence model

EH Re AG has implemented Key Functions and a three-lines-of-defense model; each Key Function has a proper policy to define its major principles and processes.

Further details are also provided in sections C.1.4 and C.2.1.2.

C.3.2.2. Committee and Policy frameworks

The EH Group Legal department is now in charge of defining, updating the Committee and coordinating the update of the Policies.

Committees are dedicated decision-making bodies put in place to facilitate business steering and to safeguard the Group’s oversight. The Committee framework defines the set of committees in place and their functional rules: mandates, authority and appropriate independence.

The Policy Framework is a set of Corporate Rules aiming to establish binding regulations or guidelines of group-wide relevant topics. It includes four levels (from top to bottom): Code of Conduct, Policies, Standards and Functional Rules.

The Corporate Rules include the Risk Policy Framework (RPF) under the responsibility of the Risk function within EH Re AG.

The Governance of EH Re AG, including the Governance structures for the BoD and the setup of the BoD committees, has been updated at the end of 2019 according to FINMA requirements.

C.3.3. Specific control areas

The following table presents a brief description of the main control areas set by EH Re AG:

Figure 5: Control areas set by EH Re AG

Control area	Perimeter	Responsibility	Main documentation
Entity level controls assessment	Standard set of entity level controls including testing intervals and allocation of control responsibilities.	Group Internal Audit team	Governance and Control Policy
IT General controls	Establish and implement key controls around all IT operating systems	Group IT Internal Control	IRCS guidelines and procedures manual
Controls around risk capital calculation	Validation of models and assumptions.	Group Risk	Standards for Model Governance and Model Change
Controls around P&C (Property & Casualty) underwriting	Control framework: principles, limits, control samples...	Group MMCD & RICC	Standards for P&C underwriting
Controls around investments	Control framework for the investment of own financial assets , based on the risk management framework	Group Asset Management	Standard for Investment Management Organization

D. Risk profile

D.1. Risk profile overview

EH Re AG Risk Appetite is defined according to its available capital, its reinsurance structures (for the retrocession) and the quality of the assumed business from the different LoBs as well as the assumed exposure. EH Re AG follows the EH Group's Risk Appetite.

The EH Group Risk Appetite defines the quantity of risk that EH Group and EH Re AG agrees to take, in accordance with the Group strategy / Risk Strategy, to reach a desired level of profitability and, accordingly, the adequate Return on Risk Capital (RoRC).

Thereby, EH Re AG is expected:

- To keep the applicable risk indicators within the targeted zone and not to fall below the respective minimum values,
- Not to exceed the applicable limits, and
- To adhere to the applicable policies, standards and guidelines.

EH Re AG adheres to EH group Risk Appetite definition based on the following five core elements:

- Setting target ratings for top risks;
- Managing concentration risk by defining quantitative financial limits;
- Allocating capital and defining minimum and target capital ratios;
- Managing liquidity;
- Defining policies, standards and guidelines, in line with the EH activities.

Although the quantitative assessment of the own solvency needs does not include additional risks except those covered by the SST model, EH Re AG has identified risks which complement the risk profile: liquidity risk, operational risk, reputational risk, outsourcing risk and strategic risk. They are managed through appropriate risk procedures implemented by EH Re AG and assessed in the scope of the TRA process.

These risks are monitored and mitigated through the EH Re AG internal control system.

D.2. Current risk profile

D.2.1. Top risks

The TRA process is described in section C.2.1.5.

EH Re AG TRA most recent full run was carried out in Q3 2019.

The following table shows the evolution of the Top Risks identified and their assessment between 2018 and 2019. The actual scores result from the assessment of the frequency and impact for each

Top Risk, the impact being the highest score between the economic impact and the reputational impact.

Figure 6: Top Risk Assessment summary

#	Risk	TRA EoF 2019					TRA EoF 2018					Evolution
		CE	Probability	Impact	Actual Risk	Target risk	CE	Probability	Impact	Actual Risk	Target risk	
R1	Default of a reinsurer	4	1	3	2	2	4	1	3	2	2	no change
R2	Incorrect data input within FSRI	4	4	3	3	3	4	4	3	3	3	no change
R8	Political & regulatory risk	5	2	2	1	1	5	2	2	1	1	no change
R10	Transfer pricing risk	3	1	3	2	2	3	1	3	2	2	no change
R11	Uncertainty regarding Bonding underwriting	3	2	3	2	2	3	2	3	2	2	no change
R13	Non-compliance with international regulations	4	2	3	2	1	4	2	3	2	1	no change
R14	Risk Management on non-traditional activities	2	3	3	3	2	2	3	3	3	2	no change
R15	Product risk	3	2	3	2	2	3	2	3	2	2	no change
R16	BREXIT	4	3	3	3	3	4	3	3	3	3	no change
R17	CUW on non-traditional & non standard activities	2	3	3	3	2						new

The following evolutions have been identified regarding the Top Risks as objectives

- The action plan of “non-compliance with international regulations” was updated in 4Q 2019. The updated action plan has been set up: Implement the Allianz Regulatory and Compliance Tool in 2020;
- The action plan of “Risk management on non-traditional activities” was updated in 4Q 2019. The action plan has been set up:
 - **Enhance Product Framework :**
 1. Assess and adjust if needed the Product Risk Framework
 2. Implement UFRs for all LoBs
 3. Implement Innovation Committee
 - **Clarify Risk Appetite and Risk Management framework for:**
 1. Surety: complete regulatory remediation plan
 2. TCU: implement roadmap as to be presented to BoM in 1Q 2020
 3. Fidelity: actions plan is put on hold while waiting for the new set up to be implemented in 2020
- There is a new top risk which was approved at last EH Re AG Rico , it called Commercial Underwriting (UW) on non-traditional & non-standard activities and the action plan is also validated;
 1. Define a target CUW (Commercial Underwriting) model for all LoBs
 2. Design consistent rules & guidelines across LoBs and regions to manage them effectively
 3. Harmonize pricing models for each LOB
 - Perform a CUW teams skills map to identified missing competencies to train and/or hire accordingly

D.2.2. Target Capital

EH Re AG uses the FINMA SST model. It has to be noted that during the year 2019 the following changes occurred on FINMA Stand Re model:

- FINMA has reviewed the standard approach to calculate the MVM for Reinsurance companies (on an opt-in basis).

EH Re AG adapted its methodology to fully adapt and comply with the suggested model change from FINMA. EH Re AG calculates the SST figures in EUR. However, for presentation purposes, the results have been translated to CHF by using the year-end rates presented in the Executive Summary.

This methodology was used to calculate the TC. The comparison between the TC and the AC using the SST ratio is presented in section F.1.

The table hereunder shows the quantified risks and other elements resulting in the SST TC.

Figure 7: Breakdown of the Target Capital

in CHF million	EoY 2019	EoY 2018	Var	Subsection (inside D.2.2)
Prior Year (PY)	389	409	-20	2
Current Year (CY)	268	295	-28	1
Diversification between PY and CY	-80	-89	8	
Total Insurance Risk	577	616	-39	3
Market Risk	189	191	-2	4
Diversification market and insurance risk	-25	-26	1	
Insurance & Market Risk	741	781	-41	5
Expected Underwriting Performance	-194	-187	-6	6
Expected Financial Performance	-17	-16	-1	7
Credit Risk	74	75	0	8
Market Value Margin (MVM)	25	39	-14	9
Total Target Capital (TC)	629	691	-62	

NB: Totals and/or variations might appear different from "2019 minus 2018" due to rounding

The following sections provide explanations about the evolutions of the quantified risks considered in the SST TC calculation: premium, individual events, reserve, market, credit, expected performances and Risk Margin (RM).

D.2.2.1. Current Year (CY) Risk

Figure 8: EH Re AG Premium Risk

in CHF million	EoY 2019	EoY 2018	Var
Attritional events Premium Risk (AEP)	508	475	33
Individual Event 1 (IE1)	187	264	-77
Diversification within CY	-171	-193	22
CY gross of stop loss	524	546	-22
Stop loss effect	-256	-250	-6
CY net of stop loss	268	295	-28

The CY Risk is calculated using FINMA Stand Re module AEP and IE1.

The CY Attritional Events Premium Risk (AEP) increased by CHF 33 Million (+7%) to CHF 508 Million. The increase results from an increase in the observed average and in the expected volatility. These changes are mainly due to the observed movements during the year.

EH Re AG has considered the following prescribed IE1 events:

- Experience scenarios: These scenarios are derived from as-if adjusted large historical event losses of the reinsurer by applying as-if adjustments to make them representative for the situation of the current year.
- Portfolio structure scenarios: Portfolio structure scenarios are defined in terms of the inward reinsurance portfolio.
- Political Risk: For this non-experience scenario, it is assumed that a significant political incident takes place.
- Implications of a financial market turndown: For this non-experience scenario, it is assumed that a significant financial market incident takes place.

Additionally, two own scenarios were modelled to estimate the theoretical impact of the default of EH's major insurance buyers.

Based on these scenarios, a frequency-severity model is fitted for IE1 events, with Poisson frequency and Generalized Pareto severity. The IE1 risk decreased by CHF 77 Million which is mainly caused by the review in the parametrization of one of EH Re AG's own scenarios.

The net CY Risk decreased by CHF 28 Million due mainly to the decrease in IE1 Risk.

D.2.2.2. Previous Year (PY) Risk

Figure 9: EH Re AG Reserve Risk

in CHF million	EoY 2019	EoY 2018	Var
Attritional events Reserve Risk (AER)	278	288	-10
Individual Event 2 (IE2)	235	246	-11
Diversification within PY	-123	-124	1
PY	389	409	-20

The PY Risk is calculated using the FINMA Stand Re modules AER and IE2

EH Re AG has considered the following IE2 events:

- Global shock to expected claims inflation: The scenario assumes an excess of the expected inflation path.
- PY loss increase: This scenario assumes that in the current year a reported loss event from prior accident year develops worse than expected.
- Retrocession default on reserve: For this scenario it is assumed that the two retrocessionaires with the highest technical reserves default in the current year, with 100% loss given default.
- Underpricing: This scenario assumes that the underwriting/pricing has underestimated the loss ratios for reserving for the previous two underwriting years.

Based on these scenarios a frequency-severity model is fitted for IE2 events, with Poisson frequency and Generalized Pareto severity. The IE2 centered Expected Shortfall amounted to CHF 235 million, slightly lower compared to CHF 246 million calculated on year 2018, mainly driven by the FX rate EUR/CHF.

The slight increase in AER is a direct consequence of the increase in reserves.

D.2.2.3. Insurance Risk

The Insurance Risk is the result after aggregation of the Reserve and Premium Risks. EH Re AG aggregate insurance risk using FINMA Stand Re model's methodology.

The model output of the aggregation component is the distribution of the one-year change in the risk-bearing capital (discounted, net of outward retrocession) related to the one-year non-life Insurance Risk.

Insurance Risk decreased by CHF 39 Million or 6% compared to EoY 2018. The decrease is fully explained by changes in both CY risk and PY risk described in the sections above.

D.2.2.4. Market Risk

The EH Re AG's Market Risk is estimated by using FINMA's standard model "SST Tool". The interest rate risk is estimated based on both reserve liability and fix income investment cash flows.

The table below shows the details of the Market Risk evolution between 2018 and 2019:

Figure 10: Market Risk evolution

in CHF Million	EoY 2019	EoY 2018	Var
Interest Rates in CHF	1	1	0
Interest Rates in EUR	77	92	-15
Interest Rates in USD	2	3	-1
Interest Rates in GBP	0	2	-1
All interest rates	80	96	-16
Spreads	69	79	-10
Foreign Exchange	5	5	0
Equity	50	43	7
Real Estate	19	15	3
Hedge Funds	0	0	0
Private Equity	5	4	1
Participations	77	73	4
Total before diversification	306	316	-11
Diversification	-116	-125	9
Total after diversification	189	191	-2

NB: Totals and/or variations might appear different from "2019 minus 2018" due to rounding

The slight decrease of CHF 2 million or 1% of market risk after diversification is explained by the change in EUR/CHF rates between EoY 2018 and EoY 2019.

The largest investment class continues to be fixed income (including bond funds and loans) mainly denominated in EUR. The market value of the fixed income investments decreased slightly which explains the decrease in interest rate risk, especially the decrease in EUR interest rate risk.

D.2.2.5. Insurance & Market Risks

The correlation assumed between Insurance and Market Risk is 80% as prescribed by FINMA for monoliner credit insurers.

The diversification between market and insurance risks remained stable compared to 2018 at CHF 25 million.

Other changes to overall insurance & market risks are explained in sections above.

D.2.2.6. Expected Underwriting Performance

For the financial year 2020 the following figures are budgeted for earned premium, claims volume and expenses.

These figures are based on the historical experience and the expected premium volume from the EH Group LEs and the Allianz Operating Units. The expected insurance result for the current year is CHF 194 Million after discounting and net of retrocession. This amount is made up of the following components:

Figure 11: EH Re AG expected underwriting performance

in CHF million, net & discounted	Budget 2020	Budget 2019
Expected premium	1068	1017
Expected losses	-511	-489
Expected expenses	-363	-340
Expected technical underwriting result	194	187

D.2.2.7. Expected Financial Performance

An investment return of CHF 15 Million is assumed in the EH Re AG budgeted figures for the 2020 financial year. However, for the SST, an expected investment return of CHF 17 Million is estimated based on the SST Standard Model.

The table below shows investment returns per asset type as per FINMA's Standard Model.

Figure 12: Investment returns per asset type

in CHF Million	Expected return 2020	Exposure 2020
Mortgages	1.5%	0
Corporates	0.7%	1435
Equity	4.0%	144
hedge funds	2.0%	0
Private equity	5.0%	12
Real estate	3.0%	104
Delta remainder	0.0%	0
Expected financial performance		17

The SST Standard methodology leads to an expected investment result slightly higher than the expectations from EH Asset Management.

D.2.2.8. Credit Risk

The Credit Risk is computed using the standard approach, based on Basel III methodology. The rating sources are different for reinsurance and investments exposures:

- For retrocession exposure: Standard & Poor's (S&P) ratings.
- For investment exposure: Ratings defined by Allianz risk rating waterfall approach, based on ratings provided by rating agencies (S&P, Moody's and Fitch).

As shown in the table below, the Credit Risk on EH Re AG's portfolio is stable at CHF 74 Million. The split per class is shown below together with the risk weighted exposures.

Figure 13: Credit Risk split per class

in CHF Million	Risk weighted exposure			
	EoY 2019	EoY 2018	Var	%
Central governments and central banks	98	100	-2	-2%
Bank and security dealers	18	9	9	92%
Corporate positions	813	825	-13	-2%
Total	929	935	-6	-1%
Credit Risk	74	75	0	-1%

The increase in the exposure of bank and security dealer positions is in line with the increase in cash exposure and fixed income bonds associated to these counterparties. The increase in those two asset types explain most of the Credit Risk increase in 2019 compared to 2018.

D.2.2.9. Market Value Margin

For year 2019, EH Re AG decided to calculate the market value margin using FINMA's standard method. The market value margin is estimated at CHF 25 million, down by CHF 14 million compared to last year. The following table shows the market value margin per risk category, and a comparison to previous year. The total market value margin equals to the sum of market value margin per risk category. The differences compared to previous year are discussed in more detail below.

The effect of the prior year risk on the market value margin is estimated by running off the centred expected shortfall of the PY risk using the aggregated current and prior year cash flow pattern. The only difference in methodology compared to previous year is that in 2018 the undiversified PY risk (i.e. no diversification between AER and IE2) is taken as a basis while in 2019 the diversified PY risk was used. This change decreases the market value margin. For year 2019, the diversified risk has been used following an update in the standard model methodology.

The market value margin of PY decreased compared to previous year mainly due the change from undiversified to diversified PY risk. The runoff pattern remained approximately the same compared to previous year.

The credit risk within the SST model is based on the asset portfolio. Hence it is reasonable to develop credit risk in line with the development of the best estimate liabilities because of the assets backing the liabilities. The market value margin of the credit risk is estimated by running off the credit risk using the same pattern as for PY risk.

D.2.3. Stress tests

The four stress tests defined by FINMA for purposes of EoY 2019 are linked to Market Risk. These tests are consistent with the tests performed for EoY 2018. The results of these stress tests are not included in the TC calculation; they show the potential impact of these situations on the AC.

The table below shows the impact on the risk-bearing capital of the different stress tests performed over the last two years:

Figure 14: Impact of the stress tests on the risk-bearing capital

<i>in CHF Million</i>	EoY 2019	EoY 2018	Var	%
Brexit/Eurozone crisis	-261	-267	5	-2%
Global recession	-137	-133	-4	3%
Global depression	-327	-308	-18	6%
Real estate crisis in Switzerland	-320	-304	-16	5%

The overall impact on risk-bearing capital of those scenario decreased compared to previous year. The main reasons for this decrease are the changes in the scenario parametrization and asset allocation.

D.2.4. Liquidity ratios

D.2.4.1. General principles

In accordance with EH Re AG's Liquidity Risk Management Standard, an analysis has been performed to identify liquidity resources and liquidity needs and to project the evolution of EH Re AG's liquidity ratio over different time horizons and in different conditions.

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 of assets.

EH Re AG's Risk Appetite defines the following thresholds for the liquidity ratio management:

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

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

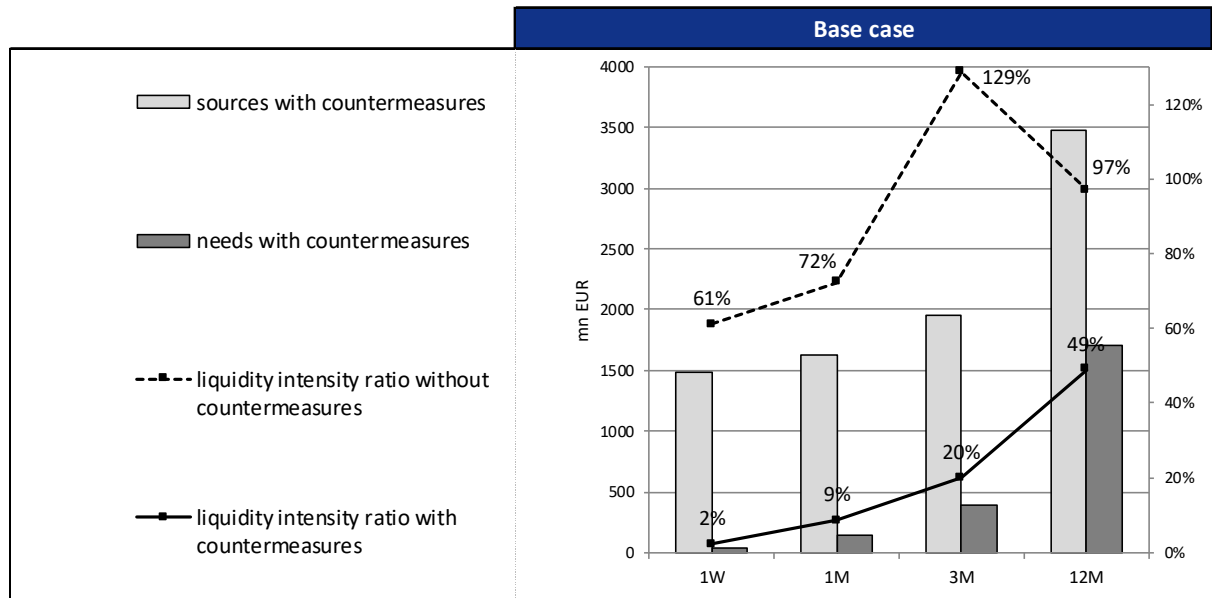
Condition	Consequence
No warning level (<80%)	No further actions required by the Risk function.
Warning level (80%-100%)	Explanation of status in liquidity risk report by the Risk function.
Limit breach (>100%)	EH Re AG prepares a remediation plan to bring back the liquidity ratio in the green zone. The remediation plan is proposed to the RiCo for approval and further notified to the BoD.

D.2.4.2. Base case scenario analysis

The base case scenario analysis corresponds to the projection of the liquidity resources and needs under current market conditions.

The following graph shows the base case scenario liquidity analysis performed in 4Q 2019, over different time horizons (1 week, 1 month, 3 months, 12 months):

Figure 15: Base case scenario liquidity analysis



NB: For Group reporting matters, the calculation is performed in Euros.

EH Re AG’s liquidity ratio would be higher than the action level in the 3 months horizon and higher than the alert level in the 12 months horizon without considering countermeasures. However, considering countermeasures (such as the sale of invested assets), the ratio would remain in the green zone over the 4 considered time horizons.

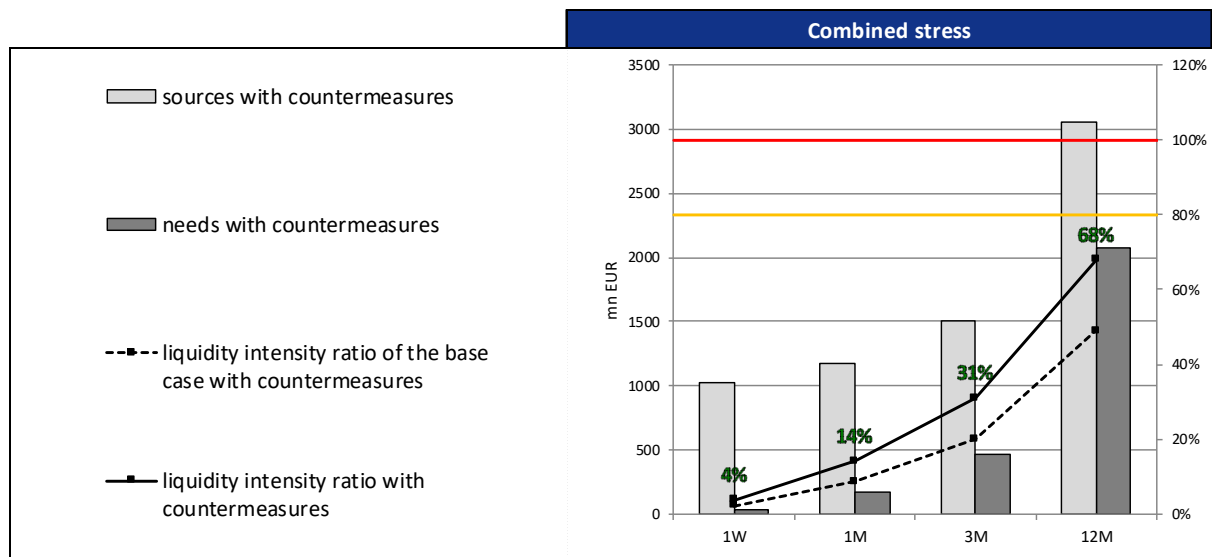
D.2.4.3. Stress scenario analysis

EH Re AG identified several liquidity stress scenarios and chose to perform the one which appeared to be the most relevant in 2019: a deterioration of the market conditions leading to an economic crisis, a recession event which implies an increase of the claim frequency for credit insurers.

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

The following graph shows the combined stress scenario liquidity analysis:

Figure 16: Stress scenario liquidity analysis



NB: For Group reporting matters, the calculation is made in Euros.

In this combined stress scenario, the liquidity ratio calculated at 4Q 2019 remains below the 80% alert level for the different time horizons, both excluding and including countermeasures.

EH Re AG is able to maintain its liquidity within its Risk Appetite in a base case situation as well as in an extreme stress situation thanks to the adequate liquidity of its assets.

D.2.5. Quantitative limits

D.2.5.1. Financial Risk and Sensitivity Limits

The following tables summarize the level of the sensitivity limits in place.

All the sensitivities are within the limits defined.

Figure 17: Financial limits applied at EH Re AG level in CHF mn

<i>Financial limits applied at EH Re AG level</i>	2019 Actual value	2019 Limit	2018 Actual value	2018 Limit
Credit VaR (CVaR)	441	607	463	620
Financial VaR	93	132	487	651
IR +100bps sensitivity	-39	-52	-46	-49
EQ -30% sensitivity	-31	-45	-29	-44

Note that a scope change occurred for the Financial VaR of which TCI&S risk capital is now excluded. It therefore focusses on the investment risks only.

Those limits have been updated as a result of the 2019 Planning Dialogue. These are in force from 4Q2019 to 3Q2020.

D.2.5.2. Asset allocation limits

The table below shows the target asset allocation compared to the actual asset allocation at EH Re level (the monitoring is made for EH Ré SA and EH Re AG):

Figure 18: Comparison of the target and actual asset allocation at EH Re level

Assets	SAA 2019	SAA 2019 Leeway %		Actual	Conclusion
	limit %	Min	Max	AA%	
Fixed income	86.5%	80.5%	92.5%	85.7%	<i>No breach</i>
Public equity	7.0%	5.0%	9.0%	7.0%	<i>No breach</i>
Other / Alternative	1.1%	0.0%	3.1%	2.1%	<i>No breach</i>
Real estate	5.4%	3.4%	7.4%	5.2%	<i>No breach</i>

No breach is observed in 2019 for the different categories of assets.

D.2.5.3. Credit exposure limits (CRisP)

The Allianz Credit Risk Platform (CRisP) used of limit management is applied at EH Group for identification, assessment and management of exposure concentration risk arising from the Investment, Reinsurance receivables and Credit insurance exposures.

EH Group Risk function monitors on a quarterly basis the limit consumption situation and reports any breach and proposed action to the EH Re AG RiCo.

There is no recorded breach of Credit exposure limits as of 31.12.2019.

D.2.6. Risk management policies, standards and guidelines

As indicated in section C.3.2.2, EH Re AG has put in place a Risk Policy Framework (RPF). This framework is a set of policies, standards and guidelines overarching the Risk Management System of EH Re AG. It describes the core risk management principles, processes and key definitions to ensure all material risks are managed within the Risk Appetite and it is monitored by the Risk function.

Based on EH Group RPF, EH Re AG reviews and updates its RPF on a yearly basis, adapting the Group requirements to its reinsurance company specificities.

The Risk Policy Framework is composed of several documents in which the Risk Policy (incl. EH Risk Strategy & Risk Appetite Policy) represents the core document. The Risk Policy is reviewed on an annual basis and is approved by the BoD.

The following table lists all the documentation included in the RPF RPF of EH Re AG with a short description of each document.

Figure 19: Policies, Standards & Guidelines within the Risk Policy Framework of EH Re AG

EH Re AG Policies, Standards and Guidelines	
Risk Policy	Establishes a set of guiding principles and a common framework for risk management throughout EH RE AG.
Risk Strategy & Risk Appetite Policy	Define the overall risk appetite of the EH RE AG with respect to all material quantified and non-quantified risks
Capital Management Policy	establishes the core principles and processes for the capitalization of EH RE AG. It ensures an adequate capitalization in line with regulatory requirements and the EH RE AG's risk appetite.
Investment for Management Framework	Defines the requirements for managing and steering the investment and ALM risks of EH as well as the minimum requirements for the implementation of new financial instruments, the management of derivatives, foreign exchange risk and reverse repurchase agreements.
Standard for Model Governance	Provides minimum requirements with respect to the performance of an overarching qualitative risk management assessment, covering all risk categories, in order to identify and remediate significant threats to financial results, operational viability or the delivery of key strategic objectives.
Standard for Credit Risk Management	Provides minimum requirements with respect to the management of credit risks.
Market Risk Management and Measurement Framework	Provides minimum requirements with respect to the management of market risks
Standard for Risk Capital Measurement and Aggregation	Provides minimum requirements with respect to the internal Risk capital calculation and aggregation, including business representation for assets and liabilities and the correlation setting

EH Re AG Policies, Standards and Guidelines	
	processes that are the basis for Internal Model diversification.
Obligor Management Framework Standard	Defines the framework for setting, limiting, monitoring and managing exposures to obligors and obligor groups. It defines also how to structure obligors and group of obligors to support the concentration risk assessment.
Standard for P&C Underwriting	Provides minimum requirements with respect to all P&C underwriting activities and management of the corresponding risks
Standard for Operational Risk Management	Provides minimum requirements with respect to the management of operational risks.
Standard for ORSA	Provides minimum requirements with respect to the implementation, conduct and documentation of a solvency assessment for EH RE AG.
Standard for Top Risk Assessment	Provides minimum requirements with respect to the performance of an overarching qualitative risk management assessment, covering all risk categories.
Reinsurance Treaty Rules	Provide minimum requirements with respect to the all transfers of insurance risks by an LE either within the EH Group or to non-EH Group companies
Standard for Liquidity Risk Management	Provides minimum requirements with respect to the management of liquidity and corresponding liquidity risks.
Standard for Reputational Risk and Issues Management	Provides minimum requirements with respect to protection of the EH Group and LEs' reputation and the management of reputational issues that arise in the course of business
Guidelines for Country Risk Management	Define the framework for the assessment and the monitoring of country risk at Euler Hermes.
Data Quality Insurance Guidelines	Provide guidance with regard to the minimum requirements for credit risk data, the data quality monitoring process.

D.3. Other risk management processes

D.3.1. Operational Risk

For Operational Risk and Solvency II, an IM is in place to estimate the potential losses at the 99.5% quantile of the operational loss distribution.

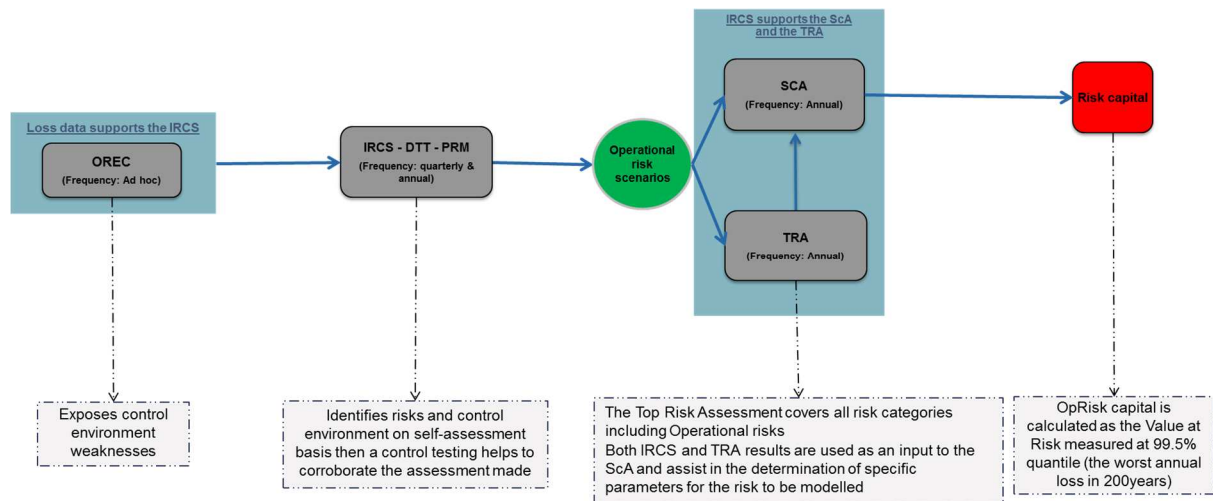
Legal and compliance risk are included, while strategic and reputational risk events are excluded

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

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

- Reduce operational losses and other subsequent 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 20: Operational Risk management overview



In accordance with EH Risk Policy Framework, EH Re AG has implemented comprehensive ORM processes, aiming at keeping the Operational Risks under control.

- **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 risks during the IRCS process, as well as the assessment of control effectiveness.
- **The Integrated Risk and Control System (IRCS):** The IRCS is a risk management process by which EH Re AG ensures, through performance of a qualitative based analysis, that significant operational risk are identified, assessed and prioritized for improved management and ensured that the controls underlying their management are effective. This “in-depth” assessment is performed on a yearly basis and reviewed on a quarterly basis.
- **Project Risk Management (PRM):** The objective of the PRM is to ensure that projects, including transition to BAU, are delivered on time, on budget and of adequate quality and to make sure 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.
- **Deficiency Tracking Tool (DTT):** DTT is a process linked to IRCS-Financial Reporting which aims to reference all controls which have been identified as deficient outside the regular IRCS control testing phase.
- **Top Risk Assessment Process (TRA):** The TRA process is defined in section C.2.1.5

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

IRCS, OREC and TRA results are used as an input of the Risk Heat maps and assist in the determination of specific parameters for the level 2 Risk Categories to be modelled.

D.3.2.Reputational Risk and Issues management

EH Re AG has established a core set of principles and processes for the management of Reputational Risk and Reputational Issues.

D.3.2.1. Reputational risk definition

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 Re AG from the perspective of its stakeholders. A reputational risk becomes a reputational issue once it becomes known to the public and begins to trigger the realization of adverse reputational impacts.

EH Re AG has set up a management process depending on whether the root cause of the reputational risk is considered direct or indirect in nature. EH RE AG is currently adapting its processes to ensure that:

- The assessment of reputational risks is via a structured methodology that provides a consistent basis for the comparison of risk and reward. For Environmental, Social and Governance (ESG) risks, this assessment methodology is complemented by a set of Sensitive Business Guidelines, which provide detailed criteria to identify potentially significant ESG risks.
- The decision process of EH Re AG integrates an analysis of the reputational level of each major decision. And if a decision leads to a reputational risk of level 4 and over an action plan is set up; and
- Guidelines to manage reputational crisis in force.

D.3.2.2. Direct reputational risk

Direct reputational risk are consciously and actively taken-on during the course of specific business transactions.

The management of direct reputational risk requires balancing the benefits of a given business decision against the potential reputational impacts, taking into account EH Re AG reputational risk strategy.

a) Assessment of direct reputational risk

The potential for direct reputational risk must be always considered throughout the course of all business activities. In the event that a reputational risk is recognised for a proposed or ongoing business transaction, it is required to conduct a reputational risk assessment.

The reputational risk assessment methodology to be applied is dependent on the nature of the risk:

- If the identified risk does not relate to one of the pre-defined sensitive business areas then the general reputational risk assessment methodology must be applied;
- If the identified risk relates to one of the sensitive business areas or sensitive countries established as part of the reputational risk strategy then the corresponding guideline must be applied.
- The reputational risk matrix provides a reputational risk score on a scale of 1-5 based on an assessment of (potential) stakeholder perception:
 - If the local business assesses a risk as having a reputational risk score of 3 or greater the referral process is applied;
 - If a risk is assessed as having a reputational risk score of 1 or 2 it is at the discretion of EH Re AG as to whether the risk shall be accepted, rejected or only accepted subject to further mitigation.

b) Referral of reputational risk

Upon receipt of all information necessary for the decision making process, EH Group Risk department must provide the referral decision to EH Group BoM within the time frame. The referral decision is taken by EH Group BoM, taking into account the underlying reputational risk strategy and corresponding recommendation of all parties consulted during the referral process, in particular EH Group communication, and lead to a clear response to EH Re AG as to whether the risk may be accepted, may only be accepted subject to further mitigation or must be rejected.

D.3.2.3. Indirect reputational risk

Indirect reputational risk is inherent in the operations of EH Re AG and not related to specific business transactions. This risk normally results from the occurrence of non-reputational risk events (e.g. operational risk), whereby the non-reputational risk event triggers incidental reputational damage. Indirect reputational risk is managed through the Top Risk Assessment TRA and IRCS processes, which apply the same reputational risk assessment methodology used for direct reputational risk.

The TRA has identified the following scenarios as potential sources of reputational risks:

- Incorrect data input within FSRI
- Transfer pricing risk
- Uncertainty regarding Bonding underwriting
- Risk management on new lines of business/new products
- BREXIT

- Commercial Underwriting on non-traditional & non-standard activities

D.3.3. Concentration

D.3.3.1. Exposures

As mentioned in section D.2.5.3, at EH Group level, the CRisP tool is used to identify, assess and manage exposure Concentration Risk its three different portfolios: Investment, Reinsurance and Credit insurance.

D.3.3.2. Assets

The assets are well diversified and mainly invested in bonds with a high rating.

EH Re AG's largest investments are either safe bond investments or investment in other EH Group entities (loans and participations) as well as Real Estate funds. The accumulation risk is therefore small, given that the largest investments have high quality rating. Apart from the capital investments, the other assets like receivables and reinsurance recoverable are also distributed to a large number of counterparties and therefore well diversified.

D.3.3.3. Liabilities

EH Re AG is only exposed to 3 lines of business, of which Trade Credit is clearly the dominant line, making 80% of the total. Therefore, diversification possibilities within the insurance portfolio are limited. Considering that the business is credit insurance there is a clear link to the economic environment.

D.4. Future risk profile

D.4.1. General description

The strategy of EH Re AG is to further grow the book directly in relation with the targeted growth of the EH Group book of business. Based on the Planning Dialogue realized at the end of 2019, the year on year average premium growth for EH Group (all Lobs) for the next 3 years is 3.3%. It has to be noted that this growth has been estimated before the Covid-19 crisis and does not take into account its impact. An ad-hoc analysis is currently in progress to evaluate the future premium growth and other implications in light of the current situation.

Through the cession in reinsurance from the EH entities, EH Re AG will directly benefit from this dynamic group development.

Accordingly, this might impact the future TC of EH Re AG. However, according to the actual profitability of the inward business, the expected annual results achieved by the company should enable the financing of additional risks capital requirements over the next few years.

In addition, it is important to consider the future retrocession reinsurance schemes might be fine-tuned according to needs and this will directly impact TC requirements.

D.4.2. Impact of the sale of EH Ré SA

As mentioned in section A.5, EH Re AG took the decision to sell its 100% subsidiary EH Ré SA, in the near future. This section shows the impact of the sale on EH Re AG SST ratio.

D.4.2.1. Hypotheses

The following hypotheses were taken for the calculation of the impact of the sale on the SST ratio:

Before sale:

- EH Ré SA reimburses the subordinated loan to EH Re AG (subject to prior approval of the Luxembourg regulator).
- Internal receivables and payables are settled between the two companies. Reinsurance receivables and payables with other entities are transferred. The transaction is done assuring no impact on the MCBS AC.
- The reinsurance liabilities of EH Ré SA are transferred to EH Re AG and are compensated by the same amount in cash.

After sale:

- Cash is received for the sale of EH Ré SA.
- All reinsurance treaties will directly go to EH Re AG.

It is expected that cash from this transaction (sale price, receivables, loans and compensation liabilities) is invested in a bond portfolio similar to EH Re AG's current portfolio.

It needs to be remarked that these are hypotheses which might deviate from the final sale outcome. Therefore all next figures are proxies of the expectation. Also, the simulation is undertaken the assumption that the sale took place at 31.12.2019.

D.4.2.2. Impact on the SST ratio

The table below shows the impact on the SST ratio.

Figure 21: Impact of the sale of EH Ré SA on the SST ratio

<i>in CHF million</i>	EoY 2019	EoY 2019 Sale	Var
Risk Margin	25	27	2
Target Capital	629	610	-19
Available Capital	1067	1079	12
SST Ratio	173%	180%	8%

The sale of EH Ré SA would mean an increase in the SST ratio of 8%-p.

D.5. Off balance sheet items

The following table discloses off-balance sheet items within EH Re AG. They are mainly made of:

- Letters of Credit provided by EH Re AG, e.g. in context of reinsurance agreements;
- Investment Commitment provided by EH Re AG that will result in investments in different class of assets at a future date;
- Bank guarantee or cash positions pledged.

The most material off-balance sheet items are the commitments made through letters of credit and investment commitments. These amounts together to CHF 2,7mn (EUR 2,5mn) of (S2) risk capital and represent a marginal contribution to EH Re AG total credit risk exposure.

Figure 22: Off-Balance sheet items

Item	Amount for current closing in transaction currency	Transaction currency disclosed at current closing	Reporting currency disclosed at current closing	Risk Capital in reporting currency EUR	Beneficiary rating	Issue date	Expected maturity
Letter of Credit provided	85,000,000	USD	EUR	1,068,717	AA	6/30/2018	12/31/2019
Letter of Credit provided	12,000,000	CAD	EUR	30,243	AA	3/31/2017	3/31/2020
Letter of Credit provided	110,000,000	USD	EUR	871,271	AA	6/30/2018	12/31/2019
Bank Guarantee/Cash Position pledged	75,000	USD	EUR	-	N/A	12/15/2011	12/14/2020
Letter of Credit provided	550,000	CAD	EUR	-	N/A	1/1/2018	12/31/2019
Letter of Credit provided	1,100,000	USD	EUR	-	N/A	1/1/2018	12/31/2019
Investment Commitment provided	4,869,931	USD	EUR	433.77	N/A	12/22/2014	12/31/2019
Investment Commitment provided	4,650,000	EUR	EUR	42.61	N/A	12/12/2019	12/12/2029

E.Valuation

E.1. Assets

The following table shows the valuation of the different classes of assets in the SST report and in the Annual Report (Swiss GAAP), and their evolution between 2018 and 2019:

Figure 23: Asset (SST vs Swiss GAAP)

in CHF million	SST	Statutory	Diff	2018/2019	2018/2019
	EoY 2019	EoY 2019		Var SST	Var Statutory
Real estate	23	-	23	-0	-
Participations	154	208	-54	8	-4
Fixed-income securities	1,410	1,375	35	-171	-191
Loans	36	36	0	-1	-1
Mortgages	-	-	-	-	-
Equities	76	0.5	75	-0	0
Other investments	287	192	96	42	10
Collective investment schemes	276	185	90	40	10
Alternative investments	12	6	5	2	1
Structured products	-	-	-	-	-
Other investments	-	-	-	-	-
Total investments	1'985	1'811	174	-123	-186
Financial investments from unit-linked life insurance	-	-	-	-	-
Receivables from derivative financial instruments	-	-	-	-	-
Deposits made under assumed reinsurance	23	23	-0	4	4
Cash and cash equivalents	21	19	2	9	14
Ceding of BE provisions for insurance liabilities	625	641	-16	45	43
Reinsurance: non-life insurance business	625	641	-16	45	43
Fixed assets	-	-	-	-	-
Deferred acquisition costs	-	-	-	-	-
Intangible assets	0.1	0.1	0	0.1	0.1
Receivables from insurance business	311	235	76	14	7
Other receivables	10	1	9	6	-1
Other assets	-	-	-	-	-
Unpaid share capital	-	-	-	-	-
Accrued assets	12	12	-0	-3	-3
Total other assets	1,003	930	73	74	65
Total Assets	2,989	2,741	247	-48	-122

The main evolutions and differences of valuation are explained in the following paragraphs.

E.1.1. Real estate

The real estate is valued to CHF 23 Million in the SST balance sheet whereas no real estate is presented in the Annual Report. This is due to the “look-through” approach on EH South Express SA where the real estate is valued with a market-based approach.

E.1.2. Participations

The following table shows the detail of the valuation in the SST report and the Annual Report:

Figure 24: Valuation of the investment in affiliated enterprises (SST vs Swiss GAAP)

in CHF million	SST EoY 2019	Statutory EoY 2019	Diff
EH Ré SA	154	86	68
EH Patrimonia SA	-	107	-107
EH South Express SA	-	15	-15
Shareholdings	154	208	-66

The SST value of the participation in EH Ré SA is based on its MCBS equity minus the RM, adjusted by the change in risk profile through the year.

The SST value of the participation in EH Patrimonia SA and EH South Express SA is established through a “look-through” approach, mainly for Real Estate and Shares.

E.1.3. Fixed-income securities

The SST balance sheet value of the fixed-income securities is evaluated at the market value.

E.1.4. Loans

There is no difference of valuation between the SST balance sheet and the Annual report, and also there is no change in value of the intercompany loan.

E.1.5. Equities

The equities are valued to CHF 76 Million in the SST balance sheet whereas only CHF 0.5 Million of equities are presented in the Annual Report. This is due to the “look-through” approach on EH Patrimonia SA where the equities are valued with a market-based approach.

E.1.6. Collective investment schemes

The collective investment schemes consist of property funds, bonds funds and equity funds. The equity funds are valued to CHF 68 Million in the SST balance sheet whereas no equity funds are presented in the Annual Report. This is due to the “look-through” approach on EH Patrimonia SA where the equity funds are valued with a market-based approach. The bond funds are also valued with a market-based approach.

E.1.7. Alternative Investments

The alternative investment schemes consist exclusively of private equity. The private equity is valued at CHF 6 Million in the Annual Report. In the SST balance sheet, the market value of the private equity is shown and amounts to CHF 12 Million.

E.1.8. Deposits made under assumed reinsurance

There is no difference of valuation between the SST balance sheet and the Annual report.

Note that for 2019, the deposits are presented on the same granularity and the same naming convention as used in the current SST Balance Sheet.

E.1.9. Cash and cash equivalents

Cash and cash equivalents amount to CHF 21 Million in the SST balance sheet, CHF 2 Million higher than in the Annual Report. This is due to the “look-through” approach on EH Patrimonia SA and EH South Express SA.

E.1.10. Ceding of Best Estimate provisions for insurance liabilities

The reserves were discounted for the time value of money using the risk-free rates provided in the SST standard template and the expected run-off of the claims. The increasing effect of discounting is relatively small due to the short-tailed nature of the business and the low short-term interest rates. The difference of valuation between the SST report and the Annual report is not significant.

Note that the SST Balance Sheet presentation has changed since then. The ceded provisions are now shown under assets and no longer under liabilities.

E.1.11. Intangible Assets

There is no difference of valuation between the SST balance sheet and the Annual report. Intangible assets are deducted in order to derive the risk bearing capital.

E.1.12. Receivables from insurance business

In the SST balance sheet, the receivables from insurance and reinsurance business include the deposits retained on assumed business and exclude the accrued commission on EBNR for assumed business.

The latter, considered on the Liabilities side, amounts to CHF 76 million, resulting in a valuation of CHF 76 Million compared to the Annual report.

E.1.13. Other Receivables

Other receivables are valued to CHF 10 Million in the SST balance sheet vs CHF 1 Million in the Annual Report. This is due to the “look-through” approach on EH Patrimonia SA and EH South Express.

E.1.14. Accrued Assets

There is no material difference in valuation between the SST balance sheet and the Annual report.

Note that last year the “other assets” contained the unpaid share capital, the accrued assets and the other assets. From this year onwards, the amounts are shown on the same granularity and the same naming convention as used in the current SST Balance Sheet.

E.2. Liabilities

The following table shows the valuation of the different classes of liabilities in the SST report and in the Annual Report (Swiss GAAP), and their evolution between 2018 and 2019:

Figure 25: Liabilities (SST vs Swiss GAAP)

in CHF millions	SST EoY 2019	Statutory EoY 2019	Diff	2018/2019 Var SST	2018/2019 Var Statutory
Best Estimate of provisions for insurance liabilities	1,506	1,530	-24	21	15
Reinsurance: non-life insurance business	1,506	1,530	-24	21	15
BE of provisions for unit-linked life insurance	-	-	-	-	-1
Non-technical provisions	0.3	13	-12	-1	-33
Interest-bearing liabilities	-	-	-	-	-
Liabilities from derivative financial instruments	-	-	-	-	-
Deposits retained on ceded reinsurance	-	-	-	-	-
Liabilities from insurance business	173	96	76	-7	-13
Other liabilities	2	50	-49	1	-2
Accrued liabilities	30	31	-0	13	11
Subordinated debts	-	-	-	-	-
Total BEL plus other liabilities	1,711	1,720	-8	27	-23

The main evolutions and differences of valuation are explained in the following paragraphs.

E.2.1. Best Estimate of provisions for insurance liabilities

The reserves were discounted for the time value of money using the risk-free rates provided in the SST standard template and the expected run-off of the claims. The increasing effect of discounting is relatively small due to the short-tailed nature of the business and the low short-term interest rates. The difference of valuation between the SST report and the Annual report is not significant.

E.2.2. Non-technical provisions

In local GAAP, the provision for unrealized currency gains accounts for CHF 13 Million. As the SST currency is EUR and most investments are held in EUR, this position amounts only to CHF 0.3 Million in the SST balance sheet.

E.2.3. Liabilities from insurance business

As mentioned in Section E.1.12, in the SST balance sheet, the liabilities from insurance business include the accrued commission on EBNR for assumed business, resulting in a difference of CHF 76 Million compared to the Annual report.

E.2.4. Other liabilities

The difference between the statutory and the SST valuations mainly comes from the difference in the treatment of the unpaid capital. In the Annual Report, the unpaid capital for subsidiary accounts for CHF 49 Million. This is not recognized in the SST balance sheet as it is considered in the valuation of the EH Ré SA participation.

Note that last year the “other liabilities” contained both the accrued liabilities and the other liabilities. This year the numbers are shown on the same granularity and the same naming convention as used in the current SST Balance Sheet.

E.2.5. Accrued liabilities

There are no material differences between the Annual report and the SST report.

E.3. Description of the risk-bearing capital

Overall, the risk-bearing capital decreased by CHF 116 Million between 2018 and 2019.

Figure 26: Breakdown of the risk-bearing capital

in CHF million	EoY 2019	EoY 2018	Var
Total assets	2'989	3'037	-48
Total liabilities	1'711	1'684	27
Assets minus liabilities	1'277	1'353	-75
Deductions (Dividends)	-210	-169	-41
Core Capital	1'067	1'184	-116
Supplementary Capital	-	-	-
Risk-bearing capital	1'067	1'184	-116

The assets have decreased by CHF 48 Million which is mainly due to decrease in bonds (CHF -171 Million) partially offset by an increase in collective investment schemes (CHF +40 Million).

The liabilities increased by CHF 27 Million which is mainly due to an increase in the Best Estimate of provisions for insurance liabilities (CHF +21 Million).

The planned dividends and intangible assets are deducted from the assets over liabilities to calculate the risk-bearing capital. The planned dividend is CHF 41 Million higher compared to last year.

There is no supplementary capital.

No particular restrictions exist on EH Re AG's available capital.

E.4. Capital reconciliation

The following table shows the reconciliation between the Annual Report equity and the SST Available Capital

Figure 27: Reconciliation between the Annual Report equity and the SST bearing capital

in CHF million	Reconciliation	Section
Annual report Equity	1'022	
Assets - Real estate	23	E.1.1
Assets - Participations	-54	E.1.2
Assets - Fixed-income securities	35	E.1.3
Assets - Equities	75	E.1.5
Assets – Collective investments schemes	90	E.1.6
Assets – Alternative investments	5	E.1.7
Assets - Deposits made under assumed reinsurance contracts	-0	E.1.8
Assets - Cash and cash equivalents	2	E.1.9
Assets – Ceding of BE provisions for insurance liabilities	-16	E.1.10
Assets - Intangible assets	0	E.1.11
Assets - Receivables from insurance business	76	E.1.12
Assets - Other receivables	9	E.1.13
Assets - Accrued assets	-0	E.1.14
Liabilities – BE of provisions for insurance liabilities	-24	E.2.1
Liabilities - Non-technical provisions	-12	E.2.2
Liabilities - Liabilities from insurance business	76	E.2.3
Liabilities - Other liabilities	-49	E.2.4
Liabilities - Accrued liabilities	-0.3	E.2.5
Assets minus liabilities	256	
Deductions (Dividends)	-210	
Risk - bearing capital	1'067	

Further details and explanations on the reconciliation are provided in section **Fehler! Verweisquelle konnte nicht gefunden werden.** and **Fehler! Verweisquelle konnte nicht gefunden werden..**

The statutory equity of EH Re AG decreased from CHF 1,121.4 million by CHF 99.6 million to CHF 1,021.8 million in the financial year 2019. As of 31st December 2019 it is composed of share capital amounting to CHF 400.8 million, statutory capital reserves amounting to CHF 188.8 million, statutory retained earnings amounting to CHF 200.5 million, voluntary retained earnings (balance brought forward) amounting to CHF 19.5 million and the annual profit for the financial year 2019 of CHF 212.4 million.

The share capital has been reduced from CHF 572.5 million to CHF 400.8 million in the context of a capital restructuring. The difference of CHF 171.8 million has been allocated to the statutory capital reserves.

In 2019, the company did two dividend payments to its shareholder. The first payment in May 2019 following the annual general meeting amounted to EUR 150 million (CHF 169 million) and the second dividend payment in September 2019 following an extraordinary general meeting amounted to EUR 130 million (CHF 143 million) compared to a single dividend payment in 2018 amounting to EUR 100 million (CHF 116 million).

The equity is fully paid-in. The 100% direct shareholder is Euler Hermes Group SAS, Paris, and the ultimate shareholder is Allianz SE, Munich.

The equity does not include any guarantees towards any other external company, Group company or the 100% subsidiary EH Ré SA, Luxembourg. The statutory equity as reported in the annual report is fully available and bears no restriction of any kind. There is no hybrid capital.

The difference of CHF 45.2 million between the statutory equity and the difference between market consistent assets and liabilities mainly results from different valuation approaches. The valuation rules according to Swiss Code of Obligations and regulatory rules for the preparation of the annual financial statements of a reinsurance company can differ substantially from the regulations according to the SST.

F.Capital management

F.1. Capital management strategy – SST Standard

Capital management strategy

EH Re AG steers primarily its solvency through the SST standard. In that respect, EH Re AG has set a target management ratio of 150% and a minimum ratio of 120%. Deviations against these thresholds are regularly monitored by the ARC.

If EH Re AG falls below the minimum ratio, the BoD takes the necessary measures to re-establish its SST ratio above.

Figure 28: Equity overview

in CHF million	EoY 2019	EoY 2018	Var	%
Total assets	2989	3037	-48	-2%
Total liabilities	1711	1684	27	2%
Dividend and intangibles	-210	-169	-41	24%
Risk Bearing Capital	1067	1184	-116	

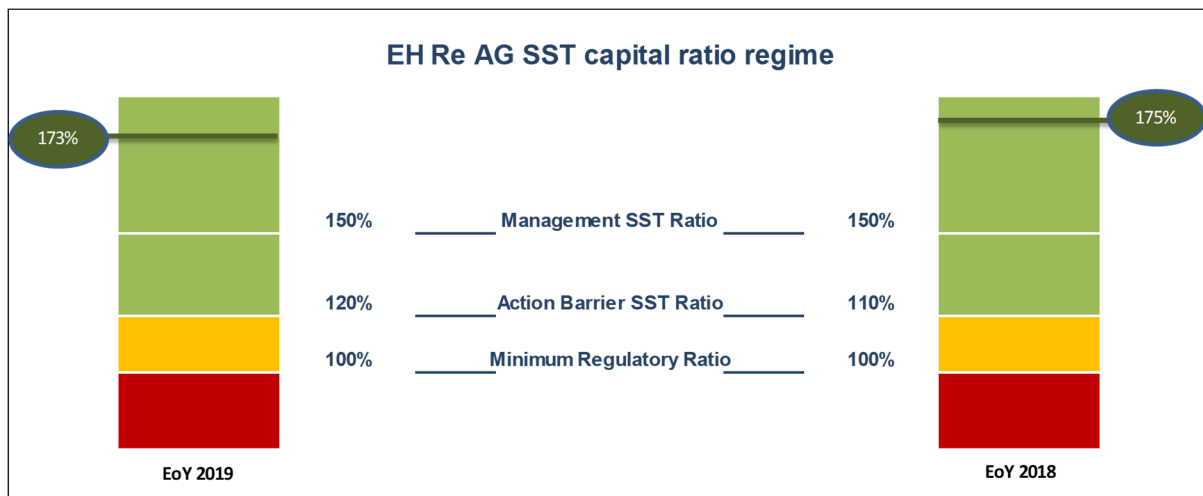
The decrease in Risk Bearing Capital is explained by dividends distributed to shareholders partly offset by profits.

The following graph and table shows the SST ratio as of 31.12.2019 compared to 31.12.2018:

Figure 29: SST Ratio overview

in CHF million	EoY 2019	EoY 2018	Var	%	Section
Target Capital (TC)	629	691	-62	-9%	D.2.2
Available Capital (AC)	1067	1184	-116	-10%	E.3
Market Value Margin (MVM)	25	39	-14	-35%	D.2.2.9
SST Ratio (AC-MVM)/(TC-MVM)	172.5%	175.2%			

The current information about solvency (risk-bearing capital and TC) is identical to the information which EH Re AG has submitted to FINMA in the SST Report.

Figure 30: EH Re AG SST capital ratio regime

The SST ratio decreased from 175.2% to 172.5%, well above the target management ratio of 150%. The impact of future significant events on the risk profile and solvency is analyzed and presented in section D.4.

The current solvency information regarding the SST 2019 including risk bearing capital and target capital is still subject to the regulatory audit by FINMA.

F.2. Capital management strategy – SII Standard

For steering reasons and alignment with Group risk appetite framework, EH Re AG has also set Solvency II target capitalization ratios and limits. At EoY 2019, EH Re AG Capital Management strategy is defined as follows:

- EH Re AG target management ratio is set at 140% while the alert barrier and the action barrier are set respectively at 130% and 120%.
- In case of a breach of the alert barrier, a contingency plan is proposed to the BoD and EH Group to conserve its solvency within due time.
- In case of breach in action barrier, the BoD defines the necessary measures to revert above the threshold.

G.Solvency

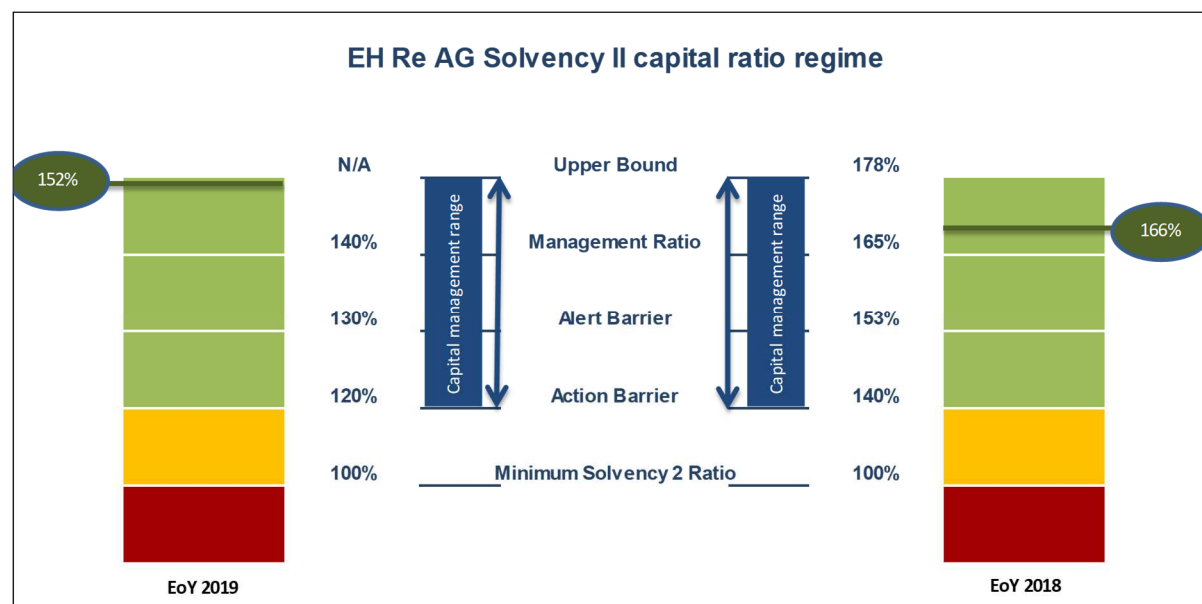
G.1. Solvency Overview

The following graph and table shows the Solvency II ratio as of 31.12.2019 compared to 31.12.2018:

Figure 31: Solvency II ratio overview

in CHF million	EoY 2019	EoY 2018	Var	%
Required capital	789	797	-8	-1%
Own Funds	1202	1,324	-122	-9%
Solvency ratio	152%	166%	14%-p	-8%

Figure 32: EH Re AG Solvency II capital ratio regime



The Solvency II ratio stands at 152%, and above the 140% target management ratio. The solvency ratio disclosed above is not subject to regulatory audit.

G.2. Capital planning

EH Re AG capital planning is defined as part of EH Group capital planning process.

In the yearly planning process, EH Group, together with its Legal Entities, reviews its risk strategy and capital requirements over a three-year planning horizon. Based on this projection, the BoM of EH Group approves the capital plan and the capital ratio regime of all its Legal Entities before this can be used for capital management purposes, including dividend policy. The resulting capital plan is also presented to the Supervisory Board of EH Group.

EH Re AG dividend level is defined as the excess capital over its target management ratio.

G.3. Capital management governance

EH Re AG BoM is responsible for sound organizational and operational structures and procedures to ensure compliance with the Capital Management strategy. More specifically, the responsibilities are:

- Ensuring an adequate capitalization of EH Re AG operations, under its regulatory requirements;
- Optimizing the return on the shareholder's invested capital through EH Re AG processes and procedures;
- Ensuring that the necessary information of EH Re AG's risk profile is provided to EH Group, at least on a quarterly basis.

EH Re AG Finance function has the following responsibilities with regards to capital management:

- Management and controlling of the capital target levels;
- Implementing capital measures such as capital increases, dividends;
- Regular reporting of capital levels and stress tests;
- Providing the capital and dividend plan figures in the planning process.

EH Re AG Risk function has the following responsibilities with regards to capital management:

- Preparation of the planning documents for EH Re AG capital plan in the PD process;
- Management of EH Re AG's capitalization limits as approved by the BoM;
- Monitoring of EH Re AG's capitalization and following up on any limit breaches with regards to the Minimum Capital Ratio and the Management Capital Ratio.

Appendix

Appendix 1 : External auditor's report on the Financial Statements 2019

Euler Hermes Reinsurance AG Wallisellen

Report of the statutory auditor
to the General Meeting

on the financial statements 2019



Report of the statutory auditor

to the General Meeting of Euler Hermes Reinsurance AG

Wallisellen

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Euler Hermes Reinsurance AG, which comprise the balance sheet, income statement, cash flow statement and notes, for the year ended 31 December 2019.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2019 comply with Swiss law and the company's articles of incorporation.

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

PricewaterhouseCoopers AG is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 800, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Enrico Strozzi
Audit expert
Auditor in charge



Nicolas Stadler
Audit expert

Zürich, 24 April 2020

Enclosures:

- Financial statements (balance sheet, income statement, cash flow statement and notes)
- Proposed appropriation of the available earnings



Balance sheet as at 31 December	Notes	2019	2018
		CHF	CHF
ASSETS			
Investments			
Investments in affiliated enterprises	3.1	207'884'610	211'622'453
Bonds		1'374'974'696	1'566'400'739
Intercompany loans	3.2	35'979'825	37'300'398
Shares		498'777	321'502
Bond funds		121'094'494	122'340'488
Private equity fund of funds		6'329'434	5'773'734
Property funds		35'366'236	28'533'689
Other securities	3.3	28'801'254	24'781'739
		<u>1'810'929'326</u>	<u>1'997'074'742</u>
Deposits retained on assumed business		23'112'782	19'409'390
Cash		18'668'253	4'936'412
Unearned premium reserve ceded	3.6	83'623'265	79'030'802
Rebates reserve ceded	3.6	40'290'116	39'467'673
Outstanding claims reserve ceded	3.6	516'858'515	478'820'558
Reinsurer's share of technical reserves		<u>640'771'896</u>	<u>597'319'033</u>
Tangible Assets		0	0
Intangible Assets		103'773	128'705
Reinsurance receivables	3.4 & 3.5	83'245'458	92'559'765
Assumed accruals	3.4 & 3.5	151'738'069	135'341'251
Receivables from insurance and reinsurance		<u>234'983'527</u>	<u>227'901'016</u>
Other receivables		856'455	1'568'618
Accrued interest	3.4 & 3.5	12'002'201	14'804'007
TOTAL ASSETS		<u>2'741'428'213</u>	<u>2'863'141'923</u>



Balance sheet as at 31 December	Notes	2019	2018
		CHF	CHF
LIABILITIES AND SHAREHOLDERS' EQUITY			
Unearned premium reserve assumed	3.6	156'144'707	146'832'377
Rebates reserve assumed	3.6	121'008'393	118'079'690
Outstanding claims reserve assumed	3.6	1'252'746'301	1'250'203'667
Technical reserves		<u>1'529'899'401</u>	<u>1'515'115'734</u>
Provision for unrealized currency gains		12'310'874	45'569'313
Provisions for stock based compensation		321'442	233'530
Non-technical provisions		<u>12'632'316</u>	<u>45'802'843</u>
Reinsurance payables	3.4 & 3.5	45'569'286	67'862'596
Ceded accruals	3.4 & 3.5	50'523'726	41'693'344
Liabilities from insurance and reinsurance		<u>96'093'012</u>	<u>109'555'940</u>
Other short-term liabilities		1'557'351	1'421'719
Unpaid capital to subsidiary		48'733'306	50'521'972
Other liabilities		<u>50'290'657</u>	<u>51'943'691</u>
Accrued payables	3.4 & 3.5	1'164'423	1'146'174
Tax payables		29'507'340	18'171'228
TOTAL LIABILITIES		<u>1'719'587'149</u>	<u>1'741'735'610</u>
Share capital		400'750'000	572'500'000
Statutory capital reserves			
General capital reserves		17'000'000	17'000'000
Capital contribution reserves		171'750'000	0
Statutory retained earnings		200'477'606	220'477'606
Voluntary retained earnings			
Balance brought forward		19'510'205	95'306'356
Annual profit		212'353'252	216'122'350
TOTAL SHAREHOLDERS' EQUITY	3.7	<u>1'021'841'063</u>	<u>1'121'406'312</u>
TOTAL		<u>2'741'428'213</u>	<u>2'863'141'923</u>



Income statement for the year	Notes	2019	2018
		CHF	CHF
Written premium assumed		1'772'891'356	1'926'851'265
Written premium ceded		-712'259'527	-741'666'067
Written premium for own account		1'060'631'829	1'185'185'198
Change in unearned premium reserve assumed	4.1	-12'974'037	-23'625'927
Change in unearned premium reserve ceded	4.1	6'622'732	14'784'730
Earned premiums for own account		1'054'280'524	1'176'344'001
Other income from the insurance business		973'517	1'058'637
Total income from the insurance business		1'055'254'041	1'177'402'638
Claims paid assumed		-836'901'523	-786'156'002
Claims paid ceded		326'917'567	304'254'917
Change in claims reserve assumed	4.1	-37'298'169	-13'276'728
Change in claims reserve ceded	4.1	52'490'152	-63'539'298
Claims expenses for own account		-494'791'973	-558'717'111
Commissions paid		-613'880'560	-669'094'527
Administration expenses	4.2 & 4.3	-7319'255	-7'175'412
Acquisition and administration costs		-621'199'815	-670'269'939
Reinsurers' share of the acquisition and administration costs		266'187'543	291'033'324
Acquisition and administration costs for own account		-355'012'272	-385'236'615
Total expenses from the insurance business		-849'804'245	-943'953'726
Underwriting result		205'449'796	233'448'912
Interest and dividends	4.4	26'296'689	22'953'946
Realized gains on investments	4.4	6'134'922	7'189'575
Write ups of investments		9'567'860	215'782
Investment income		41'999'471	30'359'303
Investment management expenses		-2'233'642	-1'795'497
Realized losses on investments	4.5	-1'047'759	-6'700'450
Unrealized losses on investments		-3'194'354	-10'923'201
Investment expenses		-6'475'755	-19'419'148
Investment result		35'523'716	10'940'155
Realised & unreal. currency gains		12'876'220	10'036'173
Other financial income		12'876'220	10'036'173
Realised & unreal. currency losses		-12'117'198	-13'631'074
Inc. & exp. from currency translation		0	0
Other financial expenses		-12'117'198	-13'631'074
Operating result		241'732'534	240'794'166
Interest expenses		-603'203	-591'742
Profit before taxes		241'129'331	240'202'424
Direct taxes		-28'776'079	-24'080'074
Annual profit		212'353'252	216'122'350



Statement of cash flows	2019	2018
	CHF	CHF
Annual profit	212'353'252	216'122'350
Depreciation and amortization	0	0
Inc. & exp. from currency translation	0	0
Provisions for stock based compensation	87'912	-332'061
Net realized investment gains/Losses	-11'460'669	10'218'294
Change in:		0
Technical reserves	14'783'667	-426'109
Reinsurance receivables	-7'082'511	51'533'061
Reinsurance payables	-22'293'310	-18'001'852
Ceded business, net	-34'622'481	56'928'790
Deposits retained assumed	-3'703'392	17'076'175
Taxes payable	11'336'112	89'888
Other assets and liabilities, net	3'667'850	-680'344
Cash flow from operating activities	163'066'430	332'528'192
Disposals of investments (without affiliated enterprises)	454'315'124	458'730'355
Acquisitions of investments (without affiliated enterprises)	-325'689'008	-718'349'714
Investment in affiliated enterprises	0	0
Loans to consolidated affiliated enterprises	1'320'573	1'431'626
Cashflow for unpaid capital to subsidiary	-1'788'666	-1'939'082
Acquisitions of fixed and of intangible assets	0	0
Cash flow from investing activities	128'158'023	-260'126'815
Dividend paid to shareholders	-311'918'501	-116'315'000
Cash flow from financing activities	-311'918'501	-116'315'000
Effect of foreign currency translation	34'425'889	6'562'626
CHANGE IN CASH AND CASH EQUIVALENTS	13'731'840	-37'350'997
Cash and cash equivalents as of 1st January	4'936'410	42'287'407
CASH AND CASH EQUIV. AS OF 31st DECEMBER	18'668'251	4'936'410



Notes to the financial statements

1. Information on the company and basis of presentation

Euler Hermes Reinsurance AG (EH Reinsurance AG) is headquartered in Wallisellen, Switzerland. The accompanying financial statements have been prepared in accordance with accounting principles defined in the Swiss Code of Obligations (CO), in the Insurance Supervision Act (ISA) and its related ordinances and the ISO-FINMA ordinance.

EH Reinsurance AG employs like in the prior year more than 10 but less than 50 employees (fulltime equivalent).

2. Accounting principles

2.1 Investments

Loans and investments in affiliates are initially recognized at their acquisition costs. Loans are subsequently valued at nominal value less necessary bad debt provisions. Investments in affiliates are subsequently valued at lower of acquisition costs or closing net asset value.

Bonds are valued at lower of amortized cost or market value.

Shares are valued at fair value.

The other investments are valued at the lower of cost or market.

2.2 Reinsurer's share of technical reserves

Reinsurers' share of technical reserve is in accordance to the signed agreements.

2.3 Receivables

Receivables are valued at nominal value less necessary bad debt provisions.

2.4 Claims reserves

Claims reserves assumed including IBNR are recorded with the respective values when reported by the ceding group insurance companies.

2.5 Translation of foreign currencies

The functional currency of the company is EUR. For statutory reporting purposes, a translation into CHF is done. All Assets and Liabilities were revalued at Year End FX rates except investments in affiliated companies and the equity is revalued at historical FX rates. Income statement line items were revalued with the average FX rate.

Rates used:	2019	2018
Year end rates	1.08700378	1.12690024
Average rates	1.11245842	1.15500116

Existing provision for unrealized FX in amount of 45'569'313 CHF was released of the total net unrealized loss of 30'392'540 CHF, resulting in the remaining provision of 12'310'873 CHF.

3. Balance sheet positions

3.1 Investment in affiliated enterprises	2019	2018
<i>a) Equity investments</i>	Share capital (EUR)	
100.0% shares (2018: 100%) of Euler Hermes Ré SA, Luxembourg.	61'055'000	61'055'000
35.0% shares (2018: 35%) of Euler Hermes Patrimonia SA, Bruxelles	280'000'000	280'000'000
49.0% shares (2018: 49%) of Euler Hermes South Express SA, Bruxelles	28'986'452	35'986'452

3.2 Intercompany loans	2019	2018
Loan to Euler Hermes Ré SA (Luxembourg) in EUR	33'100'000	33'100'000
Total intercompany loans	33'100'000	33'100'000

3.3 Other securities

The position other securities consists of a profit participation loan agreement.

3.4 Receivables and liabilities from the insurance business

All receivables and liabilities from the insurance business come from insurance companies.

3.5 Receivables due from and liabilities due to group companies	2019	2018
Reinsurance receivables due from group companies	70'523'817	85'434'848
Other receivables due from group companies	496'850	485'943
Assumed accruals due from group companies	131'033'025	123'933'686
Accrued interests due from group companies	272'847	282'861
Reinsurance payables due to group companies	-32'765'802	-43'838'124
Ceded accruals due to group companies	-34'517'221	-29'050'987
Accrued payables due to group companies	-81'1'839	-83'1'841

3.6 Technical provision

2019	Unearned premium reserve	Rebates reserve	Outstanding claims reserve	Total
Assumed	156'144'707	121'008'393	1'252'746'301	1'529'899'401
Ceded	-83'623'265	-40'290'116	-516'858'515	-640'771'896
Technical provision net 2019	72'521'442	80'718'277	735'887'786	889'127'505
2018	Unearned premium reserve	Rebates reserve	Outstanding claims reserve	Total
Assumed	146'832'377	118'079'690	1'250'203'667	1'515'115'734
Ceded	-79'030'802	-39'467'673	-478'820'558	-597'319'033
Technical provision net 2018	67'801'575	78'612'017	771'383'109	917'796'701

3.7 Equity roll forward

	Share capital	Statutory capital reserves	retained earnings	retained earnings	Total equity
as per 01.01.2018	572'500'000	17'000'000	171'013'354	261'085'608	1'021'598'961
Legal reserve allocation			49'464'252	-49'464'252	0
Dividend				-116'315'000	-116'315'000
Annual profit				216'122'350	216'122'350
as per 31.12.2018	572'500'000	17'000'000	220'477'606	311'428'705	1'121'406'312
Reduction of share capital	-171'750'000	171'750'000			0
Release of statutory retained earnings			-20'000'000	20'000'000	0
Dividend				-311'918'500	-311'918'500
Annual profit				212'353'252	212'353'252
as per 31.12.2019	400'750'000	188'750'000	200'477'606	231'863'457	1'021'841'064

4. Income statement positions**4.1 Changes in technical provision**

2019	Unearned premium reserve	Rebates reserve	Outstanding claims reserve	Total
Assumed	-12'974'037	-2'928'703	-37'298'169	-53'200'909
Ceded	6'622'732	822'443	52'490'152	59'935'327
Changes in technical provision net 2019	-6'351'305	-2'106'260	15'191'983	6'734'418

2018	Unearned premium reserve	Rebates reserve	Outstanding claims reserve	Total
Assumed	-23'625'927	-4'203'714	-13'276'728	-41'106'369
Ceded	14'784'730	1'051'660	-63'539'298	-47'702'908
Changes in technical provision net 2018	-8'841'197	-3'152'054	-76'816'026	-88'809'277

4.2 Positions to be disclosed from the administration expenses

Personal expenses		2019	2018
Amortization and depreciation on non-current assets		4'108'888	4'282'048
		-	-

4.3 Auditor fees

Audit fees		2019	2018
Other fees		87'353	103'062
		55'153	-
Total auditor fees		142'506	103'062

4.4 Investment income				
2019				
	Curr. income	Write-ups	realized gains	Total income
Bonds	22'034'142	6'701'097	5'710'797	34'446'036
Intercompany loans	279'236	-	-	279'236
Shares	26'905	-	-	26'905
Bond funds	3'829'715	2'866'763	-	6'696'478
Equity funds	-	-	424'125	424'125
Other securities	- 368'387	-	-	-368'387
Deposits retained on assumed business	347'791	-	-	347'791
Cash	147'287	-	-	147'287
Investment income 2019	26'296'689	9'567'860	6'134'922	41'999'471
2018				
	Curr. income	Write-ups	realized gains	Total income
Bonds	18'591'708	212'137	5'066'979	23'870'824
Intercompany loans	289'915	-	-	289'915
Shares	- 62'458	-	-	-62'458
Bond funds	3'544'053	3'645	2'122'596	5'670'294
Other securities	54'273	-	-	54'273
Deposits retained on assumed business	356'460	-	-	356'460
Cash	179'995	-	-	179'995
Investment income 2018	22'953'946	215'782	7'189'575	30'359'303
4.5 Investment expenses				
2019				
	Investment expenses	Write downs	realized losses	Total expense
Bonds	1'960'467	544'787	650'276	3'155'530
Bond funds	172'659	-	397'483	570'142
Private equity fund of funds	9'025	-	-	9'025
Property funds	50'426	-	-	50'426
Other securities	41'065	2'649'567	-	2'690'632
Investment expenses 2019	2'233'642	3'194'354	1'047'759	6'475'755

2018	Investment expenses	Write downs	realized losses	Total expense
Bonds	1'609'119	7'982'488	524'821	10'116'429
Bond funds	125'677	2'940'712	6'175'629	9'242'018
Private equity fund of funds	5'931	-	-	5'931
Property funds	29'312	-	-	29'312
Other securities	25'458	-	-	25'458
Investment expenses 2018	1'795'497	10'923'201	6'700'450	19'419'148

5. Additional information

5.1 Guarantees and commitments given

EH Reinsurance AG purchased a bank guarantee in the amount of USD 75'000 (2018: USD 75'000).

EH Reinsurance AG has pledged cash position of USD 75'000 (2018: USD 75'000).

EH Reinsurance AG has lease commitments amounting to CHF 46'000 (2018: CHF 100'340).

EH Reinsurance AG has entered a commitment with CORDIANT regarding future drawdowns limited by the unfunded amount as per December 31 2019 of USD 4'625'691 (2018: USD 5'374'541).

EH Reinsurance AG has entered a commitment with FASO regarding future drawdowns limited by the unfunded amount as per December 31 2019 of EUR 4'650'000 (2018: EUR 0).

EH Reinsurance AG has entered commitments with a bank to provide letter of credits in amount of USD 195'000'000 and CAD 35'000'000 to meet any valid claims, in case of EH Reinsurance AG would face bankruptcy (2018: USD 140'000'000 and CAD 12'000'000).

EH Reinsurance AG has entered commitments with a bank to provide letter of credits in amount of USD 1'100'000 and CAD 550'000 to meet any valid claims, in case of EH Reinsurance AG would face bankruptcy (2018: USD 500'000 and CAD 142'000).

5.2 Guarantee received

EH Reinsurance AG has an unlimited financial guarantee from Euler Hermes Group SAS.



As at 31 December	2019
	CHF
Balance brought forward	19'510'205
Annual profit	212'353'252
Voluntary retained earnings available	231'863'457
Proposed Dividend *)	-231'600'000
Voluntary Retained earnings to be carried forward *)	263'457

*) The dividend payment shall be EUR 193'000'000 and the difference between EUR 193'000'000 paid and translated with the exchange rate at the time of the dividend payment and CHF 231'600'000 shall be allocated to the retained earnings to be carried forward.

Two handwritten signatures in blue ink. The first is a stylized signature, and the second is a more legible signature that appears to read 'P. G. G.'

Appendix 2 : Operational Risk – scenarios analysis

Given its specific activity and organization, EH Re AG does not bear many material operational risk categories. The following table shows the significant risk scenarios defined in the course of the scenarios analysis process (ScA), in order to calibrate the Operational Risk in the Solvency II Internal Model.

Risk category	Worst case scenario description and estimated impact
Suitability, Information Disclosure and Fiduciary Duty	In case of a breach of confidentiality related to the reinsurance treaties, the shareholders of ceding companies could sue EH, resulting in a settlement or in contractual penalties. The estimated impact of this scenario would be CHF 120.000.
Improper Business or Market Practices	Several legal risks exist, that could be due to inadequate legal terms that does not fulfil the external (legal) requirements due to changes in laws and regulations. The estimated impact of this scenario would be CHF 350.000.
Trade Counterparties	A worst case scenario could be a rejection of claim by an external reinsurer due to an incomplete or inaccurate reinsurance contract. The failure of reinsurance coverage could be because of errors, omissions or other inadequacies in relation to the company's documentation and contracts, resulting in losses or legal costs. The estimated impact of this scenario would be CHF 600.000.
Human Resources Management	A worst case scenario could be EH Re AG becoming unable to maintain operating capacity or service quality due to departure of key persons at key positions or a significant portion of key teams. Staff may not be replaced within a reasonable timeframe; remaining staff unable or not qualified to assume all tasks leading to a loss. The estimated impact of this scenario would be CHF 230.000.
Monitoring and Reporting	In case of inaccurate or out of due time SST report, the FINMA might require to have it done by an external consulting firm which would have not been budgeted. The estimated impact of this scenario would be CHF 120.000.
Theft and Fraud (External Fraud)	A worst case scenario could be an organized scam, known as "CEO impersonation fraud". Fraudster pretending to be the CEO of EH orders, to an employee using fake email or phone call, an international transfer of money into a specific bank account located outside the country. The estimated impact of this scenario would be CHF 300.000.

Appendix 3 : Quantitative templates

Financial situation report: quantitative template "Market-consistent Balance Sheet Solo"		Currency: CHF or currency for SST reporting Amounts stated in millions		
		Ref. date previous period	Adjustments previous period	Ref. date reporting year
Market-consistent value of investments	Real estate	22,7	0	22,7
	Participations	145,5	0	153,7
	Fixed-income securities	1581,5	0	1410,1
	Loans	37,3	0	36,0
	Mortgages	0,0	0	0,0
	Equities	75,9	0	75,8
	Other investments	245,1	0	287,1
	Collective investment schemes	235,5	0	275,6
	Alternative investments	9,6	0	11,6
	Structured products	0,0	0	0,0
	Other investments	0,0	0	0,0
	Total investments	2108,1	0	1985,4
Market-consistent value of other assets	Financial investments from unit-linked life insurance	0,0	0	0,0
	Receivables from derivative financial instruments	0,0	0	0,0
	Deposits made under assumed reinsurance contracts	19,4	0	23,1
	Cash and cash equivalents	12,1	0	20,9
	Reinsurers' share of best estimate of provisions for insurance liabilities	580,1	0	625,2
	Direct insurance: life insurance business (excluding unit linked life insurance)	0,0	0	0,0
	Reinsurance: life insurance business (excluding unit linked life insurance)	0,0	0	0,0
	Direct insurance: non-life insurance business	0,0	0	0,0
	Direct insurance: health insurance business	0,0	0	0,0
	Reinsurance: non-life insurance business	580,1	0	625,2
	Reinsurance: health insurance business	0,0	0	0,0
	Direct insurance: other business	0,0	0	0,0
	Reinsurance: other business	0,0	0	0,0
	Direct insurance: unit-linked life insurance business	0,0	0	0,0
	Reinsurance: unit-linked life insurance business	0,0	0	0,0
	Fixed assets	0,0	0	0,0
	Deferred acquisition costs	0,0	0	0,0
	Intangible assets	0,0	0	0,1
	Receivables from insurance business	297,7	0	311,4
	Other receivables	4,7	0	10,3
Other assets	0,0	0	0,0	
Unpaid share capital	0,0	0	0,0	
Accrued assets	14,9	0	12,0	
Total other assets	928,8	0	1003,1	
Total market-consistent value of assets	Total market-consistent value of assets	3036,9	0	2988,5
BEL: Best estimate of liabilities (including unit linked life insurance)	Best estimate of provisions for insurance liabilities	1485,7	0	1506,3
	Direct insurance: life insurance business (excluding unit linked life insurance)	0,0	0	0,0
	Reinsurance: life insurance business (excluding unit linked life insurance)	0,0	0	0,0
	Direct insurance: non-life insurance business	0,0	0	0,0
	Direct insurance: health insurance business	0,0	0	0,0
	Reinsurance: non-life insurance business	1485,7	0	1506,3
	Reinsurance: health insurance business	0,0	0	0,0
	Direct insurance: other business	0,0	0	0,0
	Reinsurance: other business	0,0	0	0,0
	Best estimate of provisions for unit-linked life insurance liabilities	0,0	0	0,0
	Direct insurance: unit-linked life insurance business	0,0	0	0,0
Reinsurance: unit-linked life insurance business	0,0	0	0,0	
Market-consistent value of other liabilities	Non-technical provisions	0,9	0	0,3
	Interest-bearing liabilities	0,0	0	0,0
	Liabilities from derivative financial instruments	0,0	0	0,0
	Deposits retained on ceded reinsurance	0,0	0	0,0
	Liabilities from insurance business	179,5	0	172,5
	Other liabilities	0,7	0	1,6
	Accrued liabilities	17,5	0	30,4
Subordinated debts	0,0	0	0,0	
Total BEL plus market- consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	1684,3	0	1711,1
Market-consistent value of assets minus total from BEL plus market- consistent value of other liabilities		1352,7	0	1277,4

Financial situation report: quantitative template
"Solvency Solo"

Currency: CHF or
 currency for SST
 reporting
 Amounts stated in
 millions

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in CHF millions	in CHF millions	in CHF millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market- consistent value of other liabilities	1 352,7		1 277,4
	Deductions	-168,8		-209,9
	Core capital	1 183,8		1 067,5
	Supplementary capital	-		-
	RBC	1 183,8		1 067,5

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in CHF millions	in CHF millions	in CHF millions
Derivation of target capital	Underwriting risk	615,9		576,5
	Market risk	191,3		189,4
	Diversification effects	-25,9		-25,3
	Credit risk	74,8		74,3
	Risk margin and other effects on target capital	-164,9		-185,6
	Target capital	691,1		629,3

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in %	in %	in %
SST ratio		175%		173%

**Financial situation report: quantitative template
"Performance Solo Reinsurance"**

Currency: CHF or annual report currency

Amounts stated in millions

	Total		Miscellaneous	
	Previous year	Reporting year	Previous year	Reporting year
1 Gross premiums	1 926,9	1 772,9	1 926,9	1 772,9
2 Reinsurers' share of gross premiums	-741,7	-712,3	-741,7	-712,3
3 Premiums for own account (1 + 2)	1 185,2	1 060,6	1 185,2	1 060,6
4 Change in unearned premium reserves	-23,6	-13,0	-23,6	-13,0
5 Reinsurers' share of change in unearned premium reserves	14,8	6,6	14,8	6,6
6 Premiums earned for own account (3 + 4 + 5)	1 176,3	1 054,3	1 176,3	1 054,3
7 Other income from insurance business	1,1	1,0	1,1	1,0
8 Total income from underwriting business (6 + 7)	1 177,4	1 055,3	1 177,4	1 055,3
9 Payments for insurance claims (gross)	-786,2	-836,9	-786,2	-836,9
10 Reinsurers' share of payments for insurance claims	304,3	326,9	304,3	326,9
11 Change in technical provisions	-13,3	-37,3	-13,3	-37,3
12 Reinsurers' share of change in technical provisions	-63,5	52,5	-63,5	52,5
13 Change in technical provisions for unit-linked life insurance	-	-	-	-
14 Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)	-558,7	-494,8	-558,7	-494,8
15 Acquisition and administration expenses	-676,3	-621,2	-676,3	-621,2
16 Reinsurers' share of acquisition and administration expenses	291,0	266,2	291,0	266,2
17 Acquisition and administration expenses for own account (15 + 16)	-385,2	-355,0	-385,2	-355,0
18 Other underwriting expenses for own account	-	-	-	-
19 Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)	-944,0	-849,8	-944,0	-849,8
20 Investment income	30,4	42,0		
21 Investment expenses	-19,4	-6,5		
22 Net investment income (20 + 21)	10,9	35,5		
23 Capital and interest income from unit-linked life insurance	-	-		
24 Other financial income	10,0	12,9		
25 Other financial expenses	-13,6	-12,1		
26 Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)	241,2	241,7		
27 Interest expenses for interest-bearing liabilities	-0,6	-0,6		
28 Other income	-	-		
29 Other expenses	-	-		
30 Extraordinary income/expenses	-	-		
31 Profit / loss before taxes (26 + 27 + 28 + 29 + 30)	240,6	241,1		
32 Direct taxes	-24,1	-28,8		
33 Profit / loss (31 + 32)	216,5	212,4		

Appendix 4 : Reputational risk management - details

Reputational Risk matrix

The Reputational Risk Matrix provides a methodology to assess potential stakeholder impacts in the event a reputational risk becomes publicly known and thereby becomes a reputational issue.

When completing the assessment a 1-5 rating should be applied to each dimension of the matrix (investors, customers...). After consideration of the ratings for each dimension, professional judgement should be applied to determine a single overall rating of the risk. If the overall is "3" or higher the reputational risk must be referred to Group Risk.

Rating		Stakeholder awareness	Criteria to assess/ categorize impact on single stakeholder groups					
			Investors	Customers	NGOs	Business partners	Regulators	Staff
1	Very Low	<ul style="list-style-type: none"> No significant impact on any group of stakeholders 	<ul style="list-style-type: none"> Low level local or special media awareness (incl. limited web) No change in analysts' recommendations 	<ul style="list-style-type: none"> Low level local or special media awareness (incl. limited web) No important customer/significant number of customers at risk 	<ul style="list-style-type: none"> Little negative attention by minor/regional NGOs 	<ul style="list-style-type: none"> Low level local or special (incl. limited web) media awareness No impact on attractiveness of EH for business partners 	<ul style="list-style-type: none"> Minor nonpublic criticism by regulator or industry body 	<ul style="list-style-type: none"> No impact on trust/motivation of employees
2	Low	<ul style="list-style-type: none"> Small number of people/no important group affected 	<ul style="list-style-type: none"> National or special media awareness No change in analysts' recommendations 	<ul style="list-style-type: none"> Regional or special (incl. broader web) media awareness/impact on minor customer groups Marginal impact on product quality Customers become aware of problem, but only small number of existing/new customers at risk 	<ul style="list-style-type: none"> Campaign or heightened attention by minor/regional NGOs 	<ul style="list-style-type: none"> Marginal impact on attractiveness of EH for business partners 	<ul style="list-style-type: none"> Strong nonpublic criticism by regulator or industry body 	<ul style="list-style-type: none"> Moderate negative impact on trust/motivation of certain groups of employees
3	Medium	<ul style="list-style-type: none"> Larger number of people/small number of important groups affected 	<ul style="list-style-type: none"> Long-term national/short term international media awareness Critical articles in national financial press No change in analysts' recommendations 	<ul style="list-style-type: none"> Long-term national/short term international media awareness Topic-related impact on sensitive customer groups Some impact on product quality Risk of significant lapses/loss of targeted new customers, as significant impact on customers 	<ul style="list-style-type: none"> Some negative attention by international and highly influential NGOs 	<ul style="list-style-type: none"> Long-term national/short-term international media awareness Topic related impact on sensitive business partners Some impact on attractiveness of EH for business partners 	<ul style="list-style-type: none"> Public criticism by regulator or industry body 	<ul style="list-style-type: none"> Strong topic related impact on trust/motivation of some sensitive staff

Rating		Stakeholder awareness	Criteria to assess/ categorize impact on single stakeholder groups					
			Investors	Customers	NGOs	Business partners	Regulators	Staff
4	High	<ul style="list-style-type: none"> Majority of people/significant number of important groups affected 	<ul style="list-style-type: none"> Financial results are adversely affected by reputational event Critical articles in international financial press High short-term national/international media awareness (cover stories) A few analysts downgrade their recommendations. EH is removed from portfolios/investment universe by some specialized ESG investors 	<ul style="list-style-type: none"> Challenge on EH brand/"Trust" High short-term national/international media awareness (cover stories) High impact on product quality Risk of large number of lapses / huge loss of targeted new customers 	<ul style="list-style-type: none"> Campaign or heightened attention by a single international and highly influential NGO. 	<ul style="list-style-type: none"> Significant loss of attractiveness of EH for major business partners 	<ul style="list-style-type: none"> Low-scale regulatory action 	<ul style="list-style-type: none"> Serious challenge to trust and motivation of majority of mid management and staff
5	Very High	<ul style="list-style-type: none"> (Nearly) all people/most important groups affected 	<ul style="list-style-type: none"> Repeated, very critical articles in international financial press High long-term national/international media awareness (cover stories) Many analysts reduce target prices and downgrade their recommendations EH is removed from portfolios/investment universe by some important institutional investors 	<ul style="list-style-type: none"> High long-term national/international media awareness (cover stories) Very high impact on product quality Huge loss of "Trust" in EH products across all important customer groups Risk of very large number of lapses / very huge loss of targeted new customers 	<ul style="list-style-type: none"> Campaign or heightened attention by a coalition of international and highly influential NGOs. 	<ul style="list-style-type: none"> Significant loss of attractiveness of EH for a significant number of business partners 	<ul style="list-style-type: none"> High-scale Regulatory action Government action 	<ul style="list-style-type: none"> Huge loss in confidence by mid management and staff

Sensitive business guidelines

The corresponding Sensitive Business Guideline must be completed for any business transactions (with insured companies) in one of the following sensitive business areas or sensitive countries.

Sensitive business areas

<p><u>Environmental areas</u></p> <p><u>1. Mining</u></p> <p><u>2. Oil & gas</u></p> <p><u>3. Nuclear energy</u></p> <p><u>4. Hydro-electric power</u></p> <p><u>5. Agriculture</u></p> <p><u>5.1 Agricultural commodity investments</u></p> <p><u>5.2 Animal welfare</u></p> <p><u>6. Large-scale infrastructure</u></p>
<p><u>Social areas</u></p> <p><u>7. Human rights</u></p> <p><u>8. Health care</u></p> <p><u>8.1 Clinical trials</u></p> <p><u>8.2 Animal testing</u></p> <p><u>9. Sex industry</u></p> <p><u>10. Betting & gambling</u></p>
<p><u>Governance areas</u></p> <p><u>11. Defense</u></p> <p><u>11.1 Banned weapons</u></p> <p><u>11.2 Transport of weapons to sensitive / high-tension countries</u></p> <p><u>12. Sanctions-related</u></p> <p><u>13. Fiscal / tax related</u></p>

Where the business being considered relates to a single project/risk/site/transaction, the ‘Single Site’ section of the Sensitive Business Guideline must be used. Where the business being assessed relates to multiple sites or wide geographic areas, the ‘Multiple Sites or Territories’ section must be used.

Where multiple sensitive business areas apply to a client, project or investment it is only necessary to complete a single Sensitive Business Guideline according to the most significant business exposure present. The completion of additional Sensitive Business Guidelines under such circumstances is at the discretion of the first line of defense.

Appendix 5 : Glossary

Terms / Abbreviations	Description
AC	Available Capital
AEP/AER	Attritional Events Premium/Reserve Risk
ARC	Audit, Risk & Compliance Committee
BE	Best Estimate
BoD	Board of Directors
BoM	Board of Management
BREXIT	Withdrawal of the United Kingdom from the European Union
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CFAO	Chief Financial and Administrative Officer
CHF	Swiss franc
CoViD-19	Corona Virus Disease 2019
CRisP	Credit Risk Platform
CRO	Chief Risk Officer
CUO	Chief Underwriting Officer
CUW	Commercial Underwriting
CY	Current Year
DTT	Deficiency tracking Tool
EBNR	Earned But Not Reported
EH	Euler Hermes
EH Group	Euler Hermes Group
EH NAM	Euler Hermes North America
EH Re AG	Euler Hermes Reinsurance AG
EH Ré SA	Euler Hermes Reinsurance SA
EH SA	Euler Hermes SA
EoY	End of Year
ESG	Environmental, Social and Governance
EUR	Euro
FCR	Financial Condition Report
FiCo	Financial Committee
FINMA	Swiss Financial Market Supervisory Authority
FRSI	Reinsurance Tool
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles
GBP	British Pound sterling
ICOFR	Internal Control over Financial Reporting
IE1/IE2	Individual Events 1/2
IRCS	Integrated Risk and Control System

Terms / Abbreviations	Description
IT	Information Technology
LE	Legal Entity
LoB	Line of Business
MCBS	Market Consistent Balance Sheet
MVM	Market Value Margin
OREC	Operational Risk Event Capture
ORM	Operational Risk Management
ORSA	Own Risk and Solvency Assessment
P&C	Property & Casualty
PRM	Project Risk Management
PY	Prior Year
QS	Quota Share
RBC	Risk Bearing Capital
RCSA	Risk & Control Self-Assessment
RiCo	Risk Committee
RM	Risk Margin
RoRC	Return on Risk Capital
RPF	Risk Policy Framework
S2	Solvency 2
S&P	Standard & Poor's
SCR	Solvency Capital Requirement
SAA	Strategic Asset Allocation
ScA	Scenario Analysis
SLA	Service Level Agreement
SST	Swiss Solvency Test
Stand Re	Standard formula to calculate insurance risk for reinsurance companies
TC	Target Capital
TCI	Trade Credit Insurance
TCU	Transactional Cover Unit
TRA	Top Risk Assessment
USD	United States Dollar
UW	Underwriting
VaR	Value at Risk
XoL	Excess of Loss