Euler Hermes SA

Solvency and Financial Condition Report (SFCR)

Fiscal Year 2019

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

Contents

Summary

Business and performance (A)

EH SA is an insurance company based in Brussels, Belgium that is 100% owned by Euler Hermes Group (EH Group). EH SA's main SII line of business (LoB) is credit and suretyship insurance, which represents over 93.5% of earned premium in 2019.

EH SA operates 20 branches and has 45 subsidiaries worldwide. The material geographical regions are the DACH region (Germany (DE), Austria and Switzerland), the France region, the Northern region, the Mediterranean countries, Middle East and Africa region (MMEA) and the Asia and Pacific region (APAC).

The coronavirus pandemic is currently affecting all aspects of our personal and professional lives, the health of the world's population, global economic performance and the financial markets. Despite all these uncertainties, EH SA 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 SA operations have now switched to home working – and this has been achieved almost unnoticed. By doing so, EH SA has ensured its employees are safe and is also prepared to ensure work can continue even if the restrictions on public life are tightened.

Moreover, several significant events occurred in 2019 for EH SA:

- Euler Hermes has launched its open data portal, granting public access to millions of exclusive data.
- EH SA has acquired Euler Hermes World Agency from EH Group SAS.
- Creation of a new representation office in Shanghai.

In 2019 EH SA's turnover amounted to EUR 1,836mn, up by 6.1% compared to 2018, driven by an improved commercial performance on both new business and retention and by growth in policyholders' turnover.

Claims costs were at EUR 927mn, up by 29% compared to last year. This evolution is the combination of a higher cost of claims on current attachment year, offset by releases from previous attachment years.

Consequently, technical result decreased by 18.7% compared to 2018, amounting to EUR 73.8mn in 2019.

The investment strategy was marked in 2019 by an increase of the current income from equity explained by higher dividend received and an improvement in the net exchange result (FX). As a result, the total investment income stood at EUR 69mn in 2019 compared to EUR 42mn previous year.

System of governance (B)

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

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

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

The Group Risk function is responsible, among other things, for assessing risks and monitoring limits and risk accumulation. This also includes the ongoing assessment of risks resulting from pandemics such as COVID-19. In order to assess current developments with potentially significant effects on EH SA, such as COVID-19, it is particularly important to conduct specific analyses.

The company's Own Risk and Solvency Assessment (ORSA) is a comprehensive evaluation of all risks of the business. In addition to the regular annual ORSA of EH SA, ad-hoc ORSA may be required if predefined triggers are met. A pandemic can, as in the case of COVID-19, trigger an ad-hoc ORSA if the Solvency II capital ratio in the worst stress scenario analysed unexpectedly falls below the threshold for countermeasures and unexpectedly falls by more than a fixed percentage compared with the previous quarter, or if it leads to an extraordinary change in the risk appetite or reinsurance strategy. The decision on the implementation of an ad-hoc ORSA will be decided internally once all the specific assessment and impact of COVID-19 are available.

In general, external events have no impact on the governance system of EH SA. A review is currently underway to determine whether the COVID-19 pandemic might require governance adjustments during its course.

Risk profile (C)

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

This section provides an overview of the risk categories contributing to our Solvency Capital Requirement (SCR) of EUR 506mn.

The impact of COVID-19 on risk capital is being assessed.

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

Valuation for solvency purposes (D)

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

Following a guidance issued by BaFin (German financial regulator which supervises Allianz Group) to clarify the treatment of receivables and payables in the MVBS and QRT reporting and in line with the respective EIOPA guidance, only overdue receivables and payables are presented under "Insurance and intermediaries receivables/payables" and "Reinsurance receivables/payables" as from now. All other cash flows are included in the technical provisions. Amounts are past due when the payment has not been made as of its due date.

Total assets at the end of 2019 amounted to EUR 3,553.6mn on an MVBS basis. Assets have been invested in alignment with the prudent person principle.

Total liabilities at the end of 2019 amounted to EUR 2,307.6mn on a MVBS basis, of which EUR 1,334.8mn of Technical Provisions (TP). The Volatility Adjustment (VA) impact is negligible with only -0.12% deviation between the discounted reserves with VA and without VA.

Capital management (E)

EH SA own funds are exclusively composed of basic own funds. The SII own funds are composed by 98.9% of Tier 1 unrestricted. The rest of the own funds is classified as Tier 3.

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

The Minimum Capital Requirement (MCR) ratio stands at 753% and the Solvency Capital Requirement (SCR) ratio at 240.2%. EH SA is not foreseeing any breach of its SCR or MCR. This statement also applies in the context of the COVID-19 pandemic. The risks associated with the further course of the COVID-19 pandemic are assessed on the basis of specific analyses. No results are available at present.

A. Business and performance

A.1. Business

A.1.1. Legal entity, auditor and supervisor

A.1.1.1. Name and legal form

Name and legal form	Euler Hermes SA
Address	Avenue des arts 56, 1000 Brussels, Belgium
Website	www.eulerhermes.com

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

A.1.1.2. Supervisor

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

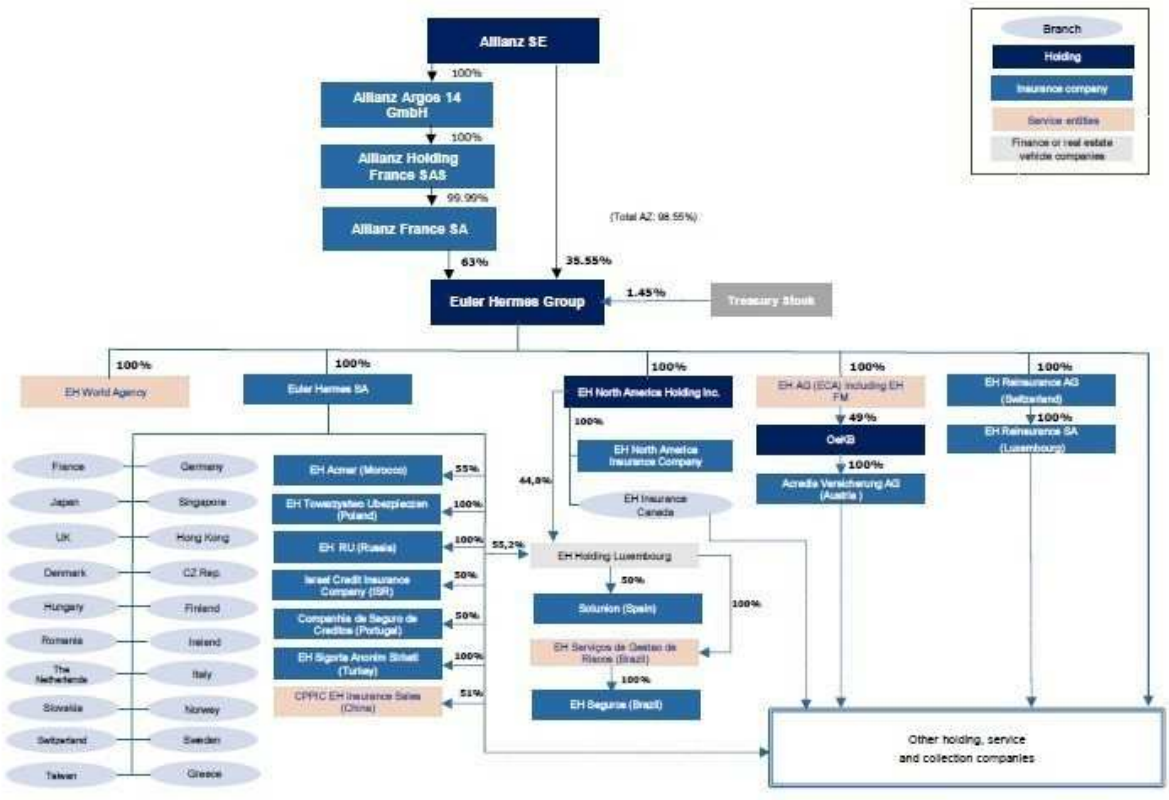
A.1.2. Auditor

Name	PwC
Address	Brussels National Airport 1K, 1930 Zaventem

A.1.3. Group structure and qualified holdings

EH SA, located in Belgium, is a part of EH group, located in France. Below is a simplified group structure chart for EH SA as of 31.12.2019, which also details the percentage ownership and legal links to its parent entities and its material related undertakings.

Figure 1: EH Group simplified group structure as of 31.12.2019



At the end of 2019, EH SA number of shares is 2,925,155 of which 78,340 own shares. Remaining shares are hold by EH Group.

A.1.4. Material lines of business and geographical areas

A.1.4.1. Geographical areas

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

EH SA additionally has 45 subsidiaries worldwide including numerous different service companies as well as seven insurance legal entities (among which EH Poland which do their own reporting).

A.1.4.2. Lines of Business

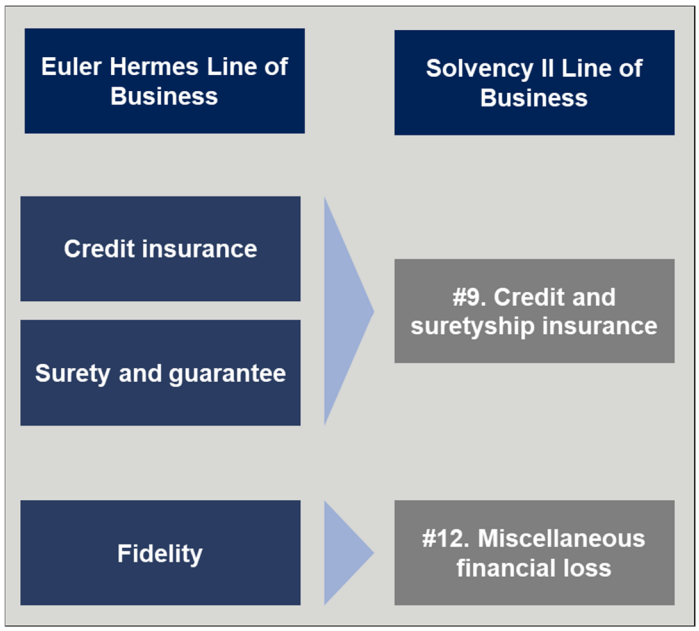
EH SA has three main LoBs: Credit Insurance, Surety and guarantee business and Fidelity.

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

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

The credit and suretyship insurance LoB is considered to be the only material LoB as it generates over 93.5% of EH SA earned premium.

Figure 2: LoBs within EH SA



A.1.5. Significant and subsequent events

The coronavirus pandemic is currently affecting all aspects of our personal and professional lives, the health of the world's population, global economic performance and the financial markets. Despite all these uncertainties, EH SA is 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 SA operations have now switched to home working – and this has been achieved almost unnoticed. By doing so, EH SA has ensured its employees are safe and is also prepared to ensure work can continue even if the restrictions on public life are tightened.

Moreover, during year 2019, the following events relating to EH SA occurred:

Euler Hermes has launched its open data portal, granting public access to millions of exclusive data:

With this pioneering initiative, Euler Hermes' goal is to contribute to the culture and practice of opening data access in the corporate world. Euler Hermes has released its open data platform (opendata.eulerhermes.com) for anyone to access, use and share its valuable data on international B2B trade and is committed to expanding it based on public request.

Data has always been at the core of Euler Hermes' credit risk underwriting. It represents a powerful tool helping clients select the right prospects and do business with confidence. In recent years, Euler Hermes studied the development of open data portals, which often took the shape of government-led initiatives, for transparency or compliance purposes. As a key player in data intelligence, Euler Hermes seeks to set an example in the global data community by sharing its unique data on international B2B trade.

A platform that helps users make sense of international trade data

This public online data platform gives free access to a first dataset of around 1,800,000 data points collected by Euler Hermes over a three-year period (2016-2017-2018). Euler Hermes' open data portal meets the highest standards: it is available via Application Programming Interface (API) or on the web with various options for manual processing and data vizualisation.

The Euler Hermes portal shares anonymized data both by country and by trade sector. It includes valuable insights such as the impact of a company's country of incorporation on the likelihood to obtain payment: for example, companies legally registered in Russia and exporting to China will be able to compare how likely they are to get paid compared to firms also exporting to China but registered in Germany.

Tighter collaboration within the corporate world and beyond

From the early stages of the project, Euler Hermes sought to build bridges within and beyond the corporate world. The company collaborated with Professor Christophe Pérignon, Head of Research at the HEC Paris Business School to identify relevant data for academics, data scientists and economists.

By sharing their data with a larger audience, corporations like Euler Hermes can help drive the creation of innovative businesses and services. "Our goal in making the unique Euler Hermes data available to all is to create a community around international B2B trade data. We want to turn this data into action and help solve business challenges across sectors. Ultimately, we hope to set an example and encourage other companies to open data to better serve society", explains Jennifer Baert, Global Head of Information & Credit Risk at Euler Hermes.

Opening a data portal is a first step towards creating a culture of data openness in the corporate world and Euler Hermes is hoping other companies will soon follow its example. In the meantime, Euler Hermes will seek ways to increase access to its data and help people better understand companies' payment practices as well as how they trade and buy goods or services.

Acquisition of Euler Hermes World Agency by EH SA :

The entity Euler Hermes World Agency, owned by Euler Hermes Group, was purchased by Euler Hermes SA France and merged into Euler Hermes SA France as at April 1st 2019.

Creation of a new representation office in Shanghai :

Euler Hermes SA Shanghai Representative Office, was founded and was included for the first time in the consolidated financial statements during the first quarter of 2019.

A.2. Underwriting Performance

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

A.2.1. Aggregated underwriting performance

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

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

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

Service revenues consist mainly of two types of service fees:

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

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

Figure 3: EH SA aggregated underwriting performance (IFRS)

In EUR mn	2019	2018	Δ	%
Turnover	1,836	1,730	106	6,1%
Claims costs	-927	-719	-208	29,0%
Gross operating expenses	-633	-581	-52	8,9%
Gross technical result	275	430	-155	-36,0%
Outward result	-202	-339	138	-40,6%
Technical result	74	91	-17	-18,7%

A.2.1.1. Turnover

In 2019, turnover amounted to EUR 1,836mn, increasing by 6.1% compared to 2018.

Gross earned premiums amounted to EUR 1,802mn in 2019, increasing by 6.3% compared to last year, driven by strong commercial performance (both on new business and retention) and by growth in policyholders' turnover, in a context of stabilizing prices which is an improvement compared to previous year. Premium growth is strongest in Asia (+16% at constant FX).

Service revenues are slightly decreasing in all regions except in Mediterranean countries.

A.2.1.2. Claims costs

Claims costs were at EUR 927mn, up by 29% compared to last year. This evolution is the combination of a higher cost of claims on current attachment year, offset by releases from previous attachment years.

Gross claims costs for the Current Year were at EUR 1,240mn, up 19.9% compared to last year due to several larges cases impacting mainly the credit and surety line of business and to the level of small to mid-size TCI claims in the first semester of 2019, mainly in France, Italy and in the UK. This negative impact has been offset by positive run-offs over the previous years, mainly driven by TCI as 2018 and 2017 attachment years showing much better development than anticipated.

Gross run-offs were still positive and amounted to EUR 312mn, compared to EUR 315mn last year.

A.2.1.3. Outward result

Net earned premiums increased in 2019 compared to 2018 for 4.1% due to an increasing cession rate and a stable commission rate.

The positive impact on outward result is mostly explained by the combination of a higher volume of premiums ceded to reinsurers and a higher cession rate on the claims explained by the Lob cession mix (the large cases are mostly on credit and surety which is ceded at a higher rate than TCI).

A.2.1.4. Gross operating expenses

Gross operating expenses increased by 8.9% compared to previous year.

The increase in costs was higher than the top line growth, driven by increases in the HR expenses, in the Information Technology (IT) charges and due to a tax risk accrual reversed in 2018.

Human Resource (HR) expenses were up at constant FX rates, impacted by general increase of wages, higher bonuses paid, the merger of the World Agency with the French branch and higher profit sharing level. In addition, 2018 was positively impacted by EH share-based compensation plans ("EH LTI") accrual release from 2017 incurred by Allianz simplified cash tender offer.

Brokerage costs increased slower than premiums growth due to a lower level of brokerage rate.

IT costs increased due to an increase in intragroup IT reinvoicing by EH Group to the insurance companies.

Other administration expenses were significantly and exceptionnally lower in 2018 due to a release of provision related to interests for late payments accrued in 2017 for EUR 9.8mn.

A.2.2. Underwriting performance by material line of business

Per section A.1.3 of this report, the only SII LoB considered material at EH SA is credit and suretyship insurance. The following table summarizes EH SA's underwriting performance for this LoB.

Figure 4: Credit and suretyship insurance underwriting performance (IFRS)

In EUR mn	2019	2018	Δ	%
Turnover	1,719	1,613	106	6.6%
Claims costs	-880	-656	-223	34.0%
Gross operating expenses	-601	-543	-58	10.7%
Gross technical result	239	414	-175	-42.2%
Outward result	-180	-333	152	-45.8%
Technical result	59	81	-23	-27.8%

As seen in the section above, the technical result at aggregated level is down by 18.7% compared to last year while the technical result of EH SA's credit and suretyship insurance is down by 27.8%. This is explained by a higher level of claims on the credit and suretyship insurance business as well as a significant increase of its gross operating expenses.

A.2.3. Underwriting performance by material geographical area

A.2.3.1. DACH region

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

Figure 5: DACH region underwriting performance (IFRS)

In EUR mn	2019	2018	Δ	%
Turnover	603	582	21	3.6%
Claims costs	-257	-211	-46	21.8%
Gross operating expenses	-191	-179	-12	6.8%
Gross technical result	154	191	-37	-19.3%
Outward result	-94	-119	25	-20.9%
Technical result	60	72	-12	-16.8%

In 2019, turnover increased by 3.6% compared to 2018. Gross earned premiums increased with benefits from TCI, Surety and Guarantee and Fidelity business. The increase of turnover was slightly offset by lower services revenues from TCI and Surety and Guarantee business.

Claims costs increased by 21.8% and reached EUR 251mn at the end of 2019, as the Region has been impacted by several large cases this year, mainly on Surety and Guarantee line of business.

Outward result amounted to EUR -94mn, compared to EUR -119mn last year. This is explained by the 2019 current year large cases, as Surety and Guarantee claims are ceded at a higher rate than TCI.

A.2.3.2. France region

Figure 6: France region underwriting performance (IFRS)

In EUR mn	2019	2018	Δ	%
Turnover	371	352	19	5.4%
Claims costs	-239	-155	-8	53.5%
Gross operating expenses	-111	-100	-11	10.9%
Gross technical result	21	96	0	-78.0%
Outward result	10	-63	72	-115.4%
Technical result	31	34	72	-8.8%

France recorded a 5.4% growth in turnover compared to last year driven by credit insurance, with major deals signed end of 2018 early 2019, and a significant growth of Surety and Guarantee business.

Claims costs stood at EUR 239mn, increasing by 53.5% compared to last year driven by several large cases, notably in Surety and Guaranty business.

Outward result amounted to EUR +9.6mn, significantly above last year level due to the large cases evoked above, leading to higher claims cessions rate (Surety and Guarantee ceded at a higher rate than TCI).

A.2.3.3. Northern region

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

Figure 7: Northern region underwriting performance (IFRS)

In EUR mn	2019	2018	Δ	%
Turnover	444	421	23	5.4%
Claims costs	-213	-172	-41	24.2%
Gross operating expenses	-166	-152	-14	9.1%
Gross technical result	65	98	-33	-33.4%
Outward result	-62	-94	32	-33.9%
Technical result	3	4	-1	-21.3%

Turnover was up by 5.4% compared to last year, also driven by an improved commercial performance as well as an increase in policyholders' turnover in credit insurance business, and an improved commercial performance in Surety and Guarantee business.

Claims costs reached EUR 213mn, up 24% compared to last year mainly explained by several large cases, in particular in Surety and Guarantee. This increase was partly offset by an increase of run-offs.

Outward result amounted to EUR -62mn compared to EUR -94mn in 2018, consequence here again of the large losses recorded in 2019, leading to higher claims cessions rate.

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

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

Figure 8: MMEA region underwriting performance (IFRS)

In EUR mn	2019	2018	Δ	%
Turnover	271	256	15	5.9%
Claims costs	-164	-121	-43	35.3%
Gross operating expenses	-95	-90	-5	5.3%
Gross technical result	12	45	-32	-72.8%
Outward result	-16	-45	29	-63.8%
Technical result	-4	-1	-3	378.5%

Turnover was at EUR 271mn, up 5.9% compared to 2018. This increase was mainly driven by higher opening commercial portfolio and better Organic growth in credit insurance business. Surety and Guarantee business also benefitted from a growth in premiums. Finally, services revenues increased due to higher monitoring fees in Italy and Turkey.

Claims costs reached EUR 164mn, up compared to 2018 (35%) due to one large claim in Surety and Guarantee business in 2019, while a significant release was recorded in 2018.

The Outward result was EUR -16mn compared to EUR -45mn last year, the region benefited from higher claims cessions rate (due to Surety and Gurantee cession rate level).

A.2.3.5. Asia and Pacific region (APAC)

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

Figure 9: APAC region underwriting performance (IFRS)

In EUR mn	2019	2018	Δ	%
Turnover	146	121	26	21.3%
Claims costs	-54	-59	5	-8.6%
Gross operating expenses	-69	-61	-8	13.7%
Gross technical result	23	0	22	
Outward result	-39	-19	-20	105.3%
Technical result	-16	-19	2	-13.2%

Turnover was at EUR 146mn, up 21% compared to last year. This increase was mainly driven by an improved retention and commercial performance on credit insurance business. Surety and Guarantee business also benefitted from a growth.

Claims costs amounted to EUR 54mn, significantly down by 8.6% compared to last year due to a releasse of IBNR on a Run Off large case.

Outward result stood at EUR -39mn, below prior year by EUR -20mn. This is explained by the lower claims cession rate.

A.3. Investment Performance

A.3.1. Income and expenses arising from investments

Figure 10: EH SA investment performance

In EUR mn	2019	2018	Δ	%
Current income from Equity	50	31	20	63,6%
Current income from Bond	22	21	1	7,3%
current income Real Estate 3rd party	0	0	0	1,4%
Current income from Cash and Other	0	0	0	34,1%
Current investment income	73	52	20	38,6%
FX result (net)	-2	-6	4	-71,6%
Investment Expenses	-4	-3	-1	35,9%
Interest Expenses	-1	-4	2	-65,8%
Trading - non operating (include LTI)	0	0	0	
Real. G/L, imp. (net) equities	0	0	0	
Real. G/L, imp. (net) fixd inc	2	2	0	-10,0%
Real. G/L, imp. (net) inv. Prop.	-	-		
Realized gains/losses	2	2	0	12,1%
Total investment income (incl. interest expenses)	69	42	27	63,7%

The increase of the current income from equity comes from higher dividend received, mainly related to EH Collection France (EUR 10mn in 2019 vs EUR 3.5mn in 2018) and EH Services BV (EUR 7.2mn vs EUR 0mn).

The net change in foreign currency in 2019 is mainly explained by the variations of the US dollar and Asian currencies against the euro. In 2018, it was explained mainly by the appreciation of the US dollar against the euro and the volatility of the Rouble.

The decrease of interest expenses is mainly explained by lower expenses for Tax on the excess of technical provisions in the French Branch linked to lower run-off in 2019.

A.3.2. Gains and losses recognized directly in equity

In 2019, IFRS shareholder equity was at EUR 1,104mn, decreasing by EUR 41mn compared to 2018 where it amounted to EUR 1,145mn. The evolution of the IFRS shareholder equity over the reporting period is mainly explained by:

- 2019 net income: EUR +108mn;
- 2019 dividend payment: EUR -160mn
    - of which payment of an exceptional dividend : EUR -80mn
- Currency translation adjustment: EUR +11mn;
- Variation of unrealized gains and losses: EUR +17mn;
- Changes in the measurement of pension plans: EUR -17mn.

A.3.3. Investments in securitization

The following table summarizes the details of EH SA's investments in securitization (MVBS) including a comparison of the exposure in those investments between Q4 2018 and Q4 2019.

Figure 11: Details of investments in securitization (MVBS)

In EUR mn	As of 31.12.2018		As of 31.12.2019	
	Exposure	Exposure as % of total financial assets	Exposure	Exposure as % of total financial assets
Asset-Backed Securities	5	0.3%	0	0.0%
Collateralized	73	3.7%	79	3.9%
Covered	378	19.0%	351	17.3%
Securitization	**456**	**22.9%**	**429**	**21.2%**

The rationale behind those investments is disclosed below:

- Covered bonds exposure has decreased due to the difficulty to source covered bond with positive yields in line with the target duration strategy.

- Collateralized exposure has been increased to take benefit from very good risk/return profile. EH SA will continue to diversify collateralized portfolio in the future;
- Asset-Backed Securities have been sold to focus on covered bonds investment and allow for an easier management;

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

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

A.4. Performance of other activities

EH SA has identified one source of material (using a threshold of EUR 1mn in order to determine materiality) income and expenses in 2019 outside of those from underwriting and investments regarding restructuring expenses. In 2019, restructuring incomes are recognized for an amount of EUR 1.9mn (IFRS and BeGAAP). In 2018, the amount recognized for restructuring expenses was EUR 3.2mn. The restructuring incomes in 2019 are explained by the release of the unused provisions in Northern Europe and Germany following the accomplishments of Alchemy and OneFinance restructuring projects. As a reminder, those projects were launched in 2017 and 2018. Alchemy consisted in further developing Competence Centers throughout EH Northern Europe in several areas (Policy Administration, Risk and Information, Claims and Collection and Finance). As a result, EH Northern Europe has reallocated part of the workforce in the Region towards its existing Competence Centers. The OneFinance project in Germany aimed to further centralize the accounting and treasury functions.

A.5. Any other information

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

B. System of governance

B.1. General information on the system of governance

B.1.1. Structure of the system of governance

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

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

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

B.1.1.1. Board of Directors

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

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

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

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

B.1.1.2. Management Committee

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

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

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

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

- The **Finance Committee (FiCo)** analyses EH SA and group's investments in light of the risk management policy;
- The **Risk Underwriting Committee** is responsible for establishing procedures, structures and systems for managing Credit Risk exposure within EH SA;
- The **Risk Committee (RiCo)** oversees the rules, procedures and actions taken to identify, evaluate and control current and future risk within EH SA to ensure Compliance with the Risk Strategy and Risk Appetite set by the MC;
- The **Loss Reserve Committee (LRC)** determines, in accordance with IFRS, the amount of claims reserves, recoveries and costs related to the management of claims;
- The **Marketing & Commercial Committee** is a platform for the exchange of best practices in sales, marketing and distribution across the group's regions and branches;
- The **Project Investment Committee** decides on EH SA investments in any project, IT-related or otherwise, with a value of more than 100K€ or that involves more than 100 working days;
- The **Compensation Committee**: without prejudice to the powers of the Nomination and Remuneration Committee, the Compensation Committee oversees decisions relating to the remuneration of employees of EH SA and its subsidiaries;
- The **Product Committee** evaluates each new product and approves its launch;
- The **Security Committee** (to be replaced by the **Protection and Resilience Committee** in 2020) monitors and controls all security and Business Continuity Management issues;
- The **Management Audit Committee** proceeds to a detailed review of the Internal Audits report and makes recommendations in respect of implementation decision and follow-up;
- The **Governance & Control Committee**'s purpose is to discuss and decide on questions in regard to EH SA overall governance and control framework;
- The **Innovation Committee**'s purpose is to oversee and manage the innovation portfolios.

B.1.1.3. Audit, Risk and Compliance Committee

The BoD decided to create one committee to take on the duties assigned to the RiCo and the Management Audit Committee as provided for by the said Law, namely the Audit, Risk and Compliance Committee. The tasks of the Audit, Risk and Compliance Committee are as follows:

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

  - Examining and monitoring the independence of the statutory auditor.
- Tasks related to risk management:
  - Monitoring the Risk Strategy;
  - Monitoring the functioning of the Risk Management function;
  - Monitoring the process of appointing independent valuers and the performance of their duties.
- Tasks related to compliance:
  - Monitoring the Compliance Strategy;
  - Maintaining an understanding of current laws and regulations concerning the corporate compliance program and integrity related standards;

  Coordinating its actions with the Chief Compliance Officer;

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

B.1.1.4. Nomination and Remuneration Committee

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

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

- Prepares discussions on remuneration, particularly remuneration that has an impact on EH SA risk and risk management and on which the BoD is called upon to decide;
- Provides direct oversight of the remuneration allocated to the Heads of independent key control functions.

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

B.1.1.5. Key functions

EH SA has the following Solvency II independent control functions:

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

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

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

Furthermore, EH SA considers that "legal" and "accounting and reporting" are of particular importance for its activities and organization. The Company opts to deem staff designated key functions of EH SA.

B.1.2. Remuneration policy

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

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

B.1.2.1.1. Remuneration of directors

The remuneration of directors includes the following components:

- Fixed compensation:
  - The non-executive directors and the chairman of the BoD are entitled to an annual compensation paid in the form of an attendance fee per meeting;

    - The executive directors are compensated on an overall basis by EH Group for all their mandates related to the group and receive no specific additional remuneration for their mandates as directors within EH SA.

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

B.1.2.1.2. Remuneration of the Management Committee members

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

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

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

B.1.2.1.3. Remuneration of other senior management

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

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

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

B.1.2.2. Assessment of Performance

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

B.1.2.2.1. Pension plan

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

B.2. Fit and Proper requirements

B.2.1. Description of requirements for Fit & Proper

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

B.2.1.1. Roles requiring regulatory Fit & Proper assessment

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

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

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

B.2.1.2. Details on Fit & Proper requirements

B.2.1.2.1. Details on Fitness requirements

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

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

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

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

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

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

Each Key Function holder must possess the Fitness required to fulfil the tasks assigned to him/her by the policy of the respective Key Function, if any, and applicable law. In cases where a Key Function is outsourced according to the EH SA outsourcing policy, the Fitness requirements for the person are identical to those applying to the respective Key Function holder himself/herself.

B.2.1.2.2. Details on Propriety requirements

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

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

- Any occupational prohibitions referred to in Article 41 of the SII regulation;
- Any conviction of a criminal offence, breaches of companies, insolvency and consumer protection laws;

- Any conviction of a relevant disciplinary or administrative offence;
- Any administrative sanctions for non-compliance with any financial services legislation and any current investigation or enforcement action by any regulatory or professional body;
- Any relevant inconsistency with regard to a candidate's education or professional experience; and
- Any further circumstance resulting in the risk of financial crime, non-Compliance with law or the jeopardizing of the sound and prudent management of EH SA business.

B.2.2. Description of processes and procedures in place

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

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

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

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

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

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

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

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

B.2.2.2. Processes for ensuring ongoing Fitness and Propriety

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

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

- Relevant breach of the EH SA Code of Conduct;
- Failure to submit required self-disclosure statements;
- Investigation or any other procedure possibly leading to a conviction of a criminal, disciplinary or administrative offence or to administrative sanctions for non-compliance with any financial services legislation; and
- Substantiated complaint within EH SA (e.g. whistle-blowing) or from supervisors.

B.2.2.3. Other processes

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

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

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

EH SA ensures that, on an on-going basis, relevant professional training is available to the Senior Management and Key Function holders.

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

B.3.1. Description of risk management system

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

The framework is implemented and conducted within the confines of a clearly defined risk strategy and risk appetite and periodically assessed for adequacy.

B.3.1.1. Risk strategy and objectives

EH SA's BoD establishes and adheres to a risk strategy and associated risk appetite, which is derived from, and consistent with, EH SA's business strategy. The risk strategy reflects the general approach towards the management of all material risks arising from the conduct of business and the pursuit of business objectives. The risk appetite elaborates on the risk strategy through the establishment of 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 appetite are reviewed at least once a year and monitored on a quarterly basis and, if deemed necessary, adjusted and communicated to all impacted parties.

B.3.1.2. Processes

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

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

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

To meet SII requirements in an efficient manner, EH SA has set in place target capitalization ratios and limits. In accordance with the standards and guidelines coming from EH Group, EH SA updated its capital management policy for the year 2018. The current capital management strategy, dividend policy and limits are defined as follows:

- EH SA targets to stay within the capital management range of the “Action Barrier” and the “Upper Bound” in the normal course of business;
- The bounds of the capital management range are defined in line with the capital management ratio as defined in the group Risk Appetite;
- In case of a breach of the capital management range in any of the two dimensions, the MC will evaluate the situation in their next regular Board meeting and evaluate any potential countermeasures to get back within the capital management range. In particular, any capital held in excess of the target management ratio is deemed excess capital. This excess capital is made available to EH Group as early as possible over the plan horizon;
- If EH SA drops below the alert barrier, the MC is expected to establish a contingency plan in line with the Group to conserve its solvency within due time;
- If EH SA falls below the action barrier during the course of the year but stays above the minimum capital ratio, it is still expected to pay out the planned dividend while any adjustments will be considered to the planned dividends over the remaining plan horizon;
- If EH SA falls below the minimum capital ratio the MC will take measures to re-establish the minimum capital ratios in due time.

B.3.1.3. Risk Policy Framework

The RPF is a set of policies, standards and guidelines overarching the Risk Management System of EH SA. It defines all the risk-related principles to embed in the different processes and describes the core elements of the Enterprise Risk Management framework as minimum requirements to apply.

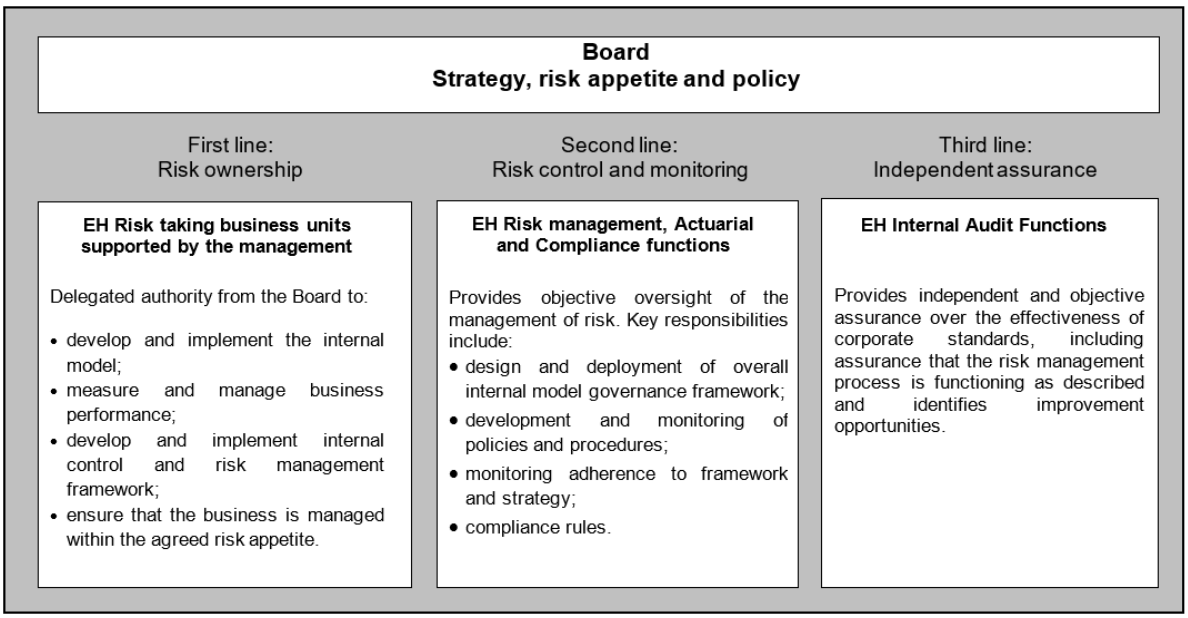
The capacity of having this framework being applied and respected within EH SA represents a risk foundation. Hence, it is properly monitored by the Risk Management team.

The objective is to ensure an ongoing update and validation of the RPF by performing an annual review of the implementation of the policies, standards and guidelines of the framework.

B.3.1.4. Three Lines of Defence

EH SA adopted the "three lines of defence" model for risk governance, with clear responsibilities between the different organisational functions. It defines as first line of defence Operating Business, as second line control functions, e.g., Actuarial, Compliance, Legal and Risk Management, and as third line internal and external audit. This model is described hereafter:

Figure 12: "Three lines of defence" model



B.3.2. Risk Management function

B.3.2.1. Duties of the Risk Management function

The Risk Management Function has the following duties:

- Providing a consistent framework for all risk-related activities in EH SA (Risk policies, standardized risk methods and models, EH SA risk strategy, limit systems, risk diagnostic reviews);

- Protecting the capital base of EH SA (New risks, RC situation, early warning for solvency and rating capital, comprehensive risk analyses/evaluations, concentration risk, risk mitigating measures, recommendations for vetoing line management decisions);
- Supporting the value creation in EH SA (Risk perspective for risk/return optimization, Risk and capital information for management dialogue, transaction or product analyses and reviews);
- External reporting on risk and capital issues;
- Monitoring of regulatory requirements for RC and solvency, like Solvency II, as well as requirements under financial conglomerates supervision;
- Ensuring the IM and its components are adequate to EH and managed in compliance with the model governance framework.

EH SA's Risk Management Function generates internal risk reports at both predefined regular intervals and on an ad hoc basis that contain relevant risk-related information in a clear and concise form. Internal risk reporting is supplemented by duties of disclosure concerning emerging risks relevant to external stakeholders or constituents (e.g. regulators, rating agencies, shareholders, society). Information comprising risk reports are primarily sourced by management information systems, which operate within internal control environments designed to ensure adequate data quality, in order to support complete, consistent and timely risk reporting and risk communication to all relevant levels of management.

Ad hoc reporting covers events, which are - besides regular reporting – unexpected in terms of size and impact and either contain significant changes to known risk issues or completely new or emerging risk issues that could lead to significant impacts. Impacts in this context include material quantitative impacts to profit & loss or market capitalisation business continuity (operations) or non-compliance with laws and regulations as well as material qualitative impacts.

B.3.2.2. Independence

As required by Solvency II, EH SA Risk Management function is an integral part of the "Three Lines of Defence" concept.

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

The Chief Risk Officer (CRO) is the key function holder operationally responsible for the Risk Management function. He reports hierarchally to the CEO and has a functional reporting line to the Chief Financial Officer (CFO). The CRO possesses the qualification, experience and knowledge required to manage the risks relative to the responsibilities of its role in alignment with the fit and proper standard.

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

The Risk Management Function has the right to communicate with any employee and obtain access to any information, records or data necessary to carry out its responsibilities, to the extent legally permitted. Notwithstanding, information access can be restricted to dedicated risk personnel contingent upon prior agreement with the CRO.

The Risk Management Function has intense interfaces and a close cooperation with other functions in order to implement effectively the Risk Management framework.

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

B.3.3. Governance of the Internal Model

B.3.3.1. Responsibilities

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

The **EH SA CRO** is responsible for ensuring compliance with the EH Group standards on model governance aligned with Allianz at the local level. Responsibilities of the EH SA CRO include:

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

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

- **Model Approvers** are responsible for:
    - Initial approval of the models they are responsible for;
    - Deciding on a remediation plan if the validation results for models they are responsible for indicate findings that have to be addressed.
- **Model Owners** are responsible for:
    - Ensuring the existence of adequate model documentation;
    - Developing model in accordance with the established design requirements;
    - Overseeing the implementation of model controls;
    - Carrying through activities to assess the appropriateness of the results produced by the model;
    - Assessing the data quality and define appropriate data update cycles;
    - Signing-off of expert judgment.
- **Independent Reviewers** may be independent internal or external parties and are responsible for independent validation of models and reporting of the results according to the specifications in the guideline for model validation.

- The EH SA **Model Governance Coordinator** supports the EH SA CRO by:
    - Gaining approval of the validation plan by the local RiCo;
    - Coordinating the Annual Model Validation plan within the relevant legal entity;
    - Collecting suitability assessment results from Model Owners and documenting these in the relevant template for EH SA;
    - Gathering independent validation results of local model components and documenting these in the local Annual Validation Report for EH SA;
    - Following-up the status of the local remediation plans and disclose a status of open and closed findings in the local Annual Validation Report;
    - Regularly communicating the status of local validation plan to the model governance coordinator at Group level;
    - Coordinating the execution of the Annual Model Validation Report.
- The **Actuarial Function** is involved in risk modelling topics affecting their area of expertise, including dependencies with other risks.

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

As EH SA core business is trade credit insurance & surety and that a specific IM has been developed dedicated to this risk, the following refers to the governance of this model.

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

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

If the requested scope of data requirements or data quality standards is not fulfilled in a certain delivery, EH SA CRO is in charge of initiating issue fixing and tracking.

A PAAC is organized every quarter with the Risk underwriting and finance teams in order to reinforce the expert judgment and validate the parameters.

The name of participants and the minutes of the committee must be addressed to EH Risk Management with the data input. These minutes must include a presentation of the parameters and the expert judgment used to define them so they can be used for the EH Group PAAC to justify the entity position.

B.3.3.3. Material changes to the Internal Model governance

There has been no material change to the model governance in 2018.

B.3.3.4. Description of the validation process

B.3.3.4.1. Validation plan

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

B.3.3.4.2. Validation results

Model validation results are summarized in technical model validation reports which contain findings and proposed recommendations to address model limitations. The reports are ultimately reviewed by the Model and Assumptions Approval Committee (MAAC) and signed-off by the MC.

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

B.3.3.4.3. Validation recommendations follow-up

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

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

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

B.3.3.4.4. Escalation Procedure

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

The escalation procedure starts with a notice of escalation submitted by the Model Owners to the Validation with which there is a disagreement, along with the necessary documents and the Group CRO as well as the Validation Coordinator are copied. The notice of escalation includes a concise summary of the concern/issue. The notice must be communicated as promptly as possible and substantiated with the necessary evidences against the validation outcome.

B.3.4. Description of ORSA process

The Own Risk and Solvency Assessment (ORSA) is a comprehensive assessment of all risks inherent to the business in order to determine whether current and future capital will be sufficient to ensure ongoing solvency against these risks. It goes beyond the determination of capital needs provided solely through application of risk capital models by additionally considering stress scenarios, model

limitations and other non-modelled risks and how these risks translate into capital needs or are otherwise mitigated.

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

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

This report includes the decisions of the MC and then is validated by the BoD of EH SA.

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

B.3.4.1. Macro process ORSA

Figure 13: ORSA Macro process

The ORSA Process is driven through five main steps:

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

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

B.3.4.2. ORSA governance

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

B.4. Internal control system

B.4.1.1. Internal control framework

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

In 2017, EH SA has set up a Governance and Control Committee in order to discuss and decide on questions in regard to the EH SA and Group's overall governance and control framework. It aims in particular at reinforcing the interaction and collaboration between Key Control Functions in relation to governance and control related topics.

The EH SA internal control system has the following objectives:

- To safeguard EH SA ability to operate as a going concern and the continuity of its business;
- To create a solid control environment, by ensuring that every member of personnel is aware of the importance of internal control and the role that they must play in the internal control system;

- To perform control procedures that are commensurate with the risk carried by EH SA's activities and processes;
- To provide relevant information to the management bodies as part of their decision-making processes;
- To ensure compliance with the applicable laws and regulations.

With respect to the areas of control, activities and reporting aspects, the controls are performed within EH SA in accordance with requirements regarding independence. They are incorporated into EH SA operational and organizational configuration and subject to continual review. When needed, internationally recognized control frameworks such as the COSO framework (the Committee of Sponsoring Organizations of the Treadway Commission's internal control - Integrated Framework) and the COBIT framework (Control Objectives for Information and Related Technologies) may be used.

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

B.4.1.2. General and specific control elements

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

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

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

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

- Monitoring of control systems.

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

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

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

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

- IT Controls;
- Controls over the Solvency Capital Requirement;
- Controls over the underwriting of insurance risks;
- Controls over investments.

B.5. Compliance Function

B5.1.Compliance tasks

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

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

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

B5.2 Independence of the compliance function

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

- The compliance function has own Solvecy II policy desctibing its formal status and standing within the EH SA’s organizational structure;

- The accredited Chief Compliance Officer reports hierarchically;
- Direct reporting lines are in place from the local compliance functions to the respective regional compliance funcions and to the Chief Compliance Officer.
- The outsourcing of the compliance function is prohibited and the integrity framework is set up in accordance with applicable laws and regulations.

B.6. Internal Audit Function

B.6.1. Internal audit activities and processes

The Internal audit team is responsible for examining and assessing the suitability and effectiveness of internal control, as well as the way in which designated tasks are carried out. In particular, they check:

- Compliance with processes and corresponding policies;
- Risk control;
- The reliability of financial information;
- The reliability of external reporting;
- The continuity and reliability of IT systems;
- The correct functioning of various services.

Audit work involves drawing up an audit plan, examining and evaluating the information available, reporting on the results, and following up on recommendations. The functioning of internal audit is detailed hereafter:

- Audit plan: the Internal Audit team draws up a five-year plan that factors in the level of risk inherent to the Company's activities.
- Examining and evaluating the information available: The Internal Audit team has access to all the Company's documents, files and information, as required for the fulfilment of its task.
- Audit planning memo: Each audit is planned in advance. Its objectives and the work required to achieve them are described in a document known as the audit-planning memo.
- Work program: This document provides a detailed description (tests and questionnaires) of the works to be carried out by the auditors.
- Work documents: The work carried out during the audit is documented.
- Reports: A written report is published as quickly as possible for each audit, and the draft version is discussed with the audited entity.
- Following up on recommendations: At the request of the Internal Audit team, the MC has approved a procedure that ensures that the recommendations made have been implemented within the time frames agreed with the audited entities when the report was written.
- Management of the Internal Audit team: The Head of Internal Audit draws up the program of audits to be carried out and oversees the Audit Function Managers and the auditors responsible for monitoring the regions.
- Reporting: The Internal Audit team keeps the MC regularly apprised of the situation and of its objectives.

EH SA's Head of Internal Audit meets weekly with the four Audit functional managers.

B.6.2. Independence and objectivity of the Internal Audit Function

B.6.2.1. Independence o the Internal Audit Function

The Internal Audit Function is common to the EH Group. The Internal Audit team is responsible for all the Euler Hermes Group entities.

The Company's Internal Audit function is one of the independent key control functions.

It is an independent function because it reports directly to the EH CEO and the Audit, Risk and Compliance Committee, as well as to Allianz Group Audit. No auditor holds an operational position.

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

B.6.2.2. Status of the Internal Audit Function

The auditors are hierarchically and organisationally separated from the operating activity they are responsible for auditing. They are chosen based on their audit skill set and their ability to gather, examine, evaluate and communicate information.

Every year, the Head of Internal Audit drafts a declaration of independence to certify that he/she carries out his/her activities with complete independence and reports exclusively and directly to the Chairman of the Company's Management Committee, rather than to any operational function.

The audit results are validated by the audited entities and sent to the Chairman of the Management Committee, the Head of the audited entity, the Internal Audit Committee and the Audit, Risk and Compliance Committee, which meets four times a year.

The audit activity is governed by an audit charter which is reviewed at least once a year. This charter and all material changes are subject to the approval by the BoD. The purpose of the charter is to ensure that the Allianz Group Audit Policy and the Standard Audit Manual, the organization and work of EH Internal Audit adhere to a consistent set of minimum rules and operating procedures so that the effectiveness of the controls necessary to achieve the EH SA goals is ensured.

B.7. Actuarial Function

B.7.1. Role of the Actuarial Function

B.7.1.1. Duties

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

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

B.7.1.2. Functioning

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

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

B.7.2. Status of the Actuarial Function

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

Every year, the Actuarial function is required to give its reasoned opinion on product profitability, TP, reinsurance and profit sharing. The Actuarial function issues judgements on the technical actuarial methods the Company uses when it launches a new product or modifies an existing one, where the expected profitability of said product is likely to be affected.

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

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

B.8. Outsourcing

B.8.1. Description of the outsourcing policy

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

In accordance with chapter 7 of the NBB Circular 2016_31 updated in September 2018, EH SA has developed its Global Outsourcing Policy (GOP).

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

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

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

B.9. Any other information

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

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

C. Risk profile

C.1. Underwriting Risk

C.1.1. Description of the measures used

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

C.1.2. Description of the risk exposure

EH SA's underwriting risk includes the following risks:

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

At the end of 2019, the capital requirement for non-life underwriting risk amounted to EUR 134mn before diversification.

The capital requirement for life underwriting risk amounted to EUR 34mn before diversification.

The capital requirement for business risk amounted to EUR 10mn before diversification.

C.1.3. Risk concentration

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

C.1.4. Risk mitigation

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

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

C.2. Market Risk

C.2.1. Description of the measures used

EH SA's market risk is measured and steered based on the Internal Model (IM). Further details on the methodologies used within the IM for Market Risk can be found in section E.4.2.1.1.

C.2.2. Description of the risk exposure

EH SA's market risk includes the following risks:

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

At the end of 2019, the capital requirement for market risk amounted to EUR 385mn before diversification.

C.2.3. Description of assets invested

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

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

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

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

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

The following principles apply:

- Prudent person principle: EH SA only invests in assets and instruments whose risks can be properly measured, managed and controlled, taking into account the assessment of its overall solvency needs. In particular, assets held to cover the TP are also invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities;
- Focus on liquid, high quality, low risk assets: The predominant portion of the portfolio is invested in cash and liquid, tradable, high quality securities, mainly developed market treasuries and government related bonds, covered bonds. Further diversification in credit investments (e.g. corporate bonds, asset backed securities /mortgage backed securities, emerging market bonds) are allowed within pre-defined risk limits. Main technical reserves are supported by investments in cash and fixed income securities. Parts of the reserves and the economic net asset value might be invested in equity and real estate within pre-defined risk limits;
- Asset Liability Management: The duration differences between assets and liabilities and the net foreign currency exposure are regularly monitored and appropriate actions and hedges are executed;
- Diversification: Diversification is a central part of the investment policy and is to be pursued with regards to the SAA, the geographical implementation, the number of counterparties;
- Avoiding investments that threaten EH SA's reputation.

C.2.4. Risk concentration

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

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

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

C.2.5. Risk mitigation

Market Risk mitigation is performed by applying investment strategies to mitigate high volatility assets as well as a regular monitoring of the investments and to ensure the diversification of the portfolio. These strategies are defined in order to maintain the risk appetite within the financial limits set in EH SA Risk Appetite which are related to the interest rate, the equity, the foreign exchange and the financial value at risk.

The SAA is a target asset allocation set yearly by the FiCo in order to ensure a balance between the assets yields and the related RC. Quarterly, FiCo reviews the SAA and ensures that the assets are within asset allocation limits so it reflects the Risk Appetite defined within EH SA. The FiCo also discusses every decision concerning investment strategy. This way EH SA can effectively monitor investment risks.

EH SA has also in place monthly monitoring by realizing monthly financial reporting and closing on investment performance.

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

As of 2019, no breach has been identified over the SAA and EH SA has limited positions on hedging instruments to protect against exchange rate fluctuations.

C.3. Credit Risk

C.3.1. Description of the measures used

EH SA's credit risk is measured and steered based on the Internal Model (IM). Further details on the methodologies used within the IM for Credit Risk can be found in section E.4.2.1.3.

C.3.2. Description of the risk exposure

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

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

- Counterparty risk: includes issuer risk and sovereign risk and is related to loans and structured transactions like Asset Backed Securities (ABS), Over The Counter (OTC) derivatives, reinsurance, credit insurance and financial guarantees;
- Credit insurance risk: the risk of losses on the insurance portfolio due to non-payment of invoices resulting from insolvency or protracted default of the buyer;
- Country risk (transfer risk): the risk that an obligor will be able to meet its cross-border payment obligations because capital transfer is prohibited or restricted (e.g. by a sovereign act), for instance by currency moratoria, freezing of money, repatriation of capital.

At the end of 2019, the capital requirement for credit risk amounted to EUR 247mn before diversification.

C.3.3. Risk concentration

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

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

C.3.4. Risk mitigation

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

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

C.4. Stress tests and scenario analysis

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

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

C.4.1. Standard financial stress scenarios

EH SA's solvency position is challenged on an annual basis against a set of different financial stress scenarios in line with the EIOPA recommendations. In 2019, the following scenario effects were analysed:

- Equity drop: -30% in market values of all equity investments;
- Interest rates up: +100 basis points (bps) in interest rate;

- Interest rates down: -100 bps in interest rate;
- Credit spread: +100 bps in credit spread;
- Combined scenario: -30% in market values of all equity investments and -100 bps interest rate.

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

C.4.2. Scenario analysis

To complete the analysis about the resilience of its solvency positions, EH SA has developed additional scenario analysis. Note that the scenario applicable to 2020 are run and approved during the half of the year and will be subsequently integrated into the ORSA report in June. Thus, analysis of solvency position included in this section is issued from scenario analysis performed as of Q4 2018.

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

- 2008/2009 financial crisis: the financial crisis is designed to be a recurrent scenario as it serves as a benchmark given its severity level;
- Nuclear scenario: this scenario is designed to capture the potential impact of a nuclear exposure in a nuclear plant in Asia;
- Trade war scenario: this scenario is designed considering an escalation in the trade war between US and China;
- Diesel gate scenario: this scenario is designed to capture the deteriorating impact of diesel gate on the automotive sector.

Under such scenarios, EH SA's solvency position at the end of 2018 would remain above regulatory requirements.

C.5. Liquidity Risk

C.5.1. Description of the measures used

Liquidity Risk is not measured and steered based on the Internal Model, but based on the projection of liquidity resources and needs over different time horizons and in both current and stressed market conditions.

C.5.2. Description of the risk exposure

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

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

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

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

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

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

As in 2018, liquidity risk is not a material risk in 2019 but it is part of EH SA's risk profile.

C.5.3. Risk concentration

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

C.5.4. Risk mitigation

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

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

In case of breach, depending on 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 SA prepares a remediation plan. The approval of the remediation plan is required. The approving function will depend on the size of the liquidity gap.

C.5.5. Expected Profits Included in Future Premiums

EH SA's Expected Profits Included in Future Premiums amounts to EUR 225.6mn.

C.5.6. Stress tests and scenario analysis

EH SA 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.

In this combined stress scenario, the liquidity ratio calculated at 4Q 2019 remains below the 80% alert level for the different time horizons, which shows that EH SA is able to maintain its liquidity within its Risk Appetite in an extreme stress situation thanks to the adequate liquidity of its assets.

C.6. Operational Risk

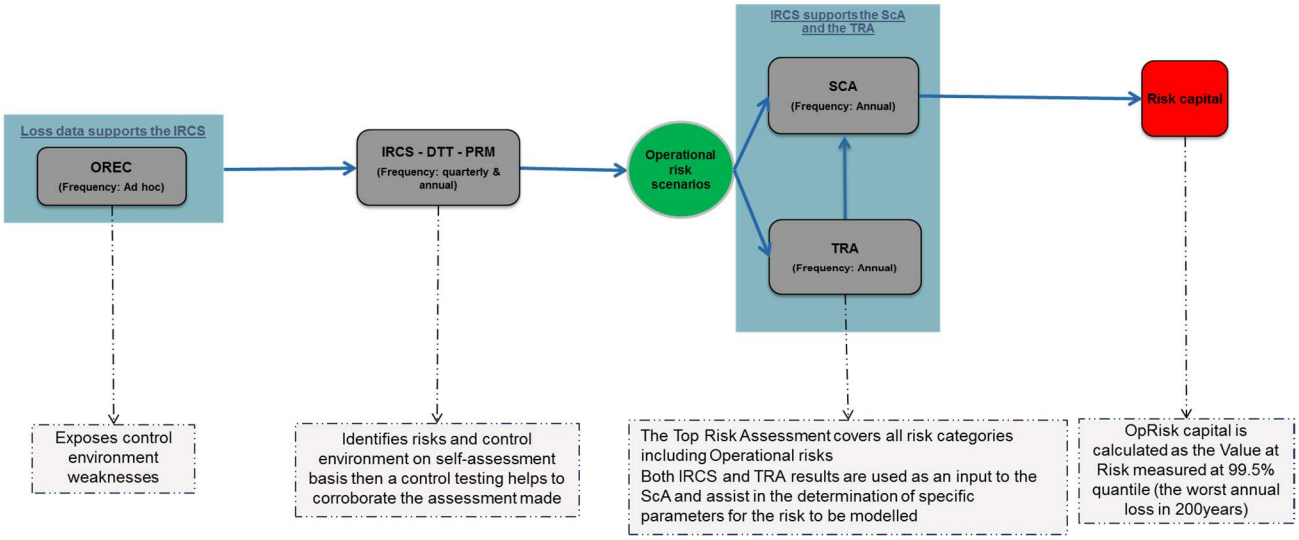
C.6.1. Description of the measures used

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

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

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

Figure 14: Operational Risk management overview



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

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

- **The Integrated Risk and Control System (IRCS):** The IRCS is a risk management process by which EH SA 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.

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

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

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

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

C.6.2. Description of the risk exposure

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

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

EH SA's standalone operational RC remained relatively stable over the reporting period decreasing by 23% compared to Q4 2018 which bring its amount to EUR 43mn.

C.6.3. Risk concentration

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

C.6.4. Risk mitigation

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

C.7. Reputational risk

The reputational risk and its measurement are described in the sub-section B.

With regards to the monitoring, EH SA has implemented the following methods to oversee the reputational risk and issue management activities:

- A Monthly Media Monitoring and analysis report: It reports media coverage about Euler Hermes at different level (corporate level and BUs level).
- An Issues Management which is a summary of current EH media issues that might be raised by media reporting on Allianz financial results;
- A “reputational risk and issues report “ which is under implementation. It will outline the number and nature of all reputational risks referral identified by the first line of defense with the support of Group Communication. It will be reported to the EH SA RiCo on an annual basis.

In case of breaches, a referral process has been defined and implies the involvement of the Communication and the Risk function.

C.8. Any other information

EH SA does not have any additional information to disclose regarding its risk profile.

D. Valuation for solvency purposes

D.1. Assets

D.1.1. Valuation of assets

The following table summarizes the amounts of EH SA assets, classified by asset classes as disclosed in the Quantitativey Reporting Templates (QRT), for both MVBS valuation and BeGAAP valuation.

It is to be noted that the BeGAAP balance sheet disclosed in this report is aligned to the balance sheet presentation in MVBS.

Figure 15: Asset (MVBS vs BeGAAP) as of 31.12.2019

In EUR mn	MVBS	BeGAAP
Goodwill		0.7
Deferred acquisition costs		-
Intangible assets	-	77.4
Deferred tax assets	12.0	-
Pension benefit surplus	-	-
Property, plant & equipment held for own use	167.9	30.5
Investments (other than assets held for index-linked and unit-linked contracts)	2,107.8	1,851.6
Property (other than for own use)	4.5	0.3
Holdings in related undertakings, including participations	768.5	510.5
Equities	13.4	41.7
Equities - listed	-	-
Equities - unlisted	13.4	41.7
Bonds	1,166.0	1,145.3
Government Bonds	352,7	347.6
Corporate Bonds	813.3	797.8
Structured notes	-	-
Collateralized securities	-	-
Collective Investments Undertakings	89.9	88.2
Derivatives	6.3	5.3
Deposits other than cash equivalents	46.3	46.3
Other investments	12.8	13.9
Assets held for index-linked and unit-linked contracts	-	-
Loans and mortgages	112.5	111.8
Loans on policies	-	-
Loans and mortgages to individuals	0.3	-
Other loans and mortgages	112.2	111.8
Reinsurance recoverables from:	795.1	1,675.1
Non-life and health similar to non-life	795.1	1,675.1
Non-life excluding health	795.1	1,675.1
Health similar to non-life	-	-
Life and health similar to life, excluding health and index-linked and unit-linked	-	-
Health similar to life	-	-
Life excluding health and index-linked and unit-linked	-	-
Life index-linked and unit-linked	-	-
Deposits to cedants	2.2	2.2
Insurance and intermediaries receivables	131.6	715.7
Reinsurance receivables	6.2	-96.3
Receivables (trade, not insurance)	87.3	112.2
Own shares (held directly)	30.5	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	-	-
Cash and cash equivalents	89.6	89.6
Any other assets, not elsewhere shown	10.9	10.8
Total assets	**3,553.6**	**4,580.5**

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

Asset account	MVBS valuation	BeGAAP valuation	Differences[1]
Goodwil	Goodwill is not recognized in MVBS	In BeGAAP, goodwill is recorded if the acquisition cost of an insurance portfolio is higher than the net value of the company. It is generally depreciated over five years.	In BeGAAP, the asset is higher by EUR 0.7mn compared to MVBS because goodwill are not recognized in MVBS.
Deferred Acquisition Costs (DAC)	In MVBS, acquisition costs are considered to be included in the calculation of the BE of the TP. Therefore, DAC are not recognized.	In BeGAAP, only the brokerage part of DAC is recognized. Moreover in Belgian statutory accounts, DAC are recognized directly within the TP.	There is no significant difference between the MVBS and BeGAAP value in 2019
Intangible assets	In MVBS, intangible assets other than goodwill are valued at zero unless there is a value for the same or similar asset that has been derived from quoted market prices in active markets. If so they are recognized at their market value.	In BeGAAP, Intangible assets other than goodwill are recorded at: • Their acquisition value or contribution value; or • Production value (limit: prudent estimation of their value in use or their future profit contribution) Intangible assets are depreciated according to Belgian accounting standards	Under MVBS, intangible assets have been valued at zero because there is usually no active market for intangible assets, prices are not available to the public, or the intangible asset is unique. Thus in BeGAAP, the asset is higher by EUR 77.4mn compared to MVBS.
Deferred Tax Assets	The principles of IAS 12 are applied for deferred taxes under MVBS.	In BeGAAP, the following deferred taxes are recognized: • Deferred taxes on realized gains on intangible assets, tangible assets and securities issued by the Belgian public sector, whereas the taxation of such gains is deferred; and • Foreign deferred taxes of the same nature as those mentioned previously.	In BeGAAP, no DTA is recognized thus the asset is lower by EUR 12mn compared to MVBS.
Property, plant & equipment held for own use	In MVBS, property plant and equipment are measured at fair value. Right-of-Use (RoU) assets recognised under IFRS 16 are considered to be a proxy for Solvency II fair values.	In BeGAAP, they are recorded at their historical value. Investment properties are depreciated each year while no depreciation charge is recorded on the lands. At EH SA, investment properties are depreciated over 33 years. Revaluation is permitted in certain cases.	In BeGAAP, the asset is lower by EUR 137.3mn compared to MVBS due to: • revaluation at fair value in MVBS (-17.6mn) • recognition of Right of Use assets in MVBS in accordance with IFRS 16, but not in BeGAAP (-119.8mn).
Property (other than for own use)	In MVBS, property (other than for own use) are measured at fair value.	In BeGAAP, property (other than for own use) recognition and valuation follows the same rules	In BeGAAP, the asset is lower by EUR 4.2mn compared to MVBS

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

Asset account	MVBS valuation	BeGAAP valuation	Differences[1]
		as property, plant and equipment held for own use.	because of a revaluation at fair value in MVBS.
Holdings in related undertakings, including participations	In MVBS, participations and related undertakings are valued at a quoted market price in an active market, if available. If there is no quoted market price, then they are valued using either the Adjusted Equity method or the adjusted IFRS equity method.	In BeGAAP, participations (also called investments in subsidiaries and affiliates) are recorded at their acquisition value. Impairment tests are performed at each closing dates.	In BeGAAP, the asset is lower by EUR 258.0mn compared to MVBS because MVBS is revaluated at fair value and due to depreciation on subsidiaries in BeGAAP.
Equities	Both listed and unlisted equities are valued at fair value in MVBS. In exceptional cases, IAS 39 allows available-for-sale equities not to be measured at fair value but at cost.	In BeGAAP, investments (equities included) are recorded at their amortized cost. Impairments can be recorded	In BeGAAP, the asset is higher by EUR 28.3mn compared to MVBS because of the following adjustments: • In MVBS, own shares are recognized under the own shares asset line at an amount of EUR 30.5mn whereas in BeGAAP own shares are recognized under the equities asset line at an amount of EUR 34.6mn. The difference in amount is due to the recognition at fair value in MVBS versus recognition at acquisition cost in BeGAAP. • Equities are revaluated at fair value in MVBS.
Bonds	All Bonds items are valued at fair value in MVBS.	In BeGAAP, investments (bonds included) are recorded at their amortized cost. Impairments can be recorded.	In BeGAAP, the asset is lower by EUR 20.7mn compared to MVBS because in MVBS bonds are recorded at fair value.
Collective investments undertakings	The interests in collective investments undertakings are measured at fair value in MVBS.	In BeGAAP, collective investments undertakings follow the same rules as for bonds.	In BeGAAP, the asset is lower by EUR 1.7mn compared to MVBS because in MVBS collective investments undertakings are revaluated at fair value.
Derivatives	Derivatives are measured at fair value in MVBS.	In BeGAAP, Derivatives follow the same rules as for bonds.	In BeGAAP, the asset is lower by EUR 1mn compared to MVBS because in MVBS derivatives are revaluated at fair value.
Deposits other than cash equivalents	Due to the short-term nature of the deposits, BeGAAP value is considered to be a good proxy of the fair value of the deposits.	In BeGAAP, Deposits other than cash equivalents are recorded at their amortized cost.	There is no significant difference between MVBS and BeGAAP
Other investments	Other investments include investments not covered by positions of investments indicated above. They are measured at fair value in MVBS	In BeGAAP, other investments follow the same rules as for bonds.	The asset is EUR 1.1mn higher in BeGAAP due to a loan which is recorded at fair value in MVBS.
Loans and mortgages	In MVBS, EH recognizes Loans and mortgages at fair value.	In BeGAAP, Loans and mortgages follow the same rules as for bonds.	There is no significant difference between MVBS and BeGAAP

Asset account	MVBS valuation	BeGAAP valuation	Differences[1]
Reinsurance recoverables from Non-life excluding Health	The calculation of reinsurance recoverables leads either to the recognition of reinsurance recoverables calculated as a whole or the BE for the reinsurance recoverable. No Risk Margin (RM) is reported in the section of the reinsurance recoverable as the RM recognized within the TP is already net of reinsurance. However, a Counterparty Default Adjustment (CDA) is calculated.	In BeGAAP, the reinsurance share of reserves is calculated based on the TP and the applicable cession rates agreed in the reinsurance treaties: reinsurance share in Unearned Premium Reserve (UPR); claims provisions; provision for bonus and rebates.	In BeGAAP, the asset is higher by EUR 880mn compared to MVBS for the main reason that in BeGAAP there is no discounting.
Deposits to cedants	Deposits to cedants include deposits relating to reinsurance accepted. In MVBS, deposits to cedants are valued at market value but due to short-term nature of deposits, the nominal value is considered to be a good proxy of the market value of the deposits.	Under BeGAAP, deposits to cedants are recorded at their nominal value.	Thus, there is no difference between MVBS and BeGAAP
Insurance and intermediaries receivables	In MVBS, insurance and intermediaries receivables are recognized at fair value. Insurance and intermediaries receivables are amounts past–due for payment by policyholders, insurers, and other linked to insurance business, that are not included in cash–in flows of technical provisions. It shall include receivables from reinsurance accepted. Amounts are past-due when the payment has not been made as of its due date. Premiums written but not yet due are not shown as premium written and are not recognized as receivable but included in the TP. Additionally, valuation allowances have to be eliminated.	In BeGAAP, insurance receivables are recorded at their nominal value. Premiums written but not yet due are recognized as receivable.	In BeGAAP, the asset is higher by EUR 584.1mn compared to MVBS because : • In MVBS, only overdue receivables and payables are recorded in MVBS (+408.5mn in BeGAAP) • Premium written but not yet due are recognised as receivables in BeGAAP and as TP in MVBS; • EBNR ceded are presented as an asset in MVBS and deducted from TP in BeGAAP (+174.8mn)
Reinsurance receivables	In MVBS, reinsurance receivables are recognized at fair value. Reinsurance receivables are amounts past–due by reinsurers and linked to ceded reinsurance business that are not included in reinsurance recoverables. Examples include: the amounts past due from receivables from reinsurers that relate to settled claims of policyholders or beneficiaries; receivables from	In BeGAAP, reinsurance receivables are recorded at their nominal value.	In BeGAAP, the asset is lower by EUR 102.5mn compared to MVBS because some assets are netted with liabilities in BeGAAP while in MVBS, assets have to be un-netted.

Asset account	MVBS valuation	BeGAAP valuation	Differences[1]
	reinsurers in relation to other than insurance events or settled insurance claims, for example commissions. Amounts are past-due when the payment has not been made as of its due date. Additionally, valuation allowances have to be eliminated in the MVBS.		
Receivables (trade, not insurance)	Due to the short term nature of the receivables amortized cost value is considered to be fair value. However, since valuation allowances have to be eliminated in the MVBS, the receivables might have to be adjusted.	In BeGAAP, other receivables are recorded at their nominal value.	In BeGAAP, the asset is higher by EUR 24.9mn compared to MVBS because of the following adjustments: • In MVBS, depreciation of a receivable from EH SA subsidiaries, amounting to its own funds, because they were negative: +39.3mn; • Some assets are netted with liabilities in BeGAAP while in MVBS, assets have to be un-netted. In MVBS there is also a regrouping difference: -4.9mn; • Recognition in BeGAAP of a receivable decrease linked to a pension liability transfer within EH: -9.5mn.
Own shares	In MVBS, own shares have to be reported on the asset side with their fair value.	In BeGAAP, own shares are recognized at their acquisition cost.	In BeGAAP, the asset is lower by EUR 30.5mn compared to MVBS because in MVBS, own shares are recognized under the own shares asset line at an amount of EUR 30.5mn whereas in BeGAAP own shares are recognized under the equities asset line at an amount of EUR 34.6mn. The difference in amount is due to the recognition at fair value in MVBS versus recognition at acquisition cost in BeGAAP.
Cash and cash equivalents	Bank accounts are not netted off, thus only positive accounts are recognized in MVBS. Bank overdrafts are to be shown within liabilities unless where both, legal right of offset and demonstrable intention to settle net exist. Cash and cash equivalents are measured at market value.	In BeGAAP, cash and cash equivalents are measured at nominal value. Negative bank balances have to be reclassified to the short term financial liabilities in the annual accounts (per financial institution).	There is no significant difference between MVBS and BeGAAP.
Any other assets, not elsewhere shown	Depending on the nature of the item, a revaluation at fair value could occur in MVBS.	The recognition basis depends on the nature of the item.	There is no significant difference between MVBS and BeGAAP.

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

Following a guidance issued by BaFin to clarify the treatment of receivables and payables in the MVBS and QRT reporting and in line with the respective EIOPA guidance, only overdue receivables and payables are presented under “Insurance and intermediaries receivables/payables” and “Reinsurance receivables/payables” as from now. All other cash flows are included in the technical provisions. Amounts are past-due when the payment has not been made as of its due date.

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

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

D.1.4. Material financial assets

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

The use of quoted market prices is based on the criteria for active markets as defined in IFRS. Where the criteria for active markets are not satisfied, EH SA uses alternative valuation methods.

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

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

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

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

Figure 16: Valuation methods by assets class as of 31.12.2019

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

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

D.1.5. Financial and operating leases

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

As a lessee, as of 31 December 2019, the maturities for the lease liabilities were as follows:

Figure 17: Lease liabilities by maturities as of 31.12.2019 (IFRS)

In EUR mn	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than 1 year	28.1	-1.2	26.9
1 to 5 years	96.7	-2.9	93.9
More than 5 years	97.6	-0.96	96.6
Total	222.4	-5.0	217.4

D.1.6. Material deferred tax assets

On 31 December 2019, the total DTA equalled EUR 12.0mn (MVBS value). They were recognized on MVBS adjustments of which DTA on the cancellation of intangible assets.

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

Figure 18: Applicable tax rates

Country	Q4 2019	Q4 2018
Belgium	29.58%	29.58%
France	34.43%	32.02%
Germany	31.00%	31.00%
Italy	24.00%	24.00%
United-Kingdom	19.00%	19.00%
Netherlands	25.00%	25.00%
Switzerland	12.00%	12.00%
Poland	19.00%	19.00%

D.2. Technical Provisions

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

The table below shows, at a detailed level, the amounts of Best Estimate Liabilities (BEL) and TP for Solvency 2 business lines.

Figure 19: Solvency II Technical Provisions as of 31.12.2019 (in EUR mn)

Technical Provisions Aggregates	Credit and suretyship insurance	Miscellaneous financial loss	Total
Premium Provision	-74.7	0.1	**-74.6**
Claims Provision	1,218.1	159.1	**1,377.2**
Risk Margin	29.9	2.3	**32.2**
Gross TP	**1,173.2**	**161.6**	**1,334.8**
Ceded TP	-672.6	-122.5	**-795.1**
Net TP	**500.6**	**39.1**	**539.7**

D.2.1.1. Basis

The value of the TP corresponds to the current amount required to transfer all insurance obligations immediately to another insurance entity. TP consist of the claims provision, premium provision and RM, claims provision and premium provision constitute the BEL.

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

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

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

The ceded Best-Estimate liabilities are estimated by netting the gross Best-Estimate liabilities. The ceded Best-Estimate liabilities are adjusted by the CDA.

D.2.1.2. Methods and assumptions

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

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

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

D.2.1.3. Best estimate of the premium provision

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

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

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

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

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

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

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

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

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

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

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

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

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

In Q4 2019, following BAFIN request, all not-overdue payables/receivables were reclassified to Premium Provisions.

D.2.1.4. Best estimate of the claims provision

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

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

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

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

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

D.2.1.5. Investment management expenses

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

D.2.1.6. Risk Margin

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

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

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

The risk categories to be captured are:

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

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

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

D.2.1.7. Counterparty Default Adjustment

In order to separate the individual risks as specified under SII, a CDA is calculated. In the calculation, the risk mitigation effect of reinsurance is taken into account even though the risk of the

counterparties' default remains. This has to be considered separately and an adjustment is made to the reinsurance recoveries in form of the CDA.

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

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

Where:

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

The motivation of the formula is detailed below:

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

D.2.2. Level of uncertainty

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

D.2.2.1. Stochastic Reserving

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

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

Figure 20: Uncertainty of reserves as of 31.12.2019 (in EUR mn)

Net reserve	1 year net RC	RC/Res	1 year net CoV of underlying PRISM run
407.8	0.12	31,63%	11,35%

D.2.2.2. Sensitivity Studies on Technical Provisions

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

Hence, future outflows (i.e. Future claims and administrative costs) and future inflows (i.e. Future premiums) are taken into account in the premium reserves estimation. The future outflows are estimated

via an adjusted CR. As this parameter is a key driver of the premium reserves level, the sensitivity of (undiscounted) premium provisions on changing combined ratios has been tested and is quite significant.

Figure 21: Sensitivity of undiscounted premium provisions before reclassifications to CRs changes (MVBS figures) as of 31.12.2019

Undiscounted premium provisions (in EUR mn)	Base Case	-2% CR	+2% CR
Gross	138. 1	117.7	15.5
Net	191. 0	185.5	196.6

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

Figure 22: Sensitivity of undiscounted premium provisions before reclassifications to UPR changes (MVBS figures) as of 31.12.2019

Undiscounted premium provisions (in EUR mn)	Base Case	-5% UPR	+5% UPR
Gross	138.1	127.8	148.4
Net	191.0	184.9	197.1

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

In November 2019 Allianz Group Accounting & Reporting has published the requirement for MVBS to reclassify all not-overdue payables/receivables to Technical Provisions. In view of timeframe & deadlines EH agreed with AZ on the simplification to consider the reclassified amounts under "premium provisions" (gross/ceded) in order to limit reconciliation issues with the IFRS-claims reserves and the impacts on Risk Capital side. However, EH has considered the nature of payables/receivables with regard to inward or outward business, e.g. payables/receivables with inward business partners are reclassified to gross premium provisions with receivables decreasing and payables increasing the reserves.

D.2.4. Differences with Technical Provisions in financial statements

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

Figure 23: Reconciliation between financial statements TP and TP for solvency purposes

GAAP BRIDGE in EUR mn	GROSS EoY2018	GROSS EoY2019
Be-GAAP	2,443.2	2,682.7
Equalization reserve	-261.8	-269.3
S&S reclassification	-364.5	-471.9
DAC reclassification	-33.5	-37.2
Other	0.0	0.0

GAAP BRIDGE in EUR mn	GROSS EoY2018	GROSS EoY2019
IFRS	1,783.4	1,904.3
Premium reserves	-476.0	-515.6
Premium provision	107.5	-74.6
Loss reserve discount	-13.7	-11.7
Risk margin	38.3	32.2
IME	0.1	0.2
Other	-0.1	0.0
MVBS TP	1,439.6	1,334.8

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

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

D.2.5. Matching Adjustment

EH SA does not apply a Matching Adjustment.

D.2.6. Volatility Adjustment

In accordance with the technical guidance provided by EIOPA and Allianz, the discount effect is currently calculated by taking into account the Volatility Adjustment (VA) inside the risk-free SWAP (yield) curves. A sensitivity study has been performed where only the EUR SWAP curve is applied with and without VA to the cashflows, i.e. omitting the impact of different settlement currencies. Doing this results in almost same discounted reserves for the LEs with a high share of EUR.

Figure 24: BEL sensitivity to VA (in EUR mn)

Net BEL	Discounted BEL		Estimated sensitivity	Estimated sensitivity %
	EUR SWAP - VA	EUR SWAP		
507.5	514.9	515.4	-0.6	-0.12%

As shown in the table above, the impact of the VA is negligible (only 0.12% deviation between the discounted reserves with VA and without VA).

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

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

D.2.8. Transitional deduction

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

D.2.9. Recoverable from mitigation techniques

In 2019, EH SA had reinsurance recoverables of nearly EUR 795mn. The recoverables are coming from non-life excluding health, which includes the credit and surety insurance and miscellaneous LoBs. Of these recoverables, EUR 973mn come from claims provisions and EUR -178mn from Premium Provisions. It has to be noted that there were no recoverables from SPVs.

D.3. Other liabilities

D.3.1. Valuation of other liabilities

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

Figure 25: Other liabilities (MVBS vs BeGAAP) as of 31.12.2019

Other liabilities (In EUR mn)	MVBS	BeGAAP
Other technical provisions		-
Contingent liabilities	-	-
Provisions other than technical provisions	51.5	50.4
Pension benefit obligations	217.5	217.5
Deposits from reinsurers	7.2	7.2
Deferred tax liabilities	85.6	59.1
Derivatives	-	-
Debts owed to credit institutions	13.9	13.9
Financial liabilities other than debts owed to credit institutions	177.5	177.5
Insurance & intermediaries payables	30.4	314.9
Reinsurance payables	44.2	67.3
Payables (trade, not insurance)	103.9	103.8
Subordinated liabilities	-	-
Subordinated liabilities not in Basic Own Funds	-	-
Subordinated liabilities in Basic Own Funds	-	-
Any other liabilities, not elsewhere shown	241.2	197.1
Total other liabilities	**972.8**	**1,208.6**

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

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[2]
Provisions other than Technical Provisions	IFRS values can be used for SII reporting purposes.	In BeGAAP, provisions are recorded to cover all planned or expected risks and charges.	In BeGAAP, the liability is lower by EUR 1.1mn compared to MVBS because a historical booking on provisions.
Pension benefit obligations	IAS 19 is considered a reasonable approach in valuing pension liabilities for SII purposes.	In BeGAAP, EH SA records a provision for a pension plan in the statutory accounts only if the assets of the plan are lower than the minimum reserves as defined under the Belgian law. In addition to that, EH SA decided to record the provisions for pensions based on IAS 19R.	There is no significant difference between MVBS and BeGAAP.
Deposits from reinsurer	In MVBS, deposits from reinsurers are recorded at market value.	In BeGAAP, deposits from reinsurers are recognized at their nominal value.	There is no significant difference between MVBS and BeGAAP.
Deferred Tax Liabilities (DTL)	The principles of IAS 12 are applied for deferred taxes under MVBS.	In BeGAAP, DTL are recognized on: • Realized gains on intangible assets, tangible assets and securities issued by the Belgian public sector, whereas the taxation of such gains is deferred; and • Foreign deferred taxes of the same nature as those mentioned in the above	In BeGAAP, the liability is lower by EUR 26.5mn compared to MVBS because DTL are not recognized in BeGAAP except tax debt related to the equalization reserve write-down in the German branch (booked on a deferred tax account in BeGAAP only).
Debts owed to credit institutions	In MVBS, debts owed to credit institutions are measured at fair value. Adjustments for own credit standing are excluded in MVBS.	In BeGAAP, debts owed to credit institutions are recognized at their nominal value.	There is no significant difference between MVBS and BeGAAP.
Financial liabilities other than debts owed to credit institutions	In MVBS, financial liabilities other than debts owed to credit institutions are recorded at fair value. Adjustments for own credit standing are excluded in MVBS.	In BeGAAP, financial liabilities other than debts owed to credit institutions are recognized at their nominal value.	There is no significant difference between MVBS and BeGAAP.
Insurance & intermediaries payables	In MVBS, payables are recognized at the amounts actually due on repayment (i.e., their settlement amount) but only include amounts past due for payment. Insurance and intermediaries payables are amounts past–due to policyholders, insurers and other	In BeGAAP, insurance and intermediaries payables are recorded at their nominal value.	In BeGAAP, the liability is higher by EUR 284.5mn because: • EBNR ceded are presented as an asset in MVBS and deducted from TP in BeGAAP (EUR +174.8mn) • In MVBS, only overdue receivables and payables are

[2] The materiality is considered from EUR 1mn.

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[2]
	business linked to insurance, but that are not technical provisions. Includes amounts past–due to (re)insurance intermediaries (e.g. commissions due to intermediaries but not yet paid by the group). It shall include payables from reinsurance accepted. Amounts are past-due when the payment has not been made as of its due date.		recorded in MVBS (EUR +109.8mn in BeGAAP)
Reinsurance payables	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) but only include amounts past due for payment. Reinsurance payables are amounts payable, past–due to reinsurers (in particular current accounts) other than deposits linked to reinsurance business, that are not included in reinsurance recoverables. Includes payables to reinsurers that relate to ceded premiums. Amounts are past-due when the payment has not been made as of its due date.	In BeGAAP, reinsurance payables are recorded at their nominal value.	In BeGAAP, the liability is higher by EUR 23.1mn compared to MVBS because of the following adjustments: • Some liabilities are netted with assets in BeGAAP while in MVBS liabilities have to be un-netted: -102.5mn; • In MVBS, only overdue receivables and payables are recorded in MVBS (+125.7mn in BeGAAP)
Payables (Trade, not Insurance)	Payables are generally recognized at the amounts actually due on repayment (i.e., their settlement amount). Due to their short-term nature, the settlement amount is considered to be a good proxy of the fair value for MVBS.	In BeGAAP, trade payables are recorded at their nominal value. They are composed of fiscal and social debts.	There is no significant difference between MVBS and BeGAAP.
Any other liabilities not elsewhere shown	Depending on the nature of the item, a revaluation at fair value could occur in MVBS.	The recognition basis depends on the nature of the item.	In BeGAAP, the liability is lower by EUR 44.1mn compared to MVBS because of the following adjustments: • Some liabilities are netted with assets in BeGAAP while in MVBS liabilities have to be un-netted: +77.8mn; • Recognition in BeGAAP of dividend to be paid (EUR 80mn) in 2019. • Recognition of lease liabilities in IFRS and MVBS but not in BeGAAP

D.3.2. Financial liabilities

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

a. Benchmark rate

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

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

b. Credit spread

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

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

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

D.3.3. Leasing arrangements

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

D.3.4. Deferred Tax Liabilities

On 31 December 2019, DTL equalled EUR 85.6mn (MVBS value). DTL are mainly due to temporary differences on TP, provisions for pension obligations and revaluation of available for sales investments.

D.3.5. Economic benefits

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

D.3.6. Employee benefits

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

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

During the year ended December 31, 2019, EHSA recognized expenses for defined-contribution plans of EUR 2.5mn (EUR 2.7mn in 2018). Additionally, EHSA paid contributions for state pension schemes of EUR 19.2mn in 2019 (EUR 18.4mn in 2018).

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

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

Figure 26: **Employee benefits breakdown by nature of liability and asset as of 31.12.2019 (IFRS figures)**

In EUR mn	Total
Actuarial obligation - Total - Opening	-611.4
Current period service cost	-13.1
Interest on obligation	-11.8
Employee contributions	-2.7
Plan amendment	-
Acquisitions/disposals of subsidiaries	-
Plan curtailments	-
Plan settlements	-
Actuarial gains (losses) due to a change in assumptions	-67.8
Actuarial gains (losses) due to a change in experience	6.8
Benefits paid	16.8
Currency translation difference	0.3
Other	0.6
Removal of the discretionary clause	-
Actuarial obligation - Total - Closing	-682.4

Fair value of plan assets - Total - Opening	420.7
Interest income on plan assets	8.3
Actuarial gains (losses) due to a change in experience	36.2
Employee contributions	2.3
Employer contributions	7.9
Acquisitions/disposals of subsidiaries	0
Plan curtailments	0
Plan settlements	0
Benefits paid	-10.7
Currency translation difference	-0.2

Other	0.3
Fair value of plan assets - Total - Closing	464.9

Net commitments <0	-217.5
Net commitments >0	0

Multiple assumptions are used for the calculation of employee benefits:

- Discounting rates;
- Inflation rates;
- Expected rate of salary increase;
- Plan retirement age; as well as

  Others actuarial and financial assumptions that is relevant. Estimation of the future benefit payments of the employee of the German entities (IFRS figures).

D.3.7. Contingent liabilities

EH SA does not recognize any contingent liability.

D.4. Any other information

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

E. Capital Management

E.1. Own funds

E.1.1. Information on the own funds

E.1.1.1. Management of the own funds

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

- Capital management protects the Group's capital base and supports effective capital management on Group level in line with the Group risk policy. It allocates capital to the underlying risk drivers under the budget limited by the Risk Strategy and with the target of optimising the expected return under this constraint. Risk considerations and capital needs are integrated into management and decision-making processes. This is done by attribution of risk and allocation of capital to the various segments, LoBs and investments;
- EH SA facilitates the fungibility of capital from a group-wide perspective by pooling/up-streaming available excess capital to EH Group while at the same time ensuring a sufficient level of capital is held at EH SA level. This includes a consideration of a buffer above the Minimum Capital Ratio to take into account potential market volatility;
- EH SA ensures to comply with regulatory Minimum Capital Requirement;
- Capital is centrally managed in accordance with Group-wide rules and allocated to the benefit of the Group and its shareholders;
- EH SA capitalization is managed using adequate buffers above minimum regulatory. Excess capital not required for business purposes over the (three year) plan horizon should be up-streamed by EH SA;
- EH SA management is committed to have shareholders participate in the economic development of the Group through dividend payments;
- The capital allocation for steering the business is based on the IM also taking into account other constraints (such as rating and liquidity);

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

E.1.1.2. Description of the own funds

The following table discloses the composition of SII own funds as well as its variation over 2019.

Figure 27: Evolution of own funds (MVBS)

in EUR mn	Q4 2019	*Q4 2018*	Variation
Total assets	3,553.6	*3,737.8*	-184.2
Total liabilities	2,307.6	*2,517.8*	-210.2
Excess of assets over liabilities before Look Through	1,246.0	*1,220.0*	26.0
Look Through (OPCI)	96.1	*95.3*	0.8
Excess of assets over liabilities after Look Through	1,342.1	*1,315.3*	26.8
- Minority OPCI	-96.1	*-95.3*	-0.8
- Foreseeable dividends	0.0	*-160.0*	-160
- Own Shares	-30.5	*-31.6*	1.1
SII Own funds	1,215.5	*1,028.4*	187.1

The table here above shows that the Excess of Assets over Liabilities are increasing by EUR 26mn between Q4 2018 and Q4 2019. This increase is mainly explained by a positive profit and other comprehensive income over the 12 months 2019 for EUR 120mn less an exceptional dividend for EUR -160mn and by the positive increase of MV of Participations for EUR 61mn.

The significant increase of SII Own funds for EUR 187.1mn is due to the positive change of Excess of Assets over Liabilities for EUR 26mn and to the cancellation of foreseeable dividends following the decision of the BoD and NBB recommendation (EUR 0mn in 2019 vs EUR -160mn in 2018).

EH SA own funds are exclusively composed of basic own funds. The own funds are composed of Tier 1 unrestricted for more than 98% and of Tier 3 for the rest. EH SA does not have any ancillary own funds. The available own funds were used for all calculations in this report. The table below summarizes EH SA own funds composition:

Figure 28: Composition of own funds as of 31.12.2019 (MVBS)

Basic own funds (In EUR mn)	Total	Tier 1 - unrestricted	Tier 3
Ordinary share capital (gross of own shares)	**229.4**	229.4	0.0
Share premium account related to ordinary share capital	**179.8**	179.8	0.0
Reconciliation reserve	**794.2**	794.2	0.0
An amount equal to the value of net DTA	**12.0**	0.0	12.0
Total basic own funds after deductions	1,215.5	1,203.4	12.0

As shown in the following table, EH SA own funds composition remained relatively stable over 2019.

Figure 29: Composition of own funds as of 31.12.2018 (MVBS)

Basic own funds (In EUR mn)	Total	Tier 1 - unrestricted	Tier 3
Ordinary share capital (gross of own shares)	**229.4**	229.4	0.0
Share premium account related to ordinary share capital	**179.8**	179.8	0.0
Reconciliation reserve	**591.3**	591.3	0.0
An amount equal to the value of net DTA	**28.0**	0.0	28.0
Total basic own funds after deductions	1,028.4	1,000.5	28.0

E.1.1.3. SCR and MCR covers

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

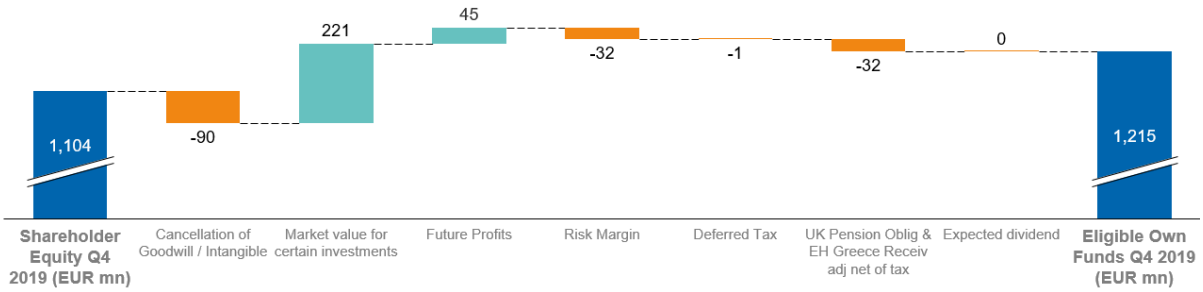
Figure 30: Available and eligible own funds to meet SCR and MCR as of 31.12.2019 (MVBS)

Eligible own funds (In EUR mn)	Total	Tier 1 - unrestricted	Tier 3
Total available own funds to meet the SCR	**1,215.5**	1,203.4	12.0
Total available own funds to meet the MCR	**1,203.4.4**	1,203.4	0.0
Total eligible own funds to meet the SCR	**1,215.5**	1,203.4	12.0
Total eligible own funds to meet the MCR	**1,203.4**	1,203.4	0.0

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

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

Figure 31: Bridge EoAL IFRS – basic own funds as of 31.12.2019 (in EUR mn)



Considering assumptions as of the end of year 2019, the eligible SII own funds value are EUR 1,215.5mn compared to EUR 1,104.4mn in IFRS.

E.1.1.5. Description of items deducted from own funds

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

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

E.1.2. Additional ratios

EH SA does not disclose any other additional ratios.

E.1.3. Loss absorbency mechanism

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

E.1.4. Reconciliation reserve

The following table summarizes the calculation of reconciliation reserve.

Figure 32: Breakdown of the reconciliation reserve as of 31.12.2019 (MVBS)

Reconciliation reserve (In EUR mn)	Total
Excess of assets over liabilities	1,246.0
Own shares (held directly and indirectly)	-30.5
Foreseeable dividends, distributions and charges	0.0
Other basic own fund items	-421.3
Reconciliation reserve	794.2

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Evolution of SCR and MCR ratios

The table below shows the evolution of EH SA's SCR between 2018 and 2019.

Figure 33: Breakdown of the SCR

In EUR mn	Q4 2019	*Q4 2018*	Δ	%
Market	385	339	*46*	*14%*
Credit	247	264	*-17*	*-6%*
P/C Underwriting risks	134	148	*-14*	*-9%*
L/H Underwriting risks	34	28	*6*	*21%*
Business Risk	10	11	*-1*	*-9%*
Operational Risk	43	56	*-13*	*-23%*
Total Standalone RC	**853**	**846**	***7***	***1%***
Diversification effect	-393	-381	*-12*	*3%*
Total Diversified RC	**460**	**465**	***-5***	***-1%***
Capital Add-on	101	92	*9*	*10%*
Tax impact	-55	-67	*12*	*-18%*
SCR	**506**	**490**	***16***	***3%***

In 2019, the following model changes have been implemented:

- Strategic participations: Allianz has been requested to revise the treatment of (strategic) participations in the internal model. This model change was classified as a major model change and resulted in a material impact on the market risk of EH SA;
- Cross-effects: a major model change for the modelling of cross effect was filed by Allianz. This model change did not result in a material impact for EH SA.
- Other minor/immaterial model changes have been implemented, that did not result in a major impact for EH SA.

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

In 2019, EH SA's MCR amounted to EUR 149.2mn, remaining stable (-1% decrease) compared to 2018. The MCR ratio stood at 752%, increasing by +14% compared to 2018 mainly due to the increase in eligible own funds over the period.

E.2.2. Standard formula and Undertaking Specific Parameters

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

E.2.3. Inputs to calculate the MCR

The Minimum Capital Ratio for EH SA based on the IM is shown in the table below for Q4 2019. MCR is calculated according to the methodology defined by Solvency II regulation. The MCR equals the linear MCR for the IM as described by the following table.

Figure 34: MCR calculation (In EUR mn)

MCR	AMCR	SCR	MCR linear	45% SCR	25% SCR	MCR combined
149.2	3.7	506.3	149.2	227.8	126.6	149.2

E.2.4. Material changes to SCR and MCR

There were no material changes to EH SA's SCR and MCR in 2019 except those described in the previous section.

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

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

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

E.4.1. Description of the Internal Model

E.4.1.1. Purposes for using an Internal Model

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

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

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

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

E.4.1.2. Structure of the Internal Model

A Credit Risk model is essentially a two steps approach:

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

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

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

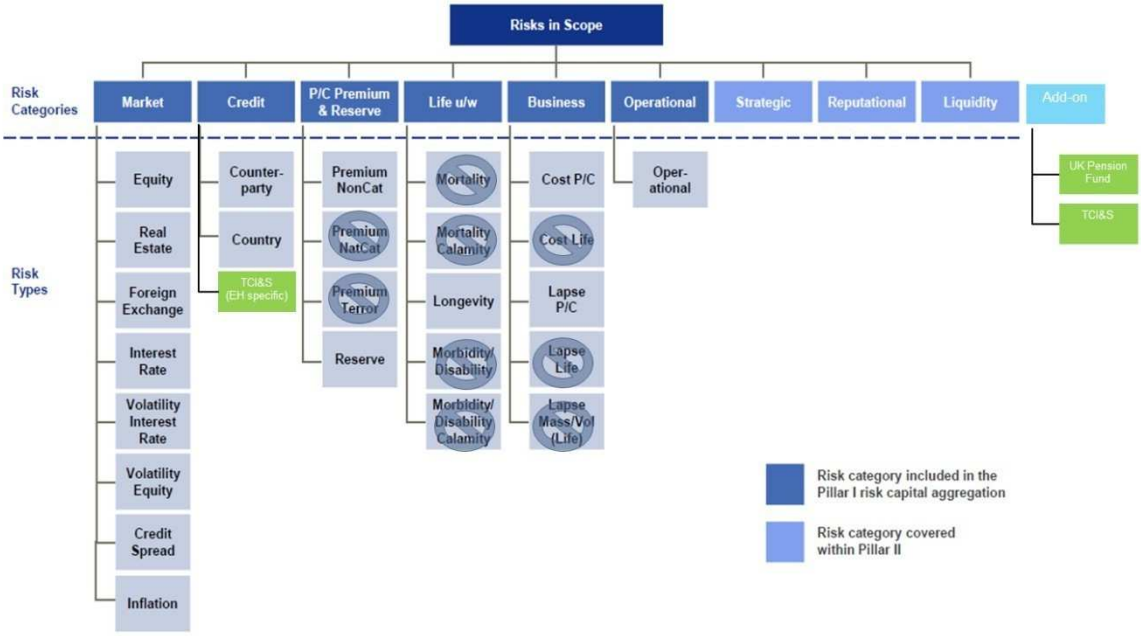
E.4.1.3. Scope of the Internal Model

The EH SA Internal RC model covers:

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

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

Figure 35: IM scope as of 31.12.2019



N.B. : The excluded risks are not applicable to EH SA's risk profile

E.4.2. Methodologies

E.4.2.1. Process within the Internal Model

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

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

The aggregation method for the EH SA IM is based on an integrated Monte-Carlo simulation for Market Risk taking marginal risk distributions for non-Market Risk into account by modelling dependencies via a Gaussian Copula approach and taken into account diversification effects across sources of risk.

E.4.2.2. Difference between standard model and Internal Model

E.4.2.2.1. Market Risk

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

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

- Credit Spread Risk:
    - For covered and other bond: lower shocks are applied in the IM compared to the SM;
    - Intra-risk diversification: the SM approach does not allow for any diversification when aggregating all the values of shocked instruments where the IM approach allows for a significant diversification between the asset classes.
- Foreign Exchange Risk :
    - Intra-risk diversification: the SM does not allow for diversification in the sub-module which is not the case in the IM;
    - Level of shocks**:** while a single level of shock of 25% is defined in the SM approach, a specific level of shock is used in the IM;
- Interest Rates Risk :
    - In the SM, up and down stresses % changing the yield curve varies by term to maturity. A minimum is defined for interest rates up stress;
    - In the IM, changes in the yield curve such as twists are considered, shifts for long-term are set. In addition, volatility stress is applied to yield curves;
    - In the IM, there is diversification of Interest Rates Risk.
- Equity Risk:
    - The average shock level for equity type 1 and equity type 2 are slightly higher in IM than SM.
- Property Risk:
    - The average shock level for property risk is lower in IM than in SM.

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

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

E.4.2.2.2. Credit Risk

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

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

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

E.4.2.2.3. Life Risks

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

E.4.2.2.4. Non-Life Risks

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

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

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

On components classified both under the Non-Life Risks, the main difference lies in:

- The methodology (discrete approach for the SM vs stochastic approach for the IM);
- The calibration (across the industry for the SM vs own calibration for the IM);
- The introduction of a diversification between “sub” lobs (i.e. Different products classified under credit and surety for EIOPA) of EH SA and a diversification between countries;
- The diversification approach (diversification limited to non-life risk in the SM while extended to all risks in the IM).

The relative weights of these various components contribute all significantly to the difference between IM and SM.

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

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

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

E.4.2.2.5. Business Risks

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

- One not comparable with the SM (the new production risk – SCR equal to the fixed cost attached to the new production);
- One which is partially comparable with the SM (Retention Risk – loss of operating profit to due to a less performant than anticipated renewal campaign).

The SM covers only this second risk.

However, on the component with similar philosophy, the calibration is not comparable and therefore the results are not directly comparable:

- IM – loss of operating profit on 100% of the portfolio;
- Standard Model – loss of operating profit on the profitable portfolio.

E.4.2.2.6. Operational Risk

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

E.4.2.2.7. Diversification

The diversification mechanisms are significantly different due to:

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

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

E.4.2.2.8. Tax relief

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

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

E.4.3. Data quality

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

The KPIs are consolidated and reported to the different committees through the data quality dashboards.

These KPIs are reported separately: KPIs per risk type on one side and IT KPIs on the other side.

The quality of the data used at EH SA to calculate the RC is under control: only 2% of the KPIs are identified as “KO”.

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

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

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

E.5.1. Non-compliance with the MCR

EH SA is compliant with the MCR.

E.5.2. Non-compliance with the SCR

EH SA is compliant with the SCR.

E.6. Any other information

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

Appendix 1: Key terms and abbreviations

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

Terms / Abbreviations	Description
HR	Human Resource
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IM	Internal Model
IRCS	Integrated Risk & Control System
IT	Information Technology
KPI	Key Performance Indicator
LGD	Loss Given Default
LoB	Line of Business
LRC	Loss Reserve Committee
LTI	Long-Term Incentives
MAAC	Model and Assumptions Approval Committee
MC	Management Committee
MCR	Minimum Capital Requirement
MMEA	Mediterranean countries, Middle East and Africa
MVBS	Market Value Balance Sheet
NBB	National Bank of Belgium
OPCI	« Organisme de Placement Collective en Immobilier »
OREC	Operational Risk Event Capture
ORSA	Own Risk and Solvency Assessment
P&C	Property & Casualty
PAAC	Parameters & Assumptions Approval Committee
PRISM	P&C Insurance Risk Model
QRT	Quantitative Reporting Templates
RC	Risk Capital
RiCo	Risk Committee
RM	Risk Margin
RPF	Risk Policy Framework
SA	Société Anonyme
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SII	Solvency II
SM	Standard Model
SPV	Special Purpose Vehicle
TP	Technical Provisions
TRA	Top Risk Assessment
UK	United Kingdom
ULAE	Unallocated Loss Adjustment Expenses
UPR	Unearned Premium Reserve
USD	United States Dollar

Terms / Abbreviations	Description
VA	Volatility Adjustment
VaR	Value at Risk

Appendix 2: Publically disclosed QRTs

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

Appendix 3: Disclaimer

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