Euler Hermes Ré SA

Solvency and Financial Condition Report (SFCR)

Based on 31/12/2017 figures

Contents

Executive Summary

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

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

Business and performance (A)

EH Ré SA is a reinsurance company based in Luxemburg that is 100% owned by Euler Hermes Ré AG (EH Ré AG). The business is focused a single Solvency II line of business: 9. Credit and suretyship insurance.

EH Ré SA operates in several material geographical regions: France, DACH (Austria only), Northern Europe, Mediterranean countries, Middle East and Africa (MMEA) and Asia and Pacific (APAC). From underwriting year 2017 onwards, the Italian branch of Euler Hermes SA (EH SA) stopped ceding to EH Ré SA and cedes now directly to EH Ré AG.

In 2017, EH Ré SA's gross earned premiums were at 472M€, decreasing by 26.8% compared to 2016, mainly due to the Italian business no longer ceded to EH Ré SA.

This also impacted the gross claims level, down by 32.4% in 2017 compared to 2016.

The investment income stood at 3M€, significantly up compared to 2016 (+40.4%), driven by an improvement of the foreign exchange result (+1.8M€).

System of governance (B)

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

EH Ré SA has also implemented four independent Key Functions (Internal Audit, Compliance, Risk Management and Actuarial), constituting the 2nd and 3rd level of its "three lines of defense" organization.

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

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

Risk profile (C)

EH Ré SA considers the main following risks in its risk profile: Underwriting, Market, Credit, Operational, Liquidity and Reputational.

EH Ré SA considers and monitors the Underwriting, Market, Credit and Operational Risks through the Required Capital (or Risk Capital) calculated within its Internal Model. No material data quality deficiencies were identified in the data used for the Internal Model.

EH Ré SA also keeps under control its Underwriting, Market and Credit Risks through the use of quantitative limits and diversification.

EH Ré SA uses different diversification approaches: across investment styles and asset managers, as well as through a Strategic Asset Allocation (SAA) for Market Risk; by geography and industry for Credit Risk. Moreover, the reinsurance is the primary risk mitigation tool utilized.

Stress tests are performed using standard financial scenarios as well as several developed business scenarios: 2008 financial crisis, Brexit and Information Technology (IT) outage.

Valuation for solvency purposes (D)

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

There have not been any significant changes to the recognition and valuation of material classes of assets and liabilities during the reporting period.

Total assets at the end of 2017 equalled 748M€ on an MVBS basis. Assets have been invested in alignment with the prudent person principle.

Total liabilities at the end of 2017 amounted to 654M€ on a MVBS basis, of which 473M€ of Technical Provisions. The volatility adjustment (VA) impact is negligible.

Total other liabilities at the end of 2017 equalled 181M€ on an MVBS basis of which a subordinated debt provided by EH Re AG recognized at an amount of 33.4M€.

Capital management (E)

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

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

The SCR ratio is at 219% and the MCR ratio is at 828%.

A. Business and performance

A.1. Business

A.1.1. Legal entity, auditor and supervisor

A.1.1.1. Name and legal form

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

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

A.1.1.2. Supervisor

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

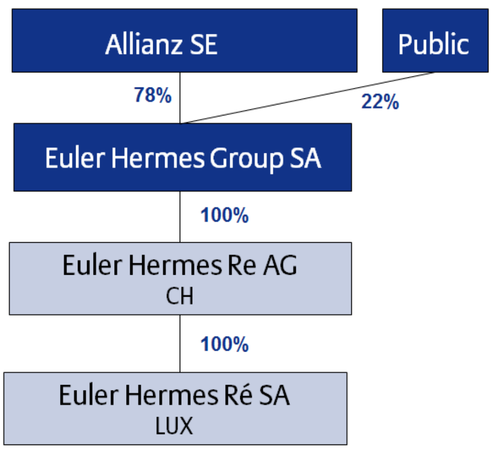
A.1.1.3. Auditor

Name	KPMG Luxembourg
Address	39, avenue John F. Kennedy, L-1855 Luxembourg

A.1.2. Group structure and qualified holdings

EH Ré SA is a fully owned subsidiary of Euler Hermes Ré AG (EH Re AG), Switzerland, a 100% subsidiary of Euler Hermes Group (EH Group), the French holding company of the EH Group quoted at the French stock exchange. Below is a simplified group structure chart which also details the percent ownership and legal links to its parent entities and its material related undertakings.

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



EH Group has a 100% ownership interest in EH Re AG which has a 100% ownership interest in EH Ré SA divided in 50,000 shares.

A.1.3. Material lines of business and geographical areas

EH Re AG and EH Ré SA are the EH Group reinsurance companies providing reinsurance solutions and capacity to all EH Group companies. Also, it covers the related non-consolidated companies in Austria, Portugal, Israel and Solunion, the Euler Hermes' Joint Venture with Mapfre for the Spanish and Latin American countries.

Since beginning of 2012 EH Ré SA has started to assume not only trade credit insurance from EH Group companies, but also bonding and fidelity business from EH Group.

Mainly the business from the EH business units located in the European Union (EU) are ceded to EH Ré SA with the exception of the German, French and Italian (only from underwriting year 2017 onwards) branches of Euler Hermes SA (EH SA) whereas the Asian Pacific branches of EH SA started to cede directly to EH Ré SA from underwriting year 2017.

EH Ré SA has two main LoBs: credit insurance and bonding.

For the purposes of Solvency II reporting, these LoBs fit into the Solvency II LoB: 9. credit and suretyship insurance.

A.1.4. Significant events

No significant event affected EH Ré SA during the year 2017.

A.2. Underwriting Performance

A.2.1. Aggregated underwriting performance

The table below compares the aggregated underwriting performance as of 31.12.2017 recognized in International Financial Reporting Standards (IFRS) with the underwriting performance as of 31.12.2017 recognized in LuxGAAP.

Figure 2: **Aggregated underwriting performance as of 31.12.2017 (LuxGAAP vs IFRS)**

31.12.2017 (In K€)	LuxGAAP	IFRS	Δ	%
Gross earned premiums	471,664	472,156	- 492	-0.1%
Claims costs	- 189,862	- 190,290	428	-0.2%
Gross operating expenses	- 157,767	- 161,103	3,336	-2.1%
Gross technical result	124,035	120,764	3,272	2.7%
Outward result	- 125,690	- 125,791	102	-0.1%
Technical result	- 1,654	- 5,028	3,373	-67.1%

As part of EH Group, EH Ré SA performs analyses and discloses its reports and publications on an IFRS basis. The difference in gross operating expenses between LuxGAAP and IFRS is explained by an FX adjustment done in LuxGAAP.

Considering that the difference between LuxGAAP and IFRS of every component of the technical result disclosed in the table below is not significant, the studies performed in the section on underwriting performance are performed in IFRS.

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

Figure 3: **EH Ré SA aggregated Underwriting Performance (International Financial Reporting Standards (IFRS))**

In K€	2017	2016	Δ	%
Gross earned premiums	472,156	645,407	- 173,251	-26.8%
Claims costs	- 190,290	- 281,611	91,321	-32.4%
Gross operating expenses	- 161,103	- 206,168	45,065	-21.9%
Gross technical result	120,764	157,628	- 36,865	-23.4%
Outward result	- 125,791	- 147,409	21,618	-14.7%
Technical result	- 5,028	10,219	- 15,247	-149.2%

At the end of December 2017 EH Ré SA's Gross Earned Premiums and Claims costs decreased respectively by 26.8% and 32.4% mainly because the Italian business is no longer ceded to EH Ré SA.

In the meantime, the Outward result has a negative impact. The net claims ratio increase from 50% to 53%, mainly due to some large losses and to the fact that the stop loss was not yet in place in APAC in 2017.

As a result, the net technical result is strongly impacted and decreases by 15M€.

A.2.2. Underwriting performance by material geographical area

The following table summarizes the underwriting performance split by material geographical areas.

Figure 4: **Underwriting performance by geographical areas (IFRS figures)**

	Trade Credit business							Bonding	Fidelity
	NEUR	France	APAC	MMEA	EH WA	Others	Trade Credit business TOTAL		
Earned premiums after rebates	**221 141**	**3 935**	**52 165**	**1 859**	**105 050**	**59 163**	**443 312**	**28 974**	**-130**
vs Q4 2016	*219 799*	*619*	*51 753*	*147 608*	*127 889*	*56 842*	*604 511*	*40 788*	*109*
Total Claims	**-116 567**	**6 517**	**-47 190**	**22 600**	**-30 999**	**-27 477**	**-193 115**	**2 789**	**36**
vs Q4 2016	*-90 427*	*2 417*	*-33 944*	*-71 222*	*-62 843*	*-23 600*	*-279 624*	*-1 940*	*-46*
Loss ratio	**53%**	**-166%**	**90%**	**-1216%**	**30%**	**46%**	**44%**	**-10%**	**28%**

A.3. Investment Performance

A.3.1. Income and expenses arising from investments

The table below compares the investment performance as of 31.12.2017 recognized in IFRS with the investment performance as of 31.12.2017 recognized in LuxGAAP.

Figure 5: **Investment performance as of 31.12.2017 (LuxGAAP vs IFRS)**

31.12.2017 (In K€)	LuxGAAP	IFRS	Δ	%
Current income from bond	2,291	2,291	0	0.0%
Current income from cash and other	-	0	0	-100.0%
Current investment income	2,291	2,291	0	0.0%
FX result (net)	- 33	937	970	-103.5%
Investment expenses	-	- 205	205	-100.0%
Real. G/L, imp. (net) fixed income	-	-	-	0%
Realized gains/losses	-	-	-	0%
Total investment income (incl interest expenses)	2,258	3,023	- 764	-25.3%

With regard to Foreign Exchange (FX) result, the change from local accounting to reporting accounting in IFRS is recognized in equity meanwhile in LuxGAAP this change is recognized in Profit & Loss (P&L).

As part of EH Group, EH SA performs analyses and discloses its reports and publications on an IFRS basis. Regarding the previous differences between LuxGAAP and IFRS recognition and considering that the difference between LuxGAAP and IFRS of every component of the investment income disclosed in the table below is not significant, the studies performed in the section on investment performance are performed in IFRS.

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

Figure 6: **EH Ré SA aggregated Investment Performance (IFRS)**

In K€	2017	2016	Δ	%
Current income from bond	2,291	2,732	- 440	-16.1%
Current income from cash and other	0	38	- 38	-100.0%
Current investment income	2,291	2,769	- 478	-17.3%
FX result (net)	937	- 953	1,890	-198.3%
Investment expenses	- 205	- 201	- 4	2.2%
Real. G/L, imp. (net) fixd inc	-	537	- 537	-100.0%
Realized gains/losses	-	537	- 537	-100.0%
Total investment income (incl interest expenses)	3,023	2,152	870	40.4%

The investment income stood at 3M€, significantly up compared to 2016 (+40.4%), driven by an improvement of the FX result (0.9M€, versus -0.9M€ in 2016).

A.3.2. Gains and losses recognized directly in equity

Figure 7: **EH Ré SA Gains and losses recognized directly in equity**

In K€	Subscribed capital	Revenue reserve	Unrealized gains & losses	Shareholder equity
Opening shareholder equity	16,222	80,580	2,531	99,333
Net income of the current year	0	-1,216	0	0
AFS, Bonds investments, unrealized gains/losses	0	0	-1,130	0
Closing shareholder equity	16,222	79,364	1,400	96,986

The overall equity decrease is mainly due to the decrease in net result, in addition the unrealized gains/losses (G/L) have decreased.

A.3.3. Investments in securitization

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

Figure 8: **EH Ré SA Investment in securitization (IFRS)**

	In M€	Exposure	Exposure as % of assets
As of 31.12.2016	Mortgages	14.3	8.2%
	Covered	43.6	25.1%
	31.12.2016 Securitization	**57.8**	**33.3%**
As of 31.12.2017	Mortgages	7.0	3.7%
	Covered	36.2	19.0%
	31.12.2017 Securitization	**43.2**	**22.7%**

The rationale behind those investments is disclosed below:

- Mortgages: in 2017, mortgages amount was at 7M€, decreasing by 7.2M€ compared to 2016 fully explained by the repayment of two mortgages;
- Covered: exposure in covered bonds has decreased due to the difficulty to source covered bond with positive yields in line with the target duration strategy.

A.4. Performance of other activities

Confirmed by a discussion with EH Re on April 3rdEH Ré SA does not have any other source of income and expenses over the reporting period.

A.5. Any other information

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

B. System of governance

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

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

Note: Several of the following sub-sections are based on the Solvency II Policies of EH Ré SA updated beginning of 2018. No significant changes were made compared to the 2017 Policies.

B.1. General information on the system of governance

B.1.1. Structure of the system of governance

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

B.1.1.1. The Board of Directors

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

The BoD has to meet as often as necessary and at least 3 times per year.

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

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

B.1.1.2. The Audit Committee

Until 2016 the Audit Committee set up by the BoD of EH Re AG also covered EH Ré SA. Following changed FINMA requirements and changes in Luxembourg law, a separate Audit Committee has been set up for EH Ré SA in December 2017.

The Audit Committee is in charge of the following topics:

- Review that company's risks and internal controls are well managed and under control;
- Internal and external auditors follow up;
- Accounts (closing and quarterly accounts) and external auditors "management letter" review;
- Internal audit activity review (annual report, specific review if requested);
- Annual Audit Program review (final validation has to be provided by the EH Group's Shareholder Audit Committee);
- If needed, audit program modification in coordination with the Group Audit Director;
- Review of legal and compliance report.

B.1.1.3. The Financial Committee

The Financial Committee reviews the investment strategy of EH Ré SA and gives advice to the management according to the guidelines defined by the Group Financial Committee and the strategy defined by the BoD. It meets before or during each BoD.

B.1.1.4. The Board of Management

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

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

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

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

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

B.1.1.5. The Risk Committee

Since both companies EH Re AG and EH Ré SA, referred as Euler Hermes Reinsurance (EH Re), are fully integrated from an administrative perspective and as well on business perspective, they are automatically within the scope of the Risk Committee (RiCo) which has a global view on both entities.

The EH Re's RiCo has a specific and key role within the EH Re (including both EH Re AG and EH Ré SA) risk management system along with the other Committees (i.e. the investment strategy and underwriting strategy).

It ensures transparency on EH Re capitalization and risk profile, the monitoring of the implementation of the Solvency II directives within EH Re, establishing a comprehensive risk culture and processes within EH Ré SA by means of open communication and a common understanding of the risk profile.

B.1.1.6. The Loss Reserve Committee (LRC)

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

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

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

B.1.1.7. The Underwriting Committee

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

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

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

B.1.1.8. The Integrity Committee

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

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

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

B.1.1.9. Key Functions

EH Ré SA has the following independent Key Functions:

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

Regarding Solvency II regulation, Compliance, Actuarial Function and Internal Audit operate within the risk management framework which is composed of three lines of defence. The first line of defence is composed of risk taking units and involves the Risk Underwriting Function, the Reinsurance Function, the Investment Function and the Market Management, Marketing, Commercial and Distribution Function (MMCD). The second line of defence involves the Compliance Function, the Risk Management Function and the Actuarial Function. Finally the third line of defence involves the Internal Audit Function. A chart disclosed in section B.3.1.5 discloses further details on the objectives of the three lines of function governance.

Thanks to the implementation of the risk management framework, policies, processes in place, the Key Functions as well as the outsourced Key Functions are deemed as well-defined and appropriate on 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 Key Functions mentioned above is disclosed in the following sections.

EH Ré SA’s system of governance remained stable over the reporting period.

B.1.2. Remuneration policy

B.1.2.1. Definitions

Senior Management is defined as the members of the BoM

A risk taker is defined as a person whose actions may have a significant impact on the entity's risk profile. These are typically employees with a profit and loss responsibility and the respective authority to assume risks, including strategic risks, on behalf of the entity. EH Ré SA has identified the following Risk Takers:

- Non key functions which typically involve high risk taking subject to an assessment based on local regulatory requirements:
  - Heads of risk underwriting, investment, treasury, sales and distribution and finance;
  - Committee chair of relevant committees such as the investment committee or product committee provided that the committee has decision making power similar to the Board.
- All direct reports to the BoM and direct reports to typical risk taking positions are reviewed and may be included based on a further risk assessment.

For purposes of the remuneration policy, Key Functions are:

- The Actuarial Function;
- The Risk & Capital Management Function;
- The Compliance Function; and
- The Internal Audit Function.

Key Function staff comprises the further persons working within Key Functions:

- With a direct reporting line to the Key Function holders and independent decision rights; or
- Being experts with independent decision rights.

B.1.2.2. Principles for remuneration

B.1.2.2.1. Remuneration appropriateness

To ensure the appropriateness of the remuneration of individuals and general pay levels, vertical and horizontal benchmarking is performed.

B.1.2.2.2. Target Setting Principles

According to a business specific strategy, a three-year plan is prepared and aggregated to form the financial plans for EH Ré SA.

Selected key performance indicators from the financial plans form the basis for the financial and operational targets which reflect the strategy of EH Ré SA are designed to:

- Avoid conflicts of interest;
- Avoid encouraging risk-taking that exceeds the risk tolerance limits of the EH Ré SA;
- Reflect appropriately the material risks and their time horizon; and
- Take into account the overall success of EH Ré SA.

B.1.2.2.3. Principles for Board of Directors remuneration

To avoid a conflict of interest, members of BoD only receive a fixed remuneration subject to attendance. Mandates carried by members of the BoM of EH Group in BoD of EH Ré SA are not compensated at all.

B.1.3. Material transactions

There has not been any transaction with shareholders or members of the Administrative Management or Supervisory Board during the year 2017.

B.2. Fit and Proper requirements

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

The application of the Solvency II regulation requires a high Fit and Proper standard for Senior Management and Key Function holders across EH Ré 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 Ré SA's scope. This includes the following people:

- **Members of the BoD** are responsible for overseeing and advising the BoM on carrying out the business;
- **Senior Management** is defined as members of the BoM, which is the collective body responsible for the steering of the Euler Hermes;
- **Key Function holders** are the persons responsible for carrying out the independent the following key control functions:
    - Compliance Function;
    - Risk Management Function;
    - Actuarial Function;
    - Internal Audit Function;
    - Accounting & Reporting Function

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

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

B.2.1.2. Details on Fit & Proper requirements

B.2.1.2.1. Fitness

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 as well as common behaviors and values.

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

a. Members of the BoD

Members of the BoD collectively possess qualification, knowledge and expertise to appropriately and independently fulfill their tasks and responsibilities in particular regarding overseeing and advising the BoM.

Specifically, the Members of the BoD have to:

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

b. Members of the BoM

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

- Insurance and financial markets, i.e. an understanding of the business, economic and market environment in which EH Ré SA operates;
- The business strategy and business model of EH Ré SA;
- EH Ré SA's system of governance, i.e. an understanding of the risks EH Ré SA is facing and the capability of managing them and of assessing the capacity of EH Ré SA to deliver effective governance, oversight and controls;
- Financial and actuarial analysis, i.e. the ability to interpret EH Ré SA's financial and actuarial information, identify key issues, put in place appropriate controls and take necessary measures based on this information; and
- Regulatory framework and requirements, i.e. an understanding of the regulatory framework in which EH Ré SA operates and the capacity to adapt to changes to it.

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

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

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

c. Key Function holders

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

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

B.2.1.2.2. Propriety

Whereas certain requirements must be positively fulfilled for a person to be considered fit, in respect of Propriety there are no such positive criteria, but rather negative circumstances, which are hints that a person may not be Proper. Thus the propriety assessment does not consist, like the fitness assessment, in the verification that requirements are fulfilled, but in the consideration of any hint which may cast a doubt on a person's Propriety. Such hints are:

- Any previous conviction, or current procedure possibly leading to a conviction, of a criminal offence, in particular offences under any financial services legislation (e.g. laws on money laundering, market manipulation or insider dealing, fraud and financial crime), breaches of companies, insolvency and consumer protection laws;
- Any previous conviction, or current procedure possibly leading to a 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 Ré SA business.

B.2.2. Description of processes and procedures in place

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

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

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

B.2.2.1.1. Job descriptions/Fitness requirements for the position

Job descriptions or fitness criteria checklists are used to fill open positions for Key Function holders, both internally and externally. The HR function ensures that the job descriptions for open positions are in place, in line with corporate communication requirements and local laws and regulations, including anti-discrimination regulations.

B.2.2.1.2. Curriculum vitae/background checks

B.2.2.1.2.1. External candidates

All candidates must submit current curriculum vitae at the beginning of the recruiting process. Internal candidates for Key Function staff positions who have been employed by EH Group for more than four years are exempt from this requirement. The final candidate for a position within the Senior Management or as Key Function holder must be subject to a background check, comprising of:

- The submission by the candidate of copies of his required qualifications;
- The submission by the candidate of a proof of good reputation and of no previous bankruptcy, including a certificate of good conduct or adequate documents (e.g. criminal records check, police clearance certificate), presented not later than three months after the date of issue; and
- A reference check and a public media search conducted by the recruiting HR function, subject to applicable privacy laws and regulations.

Each respective Key Function holder determines for which Key Function staff positions the final candidates are subject to a (partial) background check. In doing so the Key Function holder considers the positions' level of responsibility, e.g. direct reporting line to the Key Function holder. In the event that any of the documents to be submitted by the candidate for the background check is not available, the HR function, responsible for the recruitment, decides on the adequate measure (e.g. request for a statutory self-declaration to serve as proof).

B.2.2.1.3. Interviews

All candidates have at least two interviews, one of which with an HR professional.

B.2.2.1.4. Assessment by CAA

Prior to the nomination of the candidate to her/his role, the candidate must be vetted by CAA.

As a consequence, an assessment file is submitted to CAA and if necessary, an interview with CAA is organized.

B.2.2.1.5. Recruitment of members of the Board of Directors

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

B.2.2.2. Processes for ensuring ongoing Fitness and Propriety

a. Regular reviews of the BoD

The Boards of Directors can be subject to further Fit & Proper assessments according to local laws and regulations.

b. Regular reviews of the Senior Management and of Key Function holders

A person's Fitness and Propriety is reviewed on an ongoing basis and confirmed through annual performance reviews which include:

- The assessment of integrity and trust which both form an integral part of the mandatory behavioural targets. Hence, annual performance reviews include an assessment of the proper behaviour of Senior Management and Key Function members within their roles;
- The assessment of the leadership and management skills as applicable, as well as the relevant knowledge for the specific role and the relevant Fitness criteria checklist or job description.

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

Fitness requirements are deemed to be met if the position holder's sustained performance is rated at "fully meets/exceeds or far exceeds" in the annual performance process or at least "solid performer" in the performance and potential matrix.

c. Ad hoc reviews

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

- Relevant breach of the EH Ré SA Code of Conduct;
- Failure to submit required self-disclosure statements, e.g. statements of accountability or disclosure of security trading;
- Investigation or any other procedure possibly leading to a conviction of a criminal, disciplinary or administrative offence (in the case of an administrative or disciplinary offence, the relevance to the EH Ré SA business and the person's position are taken into account), or to administrative sanctions for non-compliance with any financial services legislation;
- Evidence of financial or accounting irregularities in her/his field of responsibility;
- Signs of indebtedness such as undisputed writs of execution or garnishment for payments owed by the Key Function holder;
- Evidence of procedure to withdraw a professional license or exam against the person;

- Substantiated complaint within EH Ré SA (e.g., whistleblowing) or from supervisors;
- In case of a “does not meet” or “partially meets” rating within the annual performance assessment or in case of “low sustained performance” in the CDC (left boxes in the performance and potential matrix).

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

B.2.2.3. Outsourcing of a Key Function

In cases where a Key Function is outsourced according to the EH Ré SA outsourcing policy, the Due Diligence of the Provider by the Business Owner comprises a description of the process used by the Provider to ensure the Fitness and Propriety of its personal and a written confirmation that the Provider’s personal working within the outsourced Key Function is Fit & Proper.

B.2.2.4. Assessment results

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

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

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

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

B.3. Risk management system including the own risk and solvency assessment

B.3.1. Description of risk management system

B.3.1.1. Risk management framework

Effective risk management is based on a common understanding of Risks, clear organizational structures, and comprehensively defined risk management processes. The following principles serve as a basic foundation upon which EH Ré SA risk management approach is implemented and conducted:

- BoM is responsible for the Risk Strategy and Appetite;
- RC is the central parameter used to define Risk Appetite as part of the solvency assessment. It serves as key indicator in the decision-making and risk management process with respect to capital allocation and limits;
- Clear definition of the organizational structure and risk processes;
- All material risks, including both single risks and risk concentrations across one or more risk categories, are measured using consistent quantitative and qualitative methods;
- A consistent limit system is in place to support adherence to the Risk Appetite and to manage concentration risk exposure and, where appropriate, assist with capital allocation;
- Appropriate risk mitigation techniques are employed to address instances where identified Risks exceed, or otherwise breach, the established Risk Appetite (e.g. limit breaches);
- The Risk Strategy and corresponding Risk Appetite are transferred into standardized limit management processes covering all quantified Risks throughout EH Ré SA and taking into account the effects of risk diversification and risk concentration;
- 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;
- Risk management processes are embedded wherever possible directly within business processes, including processes involving strategic and tactical decisions as well as day to day business processes that impact the risk profile;
- All business decisions with potential to materially impact the risk profile, including both regularly recurring and ad-hoc decisions and all decisions taken by the BoM, are documented timely and in a manner that clearly reflects consideration of all material risk implications.

EH Ré SA BoM is responsible for the Risk Strategy and appetite. The Risk Strategy reflects the general approach towards the management of all material risks arising from the conduct of business and the pursuit of business objectives. The Risk Appetite elaborates on the Risk Strategy through the establishment of the specific level of risk tolerance for all material quantified and non-quantified risks, and thereby the desired level of confidence, in relation to clearly defined risk and performance criteria, taking into account shareholders' expectations and requirements imposed by regulators and rating agencies. Five core elements define EH Ré SA Risk Appetite:

- Setting target ratings for top risks;
- Monitoring the capitalization level and solvency ratios;

- Managing liquidity to ensure flexibility;
- Defining quantitative financial limits;
- Defining policies, standards and functional rules.

B.3.1.2. Risk management processes

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

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

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

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

- **Solvency assessment**: a comprehensive assessment of all risks inherent to the business in order to determine whether current and future capital will be sufficient to ensure on-going solvency against these risks. The solvency assessment constitutes the Own Risk and solvency assessment (ORSA). EH Ré SA BoM discusses the solvency assessment, take appropriate actions based on the findings and report the outcome to their local Supervisor;
- **RC calculation**: EH Ré SA calculates their RC with respect to all material risks of the risk categories Market, Credit, Business and Operational Risk (using Risk and Control Self-Assessment (RCSA) and Scenario Analysis, further details can be found in section C.5.1), as well as Underwriting Risk on a quarterly basis;
- **Top Risk Assessment (TRA)**: a periodic analysis of all material quantified and non-quantified risks to identify and remediate significant threats to financial results, operational viability or the delivery of key strategic objectives. The TRA covers all risk categories as well as risk concentrations. EH Ré SA performs an annual full run as well as quarterly reviews of the TRA and reports their results to Group Risk & Capital Management (R&CM);
- **Further risk management processes**: in addition to the TRA, EH Ré SA manages all material risks of all risk categories through the application of specific risk management processes;
- **Risk management Framework Quality Assurance:** A self-assessment of the effectiveness of the local Risk Management Function, as well as implementation maturity of the risk management framework and corresponding risk management processes, are performed by EH Ré SA Risk Management Function following the Risk Assessment, Diagnostics, Analysis and Reporting (RADAR) process. Based on the results of the RADAR process, EH Ré SA take action to address any identified weaknesses in their risk management framework.

B.3.1.3. Risk management implementation

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

- Implementing EH Ré SA risk policy into EH Ré SA system of governance and in particular EH Ré SA corporate rules as appropriate to EH Ré SA business and risks;
- Developing and implementing EH Ré SA Risk Strategy, Appetite and limits in line with EH Ré SA business strategy and the Group Risk Strategy;
- Establishing a Risk Management Function responsible for the independent risk oversight under the responsibility of an EH Ré SA Board Member
- Implementing the risk management framework and corresponding processes, including the solvency assessment; and
- Approving and adapting the IM to ensure its adequateness for the use by EH Ré SA.

Risk Management Function responsibilities are the operational execution of:

- Regularly reviewing, on at least an annual basis, the consistency between the Risk Strategy and business strategy, and proposing changes to the Risk Strategy and Risk Appetite to the BoM;
- Assessing on a regular basis the adequacy of the Risk Policy Framework towards fulfillment of regulatory requirements and achievement of the Risk Strategy and ensuring updates occur as appropriate, specifically with respect to the risk policy and standards for the management of:
    - Underwriting and reserving;
    - ALM;
    - Investment Risk;
    - Liquidity Risk;
    - Concentration Risk;
    - Operational Risk ;
    - Reinsurance and other insurance risk mitigation techniques.
- Overseeing the execution of the risk management processes;
- Monitoring and reporting EH Ré SA risk profile including the calculation and reporting of the RC;
- Supporting the BoM through the analysis and communication of risk management related information and by facilitating the communication and implementation of its decisions;
- Escalation to the BoM in case of material and unexpected in-creases of risk exposure;
- Reporting the solvency assessment as well as any further material risk management related information to EH Group R&CM;
- Developing and implementing the IM, in particular its local components, including validation and suitability assessments.

The RiCo is responsible for:

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

The Financial Committee (FiCo) is responsible for approving individual financing transactions in line with RC considerations.

The Risk Management Function has intense interfaces and a close cooperation with other functions in order to effectively implement the risk management framework. In line with regulatory requirements reciprocal oversight is exercised amongst the Key Functions.

B.3.1.4. Risk Policy Framework

The Risk Policy Framework 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 (ERM) framework as minimum requirements to apply.

The capacity of having this framework being applied and respected within EH Ré SA represents a risk foundation. Hence, it is properly monitored by R&CM team.

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

B.3.1.5. Three lines of defence

As required by Solvency II, EH adopted a "Three lines of defence" model for risk governance, with clear responsibilities between the different organizational functions as described hereafter:

Figure 9: **"Three lines of defence" model**

Board
Strategy, Risk Appetite and policy

First line: Risk ownership	**Second line: Risk control and monitoring**	**Third line: Independent assurance**
EH Risk taking business units supported by the management Delegated authority from the Board to: • Develop and implement the Internal Model; • Measure and manage business performance; • Develop and implement internal control and risk management framework; • Ensure that the business is managed within the agreed Risk Appetite.	**EH Risk Management, Actuarial and Compliance Functions** Provides objective oversight of the management of risk. Key responsibilities include: • Design and deployment of overall Internal Model governance framework; • Development and monitoring of policies and procedures; • Monitoring adherence to framework and strategy; • Compliance rules.	**EH Internal Audit Functions** Provides independent and objective assurance over the effectiveness of corporate standards, including assurance that the risk management process is functioning as described and identifies improvement opportunities.

B.3.1.6. Independence

The Risk Management Function is under the competence field of the BoD member in charge of functions related to Actuarial Function, Risk Management and Compliance.

The Risk Management Function is a Key Function within the internal control system. Its main objectives are:

- Supporting the first line of defence by helping ensure employees at all levels of EH Ré SA are aware of the risks related to their business activities and how to properly respond to them;
- Supporting the BoM with development of a Risk Strategy and Risk Appetite;
- Monitoring of the risk profile to ensure it remains within the approved Risk Appetite and following up on instances of any Risk Appetite breaches.

The Risk Management Function has a standing within the EH Ré 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, 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 Chief Risk Officer (CRO).

The CRO possesses the qualification, experience and knowledge required to manage the risks relative to the responsibilities of its role.

The CRO, as head of the risk management department to which the Risk Management Function has been assigned is the relevant Key Function holder.

B.3.2. Governance of the Internal Model

B.3.2.1. Responsibilities

The BoM is responsible for approving the application to use the IM to calculate the SCR. The approval is required within the scope of the initial Internal Model Approval Process (IMAP). In addition, the BoM is responsible for confirming the ongoing appropriateness of the IM at least annually signing off the Annual Validation Report.

The EH Ré SA CRO is responsible for ensuring compliance with EH Group standards on model governance aligned with Allianz. Responsibilities of EH Ré SA CRO include:

- Ensure 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;
- Ensure that the persons providing expert judgment possess adequate skills and experience;
- Ensure that all relevant documentation in the model inventory and the IMAP 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 Ré SA's Standard:

- 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;
    - Assessing the suitability of local model components and central model components for local application.

- 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 Ré SA model governance coordinator supports the EH Ré SA CRO by:
    - Gaining approval of the validation plan by EH Ré SA 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 Ré SA;
    - Gathering independent validation results of local model components and documenting these;
    - Following-up the status of the local remediation plans and disclose a status of open and closed findings in EH Ré SA Annual Validation Report;
    - Regularly communicating the status of local validation plan to the Model Governance Coordinator at Group level;
    - Preparing the Annual Model Validation Report.
- EH Ré SA actuarial function, involved in risk modelling topics affecting their area of expertise, including dependencies with other risks.

B.3.2.2. Governance of trade credit insurance & surety model

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

EH Ré SA CRO is responsible for ensuring and supporting an adequate trade credit insurance and surety RC process from the data collection to the review of results. It covers:

- Reliable and timely data input for the Credit Insurance Risk model to meet deadlines;
- High standard of quality level according to criteria;
- Evidence of checks of data and data delivery 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);
- At the end of the process, EH Ré SA CRO gives a statement of accountability to EH Risk & Capital Management (R&CM);
- EH Ré SA CRO ensures that all parameters changes are made according to expert judgment with measure for the impact of such change;
- EH Ré SA CRO ensures that a proper validation process is in place in the Business Unit (BU).

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

A PAAC is organized every quarter with the Risk Information and Claims (RIC) 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 R&CM 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.3.2.3. Material changes to the Internal Model governance

In 2017, a project is initiated to allow storing and tracking of all findings from Plan For Future Improvements and validations in Operational Risk General System. This is currently under implementation within EH and should be fully operational by Q1 2018.

Second, the process to introduce minor and immaterial model changes was adjusted. The new minor and immaterial model change process will allow to:

- Avoid unanticipated movements in quarterly results;
- Avoid operational challenges during the tight closing timelines;
- Have a prospective view on the total impact of all minor and immaterial model changes.

B.3.2.4. Description of the validation process

B.3.2.4.1. Validation plan

The validation plan addresses the issue of sequencing the model validation activities and cycles as appropriate. The Validation Coordinator (VAC) together with the Model Owner (MO) will define as per EH Group standards on model governance aligned with Allianz requirements a validation plan.

B.3.2.4.2. Validation results

The validation report containing the findings and proposed recommendations is ultimately reviewed by the Model and Approval Adjustment Committee (MAAC) and signed-off by the BoM.

It lists and classifies the findings identified during the model review taking into account the materiality of the finding and/or potential misuses as well as the likelihood and the severity of the capital misstatement.

B.3.2.4.3. Validation recommendations follow-up

Planned remediation activities are regularly tracked by the independent validator in order to ensure their timely closure. A progress status report is presented to the MAAC on a quarterly basis.

After the model owner submitted a closure report, the Independent Validator will review it.

Upon completion of its recommendations' validation, the independent validator will consolidate all recommendations statuses into one validation report.

The report will be shared with the MO and feedback collected within 5 working days. Subsequently, the Independent Validator will submit the validation report to the MAAC.

Finally, the independent validator will provide in the annual validation report for BoM approval, a status of all recommendations processed throughout the calendar year together with their impact assessment both on RC and model uses.

B.3.2.4.4. Escalation Procedure

The escalation procedure is necessary in case of disagreement on the validation outcome. In particular, it occurs in the two following situations.

The escalation procedure starts with a notice of escalation submitted by the MO to the Validation with which there is a disagreement, along with the necessary documents and the Group CRO as well as the VAC 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.3.3. Description of ORSA process

The Own Risk and Solvency Assessment (ORSA) draws upon the whole risk management system in order to conclude on the risk profile adequacy over time and different scenarios, taking into account all kinds of risk (quantitative and qualitative).

Therefore, the ORSA has to be considered as being performed on an ongoing basis during normal execution of the risk management framework. This ongoing performance is complemented by a regular comprehensive annual assessment and report, as well as non-regular (i.e. ad-hoc) assessment following significant changes in the risk profile.

This report is dedicated to the Board of Management of EH Ré SA and supports the decision making process.

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

B.3.3.1. Macro process ORSA

Figure 10: **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 the alignment with EH Group requirements;

- Identification of all risks and controls to be considered, by performing several approaches;
- Assessment of all risks based on the IM and additional risk assessment methods for risks not covered by the IM. Moreover, projections of own funds, RC 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 EH Ré SA BoD before any official communication. Appropriate results are shared with relevant other reporting/ analysis processes.

B.3.3.2. ORSA governance

- The BoD challenges and validates the ORSA report;
- EH Ré SA outsources its management including the BoM duties to the BoM of EH Re AG through an SLA. Accordingly the BoM is actively:
    - Ensuring proper implementation of its standard;
    - Challenging the outcome of the ORSA and signing-off the final report (up to now signed-off by BoD);
    - 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 report prior to submission to the BoD;
    - Monitoring the execution of any follow-up actions;
    - Requesting performance of a non-regular ORSA if any events potentially altering the last overall ORSA conclusions occur.
- The CRO is responsible for:
    - Coordinating the ORSA process, the various contributors and preparing the ORSA Report;
    - Annually assessing the compliance of the ORSA report/process with regulatory requirements;
    - Providing the RiCo with insight on the ORSA results and distributing them to all key stakeholders related to business strategy, Risk Strategy and risk and capital management;
    - Advising the BoD regarding the ORSA results;
    - Communicating with supervisory authorities.

B.3.3.3. Capital management strategy

To meet Solvency II requirements in an efficient manner, EH Ré SA has set in place target capitalization ratios and limits to fulfil any regulatory and financial obligations it could have.

In accordance with the standards and guidelines coming from EH Group, EH Ré SA updated its capital management policy in 2016, willing to have an even more precise capital management. EH Ré SA thereby put in place an additional set of limits, to supplement the previous minimum ratios and target ratios.

- As Solvency II ratio in 2016 was above the upper limit, it has been decided to update the Capital Management framework in 2017, as defined below: EH Ré 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. For 2017, the capital management ratio of EH Ré SA was set at a level of 220%;
- In case of a breach of the capital management range in any of the two dimensions, the BoD 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 Upper Bound is deemed excess capital. This excess capital is made available to EH Group as early as possible over the plan horizon;
- If EH Ré SA falls below the minimum capital ratio the BoD will take measures to re-establish the minimum capital ratios in due time;
- If EH Ré SA falls below the Action Barrier during the course of the year but stays above the minimum capital ratio, it is still expected to pay out the planned dividend while any adjustments will be considered to the planned dividends over the remaining plan horizon;
- If EH Ré SA drops below the Alert Barrier (which is equal to 75% of the distance between the minimum capital ratio and the Management Ratio), the BoM is expected to establish a contingency plan in line with the Group to conserve its solvency within due time.

B.4. Internal control system

B.4.1. Description of internal control system

B.4.1.1. Internal control framework

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

EH Ré SA applies an Integrated Risk and Control System (IRCS) to support effective management of Operational Risks, including reporting risks and compliance risks (e.g. information security, business continuity and outsourcing).

The EH Ré SA internal control system has the following objectives:

- To safeguard EH Ré 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 risks carried by EH Ré SA's activities and processes;
- To provide relevant information to the management bodies as part of their decision-making processes;
- To ensure compliance with the applicable laws and regulations.

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

They are incorporated into EH Ré SA operational and organizational configuration and subject to continual review. 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 internal controls hence describe all the activities undertaken by and within Euler Hermes to achieve specific control objectives, such that the controls are put in place and applied across all segments and sectors of activity. These controls ensure a permanent assessment of the effectiveness of relevant processes and procedures (including those pertaining to operations and reporting), their coherence and their proportional nature within EH Ré SA, as well as the potential actions that may be taken to rapidly address any deficiencies.

The internal control system encompasses different control concepts. In addition to general aspects related to control activities, specific controls are also performed, notably with respect to levels relating to legal entities, financial reporting, IT, venture capital calculation, underwriting (including products and distribution) and investments. Alongside these controls, reports are submitted to management.

B.4.1.2. General control elements

The following key principles govern the processes and the manner in which governance and controls are organized at EH Ré 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 Ré 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 Ré SA, English is the common language used at Euler Hermes;

- 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 Ré SA applies the three-lines-of-defence internal control model, with graded control responsibilities:

- The first line of defence is implicated in the day-to-day management of activities and in the management of risks and controls;
- The second line of defence entails performing independent controls and challenging the day-to-day management of activities and controls carried out by the first line;
- The third line of defence provides independent assurance with respect to the first and second lines of defence in the form of periodic assessments (internal audit).

The governance & control policy clearly states what is expected of each line of defense 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. This rule framework is made available to all members of personnel via intranet and, where applicable, in the languages of all the countries in which EH Ré SA operates. It must also comply with the applicable regulatory requirements.

B.4.1.3. Specific elements

B.4.1.3.1. Internal control Over Financial Reporting (ICOFR)

Euler Hermes has introduced controls over its financial reporting (ICOFR) in order to identify and mitigate the risk of material error in its consolidated financial statements and management reports.

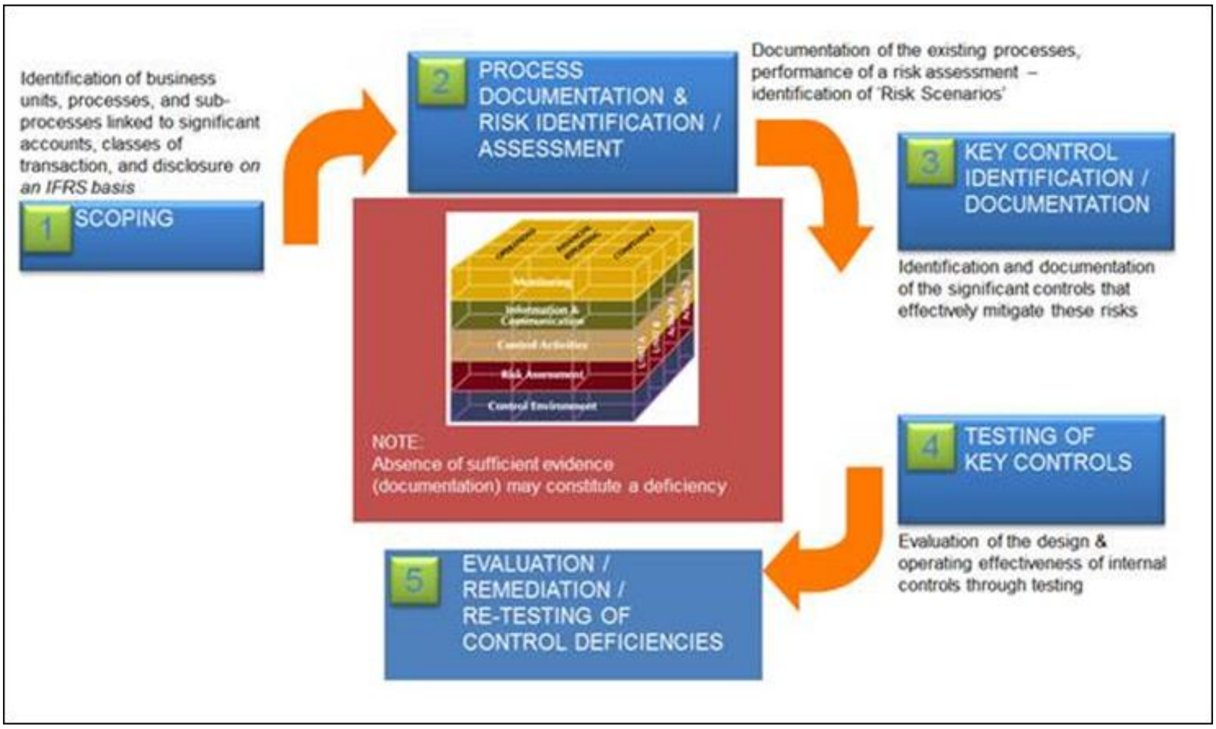
These controls seek to encompass all relevant financial reporting components, notably:

- The processes relating to financial reporting;
- The policies, procedures and controls that need to be applied in order to prepare reliable financial statements;

- Accounting data that provides a true picture of the transactions entered into and the measures taken to prepare the financial statements;
- Assurance that income and expenses have been duly authorised;
- Assurance as to the prevention or timely detection of non-authorised transactions that might have a significant bearing on the financial statements.

The ICOFR process hinges on a structured approach, as shown in the following diagram:

Figure 11: **ICOFR Process**



B.4.1.3.2. IT controls

B.4.1.3.2.1. Information security framework for IT security

In order to ensure an appropriate level of preventive, detective and responsive information security controls, Euler Hermes has developed and operates the Group Information Security Framework for IT security. This Framework addresses general principles of information security (e.g. access, use, transfer and storage of information) and outlines most important information security processes (such as incident handling, governance and key controls).

Key controls have been set up, based on the ICOFR process. Testing of the control effectiveness must be done on at least an annual basis. Deficiencies are reported to the relevant Management Committee (MC) member responsible for information security.

B.4.1.3.2.2. IT controls around financial reporting

Applications and end user computing tools in the initiation, recording, processing and reporting of financial transactions, related risks and controls are evaluated as part of the overall ICOFR process.

B.4.1.3.3. Controls over the Solvency Capital Requirement

Specific controls are in place to gain assurance as to the relevance of the IM.

B.4.1.3.4. Controls over the underwriting of insurance risks

The MMCD and RIC rules describe the Euler Hermes general requirements that govern its businesses on a local, regional and central level. Supervisory controls such as file analyses or audits must be performed locally.

B.4.1.3.5. Controls over investments

As part of the general approach to investment management, EH Ré SA applies a series of controls to its investments:

- Investments are subject to the general risk management framework of EH Ré SA, including the Risk Strategy and its corresponding Risk Appetite (e.g. limits). The BoM incorporates the investment boundaries established by the Risk Appetite into an investment strategy that includes a clearly defined Strategic Asset Allocation (SAA);
- The SAA considers the broader strategy of effective asset-liability-management and establishes quotas and leeways for all main asset classes on a segment level. Following the management dialogue, adherence to the SAA and corresponding limits defined within the Risk Strategy is monitored on an ongoing basis;
- The investment management is complemented by investment strategy processes designed to ensure that adequate portfolio management and controls around mandating internal and external asset managers exist. For certain investments (e.g. alternatives), specific investment criteria have been defined to further mitigate investment risks and provide transparency;
- A financial control process governs the management and oversight of processes relevant for the planning, monitoring and controlling of investment results and risks. These processes are supported by investment reports and a standardized process for the review and monitoring of new financial instruments.

The above investment control environment is supplemented by an investment governance structure, which in particular includes:

- A clear allocation of investment responsibilities;
- A dedicated Committee structure;
- The establishment of EH Investment and Treasury Group (ITG) as the Group's internal service provider for investment management advice;
- Investment related corporate rules (e.g. investment guidelines);
- The third line controls in Investment Management is executed by a dedicated Internal Investment Audit team;
- With respect to the investment of third party assets (EH Asset Management), separate control mechanisms exist pursuant to specific external regulatory requirements. Adherence thereto is governed by the responsible function.

B.4.2. Implementation of Compliance Function

B.4.2.1. Compliance risk areas

The risk areas assigned to the Compliance Function (compliance risk Areas) include:

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

B.4.2.2. Compliance activities

As part of the internal control system of Euler Hermes, the Compliance Function exercises a set of activities mainly by establishing and maintaining an adequate and effective compliance management system, reflecting the actual risk exposure and the principle of proportionality. Within the compliance management system, the Compliance Function:

- Promotes and embeds within EH Ré SA a culture of compliance and integrity consistent with the principles of the Code of Conduct for Business Ethics and compliance and supports senior management in communicating an appropriate tone-at-the-top;
- Develops and provides training and communication on compliance risk customized to the needs of the target group. It also supports the development and delivery of training on compliance aspects by other functions;
- Supports and provides advice to senior management and to the operating business on how to identify, assess and effectively manage EH Ré SA compliance risk. This includes providing advice on compliance principles and procedures and, where appropriate and in cooperation with the Legal Function, advice on laws and regulations;
- Establishes a framework of written compliance principles and procedures. In addition, the Compliance Function provides guidance on appropriate implementation of these principles and procedures through programs, tools and documents (such as manuals). The framework is reviewed at least on an annual basis to appropriately reflect any developments, changes and upcoming trends in regulatory, market or industry standards;
- Follows up on possible breaches of compliance principles and procedures or any other suspected wrongdoing and conducts investigations. It establishes and maintains a reporting mechanism that facilitates employee reporting incl. anonymous reporting (“whistle blowing”) of possible illegal or improper conduct;
- Coordinates the compliance related communication with competent public and regulatory authorities with regard to all compliance risk areas in cooperation with other stakeholders;

- Monitors compliance with applicable laws and regulations, assesses the adequacy of processes, procedures and controls mentioned in the compliance policy or otherwise designed to prevent or detect non-compliance and regularly reports to senior management on compliance risk.

B.4.2.3. Compliance processes

B.4.2.3.1. Perform compliance risk assessment

On a regular basis, the Compliance Function identifies documents and assesses the compliance risk associated with EH Ré SA business activities. The Compliance Function has to support the Risk & Capital Management function in the TRA and in the RCSA. In the TRA the Compliance Function top-down identifies and assesses the material compliance risk scenarios at least on an annual basis. As regards the RCSA, the Compliance Function identifies and assesses bottom-up all compliance risk and participates in the development of the underlying methodology as well as the scoping.

Compliance Function and R&CM cooperate closely to manage these risks. Compliance contributes to data collections and risk assessments performed by R&CM. Each compliance risk assessments are aligned with the respective risk function in terms of methodology, timing and procedure.

B.4.2.3.2. Monitor legal changes

The Compliance Function, in consultation with legal and other functions as appropriate, monitors potential changes to the legal environment that can affect EH Ré SA operations and analyses the impact at an early stage. This monitoring process can be organized in a centralized or de-centralized manner. In practice, based on the respective assignment for the Compliance Function, the monitoring of relevant legal areas is often performed by different departments (e.g. compliance, legal, HR or Tax department).

Their relevant assessments are reported to management in an appropriate and timely manner The local Compliance Function is ultimately responsible for monitoring legal changes that are relevant for the business undertaking insofar as the different departments.

B.4.2.3.3. Establish a compliance plan

The Compliance Function develops and implements an annual compliance plan that ensures that all relevant areas of the undertaking are appropriately covered, taking into account their susceptibility to compliance risk. The compliance plan outlines the planned performance of compliance control activities, detailed according to the relevant control areas and the underlying timeframe. The Compliance Functions set-up its compliance plan considering the compliance plan and priorities established at EH Group-level as well as the results of EH Ré SA own compliance risk assessment.

The annual compliance plan is submitted to the respective top management and reviewed for necessary changes at least on a semi-annual basis.

B.4.2.3.4. Compliance reporting

The Compliance Function reports on compliance matters on a regular basis to the top management and, where applicable, to the Audit Committee. This includes reporting on the results of the compliance risk or compliance control Assessments, any changes in the compliance risk profile, a summary of identified breaches and/or deficiencies and the recommended corrective measures.

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

B.4.2.3.5. Compliance incident handling and crisis management

In order to capture relevant incidents, the Compliance Function facilitates and channels employee reporting as well as analyses other evidence related to potential incidents. It follows up on potential incidents. If required, the Compliance Function can request support and assistance from specialists from other functions or engage outside specialists to perform an investigation.

B.4.2.3.6. Compliance quality assurance

The Compliance Function performs, based upon the compliance risk assessment, risk-based oversight (which may include monitoring, testing and other components) of the adequate design implementation and effectiveness of the compliance programs and related processes and controls. All compliance programs are tested over a 5-year period. This includes samples, surveys and reviews.

B.4.2.3.7. Clear Assignment of compliance responsibilities

EH Ré SA identified and documents the compliance -relevant risk areas and to assign clear roles and responsibilities for each compliance activity and process. Where single compliance activities and processes are assigned to other functions than the Compliance Function, such assignment must be based on a documented management decision.

This specifically includes all areas of law and regulations, where the Compliance Function shares responsibilities. In this respect, the Compliance Function oversees that other functions have adequate coverage, monitor change and advise the administrative, management or supervisory body regarding compliance with these laws, regulations and administrative provisions. In case of insufficiencies, the holder of the Compliance Function escalates to the appropriate management level.

The Head of the receiving department is responsible for the execution of the assigned task. The Head of the assigning department must ensure appropriate controls with regard to the execution.

B.4.2.4. Governance of the Compliance Function

B.4.2.4.1. Board of Management

The BoM is responsible for sound organizational and operational structures and procedures at its level to ensure compliance with the compliance policy. It establishes and maintains an appropriate and effective Compliance Function.

The BoM must decide on and clearly assign the relevant risk areas for the Compliance Function.

B.4.2.4.2. Compliance Function

The Compliance Function is responsible for oversight, risk detection, prevention and advice with respect to the compliance risk areas.

The Compliance Function holder is responsible for the implementation of Euler Hermes compliance principles and procedures. This includes to promptly report to the Group Compliance Function matters which potentially have impact on the reputation of Euler Hermes or meet predefined criteria. In case of conflict of interests, the Compliance Function holders may refer a matter to the Group compliance function.

The head of the department to which the Compliance Function has been assigned has a direct reporting line to the Head of EH Group Compliance.

B.4.2.4.3. Interfaces

The Compliance Function has regular interfaces and a close cooperation with other functions. In line with regulatory requirements, reciprocal oversight is exercised amongst the functions mentioned below.

B.4.2.5. Specific requirements regarding Compliance Function

- **Independence:** the Compliance Function has a standing within EH Ré SA organizational structure that ensures to maintain the necessary independence from first line of defence functions;
- **Reporting lines:** holder of a Compliance Function is given direct access to the BoM;
- **Unrestricted information access:** the Compliance 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;
- **Fitness and Propriety:**
    - The holder of the Compliance Function possesses the qualification, experience and knowledge required to manage the compliance risk relative to the responsibilities of his role. The holder must share characteristics of:
        - Honesty, integrity and reputation;
        - Competence and capability;
        - Financial soundness.
    - The holder of the Compliance Function has essential knowledge on:
        - Regulatory framework and requirements applicable to EH Ré SA business;
        - Insurance and financial markets;
        - The business strategy and business model of EH Ré SA; and
        - The system of governance.

- **Outsourcing or delegation of compliance activities and Processes:** an arrangement of any form between EH Ré SA and a Service Provider to perform a compliance activity or process which would otherwise be undertaken by EH Ré SA itself requires prior written approval of EH Group Compliance. Although an intra-group outsourcing or delegation of single compliance activities and processes does not require pre-approval by EH Group compliance, it needs only to be documented and notified to EH Group compliance.

B.5. Internal Audit Function

B.5.1. Internal Audit Function implementation

The Internal Audit Function is common to the Euler Hermes Group. This function is performed independently so that it reports to the Chief Executive Officer (CEO) and to the Audit and Risk Committee. Audit is organized by function:

- Risk/HR;
- Market Management/Commercial Underwriting/Distribution;
- Finance/Accounting;
- Operations and Corporate Governance.

It has to be noted that regional correspondents have been put in place.

An annual program of audit assignments is defined every year, including global audits of the subsidiaries (sovereign audits), transversal audits of processes performed simultaneously in the main subsidiaries, and vertical audits of all the processes of a given function within a subsidiary. It is subject to both a discussion and a validation process with operational staff, general management and the Audit Committees.

The last stage of the validation of the audit program is the presentation to the Audit and Risk Committee for approval in the fourth quarter. The audit program is consistent with achieving a five-year risk cover while at the same time providing short-term cover of the most sensitive risks.

The audit activity is governed by an audit charter. It sets out in details the missions and organization of the various control levels within the Group and its subsidiaries. It is supplemented by the development of audit standards and procedures at local and Group levels.

As third line of defence, execution of regular controls, e.g. for distribution networks, is not in scope of the Internal Audit Function.

B.5.2. Internal audit activities and processes

Internal audit service is competent to investigate and assess the appropriateness and effectiveness of both the internal control and the way the responsibilities assigned are assumed. In particular, he checks:

- Policies respect;
- Risks control;
- The reliability of financial information;
- IT systems continuity and reliability;
- The working of different services.

In general, EH internal audit team acts on five kinds of audit which cover all of the activity fields and IT of EH:

- Local audits: limited to audit required by local regulation;
- Transversal audits: audit missions on one process for different entities;
- Sovereign audits: audits which cover all of the processes of one entity;
- Ad hoc audits: non-scheduled audits asked by BoD;
- Vertical audits: audits of all processes of one function within one entity.

An audit universe, including outsourced and co-sourced functions, is defined and revised annually based on a risk-based approach driven by structured risk-ratings that have been assigned to audit areas after a rigorous risk-assessment has been completed. The audit universe covers the complete system of Governance. It takes into account scope and frequency. This risk-based utilizes the application of risk-rating factors categorized by risk type.

Internal audit must engage adequate capacity to ensure that there is satisfactory coverage of the risk-universe within a 5-year audit plan. Consequently, each year, audit resources are allocated to audit areas according to the risk measures and the risk-universe must be (re)assessed on a rolling basis. This annual audit plan must be approved by the EH CEO and the Audit Committee

Internal audit works are evidenced through documented and structured working papers.

EH Ré SA internal audit issues an audit report for each audit which includes detailed results and appropriate recommendations based on facts and professional judgment. The audit report also summarizes the most important results including an overall assessment of the auditee's risk and internal control status.

Management is responsible for implementing related corrective actions and for remediating identified audit findings. EH internal audit must be informed of the actual implementation of recommendations and must perform follow-up actions and must implement escalation steps.

In addition to auditing activities, EH Ré SA management may seek the advice of internal audit on internal control related topics. The advisory function of Audit may not jeopardize its core audit activities and the fulfilment of its audit plan and thus the Head of internal audit of EH RÉ SA must confirm to the EH CEO (and Audit Committee), at least annually, the independence of the internal audit activity.

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

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

- **Independence:**
    - The Internal Audit Function must have a standing within the EH organisational structure that ensures to maintain the necessary independence. Necessary independence means that no undue influence is exercised over the Internal Audit Function, and internal audit must avoid conflicts of interest in fact or appearance;
    - Internal auditors and the Internal Audit Function have the authority to express assessment and recommendations but cannot give orders (except in cases of suspicion of illegal activities/fraud);
    - Auditors are hierarchically and organisationally segregated from operating activities they are in charge to control. Once a year the head of internal audit establishes a declaration of independence in which he testifies that he performs his activity independently and does not report to any operating function but exclusively and directly to the chairman of EH Ré SA BoM;
    - Audit missions results are validated by auditees and sent to the chairman of the BoD, to the director of the department to which the mission was assigned, and to the Audit, Risk and compliance committee.
- **Reporting Lines:**
    - Head of EH internal audit reports directly to the CEO and to the Audit Committee. The Head of EH internal audit must regularly have direct interaction with the CEO and the Chair of the Audit Committee.
- **Unrestricted information access:**
    - EH internal audit has the right to communicate with any employee and obtain information, records or data necessary to carry out its responsibilities, to the extent legally permitted. EH internal audit has the responsibility and the right to review activities, procedures and processes in all areas of the EH Group, without limitation. EH internal audit has the unlimited right to obtain information and management must inform internal audit of serious deficiencies and major changes in internal control systems this information must be handled with discretion and confidentiality.
- **Fitness and Propriety:**
    - Internal auditors must possess analytical skills, knowledge in the field of finance, accounting and IT as well as an understanding of the organisation of insurance and/or finance companies. In order to achieve and maintain the required professional skill level, continuing training is necessary. Skills in effective communication are also important;
    - Enhancing independence and objectivity, and avoiding potential conflicts of interest, tenure of internal audit Key Function holders is limited to eight years;
    - The Head of internal audit must possess the qualification, experience and knowledge required to evaluate the adequacy and effectiveness of the system of governance, issue recommendations, in particular as to deficiencies with regard to the internal control system and the compliance with the corporate rules, and verify the compliance with decisions taken as a consequence thereof. He or she must be familiar with all internal audit relevant standards, publications and practices;

    - The Head of the internal audit must share characteristics of:
        - Honesty, integrity and reputation;
        - Competence and capability; and
        - Financial soundness.
    - The Euler Hermes Fit and Proper policy applies.
- **Outsourcing of internal audit tasks:**
    - In general, EH internal audit is exercised with EH Group internal resources. If EH internal audit lacks certain knowledge, skills or competencies, resources can be sought from third parties. In cases of outsourcing, as permitted by law and supervisory bodies, EH internal audit management remains responsible for achieving all required audit standards defined by the Internal Audit policy and other applicable standards.
    - Complete outsourcing of an Audit function to external providers is not permitted. No exception is allowed.

B.6. Actuarial Function

B.6.1. Implementation of the Actuarial Function

In accordance with operational and governance structure of EH Ré SA, Actuary falls within the competence field of the BoD member in charge of functions related to Actuarial Function, Risk Management, Compliance . Persons responsible for Actuarial Function hierarchically report to EH Ré SA Board member.

Persons responsible for the actuarial function possess an actuarial knowledge as well as financial mathematics.

The Actuarial Function of EH Ré SA is outsourced to EH Group.

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

- Actuarial Function Report: the Actuarial Function must provide a report on an annual basis, called the Actuarial Function Report;
- Coordination of the calculation of technical reserves: it is within the responsibility of the actuarial function to ensure that the level of technical reserves is adequate by setting up an effective control framework. In this context, requirements to technical reserves are referring to reserves under IFRS, Solvency II TP and other supplementary financial information;
- Opinion on underwriting, pricing and product development: the opinion on underwriting, pricing and product development is performed by the actuarial function which may rely upon available and up to date analyses and results if appropriately discussed and challenged. The actuarial function is reporting the results of its analysis to the LRC;
- Opinion on the reinsurance policy and program: the opinion on the reinsurance policy and program is performed by the Actuarial Function which may rely upon available and up to date analyses and results if appropriately discussed and challenged. The Actuarial Function ensures that its opinion on the reinsurance policy and program is provided to and considered by the Reinsurance Committee or comparable management meetings;

- Contribution to risk management: The Actuarial Function contributes to the risk management system by providing an actuarial perspective which is materialized through the following items:
    - The Actuarial Function delivers consistent and high quality data and results for the parameterization of RC models and, if a replicating portfolio is used, of liability cash flows for replication process, in a timely manner;
    - The Actuarial Function interacts with R&CM by contributing to the assessment of insurance risks;
    - The Actuarial Function provides all the results and conclusions resulting from the analyses to R&CM on a regular basis as well as to the RiCo or comparable management meetings.
- Reporting quarterly about TP level to the LRC, states on its appropriateness, and gets BoD approval regarding the level of those TP;
- Monitoring the setup, of the Reserve Risk model and validates the capital level related to EH Ré SA TP. It also contributes to the setup of an effective risk management system.

Once a year or for the modification or launching of one production, the Responsible Actuary establishes:

- An Actuarial Function Report which testifies the appropriateness of EH Ré SA TP;
- A report on Reserving Risk in which he testifies the appropriateness of RC amount related to EH Ré SA TP
- An opinion on underwriting policy and reinsurance agreements

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

B.6.2. Governance

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

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

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

B.6.3. Interfaces

The Actuarial Function has intense interfaces and a close cooperation with other functions. In line with regulatory requirements, reciprocal oversight is exercised amongst the functions mentioned below. The relationship of the Actuarial Function with the Risk & Capital Management, compliance and Internal Audit Functions is as follows:

The Actuarial Function is co-operating closely with the Risk & Capital Management function in many areas, in particular the Actuarial Function is:

- Providing input and advice regarding the amount, structure and uncertainty of the TP. This includes close interaction with respect to methodologies, models and assumptions commonly used for the calculation of TP as well as for RC;
- Contributing to methodologies, models and assumptions used for the assessment of risk in the area of expertise of the Actuarial Function;
- Contributing to the overall risk management process for its area of expertise.

The compliance oversight covers the adequate set-up of the Actuarial Function.

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

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

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

B.6.4. Roles and responsibilities

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

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

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

- Assessing whether an arrangement with a service provider qualifies as outsourcing, and if so, whether the outsourced function/Service is a Key-function or a CIFS;

- Setting-up the necessary Business Plan and risk assessment, including the screening of any outsourcing against the criteria of the outsourcing policy;
- Undertaking Due Diligence with regard to the Provider;
- Involving the relevant organizational units in the outsourcing process;
    - Obtaining all necessary approvals e.g. from the BoM and the Euler Hermes Group Key Function holder;
    - Involving the Local Legal Function in the drafting of the outsourcing agreement;
    - Providing regular performance report to the BoM when outsourcing Key-functions or other CIFS.
- Setting-up the necessary contingency plans and exit strategies together with Resilience in case of outsourcing CIFS;
- Monitoring the outsourcing and making amendments to the outsourcing where necessary;
- Taking the appropriate measures in case of any adverse event or termination of the outsourcing, involving the relevant Key functions, the Operating Entity's Privacy function and ISO;
- Adequately documenting each individual step of the outsourcing process and delivering the outsourcing agreement and key supporting documentation for central storing to local outsourcing function.
- In case of termination, assessing together with the Local Legal Function whether any claims against the Provider are asserted.

The outsourcing function is in charge of:

- Ensuring Identification of designated Business Owner for each outsourcing;
- Central storing (electronic copies) of all outsourcing agreements and key supporting documentation of the outsourcing process
- Keeping and updating an inventory of all outsourcing agreements based on the Euler Hermes Group's reporting template, allowing up-to-date reporting to Group outsourcing function on short notice upon request;
- Monitoring implementation of the outsourcing process in accordance with the outsourcing policy;
- Supporting the designated Business Owner in performing his tasks.

The responsibilities of the EH Ré SA legal function are:

- Ensuring adoption of an outsourcing policy by the BoM where required;
- Notifying Group legal about conflicts of the outsourcing policy with local law or regulations and request and document approvals for material deviations from the Group outsourcing policy;
- Advising on how to implement the outsourcing policy within EH Ré SA;

- Assisting the designated Business Owner in assessing whether:
    - An arrangement with a service provider qualifies as outsourcing under the outsourcing policy, and if so, whether the outsourced function/Service is a Key Function or a CIFS;
    - Any claims against the Provider are asserted in case the outsourcing agreement is terminated.
- Drafting/reviewing outsourcing agreements;
- Notifications/applications to supervisory authority, if required by local law.

The Risk & Capital Management function is in charge of:

- Monitoring and overseeing an adequate management of outsourcing risks in the context of IRCS;
- Supporting EH Ré SA's designated Business Owner in the risk assessment and Due Diligence process;
- Monitoring the implementation of this policy (with supporting evidences), in coordination with the relevant departments

B.7. Outsourcing

B.7.1. Implementation of the outsourcing policy

B.7.1.1. Definition of outsourcing

Outsourcing is defined as an arrangement of any form between EH Ré SA and a service provider (Provider), whether supervised or not, whether from EH Group or where the Provider is a company controlled by Allianz (group internal outsourcing) or not by which that Provider performs a function or Service, whether directly or through sub-outsourcing, which would otherwise be performed by EH Ré SA itself.

Thus, in order for an arrangement to qualify as outsourcing in the meaning of the outsourcing policy, the following criteria have to be cumulatively met:

- The provided process, service or activity qualifies as a function or Service;
- The provided function or Service is material in scope and time.

A function is defined as an internal capacity to undertake practical tasks within a system of governance, directly relating to EH Ré SA's core business, including the Key functions. For the purpose of the outsourcing policy the Key Functions are Risk Management, Internal Audit, Compliance, Actuarial, Legal and Accounting & Reporting.

A Service is defined as an activity directly relating to EH Ré SA's core business (e.g. enabling the provision of insurance services).

sub-outsourcing is defined as further outsourcing of an already outsourced function or Service in full or in part by the Provider or a (sub-)Provider to a (further sub-)Provider by way of a separate sub-outsourcing agreement.

An outsourced function or Service is Critical or Important (CIFS) if it is essential to the operation of EH Ré SA as it would be unable to deliver its services to its customers (e.g. policy holders) without the outsourced Function or Service.

B.7.1.2. Outsourcing processes

The outsourcing process consists of four major phases: the decision, the implementation, the operational and – where relevant – the exit phase.

B.7.1.2.1. The decision phase (Business Plan and risk assessment)

The decision phase involves the business plan and risk assessment as to whether the function or service is outsourced (make or buy decision). For all outsourcings, EH Ré SA needs to ensure completion of the following tasks:

- Assessing whether the contemplated performance of a function/Service by a service provider qualifies as outsourcing, and if so, whether the outsourced Function/Service is Key Function or a CIFS;
- Establishing a Business Plan which outlines the rationale for (e.g. concentration on key competencies) as well as the expected economic (incl. cost-benefit analysis, transaction value) and operational benefits in scale, scope or skill/quality of the envisaged outsourcing;
- Conducting a risk assessment, i.e. identifying, analyzing and rating in particular the operational, financial, strategic, reputational and any concentration risks associated with the outsourcing, as well as defining strategies to mitigate or manage these risks. The relevant organizational units have to be involved in the risk assessment. In case of outsourcing of an entire Key Function or an essential part thereof, also the relevant EH Group-level Key Function has to be involved.

B.7.1.2.2. The implementation phase (Provider selection and outsourcing agreement)

B.7.1.2.2.1. Requirements for all outsourcings

a. Provider Selection/Due Diligence

- EH Ré SA has to conduct Due Diligence in order to ensure that the Provider has the ability to perform the functions or Services to be outsourced according to EH Ré SA's documented objectives, standards (e.g. data protection/security) and specifications.
- The Due Diligence comprises at least an assessment of the following aspects:
    - Provider's legal (incl. any authorization required by law to operate the Provider's business), financial and technical capability as well as capacity to perform the outsourced function/Service in a proper and reliable way according to standards for the whole duration of the outsourcing agreement;
    - Provider's control framework;
    - Potential conflicts of interest and accumulation of risks if the Provider is active for multiple customers.

b. Outsourcing agreement

- EH Ré SA has to enter into a written outsourcing agreement with the Provider. Such outsourcing agreement must at least provide for the following:
    - Description of Services, responsibilities, quality / security standards, standards of care and where appropriate service levels and / or KPIs to measure performance as well as feasible mitigation measures and key controls to be performed by the Provider to address material risks identified in the risk assessment/Due Diligence;
    - Provider's obligations to:
        - Grant effective access to data related to the outsourced function or Service as well as effective access to the premises of the Provider for EH Ré SA supervisory authority;
        - Cooperate with the EH Ré SA supervisory authority with regard to the outsourced function or Service;
        - Disclose any development which may have a material impact on its ability to carry out the outsourced function or Service effectively;
        - Protect any confidential information;
        - Comply with all applicable laws.
    - The need for prior approval by EH Ré SA for any sub-outsourcing and the fact that the Provider's duties and responsibilities remain unaffected by the sub-outsourcing;
    - EH Ré SA's right to request information/documentation about the outsourced function or Service and their performance;
    - Appropriate termination rights and notice periods to assure business continuity;
    - EH Ré SA's right to request changes to the outsourcing agreement or withdraw from the agreement if required by the supervisory authority.

B.7.1.2.2.2. Additional requirements for outsourcing CIFS

a. Provider selection/Due Diligence

- Ensure that relevant aspects of the Provider's risk management and internal control systems are adequate;
- Verify that all persons at the Provider who will be in charge of or involved in providing the outsourced Functions or Services are sufficiently qualified and reliable;
- Ensure that the Provider has adequate contingency plans in place to deal with emergency situations (e.g. data leakages) or business disruptions and periodically tests backup facilities where necessary.

b. Outsourcing agreement

In addition to requirements for all kinds of outsourcing for outsourcing agreement found above, an outsourcing agreement concerning CIFS also has to provide for the following:

- Provider's obligation to:
    - Assure and maintain the elements listed in the additional requirements for outsourcing CIFS for provider selection/Due Diligence above for the whole duration of the outsourcing;
    - Integrate the outsourced function or Service into his risk management and internal control systems and provide key control assurance reports, business continuity plans as well as test results to EH Ré SA;
    - Comply with EH Ré SA's guidelines and policies relating to the outsourced Function/Service;
    - Follow the same provisions on the security and confidentiality of information relating to EH Ré SA or its customers or beneficiaries that are applicable to EH Ré SA;
    - Avoid any conflict of interest in relation to EH Ré SA and a duty to notify EH Ré SA of any threatened conflict of interest.
- Right to carry out on-site inspections of the Provider's business premises either by EH Ré SA or its external auditors in order to get effective access to all information relating to the outsourced Function/Service.

c. Notification to Supervisory Authority

EH Ré SA has to notify in writing any outsourcing of CIFS to the CAA.

- The notification includes a description of the scope and rationale for the outsourcing and the Provider's name and address;
- The notification has to be filed in a timely manner prior to implementing the outsourcing, affording the supervisory authority sufficient time to examine the outsourcing and its compliance with supervisory law before it comes into force;
- The notification requirement also covers material developments after the conclusion of the outsourcing agreement that are relevant for supervisory purposes;
- Local law may provide for additional/stricter requirements.

In case of outsourcing an entire Key Function, the notification to the CAA includes the name of the person in charge for the outsourced Key Function at the Provider.

B.7.1.2.2.3. Group internal outsourcing

In case of a group internal outsourcing:

- The Due Diligence process is part of the risk assessment and/or less detailed if the EH Ré SA has greater familiarity with the Group Internal Provider;

- EH Ré SA relies on a Due Diligence of the Provider which has recently (up to one year) been carried out by a different entity of EH Group if and to the extent that it relates to a comparable outsourcing;
- As a matter of principle, the existence of potential conflicts of interests and risk accumulation are always evaluated;
- The outsourcing agreement takes the form of a written SLA if its content has not been subject to formal negotiations.

B.7.1.2.3. Operational Phase (monitoring & steering)

EH Ré SA must maintain a process for regularly monitoring the Provider's performance, financial stability and compliance with the outsourcing agreement as well as the effectiveness of its key control inventory. Monitoring activities on performance may include:

- Requesting and reviewing performance against KPIs/SLAs;
- Back-up or data security testing reports from the Provider;
- Holding service reviews meetings with the Provider;
- In specific cases conducting on-site inspections of Provider's premises.

Monitoring activities for key control effectiveness may include annual control assurance as well as audit reports.

The adequate monitoring activities and intervals (regular as well as event-driven incl. escalation procedures) have to be determined with a view to the importance of the outsourced Function/Service as well as the risks entailed with the outsourcing and appropriately documented.

EH Ré SA takes appropriate action if the Provider's performance or risk management (incl. its contingency planning) is materially deficient endangering EH Ré SA's compliance with regulatory requirements or its ability to deliver its services to the customers.

Appropriate action includes raising objections to the Provider, requesting remediation, asserting penalties or damages, amending the outsourcing as well as, ultimately, early terminating the outsourcing agreement, providing information to the second Line of Defense or EH Group-level Key Functions, where the adverse event may be relevant for them.

When outsourcing CIFS, the BoM of EH Ré SA regularly (at least yearly) receives reports on the performance of the Provider according to the outsourcing agreement and be informed ad hoc about any material adverse events.

In case of Euler Hermes group internal outsourcing, scope and intensity of the monitoring and steering as well as the contingency planning may be reduced following the principle of proportionality.

B.7.1.2.4. Exit Phase

If EH Ré SA decides to terminate the outsourcing, it needs to ensure that it has the necessary capabilities and capacities to insource the outsourced function/Service or to outsource it to a different Provider (business continuity), before it effectively terminates the outsourcing agreement.

B.7.2. Outsourcing of critical or important operational functions

The following table relates CIFS and Key Functions that have been outsourced.

Figure 12: **EH Ré SA CIFS/Key Functions outsourced**

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

B.8. Any other information

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

C. Risk profile

C.1. Underwriting Risk

C.1.1. Description of the measures used

EH Ré SA's Risk Management team measures and assesses its risks using EH Ré SA's Internal Risk Capital Model. Further details on the methodologies used within the IM for Underwriting Risk can be found in section E.4.2.1.2.

The IM reflects the risk profile of EH Ré SA and is used to measure the solvability through the RC. The model has to be used in both strategic and tactical decisions to ensure that a sufficient risk tolerance is respected. Based on that, the IM is appropriate for all the different decisions that can be taken within EH Ré SA that have an impact on the risk profile.

C.1.2. Description of the risk exposure

EH Ré SA's P&C Underwriting Risk is composed of:

- Premiums Risk for fidelity LoB: the risk of loss because of an unexpected high loss volume resulting in an insufficient coverage of premiums. Premium risk is subdivided in catastrophe risk (CAT risk) and non-catastrophe risk (non-CAT risk)
- Reserve Risk: the risk of loss resulting from deviations between payments for incurred losses that have not yet been definitively settled and the reserves set up to cover these payments, or the use of an insufficient basis for the calculation of reserves

The RC calculated for the Underwriting Risk amounts to 14M€, decreasing by 11% compared to 2016. This is explained by a decrease of reserves as well as a model change linked to a revision of Stop-Loss modelling.

C.1.3. Description of assets investment

Please refer to section C.2.3 for information regarding how assets have been invested in accordance with the "prudent person principle" so that EH Ré SA's risks, including Underwriting Risk, have been properly managed.

C.1.4. Risk concentration

Please refer to section C.3.4 for a description of the material risk concentrations to which EH Ré SA is exposed.

C.1.5. Risk mitigation

As mentioned in section C.3.5, EH Ré SA reinsurance structure allows for an efficient mitigation of Underwriting Risk.

C.1.6. Expected profit included in future premiums

Please refer to section C.2.6 of this report for information on the total amount of the expected profit included in future premiums.

C.1.7. Risk sensitivity

Information on relevant stress tests and scenario analysis, as well as the underlying methods and main assumptions, can be found in section C.2.7 of this report.

C.2. Market Risk

C.2.1. Description of the measures used

EH Ré SA's Risk Management Team measures and assesses its risks using EH Ré SA's Internal RC Model. Further details on the methodologies used within the IM for Market Risk can be found in section E.4.2.1.1.

In 2017, two packages of major model changes were implemented. First, the package of major model changes submitted in August 2016 was implemented in 1Q 2017 following the supervisory approval in February 2017. These changes were already described in last year's SFCR.

This package consisted in 3 relevant central model changes for EH Ré SA regarding Market Risk as described in the table below:

Figure 13: **List of changes related to Market Risk in the first package of IM change**

Model Change Short Name	Affected Module	Model Change short description
Credit Spread Model	Market Risk	Incremental spread modelling Improved coverage of adverse historical shocks Term structure of credit spreads is modelled Improved adequacy of high yield risk charges Avoidance of rating hierarchy violations
Economic Scenario Generator (new interest rate parametrization)	Market Risk	Enhanced flexibility of model volatility function and increased skew

A second package of major model changes was implemented in 2017. It aims at introducing negative interest rates and was submitted in May 2017. The implementation was done in Q4 2017.

Interest rate modelling is at the core of almost all modules of the IM; therefore the introduction of negative interest rates impacted most of them (e.g. Market Risk, Credit Risk…).

The Model Change Application Package (MCAP) was performed according to IM governance and MC process including validation and approval. All changes of central and local modules were validated as fully appropriate.

C.2.2. Description of the risk exposure

Within EH Ré SA, Market Risk is composed of the following risks:

- **Interest Rate Risk:** the risk of loss which can arise due to changes in market interest rates e.g. if future interest income is above or below a fixed or guaranteed interest rate applicable to reserves
- **Equity Risk:** the risk of loss based on market changes in the value of an equity or a participation portfolio.
- **Equity Volatility Risk:** it measures an adverse move in implied volatilities of equity options.
- **Property (Real Estate) Risk:** the risk of loss arising from changes in the market price for property investments.
- **Spread Risk:** the risk due to exposure to some spread. It often arises with a long-short position or with derivatives.
- **Foreign Exchange, Currency Risk:** the risk of loss arising from changes in foreign currency exchange rates
- **Market Risk concentrations**

The standalone Market RC amounts to 13 M€, decreasing by -0.7 M€ (-5%) compared to 2016.As required by the Directive, the calculations of these sub-risks are mainly based on the assets market values and market conditions. The evolution of the Market Risk is detailed as follows:

a. Interest Rate (IR) Risk

The IR Risk decreases because of the market conditions, the global decrease of exposure over the year 2017. The increase of the interest rate during the first quarter of 2017 was compensated by a decrease in the exposure subject to Interest Rate Risk and a decrease of the market value of the government and corporate bonds during the last months of 2017.

b. Exchange Rate Risk:

The increase of the Exchange Rate Risk is mainly due to an increase of exposure in Polish Zloty (PLN), partly offset by a decrease of exposure in Great Britain Pound (GBP).

c. Other Risks:

The other risks are stable and not significant.

C.2.3. Description of assets investment

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

This approach results in a mid to long-term focused investment policy with an emphasis on 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 ITG in respect with local regulation.

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

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

While pursuing the investment philosophy and objectives outlined, investment management and risk controlling at EH Ré SA are based on a common understanding of the investment and ALM related risks and comprehensively defined risk management and controlling processes embedded in clear and transparent organizational and governance structures, whereby the following principles apply.

C.2.3.1. Principle 1: prudent person principle (refers to the Solvency II EU Directive)

EH Ré SA only invests in assets and instruments whose risks can be properly measured, managed and controlled, taking into account the assessment of its overall solvency needs.

All assets are invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

Assets held to cover the TP are also invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities. Those assets are invested in the best interest of policyholders and beneficiaries.

In the case of a conflict of interest, EH Ré SA ensures that the investment is made in the best interest of policyholders and beneficiaries.

The use of derivative instruments is possible insofar as they contribute to a reduction of risks or facilitate efficient portfolio management.

C.2.3.2. Principle 2: 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.

The investment universe encompasses:

- Fixed Income Instruments:
  - Cash,
  - Treasuries/government related bonds;
  - Securitized and collateralized bonds;
  - Corporate bonds.
- Equity;
- Real estate;
- Alternative: private equity and derivatives (for hedging purposes only);
- Strategic investments in the group subsidiaries and other related companies are excluded from the scope of asset management as they are managed according to specific rules (Joint Venture for example).

Other alternative asset classes like hedge funds, infrastructure, renewable energy or liquid standardized structured products (e.g. on indices or baskets) are currently not part of the investment universe, but might be included in the light of risk diversification in a very limited way. The introduction of new asset classes and investment products/mandates is subject to the approval of the EH Finance Committee.

C.2.3.3. Principle 3: Asset-Liability-Management

The investment activities follow the general principles of a congruent ALM with a sufficient duration and currency matching within prescribed limits. The duration differences between assets and liabilities and the net foreign currency exposure are regularly monitored and appropriate actions and hedges are executed.

C.2.3.4. Principle 4: diversification

On the basis of the requirement that insurance technical liabilities have to be covered or secured at all times with investment portfolios showing low volatility, the diversification of risk within the portfolios is of special importance. Diversification is a central part of the investment policy and is to be pursued:

- Across asset classes (SAA);
- Within asset classes (e.g. geographic and industry diversification);
- At the securities level (e.g. the number and weighting of the counterparties);
- Across investment styles;
- Across asset managers for mandates with a dedicated alpha focus.

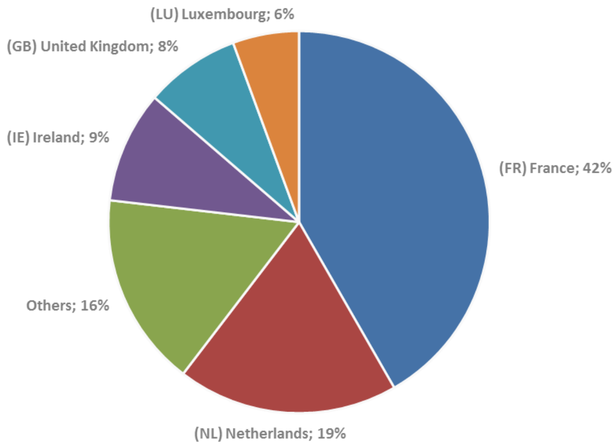
C.2.3.5. Principle 5: avoiding investments that threaten EH Ré SA's reputation

EH Ré SA voluntarily restricts its investments beyond legal requirements in order to minimize its reputational risk. On the investment side a decline in reputation can be caused by direct or indirect holdings of companies engaged in activities despised by EH Ré SA's stakeholders and/or the public at large, e.g. investments in the area of defence.

C.2.4. Risk concentration

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

Figure 14: **Assets geographical allocation**



EH Ré SA diversifies its portfolio across issuers and does not rely on one specific issuer whatever its credit quality. Thus, the most significant issuer represents 13% of the total assets, with the remaining part of the portfolio fully diversified.

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. These strategies are applied through the quantitative financial limits which are one of the components of the Risk Appetite defined in the Risk Strategy. They include different kinds of limits; the following table summarizes the level of the sensitivity limits in place:

Figure 15: **Financial limits applied at EH Ré SA level**

Financial limits applied at EH Ré SA level	2017 Actual value	2017 Limit	2016 Actual value	2016 Limit
Credit Value at Risk (VaR)	55.1	82.0	n/a	n/a
Financial VaR	55.5	120.5	69.3	104.6
IR +100bps sensitivity	-4.2	-8.3	-5.7	-6.5

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 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.

As of 2017, no breach has been identified over the SAA.

C.2.6. Expected profit included in future premiums

EH Ré SA's expected profits included in future premiums (EPIFP) amount to 6K€.

C.2.7. Risk sensitivity

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

For stress tests, EH Ré SA usually follows standard shocks in line with European Insurance and Occupational Pensions Authority (EIOPA) recommendations. For scenario analysis , a dedicated process is run by the Enterprise Stress Testing Group which is a panel 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 EH RiCo for review and selection before execution across EH Ré SA.

It must be noted that the scenarios described in the following sections are enterprise-wide scenarios and not specifically designed for EH Ré SA on a standalone basis. As a result, the assumptions listed are those directly applied to insurance entities ceding to EH Ré SA. Non-market assumptions indirectly affect EH Ré SA through the cession from EH insurance entities while market assumptions directly impact EH Ré SA risk profile.

All tests and scenarios are further detailed in the following sections.

C.2.7.1. Standard financial stress scenarios

EH Ré SA solvency position is challenged on an annual basis against a set of financial stress tests recommended by Allianz and in line with EIOPA recommendations. In 2017, the following scenarios were analysed:

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

None of these scenarios causes a major decrease of Solvency II ratios.

C.2.7.2. Scenario analysis

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

- 2008/2009 financial crisis: The scenario consists of replicating the macroeconomic and financial market shocks observed on the EH SA risk profile during the financial crisis over 2008 and 2009. This scenario is designed to be a recurrent scenario as it serves as a benchmark given its severity level since 1929.
- Hard Brexit: This scenario is designed to reflect the potential impact of a situation where no agreement is reached between UK and EU by March 2019 regarding the 'Brexit'.
- IT outage: This scenario is designed to capture the potential effects of a major IT system failure. In this respect, a client/broker portal, namely EOLIS, has been selected.

Under such scenarios, EH Ré SA's solvency position at the end of 2017 would remain above regulatory requirements.

Only the 2008/2009 financial crisis would make the SCR drop below the action barrier set by the BoM for capital management purposes. As a consequence, EH Ré SA would need to take corrective actions in this situation.

C.3. Credit Risk

C.3.1. Description of the measures used

EH Ré SA's Risk Management Team measures and assesses its risks using EH Ré SA's Internal Risk Capital Model. Further details on the methodologies used within the IM for Credit Risk can be found in section E.4.2.1.3.

As for Market Risk, in 2017, only the second package of major model changes had an impact. This second package introduced negative interest rates as described in section C.2.1.

C.3.2. Description of the risk exposure

Within EH Ré SA, Credit Risk is composed of the following risks:

- <u>Counterparty default risk:</u> the risk of loss due to default of the counterparty within the context of transactions e.g. derivative, reinsurance, loans etc;
- <u>Credit Risk attached to credit insurance & surety:</u> Credit Risk that can arise either from the risk of loss in the economic value of credit exposures because of deterioration in the credit quality of counterparties (migration risk) including their defaults, or non-performance of instruments. Default occurs as the result of the inability or unwillingness to fulfil contractual obligations;
- <u>Country Transfer Risk:</u> the risk of loss arising from cross-border transactions as a result of transfer and convertibility risks (e.g. the risk of a country not being able to make payments due, freeze on deposits or limitations on foreign currency transfers);

- Issuer/Investment Credit Risk: the risk of loss arising from an unexpected change in the creditworthiness (migration or default) or collateral of a debtor. Default occurs as the result of the inability or unwillingness to fulfil contractual obligations;
- Settlement Risk: the risk of loss arising from trading activities when there is a mutual undertaking to deliver on a progressive basis, for example when the trading centers fall within different time zones, and the counterparty does not fulfil its contractual obligations, despite the fact that the other party to the contract has already performed its duties.

The Credit Risk portfolio is subdivided in 3 different risk categories: the Insurance portfolio, the reinsurance portfolio and the investment portfolio.The total Credit RC decreased by -14M€ between 2016 and 2017.

Figure 16: **Credit Risk Capital per activities (in M€)**

Portfolios	Q4 2017	Q4 2016	Var
Insurance portfolio	49.1	61.1	-12.0
Reinsurance portfolio	6.0	7.9	-2.0
Investment portfolio	0.4	0.4	-0.1
Total Standalone	55.5	69.5	-14.0

a. Reinsurance portfolio

The decrease of the Reinsurance portfolio RC by -2M€ is mainly due to the global decrease of the exposure over the year.

b. Investment portfolio

The Investment portfolio RC is rather stable over the year due to the stability of the portfolio structure.

c. Insurance portfolio

At EH Ré SA level, Insurance activities are split according to the following LoBs:

Figure 17: **Insurance portfolio breakdown (in M€)**

Insurance portfolio LoB	Q4 2017	Q4 2016	Var
Credit Insurance	45.9	58.5	-12.6
Others	1.1	1.4	-0.3
Total without prudency margin	47.0	60.0	-12.9
Prudency margin	2.3	0.8	1.5
Total	49.3	60.7	-11.4

NB: Totals and/or variations might appear different from “2017 minus 2016” due to rounding.

The above table highlights the weight of the Credit Insurance LoB which represents more than 95% of the global Insurance portfolio RC. Moreover, the “Others” LoB is quite stable.

On Q4 2016, a prudency margin was only calculated for the UK but it has been extended in Q1 2017 to all the entities, explaining the evolution of the prudency margin over the period. The introduction of the prudency margin is due to the transition to a BE vision in the RC estimation for these entities.

This evolution of the Credit Insurance LoB is mainly due to the fact that EH Ré SA retention on losses from EH Italy has shifted to EH Re AG.

C.3.3. Description of assets investment

Please refer to section C.2.3 of this report for information regarding how assets have been invested in accordance with the "prudent person principle" so that EH Ré SA's risks have been properly managed.

C.3.4. Risk concentration

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

- Monitoring of the exposures of the LEs at Group level;
- Monitoring of the reinsurance exposure limits at EH Re level.

The monitoring processes and conclusions are summarized hereafter.

C.3.4.1. Monitoring of exposure at Group level

At EH Group level, several processes are in place to monitor the portfolio quality and risk.

- **Large risks management process:**

The methodology is to identify the largest and most sensitive buyers and ensure there is a granular review of each risk. A standard template has been defined which presents the key metrics and proprietary analysis maximising the expertise and local knowledge 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.

C.3.4.2. Monitoring of reinsurance exposures at EH Ré SA level

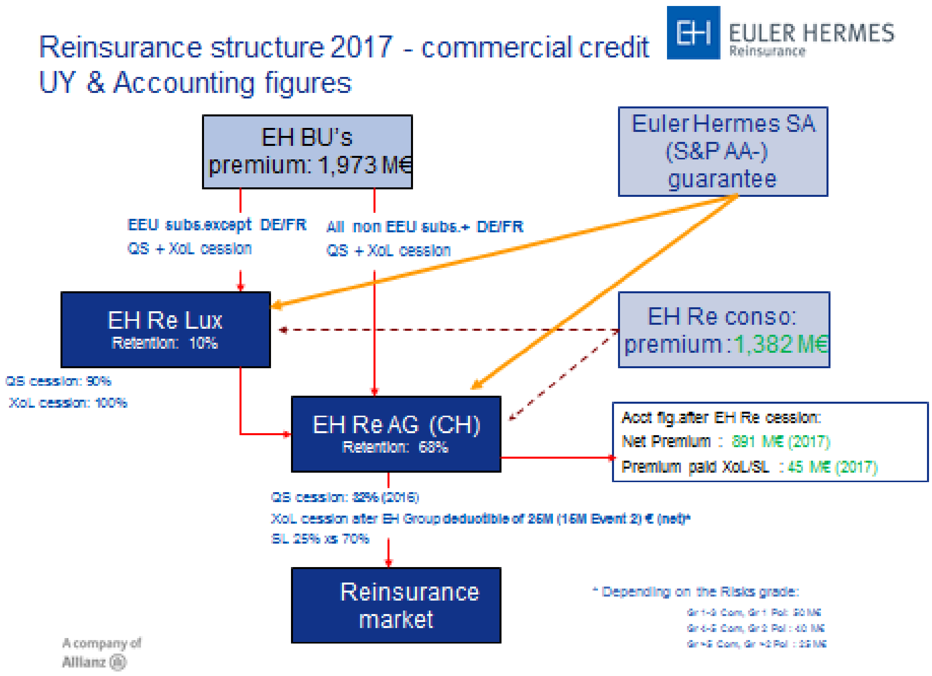
EH Re has its own set of limits, depending on country grades, buyers rating and LEs/Regions. Based on the information reported by the reinsured LEs/Regions, EH Ré SA monitors its reinsurance limits on a quarterly basis. As of Q4 2017, the exposures limits are under control:

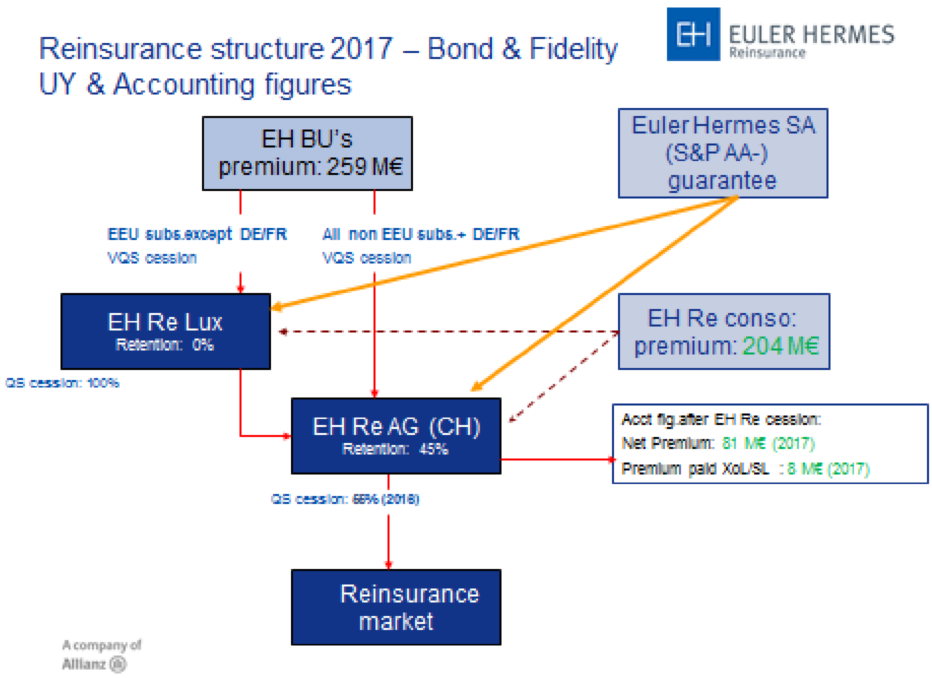
- Individual buyer limits: no exposure usage > 100%;
- Global buyer limit: 2.8% of global usage (slightly decreased compared to Q4 2016);
- Individual country limits: 0.08% of usage excess ; the limits will be increased in 2018;
- Global country limit: 55% of global usage.

C.3.5. Risk mitigation

Regarding risk mitigation, below is an overview of EH Ré SA's reinsurance structure in 2017:

Figure 18: **EH Ré SA reinsurance structure overview**





EH Ré SA does not use any Special Purpose Vehicles (SPVs) in addition to its reinsurance structure to mitigate the risks it is facing.

To form its opinion on the effectiveness of the reinsurance arrangements, the EH Group actuarial function participates on a regular basis to the reinsurance committee meetings organized by EH Re AG where the profitability of assumed business and potential changes on the internal and external reinsurance cessions are discussed.

Credit Risk Platform (the Allianz group-wide limit management system) is applied at EH Group for identification, assessment and management of exposure concentration risk related to exposure arising from investment portfolio, reinsurance receivables and credit insurance exposures.

On this basis, EH Group manages any breach on its investment portfolio and its reinsurance receivables. Allianz notifies any breach on credit insurance exposures in order for EH to remediate these breaches.

There is no recorded breach of Credit exposure limits as of 31.12.2017.

C.3.6. Expected profit included in future premiums

Please refer to section C.2.6 of this report for information on the total amount of the expected profit included in future premiums.

C.3.7. Risk sensitivity

Please refer to section C.2.7 of this report for information on relevant stress tests and scenario analysis, as well as the underlying methods and main assumptions.

C.4. Liquidity Risk

C.4.1. Description of the measures used

The Liquidity Risk is the risk that requirements from current or future payment obligations cannot be met. This comprises insufficient liquidity resources to meet payment obligations under current (base case scenario) as well as potential future conditions (stress scenarios).

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

In accordance with the Liquidity risk management Standard, an analysis has been performed to identify accurately the resources and needs of liquidity and to simulate the evolution of EH Ré SA's liquidity ratio on different time horizons and in different conditions.

In this approach, we consider the liquidity ratio as being the fraction of needs of liquidity over resources of liquidity:

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

According to the Risk Appetite of EH Ré SA, the liquidity ratio is managed according to the following thresholds:

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

Since EH Ré SA retention is 10%, the percentage between the needs (cash flow out) and the sources (cash flow in) is structurally above 80%. As a result, EH Ré SA RiCo decided in 2017 to increase the lower threshold from 80% to 95%. This new threshold should be used to analyze the results from 2018.

In case of breaching, countermeasure actions can be put in place such as asset sales, a diminution of the dividends and a stop in assets purchasing.

However, liquidity for EH Ré SA is not a real risk as all the flows are EH internal.

C.4.2. Description of the risk exposure

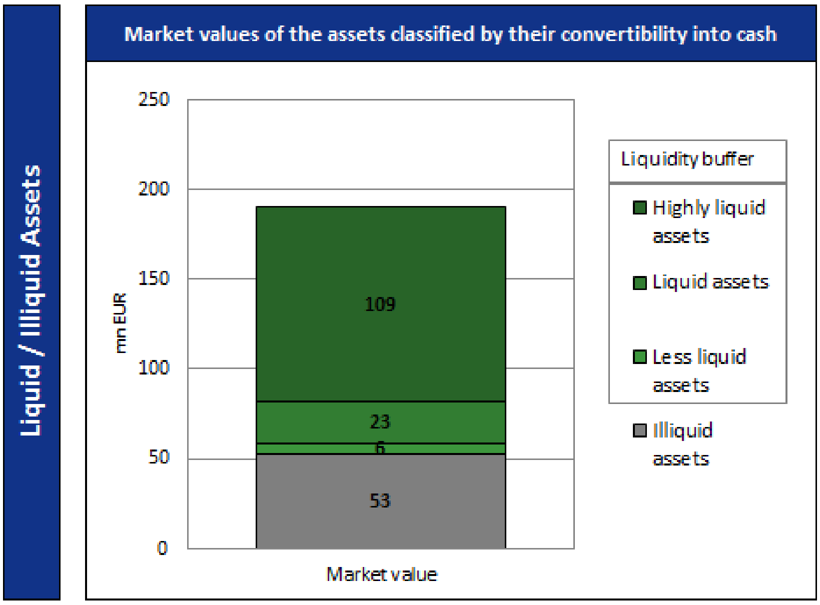
The Liquidity Risk management framework is built on a regular Liquidity Risk assessment and supervision, made by regular monitoring of liquidity positions.

To this end, EH Ré SA monitors quarterly the market values of its assets and their classification in terms of liquidity.

This monitoring especially aims at gauging the liquid assets that EH Ré SA could sell in a short period of time in case the liquidity ratio raises over 100%. Such asset sales are part of the "countermeasures" considered in the quarterly liquidity analysis.

The following table shows that, as of Q4 2017, only 28% of EH Ré SA's assets are illiquid while 72% are in the liquidity buffer.

Figure 19: **Classification of assets per type of liquidity**



The base case is the projection of the liquidity resources and needs under current market conditions over different time horizons. The base case scenario liquidity analysis has been performed in Q4 2017, over different time horizons of 2018.

As for Q4 2016, the liquidity ratio calculated in Q4 2017 for the different time horizons analysed remains under 100% but does not fall under the 80% threshold for all of them.

As explained in section C.4.1., this situation results from EH Ré SA reinsurance structure and is accepted.

C.4.3. Description of assets investment

Please refer to section C.2.3 of this report for information regarding how assets have been invested in accordance with the “prudent person principle” so that EH Ré SA’s risks have been properly managed.

C.4.4. Risk concentration

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

C.4.5. Risk mitigation

EH Ré SA Liquidity Risk is borne by EH Re AG. EH Ré SA would face any liquidity issue by increasing its capital.

C.4.6. Expected profit included in future premiums

Please refer to section C.2.6 of this report for information on the total amount of the expected profit included in future premiums.

C.4.7. Risk sensitivity

EH Ré SA identified several liquidity stress scenarios and chose to perform the one which appeared to be the most relevant for 2017: 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.

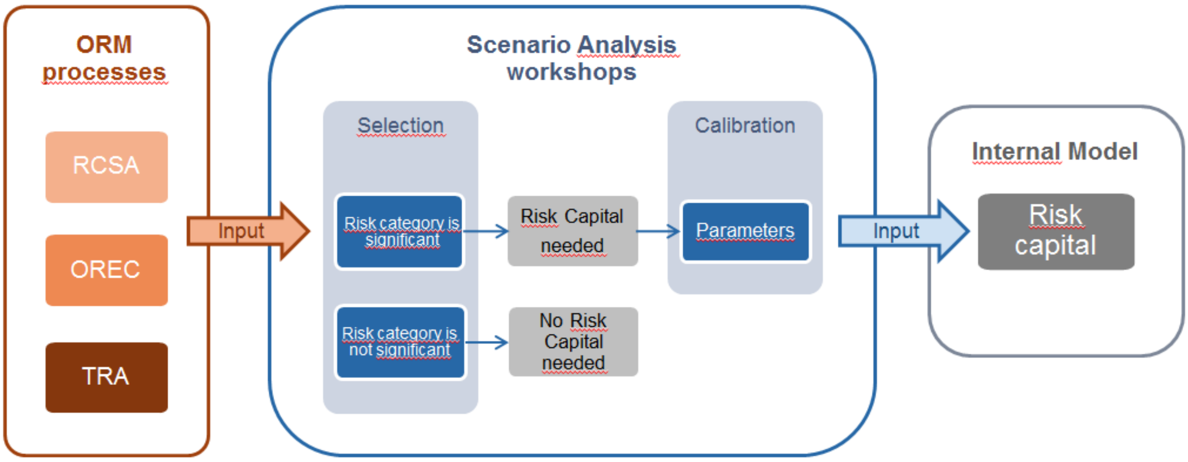
After application of the countermeasures, the liquidity ratio calculated in Q4 2017 for different 2018 time horizons remains under 100% but does not fall under the 80% threshold, even under these stressed conditions.

C.5. Operational Risk

C.5.1. Description of the measures used

The Operational Risk is managed in the global framework of the Integrated Risk & Control System (IRCS) throughout several Operational Risk Management (ORM) processes, which are also taken into account in the Operational RC calculation:

Figure 20: **Operational Risk management overview**



In accordance with EH risk policy framework, EH Ré SA has implemented comprehensive ORM processes, aiming at keeping the Operational Risks under control.

a. The Risk and Control Self-Assessment

This process aims at mapping and evaluating the risks and controls at the level of EH's processes. This "in-depth" assessment is performed on a yearly basis and reviewed on a quarterly basis.

The primary objective of the RCSA is to ensure that effective controls or other risk mitigation activities are in place for all potentially large impact Operational Risks. To this end, the RCSA also includes control testing.

b. The Operational Risk Event Capture (OREC)

This is an ongoing process aiming at identifying Operational Risks through: the identification and assessment of operational events and losses, the feeding of an operational losses database. The capture and reporting of Operational Risk events enable EH Ré SA to strengthen the internal control system through the analysis of realized Operational Risks events.

c. The Top Risk Assessment Process (TRA)

This is a structured and systematic process implemented at EH Ré SA level whose objective is to identify and remediate significant threats to financial results, reputation, operational viability and the delivery of key strategic objectives, regardless of whether they can be quantified or not.

The TRA process is based on a quarterly review and monitoring, with a full run exercise once per year.

Its scope covers all risk categories defined in the Group risk policy (i.e. Market, Credit, Underwriting, Business, Operational, Reputational, Liquidity and Strategic Risk) as well as concentration and emerging risks. For each of the top risks, respective EH Ré SA's BoM members are defined as risk owners and define a target score.

For the top risks identified, the "probability" and "impact" are assessed and form an "actual score", compared to a "target score".

The "impact" is the highest score between the economic impact and the reputational impact, if any.

The "target scores" of all top risks are part of the overall Risk Appetite, which is formally approved by the BoD. If the actual risk score is higher than the target risk score, the risk owner is responsible for ensuring that a documented risk mitigation plan is in place.

d. Operational RC calculation process

Each year, "Scenario Analysis" workshops are organized with EH Re experts for both companies EH Re AG and EH Ré SA in order to set the IM parameters to be used to calculate the Operational RC.

The inputs for these workshops are the results and assessments of the Operational Risk management processes described above, aiming at helping an appropriate calibration of the parameters.

C.5.2. Description of the risk exposure

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

- **Operational Risk:** the risk of loss resulting from inadequacies or failures in processes or controls due to technical resources, people, organization or external factors;
- **Legal Risk:** the risk of loss caused by non-compliance with existing or new legislation or supervisory regulations, disadvantageous changes to existing laws or supervisory regulations, as well as the risk of a loss resulting from material litigation or regulatory proceedings, in particular through disadvantageous interpretations of laws by courts. Furthermore, Legal Risk includes losses due to ambiguity of laws or 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 Ré SA's standalone Operational RC decreased by 1% from Q4 2016 to Q4 2017 and amounts to 3M€.

C.5.3. Description of assets investment

Please refer to section C.2.3 of this report for information regarding how assets have been invested in accordance with the "prudent person principle" so that EH Ré SA's risks have been properly managed.

C.5.4. Risk concentration

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

C.5.5. Risk mitigation

EH Ré SA does not enter into specific risk mitigation techniques for Operational Risk.

C.5.6. Expected profit included in future premiums

Please refer to section C.2.6 of this report for information on the total amount of the expected profit included in future premiums.

C.5.7. Risk sensitivity

Please refer to section C.2.7 of this report for information on relevant stress tests and scenario analyses, as well as the underlying methods and main assumptions.

C.6. Other material risks

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

C.7. Any other information

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

D. Valuation for solvency purposes

D.1. Assets

D.1.1. Valuation of assets

The following table summarizes the amounts for EH Ré SA assets, classified by asset classes as disclosed in the Quantitative Reporting Templates (QRT), for both MVBS and LuxGAAP valuations.

Figure 21: **Asset (MVBS vs LuxGAAP)**

In K€	MVBS	LuxGAAP
Goodwill	0	0
Deferred acquisition costs	0	1,225
Intangible assets	0	0
Deferred tax assets	0	0
Pension benefit surplus	0	0
Property, plant & equipment held for own use	0	0
Investments (other than assets held for index-linked and unit-linked contracts)	190,639	188,920
Property (other than for own use)	0	0
Holdings in related undertakings, including participations	0	0
Equities	0	0
Equities - listed	0	0
Equities - unlisted	0	0
Bonds	145,157	143,439
Government Bonds	62,012	60,576
Corporate Bonds	76,119	75,836
Structured notes	0	0
Collateralized securities	7,026	7,026
Collective investments undertakings	45,482	45,481
Loans and mortgages	0	0
Reinsurance recoverables from:	419,519	460,271
Non-life and health similar to non-life	419,519	460,271
Non-life excluding health	419,519	460,271
Deposits to cedants	1,317	1,317
Insurance and intermediaries receivables	123,323	82,955
Reinsurance receivables	2,561	-28,881
Receivables (trade, not insurance)	33	33
Own shares (held directly)	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	44,833
Cash and cash equivalents	10,477	10,477
Any other assets, not elsewhere shown	0	0
Total assets	**747,869**	**761,149**

Hereafter is an overview of valuation and recognition bases applied in MVBS as well as the differences with LuxGAAP.

D.1.1.1. Deferred acquisition costs

a. MVBS

In MVBS, acquisition costs are considered to be included in the calculation of the BE of the TP. Therefore, deferred acquisition costs are not recognized.

b. LuxGAAP

In LuxGAAP, deferred acquisition costs are reserved on a premium basis and then adjusted based on the Loss Ratios. They are recognized prorata temporis.

c. Differences between MVBS and LuxGAAP

Thus in LuxGAAP, the asset is higher by 1.2M€ compared to MVBS due to the recognition of deferred acquisition costs.

D.1.1.2. Bonds

a. MVBS

The line item “Bonds” includes the sum of government bonds, corporate bonds, structured notes and collateralized securities.

All Bonds items are valued at fair value in MVBS.

b. LuxGAAP

In LuxGAAP, bonds are recognized at their amortized costs.

c. Differences between LuxGAAP and MVBS

In LuxGAAP, the asset is lower by 1.7M€ compared to MVBS because in MVBS bonds are revaluated at fair value.

D.1.1.3. Collective investments undertakings

a. MVBS

The interests in collective investments undertakings are measured at fair value in MVBS.

b. LuxGAAP

In LuxGAAP, collective investments undertakings are recognized at the lowest between the historical acquisition cost and the realization value.

c. Differences between MVBS and LuxGAAP

In LuxGAAP, the asset is lower by 45.5M€ compared to MVBS as in LuxGAAP collective investments undertakings are not recognized.

D.1.1.4. Reinsurance recoverables from non-life excluding Health

a. MVBS

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 RM is reported in the section of the reinsurance recoverable as the RM recognized within the TP is already net of reinsurance. However, a Counterparty Default Adjustment (CDA) has to be calculated. The BE of TP has to be calculated gross.

The time difference between recoveries and direct payments are taken into account when calculating the reinsurance recoverables and recoverables from SPVs. The amounts recoverable from special purpose vehicles, from finite reinsurance contracts and from other reinsurance contracts are each calculated separately.

For the purpose of calculating the amounts recoverable from reinsurance contracts and special purpose vehicles, the cash-flows only include payments in relation to compensation of insurance events and unsettled insurance claims. Payments in relation to other events or settled insurance claims are accounted for outside the amounts recoverable from reinsurance contracts and special purpose vehicles and other elements of the TP. Where a deposit has been made for the cash flows, the amounts recoverable are adjusted accordingly to avoid a double counting of the assets and liabilities relating to the deposit.

For the probability-weighted average of future cash flows of recoverables from reinsurance contracts and special purpose vehicles relating to non-Life, the following cash inflows and cash outflows are taken into account:

- Cash inflows include, e.g. recoverables for claims payments or benefits and for related expenses and revenue from reinsurance commission and from shares in profit from technical sources relevant to individual reinsurance contracts;
- Cash outflows include, e.g. future premiums.

The amounts recoverable from reinsurance contracts and special purpose vehicles for non-life insurance obligations are calculated separately for premium provisions and for provisions for claims outstanding. Therefore, the cash flows relating to the provisions for claims outstanding include those compensation payments that relate to the claims accounted for in the ceding entity's gross provisions for claims outstanding. The cash flows relating to premium provisions include all other payments.

The CDA is calculated as the expected present value of the change in cash flows underlying the amounts recoverable from that counterparty that arises if the counterparty defaults (including defaults as a result of insolvency or dispute) at a certain point in time. For that purpose, the change in cash flows does not take into account the effect of any measures that mitigate the Credit Risk of the counterparty, other than risk mitigating techniques based on collateral holdings. The risk mitigating techniques that are not taken into account are separately recognized without increasing the amount recoverable from reinsurance contracts and special purpose vehicles. The calculation takes account of possible default events over the lifetime of the reinsurance contract or arrangement with the special purpose vehicle and whether the probability of default varies over time, and how when it does vary. It is carried out separately by each counterparty and for each LoB. In non-life insurance, it is also carried out separately for premium provisions and provisions for claims outstanding.

b. Differences between MVBS and LuxGAAP

In LuxGAAP, the asset is higher by 40.8M€ compared to MVBS because there is no discounting in LuxGAAP.

D.1.1.5. Deposits to cedants

a. MVBS

Deposits to cedants include deposits relating to reinsurance accepted. In MVBS, deposits to cedants are valued at market value.

b. LuxGAAP

In LuxGAAP, deposits to cedants are recorded at their nominal value.

c. Differences between MVBS and LuxGAAP

There is an insignificant difference between MVBS and LuxGAAP.

D.1.1.6. Insurance and intermediaries receivables

a. MVBS

Insurance and Intermediaries Receivables only include amounts past-due for payment by policyholders and other insurers and are linked to the insurance business.

In MVBS, insurance and intermediaries receivables are recognized at fair value.

Furthermore, the receivables under LuxGAAP and MVBS might differ due to the following reason: Under Solvency II, the premiums are booked according to the cash flows. Thus, premiums written but not yet due (e.g., future payments or reinstatement premium) are not shown as premium written like in LuxGAAP and are, thus, not recognized as receivable in the MVBS. They are rather included in the TP. In other words, under MVBS only overdue receivables are to be presented under insurance and intermediaries receivables, whereas still undue receivables representing future cash flows are to be included in the TP.

Additionally, valuation allowances have to be eliminated in the MVBS.

b. LuxGAAP

In LuxGAAP, insurance and intermediaries receivables are recognized at the lowest value between the nominal value and the probable realizable value. The amount recognized is adjusted if the recovery of the receivables is partly or fully compromised.

c. Differences between MVBS and LuxGAAP

In LuxGAAP, the asset is lower by 40.4M€ compared to MVBS because in MVBS insurance and intermediaries receivables are recognized at fair value and premium written not yet due are recognized as TP.

D.1.1.7. Reinsurance receivables

a. MVBS

Reinsurance receivables include amounts past due for payment by reinsurers that are linked to the reinsurance business but that are not reinsurance recoverables. It might include receivables from reinsurers that relate to settled claims of policyholders or beneficiaries, receivables from reinsurers in relation to other than insurance events or settled insurance claims, for example commissions.

In MVBS, reinsurance receivables are recognized at fair value. Additionally, valuation allowances have to be eliminated in the MVBS.

b. LuxGAAP

In LuxGAAP, reinsurance receivables are recognized at the lowest value between the nominal value and the probable realizable value. The amount recognized is adjusted if the recovery of the receivables is partly or fully compromised.

c. Differences between MVBS and LuxGAAP

In LuxGAAP, the asset is lower by 31.4M€ compared to MVBS mainly because of the reclassification of receivables with a trading partner to payables amounting to -30.8M€.

D.1.1.8. Receivables (trade, not insurance)

a. MVBS

Receivables (trade, not insurance) include amounts receivable from employees or various business partners that are not insurance related. They also include amounts receivables from public entities since there is no reason to have separate lines for current tax assets.

Due to the short term nature of the receivables we consider amortized cost value to be fair value. However, since valuation allowances have to be eliminated in the MVBS, the receivables might have to be adjusted.

b. LuxGAAP

In LuxGAAP, receivables (trade, not insurance) are recognized at the lowest value between the nominal value and the probable realizable value. The amount recognized is adjusted if the recovery of the receivables is partly or fully compromised.

c. Differences between MVBS and LuxGAAP

There is no difference between MVBS and LuxGAAP.

D.1.1.9. Amounts due in respect of own fund items or initial fund called up but not yet paid in

a. MVBS

This line item includes amounts due in respect of own fund items or initial fund called up but not yet paid in.

In the case EH Ré SA issues new shares it has the right to receive money in exchange for the issued shares. As long as the entity has not received the money yet, the entity reports the amount due as a separate asset. This asset position is derecognized once the entity received the capital.

b. Differences between MVBS and LuxGAAP

In LuxGAAP, the asset is higher by 44.8M€ compared to MVBS because it was netted in MVBS and not in LuxGAAP.

D.1.1.10. Cash and cash equivalents

a. MVBS

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.

b. LuxGAAP

In LuxGAAP, cash and cash equivalents are recorded at their nominal value.

c. Differences between MVBS and LuxGAAP

There is no difference between MVBS and LuxGAAP.

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

There has not been any change to the recognition and valuation of material classes of assets during the year 2017.

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 Solvency II is the use of quoted market prices in active markets for the same assets or liabilities.

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

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

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

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

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

The following table summarizes the different valuation methods used classified by class of assets. More detailed information on valuation of assets using alternative valuation methods is provided in section D.4 of this report.

Figure 22: **Valuation methods by asset classes**

MVBS asset	Valuation method	MVBS value (in K€)
Cash and cash equivalents	Quoted market price in active markets for the same assets	397
Cash and cash equivalents	Alternative valuation methods	10,476,603
Collective investment undertakings	Quoted market price in active markets for the same assets	45,482,000
Corporate bonds	Quoted market price in active markets for the same assets	76,119,000
Collateralized securities	Quoted market price in active markets for the same assets	142
Collateralized securities	Alternative valuation methods	7,025,858
Deposits to cedants	Alternative valuation methods	1,317,000
Government bonds	Quoted market price in active markets for the same assets	62,012,000

All related undertakings have been valued using quoted market price in active markets.

D.1.5. Financial and operating leases

EH Ré SA does not have any financial or operating leases.

D.1.6. Material deferred tax assets

EH Ré SA does not have any material deferred tax assets.

D.1.7. Aggregating class of assets

Asset classes are in line with QRT requirements.

D.2. Technical Provisions

D.2.1. Valuation of Technical Provisions for solvency purposes

The table below summarizes the TP amounts by SII LoB.

Figure 23: **Technical Provisions (MVBS figures)**

In K€	Credit and suretyship insurance	Total Non-Life obligation
Total Best Estimate - gross	469,858	**469,858**
Risk Margin	3,562	**3,562**
Gross Technical Provisions	473,420	**473,420**
Total Best Estimate - ceded	-419,519	**-419,519**
Net Technical Provisions	53,901	**53,901**

D.2.1.1. Basis

The value of the technical provisions corresponds to the current amount required to transfer all insurance obligations immediately to another insurance entity. Technical provisions consists of the claims provision, premium provision and risk margin, together they constitute the best estimate liabilities (BEL).

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

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

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

The ceded Best-Estimate liabilities are estimated by netting the gross Best-Estimate liabilities. The ceded Best-Estimate liabilities are adjusted by the Counterparty Default Adjustment (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 line of business.

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

Best estimates 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 best estimate 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 Unearned Premium Reserve (UPR);
* Future premium (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 one is contractually bound to (incl. tacit renewals) however have not yet received/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 a vis the duration of the underlying risks and the type of insurance policy contract.

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

Euler Hermes calculates the best estimates 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 volatility adjustment (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 must consider 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).

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 best estimate 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 line of business 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 best estimate 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 Volatility Adjustment.

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 Expenses (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 (IME)

IME needs to be included according to Article 31 of the delegated act. Following Allianz policies, the total IME is determined as 1.5 bp of the net BE TP which is then split into two parts related to gross claims resp. Gross premium provisions based on the share of those in the net BE (without future premium). IME is not ceded.

D.2.1.6. Risk Margin

The market value of liabilities is defined as the discounted BE reserve plus a Risk Margin (RM), 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;
- Business Risk (Cost and Lapse Risk);
- Operational Risk.

EH Ré 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 Solvency II, a CDA has to be 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 (=Adj_{CD}) 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.

Motivation of the formula:

- 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 we are showing 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 lines of business in order to provide reserve distributions around the quantitative BE reserves.

D.2.2.2. Sensitivity Studies on Technical Provisions

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

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

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

In 2017, the following operational, legal and model changes have been implemented, impacting the calculation of the TP: following an update on Allianz guidelines, the 12-month restriction for the calculation of the future premium (on profitable portfolios) has been removed in Q3 2017.

D.2.4. Differences with Technical Provisions in financial statements

In MVBS, gross TP amount as of Q4 2017 was at 473M€. In LuxGAAP the amount was at 614M€. This difference is explained by the three following reasons:

- TP are not discounted in LuxGAAP. This difference has a negative impact on LuxGAAP valuation of 36M€;
- No equalization reserve is recognized in MVBS. This difference has a negative impact on LuxGAAP of 109M€;
- No RM is recognized in LuxGAAP. This difference has a positive impact in LuxGAAP of 4M€.

D.2.5. Matching Adjustment

EH Ré SA does not apply a matching adjustment.

D.2.6. Volatility Adjustment

In accordance with the technical guidance provided by EIOPA and Allianz, the discount effect is currently calculated by taking into account the volatility adjustment (VA) inside the risk-free SWAP (yield) curves. We have performed a sensitivity study where we have applied only the EUR SWAP curve with and without volatility adjustment to the cashflows, i.e. omitting the impact of different settlement currencies. The impact of the volatility adjustment is negligible.

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

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

D.2.8. Transitional deduction

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

D.2.9. Recoverable from mitigation techniques

In 2017, EH Ré SA had reinsurance recoverables of nearly 420M€. The recoverables are coming from non-life excluding health. Of these recoverables, 92.3% come from claims provisions, with the remaining due to premium provisions.

There were no recoverables from special purpose vehicles.

D.3. Other liabilities

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

Figure 24: **Other liabilities (MVBS vs LuxGAAP)**

In K€	MVBS	LuxGAAP
Other Technical Provisions	0	0
Contingent liabilities	0	0
Provisions other than Technical Provisions	0	0
Pension benefit obligations	0	0
Deposits from reinsurers	1,317	1,317
Deferred tax liabilities	28,853	0
Derivatives	0	0
Debts owed to credit institutions	0	0
Financial liabilities other than debts owed to credit institutions	0	0
Insurance & intermediaries payables	31,179	30,545
Reinsurance payables	85,108	19,446
Payables (trade, not insurance)	467	467
Subordinated liabilities	33,351	33,351
Subordinated liabilities not in basic own funds	0	0
Subordinated liabilities in basic own funds	33,351	33,351
Any other liabilities, not elsewhere shown	504	504
Total other liabilities	**180,779**	**85,631**

D.3.1.1. Deposits from reinsurers

a. MVBS

Deposits from reinsurers include amounts (e.g. cash) received from a reinsurer or deducted by the reinsurer according to the reinsurance contract.

In MVBS, Deposits from reinsurers are recorded at market value.

b. LuxGAAP

In LuxGAAP, deposits from reinsurers are recognized at their repayment value.

c. Differences between MVBS and LuxGAAP

There is no difference between MVBS and LuxGAAP.

D.3.1.2. Deferred Tax Liabilities (DTL)

a. MVBS

Temporary concept:

Deferred taxes are valued on the basis of the difference between:

- The values ascribed to liabilities recognized and valued in accordance with the EU Directive on Solvency II; and
- The values ascribed to liabilities as recognized and valued for tax purposes.

Deferred taxes are recognized and valued in relation to all assets that are recognized for Solvency II or for tax purposes.

Balance sheet item concept:

Temporary differences between the Solvency II value of the liabilities and its corresponding tax base are assessed on a single liability basis. The deferred tax calculations take into account the tax regulations specific to particular liabilities in the applicable tax regimes.

Discounting

Deferred tax liabilities are not discounted.

b. LuxGAAP

In LuxGAAP, DTL are not recognized.

c. Differences between MVBS and LuxGAAP

In LuxGAAP, the liability is lower by 28.9M€ compared to MVBS because deferred tax are not recognized in LuxGAAP.

D.3.1.3. Insurance & intermediaries payables

a. MVBS

Insurance and intermediaries payables refer to amounts past due to policyholders, insurers, and other business linked to insurance, but that are not TP. They include amounts past due to (re)insurance intermediaries, e.g. commissions due to intermediaries but not yet paid by EH Ré SA. They exclude loans and mortgages due to other insurance companies if they are only related to financing such as loans and mortgages rather than being linked to insurance business.

In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) and only include amounts past due for payment.

b. LuxGAAP

In LuxGAAP, insurance & intermediaries payables are recognized at their repayment value.

c. Differences between MVBS and LuxGAAP

There is no significant difference between MVBS and LuxGAAP.

D.3.1.4. Reinsurance payables

a. MVBS

Reinsurance payables are amounts past due to reinsurers (especially current accounts) other than deposits that are linked to reinsurance business, but that are not included in reinsurance recoverables. They include payables to reinsurers that relate to ceded premiums. In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) and only include amounts past due for payment.

b. LuxGAAP

In LuxGAAP, reinsurance payables are recognized at their repayment value.

c. Differences between MVBS and LuxGAAP

In LuxGAAP, the liability is lower by 65.7M€ compared to MVBS because of the following adjustments:

- In MVBS, reinsurance payables are recognized at fair value and ceded premium written not yet due are recognized as TP: -34.8M€;
- In MVBS is recognized a liability with a trading partner: -30.8M€.

D.3.1.5. Payables (Trade, not Insurance)

a. MVBS

Payables (trade, not insurance) include amounts due to tax authorities.

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. However, there might be instances where the settlement amount differs from the fair value.

b. LuxGAAP

In LuxGAAP, payables (trade, not insurance) are recognized at their repayment value.

c. Differences between MVBS and LuxGAAP

There is no difference between MVBS and LuxGAAP.

D.3.1.6. Subordinated liabilities

a. MVBS

Subordinated liabilities are debts which rank after other specified debts when the entity is liquidated.

In MVBS, subordinated liabilities are valued at fair value. Fair value changes that are driven by changes in the own credit standing of the issuer since issuance of the instrument are eliminated. The valuation of subordinated liabilities is the same, regardless of whether the debt qualifies as basic own funds or not.

b. Differences between MVBS and LuxGAAP

There is no difference between MVBS and LuxGAAP.

D.3.1.7. Any other liabilities, not elsewhere shown

a. MVBS

"Any other liabilities, not elsewhere shown" include any liabilities not included in the other balance sheet items and, thus, represent a miscellaneous category.

b. Differences between MVBS and LuxGAAP

There is no difference between MVBS and LuxGAAP.

D.3.2. Leasing arrangements

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

D.3.3. Deferred tax liabilities

On 31 December 2017, the total deferred tax liabilities equalled 28.9M€ (MVBS value). DTL are mainly due to temporary differences due to the claims equalization reserve.

D.3.4. Economic benefits

EH Ré SA does not recognize any outflows of economic benefits.

D.3.5. Employee benefits

EH Ré SA does not have any employees.

D.3.6. Contingent liabilities

EH Ré SA does not recognize any contingent liability.

D.4. Alternative methods for valuation

For every class of assets, alternative valuation method is used if the asset class price is not quoted on an active market for the same assets. The following table summarizes the asset classes that are valuated using alternative valuation methods.

Figure 25: **Asset classes measured through alternative valuation methods**

MVBS asset	Specificities when alternative valuation method	MVBS value (in K€)
Cash and cash equivalents	Valuated at purchase price	10,476,603
Collateralized securities	Valuated at purchase price	7,025,858
Deposits to cedants	Valuated at purchase price	1,317,000
	Total alternative valuation methods	**18,819,461**

D.5. Any other information

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

E. Capital Management

E.1. Own funds

E.1.1. Information on the own funds

E.1.1.1. Management of the own funds

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

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

Please refer to section B.3.3.3 for further details on the capital management strategy in place in 2017.

E.1.1.2. Description of the own funds

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

Figure 26: **Own funds evolution (MVBS)**

in M€	Q4 2017	Q4 2016	Variation
Total assets	747.9	879.8	-131.9
Total liabilities	654.2	779.2	-125.0
Excess of assets over liabilities	93.7	100.6	-6.9
Subordinated liabilities	33.4	33.4	-0.1
SII Own funds	127.0	134.0	-7.0

The following items give explanations for the evolution of the own funds:

- The decrease of assets is mainly due to the decrease of the (re)insurance receivables and a decrease of the reinsurance recoverables, offset by the addition of collective investment undertakings;
- The decrease of liabilities is mainly due to the decrease of the (re)insurance payables and of the BE.

As of Q4 2017, EH Ré SA own funds are of high quality, all classified as basic own funds in Tier 1 in terms of available own funds to meet the SCR. Part of this Tier 1 own funds, the subordinated liabilities (26% of total own funds), are classified as restricted. The rest of them are classified as Tier 1 unrestricted.

EH Ré SA does not have any ancillary own funds.

Figure 27: **Composition of own funds (MVBS)**

In M€	Total	Tier 1 unrestricted	Tier 1 restricted
Ordinary share capital (gross of own shares)	**16.2**	16.2	0.0
Reconciliation reserve	**77.4**	77.4	0.0
Subordinated liabilities	**33.4**	0.0	33.4
Total basic own funds after deductions	**127.0**	93.7	33.4

On 31th December 2017, the amount recognized as subordinated liabilities was 33.4M€. This amount is the same as the one recognized for the year 2016. This subordinated debt have been provided by EH Re AG for an undefined period (with a minimum of 5 years) and its interests are indexed on the annual rate Euribor 1 year + 0.20 (In 2015 interests were indexed on annual rate Euribor 6 months + 0.20).

E.1.1.3. SCR and MCR covers

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

Figure 28: **Own funds available/eligible to meet the MCR/SCR (MVBS)**

In M€	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2
Total available own funds to meet the SCR	**127.0**	93.7	33.4	0.0
Total available own funds to meet the MCR	**127.0**	93.7	33.4	0.0
Total eligible own funds to meet the SCR	**127.0**	93.7	23.4	9.9
Total eligible own funds to meet the MCR	**120.0**	93.7	23.4	2.9

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

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

Please refer to section D.

E.1.1.5. Description of items deducted from own funds

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

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

E.1.2. Additional ratios

EH Ré SA does not disclose any other additional ratios.

E.1.3. Loss absorbency mechanism

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

E.1.4. Reconciliation reserve

The following table summarizes the calculation of reconciliation reserve.

Figure 29: **Breakdown of the reconciliation reserve (MVBS)**

In M€	Total
Excess of assets over liabilities	93.7
Other basic own fund items	16.2
Reconciliation reserve	77.4

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 the SCR components between 2016 and 2017:

Figure 30: **Breakdown of the SCR**

in M€	Q4 2017	Q4 2016	Var	%
Market Risk	12.8	13.4	-0.7	-5%
Credit Risk	55.1	68.9	-13.8	-20%
P/C Underwriting Risk	13.7	15.5	-1.7	-11%
Business Risk	0.5	0.5	0.0	1%
Operational Risk	2.7	2.7	0.0	-1%
Total standalone RC	84.8	101.0	-16.2	-16%
Diversification effect	-22.5	-22.6	0.1	0%
Total diversified RC	62.3	78.4	-16.0	-20%
Tax impact	-16.2	-21.2	5.0	-24%
Capital add-on	16.1	20.0	-3.9	-19%
Tax relief on add-on	-4.2	-5.4	1.2	-23%
SCR	58.0	71.7	-13.7	-19%

Available own funds	127.0	134.0	-7.0	-5%
SII ratio	219%	187%		

In 2015, the EH IM for trade credit insurance and surety was submitted by EH SA to the NBB within the IMAP. The IM was approved but the NBB made several recommendations and asked for capital add-ons to be considered until the recommendations are implemented.

Thus, the capital add-on is on the trade credit insurance and surety risk model. This add-on covers the observations made by the regulators.

As the SCR is calculated using the IM, it is subject to supervisory assessment.

In 2017, the amount accounted for EH Ré SA's MCR is 14.5M€. It has decreased by 19.1% since 2016 where the MCR amount accounted was 17.9M€.

As regards to the MCR ratio, it has increased over the reporting period reaching 828% as of 2017 compared to 721% in 2016.

E.2.2. Standard formula and Undertaking Specific Parameters

As EH Ré SA is using an IM, it has nothing to disclose regarding the regulatory points related to the standard formula, including Undertaking Specific Parameters which are not applicable.

E.2.3. Inputs to calculate the MCR

The MCR for EH Ré SA based on internal and Standard Model (SM) is shown below for Q4 2017. For the SM as well as for the IM, the MCR equals the floor of 25% of the SCR. The calculation approach, which is the one recommended by the EIOPA, is exactly the same as in previous quarters and is explained below the table.

Figure 31: **MCR calculation (In M€)**

IM/SM	MCR	AMCR	SCR	MCR linear	45% SCR	25% SCR	MCR combined
SM	19.8	3.6	79.3	14.1	35.7	19.8	19.8
IM	14.5	3.6	58.0	14.1	14.5	14.5	14.5

The main inputs that enter into the calculation of EH Ré SA's MCR are summarized in the table below

Figure 32: **Main inputs for MCR calculation**

	Segment (SII LoB)	Factor for Technical Provisions	Factor for premiums written
9	Credit and surety insurance and proportional reinsurance	17.7%	11.3%

E.2.4. Material changes to SCR and MCR

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

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

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

E.4. 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 Ré SA has implemented an IM for the computation of the SCR attached to the credit and surety portfolio.

The standard formula for the representation of the credit and surety Premiums Risk has a certain number of flaws which, for a pure credit and surety insurance company, leads to have some doubts on the SCR deriving from the standard formula.

As these flaws can be dealt with by modelling the credit & surety Premiums Risk using a Credit Risk Model, EH Ré SA has decided to opt for an IM.

The following elements are considered to be flaws attached to the SCR computation on credit and surety Premiums Risk:

- Separation of the SCR Premiums and SCR Cat Risk;
- Application of reinsurance treaties in the standard formula leading to either under and over estimation of the SCR;
- Overestimation of the SCR premiums by integrating in the net earned premiums paid to reinsurers for non-proportional treaties;
- Underestimation of nonlinear risk mitigation features present in the policies;
- Backward looking values representing the effect of risk mitigation measures implemented in the policy;
- Computation based on the premiums which is not the most adequate measure of the risk.

The credit insurance business of EH Ré SA is to take a share of the Credit Risk borne by the policyholder on its buyer. The classical Credit Risk modelling approaches, in particular those used in the banking world, are fully applicable to EH Ré SA's situation in order to simulate a loss distribution representing the expected loss with a one year time horizon.

E.4.1.2. Structure of the Internal Model

A Credit Risk modelling 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 addressing all the issues stated in the point above.

- Production of one loss distribution covering all kind of loss scenarios and loss events;
- Risk mitigation features (either present in policy or a reinsurance treaty) can be modelled the way they are functioning and not estimated;
- Risk mitigation features attached to the policies are representing the current status of the portfolio;
- The model is based on exposure which is key metrics of the risk taken;
- The parameters are defined in order to represent the risk borne by EH Ré SA on a one year time horizon.

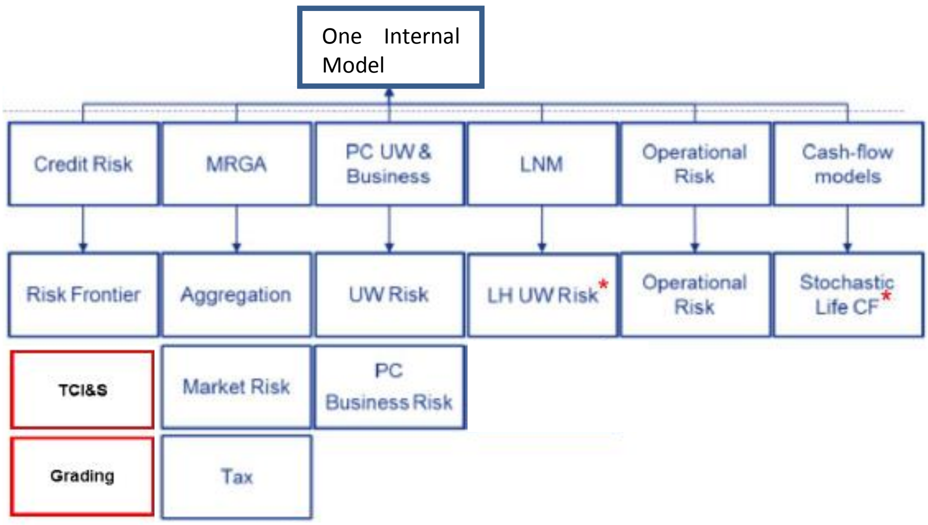
E.4.1.3. Scope of Internal Model

The EH Ré SA Internal Risk Capital Model covers:

- All of its major insurance operations through its Trade Credit Insurance and Surety (TCI&S), grading, underwriting (Property & Casualty (P&C) Underwriting & Business) and Operational Risk Models;
- Its investment portfolio through its Market Risk and Credit Risk Models;
- Its pension funds through its cash-flow and Life Non Market Risk Models.

The picture below depicts the scope and structure of the IM.

Figure 33: **Structure of the IM**



* Not in the scope of EH Ré SA

E.4.2. Methodologies

E.4.2.1. Process within the Internal Model

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

E.4.2.1.1. Market Risk

a. Definition of the measurement of the risk

VaR: quantifies the change in economic value as the minimum amount of capital required to ensure economic solvency for shock scenarios calibrated to a one year period with a given probability level. A probability level of 99.5% is retained for the RC and a level of 99.93% is retained for the economic capital.

The modelling approach within Market Risk has the four following generic components:

- The definition of risk factors and of their impacts;
- The distributional assumptions;
- The calibration of the risk factors;
- Valuation of positions.

b. Change of economic capital

The approximation is the assumption that the underlying portfolio remains unchanged while being valued, so that risk factors are applied to the current portfolio positions, instantaneously at the as-of-date.

c. Distributional assumptions

All risk factors reflecting Market Risk have either a lognormal or normal distribution.

d. Calibration of risk factor distribution and to Measurement period

EH Ré SA calibrates the distribution of risk factors on historical observation of weekly time series. This means the distribution of risk factors needs to be scaled to reflect this longer horizon.

e. Scenario based aggregation and its advantages

By means of Monte Carlo simulations, i.e. generation of independent samples of scenarios, EH Ré SA generates a set of random scenarios, sufficiently large to estimate statistical quantities.

E.4.2.1.2. Reserve Risk

a. Reserving Uncertainty

Loss reserving is the process of forecasting unpaid liabilities. In order to measure the uncertainty embedded with forecasting, it is needed to obtain a predictive distribution of the unpaid liabilities and the associated cash flows. For most stochastic reserving models discussed in the actuarial literature it is not easy or rather impossible to obtain a predictive distribution analytically. Therefore, a simulation approach was adopted: bootstrapping.

b. Cash flow Estimation for Reserve Risk

Where a paid bootstrap has been used to estimate reserve uncertainty in a LoB, the projected cash flow for that LoB is already available as defined by the bootstrap.

Where either an incurred bootstrap or a lognormal simulation of the reserve has been used a cash flow estimate is required in order to obtain an estimation of the paid claims over the first future time period.

c. Dependencies

A rank normal correlation is applied within the ultimate gross loss distributions of the reserving lobs.

d. The emergence pattern methodology

The evaluation of risk as it manifests over the first calendar year of development is based on a methodology using Emergence Patterns. These are patterns which describe the loss recognition over time of both Premium and Reserve Risk.

e. RC

Even know the SCR is defined using the Value at Risk at the confidence level of 99.5%, EH Ré SA uses the term Ultimate Reserve RC for the difference between the VaR at the 99.93 percentile of the ultimate loss distribution at the horizon date and the mean of the ultimate loss distribution at the as-of-date. For a profit distribution this is the difference between the 0.07 percentile and the mean.

The RM is calculated according to the method prescribed by Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) for Solvency II.

f. Loss Reserve RM Calculation

The RM by lob is calculated for the Loss Reserves. First, the net risk profile by lob is mapped to the Solvency II lobs. Next, the RC is calculated and then used to generate the RM.

g. Premium Reserve RM Calculation

The methodology for calculating the RM for the premium reserve is identical to that used for the loss reserves for all calendar years except the first. Using the net risk profile from the emergence pattern model section, the capital required for the Premium Risk is calculated.

E.4.2.1.3. Credit Risk

EH decided to manage Credit Risk calculation with the combined use of two different models:

- Moody's KMV model Risk Frontier which stands for reinsurance and investments portfolios;
- EH IM which is a specific model developed by EH in order to capture specificities of credit insurance business (buyer focused risk assessment and default definition, policy features and reinsurance structure).

Credit RC is calculated at first separately for each sub-type of Credit Risk prior to be consolidated across Credit Risks.

E.4.2.1.3.1. Credit Risk for reinsurance and investment modelling

Credit Risk is measured as a change in market value of the portfolio over a certain time horizon, due to defaults and credit quality migrations.

RC calculation is done through IMs based on a VaR approach. Following this approach, the loss in the portfolio value of businesses is assessed within a one year timeframe for a large number of shock scenarios with a probability of occurrence up to 99.5% for RC calculation and 99.93% for economic capital calculation. This loss distribution provides Credit Value at Risk (CVaR) and Expected Losses (EL).

The required internal RC is defined as the difference between the portfolio value under BE conditions and the portfolio value under the adverse conditions associated with the desired confidence level. The loss distribution is then derived.

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.

E.4.2.1.3.2. Credit Risk for trade credit insurance & surety

The EAD is defined as the exposure of the buyer at the time of the default of the claims declared before application of any loss mitigation techniques.

EH is using a Merton-type approach as a basis to build its default process using a Gaussian copula framework.

The LGD is obtained by applying to the EAD all possible loss reduction features.

Then the simulation is based on Monte-Carlo numerical method based on correlated Gaussian path.

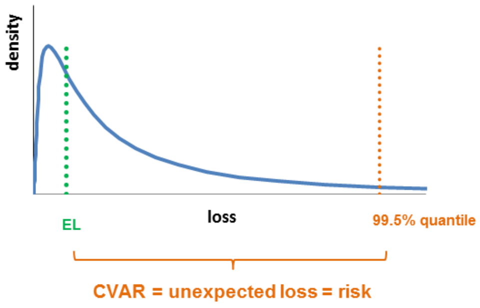
a. A model based on a static approach of the risk underwriting policy

EH Ré SA chose to integrate management actions that are foreseen for the next year.

EH Ré SA has opted for the use of a simulation approach to determine its Loss distribution. It is the natural approach in presence of non-homogeneous portfolios in high dimension. For Solvency II purposes, the RC is then measured from the simulated loss distribution as follows:

$$CVaR_{99.5\%} = 99.5\%\ Quantile\ Loss - EL$$

Figure 34: **Schematic view of the CVaR calculation**



This choice has also the advantage of allowing the simulation of "extreme scenarios", in particular the increase in frequency of claims (multiple loss events) and the occurring of large losses (single loss events). Those events are covered by the man-made risk component of the standard formula.

b. A model distinguishing the systemic risk and the idiosyncratic risk

In the case of trade credit insurance, a particular limit/exposure is triggered if an invoice sent by the policyholder is not paid by the buyer. In general a default event leading possibly to a loss is triggered as a reported 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;
- Whether or not EH Group can recover part of the indemnified amount later on to be indemnified.

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, it has been 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.

c. A point-in-time framework

The calibration of the parameter reflects the situation of the coming 12 months period.

E.4.2.1.4. Aggregation and diversification

VaR: quantifies the change in economic value as the minimum amount of capital required to ensure economic solvency for shock scenarios calibrated to one year period with a given probability The Required Internal RC is defined as the difference between the portfolio value under BE conditions and the portfolio value under the adverse conditions associated with the desired confidence level.

The aggregation method for EH Ré 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 Ré SA investment portfolio and the investments attached to the German defined benefit pension funds). 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 when 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 are:
    - In SM, up and down stresses % changing the yield curve vary by term to maturity. A minimum is defined for interest rate up stress;
    - In IM, changes in the yield curve like twists are considered, shifts for long-term are set. In addition, volatility stress is applied to yield curves;
    - In 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 European Economic Area (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. Non-Life Risks

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

- The Premium, Reserve and Business Risks due to cancellation 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 trade credit insurance and surety 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” lines of business (I.e. different products classified under credit and surety for EIOPA) of EH Ré SA and a diversification between countries;
- The diversification approach (diversification limited to non-life risk in the SM while extended to all risk in the IM).

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

On the trade credit insurance and surety portfolio, EH Ré 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 (i.e. client of the insured which must pay its invoice);
- Random scenario generation to simulate the loss distribution allowing 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 significant difference is due to the non-justified by EIOPA calibration of the recession risk and the fact that the calibration of the premium risk by EIOPA is not in line with our 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.4.2.2.4. 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 2 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 which philosophy is similar, the calibration is not comparable and therefore the results are not directly comparable:

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

E.4.2.2.5. 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 on a across the industry calibration. As a consequence, EH Ré SA will not comment on the difference between the two models.

E.4.2.3. Diversification

The diversification mechanisms are significantly different due to:

- All differences reported in the components of the pre-diversified SCR (classification of risks, calibration of risks…);
- Calibration factors which are different (in particular for the Operational Risk which is diversified in the IM and not in the SM);
- The nature of the SM (discrete approach) and the nature of the IM (stochastic modelling).

As a consequence, EH notes that the diversification ratio is similar, recognises that both approaches have been adequately computed and understands both results but cannot comment on this similarity of results.

E.4.2.3.1. 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)
- The DTL in the MVBS

E.4.3. Data quality

EH Ré SA has implemented a data quality framework across the whole company in accordance with the Solvency II expectations. Thus, EH Ré SA has produced all necessary deliverables with roles and responsibilities for each of them adding to an overall data governance organization.

Hence, the EH Ré SA data quality framework has set in place specific committees at different levels (the Group Data Quality Council at strategic level and the Data Committee at operational level) and a clear definition of the stakeholders' roles and responsibilities with validated attributions.

Moreover, in order to monitor the quality of data, KPIs have been implemented, are monitored and reported to the various committees through data quality dashboards. This consolidation and reporting towards data committees are executed in such a way to be aligned to the EH quarterly RC closing process.

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

In 2017, the number of the KPIs has materially increased compared to the last exercise. It is now considered that the data quality for captives should include the TCI KPIs from the BUs that are ceding to the corresponding captive. These "indirect" KPIs are labelled as part of the Credit Insurance Risk.

Hereunder is a Data Quality Dashboard as of Q4 2017 showing that the quality of the data used at EH Ré SA to calculate the RC is totally under control ; no direct KPIs at EH Ré SA level are assessed as not effective yet ("KO"). 23 indirect KPIs are identified as "KO" but their number compared to the total of KPIs is deemed non-material.

Figure 35: **Data Quality Dashboard**

	Accuracy		Completeness		Conformity		Consistency		Duplication		Integrity		Timeliness		Total	
Risk Type	KPI #	KO #	KPI #	KO #	KPI #	KO #	KPI #	KO #	KPI #	KO #	KPI #	KO #	KPI #	KO #	KPI #	KO #
Business Risk	1	-	-	-	-	-	1	-	-	-	-	-	1	-	3	-
Credit Insurance Risk	-	-	1 251	9	1 000	5	805	4	92	5	56	-	-	-	3 204	23
Credit Risk	5	-	2	-	-	-	3	-	-	-	-	-	1	-	11	-
IT System Risk	-	-	64	-	64	-	-	-	64	-	-	-	128	-	320	-
Market Risk	1	-	6	-	-	-	2	-	-	-	-	-	1	-	10	-
Operational Risk	1	-	-	-	-	-	1	-	-	-	-	-	1	-	3	-
Premium Risk	2	-	-	-	-	-	1	-	-	-	-	-	3	-	6	-
Reserve Risk	2	-	-	-	-	-	1	-	-	-	-	-	3	-	6	-
Tax Risk	3	-	-	-	-	-	1	-	-	-	-	-	2	-	6	-
Grand Total	***15***	***-***	***1 323***	***9***	***1 064***	***5***	***815***	***4***	***156***	***5***	***56***	***-***	***140***	***-***	***3 569***	***23***

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.4.2.2.4.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

E.5.1. Non-compliance with the Minimum Capital Requirement

EH Ré SA is compliant with the MCR.

E.5.2. Non-compliance with the Solvency Capital Requirement

EH Ré SA is compliant with the SCR.

E.6. Any other information

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

Appendix 1: Key terms and abbreviations

Terms / Abbreviations	Description
AE	Acquisition Expenses ratio
AEI	Allianz Equity Incentive
ALM	Asset Liability Management
AM	Asset management
APAC	Asia and Pacific
ASPP	Allianz Sustained Performance Plan
AY	Accident Year
BE_{Rec}	Best-Estimate of the (ceded) recoverables
BoD	Board of Directors
BoM	Board of Management
BU	Business Unit
CAA	Commissariat aux Assurances
CAT risk	Catastrophic risk
CDA	Counterparty Default Adjustment
CDC	Career Development Conference
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CEO	Chief Executive Officer
CIFS	Critical or Important function or Services
COBIT	Control Objectives for Information and Related Technologies
COSO	Committee of Sponsoring Organizations
CR	Combined Ratio
CRO	Chief Risk Officer
CVaR	Credit Value at Risk
CY	Current Year
DFM	Development Factor Method
DTL	Deferred Tax Liabilities
Dur_{mod}	Modified duration of the (ceded) recoverables
EAD	Exposure at Default
EEA	European Economic Area
EH	Euler Hermès
EH Group	Euler Hermes Group
EH Re	Euler Hermes Reinsurance
EH Re AG	Euler Hermes Ré AG
EH Ré SA	Euler Hermes Reinsurance SA
EH SA	Euler Hermes SA
EIOPA	European Insurance and Occupational Pensions Authority
EL	Expected Loss
ERM	Enterprise risk management
EU	European Union
EUR	Euro
FiCo	Financial Committee
FP	Future Premiums

FX	Exchange rate
G/L	Gains/Losses
GBP	Great Britain Pound
HR	Human Resource
ICOFR	Internal control Over Financial Reporting
IFRS	International Financial Reporting Standards
IM	Internal model
IMAP	Internal model Approval Process
IR	Interest Rate
IRCS	Integrated Risk & Control System
IT	Information Technology
ITG	Investment and Treasury Group
KPI	Key Performance Indicator
LGD	Loss Given Default
LoB	Line of Business
LRC	Loss Reserve Committee
LuxGAAP	Luxembourg GAAP
MAAC	Model and Approval Adjustment Committee
MC	Management Committee
MCR	Minimum Capital Requirement
MMCD	Market Management, Commercial and Distribution function
MMEA	Mediterranean countries, Middle East and Africa
MO	Model Owner
MSCI EM	Morgan Stanley Capital International Emerging Markets Index
MSCI EMU	Morgan Stanley Capital International European Economic and Monetary Union Index
MSCI USA	Morgan Stanley Capital International United State of America Index
MTB	Mid Term Bonus
MVBS	Market Value Balance Sheet
OREC	Operational Risk Event Capture
ORM	Operational Risk Management
ORSA	Own Risk and solvency assessment
P&C	Property & Casualty
P&L	Profit & Loss
PAAC	Parameters & Assumptions Approval committee
PD	Probability of Default
PLN	Polish Zloty
PR	Premium Received
PRR	Premium Reserve Revaluation
PY	Previous Years
QRT	Quantitative Reporting Templates
R&CM	Risk & Capital Management
RADAR	Risk Management Function following the Risk Assessment, Diagnostics, Analysis and Reporting process
RC	Risk Capital
RCSA	Risk and Control Self Assessment
RIC	Risk Information and Claims

RiCo	Risk Committee
RM	Risk Margin
RR	Recovery Rate
SA	Société Anonyme
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SII	Solvency II
SLA	Service Level Agreement
SM	Standard Model
Solunion	Spain and Latin America (excl. Brazil) entities
SPV	Special Purpose Vehicle
TCI&S	Trade Credit Insurance & Suretyship
TP	Technical Provisions
TRA	Top Risk Assessment
UK	United Kingdom
UPR	Unearned Premium Reserve
USD	United States Dollar
VA	Volatility Adjustment
VAC	Validation Coordinator
VaR	Value at Risk

Appendix 2: Publically disclosed QRTs

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

Appendix 3: Disclaimer

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