

**Euler Hermes SA**

**Solvency and Financial Condition Report  
(SFCR)**

**Fiscal Year 2022**

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Crossroads Bank for Enterprises (RPR Brussels) no: 0403.248.596

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## Summary

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### Business and performance (A)

EH SA is an insurance company based in Brussels, Belgium that is 100% owned by Euler Hermes Group SAS (“EH Group”). EH SA’s main Solvency II (SII) line of business (LoB) is credit and suretyship insurance, which represents over 92.3% of earned premiums in 2022.

EH SA operates 22 branches and has 43 subsidiaries worldwide. The material geographical regions are the DACH region (Germany (DE), Austria, and Switzerland), France, Northern Europe (NEUR), Mediterranean countries, Middle East and Africa region (MMEA), and the Asia and Pacific region (APAC).

The Covid-19 pandemic affected the entire planet and caused a human crisis on a historic scale during 2020 an uneven recovery during 2021, with 2022 turning out to be a tumultuous year, too. The war in Ukraine, another black swan event, has materialized while the world was still not rid of Covid-19. The global real GDP has grown by +2.9% in 2022, though vulnerabilities have emerged at several levels.

2022 started with a cautious outlook, as the emergence of a new Covid-19 variant (Omicron) led to some countries re-imposing mobility restrictions. The most notable example was China, which maintained its zero-Covid policy throughout 2022, while also dealing with a downturn in the real estate sector. The economy grew by a very modest +3% in 2022.

The Russian invasion of Ukraine on 24 February 2022 shook the world. From an economic perspective, the war and related sanctions were the sent shockwaves through the energy, trade, and financial sectors. Economies across the world were not impacted at the same level, Ukraine was the most affected (-35%), with Russia also experiencing a full-year contraction in its GDP (-2.8%). The Eurozone grew by +3.3%, among major economies, the most affected by the energy crisis.

2022 also marked the return of inflation, resulting from the post-Covid reopening, shortages (of inputs, labor, shipping capacity, etc.), higher commodities prices (energy and food), and a strong USD (making imports more expensive in local currencies). EH SA estimates that global inflation reached 8.6% (compared with an average of 3.7% from 2000 to 2019). As a result, Central Banks aggressively tightened their monetary policies to contain inflationary pressures (e.g., policy rates at the highest since 2007 and 2008 respectively in the US and the Eurozone).

This context of slower growth, higher inflation, and higher interest rates has increased corporate risks. Fiscal packages that have been put in place only partially offset these negative factors. We estimate that global business insolvencies rebounded by +10% in 2022 (after -12% in both 2021 and 2020).

Starting in 2020, various governments, especially in Europe, have included the credit insurance sector in their response to the Covid-19 crisis. In order not to dry up the capacity of the market, they have requested the credit insurance companies to maintain their coverage, in exchange for state support for the sector. This support has taken the shape of the so-called “State Schemes”, which are, in the majority of the cases, proportional reinsurance treaties whereby the local Euler Hermes (EH) entities cede a significant share of their business to the States. Those schemes have been treated as ceded reinsurance. They have obviously had a very significant impact on the 2020 and 2021 net earned premiums of EH SA. Originally foreseen until December 31, 2020, they have been extended until June 30, 2021.

Government support schemes dedicated to the credit insurance business were in place in the following countries: Germany, Belgium, the Netherlands, Denmark, Norway, UK, France, and Italy. All state support programs have been presented as “reinsurance schemes” in accounts. In 2022, the unwinding impacts remaining from those schemes on the EHSA consolidated accounts are negative on a net basis by EUR -5mn, of which EUR -5mn ceded premiums, EUR -4mn ceded claims, and EUR 4mn

commissions.

In 2022, the situation in Ukraine and Russia was actively monitored and control, the exposure at Euler Hermes Group level has been sharply reduced and outstanding on import limits are decreasing over time. End of the year 2022, EUR -11mn claims reserves have been booked in relation to Russia Ukraine exposures and related sanctions, several other large cases, and impacts from the energy shock and inflation.

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

## System of governance (B)

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

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

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

EH SA has set up the Risk Policy Framework (RPF), which is a set of policies, standards and guidelines overarching the risk management system of EH SA.

The Own Risk and Solvency Assessment (ORSA) is a set of processes assessing the overall solvency needs over the planning horizon. It constitutes a decision-making tool for the Management Committee and an effective instrument for the steering of the company’s business for the BoD. The ORSA report based on 4Q 2022 figures will be submitted to the NBB on June 30, 2023 at the latest.

## Risk profile (C)

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

This section provides an overview of the risk categories contributing to EH SA’s Solvency Capital Requirement (SCR) of EUR 573mn.

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<sup>1</sup> with the addition of the two key functions as “designated key functions”: Legal and Accounting & Reporting

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

## **Valuation for solvency purposes (D)**

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

Total assets at the end of 2022 amounted to EUR 4,433.3mn on an MVBS basis. Assets have been invested in alignment with the prudent person principle.

Total liabilities at the end of 2022 amounted to EUR 3,286.4mn on a MVBS basis, of which EUR 2,044.3mn of Technical Provisions (TP). The Volatility Adjustment (VA) impact is null.

## **Capital management (E)**

EH SA own funds are exclusively composed of basic own funds. The SII own funds are composed of 96.0% of Tier 1 unrestricted. The rest of the own funds is classified as Tier 3.

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

The Minimum Capital Requirement (MCR) ratio stands at 503.8% and the SCR ratio at 184.5%. EH SA does not foresee any breach of its SCR or MCR.

## A. Business and performance

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### A.1. Business

#### A.1.1. Legal entity, auditor and supervisor

##### A.1.1.1. Name and legal form

<b>Name and legal form</b>	Euler Hermes SA
<b>Address</b>	Avenue des arts 56, 1000 Brussels, Belgium
<b>Website</b>	<a href="https://www.allianz-trade.com/en_global.html">https://www.allianz-trade.com/en_global.html</a>

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

##### A.1.1.2. Supervisor

<b>Name</b>	National Bank of Belgium
<b>Address</b>	Boulevard de Berlaimont 14, 1000 Brussels, Belgium

#### A.1.2. Auditor

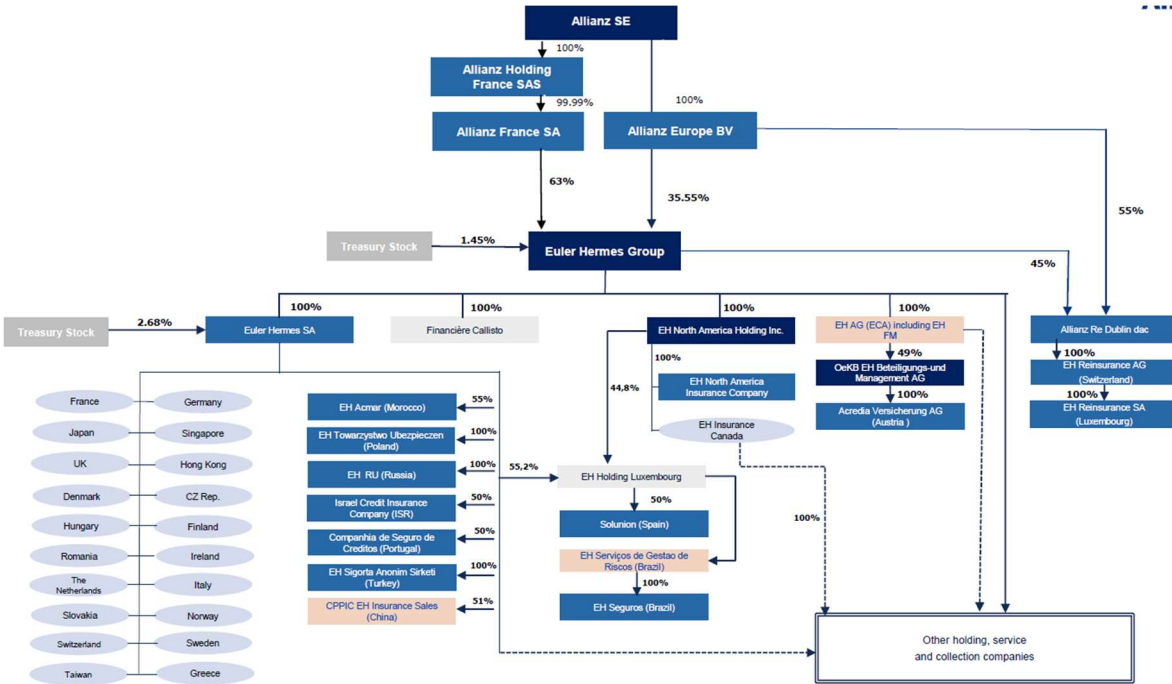
<b>Name</b>	PwC
<b>Address</b>	Brussels National Airport 1K, 1930 Zaventem

#### A.1.3. Group structure and qualified holdings

EH SA, located in Belgium, is a part of EH Group, located in France. Below is a simplified group structure chart for EH SA as of 31.12.2022, which also details the percentage ownership and legal links to its parent entities and its material-related undertakings.



EH Group simplified group structure as of 31.12.2022



At the end of 2022, the number of EH SA shares is 2,925,155, of which 78,340 are own shares. The remaining shares are held by EH Group.

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

A.1.4. Material lines of business and geographical areas

A.1.4.1. Geographical areas

EH SA operates 22 branches located in Belgium, France, Germany, Japan, Singapore, UK, Ireland, Hong Kong, Denmark, Czech Republic, Hungary, Finland, Romania, Ireland, Netherlands, Italy, Slovakia, Norway, Switzerland, Sweden, Taiwan, and Greece.

EH SA additionally has 43 subsidiaries worldwide including numerous different service companies as well as seven insurance legal entities (among which EH Poland produces its own reporting).

A.1.4.2. Lines of Business

EH SA has three main Lines of Business (LoBs): Credit Insurance, Surety and guarantee business, and Fidelity.

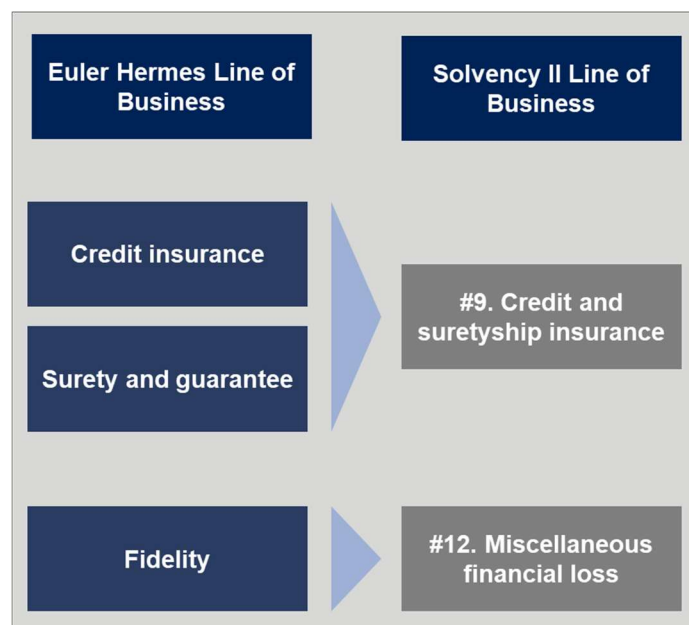
For the purposes of SII reporting, the chart below describes the mapping of each of EH SA’s LoBs into the SII LoBs:

- #9. Credit and suretyship insurance

- #12. Miscellaneous financial loss

The credit and suretyship insurance LoB are considered to be the only material LoB as they generate over 92.3% of EH SA earned premium.

**LoBs within EH SA**



### A.1.5. Significant and subsequent events

Several significant events occurred in 2022 for the EH Group in general and EH SA in particular:

- In 2020, various governments, especially in Europe, requested, that credit insurance companies maintain their coverage, in exchange for state support, for the sector. This support has taken the shape of the so-called “State Schemes”. Those State Schemes are in essence, proportional reinsurance schemes with the various States and have been treated as such in the accounts. They were in place in the following countries: Germany, Belgium, the Netherlands, Denmark, Norway, UK, France, and Italy. Originally foreseen until December 31, 2020, they have been extended until June 30, 2021. The unwinding impacts the 2022 income statement and are non-significant (EUR -5mn at EH SA and EUR -12mn at EH Group level).
- In 2012, the former headquarters of EH (1 Rue Euler, 75008 Paris, France) was brought into an OPCI, the OPCI “EH Real Estate”, in which EH SA holds 60% of the capital, the remaining 40% are in the hands of the minority shareholder, who financed the refurbishment of the building; to ensure the liquidity of this stake, EH has granted a put option to the minority shareholders. In 2021, the minority shareholders expressed the wish to exert their option. In 2022, the minority shareholders withdrew their option exercise.

In 2022, EH Group acquired its future Head Office in Paris - La Défense under a forward asset purchase for EUR 233mn net of VAT with scheduled payments until delivery in 2026. The acquisition is self-financed through internal loans.

- The situation in Ukraine and Russia was actively monitored and under control. The exposure of Allianz Trade at group level was sharply reduced and outstanding on import limits decreasing over time.

## A.2. Underwriting Performance

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

### A.2.1. Aggregated underwriting performance

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

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

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

**Service revenues** consist mainly of two types of service fees:

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

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

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

In EUR mn	2022	2021	Δ	%
Turnover	2,073	1,841	232	12.6%
Claims costs	-830	-596	-234	39.2%
Gross operating expenses	-751	-637	-113	17.9%
Gross technical result	492	607	-116	-19.1%
Outward result	-407	-593	186	-31.3%
Technical result	84	14	70	487.7%

#### A.2.1.1. Turnover

In 2022, turnover amounted to EUR 2,073mn, increasing by 12.6% compared to 2021.

Gross earned premiums amounted to EUR 2,033mn in 2022, increasing by 12.53% compared to last year. This increase is linked on the one end to the price increase campaign launched and executed by EH in 2021, and, on the other end, to the rebound of the turnover of the customers of EH, which forms the basis for the premium computation in many cases.

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

### A.2.1.2. Claims costs

Claims costs were at EUR 830mn, increasing by 39.2% compared to last year. However, the level of claims remains below the historical average. At the end of 2022, the tide has turned, and it is expected to face a normalization in frequency and severity during 2023, which is covered by a strong balance-sheet position and adequate reinsurance.

Gross claims costs for the Current Year were at EUR 1,474mn, up 49.9% compared to last year.

Gross run-offs were still positive and amounted to EUR 643mn, compared to EUR 387mn last year.

### A.2.1.3. Outward result

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

In 2022, the impact of those schemes on EH SA P&L is negative by EUR -5mn, of which EUR -5mn ceded premiums, EUR -4mn ceded claims, and EUR 4mn commissions.

Those State Schemes, combined with the original proportional cession program of EHSA, brought the cession rate of EH SA above 80% over the whole year 2021. Originally foreseen only till December 31, 2020, they were extended until June 30, 2021. In 2022, the State Schemes ended bringing the cession rate of EH SA below 80% and resulting in a lower outward result in 2022, at EUR 407mn.

### A.2.1.4. Gross operating expenses

Gross operating expenses increased by 17.9% compared to the previous year, thus at a faster pace than the revenues.

This increase is linked to the investments conducted during 2022 for growth strategy, the new business generation, and the inflationary environment. As a reminder, in 2021 the expenses were positively impacted by the uplift of a high state support schemes commission.

## A.2.2. Underwriting performance by material line of business

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

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

In EUR mn	2022	2021	Δ	%
Turnover	1,917	1,698	219	12.9%
Claims costs	-770	-485	-285	58.6%
Gross operating expenses	-705	-602	-103	17.2%
Gross technical result	442	611	-169	-27.6%
Outward result	-374	-604	230	-38.1%
Technical result	68	6	62	995.9%

As seen in the above, both the technical result at an aggregated level and technical result of EH SA's credit and suretyship insurance increased by EUR 62mn, compared to last year. Credit and suretyship insurance remain, by far, the most significant business line of EH SA and it is the most affected by the State Schemes.

### A.2.3. Underwriting performance by material geographical area

#### A.2.3.1. DACH region

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

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

In EUR mn	2022	2021	Δ	%
Turnover	631	582	49	8.4%

In 2022, the turnover increased compared to 2021, driven by an increase in gross earned premiums with a good performance from the main lines of business, mitigated by a slight decrease of services revenues.

#### A.2.3.2. France region

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

In EUR mn	2022	2021	Δ	%
Turnover	396	354	41	11.7%

France recorded an 11.7% increase in turnover, driven by positive insured volume variation in Trade Credit Insurance despite lower service revenues.

#### A.2.3.3. Northern Region

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

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

In EUR mn	2022	2021	Δ	%
Turnover	505	463	43	9.2%

Turnover increased by 9.2% compared to last year driven by all lines of business.

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

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

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

In EUR mn	2022	2021	Δ	%
Turnover	348	290	59	20.4%

Turnover was at EUR 348mn, up 20.4% compared to the prior driven by positive insured volume variation in Trade Credit Insurance and good performance in Surety.

#### A.2.3.5. Asia and Pacific region (APAC)

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

Figure 7: APAC region underwriting performance (IFRS)

In EUR mn	2022	2021	Δ	%
Turnover	193	153	40	26.0%

Turnover stood at EUR 193mn, increased by 26% compared to last year driven by positive insured volume variation and foreign exchange in Trade Credit Insurance.

### A.3. Investment Performance

#### A.3.1. Income and expenses arising from investments

Figure 8: EH SA investment performance

In EUR mn	2022	2021	Δ	%
Current income from Equity	83	44	38	87.3%
Current income from Bond	23	14	9	67.3%
current income Real Estate 3 <sup>rd</sup> party	0	0	0	-15.6%
Current income from Cash and Other	0	0	0	-1478.8%
Current investment income	106	58	48	82.4%
FX result (net)	-6	3	-8	-304.3%
Investment Expenses	-7	-7	0	-3.4%
Interest Expenses	-3	-5	1	-27.0%
Trading - non operating (include LTI)	0	0	0	72.0%
Real. G/L, imp. (net) equities	2	1	1	45.5%
Real. G/L, imp. (net) fixed inc	-20	1	-21	-2234.0%
Real. G/L, imp. (net) inv. Prop.	0	-		
Realized gains/losses	-19	2	-21	-978.3%
Total investment income (incl. interest expenses)	72	51	20	39.4%

The main providers of dividends (income from equity) remained EH Credit France (EUR 50mn vs no dividends in 2021).

The increase in revenues from bonds is explained by the maturity of certain bonds in the portfolio EH Belgium.

Investment expenses are in line with the previous year.

### A.3.2. Gains and losses recognized directly in equity

In 2022, IFRS shareholder equity was at EUR 900mn, decreasing by EUR -28mn compared to 2021 where it amounted to EUR 928mn. The evolution of the IFRS shareholder equity over the reporting period is mainly explained by:

- A dividend distribution of EUR -60mn;
- The negative variation in unrealized gains and losses for EUR -107.2mn;

Compensated by the following positive changes:

- A positive result of the year of EUR 82.9mn;
- The net actuarial gain on pension reserve for EUR 53mn.
- The variation of a put liability for EUR 6.9mn reflecting the obligation, according to the shareholders agreement, to buy the minority investors' shares of 40% into the OPCI EH Real Estate;

The change in foreign exchange reserve for EUR 0.1mn, mainly on the British Pound Sterling (EUR -5.5mn), on Hong Kong Dollar (EUR 3.7mn), and the Singapore Dollar (EUR 2.1mn).

### A.3.3. Investments in securitization

The following table presents EH SA's investments in securitization (MVBS) between Q4 2021 and Q4 2022 including the exposures in these investments.

**Figure 1: Investments in securitization (MVBS)**

In EUR mn	2022		2021	
	Exposure	Exposure as % of total financial assets	Exposure	Exposure as % of total financial assets
Asset-Backed Securities	50	2,2%	30	1,4%
Collateralized	89	4,0%	98	4,5%
Covered	444	19,8%	399	18,3%
<b>Securitization</b>	<b>583</b>	<b>26,0%</b>	<b>527</b>	<b>24,2%</b>

The rationale behind these investments is disclosed below:

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

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

The risk/return profile of the portfolio is assessed and analyzed in line with the risk-bearing capacity and financial Key Performance Indicators (KPIs).

#### **A.4. Performance of other activities**

EH SA has identified one source of material income and expenses in 2022 outside of those from underwriting and investments (using a threshold of EUR 1mn to determine materiality), which are detailed hereafter.

Restructuring expenses: in 2022, EH SA recognized restructuring charges mainly on IT decommissioning and HR expenses for a total amount of EUR -43.6mn (compared to EUR -45.0mn in 2021).

#### **A.5. Any other information**

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



## B. System of governance

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### B.1. General information on the system of governance

#### B.1.1. Structure of the system of governance

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

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

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

##### B.1.1.1. Board of Directors

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

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

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

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

##### B.1.1.2. Management Committee

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

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

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

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

- The **Finance Committee (FiCo)** analyses EH SA and group's investments in light of the risk management policy;
- The **Risk Underwriting Committee (SCRUM)** is responsible for establishing procedures, structures and systems for managing Credit Risk exposure within EH SA;
- The **Risk Committee (RiCo)** oversees the rules, procedures and actions taken to identify, evaluate and control current and future risk within EH SA to ensure adherence to the Risk Strategy and Risk Appetite set by the BoD;
- The **Loss Reserve Committee (ResComm)** determines, in accordance with IFRS, the amount of claims reserves, recoveries and costs related to the management of claims;
- The **Marketing & Commercial Committee (MCC)** is a platform for the exchange of best practices in sales, marketing and distribution across the group's regions and branches;
- The **Project Investment Committee (PIC)** decides on EH SA investments in any project, IT-related or otherwise, with a value of more than 100K€ or that involves more than 100 working days;
- The **Product Committee (ProdCo)** evaluates each new product and approves its launch;
- The **Protection and resilience Committee (PRC)** monitors and controls all security and Business Continuity Management issues;
- The **Governance & Control Committee (GovCC)** purpose is to discuss and decide on questions in regard to EH SA overall governance and control framework;
- The **Financial Reporting and Disclosure Committee (FRDC)** acts as an advisory body for the Management Committee of EH SA in fulfilling its responsibilities with respect to external reporting for public disclosure;
- **The Integrity Committee's (IC)** purpose is to create an active discussion on integrity matters, share best practices in relation to integrity events, and maintain awareness on current laws and regulations concerning compliance and integrity standards;
- **The Global Sustainability Committee (GSC)** acts as an advisory body for the Management Committee of EH SA covering sustainability implications in business and operations;
- **The Information Technology Steering Board (ITSB)** purpose is to decide on IT related topics in support of strategic and business decisions.

### B.1.1.3. Audit, Risk and Compliance Committee

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

- Audit duties:
  - Monitoring the financial reporting process and, more specifically, the process of preparing financial statements (both statutory and consolidated);
  - Monitoring the financial policy;
  - Monitoring the effectiveness of EH SA internal control and risk management systems;
  - Monitoring Internal Audit, its activities and its effectiveness;
  - Monitoring the statutory audit of the statutory and consolidated annual financial statements, including following up the statutory auditor's questions and recommendations;

Monitoring the appointment process for statutory auditors and, where appropriate, renewing the auditor's term of office, making reasoned recommendations to that effect to the BoD;

Examining and monitoring the independence of the statutory auditor.

- Tasks related to risk management:

Monitoring the Risk Strategy;

Monitoring the functioning of the Risk Management function;

Monitoring the process of appointing independent valuers and the performance of their duties.

- Tasks related to compliance:

Monitoring the Compliance Strategy;

Maintaining an understanding of current laws and regulations concerning the corporate compliance program and integrity related standards;

Coordinating its actions with the Chief Compliance Officer.

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

#### **B.1.1.4. Nomination and Remuneration Committee**

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

- In the area of nomination, the Committee:

Makes reasoned recommendations and proposals to the BoD regarding the appointment of members of the BoD, the MC and the specialized committees;

Gives an opinion on nominations made by shareholders;

Verifies the integrity, competence, experience and independence of each candidate;

Considers the desirability of renewing appointments and draws up a succession plan for corporate officers;

Defines the independence criteria for members of the BoD, organizes a procedure for selecting the Board's future independent members and performs its own assessment of the potential candidates before approaching them in any way; ensures that the independent members of the BoD meet the independence criteria throughout their term of office;

Obtains drafts of agreements which results or could in a conflict of interest for members of the BoD and the MC and, where appropriate, gives its opinion to the BoD or the MC;

Analyses all external functions performed by the corporate officers and ensures that they do not hold an unlawful combination of offices.

- In the area of remuneration, the Committee:

Issues an opinion on EH SA remuneration policy;

Prepares discussions on remuneration, particularly remuneration that has an impact on EH SA risk and risk management and on which the BoD is called upon to decide;

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

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

### **B.1.1.5. Key functions**

EH SA has the following Solvency II independent control functions:

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

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

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

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

## **B.1.2. Remuneration policy**

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

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

### **B.1.2.1.1. Remuneration of directors**

The remuneration of directors includes the following components:

- Fixed compensation:  
The non-executive directors and the chairperson of the BoD are entitled to an annual compensation paid in two installments;

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

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

#### **B.1.2.1.2. Remuneration of the Management Committee members**

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

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

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

#### **B.1.2.1.3. Remuneration of other senior management**

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

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

#### **B.1.2.2. Assessment of Performance**

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

##### **B.1.2.2.1. Pension plan**

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

## **B.2. Fit and Proper requirements**

### **B.2.1. Description of requirements for Fit & Proper**

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

#### **B.2.1.1. Roles requiring regulatory Fit & Proper assessment**

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

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

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

#### **B.2.1.2. Details on Fit & Proper requirements**

##### **B.2.1.2.1. Details on Fitness requirements**

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

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

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

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

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

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

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

#### **B.2.1.2.2. Details on Propriety requirements**

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

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

- Any occupational prohibitions referred to in Article 42 of the SII regulation;
- Any conviction of a criminal offence, breaches of companies, insolvency and consumer protection laws;
- Any conviction of a relevant disciplinary or administrative offence;
- Any administrative sanctions for non-compliance with any financial services legislation and any current investigation or enforcement action by any regulatory or professional body;
- Any relevant inconsistency with regard to a candidate's education or professional experience; and
- Any further circumstance resulting in the risk of financial crime, non-compliance with law or the jeopardizing of the sound and prudent management of EH SA business.

## B.2.2. Description of processes and procedures in place

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

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

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

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

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

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

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

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

### B.2.2.2. Processes for ensuring ongoing Fitness and Propriety

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

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

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



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

### **B.2.2.3. Other processes**

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

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

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

## **B.3. Risk management system and ORSA process**

### **B.3.1. Description of risk management system**

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

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

#### **B.3.1.1. Risk strategy and objectives**

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

#### **B.3.1.2. Processes**

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

The Risk Strategy and corresponding Risk Appetite are transferred into standardized limit management processes covering all quantified risks throughout the company and taking into account the effects of risk diversification and risk concentration. A clearly defined and strict limit breach reporting and esca-

lation process ensures that risk tolerance limits and target ratings for top risks (including for non-quantified risks) are adhered to and that, as appropriate, remediation activities are taken immediately if limits are exceeded.

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

### B.3.1.3. Risk Policy Framework

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

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

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

All RPF documents (policies, standards, and guidelines) have a designated owner which is responsible for the update, validation, and communication of the document across the Regions. EH SA designated owners have to sign off a Statement of Accountability (SoA) to ensure that all documentation under their area of responsibility is fully implemented and compliant with Allianz and EH Group SAS requirements.

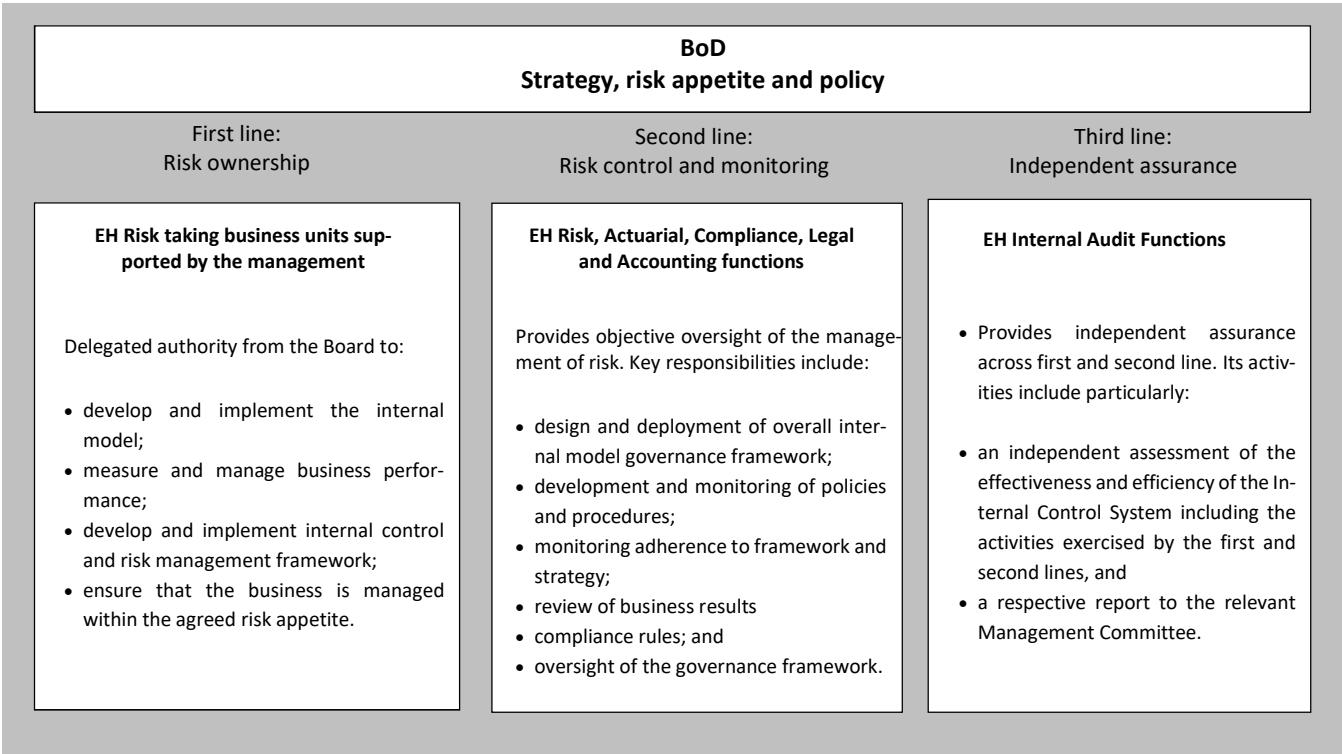
### B.3.1.4. Three Lines of Defence

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

#### “Three lines of defence” model

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



### B.3.2. Risk function

#### B.3.2.1. Duties of the Risk function

The Risk function has the following duties:

- To protect EH SA and achieve a source of competitive advantage through better risk quantification and risk management;
- To enable business decisions and an effective risk culture through trust-based business partnerships;
- To continuously improve EH global risk network, leadership, and technical skills as well as the interaction with the business;
- To provide an effective, independent risk oversight, comprehensive governance system, and risk control framework;
- To efficiently meet external requirements (regulators, EH Group SAS, Allianz, and rating agencies); and
- To coordinate the production of the quantitative Solvency II reporting (QRT) and the ORSA report.

#### B.3.2.2. Independence

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

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

The Chief Risk Officer (CRO) is the key function holder operationally responsible for the Risk function. The CRO reports hierarchically to the CEO and has a functional reporting line to the Chief Financial Officer (CFO) due to the Solvency II Quantitative reportings (QRTs) and the ORSA report.

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

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

### B.3.3. Governance of the Internal Model

#### B.3.3.1. Responsibilities

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

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

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

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

- **Model Approvers** are responsible for:
  - Initial approval of the models they are responsible for;
  - Deciding on a remediation plan if the validation results for models they are responsible for indicate findings that must be addressed.
- **Model Owners** are responsible for:
  - Ensuring the existence of adequate model documentation;
  - Developing model in accordance with the established design requirements;
  - Overseeing the implementation of model controls;

Carrying through activities to assess the appropriateness of the results produced by the model;

Assessing the data quality and defining appropriate data update cycles;

Signing-off of expert judgment.

- **Independent Reviewers** may be independent internal or external parties and are responsible for independent validation of models and reporting of the results according to the specifications in the guideline for model validation.
- The EH SA **Model Governance Coordinator** supports the EH SA CRO by:
  - Gaining approval of the validation plan by the local RiCo;
  - Coordinating the Annual Model Validation plan within the relevant legal entity;
  - Collecting suitability assessment results from Model Owners and documenting these in the relevant template for EH SA;
  - Gathering independent validation results of local model components and documenting these in the local Annual Validation Report for EH SA;
  - Following-up the status of the local remediation plans and disclosing status of open and closed findings in the local Annual Validation Report;
  - Regularly communicating the status of local validation plan to the model governance coordinator at Group level;
  - Coordinating the execution of the Annual Model Validation Report.
- The **Actuarial Function** is involved in modeling topics affecting their area of expertise, including dependencies with other risks.

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

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

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

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

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

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

### B.3.3.3. Material changes to the Internal Model governance

No material update occurred in 2022.

### B.3.3.4. Description of the validation process

#### B.3.3.4.1. Validation plan

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

#### B.3.3.4.2. Validation results

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

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

#### B.3.3.4.3. Validation recommendations follow-up

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

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

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

As already highlighted under B.3.3.3, the follow-up process has been subject to improvements in 2022.

#### B.3.3.4.4. Escalation Procedure

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

The escalation procedure starts with an escalation notice submitted by the Model Owner to the validation team/responsible with whom there is a disagreement. The notice includes a concise summary of the concern/issue and must be communicated as promptly as possible and substantiated with

the necessary evidence against the validation outcome. The Group CRO as well as the Validation Coordinator are copied in this notification.

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

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

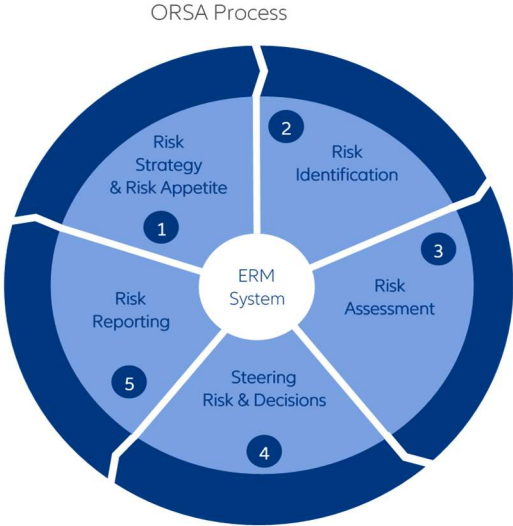
The ORSA draws upon the whole Risk Management system in order to conclude on the Risk Profile adequacy to the Risk Appetite and ensures consideration of risk capital needs from an integral part of the business decision-making process of the company.

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

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

#### B.3.4.1. ORSA process overview

Figure 2: ORSA Macro process



The ORSA Process is executed through five main steps:

1. Update and alignment of the Risk Appetite and risk limits with the business strategy and check of the alignment EH Group SAS ‘s requirements;
2. Identification of all risks and controls to be considered by performing several approaches;
3. Assessment of all risks based on the IM and additional risk assessment methods for risks not covered by the IM. In addition, projections of own funds, risk capital, and solvency ratio under base case and stress scenarios;

4. Steering of the overall solvency needs in quantitative terms of all material risks. Then, demonstration of the compliance of future business with the Risk Strategy;
5. Reporting of the performed results and analysis by filling the ORSA report and publishing it to all relevant stakeholders. The report has then to be validated by the MC before any official communication. Appropriate results are shared with other relevant reporting/analysis processes.

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

#### B.3.4.2. ORSA governance

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

### B.4. Internal control system

#### B.4.1. Internal control framework

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

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



The EH SA internal control system has the following objectives:

- To safeguard EH SA ability to operate as a going concern and the continuity of its business;
- To create a solid control environment, by ensuring that every member of personnel is aware of the importance of internal control and the role that they must play in the internal control system;
- To perform control procedures that are commensurate with the risk carried by EH SA's activities and processes;
- To provide relevant information to the management bodies as part of their decision-making processes;
- To ensure compliance with the applicable laws and regulations.

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

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

#### **B.4.2. General and specific control elements**

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

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

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

- Control environment (awareness among personnel of the need for internal control);
- Risk assessment (factors that may have a bearing on the achievement of objectives);
- Control activities (notably the application of standards and procedures);
- Information and communication of data required to manage and control activity;
- Monitoring of control systems.
- EH SA applies the three-lines-of-defense internal control model as described in section B.3.1.4.
- 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.

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

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

## **B.5. Compliance Function**

### **B.5.1. Compliance tasks**

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

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

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

## **B.5.2. Independence of the compliance function**

The compliance function has sufficient authority to maintain its independence at all times:

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

## **B.6. Internal Audit Function**

### **B.6.1. Implementation of the Internal Audit Function**

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

Internal Audit evaluates and contributes to the improvement of the adequacy, effectiveness, and efficiency of the organization's governance, risk management, and control processes through a systematic, disciplined, and risk-based approach, expertise and insights. It helps the organization to ensure compliance with external and internal requirements and accomplish its objectives. It supports the EH MC and Audit, Risk and Compliance Committee deliver on their obligation to ensure an appropriate and effective Internal Control System (ICS).

Internal Audit is a key function within the ICS of EH Group and forms the third line (of Defence) in the Three Lines (of Defence) Model. As such, Internal Audit provides reasonable assurance for the entire first and second line business organization including outsourced areas and services. Audit work involves generating an audit plan, examining and evaluating the information available, reporting on the results, and following up on recommendations.

The implementation of the Internal Audit function within EH is defined in the "Audit Policy" as well as in the supplemental "Standard Audit Manual", which define basic principles, tasks, methods as well as processes. Among other things, this includes the definition of the audit universe, i.e., the areas and topics which need to be audited to ensure adequate coverage of all relevant activities, procedures, and processes in all areas. The frequency and sequence of the audits in the course of the five-year audit cycle is then determined using a risk-based approach. The resulting annual audit plan is approved by the chairperson of the MC and the Audit, Risk and Compliance Committee. In case it is needed, ad-hoc audits may be executed. The execution of an audit is concluded by an audit report, which is amongst others shared with the auditee as well as with the MC and the Audit Risk and Compliance Committee. Management is responsible for implementing related corrective actions and for remediating identified audit findings. The Internal Audit function monitors the implementation of the action plans to remediate deficiencies.

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

## **B.6.2. Independence of the Internal Audit Function**

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

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

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

The Internal Audit function has the right to directly communicate with any employee and obtain access to any information, records, or data it requires to fulfill its responsibilities – all to the extent legally permitted. It has both the responsibility and the right to review activities, procedures, and processes in all areas of the Group, without any limitation. Internal auditors are to perform their duties in an unbiased manner; audit findings are to be based upon facts and supported by sufficient documented evidence. Internal auditors and the Internal Audit function have the authority to express assessments and recommendations but do not implement operational processes. To ensure independence and objectivity of internal auditors during audit assignments, the “Allianz Standard Audit Manual” states rules regarding the assignment of auditors. These include besides other to avoid the assignment of internal auditors on audits within the business area in which the respective auditor has been working in the last 12 months, in order to avoid potential conflict of interests.

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

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

## **B.7. Actuarial Function**

The Actuarial Function performs an independent assessment and oversight of EH SA’s technical provisions, it expresses an opinion on the company’s general underwriting policy and reinsurance arrangements and contributes to the effective implementation of the risk management system.

The Actuarial Function Holder and its team are experts in actuarial science and financial mathematics adherent to the code of ethics as well as the policies and standards imposed by the EH Group and the Allianz group. The Actuarial Function issues its opinion in a dedicated report that is approved by the MC, the BoD, sent to all other Key Functions and filed with the NBB.

The Actuarial Function Holder reports directly to the CEO and is independent from EH SA's operational business functions and other functions that are likely to create a conflict of interest. He is not eligible for bonuses linked to the performance of the Company.

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

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

## **B.8. Outsourcing**

### **B.8.1. Description of the outsourcing policy**

Outsourcing, which is defined in Article 13, 28° of the SII Law, is calling on third parties to exercise activities or implement procedures, which would otherwise have been exercised by the insurance company itself. The outsourcing can be for services rendered to insureds (call centres, etc.), or administrative work (bookkeeping, claims settlement, investment management, etc.) and support functions (IT, data management, etc.).

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

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

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

- The decision phase dedicated mainly to the establishment of a business plan and perform a risk assessment concluding on the feasibility of outsourcing a service or not;
- The implementation phase to assess and select the provider and conclude the outsourcing agreement;
- The operational phase to monitor and steer the outsourcing arrangement;

- The exit phase to manage the continuity (reversibility and data security) and issues related to the termination of an outsourcing contract.

## **B.9. Any other information**

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

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

## C. Risk profile

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### C.1. Underwriting Risk

#### C.1.1. Description of the measures used

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

#### C.1.2. Description of the risk exposure

EH SA's underwriting risk includes the following risks:

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

At the end of 2022, the capital requirement for non-life underwriting risk amounted to EUR 184mn before diversification.

The capital requirement for life underwriting risk amounted to EUR 20mn before diversification.

The capital requirement for business risk amounted to EUR 7mn before diversification.

#### C.1.3. Risk concentration

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

#### C.1.4. Risk mitigation

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

## C.2. Market Risk

### C.2.1. Description of the measures used

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

### C.2.2. Description of the risk exposure

EH SA's market risk includes the following risks:

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

At the end of 2022, the capital requirement for market risk amounted to EUR 531mn before diversification.

### C.2.3. Description of assets invested

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

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

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

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

- Local as well as group-wide external and internal regulations, and policies;



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

The following principles apply:

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

#### **C.2.4. Risk concentration**

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

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

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

#### **C.2.5. Risk mitigation**

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

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

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

## **C.3. Credit Risk**

### **C.3.1. Description of the measures used**

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

### **C.3.2. Description of the risk exposure**

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

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

- Counterparty risk: includes issuer risk and sovereign risk and is related to loans and structured transactions like Asset-Backed Securities (ABS), Over The Counter (OTC) derivatives, reinsurance, credit insurance, and financial guarantees;
- Credit insurance risk: the risk of losses on the insurance portfolio due to non-payment of invoices resulting from insolvency or protracted default of the buyer;
- Country risk (transfer risk): the risk that an obligor will not be able to meet its cross-border payment obligations because the capital transfer is prohibited or restricted (e.g., by a sovereign act), for instance by currency moratoria, freezing of money, repatriation of capital.

At the end of 2022, the capital requirement for credit risk amounted to EUR 248mn before diversification.

### **C.3.3. Risk concentration**

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

- **Large risks management process:** the methodology is to identify the largest and most sensitive buyers and ensure there is a granular review of each risk. A standard template that presents the key metrics and proprietary analysis maximizing the expertise and local knowledge has been defined and is currently used in all business units in a harmonized way. Buyers under this process are validated at different levels of credit committees depending on the exposure concentration and buyer grading.
- **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 in each of these dimensions. EH SA has succeeded in allocating its exposure in a well-proportioned manner and thus limiting the risk that may arise from a trade sector dependency or a certain category of buyers or countries. Both the most sensitive buyers and countries are closely monitored.

### **C.3.4. Risk mitigation**

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

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

## C.4. Stress tests and scenario analysis

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

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

### C.4.1. Standard financial stress scenarios

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

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

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

### C.4.2. Scenario analysis

To complete the analysis about the resilience of its solvency positions, EH SA has developed additional scenario analysis. Note that the scenarios applicable to 2021 are run and approved during the half of the year. Thus, the analysis of solvency position included in this section is issued from scenario analysis performed as of 4Q 2021.

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

- 2008/2009 financial crisis: the financial crisis is designed to be a recurrent scenario as it serves as a benchmark given its severity level;
  - ➔ After the stress and considering the management actions, EH SA's solvency position at the end of 2021 would remain above regulatory requirements
- Nuclear scenario: this scenario is designed to capture the potential impact of nuclear exposure in a nuclear plant in Asia;
  - ➔ Under such a scenario, EH SA's solvency position at the end of 2021 would remain above regulatory requirements.

- Russia-Ukraine-crisis scenario analysis: consists of a severe geopolitical stress and relates to the worst scenario defined by the Allianz Economic Research department, in the context of this crisis.

Under such a scenario, EH SA's solvency position at the end of 2021 would remain above regulatory requirements.

## C.5. Liquidity Risk

### C.5.1. Description of the measures used

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

### C.5.2. Description of the risk exposure

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

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

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

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

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

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

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

### C.5.3. Risk concentration

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

### C.5.4. Risk mitigation

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

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

- Ratio<80%: Green.

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

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

### C.5.5. Expected Profits Included in Future Premiums

EH SA's Expected Profits Included in Future Premiums amount to EUR 247.9mn.

### C.5.6. Stress tests and scenario analysis

EH SA identified several liquidity stress scenarios and chose to perform the one that appeared to be the most relevant in 2022: a deterioration of the market conditions leading to an economic crisis, a recession event that implies an increase in the claim frequency for credit insurers.

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

In this combined stress scenario, the liquidity ratio calculated at 4Q 2022 remains below the 80% alert level for the three first-time horizons (1W, 1M, and 3M) and is at 82% for the 12M horizon. For 4Q 2022, some rough proxies were used for the budgeted claims, and led to this ratio. Updated data will be produced in 1Q 2023 and should correct this result so that EH SA is able to maintain its liquidity within its Risk Appetite in an extreme stress situation thanks to the adequate liquidity of its assets.

## C.6. Operational Risk

### C.6.1. Description of the measures used

Operational risk is the risk of loss resulting from:

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

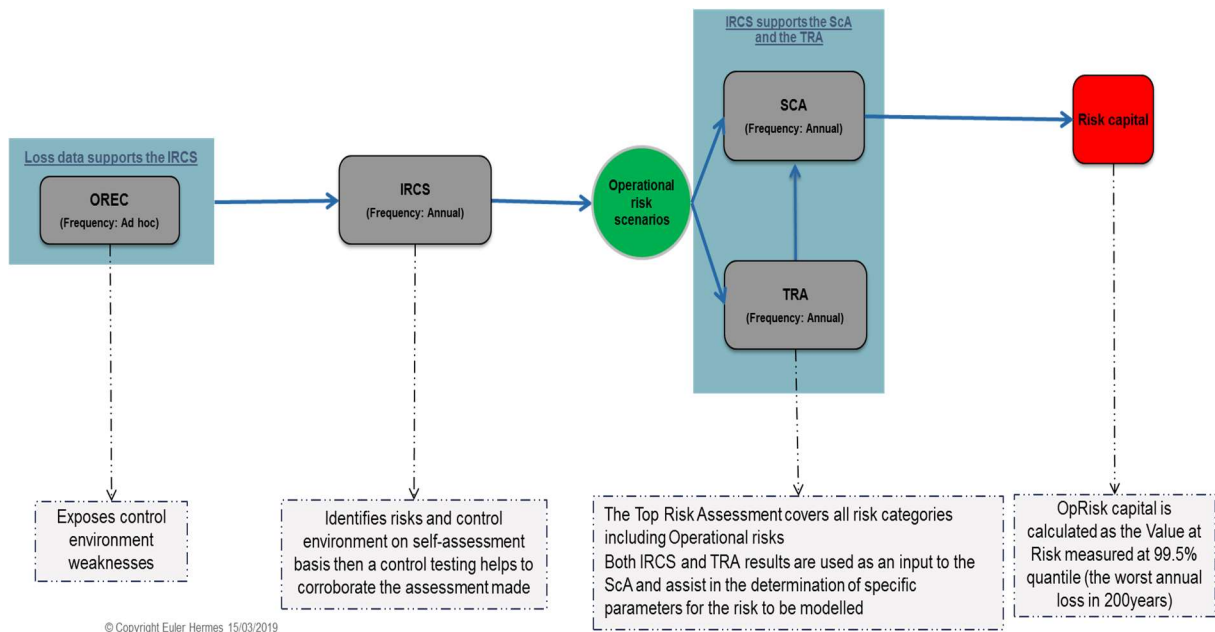
Legal and compliance risk are included, while strategic and reputational risk events are excluded.

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

- Generate awareness of the operational risk;

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

**Figure 3: Operational Risk management overview**



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

- **The Operational Risk Event Capture (OREC):** Information regarding actual operational risk-related losses, gains, and near-misses that have occurred is recorded via the OREC process. This information is used to support and corroborate the identification and assessment of risk during the IRCS process, as well as the assessment of control effectiveness.
- **The Integrated Risk and Control System (IRCS) & Non-Financial Risk Management (NFRM):** The IRCS is a risk management process by which EH SA ensures, through the performance of a qualitative-based analysis, that significant operational risks are identified, assessed, and prioritized for improved management and ensured that the controls underlying their management are effective.

It is to be noted that 2022 was a transitional year where a new overarching framework was introduced called Non-Financial Risk Management (NFRM) with the following objectives:

- Leverage process view to speak business language and to attain an end-to-end and holistic risk-and-controls panorama – enabling greater business ownership;
- Optimize controls evaluation to have focused testing on the effectiveness of controls;
- Allow for risk aggregation to better identify possible systemic root causes of risks, revisiting design weaknesses.

However, IRCS remained solely the input for the risk capital calculation.

- **Project Risk Management (PRM):** The objective of the initial project risk assessment on one hand is to ensure that projects, including the transition to Business-as-usual (BAU), are delivered on time, on budget, and of adequate quality. On the other hand, it is to ensure that future BAU risks are recognized during project initiation and prior to project approval so that a sufficient budget is provided for implementing adequate mitigation measures as well as automated controls for the future BAU.
- **The Top Risk Assessment Process (TRA):** This is a structured and systematic process implemented at EH SA level whose objective is to identify and remediate significant threats to financial results, reputation, operational viability, and the delivery of key strategic objectives, regardless of whether they can be quantified or not.
- **Scenario Analysis (SCA):** Each year, “Scenario Analysis” workshops are organized with Euler Hermes SA experts in order to set the IM parameters to be used to calculate the Operational RC.

### C.6.2. Description of the risk exposure

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

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

At the end of 2022, the capital requirement for operational risk amounted to EUR 41mn before diversification.

### C.6.3. Risk concentration

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

### C.6.4. Risk mitigation

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



## C.7. Reputational risk

### C.7.1. Description of the measures used

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

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

- If a risk is assessed as having a reputational risk score of 3 or higher the escalation process defined must be applied;
- If a risk is assessed as having a reputational risk score of 2 or lower, no escalation process is required. Hence, it is at the discretion of the first line of defence to decide whether the risk shall be accepted or only accepted under conditions.

The evaluation of the direct reputational risks is performed by the first line of defence and the communication function with the support of sustainability office. The Communication function is responsible for reporting the final assessment to the first line of defence.

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

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

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

### C.7.2. Description of the risk exposure

Reputational risk is defined as an unexpected drop in the value of in-force business or value of future business caused by a decline in the reputation of EH SA from the perspective of its stakeholders.

The potential for direct reputational risk is always considered throughout the course of all business activities.

Indirect reputational risks are inherent in the operations of EH SA and are not related to specific business transactions. Indirect reputational risks are considered through the Top Risk Assessment (TRA) and IRCS processes.

### **C.7.3. Risk Mitigation**

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

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

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

## **C.8. Sustainability Risk**

### **Sustainability Ambition Overview**

EH SA believes that building a sustainable business means increasing transparency and promoting open dialogue about its opportunities and challenges. EH SA sustainability ambition is built around three strategic pillars:

- Being a responsible insurer and investor;
- Reducing our carbon footprint;
- Creating a societal positive impact.

Appropriate governance has been put in place to tackle these ambitions.

## **C.9. Any other information**

There is no other material information regarding EH SA's risk profile to be disclosed.

## D. Valuation for solvency purposes

### D.1. Assets

#### D.1.1. Valuation of assets

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

**Figure 4: Asset (MVBS vs BeGAAP) as of 31.12.2022**

In EUR mn	MVBS	BeGAAP
Goodwill		0.0
Deferred acquisition costs		-0.2
Intangible assets	0.0	29.5
Deferred tax assets	42.6	0.0
Pension benefit surplus	0.0	0.0
Property, plant & equipment held for own use	139.4	22.5
Investments (other than assets held for index-linked and unit-linked contracts)	2,508.3	2,478.6
Property (other than for own use)	4.0	0.1
Holdings in related undertakings, including participations	606.8	491.7
Equities	13.1	38.8
Equities – listed	0.0	0.0
Equities – unlisted	13.1	38.8
Bonds	1,597.4	1,740.1
Government Bonds	542.4	578.7
Corporate Bonds	1,055.0	1,161.4
Structured notes	0.0	0.0
Collateralized securities	0.0	0.0
Collective Investments Undertakings	222.5	144.3
Derivatives	8.2	7.4
Deposits other than cash equivalents	56.2	56.2
Other investments	0.0	0.0
Assets held for index-linked and unit-linked contracts	0.0	0.0
Loans and mortgages	146.2	95.6
Loans on policies	0.0	0.0
Loans and mortgages to individuals	0.0	0.0
Other loans and mortgages	146.2	95.6
Reinsurance recoverables from:	1,224.2	2,122.2
Non-life and health similar to non-life	1,224.2	2,122.2
Non-life excluding health	1,224.2	2,122.2
Health similar to non-life	0.0	0.0
Life and health similar to life, excluding health and index-linked and unit-linked	0.0	0.0
Health similar to life	0.0	0.0
Life excluding health and index-linked and unit-linked	0.0	0.0
Life index-linked and unit-linked	0.0	0.0
Deposits to cedants	2.1	2.1
Insurance and intermediaries receivables	107.3	486.6
Reinsurance receivables	0.0	49.4
Receivables (trade, not insurance)	164.2	166.4
Own shares (held directly)	30.0	0.0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.0	0.0
Cash and cash equivalents	61.1	61.1
Any other assets, not elsewhere shown	7.9	7.9
<b>Total assets</b>	<b>4,433.3</b>	<b>5,521.8</b>

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

Asset account	MVBS valuation	BeGAAP valuation	Differences <sup>3</sup>
Goodwill	Goodwill is not recognized in MVBS	In BeGAAP, goodwill is recorded if the acquisition cost of an insurance portfolio is higher than the net value of the company. It is generally depreciated over five years.	There is no significant difference between the MVBS and BeGAAP value in 2022
<b>Deferred Acquisition Costs (DAC)</b>	In MVBS, acquisition costs are considered to be included in the calculation of the BE of the TP. Therefore, DAC are not recognized.	In BeGAAP, only the brokerage part of DAC is recognized. Moreover, in Belgian statutory accounts, DAC are recognized directly within the TP.	There is no significant difference between the MVBS and BeGAAP value in 2022
<b>Intangible assets</b>	In MVBS, intangible assets other than goodwill are valued at zero unless there is a value for the same or similar asset that has been derived from quoted market prices in active markets. If so they are recognized at their market value.	In BeGAAP, Intangible assets other than goodwill are recorded at: <ul style="list-style-type: none"> <li>• Their acquisition value or contribution value; or</li> <li>• Production value (limit: prudent estimation of their value in use or their future profit contribution)</li> </ul> Intangible assets are depreciated according to Belgian accounting standards	Under MVBS, intangible assets have been valued at zero because there is usually no active market for intangible assets, prices are not available to the public, or the intangible asset is unique. Thus, in BeGAAP, the asset is higher by EUR 29.5mn compared to MVBS.
<b>Deferred Tax Assets</b>	The principles of IAS 12 are applied for deferred taxes under MVBS.	In BeGAAP, the following deferred taxes are recognized: <ul style="list-style-type: none"> <li>• Deferred taxes on realized gains on intangible assets, tangible assets, and securities issued by the Belgian public sector, whereas the taxation of such gains is deferred; and</li> <li>• Foreign deferred taxes of the same nature as those mentioned previously.</li> </ul>	In BeGAAP, no DTA is recognized thus the asset is lower by EUR 42.6mn compared to MVBS.
<b>Property, plant &amp; equipment held for own use</b>	In MVBS, property, plant, and equipment are measured at fair value. Right-of-Use (RoU) assets recognized under IFRS 16 are considered to be a proxy for SII fair values.	In BeGAAP, they are recorded at their historical value. Investment properties are depreciated each year while no depreciation charge is recorded on the lands. At EH SA,	In BeGAAP, the asset is lower by EUR 116.9mn compared to MVBS due to: <ul style="list-style-type: none"> <li>• revaluation at fair value in MVBS (EUR - 14.5mn)</li> </ul>

<sup>3</sup> The materiality threshold is considered from EUR 1mn.

Asset account	MVBS valuation	BeGAAP valuation	Differences <sup>3</sup>
		investment properties are depreciated over 33 years. Revaluation is permitted in certain cases.	<ul style="list-style-type: none"> <li>recognition of Right of Use assets in MVBS in accordance with IFRS 16, but not in BeGAAP (EUR -102.4mn).</li> </ul>
<b>Property (other than for own use)</b>	In MVBS, property (other than for own use) is measured at fair value.	In BeGAAP, property (other than for own use) recognition and valuation follow the same rules as property, plant, and equipment held for own use.	In BeGAAP, the asset is lower by EUR 3.9mn compared to MVBS because of a revaluation at fair value in MVBS.
<b>Holdings in related undertakings, including participations</b>	In MVBS, participations and related undertakings are valued at a quoted market price in an active market, if available. If there is no quoted market price, then they are valued using either the Adjusted Equity method or the adjusted IFRS equity method.	In BeGAAP, participations (also called investments in subsidiaries and affiliates) are recorded at their acquisition value. Impairment tests are performed at each closing date.	In BeGAAP, the asset is lower by EUR 115.1mn compared to MVBS because MVBS is re-evaluated at fair value and due to depreciation booked on subsidiaries in BeGAAP.
<b>Equities</b>	Both listed and unlisted equities are valued at fair value in MVBS. In exceptional cases, IAS 39 allows available-for-sale equities not to be measured at fair value but cost.	In BeGAAP, investments (equities included) are recorded at their amortized cost. Impairments can be recorded	In BeGAAP, the asset is higher by EUR 25.7mn compared to MVBS because of the following adjustments: <ul style="list-style-type: none"> <li>In MVBS, own shares are recognized under the own shares asset line at an amount of EUR 30mn whereas in BeGAAP own shares are recognized under the equities asset line at an amount of EUR 34.6mn. The difference in amount is due to the recognition at fair value in MVBS versus recognition at acquisition cost in BeGAAP.</li> <li>Equities are revaluated at fair value in MVBS.</li> </ul>
<b>Bonds</b>	All Bonds items are valued at fair value in MVBS.	In BeGAAP, investments (bonds included) are recorded at their amortized cost. Impairments can be recorded.	In BeGAAP, the asset is higher by EUR 142.7mn compared to MVBS because in MVBS bonds are recorded at fair value.
<b>Collective investments undertakings</b>	The interests in collective investments undertakings are measured at fair value in MVBS.	In BeGAAP, collective investments undertakings follow the same rules as for bonds.	In BeGAAP, the asset is lower by EUR 78.2mn compared to MVBS because in MVBS collective investments undertakings are revaluated at fair value.

Asset account	MVBS valuation	BeGAAP valuation	Differences <sup>3</sup>
<b>Derivatives</b>	Derivatives are measured at fair value in MVBS.	In BeGAAP, Derivatives follow the same rules as bonds.	In BeGAAP, the asset is lower by EUR 0.8mn compared to MVBS because in MVBS derivatives are revaluated at fair value.
<b>Deposits other than cash equivalents</b>	Due to the short-term nature of the deposits, BeGAAP value is considered to be a good proxy of the fair value of the deposits.	In BeGAAP, Deposits other than cash equivalents are recorded at their amortized cost.	There is no significant difference between MVBS and BeGAAP
<b>Other investments</b>	Other investments include investments not covered by positions of investments indicated above. They are measured at fair value in MVBS	In BeGAAP, other investments follow the same rules as bonds.	There is no significant difference between MVBS and BeGAAP
<b>Loans and mortgages</b>	In MVBS, EH recognizes Loans and mortgages at fair value.	In BeGAAP, Loans and mortgages follow the same rules as for bonds.	The asset is EUR 50.6mn lower in BeGAAP due to the netting of cash pooling assets/liabilities in BeGAAP while in MVBS assets have to be un-netted
<b>Reinsurance recoverables from Non-life excluding Health</b>	The calculation of reinsurance recoverables leads either to the recognition of reinsurance recoverables calculated as a whole or the BE for the reinsurance recoverable. No Risk Margin (RM) is reported in the section of the reinsurance recoverable as the RM recognized within the TP is already net of reinsurance. However, a Counterparty Default Adjustment (CDA) is calculated.	In BeGAAP, the reinsurance share of reserves is calculated based on the TP and the applicable cession rates agreed in the reinsurance treaties: reinsurance share in Unearned Premium Reserve (UPR); claims provisions; provision for bonus and rebates.	In BeGAAP, the asset is higher by EUR 898mn compared to MVBS for the following reasons: <ul style="list-style-type: none"> <li>• In MVBS, only overdue receivables and payables are recorded (EUR +272mn)</li> <li>• Difference in recognition of ceded portion of premium reserves (EUR +283mn)</li> <li>• In addition, in BeGAAP salvages reserves are presented differently. Gross salvage reserve is presented as a liability in SII and as an asset in BeGAAP, salvage reserve ceded is presented as an asset in SII and presented as a liability in BeGAAP (EUR +263mn)</li> <li>• In BeGAAP there is no discounting.</li> </ul>

Asset account	MVBS valuation	BeGAAP valuation	Differences <sup>3</sup>
<b>Deposits to cedants</b>	Deposits to cedants include deposits relating to reinsurance accepted. In MVBS, deposits to cedants are valued at market value but due to short-term nature of deposits, the nominal value is considered to be a good proxy of the market value of the deposits.	Under BeGAAP, deposits to cedants are recorded at their nominal value.	Thus, there is no difference between MVBS and BeGAAP
<b>Insurance and intermediaries receivables</b>	In MVBS, insurance and intermediaries receivables are recognized at fair value. Insurance and intermediaries receivables are amounts past-due for payment by policyholders, insurers, and other linked to insurance business, that are not included in cash-in flows of technical provisions. It shall include receivables from reinsurance accepted. Amounts are past-due when the payment has not been made as of its due date. Premiums written but not yet due are not shown as premium written and are not recognized as receivable but included in the TP. Additionally, valuation allowances have to be eliminated.	In BeGAAP, insurance receivables are recorded at their nominal value. Premiums written but not yet due are recognized as receivable.	In BeGAAP, the asset is higher by EUR 379.3mn compared to MVBS because: <ul style="list-style-type: none"> <li>• In MVBS, only overdue receivables and payables are recorded in MVBS</li> <li>• Premium written but not yet due are recognized as receivables in BeGAAP and as TP in MVBS;</li> </ul>
<b>Reinsurance receivables</b>	In MVBS, reinsurance receivables are recognized at fair value. Reinsurance receivables are amounts past-due by reinsurers and linked to ceded reinsurance business that are not included in reinsurance recoverables. Examples include: the amounts past due from receivables from reinsurers that relate to settled claims of policyholders or beneficiaries; receivables from reinsurers in relation to other than insurance events or settled insurance claims, for example, commissions. Amounts are past-due when the payment has not been	In BeGAAP, reinsurance receivables are recorded at their nominal value.	In BeGAAP, the asset is higher by EUR 49.4mn compared to MVBS because <ul style="list-style-type: none"> <li>• Some assets are netted with liabilities in BeGAAP while in MVBS, assets have to be un-netted (EUR -93mn)</li> <li>• EBNR ceded are presented as an asset in MVBS and deducted from TP in BeGAAP (EUR +142.3mn )</li> </ul>

Asset account	MVBS valuation	BeGAAP valuation	Differences <sup>3</sup>
	made as of its due date. Additionally, valuation allowances have to be eliminated in the MVBS.		
<b>Receivables (trade, not insurance)</b>	Due to the short-term nature of the receivables amortized cost value is considered to be fair value. However, since valuation allowances have to be eliminated in the MVBS, the receivables might have to be adjusted.	In BeGAAP, other receivables are recorded at their nominal value.	In BeGAAP, the asset is higher by EUR 2.2mn compared to MVBS because of the following adjustments: <ul style="list-style-type: none"> <li>• In MVBS, depreciation of a receivable from EH SA subsidiaries, amounting to its own funds, because they were negative: EUR +20.2mn;</li> <li>• Some assets are netted with liabilities in BeGAAP while in MVBS, assets have to be un-netted. In MVBS there is also a re-grouping difference: EUR -18mn</li> </ul>
<b>Own shares</b>	In MVBS, own shares have to be reported on the asset side with their fair value.	In BeGAAP, own shares are recognized at their acquisition cost.	In BeGAAP, the asset is lower by EUR 30mn compared to MVBS because in MVBS, own shares are recognized under the own shares asset line at an amount of EUR 30mn whereas in BeGAAP own shares are recognized under the equities asset line at an amount of EUR 34.6mn. The difference in amount is due to the recognition at fair value in MVBS versus recognition at acquisition cost in BeGAAP.
<b>Cash and cash equivalents</b>	Bank accounts are not netted off, thus only positive accounts are recognized in MVBS. Bank overdrafts are to be shown within liabilities unless where both, the legal right of offset and demonstrable intention to settle net exist. Cash and cash equivalents are measured at market value.	In BeGAAP, cash and cash equivalents are measured at nominal value. Negative bank balances have to be reclassified to the short-term financial liabilities in the annual accounts (per financial institution).	There is no significant difference between MVBS and BeGAAP.
<b>Any other assets, not elsewhere shown</b>	Depending on the nature of the item, a revaluation at fair value could occur in MVBS.	The recognition basis depends on the nature of the item.	There is no significant difference between MVBS and BeGAAP.



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

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

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

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

### **D.1.4. Material financial assets**

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

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

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

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

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

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

**Figure 5: Valuation methods by assets class as of 31.12.2022**

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

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

### D.1.5. Financial and operating leases

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

As a lessee, as of 31 December 2022, the maturities for the lease liabilities were as follows:

**Figure 6: Lease liabilities by maturities as of 31.12.2022 (IFRS)**

In EUR mn	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than 1 year	29.9	-1.0	28.9
1 to 5 years	91.4	-1.8	89.6
More than 5 years	58.1	-0.5	57.6
<b>Total</b>	<b>179.3</b>	<b>-3.2</b>	<b>176.1</b>

## D.1.6. Material deferred tax assets

On December 31, 2022, the total DTA equaled EUR 42.6mn (MVBS value). They were recognized on MVBS adjustments of which DTA on the cancellation of intangible assets.

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

**Figure 7: Applicable tax rates**

Country	2022	2021
Belgium	25,00%	25,00%
France	25,83%	25,83%
Germany	31,00%	31,00%
Italy	24,00%	24,00%
United-Kingdom	25,00%	25,00%
Netherlands	25,80%	25,80%
Switzerland	19,00%	19,00%
Poland	19,00%	19,00%

## D.2. Technical Provisions

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

### D.2.1. Technical Provisions as of 4Q 2022

EH SA follows the Allianz Group approach, which implies the “best estimate” to be conceptually similar to US-GAAP/IFRS4 and interpret it as “company’s best estimate”, i.e., taking into account quantitative as well as qualitative information. In accordance to the Solvency II LoB structure as per QRT S.02.01, EH SA separates the portfolio into “Credit and Suretyship” and “Miscellaneous” (i.e. Fidelity business).

B/S Liabilities (in kEUR)	2022	2021
1. BEL Claims provisions	-2,117.8	-1.799.5
1.1 Undiscounted BEL claims provisions IFRS	-2.141.3	-1.772.4
1.2 Discount	109.0	3.3
1.3 Payables/Receivables	-85.4	-30.3
1.4 Other (IME)	-0.1	-0.1
2. BEL Premium provisions	112.9	171.861
2.1 Future Claims/Expenses + IME	-1.050.0	-926.7
2.2 Discount	35.3	1.9
2.3 Payables/Receivables	246	325.1
2.4 Future Premiums + Rebates	881.6	771.6
	-39.5	-49.1
4. Technical Provision	-2.044.3	-1.676.7

	2022	2021
1. Reinsurance Recoverables claims provisions	1,496.6	1.317.5
1.1 Undiscounted reinsurance recoverables IFRS	1,576.2	1.320.1
1.2 Discount	-79.6	-2.7
1.3 Payables/Receivables	0	0
1.4 Other	0	0
2. Reinsurance recoverables premium provisions	-272.0	-631.4
2.1 Future Claims/Expenses	749.7	637.6
2.2 Discount	-22.9	-2.0
2.3 Payables/Receivables	-190.2	-545.8
2.4 Future Premiums + Rebates	-808.6	-721.2
3. Counterparty default adjustment (CDA)	-0.4	-0.3
4. Reinsurance recoverable under SII	1,224.2	685.7
<b>Net TP</b>	<b>-820.1</b>	<b>-991.0</b>

The main movements compared to the previous year arose from increases in claims provisions due to the expected backlog of Covid19 effects until 1H2022, and respectively the economic worsening driven by the Ukraine-Russia conflict. That increase was overpowered by a significant decrease in premium provisions; the main driver behind was a movement of reclassified non-overdue payables/receivables, which have been on an extraordinarily high level (especially on ceded) as a consequence of the state-schemes in place in 2020 and 2021. It has to be noted, that – due to accounting limitations – the total of ceded payables/receivables is shown under premium provisions only, while part of it belongs to claims provisions.

### D.2.2. Calculation Principles

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

EH SA's claims provisions are calculated gross of reinsurance on IFRS GAAP basis by regional Branch-LoB level, following the Reserving Guidelines of EH SA.

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

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

whereas

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

With respect to *contract boundaries* a specific feature of Credit Insurance business has to be noted: EH SA can, depending on the contract wording, unilaterally terminate or amend credit lines related to the risks covered in some of its contracts at any time. Therefore, following a strict interpretation of Article 18 of the SII Delegated Act, EH SA considers for the calculation of future premiums, the “*cancelling all limits*” scenario (for all policies where the wording allows to do so and where premiums depend on the limit amount).

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

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

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

On top of the best-estimate of the liabilities, Solvency II requires an allowance for the cost of holding non-hedgeable risk capital. This Risk Margin (RM) represents the cost of capital to run off the business in case of an immediate transfer of business to another company until final settlement. EH SA calculates the RM on basis of a Cost-of-Capital concept based on the capital derived from the Internal Model SCR.

The reinsurance recoverables are calculated by a simple netting-down approach in view of the plain Quota-Share reinsurance cessions of EH SA to the predominant internal reinsurance Captive EH-RE.

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

### D.2.3. Comparison between BE-GAAP and Solvency-II

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

GAAP BRIDGE in EUR mn	GROSS	
	2022	2021
Be-GAAP	-2,968.2	-2,586.0
Claims Reserves (excl S&S)	-2,293.7	-1,935.4
Premium Reserves	-609.4	-588.4
DAC reclassification	53.6	50.0
Equalization Reserve	-118.7	-112.2
MVBS TP gross	-2,044.3	-1,676.7
Claims provisions (disc)	-2,117.8	-1,799.5
Premium provisions (disc)	112.9	171.9
Risk margin	-39.4	-49.1

GAAP BRIDGE in EUR mn	GROSS	
	2022	2021
<i>embedded Discount (Claims + Premiums)</i>	144.3	5.2
<i>embedded Reclassifications (Claims + Premiums)</i>	160.6	294.8

The main differences between the financial accounting statements under BE-GAAP and the TP for Solvency II purposes are given for the following reasons:

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

## D.3. Other liabilities

### D.3.1. Valuation of other liabilities

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

**Figure 8: Other liabilities (MVBS vs BeGAAP) as of 31.12.2021**

Other liabilities (In EUR mn)	MVBS	BeGAAP
Other technical provisions		0.0
Contingent liabilities	2.0	0.0
Provisions other than technical provisions	102.7	101.2
Pension benefit obligations	156.5	156.5
Deposits from reinsurers	4.1	4.1
Deferred tax liabilities	53.1	25.2
Derivatives	0.0	0.0
Debts owed to credit institutions	24.3	24.3
Financial liabilities other than debts owed to credit institutions	593.8	426.37
Insurance & intermediaries payables	33.2	303.1
Reinsurance payables	0.0	106.4

Other liabilities (In EUR mn)	MVBS	BeGAAP
Payables (trade, not insurance)	128.6	128.6
Subordinated liabilities	0.0	0.0
Subordinated liabilities not in Basic Own Funds	0.0	0.0
Subordinated liabilities in Basic Own Funds	0.0	0.0
Any other liabilities, not elsewhere shown	143.8	204.8
<b>Total other liabilities</b>	<b>1,242.1</b>	<b>1,480.6</b>

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

Liabilities account	MVBS valuation	BeGAAP valuation	Differences <sup>4</sup>
Contingent liabilities	<p>In MVBS, the IFRS definition of contingent liabilities is applied. A contingent liability is defined as:</p> <ul style="list-style-type: none"> <li>• a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or</li> <li>• a present obligation that arises from past events but is not recognized because <ul style="list-style-type: none"> <li>○ it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or</li> <li>○ the amount of the obligation cannot be measured with sufficient reliability.</li> </ul> </li> </ul> <p>In MVBS contingent liabilities are recognized in the MVBS if material.</p>	In BeGAAP, contingent liabilities are not recognized on the balance sheet.	In BeGAAP, contingent liabilities are not recognized on the balance sheet.
<b>Provisions other than Technical Provisions</b>	IFRS values can be used for SII reporting purposes.	In BeGAAP, provisions are recorded to cover all planned or expected risks and charges.	In BeGAAP, the liability is lower by EUR 1.6mn compared to MVBS because a historical booking on provisions.

<sup>4</sup> The materiality threshold is considered from EUR 1mn.

Liabilities account	MVBS valuation	BeGAAP valuation	Differences <sup>4</sup>
<b>Pension Benefit obligations</b>	IAS 19 is considered a reasonable approach in valuing pension liabilities for SII purposes.	In BeGAAP, EH SA records a provision for a pension plan in the statutory accounts only if the assets of the plan are lower than the minimum reserves as defined under the Belgian law. In addition to that, EH SA decided to record the provisions for pensions based on IAS 19R.	There is no significant difference between MVBS and BeGAAP.
<b>Deposits from reinsurer</b>	In MVBS, deposits from reinsurers are recorded at market value.	In BeGAAP, deposits from reinsurers are recognized at their nominal value.	There is no significant difference between MVBS and BeGAAP.
<b>Deferred Tax Liabilities (DTL)</b>	The principles of IAS 12 are applied for deferred taxes under MVBS.	In BeGAAP, DTL are recognized on: <ul style="list-style-type: none"> <li>Realized gains on intangible assets, tangible assets and securities issued by the Belgian public sector, whereas the taxation of such gains is deferred; and</li> <li>Foreign deferred taxes of the same nature as those mentioned in the above</li> </ul>	In BeGAAP, the liability is lower by EUR 27.9mn compared to MVBS because DTL are not recognized in BeGAAP except tax debt related to the equalization reserve write-down in the German branch (booked on a deferred tax account in BeGAAP only).
<b>Debts owed to credit institutions</b>	In MVBS, debts owed to credit institutions are measured at fair value. Adjustments for own credit standing are excluded in MVBS.	In BeGAAP, debts owed to credit institutions are recognized at their nominal value.	There is no significant difference between MVBS and BeGAAP.
<b>Financial liabilities other than debts owed to credit institutions</b>	In MVBS, financial liabilities other than debts owed to credit institutions are recorded at fair value. Adjustments for own credit standing are excluded in MVBS.	In BeGAAP, financial liabilities other than debts owed to credit institutions are recognized at their nominal value.	In BeGAAP the liability is lower by EUR 167.4mn due to the recognition of lease liabilities in MVBS but not in BeGAAP.
<b>Insurance &amp; intermediaries payables</b>	In MVBS, payables are recognized at the amounts actually due on repayment (i.e., their settlement amount) but only include amounts past due for payment. Insurance and intermediaries payables are amounts past-due to policyholders, insurers and other business linked to insurance, but that are not technical provisions. Includes amounts past-due to (re)insurance intermediaries (e.g., commissions due to intermediaries but not yet paid by the group). It shall include payables from reinsurance accepted. Amounts are past-due when the payment has not been made as of its due date.	In BeGAAP, insurance and intermediaries payables are recorded at their nominal value.	In BeGAAP, the liability is higher by EUR 269.9mn because: <ul style="list-style-type: none"> <li>EBNR ceded are presented as an asset in MVBS and deducted from TP in BeGAAP (EUR +142.3mn)</li> <li>Only overdue receivables and payables are recorded in MVBS (EUR -127.6mn in BeGAAP)</li> </ul>



Liabilities account	MVBS valuation	BeGAAP valuation	Differences <sup>4</sup>
<b>Reinsurance payables</b>	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) but only include amounts past due for payment. Reinsurance payables are amounts payable, past-due to reinsurers (in particular current accounts) other than deposits linked to reinsurance business, that are not included in reinsurance recoverables. Includes payables to reinsurers that relate to ceded premiums. Amounts are past-due when the payment has not been made as of its due date.	In BeGAAP, reinsurance payables are recorded at their nominal value.	In BeGAAP, the liability is higher by EUR 106.4mn compared to MVBS because of the following adjustments: <ul style="list-style-type: none"> <li>• Some liabilities are netted with assets in BeGAAP while in MVBS liabilities have to be un-netted: -95.3mn;</li> <li>• Only overdue receivables and payables are recorded in MVBS (EUR +201.7mn in BeGAAP)</li> </ul>
<b>Payables (Trade, not Insurance)</b>	Payables are generally recognized at the amounts actually due on repayment (i.e., their settlement amount). Due to their short-term nature, the settlement amount is considered to be a good proxy of the fair value for MVBS.	In BeGAAP, trade payables are recorded at their nominal value. They are composed of fiscal and social debts.	There is no significant difference between MVBS and BeGAAP.
<b>Any other liabilities not elsewhere shown</b>	Depending on the nature of the item, a revaluation at fair value could occur in MVBS.	The recognition basis depends on the nature of the item.	In BeGAAP, the liability is higher by EUR 61.0mn compared to MVBS, mainly because of the recognition in BeGAAP of dividend to be paid (EUR 60mn) in 2023.

### D.3.2. Financial liabilities

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

#### a. Benchmark rate

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

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

#### b. Credit spread

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

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

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

### **D.3.3. Leasing arrangements**

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

### **D.3.4. Deferred Tax Liabilities**

On December 31, 2022, DTL equaled EUR 53.1mn (MVBS value). DTL are mainly due to temporary differences on TP, provisions for pension obligations, and revaluation of available for sales investments.

### **D.3.5. Economic benefits**

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

### **D.3.6. Employee benefits**

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

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

During the year end December 31, 2022, EH SA recognized expenses for defined-contribution plans of EUR 1.8mn (EUR 2.2mn in 2021). Additionally, EH SA paid contributions for state pension schemes of EUR 18.9mn in 2022 (EUR 17.0mn in 2021).

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

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

**Figure 9: Employee benefits breakdown by nature of liability and asset as of 31.12.2022 (IFRS figures)**

In EUR mn	Total
Actuarial obligation - Total – Opening	-716.8
Current period service cost	-14.3
Interest on obligation	-8.4
Employee contributions	-2.1
Plan amendment	-0.4
Acquisitions/disposals of subsidiaries	-
Plan curtailments	-
Plan settlements	-
Actuarial gains (losses) due to a change in assumptions	174.2
Actuarial gains (losses) due to a change in experience	-25.9
Benefits paid	18.9
Currency translation difference	0.8
Other	-1.4
Removal of the discretionary clause	-
Actuarial obligation - Total – Closing	-575.3
Fair value of plan assets - Total – Opening	486.5
Interest income on plan assets	5.8
Actuarial gains (losses) due to a change in experience	-72.1
Employee contributions	1.8
Employer contributions	8.6
Acquisitions/disposals of subsidiaries	-
Plan curtailments	-
Plan settlements	-
Benefits paid	-12.6
Currency translation difference	-0.7
Other	1.4
Fair value of plan assets - Total – Closing	418.6
Net commitments <0	-156.8
Net commitments >0	0

Multiple assumptions are used for the calculation of employee benefits:

- Discounting rates;
- Inflation rates;
- Expected rate of salary increase;
- Plan retirement age, as well as other actuarial and financial assumptions that are relevant. Estimation of the future benefit payments of the employee of the German entities (IFRS figures).

### D.3.7. Contingent liabilities

EH SA has recognized a contingent liability in MVBS at the amount of EUR 1.98mn as of December 31, 2022 due to the negative NAV of two investments in participations.

#### **D.4. Any other information**

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

## E. Capital Management

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### E.1. Own funds

#### E.1.1. Information on the own funds

##### E.1.1.1. Management of the own funds

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

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

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

##### E.1.1.2. Description of the own funds

The following table discloses the composition of SII own funds as well as its variation over 2022:

**Figure 10: Evolution of own funds (MVBS)**

In EUR mn	2022	2021	Δ	%
Total assets	4,433.3	3,779.2	654.2	17%
Total liabilities	3,286.4	2,626.7	659.7	25%
Excess of assets over liabilities before Look Through	1,146.9	1,152.5	-5.6	0%
Look Through (OPCI)		114.9	-114.9	-100%
Excess of assets over liabilities after Look Through	1,146.9	1,267.5	-120.5	-10%
Minority OPCI	-109.7	-114.9		
Foreseeable dividends	-60	-60.0		
Own Shares	-30	-30.1		
SII Own funds	1,057.0	1,062.5		

The table here above shows that the Excess of Assets over Liabilities is decreasing by EUR -5.6mn between 2021 and 2022.

The main elements explaining this increase are:

- The positive impact of Future profits for EUR 71.4mn is mainly due to the Combined Ratio decrease and yield curves evolution;
- The Cancellation of Goodwill and Intangible assets for EUR 19.9mn due to cumulated IT assets depreciation;
- The change of the receivables depreciation for UK and others for EUR 11.9mn; and
- A positive impact change of Risk Margin for EUR 9.7mn mainly due to the update of Internal Model input and undiscounting provisions evolution.

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

- The change in Market Value for certain investments for EUR -65.0mn mainly driven by FV of EH Crédit France (-58.0mn);
- The Retained earnings for EUR -28.3mn driven by:
  - Positive net income for the year of EUR 82.9mn;
  - AFS OCI reserve change for EUR -107.2mn mainly due to Bonds portfolio disposals;
  - Payment of dividends EUR -60mn;
  - Actuarial Gain or Loss Pension reserve for EUR 53.0mn;
  - Put liability change for EUR 6.9mn.
- The Deferred Tax changes for EUR -18.1mn;
- The change of the Put liability for EUR -6.9mn.

EH SA own funds are exclusively composed of basic own funds. The own funds are composed of Tier 1 unrestricted for more than 96% and Tier 3 for the rest. EH SA does not have any ancillary own funds. The available own funds were used for all calculations in this report. The table below summarizes EH SA own funds composition:

**Figure 11: Composition of own funds as of 31.12.2022 (MVBS)**

Basic own funds (In EUR mn)	Total	Tier 1 - unrestricted	Tier 3
Ordinary share capital (gross of own shares)	229.4	229.4	0.0
Share premium account related to ordinary share capital	179.8	179.8	0.0
Reconciliation reserve	605.2	605.2	0.0
An amount equal to the value of net DTA	42.6	0.0	42.6
<b>Total basic own funds after deductions</b>	<b>1,057.0</b>	<b>1,014.4</b>	<b>42.6</b>

As shown in the following table, EH SA own funds composition remained relatively stable over 2022. The value of the DTA is increasing slightly.

There was a late reclassification between the QRT production and the report redaction. This minor reclassification creates a discrepancy between the balance sheet displays in the QRT and the display values in this report. The two balance sheet categories that are affected are *Reinsurance receivables*: where the reclassification generates a decrease of EUR 6.7mn on assets. And *Any other liabilities, not elsewhere shown* reclassifications: where the reclassification generates a decrease of EUR -7.0mn. The total impact on the Own funds is not material as it generates EUR +0.2 mn increase of Eligible own funds and a +0,04%pt increase on the SCR ratio.

**Figure 12: Composition of own funds as of 31.12.2021 (MVBS)**

Basic own funds (In EUR mn)	Total	Tier 1 - unrestricted	Tier 3
Ordinary share capital (gross of own shares)	229.4	229.4	0.0
Share premium account related to ordinary share capital	179.8	179.8	0.0
Reconciliation reserve	589.9	589.9	0.0
An amount equal to the value of net DTA	63.4	0.0	63.4
<b>Total basic own funds after deductions</b>	<b>1,062.5</b>	<b>999.1</b>	<b>63.4</b>

### E.1.1.3. SCR and MCR covers

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

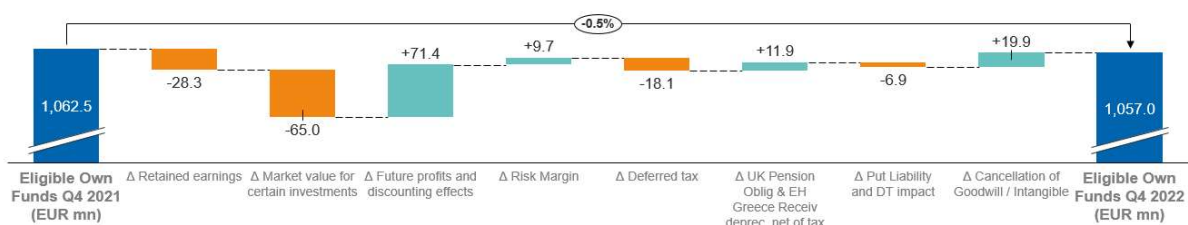
**Figure 13: Available and eligible own funds to meet SCR and MCR as of 31.12.2022 (MVBS)**

Eligible own funds (In EUR mn)	Total	Tier 1 – unrestricted	Tier 3
Total available own funds to meet the SCR	1,057	1,014.4	42,6
Total available own funds to meet the MCR	1,014.4	1,014.4	0.0
Total eligible own funds to meet the SCR	1,057	1,014.4	42,6
Total eligible own funds to meet the MCR	1,014.4	1,014.4	0.0

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

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

**Figure 14: Bridge EoAL IFRS – basic own funds as of 31.12.2022 (in EUR mn)**



Considering assumptions as of the end of year 2022, the eligible SII own funds value are EUR 1,057mn compared to EUR 1,063mn in IFRS.

#### E.1.1.5. Description of items deducted from own funds

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

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

#### E.1.2. Additional ratios

EH SA does not disclose any other additional ratios.

#### E.1.3. Loss absorbency mechanism

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

#### E.1.4. Reconciliation reserve

The following table summarizes the calculation of the reconciliation reserve.

**Figure 15: Breakdown of the reconciliation reserve as of 31.12.2022 (MVBS)**

Reconciliation reserve (In EUR mn)	Total
Excess of assets over liabilities	1,146.9
Own shares (held directly and indirectly)	-30
Foreseeable dividends, distributions, and charges	-60.0
Other basic own fund items	-451.7
<b>Reconciliation reserve</b>	<b>605.2</b>



## E.2. Solvency Capital Requirement and Minimum Capital Requirement

### E.2.1. Evolution of SCR and MCR ratios

The table below shows the evolution of EH SA's SCR between 2021 and 2022.

**Figure 16: Breakdown of the SCR**

In EUR mn	2022	2021	Δ	%
Market	531	477	54	11%
Credit	248	249	0	0%
P/C Underwriting risks	184	161	23	14%
L/H Underwriting risks	20	35	-15	-43%
Business Risk	7	5	2	33%
Operational Risk	41	54	-13	-23%
<b>Total Standalone RC</b>	<b>1031</b>	<b>980</b>	<b>51</b>	<b>5%</b>
Diversification effect	-527	-487	-41	8%
<b>Total Diversified RC</b>	<b>503</b>	<b>493</b>	<b>10</b>	<b>2%</b>
Capital Add-on	103	140	-37	-26%
Tax impact	-34	-25	-9	37%
<b>SCR</b>	<b>573</b>	<b>609</b>	<b>-36</b>	<b>-6%</b>

In 2022, the following model changes have been implemented:

- No major model change filed by Allianz resulting in material impacts for EH SA;
- Other minor/immaterial model changes have been implemented, that did not result in a major impact on EH SA.

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

In 2022, EH SA's MCR amounted to EUR 201.4mn, decreasing by -4% compared to 2021, driven by the decrease in non-life technical provisions. The MCR ratio stood at 504%, increasing by 6% compared to 2021 due to the increase in MCR partly offset by the decrease in eligible own funds over the period.

### E.2.2. Standard formula and Undertaking Specific Parameters

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

### E.2.3. Inputs to calculate the MCR

The MCR for EH SA based on the IM is shown in the table below for 4Q 2022. MCR is calculated according to the methodology defined by SII regulation. The MCR equals the linear MCR for the IM as described in the following table.

**Figure 17: MCR calculation (In EUR mn)**

MCR	AMCR	SCR	MCR	45% SCR	25% SCR	MCR combined
201.4	4.0	572.8	201.4	257.8	143.2	201.4

#### E.2.4. Material changes to SCR and MCR

There were no material changes to EH SA's SCR and MCR in 2022 except those described in the previous section.

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

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

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

#### E.4.1. Description of the Internal Model

##### E.4.1.1. Purposes for using an Internal Model

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

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

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

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

##### E.4.1.2. Structure of the Internal Model

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

- Simulation of the exposure which is defaulting leading to define the Exposure at Default (EAD);

- Application of the mitigation factors either present in policies, in the reinsurance treaties, or other mitigation clauses leading to define the ultimate loss borne by the insurance company.

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

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

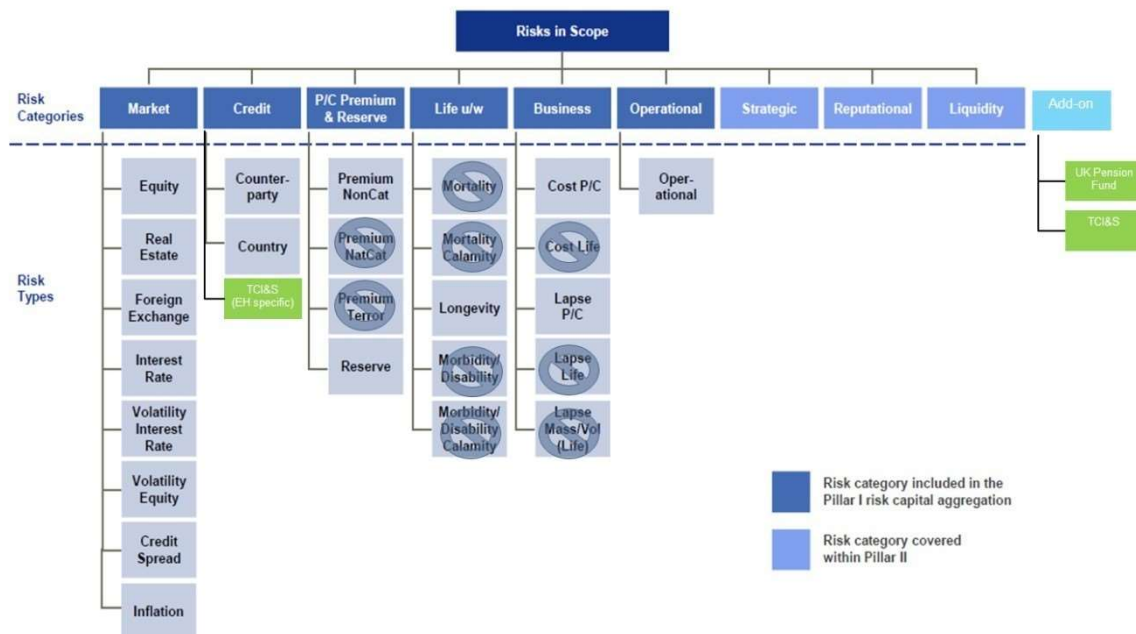
### E.4.1.3. Scope of the Internal Model

The EH SA Internal RC model covers:

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

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

Figure 18: IM scope as of 31.12.2022



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

## E.4.2. Methodologies

### E.4.2.1. Process within the Internal Model

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

Risk	Risk measure	Quantile	Additional information
<b>Market risk</b>	VaR	99,5%	All risk factors have distributions calibrated using historical observation of weekly time series
<b>Reserve risk</b>	VaR	99,93%	A bootstrap approach is used to obtain a risk distribution.
<b>Credit risk for reinsurance and investment modelling</b>	CVaR	99,5%	For investment portfolio, EAD and Loss Given Default (LGD) are estimated following a linear model derived from a statistical analysis of historic data by asset classes.
<b>Credit risk for trade credit insurance &amp; surety</b>	CVaR	99,5%	<p>In the case of Trade Credit Insurance, a particular limit/exposure default is triggered if an invoice sent by the policyholder is not paid by the buyer. In general, such a default event is reported as an insured claim.</p> <p>The central element of the model is to determine a particular scenario:</p> <ul style="list-style-type: none"> <li>• Whether or not a claim is to be expected on a counterpart;</li> <li>• Whether or not the triggered claim will lead to an indemnification by EH SA;</li> <li>• Whether or not EH SA can recover part of the indemnified amount later on.</li> </ul> <p>The capacity of the buyers/counterparties to fulfill their commitments (e.g., to pay the received invoices) can depend either on its own actions and also on the economic environment. As a consequence, EH SA judged that the commonly used credit factor modelling that distinguishes an idiosyncratic risk and a systemic risk is considered as the most adequate for the simulation of losses in the TCI&amp;S portfolio.</p>

### E.4.2.2. Difference between standard model and Internal Model

#### E.4.2.2.1. Market Risk

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

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

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

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

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

#### E.4.2.2.2. Credit Risk

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

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

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

#### E.4.2.2.3. Life Risks

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

#### E.4.2.2.4. Non-Life Risks

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

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

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

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

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

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

#### E.4.2.2.5. Business Risks

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

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

#### E.4.2.2.6. Operational Risk

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

#### E.4.2.2.7. Diversification

The diversification mechanisms are significantly different due to:

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

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

#### E.4.2.2.8. Tax relief

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

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

### **E.4.3. Data quality**

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

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

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

The quality of the data used at EH SA to calculate the RC is under control: 4847 of KPIs in total are controlled as of 4Q 2022, and only 0.3% of the KPIs are identified as “KO”.

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

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

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

### **E.5.1. Non-compliance with the MCR**

EH SA is compliant with the MCR.

### **E.5.2. Non-compliance with the SCR**

EH SA is compliant with the SCR.

## **E.6. Any other information**

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

## Appendix 1: Key terms and abbreviations

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



Terms / Abbreviations	Description
<b>GovCC</b>	Governance & Control Committee
<b>GSC</b>	Global Sustainability Committee
<b>GSO</b>	Group Sustainability Office
<b>HKD</b>	Hong Kong Dollar
<b>HR</b>	Human Resource
<b>IAS</b>	International Accounting Standards
<b>IC</b>	Integrity Committee
<b>ICT</b>	Information and Communication Technology
<b>IFRS</b>	International Financial Reporting Standards
<b>IM</b>	Internal Model
<b>IRCS</b>	Integrated Risk & Control System
<b>IT</b>	Information Technology
<b>ITSB</b>	Information Technology Steering Board
<b>ITG</b>	Investment and Treasury Group
<b>KPI</b>	Key Performance Indicator
<b>LGD</b>	Loss Given Default
<b>LoB</b>	Line of Business
<b>ResComm</b>	Loss Reserve Committee
<b>LTI</b>	Long-Term Incentives
<b>MAAC</b>	Model and Assumptions Approval Committee
<b>MC</b>	Management Committee
<b>MCR</b>	Minimum Capital Requirement
<b>MMCD</b>	Market Management, Commercial and Distribution
<b>MMEA</b>	Mediterranean countries, Middle East and Africa
<b>MVBS</b>	Market Value Balance Sheet
<b>NBB</b>	National Bank of Belgium
<b>NFRM</b>	Non-Financial Risk Management
<b>OPCI</b>	« Organisme de Placement Collective en Immobilier »
<b>OREC</b>	Operational Risk Event Capture
<b>ORM</b>	Operational Risk Management
<b>ORSA</b>	Own Risk and Solvency Assessment
<b>OTC</b>	Over The Counter
<b>P&amp;C</b>	Property & Casualty
<b>PAAC</b>	Parameters & Assumptions Approval Committee
<b>PRISM</b>	P&C Insurance Risk Model
<b>PRM</b>	Project Risk Management
<b>QRT</b>	Quantitative Reporting Templates
<b>RC</b>	Risk Capital
<b>RiCo</b>	Risk Committee
<b>RM</b>	Risk Margin
<b>RPF</b>	Risk Policy Framework
<b>SA</b>	Société Anonyme
<b>SAA</b>	Strategic Asset Allocation

<b>Terms / Abbreviations</b>	<b>Description</b>
<b>SCA</b>	Scenario Analysis
<b>SCR</b>	Solvency Capital Requirement
<b>SFCR</b>	Solvency and Financial Condition Report
<b>SII</b>	Solvency II
<b>SM</b>	Standard Model
<b>SoA</b>	Statement of Accountability
<b>SPV</b>	Special Purpose Vehicle
<b>TP</b>	Technical Provisions
<b>TRA</b>	Top Risk Assessment
<b>UK</b>	United Kingdom
<b>ULAE</b>	Unallocated Loss Adjustment Expenses
<b>UPR</b>	Unearned Premium Reserve
<b>USD</b>	United States Dollar
<b>VA</b>	Volatility Adjustment
<b>VaR</b>	Value at Risk

## **Appendix 2: Publically disclosed QRTs**

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Publically disclosed Quantitative Reporting Templates can be found on Allianz Trade main website: [Allianz Trade | Global trade credit insurance leader \(allianz-trade.com\)](https://www.allianz-trade.com)

## **Appendix 3: Disclaimer**

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