Euler Hermes SA

Solvency and Financial Condition Report (SFCR)

Fiscal Year 2023

Euler Hermes SA – Head Office
Avenue des Arts 56, 1000 Brussels, Belgium
Tel: + 32 2 289 31 11
A Belgian public limited company
Crossroads Bank for Enterprises (RPR Brussels) no: 0403.248.596

Contents

Summary

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 2023.

EH SA operates 22 branches and has 44 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).

2023 was a tumultuous year, with another black swan event materializing (the war in the Middle East), while the world is embroiled in the war in Ukraine. We estimate that global real GDP grew by +2.7% in 2023, though vulnerabilities have emerged at several levels.

The economic landscape in 2023 began with a sense of caution, primarily driven by the persistent challenges posed by the energy crisis and the swift normalization (tightening) of monetary conditions in the US and Europe. The Eurozone and the US faced the prospect of a mild recession, influenced by these factors. Additionally, concerns loomed over Europe's energy situation, with uncertainties in gas supply creating negative confidence effects. Geopolitical tensions, including policy shifts in the US and Europe, China's strategic moves, and upcoming elections across the world, added to the uncertainties. Meanwhile, hopes of a robust post-Covid economic rebound in China were cut short by another year of crisis in the real estate sector.

Despite long standing tensions in the Middle East, the outbreak of war between Israel and Hamas on October 7, 2023 caught the world off guard. The most directly impacted areas are Palestine and its neighbors, but the escalation of the conflict to the Red Sea and Suez Canal which are crucial to global trade, promise to extend the economic consequences of the war globally. These tensions, combined with the ongoing war in Ukraine, casts a shadow on global economic growth.

In this context of slower growth, sometimes close to recession, decelerating inflation and high interest rates has increased corporate risks. The latest data reveal an increase in insolvencies in most countries, the severity risk remains in check as it is mostly smaller firms that have been going bankrupt. Business insolvencies experienced double-digit increases in 55% of countries, accounting for more than 60% of global GDP. Moreover, in countries accounting for 40% of global GDP, the rebound has been extremely high, such as the US (+47%), France (+36%), the Netherlands (+59%), Japan (+35%) and South Korea (+41%). Looking ahead, we expect the upside trend in insolvencies to accelerate in 2024, rising by +8% (after +7% in 2023).

System of governance (B)

The management structure of EH SA is organized around the Board of Directors (BoD) and the Management Committee (MC). The BoD has established 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 duties.

EH SA has also established four independent control functions (Internal Audit, Compliance, Risk Management and Actuarial)[1], which form the 2nd and 3rd of its "three lines of defence" organization.

EH SA has established various frameworks to support the roles and responsibilities of these functions. This includes the monitoring and implementation of the Solvency II Policies across all legal entities within EH SA. The Solvency II policies cover various key topics (Risk Policy, Capital Management, Actuarial, Legal, etc.) and are updated annually in close collaboration with all stakeholders.

EH SA has established 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 that assess the overall solvency requirements over the planning horizon. It is a decision-making tool for the Management Committee and an effective business management tool for the BoD. The ORSA report based on the figures for the fourth quarter Q42023 will be submitted to the NBB by June 30, 2024 at the latest.

Risk profile (C)

Risk is measured and steered based on the 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 580mn. 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 on a Market Value Balance Sheet (MVBS) and local Belgian Generally Accepted Accounting Principles (BeGAAP) basis.

Total assets at the end of 2023 amounted to EUR 5,470.9mn on an MVBS basis. Assets have been invested in alignment with the prudent person principle.

Total liabilities at the end of 2023 amounted to EUR 4,210.0mn on an MVBS basis, of which Technical Provisions (TP) constituted EUR 2,483.9mn. The Volatility Adjustment (VA) impact is null.

---

[1] with the addition of the two key functions as "designated key functions": Legal and Accounting & Reporting

Capital management (E)

EH SA own funds are exclusively composed of basic own funds. The SII own funds are composed of 99.97% 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 543% and the SCR ratio at 198%. EH SA does not foresee any breach of its SCR or MCR.

A. Business and performance

A.1. Business

A.1.1. Legal entity, auditor and supervisor

A.1.1.1. Name and legal form

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

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

A.1.1.2. Supervisor

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

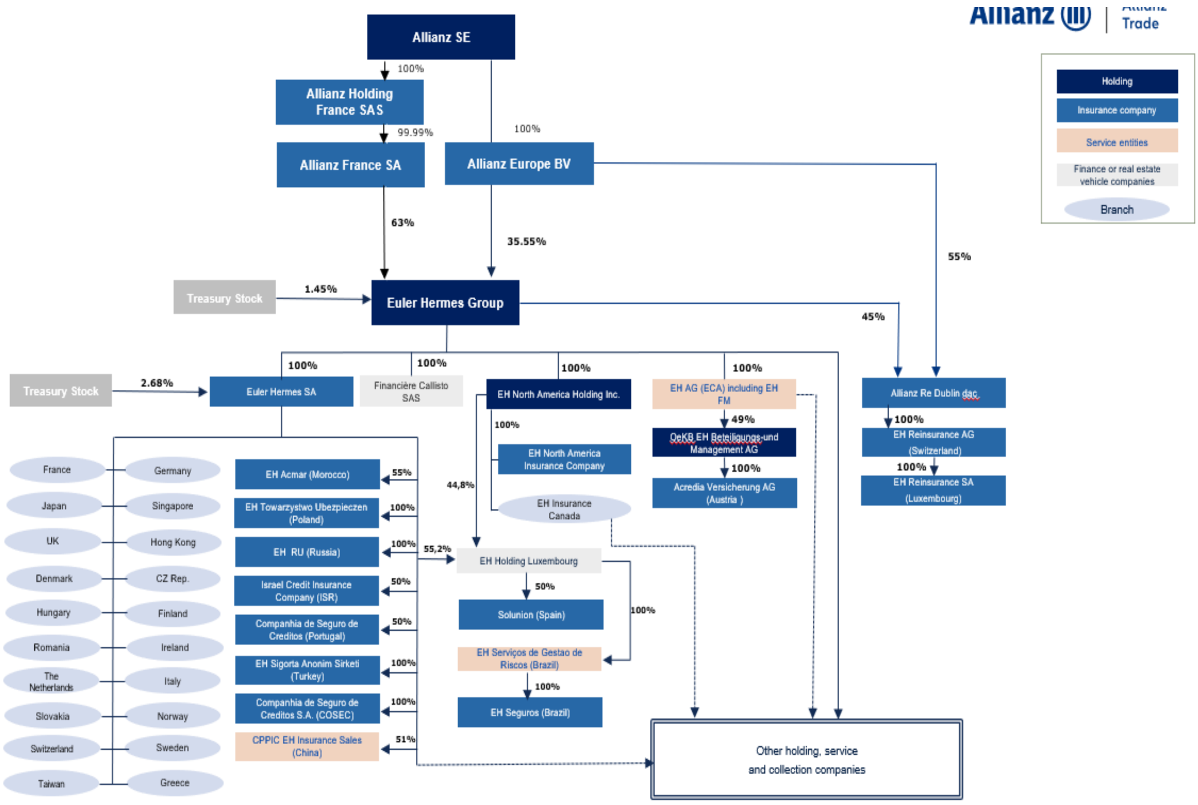
A.1.2. Auditor

Name	PwC
Address	Brussels National Airport 1K, 1930 Zaventem

A.1.3. Group structure and qualified holdings

EH SA, located in Belgium, is a part of EH Group, located in France. Below is a simplified group structure chart of EH SA as of 31.12.2023, 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 31.12.2023



At the end of 2023, the number of EH SA shares are 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, except 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 44 subsidiaries worldwide including numerous different service companies as well as seven insurance legal entities (among which EH Poland produces its own reporting).

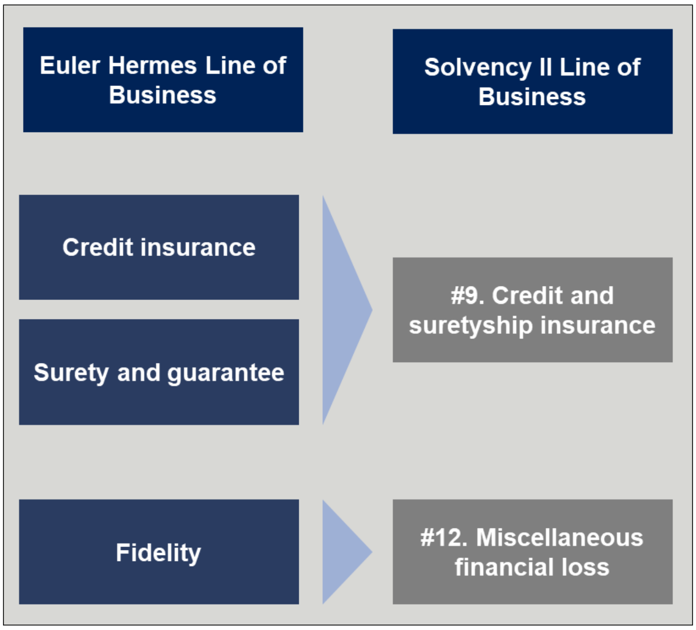
A.1.4.2. Lines of Business

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 are 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 2023 for the EH Group in general and EH SA in particular:

- Change of Allianz Trade CEO

Aylin Somersan Coqui has been nominated CEO of Allianz Trade from January 1, 2023 following the departure of Clarisse Kopff for an external opportunity.

- Cosec acquisition

  On February 24, 2023, Euler Hermes SA (head office) signed a share purchase agreement to become a 100% shareholder in COSEC, the market leader in Credit Insurance in Portugal. This Joint Venture was previously owned at 50% by Euler Hermes SA (through its French branch) and 50% by Banco BPI, and the opportunity had risen to acquire all the shares held by of Banco BPI, following a change in the participation strategy from the Portuguese bank. Regulatory approvals, including an anti-trust review, were obtained in July 2023 and the transaction was completed on September 25, 2023. The acquisition of the remaining 50% shares from Banco BPI triggered a change in the consolidation method (from equity to full consolidation). This acquisition represents a growth accelerator for Allianz Trade group GO 2025 strategy and an opportunity to reinforce its presence as well as its brand in Southern Europe. In terms of governance, COSEC will be part of the MMEA Region. An integration project of COSEC into the Allianz Trade operating model is ongoing. The initial COSEC shares held by the French branch of Euler Hermes SA were reassigned to the head office of Euler Hermes SA in December 2023, to allow for the recognition of COSEC as a branch of Euler Hermes SA at a later stage. This is scheduled to be completed at the end of 2025.

On February 24, 2023, Euler Hermes SA (head office) signed a share purchase agreement to own 100% of the share capital of COSEC, the market leader in Credit Insurance in Portugal. Euler Hermes previously owned 50% of shares (through its French branch) in COSEC, which was then a joint venture with Banco BPI, which owned the 50% stake. Regulatory approvals, including a merger clearance, were obtained in July 2023 and the transaction was completed on September 25, 2023. The acquisition of the remaining 50% shares from Banco BPI triggered a change in the consolidation method (from equity to full consolidation). This acquisition represents a growth accelerator for Allianz Trade group GO 2025 strategy and an opportunity to reinforce its presence as well as its brand in Southern Europe. In terms of governance, COSEC is part of the MMEA Region. An integration project of COSEC into the Allianz Trade operating model is ongoing. The initial COSEC stake held by the French branch of Euler Hermes SA was reassigned to the head office of Euler Hermes SA in December 2023, to allow for a contemplated merger and "branchisation" COSEC at a later stage. Such merger and "branchisation", which remain subject to the usual regulatory approvals, are scheduled to be completed by the end of 2025.

- Russia-Ukraine conflict

In 2023, the situation in Ukraine and Russia was actively monitored in and is under control. The exposure at Euler Hermes Group level has been sharply reduced and outstandings on imports limits are decreasing over time. Following Allianz Group's decision to scale back its operations in Russia, Allianz Group operating entities (OE) were asked to do likewise and sell their respective local operations in Russia.

On April 24, 2023, a Framework Agreement for the sale of EH Russia and EH Credit Management Russia via a 100% management buyout was signed. The completion of the transaction remains subject to regulatory approvals and is expected to take place over 2024.

Consequently, the assets and liabilities of the two companies have been classified as held for sale and a provision for onerous contract has been recognized for an amount of EUR 28 million.

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		2023	2022	Δ	%
Insurance revenue	I	2,297	2,153	144	6.7%
Fee and commission income		140	130	10	8.0%
CONSOLIDATED TURNOVER		**2,437**	**2,283**	**154**	**6.7%**
Insurance service expenses	II	-1,582	-1,467	-114	7.8%
Reinsurance result	III	-443	-420	-23	5.4%
INSURANCE SERVICE RESULT	I+II+III	**271**	**265**	**6**	**2.3%**

A.2.1.1. Consolidated Turnover

To be noted under IFRS17, reinsurance commissions are presented under insurance revenues and premium refunds are presented under claims as part of insurance service expenses.

In 2023, turnover amounted to EUR 2,437mn, increasing by 6.8% compared to 2022.

Insurance revenue amounted to EUR 2,297mn in 2023, increasing by 6.7% compared to last year. This increase is driven by TCI and the strong commercial growth of Surety. TCI growth was supported by volume effects on the commercial portfolio especially during the first half of the year and due to true-ups. Retention remained high. Pricing continued to be under pressure, but stable over 4Q.

Fee and commission income increased mainly due to improvements in Mediterranean countries, DACH region and Northern Europe.

A.2.1.2. Insurance service expenses

Insurance service expenses amounted to EUR -1,582mn, increasing by 7.8% compared to last year.

Current year gross claims costs of EUR -1,741mn remained stable compared to 2022. The year 2022 was influenced by reserves related to Russia/Ukraine exposures, as well as sanctions, and reserves were set aside for the expected impact of the energy shock crisis. In 2023, we observed a normalization of both claims frequency and severity levels.

Gross run-off of EUR 680mn remained high, slightly below 2022's record EUR 706mn.

Acquisition and administration expenses of EUR -522mn slightly increased compared to EUR -496mn in 2022. The increase observed is however lower than the growth observed on topline.

A.2.1.3. Reinsurance result

Reinsurance result reached at EUR -443mn, a 5.4% increase compared to 2022. The reinsurance ratio (reinsurance result as a percentage of insurance revenues) of 19.3% improves 0.2% over 2022, mainly driven by the claims component (lower gross run-off in absolute values, lower run-off reinsurance cessions driven by claim LoB mix and characteristics).

A.2.2. Underwriting performance by material line of business

Given its materiality to the overall business, the credit insurance, surety and guarantee line of business is the main driver for the overall underwriting performance of EH SA. Credit and suretyship insurance underwriting performance (IFRS).

The following table summarizes EH SA's underwriting performance for this LoB.

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

In EUR mn		2023	2022	Δ	%
Insurance revenue	I	2,134	1,737	397	22.9%
Fee and commission income		140	130	10	7.9%
CONSOLIDATED TURNOVER		**2,274**	**1,866**	**408**	**21.8%**
Insurance service expenses	II	-1,468	-1,111	-357	32.1%
Reinsurance result	III	-416	-386	-30	7.7%
INSURANCE SERVICE RESULT	I+II+III	**250**	**239**	**11**	**4.5%**

A.2.3. Underwriting performance by material geographical area

A.2.3.1. DACH region

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

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

In EUR mn		2023	2022	Δ	%
Insurance revenue	I	733	696	37	5.4%
Fee and commission income		33	31	2	6.6%

Germany, Austria and Switzerland zone recorded a 5.4% turnover increase compared to 2022, driven mainly by Surety but also short-term credit insurance (STCI), in particular due to positive prior year true-ups.

A.2.3.2. France region

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

In EUR mn	2023	2022	Δ	%
Insurance revenue	449	432	17	3.9%

Fee and commission income	42	42	0	1.0%

France recorded a 3.7% increase in turnover compared to 2022, driven by a good performance of Allianz Multinational products (World Program and XoL) and prior year true-ups from local STCI. These positive effects were partially compensated by a slowdown (both commercially and from lower volumes) in other products such as STCI, TCU, Mid Term and Surety.

A.2.3.3. Northern Region

This region includes the direct insurance and the assumed reinsurance business in Northern European countries (Belgium, Netherlands, UK, Ireland, Finland, Sweden, Denmark, and Norway) and Eastern Europe (Hungary, Czech Republic, Romania and Slovakia). The Russian entity was deconsolidated in 2023.

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

In EUR mn	2023	2022	Δ	%
Insurance revenue	557	511	47	9.1%
Fee and commission income	40	36	4	11.8%

Northern Europe recorded a 9.3% increase in turnover compared to 2022, driven by very solid performance and organic growth in all LoBs and in all countries, positive impact of volume variations and true ups is also a contributing factor. Additionally, the good performance of service revenues, driven mainly by collection fees, also supported the turnover growth.

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

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

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

In EUR mn	2023	2022	Δ	%
Insurance revenue	392	349	42	12.2%
Fee and commission income	25	21	4	19.0%

Turnover reached EUR 416mn, up 12.5% compared to the prior year mainly driven by TCI and Bonding. Service revenues also increased on all products.

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	2023	2022	Δ	%
Insurance revenue	165	165	0	0.1%
Fee and commission income	1	1	0	0.0%

Turnover reached EUR 166mn, this is stable compared to last year.

A.3. Investment Performance

A.3.1. Income and expenses arising from investments

Figure 8: **EH SA investment performance**

In EUR mn	2023	2022	Δ	%
Current income from Equity	70	83	-13	-15.7%
Current income from Bond	35	19	16	84.2%
current income Real Estate 3rd party	-	-	-	
Current income from Cash and Other	12	4	8	200.0%
Current investment income	117	106	11	10.4%
FX result (net)	-3	-4	1	-23.4%
Investment Expenses	-4	-7	3	-42.9%
Interest Expenses	-19	-3	-16	533.3%
Total investment income (incl. interest expenses)	91	92	-1	-1.2%

The increase in revenues from bonds is explained by the maturity of certain bonds in the portfolio EH Belgium. The total investment income is in line with the previous year.

A.3.2. Gains and losses recognized directly in equity

In 2023, IFRS shareholder equity was at EUR 969mn, increasing by EUR 77mn compared to 2022 where it amounted to EUR 892mn. The evolution of the IFRS shareholder equity over the reporting period is mainly explained by:

- A dividend distribution for EUR -60mn;
- The net actuarial loss on pension reserve for EUR -7.7mn;
- The LIC OCI for EUR -4.3mn

Compensated by the following positive changes:

- A positive result of EUR 81.1mn for the year;
- The positive variation in unrealized gains and losses of EUR 51mn;
- The variation of a put liability of EUR 16.1mn 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 1.4mn.

A.3.3. Investments in securitization

The following table presents EH SA's investments in securitization (MVBS) between 4Q 2022 and 4Q 2023 including the exposure in these investments.

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

In EUR mn	2023		2022	
	Exposure	Exposure as % of total financial assets	Exposure	Exposure as % of total financial assets
Asset-Backed Securities	42.0	2.1%	50.0	2.2%
Collateralized	88.0	4.4%	89.0	4.0%
Covered	368.0	18.4%	444.0	19.8%
Securitization	**498.0**	**24.9%**	**583.0**	**26.0%**

The rationale behind the evolution of these investments is disclosed below:

- Covered bonds exposure has decreased both in absolute and relative terms as it has been the primary source of liquidity used to finance capital needs over 2023 (in particular, external loan repayment);
- Collateralized exposure is stable in absolute terms, but mechanically increased in relative terms due to the lower asset base;
- ABS exposure has decreased for similar reasons as the the Covered bonds.

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

A.4. Performance of other activities

EH SA has identified one source of material income and expenses in 2023 outside of those from underwriting and investments (using a threshold of EUR 1mn to determine materiality), which are detailed hereafter:

- Restructuring expenses: in 2023, EH SA recognized restructuring charges for a total amount of EUR 33.1mn (compared to EUR 43.1mn in 2022). Restructuring charges are mainly IT decommissioning and HR expenses. The year-on-year reduction is driven by the phasing of transformation and in particular that IT charges recognized in 2022 in relation with Galileo decommissioning.

B. System of governance

B.1. General information on the system of governance

B.1.1. Structure of the system of governance

The management structure of EH SA is organized around the BoD and the MC. In order to enhance the effectiveness of its oversight of EH SA's activities, operations and risk profile, the BoD has established 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 were no significant changes to the system of governance during the reporting period.

B.1.1.1. Board of Directors

In general, the BoD has the ultimate responsibility and the power to perform all acts necessary or expedient for the achievement of the corporate purpose of EH SA, except those reserved by law or by the Articles of Association to the General Meeting of Shareholders of EH SA.

In accordance with the SII regulation, the BoD has delegated all of its management powers to the MC, with the exception of the determination of general policy and those acts reserved to the BoD by the Belgian Code on Companies and Associations of 2019 (BCCA), the SII regulation and the overarching circular on the system of governance. Accordingly, the Board is responsible in particular for:

- Defining the overall strategy and objectives of EH SA, as well as the risk policy, including the general exposure limits, and the integrity policy; and
- to exercise effective supervision over the activities of EH SA.

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

B.1.1.2. Management Committee

The MC is therefore is responsible for the effective management and direction of EH SA's activities (including day-to-day management), within the strategy set by the BoD.

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

To assist it in its duties, the MC has established various operational committees. These operational committees are advisory committees to the MC and act on the authority delegated to them by the MC.

- 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 EUR 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 has decided to establish a single committee, the Audit, Risk and Compliance Committee, to perform the duties assigned to the Risk Committee and the Audit Committee. The duties of the Audit, Risk and Compliance Committee are as follows:

- Audit duties:
    - Monitoring the financial reporting process and, in particular, the process of preparing the financial statements (both statutory and consolidated);
    - Monitoring the financial policy;
    - Monitoring the effectiveness of EH SA's internal control and risk management systems;
    - Monitoring the Internal Audit function, its activities and its effectiveness;
    - Monitoring the statutory audit of the statutory and consolidated annual financial statements, including follow-up of 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 applicable laws and regulations relating to 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, at least, when the statutory and consolidated financial statements and, if applicable, the summary financial statements intended for publication are prepared. The Committee reports to the BoD at least once a year on each of these topics.

B.1.1.4. Nomination and Remuneration Committee

The BoD has decided to establish a single committee, the Nomination and Remuneration Committee, to be responsible for both the nomination of candidates and the remuneration of members of the BoD, given the complementary nature of these tasks. The duties of the Nomination and Remuneration Committee 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;

  Provides an opinion on nominations made by shareholders;

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

  Considers the desirability of reappointments and establishes a succession plan for corporate officers;

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

  Receives proposed arrangements that create or may create a conflict of interest for members of the BoD and the MC and, provides its opinion to the BoD or the MC, as appropriate;

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

- With regard to remuneration, the Committee:

Issues an opinion on EH SA's remuneration policy;

Prepares discussions on remuneration, in particular remuneration that has an impact on EH SA's risk and risk management and on which the BoD is required to take a decision;

Provides direct oversight of the remuneration of the Key Function Holders.

The Nomination and Remuneration Committee submits an annual remuneration report to the BoD and reviews the information provided to shareholders in the annual report regarding the remuneration of the corporate officers, the principles and methodologies used to determine the remuneration of managers and allocation and exercise of share options.

B.1.1.5. Key functions

EH SA has the following Solvency II independent control functions:

- Head of Internal Audit;
- Chief Compliance Officer;
- Chief Risk Officer;
- Chief Actuarial Officer.

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 provides 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 considered to be well defined and have the necessary authority, resources and operational independence to perform their duties. Detailed information on the 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 to its activities and organization, and has opted to consider them as "designated key functions" of EH SA.

B.1.2. Remuneration policy

EH SA has stablished a remuneration policy that is aligned with the business strategy, risk profile, objectives and risk management practices, including the interests and long-term results of EH SA.

The remuneration policy promotes sound and efficient risk management and does not encourage the risk taking 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 do not receive any specific additional compensation for their mandates as directors within EH SA;

- Variable compensation: the directors do not receive any variable compensation (whether in cash or in the form of stock options, shares, etc.) 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. The Chairperson of the Audit, Risk and Compliance Committee and the Chairperson of Nomination and Remuneration Committee also receive an additional compensation 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 within the group. They do not receive any 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 compensation system for the group executives 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 main changes relate to the elimination 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. Key Function Holders 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

Key Function Holders 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 functions 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. Details on Fit & Proper requirements

B.2.1.1.1. 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.

EH SA, as required by the NBB, ensures appropriate diversity of qualifications, knowledge and experience within the BoD and MC and the collective Fitness at all times when changes occur within the BoD and MC.

Members of the Senior Management, other than members of the MC, must possess the qualification, experience and knowledge comparable to those specified for the MC, tailored to their specific roles and responsibilities. The requisite expertise is determined by the level of autonomy exercised by each branch, organizational unit, or regional business division within EH SA.

Each Key Function holder must possess the fitness required to fulfil their duties as mandated under the policy of the respective Key Function and applicable law.

B.2.1.1.2. 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.

B.2.2. Description of processes and procedures in place

The latest Fit & Proper Policy 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.

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 through the recruiting processes are assessed.

Also, Remuneration committee ensures fitness of the BoD member and MC member nominees who are recommended for the appointment.

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 the MC evaluation process, 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:

- Significant changes in roles or responsibilities;
- Regulatory changes;
- Consideration of external functions (external board commitments, advisory roles, etc.);
- Adverse information or negative publicity;
- Health concerns;
- Whistleblower or internal complaints;
- Failure to submit required self-disclosure statements; and
- 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

B.2.2.3. Other processes

As of this report's issuance, EH SA maintains all Key Functions in-house, ensuring direct oversight and adherence to our stringent fit and proper standards. Every situation—be it during recruitment, during routine or extraordinary reviews, or when considering the delegation of tasks (should outsourcing become relevant)—is evaluated on its own merits. This individual assessment ensures that decisions are informed by the most comprehensive information available.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 escalation process ensures that risk tolerance limits and target ratings for top risks (including for non-quantified risks) are adhered to and that, as appropriate, remediation activities are taken immediately if limits are exceeded.

Early warning systems such as the monitoring of limits, 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[2], Accounting & Reporting, and Risk, and as third-line Internal audit. This model is described hereafter:

"Three lines of defence" model

BoD
Strategy, risk appetite and policy

First line: Risk ownership	Second line: Risk control and monitoring	Third line: Independent assurance
EH Risk taking business units supported by the management	**EH Risk, Actuarial, Compliance, Legal and Accounting & Reporting functions**	**EH Internal Audit Functions**
Delegated authority from the Board to: • develop and implement the internal model; • measure and manage business performance; • develop and implement internal control and risk management framework; • ensure that the business is managed within the agreed risk appetite.	Provides objective oversight of the management of risk. Key responsibilities include: • design and deployment of overall internal model governance framework; • development and monitoring of policies and procedures; • monitoring adherence to framework and strategy; • review of business results • compliance rules; and • oversight of the governance framework.	• Provides independent assurance across first and second line. Its activities include particularly: • an independent assessment of the effectiveness and efficiency of the Internal Control System including the activities exercised by the first and second lines, and • a respective report to the relevant Management Committee.

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 ongoing solvency against these risks. It goes beyond the determination of capital needs provided solely through the application of risk capital models by additionally considering stress scenarios, model limitations, and other non-modeled risks and how these risks translate into capital needs or are otherwise mitigated.

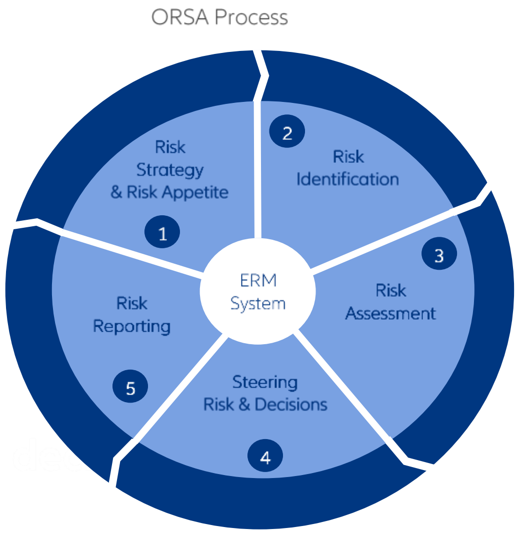
The ORSA draws upon the whole Risk Management system in order to conclude on the Risk Profile adequacy to the Risk Appetite and ensures consideration of risk capital needs from an integral part of the business decision-making process of the company.

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 desctibing 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 funcions and to the Chief Compliance Officer;
- The outsourcing of the compliance function is prohibited and the integrity framework is set up in accordance with applicable laws and regulations.

B.6. Internal Audit Function

B.6.1. 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 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 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, adhoc 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 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 exists 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 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 Chief Actuarial Officer 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 Chief Actuarial Officer 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 Chief Actuarial Officer 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 Chief Actuarial Officer 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 28, 2023.

C. Risk profile

C.1. Underwriting Risk

C.1.1. Description of the measures used

EH SA's non-life underwriting risk is measured and steered based on the 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:

- **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 2023, the capital requirement for non-life underwriting risk amounted to EUR 174mn before diversification. The capital requirement for life underwriting risk amounted to EUR 12mn before diversification.

The capital requirement for business risk amounted to EUR 15mn 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 reduce the underwriting risk and optimize the risk profile. The reinsurance of EH Group is organized centrally via EH Re AG (CH) and EH Re 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 2023, the capital requirement for market risk amounted to EUR 489mn 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 is on liquid, high-quality, low-risk assets: The predominant portion of the portfolio is invested in cash and liquid, tradable, high-quality securities, mainly in developed market treasuries and government-related 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 irrespective of 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, to ensure a balance between asset yields and the related RC. On a monthly basis, the investment department monitors the current allocation with respect to the 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 if they clearly contribute 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: This 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 2023, 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 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 the effectiveness of its reinsurance treaties on its risk profile on a yearly basis 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 2023, 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: +100 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 on the resilience of its solvency positions, EH SA has developed additional scenario analysis. Note that the scenarios applicable to 2024 are run and approved during the half year. Thus, the analysis of solvency position included in this section is issued from scenario analysis performed during 2023 as of 4Q 2022.

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

- The 2008/2009 financial crisis scenario: This scenario consists of replicating the macroeconomic and financial market shocks observed on the EH SA risk profile during the financial crisis of 2008 and 2009. EH SA runs this scenario on an annual basis and it serves as a benchmark given its severity level.
- A nuclear risk scenario: This scenario aims at capturing the loss following a nuclear plant explosion. EH SA investigated this scenario originally in the regulatory context of the catastrophe risk and decided to keep this scenario to demonstrate its resilience to this catastrophic event.
- A political risk scenario: following tensions in China/Hong Kong/Taiwan, a specific stress on political risk exposures is considered. Losses on political risk are not covered via the TCI&S model, and therefore this scenario also addresses the topic of model coverage as raised by the regulator.

After all the scenarios, EH SA’s solvency position at the end of 2022 remains 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 2022, liquidity risk is not a material risk in 2023 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 272.1mn.

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 2023: a massive increase in claims. In this stress scenario, the liquidity ratio calculated at 4Q 2022 is at 75% for the 12-month horizon.

C.6. Operational Risk

C.6.1. Description of the measures used

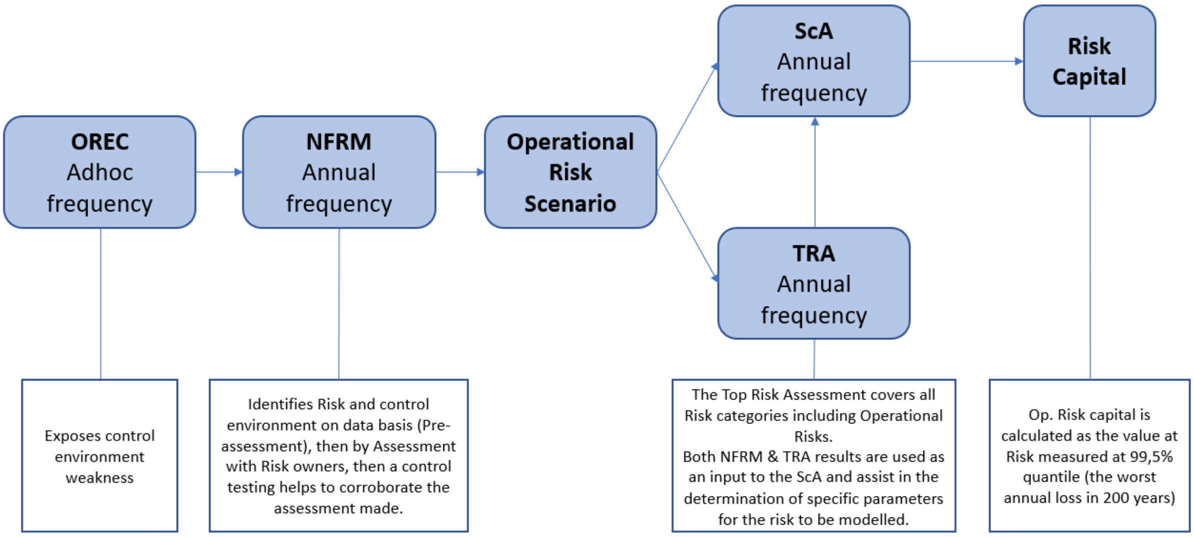
Operational risk is the risk of loss resulting from:

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

Legal and compliance risks 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 Non-Financial Risk Management (NFRM)**: The NFRM 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 ensure that the controls underlying their management are effective.
- **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 with an objective 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

EH SA's definition of Operational Risk, and the sub-categories of this risk are given below:

- **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 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 Operational Risk.

At the end of 2023, the capital requirement for operational risk amounted to EUR 40.08 mn 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, then it is necessary 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.

For indirect reputational risks, the same reputational risk assessment methodology used for direct reputational risk is applied.

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 Sustaianability Office (GSO) supports the ESG integration for both functions.

The management of ESG risks is not only key for portfolio profitability, but also for 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

C.8.1. Sustainability Ambition Overview

EH SA is deeply committed to its role in the net zero transition. As an insurer and global trade enabler, it is uniquely positioned to help companies and the overall economy grow in a more sustainable way. Its Sustainability Strategy takes into consideration the Double Materiality. This means we identify material sustainability matters by looking into both our impact on the environment and people as well as financial perspective of risks and opportunities arising from sustainability matters. EH SA, in 2023 has enhanced its strategic pillars to foster the commitment to the Paris Climate Agreement and achieve net-zero emissions by 2050 from its insurance and investment portfolio.

- Strong corporate governance and process models to integrate sustainability into core business
- Lead by example in our operations
- Towards having an active role in decarbonization pathways
- Developing sustainable solutions for our clients, brokers and banks

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

C.8.2. Sustainability Risk Monitoring

EH SA, integrated Sustainability Integration Framework addressing all ESG-related risks, and particularly regarding the 12 ESG sensitive business areas and sensitive countries. This framework drives the assessment of each insurance client and project regarding certain sustainability commitments including human rights concerns.

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. The Be-GAAP balance sheet disclosed in this report is aligned with the balance sheet presentation in MVBS.

Figure 1: **Asset (MVBS vs BeGAAP) as of 31.12.2023**

In EUR mn	MVBS	BeGAAP
Goodwill		0.0
Deferred acquisition costs		0.1
Intangible assets	0.0	26.5
Deferred tax assets	0.4	0.0
Pension benefit surplus	2.5	2.5
Property, plant & equipment held for own use	121.7	20.6
Investments (other than assets held for index-linked and unit-linked contracts)	2,282.1	2,123.5
Property (other than for own use)	3.9	0.0
Holdings in related undertakings, including participations	578.7	415.7
Equities	3.1	39.6
Equities – listed	0.0	0.0
Equities – unlisted	3.1	39.6
Bonds	1,431.3	1,503.7
Government Bonds	400.3	414.0
Corporate Bonds	1,031.0	1,089.6
Structured notes	0.0	0.0
Collateralized securities	0.0	0.0
Collective Investments Undertakings	216.4	117.5
Derivatives	10.2	8.5
Deposits other than cash equivalents	38.6	38.6
Other investments	0.0	0.0
Assets held for index-linked and unit-linked contracts	0.0	0.0
Loans and mortgages	289.3	290.3
Loans on policies	0.0	0.0
Loans and mortgages to individuals	0.0	0.0
Other loans and mortgages	289.3	290.3
Reinsurance recoverables from:	1,646.2	2,451.9
Non-life and health similar to non-life	1,646.2	2,451.9
Non-life excluding health	1,646.2	2,451.9
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	1.2	-0.0
Insurance and intermediaries receivables	449.7	545.9
Reinsurance receivables	15.4	14.4
Receivables (trade, not insurance)	197.3	186.8
Own shares (held directly)	32.5	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	424.9	174.6
Any other assets, not elsewhere shown	7.7	7.3
Total assets	5,470.9	5,844.4

An overview of valuation and recognition bases applied for assets positions recognized within EH SA is given below.

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
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 2023;
Deferred Acquisition Costs (DAC)	In MVBS, acquisition costs are considered to be included in the calculation of the BE of the TP. Therefore, DAC is 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 2023
Intangible assets	In MVBS, intangible assets other than goodwill are valued at zero unless there is a value for the same or similar asset that has been derived from quoted market prices in active markets. If so, they are recognized at their market value.	In BeGAAP, Intangible assets other than goodwill are recorded at: • Their acquisition value or contribution value; or • Production value (limit: prudent estimation of their value in use or their future profit contribution) Intangible assets are depreciated according to Belgian accounting standards	Under MVBS, intangible assets have been valued at zero because there is usually no active market for intangible assets, prices are not available to the public, or the intangible asset is unique. Thus, in BeGAAP, the asset is higher by EUR 26.5mn compared to MVBS.
Deferred Tax Assets	The principles of IAS 12 are applied for deferred taxes under MVBS.	In BeGAAP, the following deferred taxes are recognized: • Deferred taxes on realized gains on intangible assets, tangible assets, and securities issued by the Belgian public sector, whereas the taxation of such gains is deferred; and	In BeGAAP, no DTA is recognized thus the asset is lower by EUR 0.4mn compared to MVBS.

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

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
		Foreign deferred taxes of the same nature as those mentioned previously.	
Property, plant & equipment held for own use	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, investment properties are depreciated over 33 years. Revaluation is permitted in certain cases.	In BeGAAP, the asset is lower by EUR 101.1mn compared to MVBS due to: • revaluation at fair value in MVBS (EUR -13.8mn) • recognition of Right of Use assets in MVBS in accordance with IFRS 16, but not in BeGAAP (EUR -87.3mn).
Property (other than for own use)	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.
Holdings in related undertakings, including participations	In MVBS, participations and related undertakings are valued at a quoted market price in an active market, if available. If there is no quoted market price, then they are valued using either the Adjusted Equity method or the adjusted IFRS equity method.	In BeGAAP, participations (also called investments in subsidiaries and affiliates) are recorded at their acquisition value. Impairment tests are performed at each closing date.	In BeGAAP, the asset is lower by EUR 163.0mn compared to MVBS because MVBS is re-evaluated at fair value and due to depreciation booked on subsidiaries in BeGAAP.
Equities	Both listed and unlisted equities are valued at fair value in MVBS.	In BeGAAP, investments (equities included) are recorded at their amortized cost. Impairments can be recorded	In BeGAAP, the asset is higher by EUR 36.5mn compared to MVBS because of the following adjustments: • In MVBS, own shares are recognized under the own shares asset line at an amount of EUR 33.2mn 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

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
			at acquisition cost in BeGAAP.Equities are revaluated at fair value in MVBS.
Bonds	All Bonds items are valued at fair value in MVBS.	In BeGAAP, investments (bonds included) are recorded at their amortized cost. Impairments can be recorded.	In BeGAAP, the asset is higher by EUR 72.3mn compared to MVBS because in MVBS bonds are recorded at fair value.
Collective investment undertakings	The interests in collective investments undertakings are measured at fair value in MVBS.	In BeGAAP, collective investments undertakings follow the same rules as for bonds.	In BeGAAP, the asset is lower by EUR 98.8mn compared to MVBS because in MVBS collective investments undertakings are revaluated at fair value.
Derivatives	Derivatives are measured at fair value in MVBS.	In BeGAAP, Derivatives follow the same rules as bonds.	In BeGAAP, the asset is lower by EUR 1.7mn compared to MVBS because in MVBS derivatives are revaluated at fair value.
Deposits other than cash equivalents	Due to the short-term nature of the deposits, BeGAAP value is considered to be a good proxy of the fair value of the deposits.	In BeGAAP, Deposits other than cash equivalents are recorded at their amortized cost.	There is no significant difference between MVBS and BeGAAP
Other investments	Other investments include investments not covered by positions of investments indicated above. They are measured at fair value in MVBS	In BeGAAP, other investments follow the same rules as bonds.	There is no significant difference between MVBS and BeGAAP
Loans and mortgages	In MVBS, EH recognizes Loans and mortgages at fair value.	In BeGAAP, Loans and mortgages follow the same rules as for bonds.	There is no significant differ-ence between MVBS and BeGAAP
Reinsurance recoverables from Non-life excluding Health	The calculation of reinsurance recoverables leads either to the recognition of reinsurance recoverables calculated as a whole or the BE for the reinsurance recoverable. No Risk Margin (RM) is reported in the section of the reinsurance recoverable as the RM recognized within the TP is already net of reinsurance. However, a Counterparty Default Adjustment (CDA) is calculated.	In BeGAAP, the reinsurance share of reserves is calculated based on the TP and the applicable cession rates agreed in the reinsurance treaties: reinsurance share in Unearned Premium Reserve (UPR); claims provisions; provision for bonus and rebates.	In BeGAAP, the asset is higher by EUR 805.6mn compared to MVBS for the following reasons: • In MVBS, only overdue receivables and payables are recorded (EUR +49mn) • Difference in recognition of ceded portion of premium reserves (EUR +302mn) • 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 account	MVBS valuation	BeGAAP valuation	Differences[3]
			asset in SII and presented as a liability in BeGAAP (EUR +432mn) • In BeGAAP there is no discounting.
Deposits to cedants	Deposits to cedants include deposits relating to reinsurance accepted. In MVBS, deposits to cedants are valued at market value but due to short-term nature of deposits, the nominal value is considered to be a good proxy of the market value of the deposits.	Under BeGAAP, deposits to cedants are recorded at their nominal value.	Thus, there is no difference between MVBS and BeGAAP
Insurance and intermediaries receivables	In MVBS, insurance and intermediaries receivables are recognized at fair value. Insurance and intermediaries receivables are amounts past–due for payment by policyholders, insurers, and other linked to insurance business, that are not included in cash–in flows of technical provisions. It shall include receivables from reinsurance accepted. Amounts are past-due when the payment has not been made as of its due date. Premiums written but not yet due are not shown as premium written and are not recognized as receivable but included in the TP. Additionally, valuation allowances have to be eliminated.	In BeGAAP, insurance receivables are recorded at their nominal value. Premiums written but not yet due are recognized as receivable.	In BeGAAP, the asset is higher by EUR 96.2mn compared to MVBS because: • In MVBS, only overdue receivables and payables are recorded in MVBS • Premium written but not yet due are recognized as receivables in BeGAAP and as TP in MVBS;
Reinsurance receivables	In MVBS, reinsurance receivables are recognized at fair value. Reinsurance receivables are amounts past–due by reinsurers and linked to ceded reinsurance business that are	In BeGAAP, reinsurance receivables are recorded at their nominal value.	In BeGAAP, the asset is lower by EUR 1mn compared to MVBS because • Some assets are netted with liabilities in BeGAAP while in MVBS, assets have to be un-netted (EUR +0.8mn)

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
	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 made as of its due date. Additionally, valuation allowances have to be eliminated in the MVBS.		• EBNR ceded are presented as an asset in MVBS and deducted from TP in BeGAAP (EUR -1.8mn)
Receivables (trade, not insurance)	Due to the short-term nature of the receivables amortized cost value is considered to be fair value. However, since valuation allowances have to be eliminated in the MVBS, the receivables might have to be adjusted.	In BeGAAP, other receivables are recorded at their nominal value.	In BeGAAP, the asset is lower by EUR 10.4mn compared to MVBS because of the following adjustments: • In MVBS, depreciation of a receivable from EH SA subsidiaries, amounting to its own funds, because they were negative: EUR +27.9mn; • Some assets are netted with liabilities in BeGAAP while in MVBS, assets have to be un-netted. In MVBS there is also a regrouping difference: EUR -38.3mn
Own shares	In MVBS, own shares have to be reported on the asset side with their fair value.	In BeGAAP, own shares are recognized at their acquisition cost.	In BeGAAP, the asset is lower by EUR 32.5mn compared to MVBS because in MVBS, own shares are recognized under the own shares asset line at an amount of EUR 32.5mn whereas in BeGAAP own shares are recognized under the equities asset line at an amount of EUR 34.6mn. The difference in amount is due to the recognition at fair value in MVBS versus recognition at acquisition cost in BeGAAP.

Asset account	MVBS valuation	BeGAAP valuation	Differences[3]
Cash and cash equivalents	Bank accounts are not netted off, thus only positive accounts are recognized in MVBS. Bank overdrafts are to be shown within liabilities unless where both, 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).	In BeGAAP, the cash and cash equivalents are lower by EUR 250.3mn compared to MVBS because of the reclass of bank overdraft from liabilities to assets in BeGAAP for an amount of EUR 250.3mn. Please refer to section *D.3.1. Valuation of other liabilities*
Any other assets, not elsewhere shown	Depending on the nature of the item, a revaluation at fair value could occur in MVBS.	The recognition basis depends on the nature of the item.	There is no significant difference between MVBS and BeGAAP.

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

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 2: Valuation methods by assets class as of 31.12.2023

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 December 31, 2023, the maturities for the lease liabilities were as follows:

Figure 3: **Lease liabilities by maturities as of 31.12.2023 (IFRS)**

In EUR mn	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than 1 year	32.6	-1.6	30.9
1 to 5 years	85.9	-3.9	82.1
More than 5 years	65.4	-3.4	62.0
Total	183.9	-8.9	175.0

D.1.6. Material deferred tax assets

On December 31, 2023, the total DTA equaled EUR 0.4mn (MVBS value).The following table discloses the applicable tax rates of the main countries within the scope of EH SA.

Figure 4: **Applicable tax rates**

Country	2023	2022
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	18,60%	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 -2023

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 with 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 EUR mn)	2023	2022
1. BEL Claims provisions	-2,295.3	-2,117.8
1.1 Undiscounted BEL claims provisions	-2,393.4	-2,141.3
1.2 Discount	98.3	109.0
1.3 Payables & Receivables reclassification	n/a	-85.4
1.4 Other	-0.1	-0.1

2. BEL Premium provisions	-151.8	112.9
2.1 Future Claims/Expenses + IME	-1,110.5	-1.050.0
2.2 Discount	33.5	35.3
2.3 Payables & Receivables reclassification	n/a	246.0
2.4 Future Premiums/Rebates	925.1	881.6
3. Risk Margin	-36.8	-39.5
4. Technical Provision	-2,483.9	-2.044.3

B/S Assets (in EUR mn)	2023	2022
1. Reinsurance Recoverables claims provisions	1,696.5	1,496.6
1.1 Undiscounted reinsurance BEL recoverables	1,773.3	1,576.2
1.2 Discount	-76.8	-79.6
1.2 Payables & Receivables reclassification	n/a	0
1.3 Other	0	0
2. Reinsurance recoverables premium provisions	-49.9	-272.0
2.1 Future Claims/Expenses	794.3	749.7
2.2 Discount	-22.5	-22.9
2.2 Payables & Receivables reclassification	n/a	-190.2
2.3 Future Premiums/Rebates	-821.7	-808.6
3. Counterparty default adjustment	-0.3	-0.4
4. Reinsurance recoverable under SII	1,646.3	1,224.2

Net TP	**-837.6**	**-820.1**

The main movements compared to prior year arise from increases of claims provisions due to a strong growing business after the Covid-19 years. Following EIOPA's ITS review there was no further need in 2023, to reclassify undue payables/receivables into Technical Provisions; this had significant impact on the sub-totals in the above table.

D.2.2. Calculation Principles

The best estimate liabilities comprise both, claims and premium provisions. Claims provisions comprise best estimates of claims reserves, including loss adjustment expenses and salvages & 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:

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

whereas

- UPR = Unearned Premium Reserves

- FP = Future premiums (calculated from individual policy-information) that policyholders are contractually bound to (including tacit renewals) *)
- CR = (Future/Budget) Combined Ratio
- DAC = Deferred Acquisition Costs
- RebRes = Rebate Reserves
- 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 *"canceling all limits" scenario* (for all policies where the wording allows to do so and where premiums depends on the limit amount).

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

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

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 Solvency II and BE-GAAP

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

GAAP BRIDGE		**GROSS**
in EUR mn	**2023**	**2022**
Be-GAAP	-3,291.3	-2,968.2
Claims Reserves (excl S&S)	-2,568.5	-2,293.7
Premium Reserves	-672.2	-609.4
DAC reclassification	68.1	53.6
Equalization Reserve	-118.7	-118.7

MVBS TP gross	-2,483.9	-2,044.3
Claims provisions (disc)	-2,295.3	-2,117.8
Premium provisions (disc)	-151.9	112.9
Risk margin	-36.8	-39.4
embedded Discount (Claims + Premiums)	*131.8*	*144.3*
embedded Reclassifications (Claims + Premiums)	*0*	*160.6*

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, prorata temporis based on the number of days between the closing date of the calculation period and the expiration of the contract. While for MVBS, premium provisions reflect the expected present value of future cash inflows and outflows, including future claims, premiums and expenses related to existing contracts;
- Loss reserve discounting: MVBS TP reflect the present value of the liabilities, while BE-GAAP and IFRS reserves are undiscounted;
- Risk Margin and IME are relevant components of MVBS TP that are not required under BE-GAAP.

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 5: Other Liabilities (MVBS vs Be-GAAP) as of 31.12.2023

Other liabilities (In EUR mn)	MVBS	BeGAAP
Other technical provisions		0.0
Contingent liabilities	0.7	0.0
Provisions other than technical provisions	108.5	106.8
Pension benefit obligations	171.7	171.5
Deposits from reinsurers	3.4	3.4
Deferred tax liabilities	13. 1	0.0
Derivatives	0.0	0.0
Debts owed to credit institutions	345.8	95.5
Financial liabilities other than debts owed to credit institutions	402.7	283.3

Other liabilities (In EUR mn)	MVBS	BeGAAP
Insurance & intermediaries payables	151.3	148.9
Reinsurance payables	243.7	250.5
Payables (trade, not insurance)	159.2	158.7
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	126.1	209.7
Total other liabilities	**1,726.1**	**1,428.1**

An overview of valuation and recognition bases applied for assets positions recognized within EH SA is given below.

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[4]

Contingent liabilities	In MVBS, the IFRS definition of contingent liabilities is applied. A contingent liability is defined as:
	• 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
	• a present obligation that arises from past events but is not recognized because
	  o it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
	  o the amount of the obligation cannot be measured with sufficient reliability.
	In MVBS contingent liabilities are recognized if material.
		In BeGAAP, contingent liabilities are not recognized on the balance sheet.	In BeGAAP, contingent liabilities are not recognized on the balance sheet.

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

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[4]
Provisions other than Technical Provisions	IFRS values can be used for SII reporting purposes.	In BeGAAP, provisions are recorded to cover all planned or expected risks and charges.	In BeGAAP, the liability is lower by EUR 1.7mn compared to MVBS because a historical booking on provisions.
Pension Benefit obligations	IAS 19 is considered a reasonable approach in valuing pension liabilities for SII purposes.	In BeGAAP, EH SA records a provision for a pension plan in the statutory accounts only if the assets of the plan are lower than the minimum reserves as defined under the Belgian law. In addition to that, EH SA decided to record the provisions for pensions based on IAS 19R.	There is no significant difference between MVBS and BeGAAP.
Deposits from reinsurer	In MVBS, deposits from reinsurers are recorded at market value.	• In BeGAAP, deposits from reinsurers are recognized at their nominal value.	There is no significant difference between MVBS and BeGAAP.
Deferred Tax Liabilities (DTL)	The principles of IAS 12 are applied for deferred taxes under MVBS.	In BeGAAP, DTL are recognized on: • Realized gains on intangible assets, tangible assets and securities issued by the Belgian public sector, whereas the taxation of such gains is deferred; and Foreign deferred taxes of the same nature as those mentioned in the above	There are no DTL recognized in BeGAAP.
Debts owed to credit institutions	In MVBS, debts owed to credit institutions are measured at fair value. Adjustments for own credit standing are excluded in MVBS.	In BeGAAP, debts owed to credit institutions are recognized at their nominal value.	In BeGAAP, the liability is lower by EUR 250.3mn compared to MVBS because of a regrouping performed in BeGAAP between bank suspense accounts and bank overdrafts. Please refer to *D.1.1. Valuation of assets* above.
Financial liabilities other than debts owed to credit institutions	In MVBS, financial liabilities other than debts owed to credit institutions are recorded at fair value. Adjustments for own credit standing are excluded in MVBS.	In BeGAAP, financial liabilities other than debts owed to credit institutions are recognized at their nominal value.	In BeGAAP the liability is lower by EUR 119.4mn due to the recognition of lease liabilities in MVBS but not in BeGAAP.
Insurance & intermediaries payables	In MVBS, payables are recognized at the amounts actually due on repayment (i.e., their	In BeGAAP, insurance and intermediaries payables are recorded at their nominal value.	• In BeGAAP, the liability is lower by EUR

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[4]
	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.		2.4mn mainly because EBNR ceded are presented as an asset in MVBS and deducted from TP in BeGAAP (EUR -1.8mn).
Reinsurance payables	In MVBS, payables are recognized at the amounts actually due on repayment (i.e. their settlement amount) but only include amounts past due for payment. Reinsurance payables are amounts payable, past–due to reinsurers (in particular current accounts) other than deposits linked to reinsurance business, that are not included in reinsurance recoverables. Includes payables to reinsurers that relate to ceded premiums. Amounts are past-due when the payment has not been made as of its due date.	In BeGAAP, reinsurance payables are recorded at their nominal value.	In BeGAAP, the liability is higher by EUR 6.8mn compared to MVBS because only overdue receivables and payables are recorded in MVBS.
Payables (Trade, not Insurance)	Payables are generally recognized at the amounts actually due on repayment (i.e., their settlement amount). Due to their short-term nature, the settlement amount is considered to be a good proxy of the fair value for MVBS.	In BeGAAP, trade payables are recorded at their nominal value. They are composed of fiscal and social debts.	There is no significant difference between MVBS and BeGAAP.
Any other liabilities not elsewhere shown	Depending on the nature of the item, a revaluation at fair value could occur in MVBS.	The recognition basis depends on the nature of the item.	In BeGAAP, the liability is higher by EUR 83.6mn compared to MVBS, maily because of the

Liabilities account	MVBS valuation	BeGAAP valuation	Differences[4]
			recognition in BeGAAP of dividend to be paid (EUR 80mn) in 2024.

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, 2023, DTL equaled EUR 13.1mn (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.

At the yearend December 31, 2023, EH SA recognized expenses for defined-contribution plans of EUR 1.8mn (EUR 1.8mn in 2022). Additionally, EH SA paid contributions for state pension schemes of EUR 20.7mn in 2023 (EUR 18.9mn in 2022).

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 6: Employee benefits breakdown by nature of liability and asset as of 31.12.2023 (IFRS figures)

In EUR mn	Total
Actuarial obligation - Total – Opening	-575.3
Current period service cost	-10.8
Interest on obligation	-20.0
Employee contributions	-2.2
Plan amendment	-1.0
Acquisitions/disposals of subsidiaries	-
Plan curtailments	-
Plan settlements	-
Actuarial gains (losses) due to a change in assumptions	19.9
Actuarial gains (losses) due to a change in experience	4.1
Benefits paid	20.7
Currency translation difference	0.1
Other	1.8
Removal of the discretionary clause	-
Actuarial obligation - Total – Closing	-602.4

Fair value of plan assets - Total – Opening	418.6
Interest income on plan assets	14.9
Actuarial gains (losses) due to a change in experience	5.8
Employee contributions	1.8

In EUR mn	Total
Employer contributions	8.9
Acquisitions/disposals of subsidiaries	-
Plan curtailments	-
Plan settlements	-
Benefits paid	-14.5
Currency translation difference	-0.1
Other	-3.1
Fair value of plan assets - Total – Closing	450.1

Net commitments <0	-170.1
Net commitments >0	0

Multiple assumptions are used for the calculation of employee benefits, they are:

- 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 0.75mn as of December 31, 2023, due to the negative NAV of investments in participations.

E. Capital Management

E.1. Own funds

E.1.1. Information on the own funds

E.1.1.1. Management of the own funds

Capital poses the central resource for EH SA to support its multiple activities. It ties to 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 it complies with the 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 capital. 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 2023:

Figure 7: **Evolution of own funds (MVBS)**

In EUR mn	2023	2022	Δ	%
Total assets	5,470.9	4,433.3	1.037.6	23%
Total liabilities	4,209.9	3,286.4	923.5	28%
Excess of assets over liabilities before Look Through	1,261.0	1,146.9	114.1	10%
Minority OPCI	-77.7	-109.7		
Foreseeable dividends	-80.0	-60.0		
Own Shares	-32.6	-30.0		
SII Own funds	1,148.4	1,057.0		

The main elements explaining this increase are:

- The Retained earnings for EUR 57.5mn mainly driven by:
- The positive 12M 2023 YTD result for EUR 81.1mn
- URGL OCI reserve for EUR 51.0mn
- The put liability for EUR 16.1mn
- The FX impacts for EUR 1.4mn
- LIC OCI reserves for EUR -4.3mn
- Actuarial Gain and Loss Pension reserve for EUR -7.7mn
- Dividends paid for EUR -60.0mn
- The impact of the variation of the market value of investment (mainly participation) for EUR 48.9mn
- The deferred taxes for EUR 20.6mn
- Positive impact of EUR 5.2mn following IT intangible assets write off

These movements are positive and are partly compensated by these negative movements:

- Impact of the variation of the put liability for EUR -21.6mn
- The reversal of IFRS17 effects for EUR -13.7mn
- Negative impact of the decrease for UK pension & other receivables for EUR -4.4mn
- The change of Future profits and discounting for EUR -3.8mn due to (FP: CR decrease, partially offset by Future Premium decrease, Disc: Discontinuation of reclassified not overdue payables/receivables, partially offset by the change in Yield Curves)

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 8: **Composition of own funds as of 31.12.2023 (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	738.8	738.8	0.0
An amount equal to the value of net DTA	0.4	0.0	0.4
Total basic own funds after deductions	1148.4	1148	0.4

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.

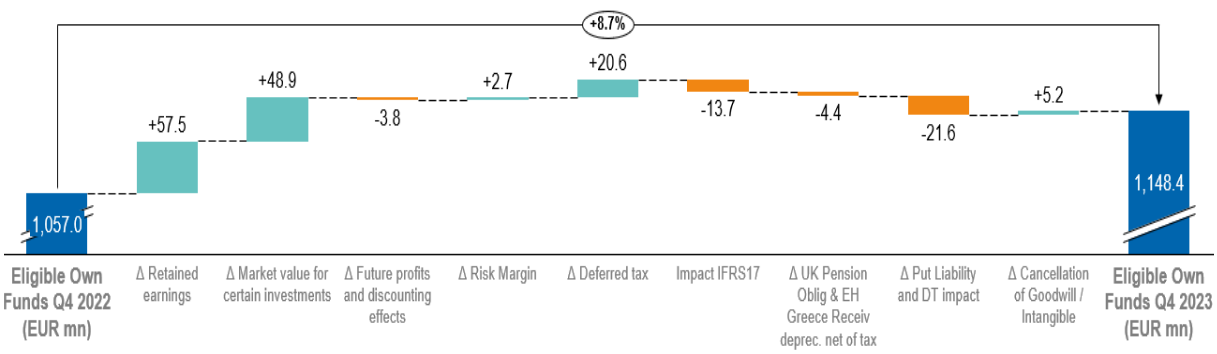
Figure 9: **Available and eligible own funds to meet SCR and MCR as of 31.12.2023 (MVBS)**

Eligible own funds (In EUR mn)	Total	Tier 1 – unrestricted	Tier 3
Total available own funds to meet the SCR	1,148.4	1,148	0,4
Total available own funds to meet the MCR	1,148	1,148	0.0
Total eligible own funds to meet the SCR	1,148	1,148	0.0
Total eligible own funds to meet the MCR	1,148	1,148	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 10: **Bridge EoAL IFRS – basic own funds as of 31.12.2023 (in EUR mn)**



Considering assumptions as of the end of year 2023, the eligible SII own funds value are EUR 1,148.4mn compared to EUR 1,057mn in 2022.

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 11: Breakdown of the reconciliation reserve as of 31.12.2023 (MVBS)

Reconciliation reserve (In EUR mn)	Total
Excess of assets over liabilities	1,261
Own shares (held directly and indirectly)	-32.5
Foreseeable dividends, distributions, and charges	-80.0
Other basic own fund items	-543.3
Reconciliation reserve	605.2

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Evolution of SCR and MCR ratios

The table below shows the evolution of EH SA's SCR between 2022 and 2023.

Figure 12: Breakdown of the SCR

In EUR mn	2023	2022	Δ	%
Market	246.1	243.1	3.0	1%
Credit	261.7	248.4	13.3	5%
P/C Underwriting risks	174.7	180.4	-5.7	-3%
L/H Underwriting risks	11.8	19.8	-8.0	-41%
Business Risk	14.6	6.1	8.5	139%
Operational Risk	39.8	41.1	-1.3	-3%
Total Standalone RC	995.8	1 030.6	-34.8	-3%
Diversification effect	-482.7	-527.2	44.5	-8%
Total Diversified RC	513.1	503.3	9.7	2%
Capital Add-on	118.3	103.5	14.9	14%
Tax impact	-51.4	-34.0	-17.4	51%
SCR	582.6	572.8	9.8	2%

In 2023, 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 2023, EH SA's MCR amounted to EUR 211mn, increasing by +5% compared to 2022, driven by the increase in non-life technical provisions. The MCR ratio stood at 543%, increasing by 39% compared to 2022 due to the increase in own funds over the period.

E.2.2. Inputs to calculate the MCR

The MCR for EH SA based on the IM is shown in the table below for 4Q 2023. 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 13: **MCR calculation (In EUR mn)**

MCR	AMCR	SCR	MCR	45% SCR	25% SCR	MCR combined
211	4	580	211	261	145	211

E.2.3. Material changes to SCR and MCR

There were no material changes to EH SA's SCR and MCR in 2023 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 for 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 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

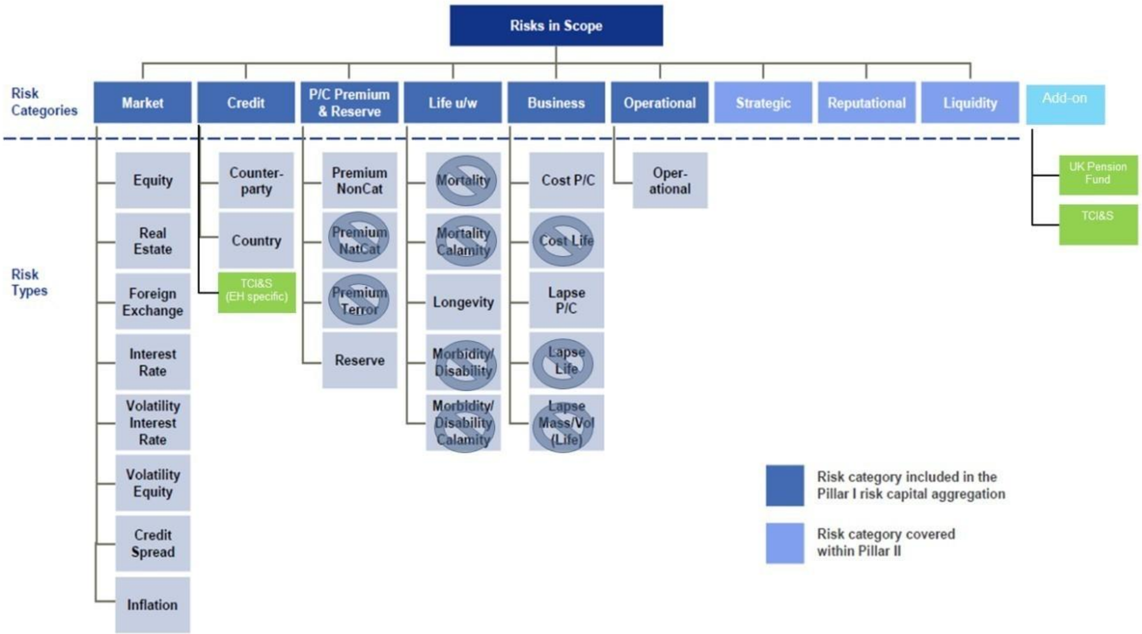
The EH SA Internal RC model covers:

- 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:

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

Figure 14: **IM scope as of 31.12.2023**



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
Market risk	VaR	99,5%	All risk factors have distributions calibrated using historical observation of weekly time series
Reserve risk	VaR	99,93%	A bootstrap approach is used to obtain a risk distribution.
Credit risk for reinsurance and investment modelling	CVaR	99,5%	For investment portfolio, EAD and Loss Given Default (LGD) are estimated following a linear model derived from a statistical analysis of historic data by asset classes.
Credit risk for trade credit insurance & surety	CVaR	99,5%	In the case of Trade Credit Insurance, a particular limit/exposure default is triggered if an invoice sent by the policyholder is not paid by the buyer. In general, such a default event is reported as an insured claim. The central element of the model is to determine a particular scenario: • Whether or not a claim is to be expected on a counterpart; • Whether or not the triggered claim will lead to an indemnification by EH SA; • Whether or not EH SA can recover part of the indemnified amount later on. The capacity of the buyers/counterparties to 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&S portfolio.

E.4.2.2. Difference between standard model and Internal Model

E.4.2.2.1. Market Risk

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

An overview of the main differences between the Market Risk sub-modules of the SM and the IM are given below:

- 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 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 by 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 has 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 the 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 on 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: 4852 of KPIs in total are controlled as of 4Q 2023, 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.

Appendix 1: Key terms and abbreviations

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

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

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

Appendix 2: Publically disclosed QRTs

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

Appendix 3: Disclaimer

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