

CREDENDO – SHORT-TERM
NON-EU RISKS



SOLVENCY & FINANCIAL
CONDITION REPORT 2019

20/04/2020

Credendo – Short-Term Non-EU Risks

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Contents

Summary	1
A. Business and Performance	3
A.1. Business	3
A.1.1. Structure	3
A.1.2. Business Lines	4
A.2. Underwriting Performance	4
A.3. Investment Performance	5
A.4. Performance of other activities	6
A.5. Any other information	6
B. System of Governance	8
B.1. Management Structure, Remuneration and shareholdership	8
B.1.1. Management bodies	8
B.1.2. Remuneration	10
B.1.3. Shareholdership	12
B.2. Fit and proper	12
B.3. Risk management system including the Own Risk and Solvency Assessment	14
B.3.1. Risk management system	14
B.3.2. ORSA process	17
B.3.3. Risk management function	18
B.4. Internal control system	19
B.4.1. Internal control system	19
B.4.2. Compliance function	20
B.5. Internal audit function	21
B.6. Actuarial function	23
B.7. Outsourcing	23
B.8. Any other information	25
C. Risk Profile	27
C.1. Underwriting risk	27
C.1.1. Underwriting risk processes	28
C.1.2. Risk mitigation from (non-)proportional reinsurance	31
C.1.3. Risk sensitivity	32
C.2. Market risk	32
C.2.1. Prudent person principle	34
C.2.2. Risk sensitivity	35
C.3. Credit risk	35
C.4. Liquidity risk	36

C.5.	Operational risk	37
C.6.	Other material risks	38
C.6.1.	Strategic risk.....	38
C.6.2.	Reputational risk.....	39
D.	Valuation for Solvency Purposes	40
D.1.	Assets.....	41
D.1.1.	Deferred taxes.....	43
D.1.2.	Property, plant & equipment held for own use	44
D.1.3.	Investments	44
D.1.4.	Reinsurance recoverables	45
D.2.	Technical provisions.....	45
D.2.1.	Homogeneous risk groups	50
D.2.2.	Premium provisions.....	50
D.2.3.	Claims provisions	51
D.2.4.	Risk margin	51
D.2.5.	Level of uncertainty	52
D.3.	Other liabilities.....	52
D.3.1.	Provisions other than technical provisions.....	53
D.3.2.	Employee & termination benefits	54
D.3.3.	Deferred tax liabilities.....	55
D.4.	Alternative methods for valuation.....	55
D.5.	Any other information	55
D.5.1.	Assumptions on future management actions & policy holder behaviour	55
D.5.2.	Governance on valuation of assets & liabilities.....	55
E.	Capital Management	56
E.1.	Own funds	56
E.1.1.	Own funds management framework	56
E.1.2.	Structure & quality of own funds	56
E.1.3.	Deferred taxes.....	57
E.2.	Solvency Capital Requirement and Minimum Capital Requirement.....	58
E.2.1.	Regulatory capital requirements.....	58
E.2.2.	Loss-absorbing capacity of deferred taxes	59
E.3.	Use of the duration-based equity risk sub-module in the calculation of the SCR.....	59
E.4.	Differences between the standard formula and any internal model used.....	59
E.5.	Non-compliance with the MCR and significant non-compliance with the SCR.....	60
E.6.	Any other information	60

Annexes	61
ANNEX I Balance sheet using the valuation in accordance with Article 75 of Directive 2009/138/EC (S.02.01.02)	62
ANNEX II Premiums, claims and expenses (template S.05.01.02)	63
ANNEX III Premiums, claims and expenses by country (template S.05.02.01).....	64
ANNEX IV Non-life technical provisions (template S.17.01.02)	65
ANNEX V Non-life insurance claims in the format of development triangles (template S.19.01.21)	66
ANNEX VI Own funds (template S.23.01.01)	68
ANNEX VII Solvency Capital Requirement calculated using the standard formula (template S.25.01.21)	69
ANNEX VIII Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance activity (template S.28.01.01)	70

Summary

The Solvency and Financial Condition Report (SFCR) of Credendo Short-Term Non-EU Risks (hereafter 'Credendo STN' or the 'Company') has been prepared according to the requirements of the Solvency II legislation as laid down in the Commission Delegated Regulation 2015/35 (amended by 2019/981) and the Belgian Law on the Statute and Supervision of Insurance and Reinsurance Undertakings of 13 March 2016. The SFCR follows the structure as set out in Annex XX of the Commission Delegated Regulation 2015/35 and discloses the narrative and quantitative information referred to in Articles 292 to 298 of that Regulation.

This report includes information regarding:

- > The essentially mono-line credit insurance business of the Company, its underwriting performance, at an aggregate level and by material line of business, the performance of its investments and other material income and expenses, over the reporting period 2019 and in comparison to the previous reporting period.

The profit for the year 2019 (2018) amounted to 3.3 (2.6) mio EUR.

- > The Company's system of governance at the end of 2019, including an extensive description of:
 - the structure of the Board of Directors and Executive Committee, providing a description of their main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, their committees, and the main roles and responsibilities of key functions
 - its remuneration policy and practices
 - material transactions during 2019 with shareholders, with persons who exercise a significant influence on the Company, and with Board of Directors members
 - the 'fit and proper' policy of the Company
 - the risk management system and how the risk management system including the risk management function is implemented and integrated into the organisational structure and decision-making processes, and of how the own risk and solvency assessment is conducted
 - how the Company's internal control system and other key control functions (compliance, internal audit, actuarial) are implemented.

Apart from the need to remedy identified IT security risks, for which an implementation plan of remediation actions is currently in progress, Credendo STN's governance system is assessed as effective and adequate. Measures are implemented under the supervision of the governing bodies of the Company.

- > Its risk profile, including information regarding the risk exposure and material risks of the Company at the end of 2019, how these risks are assessed and mitigated, and how assets are invested in accordance with the 'prudent person principle'.

All identified risks are measured, either quantitatively or qualitatively. The most material risk types are quantified using risk-based capital models. The Solvency II standard formula measures underwriting, market, counterparty and operational risks by a Value-at-Risk approach that captures risk at individual and aggregated level and takes risk correlation into account. Alternative risk-based capital models used by the Company concern rating capital models, that typically quantify underwriting, market and counterparty risks, using comparable metrics. Capital needs from underwriting risks due to debtor default are also measured by an internal partial economic capital model. Less quantifiable risks (like strategic and reputation risks) are assessed ordinally using qualitative tags for likelihood and impact of the (inherent and) residual risks.

- > The valuation of the assets, technical provisions and other liabilities of the Company for Solvency II purposes.

Assets and liabilities, other than technical provisions, are valued in the Solvency II balance in accordance with the IFRS standards provided that those standards include valuation methods that are consistent with the valuation approach set out in Article 75 of the 2009 Solvency II Framework Directive 2009/138/EC. Where those standards allow for the use of more than one valuation method or where the IFRS valuation methods are not consistent either temporarily or permanently with the valuation approach set out in Article 75 of Directive 2009/138/EC, valuation methods that are consistent with the latter article are used.

- > The Company's capital management strategy, the structure and quality of its own funds at the end of 2019 and the previous reporting period, and the amounts of the Company's Solvency Capital Requirement and Minimum Capital Requirement (calculated according to the Solvency II standard formula) at those dates.

Credendo STN's SII capital adequacy ratio at the end of 2019 (2018) amounted to 197% (200%). The ratio of own funds to the Minimum Capital Requirement amounted to 774% (773%).

Credendo STN has no capital instruments issued as (subordinated) debt and does not hold own shares. Apart from the net deferred tax assets, all own fund items are classified in Tier 1 as all items are undated, permanently available to absorb losses and completely subordinated. Net deferred tax assets are recognised as Solvency II Tier 3 own funds and eligible to cover capital requirements up to 15% of the Solvency Capital Requirement. As the latter condition is fulfilled and as there are no restrictions on the Tier 1 items taken into account, all funds available are eligible for covering the regulatory capital requirements of the Company.

There are no material changes to be highlighted that have occurred over the reporting period in the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management.

Though it is hard to estimate the impact of the spread of COVID-19 subsequent to 31 December 2019 on the Company's insurance premiums and claims, we expect a potentially significant decrease in premium volume and likewise increase in the loss ratio. In addition, the increased volatility and the general downward trend on the financial markets in the first months of 2020 will have an important impact on the financial investments. However, at this moment no reliable assessment of this impact can be presented. Though the impact of the COVID-19 pandemic on the 2020 results and the solvency and financial condition could be considerable, the current equity and capital adequacy position of Credendo STN and its protection by appropriate reinsurance structures should foster continued compliance with the Solvency and Minimum Capital Requirements.

A. Business and Performance

This Chapter describes the business and performance of Credendo – Short-Term Non-EU Risks (Credendo STN) during 2019.

A.1. Business

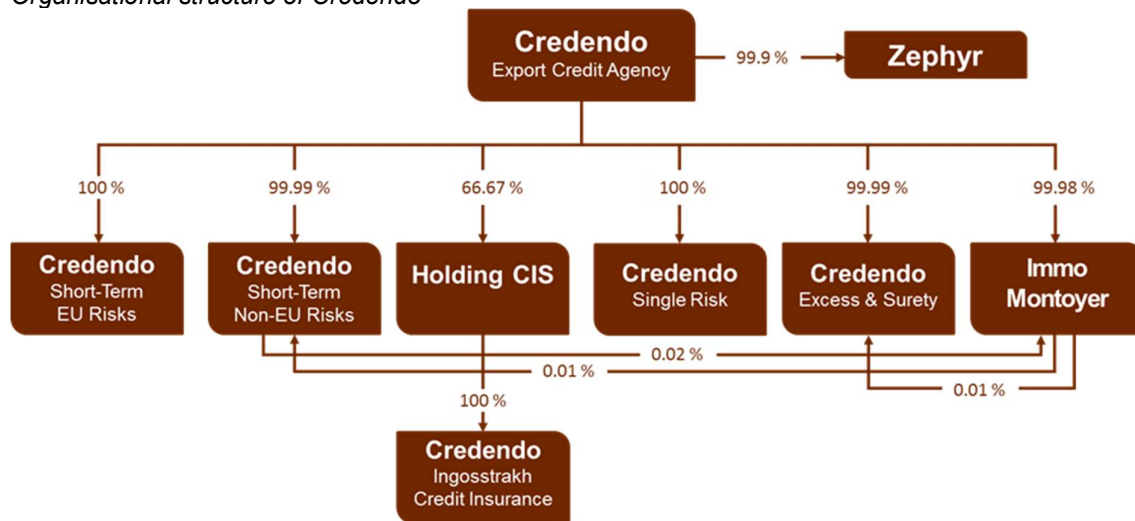
This section describes the legal and organisational structure of Credendo STN as well as its activities.

A.1.1. Structure

Credendo STN (or ‘the Company’) is a limited liability company incorporated and domiciled in Belgium. The address of its registered office is: rue Montoyerstraat, 3, 1000 Brussels. The Company, was incorporated in 2004 with an initial capital of EUR 150 m. The capital has been reduced to EUR 113.4 m by decision of the extraordinary general meeting on 6 May 2013 on a EUR 36.6 m capital reimbursement. The Company specializes in highly customized underwriting for short-term credit risks in emerging and developing markets, principally on open account terms.

Credendo STN belongs to Credendo, which is the fourth largest European credit insurance group that is present all over the continent and active in all segments of the credit insurance trade, providing a range of products that cover risks worldwide. Credendo consists of Credendo – Export Credit Agency (Credendo ECA) and its five commercial subsidiaries in insurance.

Organisational structure of Credendo



Credendo STN's shareholders¹ are Credendo ECA and Immo Montoyer SA (1 share).²

Credendo STN also operates in the United Kingdom (London), France (Paris), Germany (Wiesbaden) and Italy (Milan), through branches established respectively in 2006, 2008, 2009 and 2013.

Credendo has the intention to continue its activities in the UK after Brexit and started in 2018 the application process at the Bank of England to be authorised as a Third Country Branch after the UK has left the European Union. In November 2018, Credendo STN received the confirmation from the Prudential Regulation Authority ("PRA") that it may continue to plan on the assumption that PRA authorisation will only be needed at the end of the implementation period at end 2020. Thereafter the temporary permissions regime or TPR for in principle three years enters into force, applicable to

¹ More information on the shareholders to be found in chapter B.1.3.

² Credendo ECA and Immo Montoyer are located at rue Montoyerstraat, 3, 1000 Brussels.

Credendo, and providing confidence that a back-stop will be available by extending the time limits for UK regulators to process branch authorisation applications.

In 2007, Credendo STN, together with SACE BT, took a participation of (each) 33% in Czech credit insurance company KUPEG (now called Credendo – Short-Term EU Risks (Credendo STE)). In 2009 Credendo STN bought the part of SACE BT in Credendo STE to raise its participation to 66%. In 2016, Credendo STN acquired the remaining 34% of the share capital of Credendo STE from the non-controlling shareholder. After this acquisition Credendo STN sold its 100% ownership in Credendo STE to its parent company, Credendo ECA.

The National Bank of Belgium³ is responsible for the financial supervision of Credendo STN. During the fiscal year 2017 KPMG⁴ was appointed as external auditor. The contractual duration of the mandate is 3 years.

A.1.2. Business Lines

Credendo STN is active in short-term credit insurance and insures the political and commercial credit risks of trade transactions, especially within emerging and developing markets. The main product is the Comprehensive Policy. This policy provides for specific payments to be made to reimburse the holder for the loss it incurs because a specified debtor fails to make a payment, in case this payment falls under the original or modified terms for a trade receivable. Essentially, Credendo STN insures the risk related to non-payment of current trade transactions which is caused by political events or by a problem with the debtor (insolvency or debtor default). Additionally the risks of cancellation or the arbitrary calling of bank guarantees can be insured.

The following business operated previously by Credendo STN has been put in run-off:

- > Suretyship (in run-off as of 1 July 2016): also known as “bonding contracts”, these are contracts that provide compensation to the beneficiary of the contract if the Credendo STN bonding customer fails to perform a contractual or legal obligation towards the beneficiary.
- > Inward Reinsurance of risks similar as in direct business: the reinsurance business that is not administered by Credendo STN itself has been put in run-off as of 2013.

As can be seen from the table in Annex II, Credendo STN is almost exclusively active in credit insurance (and largely in direct business), with still some small run-off amounts included under non-proportional accepted (property) reinsurance and suretyship. 2019's gross written premium in the latter business line amounts to EUR 2.5 million (2018 : EUR 1.2 million) vis-à-vis respectively EUR 68.7 (2018 : 70.9) million and EUR 12.7 (2018 : 11.2) million for direct and proportional accepted credit & suretyship insurance. The table in Annex III comprises the countries (according to the policyholder's establishment to which the contract relates) with the biggest amount of gross written premium.⁵ Clearly, Credendo STN writes more than half of its business in its home country Belgium and the countries where it has established a branch. The top 5 countries (Belgium, Netherlands, Switzerland, France and the UK) have not changed ranking vis-à-vis 2018.

A.2. Underwriting Performance

Credendo STN's underwriting performance in credit & suretyship (including some small run-off amounts in non-proportional property reinsurance) over 2019 has been the following – data are presented according to IFRS financial statements:

³ Prudential supervision and financial stability, National Bank of Belgium LLC, de Berlaimontlaan 14, B-1000 Brussels T: +32 (0)2 2213502, F: +32 (0)2 2213104.

⁴ KPMG, Headquarters: Brussels National Airport 1K, B-1930 Zaventem T: +32(0)27084300

⁵ Data in Annex II and Annex III are from the BGAAP financial statements.

('000 EUR)	2018	2019
Insurance premium revenue	80,757	78,258
Insurance premium ceded to reinsurers	-35,651	-35,195
Net insurance premium revenue	45,106	43,062
Other operating income	18,313	20,499
Net income	63,420	63,561
Insurance claims and loss adjustment expenses	-51,791	-40,209
Insurance claims and loss adjustment expenses recovered from reinsurers	28,380	17,182
Net insurance claims and loss adjustment expenses	-23,411	-23,028
Employee benefit expenses	-12,533	-12,621
Services and other goods	-20,970	-21,236
Depreciation and amortisation	-10	-620
Other operating expenses	-3,780	-4,133
Operating expenses (other than claims)	-37,292	-38,610
Expenses	-60,703	-61,638
Profit/(loss) from operating activities	2,717	1,923

Second half of 2015 measures were taken and the risk appetite was lowered, following severe losses incurred mostly related to the ferro sector and emerging markets. Already beginning 2016, this improvement in the quality of the portfolio led to a substantial reduction in claims provisions but also as expected to lower premium revenue. During 2017 and 2018, our core portfolio grew further, while safeguarding its quality. For 2019 Credendo STN still achieves a solid profit from operating activities through maintaining a consistent risk management and notwithstanding a more aggressive market competition. The insured amounts continue to increase, but this is not immediately reflected in the Net Insurance premium revenue due to the evolution of the average premium rates.

The other operating income for 2019 mainly includes commissions received from reinsurers, investigation costs that were recharged to clients and other recoveries of expenses. The other operating expenses for 2019 mainly include investigation costs and general expenses & acquisition costs.

A.3. Investment Performance

('000 EUR)	2018	2019
Finance income:		
Cash and cash equivalents – interest income	137	167
Other financial income	17	0
Fair value gains/(losses) AFS – Recycled from OCI	771	1,731
Impairment losses on AFS	-	
Income from Financial investments – AFS	791	856
Net gains on financial investments – AFS	1,562	2,587
Fair value gains/(losses) – FVTPL	10	-10
Net realised gains on sale of financial investments	-	
Other gains/(losses) – FVTPL	-	

('000 EUR)	2018	2019
Income from Financial investments – FVTPL	-	
Net gains on financial investments – FVTPL	10	-10
Interest on Loans and receivables	-1	4
Exchange gains on financial assets (other than AFS and FVTPL)	2,270	6,279
Finance expense:		
Exchange losses on financial assets (other than AFS and FVTPL)	-2,388	-6,180
Charges on financial assets	-	
Financial charges and interest costs	-122	-169
Net financial result	1,486	2,678

The real return on the overall investment portfolio including cash amounted to +8.79% for Credendo STN in 2019 based on market value and including unrealised capital losses. The financial markets performed very well in 2019: equities increased significantly in value during the first semester and also bond values increased in value due to decreasing interest rates.

Credendo STN holds no investments in tradable securities or other financial instruments based on repackaged loans (i.e. securitisation).

A.4. Performance of other activities

On adoption of IFRS 16, Credendo recognised liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

Credendo STN leases office space and cars, both are recorded on the balance sheet as a lease liability (representing the present value of future lease payments) and a right-of-use asset. The income statement classification changes also due to the related expenses that are presented as depreciation (on the right-of-use asset) and interest expense (on the lease liability).

The income tax expense amounts to 1,297 K EUR which is in line with previous years. This expense results from the use of deferred tax assets at the level of the Belgian HQ and the current tax expenses that have been incurred at the level of the UK branch and the HQ.

('000 EUR)	2018	2019
Profit/(loss) of the year before tax	4,202	4,601
Income tax credit/(expense)	-1,590	-1,297
Profit/(loss) of the year	2,613	3,304

A.5. Any other information

In December 2019, the Chinese province of Hubei was struck by the outbreak of coronavirus disease 2019 (COVID-19). In early 2020, the epidemic of COVID-19 spread globally, impacting the economy of most of the countries. By the end of March 2020, the epicentre of the by now pandemic moved to Europe and the United States. Measures taken to contain the virus have affected the level of economic activity. As communicated by the National Bank of Belgium on 31 March 2020 the COVID-19 pandemic should be considered as affecting significantly the relevance of the information disclosed in this report and giving rise to additional disclosure of appropriate information on the nature and effects of such major development.

The measurement of assets and liabilities by Credendo STN reflects only the conditions that existed at the reporting date. Though it is hard to estimate the impact of the spread of COVID-19 subsequent to 31 December 2019 on the Company's insurance premiums and claims, we expect a potentially

significant decrease in premium volume due to the sharp drop in economic and trade activity. The loss ratio of 2019 will very likely deteriorate in the aftermath of the COVID-19 crisis and furthermore require increased impairment of outstanding claim receivables. In addition, the increased volatility and the general downward trend on the financial markets in the first months of 2020 will have an important impact on the financial investments of the Company. At this moment, no reliable assessment of this impact can be presented.

Though the impact of this pandemic on the 2020 results and the solvency and financial condition could be considerable, the current equity and capital adequacy position of Credendo STN and its protection by appropriate reinsurance structures should foster continued compliance with the Solvency and Minimum Capital Requirements.

There is no other material information regarding Credendo STN's business and performance which should be included than the one already described.

B. System of Governance

This chapter contains a description of the system of governance of Credendo STN.

B.1. Management Structure, Remuneration and shareholdership

B.1.1. Management bodies

a) Board of Directors

In addition to the powers granted to the Board of Directors by law and by the Articles of Association of the Company, the Board of Directors is responsible for determining, deciding and evaluating on a regular basis the general strategy and objectives of the Company and supervising the adequate achievement of the strategy.

The Board of Directors is responsible among others to determine, decide and evaluate on a regular basis the organisational and operational structure of the Company, aimed at supporting its strategic objectives and operations, and validate the policies regarding governance *sensu stricto* as well as the prudential and financial reporting to the competent supervisory authorities.

With respect to risk management, the Board of Directors is responsible for setting the overall risk appetite and overall risk tolerance of the Company, and for approving the general policy and principles on risk management, drawing the framework wherein the Company is willing to accept and retain risks and/or should avoid and transfer risks.

The Board of Directors will among others also approve any periodic revision of the main strategies and policies in terms of risk management, and ensure that such strategic decisions and policies are consistent with the structure, size and the specificities of the Company.

In its supervising role, the Board of Directors ensures that an Executive Committee is established which is responsible for the day-to-day management and effective governance of the Company in accordance with the general policy lines and strategy laid down by the Board of Directors, and monitors its performance. Further, it will evaluate and approve the financial objectives as well as the operational and financial plan as prepared by the Executive Committee and review and evaluate the performance of the Company in light of the proposed financial objectives and business plans.

The Board of Directors can perform all necessary actions (except for the actions that are reserved by law and by the Articles of Association to the General Meeting of Shareholders) to accomplish the company objectives, especially with reference to the assessment of the general strategy of the Company and the supervision of the Executive Committee, in charge of the day-to-day management of the Company.

The Board of Directors ensures among others that the effectiveness of the system of governance and the performance of the internal control functions is subject to an internal review at least once a year, and that the Executive Committee takes the appropriate measures to handle any shortcomings which were identified.

The Board of Directors evaluates the general principles of the remuneration policy at least once a year to ensure it remains appropriate during changes to the company's operations or business environment.

b) Executive Committee

In general, the Executive Committee is responsible for the effective day-to-day management of the Company, including the implementation and elaboration of the strategy established by the Board of Directors, taking into account the risk tolerance limits established by the Board of Directors.

The Executive Committee reports to the Board of Directors (and the specialised committees) all relevant information and data in order to enable the Board of Directors to monitor the activities of the Company and to take substantiated decisions.

The Executive Committee is among others responsible for the implementation of the risk management system. This includes translating the risk appetite framework and general policy on risk management established by the Board of Directors into more detailed policies, procedures and guidelines, executing the necessary measures to manage and mitigate the risks, ensuring that all relevant risks to which the Company is exposed are identified, measured, appropriately managed, monitored and reported, and monitoring the development of the risk profile of the Company and the risk management system.

The Executive Committee is also responsible for the implementation, follow-up and assessment of the organizational and operational structure of the Company to ensure uniformity with the risk management and risk appetite framework established by the Board of Directors. For that purpose, it will set up appropriate internal control mechanisms at all levels of the Company and assess the adequacy of these mechanisms.

c) Audit & Risk Committee

The Audit & Risk Committee assists the Board of Directors in overseeing the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulators. It is also empowered to propose special areas of investigation where it deems necessary.

The mission of the Audit & Risk Committee comprises among others the following domains:

- overseeing the integrity and accurateness of the financial reporting process;
- tracking the Internal Audit activities, such as endorsing the audit plan and the resources deployed, taking note of activity reports and audit reports, ensuring that the Executive Committee takes appropriate steps to close the gaps that the Internal Auditor has noted;
- participation in the appointment/removal of the head of Internal Audit;
- overseeing the Statutory Audit of the annual accounts;
- making recommendations to the Board of Directors on the appointment and reappointment of the statutory auditor, his independence and his fees;
- approval of non-audit services rendered by the statutory auditor;
- examining whether the Company has suitable internal control mechanisms and risk management ensuring the identification of the main risks, their management and disclosure;
- keeping itself informed on the legal, regulatory and statutory rights and obligations and examining whether these are adhered to by the Company and its staff;
- giving its opinion to the Board of Directors on the adequacy of the organization, available resources and competences for identifying, measuring, managing and reporting the material risks to which Credendo STN is exposed and on the appropriateness of the procedure for monitoring the risks taking the challenges to the Company in its activity and especially the divisions between executive and control functions into account;
- advising the Board of Directors on the current and future risk strategy and risk appetite;
- assisting the Board of Directors in its supervision of the execution of the risk strategy by the Executive Committee;
- overseeing if the strategic decisions of the Board of Directors on underwriting insurance liabilities, constituting technical provisions, and on determining risk transfer by reinsurance, the investment policy, the asset-liability management and liquidity management, take account of the risks to which the Company is exposed, given its business model and strategy vis-à-vis risks, especially reputation risk stemming from the product offering.

d) Remuneration Committee

The Remuneration Committee assists the Board of Directors in its supervisory mission and in doing so advises the Board of Directors on the remuneration policy within the Company.

More specifically, the Remuneration Committee assists the Board of Directors in remuneration matters and as such makes proposals to the Board of Directors for decisions to be taken either by the

Board of Directors itself (for the remuneration of the members of the Executive Committee, the country managers or the general remuneration policy for the staff of the Company) or for decisions which need to be placed on the agenda of the General Shareholders Meeting (for the remuneration of the members of the Board of Directors).

The task of the Remuneration Committee includes, but is not limited to the following domains:

- supporting and making proposals to the Board of Directors on the design of the Company's overall remuneration policy;
- supporting and making proposals to the Board of Directors regarding the remuneration of staff members, as defined in the remuneration policy;
- preparation of decisions regarding fixed and flexible remuneration and incentives, which are to be decided by the Board of Directors;
- reviewing the remuneration policy regularly to ensure it remains appropriate during changes to the undertaking's operations or business environment;
- identifying potential conflicts of interest and the steps taken to address them;
- providing adequate information to the Board of Directors regarding the performance of the remuneration policy.

e) Financial Assets Management Committee

The Financial Assets Management Committee ("FAMC") is an advisory body to the Executive Committee of Credendo STN, whose primary objective is to monitor the investments made directly by the Company and the performance of the investment portfolio under discretionary management by an external party.

The FAMC takes its decisions within the investment strategy framework decided by the Board of Directors.

The FAMC has the following advisory responsibilities:

- Analyse the performance of the investment portfolio of the Company both for own investments and investments under discretionary management
- Advise on the need to re-balance the investment portfolio in the framework of the ALM strategy
- Analyse the opportunities to invest in new products and new categories of products (including non-routine investments and their risks)
- Analyse investment opportunities based on the market conditions
- Propose the replacement of the external parties when the performance is unsatisfactory

f) Claims Reserves Control Committee

The primary objective of the Claims Reserves Control Committee is to challenge and validate provisions for reported large losses and impairment of outstanding claims. The validation concerns:

- Case reserves set by the Claims Department. These are provisions for reported but not settled losses ('RBNS') and part of the claims provisions.
- Impairment of settled claims determined by the Claims Department. Paid claims are valued taking recovery perspectives into account.

B.1.2. Remuneration

Credendo aims to attract, motivate and retain the best resources capable of achieving the company mission in adherence to the group values. Effective compensation strategies represent a key driver to positively reinforce employee commitment, engagement and alignment with organisational goals.

The remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the staff members who are committed to maintaining a long-term career with Credendo. This means that the members of the Executive Committee, the country managers and all other staff are entitled to a fair remuneration. Non-executive directors receive solely a fixed emolument for each meeting attended.

The total compensation approach provides for a balanced package of fixed and variable components, each designed to impact in a specific manner the motivation and retention of staff members, in line with relevant market's competitive levels.

The total remuneration components are:

- > Base (fixed) salary;
- > Variable remuneration;
- > Other benefits;
- > Severance payments, where applicable.

The allocation of stock options or other share programs are not used in any form as an element or part of the remuneration package.

- > **The base (fixed) salary** is mainly determined on the basis of the function of the employee, including responsibility and job complexity. The purpose of the base salary is to attract and retain staff members by paying market competitive pay for the role, skills and experience.
- > **Variable remuneration** is defined as the remuneration not arising from the base (fixed) salary, but being paid provided some criteria are met. Variable remuneration may be either contractual or not contractual. The components of the remuneration scheme are balanced so that the fixed component represents a sufficiently high proportion of the total remuneration to avoid staff being overly dependent on the variable components and to allow the entity to operate a fully flexible bonus policy, including the possibility of paying no variable component.

Therefore, the bonus is capped by a well-defined maximum value and that maximum value should not represent more than 25 % of the fixed annual remuneration. Only exceptionally this can be higher, based on the local practices.

The variable remuneration system rests on basic principles aimed at reaching a threefold objective:

- to enhance the motivation of the beneficiaries;
- to stick to good governance principles;
- to favour consistency and administrative simplification.

The calculation of the bonus rests on well-defined criteria, combining quantitative and qualitative objectives. In general terms, the criteria are long term criteria, focusing the energies in the right direction and avoiding distortion of financial results based on short term interests, which can prove to be detrimental to the long term development of the Company.

Where variable remuneration is performance-related, the total amount of the variable remuneration is based on a combination of the assessment of the performance of the individual, of the business unit or branch concerned and of the overall result of the Company.

With respect to the assessment of the performance of the individual, it is based on a balanced set of indicators, which also include adherence to effective risk management and compliance. Financial and non-financial criteria shall be taken into account when assessing an individual's performance.

As a consequence, the variable remuneration of the members of the Executive Committee and of country managers is the result of a combination between quantitative (growth and result criteria) and qualitative (achievement of objectives and transparency in management towards the Board or Executive Committee) criteria.

The variable remuneration of other staff is the result of a combination between collective corporate criteria and individual targets, both types of criteria are combined in a global score. For the collective corporate criteria the quantitative criteria growth and result are used. For the individual targets criteria, these are set by the Executive Committee for each staff member.

The variable part of remuneration of staff engaged in the internal control functions, if any, is independent from the performance of the operational units and areas that are submitted to their control. This independence is reinforced as Credendo STN's internal control functions are outsourced.

- > **Other benefits** are awarded on the basis of individual contracts and local market practice and regulation. For example this can include meal vouchers, provisions of extra-legal pensions, medical insurance and ambulant care, invalidity insurance, ... When welfare benefits are granted, they are supplementary to social security plans and are intended to provide substantial guarantees for the well-being of staff and their family members during their active career as well as their retirement.
- > **Severance payments** are payable in accordance with relevant local legislation and applicable collective agreements. Severance pay will constitute an appropriate compensation for early termination, according to the applicable local legislation and collective bargaining agreements.

A supplementary pension is foreseen for the members of the Executive Committee according to the "defined benefits" principle. The coverage is pension, survival annuity for married or legal cohabitants workers, decease (in case of decease before pension, payment of a lump sum for the family), orphan annuity in function of the familial situation, hospitalization insurance for the members of the Executive Committee and their family, and ambulatory treatments and invalidity insurance with a guaranteed revenue during a sickness period (without end-date, until 65 years).

B.1.3. Shareholdership

The Company's shareholders to date are:

- > **Credendo ECA (formerly known as Delcredere I Ducroire)** holding 149,999 shares (100 % - 1 share).
Credendo ECA is the Belgian Export Credit Agency created under the law of 31 August 1939 and performs its activities of export credit insurance, limited to the cover of mid- and long-term transactions, with the guarantee of the Belgian State.
- > **Immo Montoyer NV/SA** holding 1 share.
Immo Montoyer is a real-estate company which manages Credendo ECA's Brussels real estate, i.e. the building located at rue Montoyerstraat, 3, 1000 Brussels.

Besides the annual remuneration of the outsourced services to Credendo ECA and the participation of Credendo ECA in the reinsurance treaties, no material transactions were registered during the reporting period 2019 with shareholders, with persons who exercise a significant influence on the Company or with members of the Board of Directors or Executive Committee. Besides a directors officers liability policy for the directors of the Company, covering claims made against the directors and notified to the Company, no loans, credits or guarantees are granted by the Company to Board of Directors members.

B.2. Fit and proper

a) Policy

The Fit and Proper policy ensures that all persons who effectively run the Company or have other key functions fulfil the following requirements at all times:

- > their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and
- > they are of good repute and integrity (proper).

The Company's policy confirms the strategy to select and evaluate the suitability of the executive and non-executive directors, the country managers and the internal control function holders in order to

ensure an appropriate oversight over the activities of the Company, including its risk-taking decisions and to comply with the corporate values and long-term interests of the Company. Because of the different responsibilities of the mandates and positions that fall under the scope of this policy, specific requirements are applicable to the professional and personal abilities that are needed.

The detailed objectives, expected results and positioning, as well as the required skills and competences ("fitness") are described in the different job descriptions that are drawn up for each of those mandates and positions, taking into account the aforementioned principles.

Regarding the professional integrity ("properness"), all positions under the scope of the Fit & Proper policy are required to be professionally honourable and of a good reputation. A person is considered to be professionally honourable (proper) if there is no evidence to the contrary or reasonable doubt about that person's good reputation.

The recruitment policy provides a framework methodology aimed at determining the skills and competencies of the members of the Executive Committee and the internal control function holders and country managers.

b) Implementation process

The persons that are eligible for an appointment as member of the Board of Directors are nominated by the shareholder of the Company. The internal control function holders and the country managers are nominated by the Executive Committee in consultation with the chairman of the Board of Directors.

The Company assesses the expertise and professional integrity of the aforementioned persons prior to their appointment according to the principles set out in the fit & proper policy, and will carry out a "due diligence" investigation, the specific level of which depends upon the planned position or mandate.

The selection interviews are carried out by a person mandated by the shareholder of the Company and/or by the responsible from the Human Resources department, based on the procedures and principles in the recruitment policy.

Where the Company has completed the investigation and selection interviews and wishes to consider a person for a particular position, the internal selection decision, including any considerations upon which it is based, will be recorded in writing by the duly authorised party of the Company in consultation with the Human Resources department.

All competences listed in the policy will be covered in the investigation, either through the interview or by means of a thorough assessment, by focusing on specific examples from the applicants in which they describe situations where they might have demonstrated the required competences and behaviours or by focusing on concrete facts registered in their known position.

When a person changes position, this will be considered as a new appointment, as well when there is a significant new distribution of tasks within the Executive Committee. This means that the fit and proper procedure needs to be applied again.

Re-evaluation requires a review of the suitability of the member through the job evaluation scheme of the Company. Nevertheless, besides specific cases, a periodical evaluation should take place half term.

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

B.3.1. Risk management system

Credendo STN has implemented and maintains an effective risk management system that is compliant with the requirements thereon.

a) Risk appetite framework and tolerance limits

The Board of Directors of Credendo STN defines a clear risk management strategy, consistent with the overall business strategy of the Company and reviewed annually. The risk management strategy consists of the risk appetite framework and the general policy on risk management.

The risk appetite framework establishes the risks that the Company is willing to accept, avoid, retain and/or transfer. The general risk appetite is translated for the main categories of risk into risk tolerances (i.e. quantitative risk appetite statements that guide in the selection of risks) and risk preferences (i.e. qualitative risk appetite statements that guide in the selection of risks) and further detailed through risk limits to guide day-to-day business operations.

b) General policy on risk management

The general policy on risk management defines how the risk management framework is structured and how it should operate in practice, in order to balance control, risk management and transparency. The document assigns roles and responsibilities within the risk management framework of the Company and ensures efficient decision-making processes. The policy on risk management serves as an umbrella document that introduces a cartography of formal specific documentation needed for an effective risk management system. The general policy on risk management sets out the risk management objectives and key principles, categorizes all material risks the Company is exposed to (based on a for Credendo common categorization and definition of risks) and defines clearly and in detail per risk type the strategy, policy, procedures and systems that have been implemented for the identification, assessment, mitigation, monitoring and control of the risks.

c) Specific policies per risk

The risk management strategy is further specified via adequate written policies per risk type to ensure implementation in day-to-day business :

Overall Business Strategy				
Risk Strategy			Other Strategies	
➤ Risk Appetite				
➤ Policy on Risk Management				
Policy on Underwriting Risk	Policy on Financial Risks	Policy on Operational Risk	Policy on Strategic Risk	Policy on Reputational Risk
> Technical Provisions		> Outsourcing Policy		
Valuation Methodology		> BCP Policy		
+ Policy on ORSA				
+ Policy on Capital Management				

The policy on financial risks combines related policies on financial risks as this fits with the organisational structure and processes within the Company. The policy thus comprises the implementation of the "prudent person"-principle and the strategy vis-à-vis market risk, concentration risk, ALM risk, liquidity risk and credit risk. The policy on operational respectively strategic reinsurance management is part of the policy on underwriting risk respectively capital management.

These specific policies per risk type, considered sub-policies to the above-mentioned policy on risk management, outline the framework that staff has to take into account when exercising their duties:

- > the goals pursued by the policy
- > the connection with the overall solvency needs assessment as identified in the forward looking assessment of the Company's own risks (based on the ORSA principles), the regulatory capital requirements and the risk appetite framework
- > the processes and (reporting) procedures applied to identify, assess, manage, monitor and report the risk area concerned
- > levels of acceptable risk or risk limits in line with the overall risk appetite
- > the tasks to be performed and the person or role responsible for them.

Reference may be made to written guidelines and procedures. Guidelines further detail the policy document, with a key focus on the process stages (including activities with detailed roles and responsibilities). Procedures describe in detail the process that formalises the way of acting or progressing in a course of a given set of actions (especially an established method...). As such, a comprehensive and coherent set of documents has been elaborated according to the following architecture of documentation:

	Document	Purpose
1.	Risk Management Strategy (Policy on risk management)	describe the risk management framework (principles, appetite) and risk governance (roles & responsibilities)
2.	Risk Policy (per risk type)	outline the risk management framework per risk type to guide staff in decisions and actions when exercising their duties
3.	Guidelines	further detail the policy document, with a key focus on the process stages
4.	Procedures	detail the process that formalizes the way of acting or progressing in a course of a given set of actions

All governance policies, including all policies within the risk management framework, are subject to approval by the Board of Directors, not only for the original policy approval but also for any subsequent changes, unless these are minor. The policies are reviewed at least annually and the review is appropriately documented.

d) Risk identification and measurement system

The risk management system identifies and measures all material risks that the Company faces, including risks that are not or hard to quantify and/or risks not fully captured by the Solvency II required capital calculation. The latter relate to ALM risk, liquidity, concentration, strategic and reputation risks, which are all considered material risks that are identified and covered in the Company's risk management system.

All identified risks are measured, either quantitatively or qualitatively:

- > The most material risk types are quantified using risk-based capital models. The Solvency II standard formula measures underwriting, market, counterparty and operational risks by a Value-at-Risk approach that captures risk at individual and aggregated level and takes risk correlation into account. Alternative quantifications using similar risk-based capital models may enrich the risk assessment. Alternative risk-based capital models used by the Company concern rating capital models, that typically quantify underwriting, market and counterparty risks, using comparable metrics. Capital needs from underwriting risks due to debtor default are also measured by an internal partial economic capital model.
- > Less quantifiable risks (like strategic and reputation risks) are assessed ordinally using qualitative tags (high, moderate, etc.) for likelihood and impact of the (inherent and) residual risks. Likelihood (or probability) represents the possibility that a given event will occur, while impact or severity represents its effect. Inherent risk is the risk in the absence of any actions to alter either the risk's likelihood or impact. Residual risk is the risk that remains after response to the risk. This assessment is done during a comprehensive annual risk survey wherein all of the departments,

control functions and outsourced functions participate, allowing for the connection of the governance and control system with the full risk picture.

Relevant risks are subject to a sufficiently wide range of stress testing through sensitivity and scenario analyses. Taking the Company's risk profile of a non-life credit insurer into account, the most relevant stress testing refers to shocks on the underwritten credit risks.

e) Risk reporting system

The Company has implemented reporting procedures and processes which ensure that information on its material risks is actively monitored and reported, allowing management and other key functions to take that information into account in their decision-making process. The Company's risk management function reports on a quarterly basis to the Board of Directors and its Audit & Risk Committee, the Executive Committee and the Credendo Group Risk Management function on solvency issues and material risk exposures, based on Credendo's risk categorisation. This reporting on solvency and risk exposure comprises key risk indicators (and compliance checks with the risk appetite framework) on:

- > Real and potential exposure from underwriting risk acceptances, before and after quota-share reinsurance
- > Premium and loss rates volatility
- > Adequacy of premium and claims provisions
- > Concentration of country risk exposure
- > Concentration of debtor risk exposure
- > Concentration per country and trade sector of recent claim files
- > Financial investments look-through
- > Concentration risk exposure from financial investments and reinsurance
- > Liquidity risk
- > Counterparty default risk on reinsurers
- > Structure and quality of Solvency II eligible own funds
- > Solvency II regulatory capital requirement and capital adequacy
- > Other risk metrics comprised in the Company's risk appetite framework.

The forward-looking assessment of risks and solvency needs is reported as part of the annual ORSA report that is submitted to the Board of Directors, accompanying the business plan. The results of the comprehensive annual risk & data quality survey, uncovering especially those risks that do not lend themselves to quantification, are reported annually to the Audit & Risk Committee.

The Company has also implemented reporting procedures and processes ensuring that the effectiveness of the risk management system is analysed regularly and that appropriate modifications to the system are made where necessary. Article 80(2) of the Control Law requires the Executive Committee to report at least annually to the Board of Directors, the external auditor and the supervisor on the assessment of the effectiveness of the governance system and what measures have been taken to remedy any shortcoming. That report includes the assessment of the effectiveness of the risk management system, which is part of the governance system.

f) Implementation process

The Company's risk-management system is well integrated into the organisational structure and in the decision-making processes.

The Company's Board of Directors is responsible for ensuring that the implemented risk management system is suitable, effective and proportionate to the nature, scale and complexity of the risks inherent in the business. It is responsible for the development and setting of the business strategy, and approving and reviewing annually the related risk strategy, comprising the risk appetite framework and the policy on risk management. In order to materialise that strategy, the Board of Directors approves and reviews annually the policies per risk type as well as the policy on ORSA and on capital management. It monitors if the necessary measures are taken for the implementation of the risk management system according to the strategy as set. Finally, the Board of Directors challenges the

results of the own risk and solvency assessment (ORSA) and examines and approves the risk measurement system, its effectiveness, hypotheses and parameters.

The Board of Directors of Credendo STN is assisted by a risk committee which is merged with the audit committee into an Audit & Risk Committee (cf. B.1.1.c). That Committee advises the Board of Directors on the current and future strategy and risk appetite and assists the Board of Directors in supervising the execution of that strategy by the Executive Committee.

The Executive Committee is indeed responsible for the implementation of the risk management system along the directives of the Board of Directors and takes the necessary measures for disposing of a permanent Risk Management function. The Executive Committee determines and imposes risk limits and processes and procedures to contain the risks within the risk tolerance levels set by the Board of Directors and ensures the appropriateness of the reporting framework.

The Executive Committee is assisted by the Risk Management function (cf. infra). The Board of Directors ensures that the Risk Management function can operate on a permanent and independent basis.

B.3.2. ORSA process

The process of forward-looking Own Risk & Solvency Assessment (ORSA) allows for:

- > the integrated and pro-active assessment and management of risks inherent in the business of the Company, and
 - > the determination of corresponding capital needs
- as to ensure the viability of the Company in the longer term. The ORSA is integral part of the Company's strategy and systematically taken into account for strategic decision-making.

a) Policy on ORSA

The policy on ORSA, approved by the Board of Directors, is part of the Policy on Risk Management and sets out:

- > the goals of the ORSA process
- > the processes and methodologies used to conduct the ORSA
- > the frequency and timing for the performance of the (regular) ORSA and the circumstances which would trigger the need for an ORSA outside the regular timescales
- > the reporting procedures to be applied
- > the process governance.

Credendo STN has adequate, robust processes for

- > identifying, assessing, monitoring and measuring its own risks, with input from across the whole Company
- > calculating its overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy

The stress testing program is part of the ORSA policy and includes:

- > Sensitivity analyses by stressing assumptions on modelled loss ratios in the business plan. The volatility of loss ratios illustrates insurers' capabilities to minimise that volatility through managing exposures (such as capping and managing down potential and real exposures, increasing deductibles, etc.), re-pricing risks, changing reinsurance protection, etc.
- > Sensitivity analysis to stressed premium-rate assumptions
- > A 'systemic credit risk' scenario analysis with simultaneous occurrence of events exposing all relevant positions (on- and off-balance sheet) of the Company, i.e. a political or assimilated event leading to the generalized default of a debtor country and risk spill-over to the assets side, especially financial investments (bonds and equity holdings) and receivables (e.g. from reinsurance)
- > Qualitative stresses from operational risk events using two starting points :
 - a failure of an internal process, system or personnel (e.g. personnel execution errors, frauds, processing failures, etc.)

- external causes (e.g. direct and indirect consequences of disasters such as terrorist attacks, fire, pandemics ... considered the 'high impact, low frequency'-type of operational risks which need to be considered when looking at scenario analysis and stress tests)
- > Reverse stress testing, including the assessment of the probability of realisation of these scenarios that could threaten the viability of the Company.

The above stress testing program that is part of each ORSA fits the Company's profile where risks are especially situated at the liabilities side (i.e. underwriting risk including CAT and reserve risk).

The ORSA process is embedded into the decision-making and business (planning) processes of the Company and requires

- > Involvement of the Board of Directors, executive and senior management
- > Involvement of finance and business departments, and internal control functions

The ORSA processes fit into the Company's organisational structure and risk management system, taking into consideration nature, scale and complexity of the risks. The processes and (reporting) procedures are proper and adequate as to provide a complete and holistic risk understanding for the Company and appropriate results for the assessment and as to meet the core objectives of the ORSA process.

b) Implementation process

The regular ORSA process provides for

- > An annual forward-looking ORSA, submitted together with the 5 years forward-looking business plan for approval to the Board of Directors and its Audit & Risk Committee, assessing
 - the overall solvency needs taking into account quantified and non-quantified Solvency II risks, approved risk tolerance limits and the business strategy of the Company over the business planning time horizon
 - the compliance, on a continuous basis, with the Solvency II capital requirements, monitored by the risk management function, and with the rules regarding technical provisions and data quality, ensured by the actuarial function who also assesses potential risks from uncertainties linked to calculation of technical provisions
 - the significance with which the risk profile deviates from the assumptions underlying the SCR, calculated with the standard formula
 - the effectiveness, robustness and appropriateness of the stress testing program
- > Quarterly risk & solvency reporting to the Board of Directors and its Audit & Risk Committee (cf. B.3.1.e) Risk reporting system).

A non-regular or ad hoc ORSA is performed outside of the regular time-scales following any significant change in the risk profile. Circumstances that would trigger such a non-regular (partial) ORSA will mainly remain limited to underwriting risks, as these are the most material and therefore may change the risk and solvency profile significantly.

The forward-looking assessment of the solvency needs, coordinated by the risk management function, takes account of possible changes in the risk profile due to the strategy of the Company over the business planning time horizon. The solvency needs are assessed using different risk-based capital models, including the Solvency II standard formula, and considering the stress testing output. The process also includes projection of the amount, nature and quality of own funds over the planning horizon. Possible risk mitigating measures and management actions have regard to the actual capital adequacy level identified through the ORSA exercise compared to the target within the Board of Directors' risk appetite setting. These management actions are decided by the Board of Directors and relate to the (un)stressed risk exposure and/or resources to cover the risks.

B.3.3. Risk management function

The risk management function is a permanent independent function and structured in such a way as to facilitate the implementation of the risk management system within the Company. The embedding of the risk management function in the organisational structure of the Company and the associated reporting lines ensure that the function is objective and free from influence from other functions and from the management and Board of Directors.

The Company has outsourced the Risk Management function in the framework of a Service Level Agreement between the Company and Credendo ECA to the Risk Management department of Credendo ECA, which is heading Credendo to which the Company belongs. The department is headed by the Group Chief Risk Officer (CRO) of Credendo, who is operationally responsible for the risk management function at Credendo STN, based on his knowledge, experience and integrity. Duly mandated, he reports directly to the General Manager of the Company who remains hierarchically responsible. If the CRO has appointed one or more assistants to assist/back him in his duties, the former remains responsible for any actions of the latter.

The main tasks of the risk management function comprise:

- > assisting the Executive Committee in the effective operation and monitoring of the risk management system and the coordination of risk management activities across the Company
- > evaluating regularly the appropriateness and operational effectiveness of the risk management system to identify, measure, monitor, manage and report risks the Company is exposed to
- > maintain an organisation-wide and aggregated view on the risk profile and identify and assess emerging risks and sustainability risks, including climate change
- > measure material risks and calculate overall solvency needs and regulatory capital requirements
- > report regularly to the Board of Directors, Executive Committee and the Credendo Group Risk Management function on solvency issues and material risk exposures, based on Credendo's risk categorisation
- > manage the own risk and solvency assessment (ORSA) process
- > oversee reporting to supervisory authorities and other stakeholders and monitor the coherence between different reports concerning other than governance *sensu stricto* elements like financial management, continuity and IT infrastructure.

B.4. Internal control system

Credendo STN has a corporate environment encouraging a positive attitude towards internal controls.

B.4.1. Internal control system

The internal control system comprises all measures taken by the Company, under the responsibility of the Board of Directors and the Executive Committee of the Company, which with a reasonable certainty must allow that:

- > the financial and managerial information is reliable and correct,
- > the management is well organised and prudent with defined objectives,
- > the risks to which the Company is exposed are known and adequately managed; and
- > the policies, procedures, plans and internal codes and guidelines are respected.

a) Objectives and principles

The Board of Directors encourages the creation of a positive environment towards suitable and effective control mechanisms within the Company. The suitability of the internal control system means that the internal control system is able to manage and mitigate identified risks in such a way that it allows the Company to realise its objectives.

In the framework of its supervisory function the Board of Directors verifies on a regular basis whether the Company has an adequate internal control system. It therefore assesses, via the Audit & Risk Committee, whether the Company is in line with all legal requirements and it needs to be informed of all measures taken to ensure that all requirements are met.

Under the supervision of the Board of Directors, the Executive Committee is responsible for the set-up of an adequate internal control system which provides for all necessary measures to ensure an appropriate financial reporting, operational functioning and rules concerning compliance and integrity within the Company.

Pursuant to the Solvency II law, the Executive Management of the Company performs, on a yearly basis, a self-assessment on the adequacy/effectiveness of the Governance system and measures in place in order to remediate to identified deficiencies (if any) within the Company and to report the results thereof to the Audit & Risk Committee, the Board of Directors, the Statutory Auditor and the National Bank of Belgium.

That report includes all identified risks based on a robust methodical approach to ensure that all significant activities within the Company and all the risks flowing from these activities are defined.

A self-assessment methodical approach has been built in order to assess the adequacy and effectiveness of the governance system as required by the Solvency II law. Systematic identification of risks includes early recognition and regular, structured recording of any disruptive factors that may have an effect on the overall risk profile of an insurance company. In an annual risk survey, "process evaluators" or "risk owners" per department of the Company, including the outsourced services and the internal control functions, are asked to complete a list of risks by drawing on their knowledge and experience and complete templates for the risks identified linked to their department or function.

The Company opted for this in-house approach with well communicated, consistent and co-ordinated processes which is effective and adapted to the size, constraints and organisation of the Company.

The self-assessment process is part of the annual report by the Executive Management on the assessment of the governance system and, therefore, is updated yearly.

B.4.2. Compliance function

The Compliance function has been established to safeguard the reputation and integrity of the Company by actively promoting compliance with the relevant legislation and regulation, the internal codes and ethics, this by applying the integrity principles, as described the Integrity Policy and Code of Conduct, and by ensuring and monitoring the practical implementation of those principles.

With the objective to apply the best principles with respect of integrity and ethical behaviour, and to avoid, manage or remediate any reputational risks, Credendo has also established a Compliance policy, which sets out the objectives, key principles and responsibilities with respect to the management of the Compliance risk.

The Compliance function is responsible for the identification, documentation, assessment and evaluation of the compliance risk and effectively supports the business areas in their duty to comply with relevant laws and regulations and internal procedures. The Compliance function ensures the supervision over and testing of the compliance risks, formulates recommendations and reports to the Board of Directors and to the Executive Committee.

The Compliance function of the Company is an independent function, responsible for the identification and evaluation of the compliance risk; and to ensure compliance with the relevant laws and regulations and with the integrity policy in place within the Company.

The objective of Compliance is to assist the Executive Committee in its responsibilities. To this end, Compliance shares its recommendations, evaluations, opinions and information concerning the activities which it assesses with the Executive Committee.

B.5. Internal audit function

a) Definition, objective and scope

Internal Audit (IA) function is an independent and objective assurance and consulting activity. This function assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Company's governance, risk management and internal control.

The objective of Internal Audit is to ascertain that the ongoing processes for controlling operations throughout all the Company's entities are adequately designed and are functioning in an effective manner. In carrying out this work, the Internal Audit Department will provide regular reports to the Audit & Risk Committee, the Executive Committee and the Board of Directors on the adequacy and effectiveness of the systems of internal control, together with ideas, and recommendations to improve the systems, procedures and processes.

As detailed in the Internal Audit Charter the scope of Internal Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Company's governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Company's stated goals and objectives. This includes:

- > the evaluation of risk exposure relating to achievement of the Company's strategic objectives;
- > the full and precise analysis of financial and operational information and the means existing with the Company to measure, to organise and distribute such information;
- > the analysis of the existing systems in order to assure the compliance with laws, regulations, general policies, plans and internal procedures;
- > the analysis of the means serving to assure the safeguarding of the assets and, if relevant, the verification of the existence of those means;
- > the evaluation of the effective and economic use of the instruments which the Company has at its disposal;
- > the analysis of the operations and of the programmes in order to evaluate if the results correspond to the objectives which have been set;
- > the execution of specific audit missions at the request of Board of Directors or Management provided that it does not result in impairment of IA's independence or objectivity;
- > the monitoring and the evaluation of governance processes;
- > the monitoring and evaluation of the effectiveness of the Company's risk management processes;
- > the reporting of significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board of Directors or Management;
- > the performance of consulting and advisory services related to governance, risk management and control as appropriate for the Company provided that the IA assurance activity is still ensured;
- > the coordination of certain activities with the statutory auditor and other external regulatory bodies or consultants or service providers in order for these to be executed as efficiently as possible.
- > the periodical reporting on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
- > the internal audit activities include as objective the development of effective controls and organisational improvements at a reasonable price.

The Internal Audit function is performed by the Internal Audit Department of Credendo ECA under the outsourcing agreement.

b) Independence and objectivity

As defined in the Circular NBB_2015_21 concerning the internal control system and the internal audit function (Art. 7), the internal audit function must be independent of the audited activities. This requires the function to have sufficient standing and direct and unlimited access to the senior management and the management body, thereby enabling internal auditors to carry out their assignments with objectivity.

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

Based on internal mechanisms in place, threats to independence and objectivity are managed at the individual auditor, engagement, functional, and organisational levels.

The independence of the internal auditors is mainly ensured thanks to a dual reporting relationship. The Chief Internal Auditor reports to the executive management at as high a level as possible for administrative purposes to ensure alignment with corporate direction, support at a managerial level, and the common administrative support required for a staff function. The second relationship, with the Audit & Risk Committee, is for operational and functional purposes, to ensure that independence and objectivity is enforced and maintained:

- > Functional reporting line of the Chief Internal Auditor to the Audit & Risk Committee. The Audit & Risk Committee is also involved for:
 - Approval of the internal audit charter.
 - Approval of the risk-based internal audit plan.
 - Approval of the internal audit budget and resource plan.
- > Periodic communications from the Chief Internal Auditor who reports quarterly on the internal audit activity's performance relative to its plan and other matters.
- > The Audit & Risk Committee can make recommendations to the General Manager with respect to the appointment and dismissal of the Internal Audit staff and the budget of the Internal Audit department;
- > The Group Chief Internal Auditor confirms yearly the operational independence of the internal audit function to the Audit & Risk Committee.

To achieve the degree of independence necessary to effectively carry out the responsibilities the internal audit charter of the Company specifies the dual reporting structure as well as the internal auditors' right of access to personnel and records without hindrance or impediment. The internal audit charter prepared by the Chief Internal Auditor and ratified by the Audit & Risk Committee/Board of Directors and the Executive Committee also mentions that:

- > Internal Audit is authorised to communicate directly at all times, and on his own initiative, with the Board of Directors, the Audit & Risk Committee, the Executive Committee and the General Manager.
- > Internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they do not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
- > The internal audit activity remains free from interference by any element in the Company, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective attitude.
- > Conflicts of interest cannot be tolerated for the Internal Audit Department. Such situation which impairs independence should be immediately reported to the Audit & Risk Committee and the Board of Directors.

In addition of that, as stated in the Code of Ethics integrated in the internal audit charter, internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

This Code stipulates that internal auditors:

- > Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- > Shall not accept anything that may impair or be presumed to impair their professional judgment.
- > Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

B.6. Actuarial function

The Actuarial function is a permanent and independent function within the Company that:

- > coordinates the calculation of technical provisions and oversees the calculation of the case-by-case claims provisions, comprising the following tasks:
 - apply methodologies and procedures to assess the sufficiency of technical provisions and to ensure that their calculation is consistent with the Solvency II requirements
 - assess the uncertainty associated with the estimates made in the calculation of technical provisions
 - ensure that any limitations of data used to calculate technical provisions are properly dealt with
 - ensure that the most appropriate approximations for the purposes of calculating the best estimate are used for the case-by-case claims provisions
 - ensure that homogeneous risk groups of (re)insurance obligations are identified for an appropriate assessment of the underlying risks
 - consider relevant information provided by financial markets and generally available data on underwriting risks and ensure that it is integrated into the assessment of technical provisions;
 - compare and justify any material differences in the calculation of technical provisions from year to year
- > ensures the appropriateness of the methodologies, underlying models and assumptions, used in the calculation of technical provisions, for the specific lines of business and for the way the business is managed, having regard to the available data
- > assesses the sufficiency and quality of the data used in the calculation of technical provisions and whether the information technology systems used sufficiently support the actuarial and statistical procedures
- > documents and maintains the technical provisions valuation methodology
- > compares regularly best estimates against experience. When comparing best estimates against experience, the actuarial function reviews the quality of past best estimates and uses the insights gained from this assessment to improve the quality of current calculations. The comparison of best estimates against experience includes comparisons between observed values and the estimates underlying the calculation of the best estimate, in order to draw conclusions on the appropriateness, accuracy and completeness of the data and assumptions used as well as on the methodologies applied in their calculation
- > supports the Risk Management function in the effective implementation of the risk management system, in particular with respect to the ORSA.

The Company has outsourced the Actuarial function in the framework of a Service Level Agreement with parent company Credendo ECA. The Actuarial function is held by a team member of the Risk Management department of Credendo ECA, based on his knowledge, experience and integrity. Duly mandated, he reports directly to the General Manager of the Company who remains hierarchically responsible.

B.7. Outsourcing

a) Policy

The Company may decide to outsource certain activities or functions in accordance to the principles stipulated in the outsourcing policy, as approved by the Board of Directors, if it considers this would lead to a better management of the Company given the expertise of the service provider and/or economy of scales which would arise from outsourcing the activities.

Taking into account the principles of this outsourcing policy, the Executive Committee of the Company decides if a function or activity is to be considered as critical or important or not, approves all decisions to outsource such critical or important activities or functions and informs the Board of Directors of this decision.

In case of the outsourcing, the Company will perform a risk and impact analysis according to the principles explained in the policy. For critical or important activities or functions, additional requirements apply. All internal control functions are considered as critical or important.

Whenever the Company decides to outsource an activity or function, the Company remains fully responsible for that activity or function even in case of intra-group outsourcing.

The Company will apply the fit and proper procedures in assessing persons employed by the service provider to perform any outsourced important or critical function.

When a critical or important function or activity is outsourced, the Company guarantees that it possesses the necessary experience, knowledge and resources to maintain oversight and supervision over the outsourced activities and pay the necessary attention to the management of attendant risks, particularly as regards the operational risk.

When outsourcing concerns an internal control function, the Company designates a person within its organisation with overall responsibility for this function who is fit and proper and possesses sufficient knowledge and experience regarding the outsourced function to be able to challenge the performance and results of the service provider.

b) Framework and monitoring

Each outsourcing activity is formalised in a written outsourcing agreement or service level agreement (SLA), in which a detailed description is given of the parties' rights and responsibilities and the rules of conduct that apply in carrying out the outsourced activities.

In case of the outsourcing of a critical or important function or activity, the outsourcing agreement states in particular all of the following duties and responsibilities:

- > the service provider's commitment to comply with all applicable laws, regulatory requirements and guidelines as well as policies approved by the outsourcing party and to cooperate with the undertaking's supervisory authority with regard to the outsourced function or activity;
- > the service provider's obligation to disclose any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements;
- > a notice period for the termination of the contract by the service provider which is long enough to enable the outsourcing party to find an alternative solution;
- > that the outsourcing party is able to terminate the arrangement for outsourcing where necessary without detriment to the continuity and quality of its provision of services to policyholders;
- > that the outsourcing party reserves the right to be informed about the outsourced functions and activities and their performance by the services provider as well as a right to issue general guidelines and individual instructions at the address of the service provider, as to what has to be taken into account when performing the outsourced functions or activities
- > that the service provider shall protect any confidential information relating to the outsourcing party and its policyholders, beneficiaries, employees, contracting parties and all other persons;
- > that the outsourcing party, its external auditor and the supervisory authority have effective access to all information relating to the outsourced functions and activities including carrying out on-site inspections of the business premises of the service provider;
- > that, where appropriate and necessary for the purposes of supervision, the supervisory authority may address questions directly to the service provider to which the service provider shall reply;
- > that the outsourcing party may obtain information about the outsourced activities and may issue instructions concerning the outsourced activities and functions;
- > the terms and conditions, where applicable, under which the service provider may sub-outsource any of the outsourced functions and activities;
- > that the service provider's duties and responsibilities deriving from its agreement with the outsourcing party shall remain unaffected by any sub-outsourcing.

The Company requests its service providers to provide it with adequate and regular reporting in function of the nature of the outsourced activities and inherent risks. A specific steering committee with representatives from both the outsourcing party and service provider can be set up in order to support the communication between the different parties.

c) Outsourced critical or important functions or activities

As a subsidiary of Credendo ECA and active in the same sector of credit insurance, the Company's structure and administrative operations are to a large extent based on those of its parent company. In order to strive to a coherent and consolidated approach of the activities on group level, the Company has decided to outsource certain services and activities concerning its business to its parent company.

The aim of the outsourcing is to enhance the overall management of Credendo and to concentrate certain tasks with such company which has the best expertise, structure, personnel as well as the required means to fulfil the particular service with the required level of quality. In addition this allows Credendo to use economies of scale for the group.

The following critical or important functions or activities are outsourced by the Company to the Belgian parent company Credendo ECA:

- > internal control functions: Risk management, Internal Audit and Actuarial function
- > certain supporting or non-operational functions: Finance (including accounting and assets management), IT (incl. provision of data storage and day-to-day systems maintenance or support), Human Resources, Reinsurance, Communication & Translation, Procurement and Facility Management.

The core credit insurance activities of the Company are outside the scope of the outsourcing agreement with the parent company. The underwriting of risks, commercial contacts, administration of policies and the follow-up of claim files are exclusively assumed by the Company.

For the underwriting of specific risks located in the Czech Republic, Slovakia, Poland and Russia, the Company relies on Credendo STE (in the Czech Republic) and Credendo – Ingosstrakh Credit Insurance (in Russia) as the Centre of Expertise (given their local presence). The management of the surety portfolio, in run off since mid-2016, has been entrusted by the Company to its sister company Credendo XS in Belgium. An outsourcing agreement has been concluded with these companies as well.

B.8. Any other information

Annually Credendo STN assesses the adequacy and effectiveness of its governance system, taking account of the nature, scale and complexity of the risks inherent in its business. This 'Report on the assessment of the effectiveness of the governance system' is made available to the supervisor.

Based on a defined methodology, each governance area of Credendo STN's governance system is assessed according to the following rating grid:

Positive Assessment	<i>"The system of governance related to this area is adequate and effective."</i>
Positive Assessment due measures taken during the period under review.	<i>"The system of governance related to this area is adequate and effective thanks to measures taken during the period under review."</i>
Nuanced Assessment	<i>"The system of governance related to this area is effective under reserve of minor measures to be taken."</i>
Negative Assessment	<i>"The system of governance related to this area is not adequate / effective with significant measure to be taken."</i>

Apart from the need to remedy identified IT security risks, for which an implementation plan of remediation actions is currently in progress, the governance system of Credendo STN is assessed as effective and adequate. When appropriate (i.e. measures already initiated during the reporting period

or nuanced/negative assessment), measures are/will be implemented under the supervision of the governing bodies of the Company.

C. Risk Profile

This chapter includes qualitative and quantitative information regarding the risk profile of Credendo STN. As mentioned in chapter B.3.1b Credendo STN categorises all material risks the Company is exposed to, based on a for Credendo common categorization and definition of risks. That risk typology distinguishes the following risk categories:

- > underwriting risk
- > asset-liability management (ALM) risk
- > market risk
- > credit/counterparty default risk
- > liquidity risk
- > concentration risk
- > operational risk
- > strategic risk
- > reputational risk.

All identified risks are measured, either quantitatively or qualitatively (cf. B.3.1d).

The sensitivity analyses in this Chapter comply with the requirements of respectively IFRS 4 Insurance Contracts §39A and IFRS 7 Financial Instruments §40 and relate to underwriting and market risk.

C.1. Underwriting risk

Underwriting or insurance risk is defined as “the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions”. The Solvency II Framework distinguishes premium & reserve risk, defined as “the risk of loss or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements” from catastrophic risk, described as “the risk of loss or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events”.

Underwriting risk is Credendo STN's most material risk. As can be seen from Annex VII, out of a total regulatory Solvency II capital requirement of EUR 68.7 mio at the end of 2019, capital required for only underwriting risk amounts to EUR 57.3 mio. Credendo STN assesses underwriting risk using risk-based capital modelling.

Proper execution of the processes of product design and pricing, policy and risk underwriting, provisioning, claims management and reinsurance management is a very important tool to identify, evaluate, mitigate, monitor and control underwriting risk. Product design and pricing risk is the exposure to financial loss resulting from transacting insurance business where the costs and liabilities assumed (in respect of a product) exceed the expectation in pricing (of that product line). Policy and risk underwriting may lead to risk concentrations and concentration risk. Concentration risk means all risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of undertakings – such exposures may as well be caused by underwriting risk. The valuation of technical provisions and a proper management of claims also are fundamental processes for risk management. Reinsurance, as a risk mitigation technique, enables to prudently manage and mitigate the underwriting risk, stabilise solvency levels, use available capital more efficiently and expand underwriting capacity. However, risk transfer creates counterparty risk or the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of reinsurers. Both solvency and liquidity could be jeopardised in the event of deficiencies in the reinsurance arrangements.

C.1.1. Underwriting risk processes

a) Product design & pricing

The risks related to the management of the risk/premium relationship of each product and the product risk itself are contained by the fact that Credendo STN offers only a limited number of specific types of insurance to professional customers – all policyholders are engaged professionally in an industrial or commercial activity and the insured risks relate to that activity. The type of insurance risk Credendo STN is willing to accept is part of the Board of Directors' risk appetite setting. The strategic positioning in terms of products to which exposure is sought, is defined by the risk preference stating that Credendo STN has an appetite for insurance risk in (only) credit insurance.

Specialising in providing specific types of insurance to specific customers segments is itself seen as a valuable tool for efficiently and effectively managing risk. Moreover, the processes, procedures and information systems that are implemented allow for comprehensive product risk and pricing management. Underwriting guidelines have been established, identifying and controlling existing and potential risks of the product involved and managing the risk/premium relationship of the product. Credendo STN's pricing tool models all drivers of credit risk, using appropriate methodologies depending on the complexity of the risk and available data. Different risk categories are priced consistently. The model produces adequate premium rates to cover expected claims, operational expenses and the remuneration of capital.

b) Provisioning

The management of technical provisions is an on-going process to ensure that the technical provisions are adequate for covering the obligations towards the policyholders. Suitable controls and procedures are in place to increase the reliability, sufficiency and adequacy of both the technical provisions and the data to be considered in the valuation.

The estimation of the ultimate liability arising from claims made under insurance contracts is Credendo STN's most critical accounting estimate. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The claims development triangles in Annex V show how the estimate of the gross cost of claims (claims paid and claims provisions under Solvency II valuation principle) for each accident or occurrence year develops over time. The accident or risk occurrence year is defined in terms of the (first) maturity date for the comprehensive policies product and in terms of date of bond calling for sureties. For inward reinsurance not administered by the Company the underwriting year is used. Since Credendo STN mainly deals with short-term business, the gravity of these provisions is situated within the accident and one or two following years.

Parameter & modelling uncertainty for technical provisions is reduced by lodging responsibility for provisions valuation methodology and its maintenance with the actuarial function. Quarterly boni-mali analyses back-test the methods used for claims provisions against accounting data and guarantee the reliability of the methods chosen. Claims are reviewed regularly (at least as part of the quarterly financial closing cycle but additionally in function of relevant claim events) according to clearly documented claims provisioning guidelines.

Data completeness (for claims provisions) is fostered by introduction by a dedicated team of all claims reported in the systems. Awaiting improved IT-system-embedding for determining technical provisions, inadequacies or deficiencies are remedied by Credendo STN's governance or internal control system ensuring that controls are effective and reliable at all times. Strict internal controls are in place at Credendo STN:

- > Premium and other provisions where algorithms are used to process data in the computing systems are controlled by FIN Management Control at each quarterly closing
- > For reported claims reserves, guidelines exist on determining RBNS case reserves: non-attribitional losses are subject to the 4-eyes principle; large losses are challenged in the Claims Reserves Control Committee under chairmanship of the risk management function

- > The provisions are subject to a quarterly liability adequacy test by the actuarial function, producing Solvency II compliant best estimate technical provisions and accompanied by a back-testing boni-mali analysis
- > The actuarial function carries out both the tasks of ensuring the appropriateness of the methodologies used, including the assumptions made in the calculation of technical provisions, and the assessment of the sufficiency and quality of the data used for their calculation.

c) Claims management

Credendo STN has in place adequate claims management procedures covering the overall cycle of claims:

- > Credendo STN has clear processes in place for the notification of claims by the policyholders. Claims should be reported to the insurer as per policy conditions. Dedicated staff captures relevant information in the information systems in a timely manner.
- > Claims are processed and settled
 - in accordance with the policy terms and conditions without undue delay
 - in accordance with the sub-delegation of authority for claims handling and payment approved by management
- > Complaints and dispute settlement
 - Staff has to act in accordance with the Integrity Policy and Code of Conduct, treating all claimants fairly and without conflict of interest
 - According to the latest annual report by Credendo STN's compliance function no complaint about claims handling was reported to the compliance function in 2019

d) Policy & risk underwriting

Credendo STN's comprehensive policies insure non-payment risks attached to sales of goods, pre-financings and delivery of services. Losses may arise from debtor defaults or political and assimilated ("force majeure") events. Another type of risk under credit insurance cover offered by the Company concerns losses due to contract termination and illicit calling of guarantees. Other types of risk from current trade transactions that may be covered are the risk of infringement on property rights, like deliveries of equipment and goods for consignment or in the framework of processing contracts and of loans for use.

Credendo STN manages these risks through its underwriting strategy ensuring that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Risk Governance

Proper procedures of risk identification and selection at the time of acceptance and underwriting of risks, including internal underwriting risk limits, are established and applied by all employees and branches. This framework enables Credendo STN to clearly and diligently assign risk decisions and manage risks, both for the complete underwriting portfolio as for every product that is offered.

The risk selection is guided by underwriting guidelines, a debtor rating procedure and the country risk classification and cover policy of Credendo. The underwriting process is strictly defined by clearly described and documented sub-delegation of authority and guidelines, approved by management, to underwrite risks at policy and risk acceptance level. In order to achieve a high level of efficiency, management has dispersed its authority to take decisions throughout the entities, from individual underwriters to special committees that discuss, evaluate and underwrite risks. Small amounts will need less people of lower seniority, while important transactions will be evaluated by committees and people with higher seniority.

Risk Concentration

Appropriate procedures and processes are in place to identify, measure, monitor and manage concentration risk from credit risk exposures to a single debtor (group), a debtor country or sector to ensure that it stays within established policies and limits and mitigating actions can be taken if necessary. Indeed, Credendo STN's catastrophe (CAT) risk stems especially from systematic risk in

the underwritten risk portfolio, representing the effect of unexpected changes in country or trade sector conditions on the payment capacity and behaviour of debtors. This systematic risk is determined by concentration and correlation effects.

At end 2019 Credendo STN's total potential exposure, i.e. the sum of all active risk acceptances net of percentage of cover, on the top 10 countries respectively on all other countries combined had increased vis-à-vis end 2018 with 17.5 % respectively 5.5 % :

Top 10 debtor countries	Potential exposure at Q4 2019 (EUR m)	%	Potential exposure at Q4 2018 (EUR m)	%
ITALY	1,052	5%	870	4%
RUSSIA	795	4%	521	3%
GERMANY	763	4%	688	3%
FRANCE	714	3%	531	3%
BRAZIL	642	3%	669	3%
SOUTH AFRICA	589	3%	520	3%
ROMANIA	586	3%	510	3%
POLAND	558	3%	482	2%
UAE -	558	3%	559	3%
ALGERIA	547	3%	441	2%
Other countries	14,722	68%	13,951	71%
Total potential exposure	21,526	100%	19,742	100%

Exposures to a single counterparty, being a debtor (group) or a country, are subject to appropriate risk limits and managed taking into account potential correlations and contagions. Policies and procedures to monitor, manage and control these concentration risks are embedded in the risk management system, in line with the risk appetite setting and established limits.

Country risk

Annex III contains the most important countries of Credendo STN's underwriting activity based on the domicile of the policyholder (for direct business) or the localisation of the ceding company (for reinsurance business) : Belgium, where Credendo STN is headquartered, accounts for almost 1/3 of gross written premium allocated to the countries of activity, followed by the Netherlands, Switzerland, France, the United Kingdom and Germany. In the latter three countries a branch is active. Belgium and the top 5 account for 75% of premium in the direct activity.

However, concentration according to the debtor country, i.e. based on the location of the underwritten credit risk, is less pronounced. Credendo STN's exposure is typically concentrated in the lower country risk rating levels for political and assimilated events: the following table for Credendo STN's potential exposure shows that 45% of the sums insured are located in the lowest rating category 1, while 83 % of the underwritten risks are located in the lower three political risk rating categories. Exposure in the highest risk category 7 is mainly due to some run-off exposure.

Total potential exposure per debtor country category for political and assimilated events risk				
Political risk category	Potential exposure at Q4 2019 (EUR m)	%	Potential exposure at Q4 2018 (EUR m)	%
1	9,775	45%	8,960	45%
2	4,583	21%	4,797	24%
3	3,430	16%	2,346	12%
4	1,822	8%	2,149	11%
5	1,395	6%	1,146	6%
6	502	2%	327	2%
7	17	0%	17	0%
Total	21,526	100%	19,742	100%

Debtor risk

At the end of 2019 the number of active risk acceptances is 74,931. Potential exposure per risk acceptance averages around K EUR 287 :

Total potential exposure per risk acceptance bracket at Q4 2019					
Minimum EUR	Maximum EUR	# of risk acceptances	%	Potential exposure in EUR m	%
> 10000000		196	0.3%	3,739	17.4%
5,000,001	10,000,000	311	0.4%	2,151	10.0%
2,000,001	5,000,000	1,116	1.5%	3,471	16.1%
1,000,001	2,000,000	1,804	2.4%	2,599	12.1%
500,001	1,000,000	3,652	4.9%	2,680	12.4%
200,001	500,000	10,550	14.1%	3,356	15.6%
100,001	200,000	10,560	14.1%	1,589	7.4%
50,001	100,000	14,420	19.2%	1,138	5.3%
-	50,000	32,322	43.1%	803	3.7%
Grand Total		74,931		21,526	

C.1.2. Risk mitigation from (non-)proportional reinsurance

Credendo STN uses reinsurance to mitigate underwriting risk. The 2019 reinsurance programme, applicable to Credendo STN's total business (apart from the suretyship and inward reinsurance activity in run-off), provides for:

- > a quota-share cession
- > a per risk excess-of-loss protection for retained exposures
- > a per country excess-of-loss protection on non-marketable risks
- > a stop-loss protection for marketable risk exposure.

Reinsurance management

Reinsurance enables to mitigate the underwriting risk, and policies and procedures have been developed, enabling the prudent management of the use of reinsurance, including both the risks transferred (identifying the maximum net risk to be retained, appropriate to the established risk tolerance limits, and setting types of appropriate reinsurance arrangements) and the risks arising from reinsurance, namely counterparty risk. Credendo STN carefully selects its reinsurers and sets an internal requirement for all reinsurers to be rated at least investment grade. The choice of counterparties varies little from year to year, indicating an overall satisfaction with both the relationships and the creditworthiness of these counterparties. Furthermore, a strict follow-up and regular review of the relations and the performance of the agreements enable to optimise these agreements beyond the pure rating requirement.

As Credendo STN's risk profile is substantially influenced by the risk mitigation techniques used, the assessment of the impact and the effectiveness of reinsurance is important. When comparing the regular (i.e. including risk mitigation from reinsurance) SCR calculation for underwriting risk with the result without taking reinsurance into account, reinsurance saved about EUR 47.6 mio of regulatory SII capital required for underwriting risk at the end of 2019.

If there would be no effective risk transfer, this should be taken into account in the assessment of the risk profile and overall solvency needs. However, the reinsurance protection leads to effective risk transfer:

- > The reinsurance contracts cover the whole of Credendo STN's business. There are no gaps identified in the reinsurance programme that may result in more risks being retained than intended.
- > The terms, conditions and exclusions stipulated in the reinsurance contracts are aligned with those of the underlying business and the limits of cover (in terms of concentration and risk tenors) are adequate.
- > The transfer has direct, explicit, irrevocable and unconditional features.

Other risk management and internal control procedures mitigating risks related to reinsurance operations include:

- > collateral provided by the reinsurers in favour of Credendo STN: the value of deposits received from reinsurers amounted to K EUR 12,045 at the end of 2019
- > verifying the retention limits established: this is part of the exposure monitoring by the risk management function
- > Credendo STN's reinsurance function participates in the Claims Reserves Control Committee. This facilitates early identification of any potential liquidity strain, such as large claims triggering cash calls to reinsurers, and facilitates prompt collection of reinsurance recoverables
- > monitoring of reinsurance recoverables and the creditworthiness of each reinsurer: reinsurance recoverables are subject to a quarterly impairment test

C.1.3. Risk sensitivity

Underwriting risk being the most important risk in the Credendo STN risk profile, the impact of standard sensitivity analysis is larger than for other risks. This sensitivity analysis shows how profit or loss would have been affected if changes in relevant risk variable that were reasonably possible at the end of the reporting period had occurred. Relevant underwriting risk variables relate to premium rates and charges of claims. The impact on profit or loss is calculated on a pre-tax basis.

A 10% fall in the average premium level would ceteris paribus lead to a lowering of pre-tax income with K EUR 4,306 (2018 : K EUR 4,511). A 10% rise in claims expenses would lower the pre-tax income with K EUR 2,334 (2018 : K EUR 2,440).

Taking Credendo STN's risk profile of a short-term and mono-line credit insurer into account, the most relevant stress testing as part of the ORSA process also refers to shocks on the underwritten credit risks:

- > Sensitivity analyses by stressing assumptions on modelled loss ratios in the business plan (which is the baseline scenario). The volatility of loss ratios illustrates the capabilities to minimise volatility through managing exposures (such as capping and managing down potential and real exposures, increasing deductibles, etc.), re-pricing risks, changing reinsurance protection...
- > Sensitivity analyses to stressed premium rate assumptions
- > A 'systemic credit risk' scenario leading to the generalized default of insured debtors and risk spill-over to the assets side, especially financial investments (bonds and equity holdings) and receivables (e.g. from reinsurance)

Also the reverse stress testing focuses on underwriting risk. Reverse stress testing is part of the ORSA and identifies and assesses the events and scenarios that might render the Company's business model unviable. Credendo STN's top risks are undoubtedly situated in its underwriting risk and more specific in the concentration of underlying risk exposures on debtor (groups), a debtor country or sector. This is in line with the assumptions underpinning the CAT risk sub-module in the SCR standard formula. Whereas the above stress tests try to answer the question "Do we survive the stress?", the reverse stress tests try to answer the question "When do we not survive?". Such scenario could be triggered by (albeit highly improbable) crisis events with major adverse impact.

C.2. Market risk

Market risk is defined as the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Additional risk may stem from a lack of diversification in the asset portfolio. As can be seen from the table in Annex VII the capital requirement for market risk is the most important after underwriting risk.

- > **Interest rate risk** stems from the risk of adverse movements in interest rates. Credendo STN's exposure to interest rate risk is primarily limited to bonds and, if discounted as in Solvency II, technical provisions due to the fact that Credendo STN has no borrowings. Given the nature of the insurance activity, the insurance liabilities themselves are not sensitive to the level of market interest rates as they are contractually non-interest bearing. A higher interest rate lowers the value of the bonds and, if discounting is applied, the value of technical provisions.
- > **Equity** represents a significant percentage in Credendo STN's investment portfolio as the externally managed target volatility funds in the portfolio also contain an important equity part. Since equity is typically a higher-risk instrument that is more sensitive to volatility and possibly large shocks, a safe investment strategy is pursued. That is precisely the purpose of the target volatility funds. While a decent return is sought after, it is equally important to hold equity in secure assets. Furthermore, also geographically, the equity portfolio generally favours safer more mature markets over risky markets.
- > The credit risk inherent in the investment portfolio mainly concerns the bonds and monetary funds and is covered by the **spread risk** capital charge. Where such instruments are involved, the clear strategic decision is taken to favour highly-rated counterparties. The majority of the bonds are government bonds and where corporate bonds are held, the counterparty is generally well-rated. The below table demonstrates the credit quality of financial investments and cash(-equivalents) at the end of 2019 and the previous reporting year that are neither overdue nor impaired – equity holdings (including real estate and commodities) are categorised as non-rated as it does not concern debt instruments:

Credit risk exposure (EUR m)	AAA	AA	A	BBB	<BBB	Non rated	Grand Total
Financial investments & cash (equivalents) at 31/12/2019							
Government bonds	12.8	22.6	3.1	1.2	0.0	0.0	39.6
Funds invested in debt/security instruments	0.0	2.1	13.1	19.1	1.0	1.5	36.7
Equity						41.0	41.0
Fixed term deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	0.0	0.0	31.4	0.8	0.0	4.3	36.4
Total	12.8	24.6	47.5	21.1	1.0	46.7	153.7
Credit risk exposures (mio EUR)	AAA	AA	A	BBB	<BBB	Non rated	Total
Financial investments & cash (equivalents) at 31/12/2018							
Government bonds	6.5	17.1	4.3	4.5	0.0	0.0	32.4
Funds invested in debt/security instruments	0.3	3.5	26.6	11.7	0.0	0.8	42.9
Funds invested in equity instruments						40.8	40.8
Fixed term deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	0.0	0.0	24.8	0.1	0.0	1.2	26.2
Total	6.8	20.6	55.7	16.3	0.0	42.9	142.2

- > **Currency risk** is the risk of losses resulting from changes in the level or in the volatility of currency exchange rates. The Company's most material foreign-currency positions in its (Solvency II) balance sheet relate to net asset positions in USD (29.0 mio EUR) and GBP (12.8 mio EUR).
- > **Concentration risk** may be caused by underwritten risks, counterparty risk/credit risk, investment or market risk, other risks, or a combination or interaction of all these risks. The Solvency II standard formula market risk module covers the additional risks stemming either from market risk concentrations due to lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations). Asset exposures to a single counterparty, either entity or group of entities, or to a geographic area are identified and managed in line with the risk appetite framework. At the end of 2019 Credendo STN had no exposure to a single counterparty higher than 10 % of available own funds – which is a concentration risk benchmark used by external credit assessment institutions – apart from a concentration of cash holdings with its A+ rated principal bank.

- > The Solvency II market risk capital requirement not only covers the risk arising from the level or volatility of market prices of financial instruments but also properly reflects the structural mismatch between assets and liabilities, in particular with respect to the duration thereof and the currency composition. Credendo STN's **asset-liability management** (ALM) strategy takes into account the interrelation between different types of financial risks (market risk, credit risks, liquidity risks) originating especially on the asset side, and underwriting risks referring to the liabilities side. The framework is essentially short term given the characteristics of the non-life business.

Credendo STN's ALM strategy is tailored to its needs – which are diminished as

- after setting the inward reinsurance and suretyship activities in run-off, (only) one credit insurance segment dominated by one product (comprehensive policies) is operated and does not require further segmentation
- the product offering is plain vanilla (no options embedded in the insurance products, etc.)
- the underwriting risk is essentially short tail.

Taking the risk-mitigating characteristics of the short-term business into account, stress testing and scenario analysis on ALM risk is not part of the ORSA process.⁶

Credendo STN's ALM in terms of currency structure is subject to 'congruence' principles – 'congruence' means that all liabilities due in a currency are covered by assets denominated or realisable in that same currency. The ALM in terms of term structure takes account of the risk characteristics of the business (mainly the term structure of the liabilities) and the following important mitigation:

- at liabilities side: in credit insurance a waiting period of 6 months before claims payment is applicable in case of non-payment due to protracted default⁷
- at assets side: a substantial part of the liabilities is covered by reinsurance recoverable assets – which are subject to a 'cash loss' clause in the reinsurance treaties.

Given the short pay-out pattern of the insurance liabilities, liquidity is key and is especially focused on operational rather than strategic considerations. This is reflected in the overall investment strategy that ensures that Credendo STN holds sufficient cash and diversified marketable securities to meet its obligations as they fall due.

C.2.1. Prudent person principle

The Board of Directors determines annually limits on the financial investments per asset class that are reflected in the investment strategy. The investment strategy clearly identifies the asset allocations across the main investment categories, possible allocation limits by counterparty, business sector, geography, type of instrument and currency, the return to be targeted and the nature of any outsourcing and requirements for the safekeeping of assets (custodial arrangements). With respect to the whole portfolio of assets, investments in assets and financial instruments are made in accordance with the prudent person principle (i.e. controlled risk-seeking).

Credendo STN invests all its assets in accordance with the 'prudent person' principle, i.e. only invests in assets and instruments the risks of which it can properly identify, measure, monitor, manage and control as well as appropriately take into account in the assessment of its overall solvency needs. All assets, including those covering the regulatory capital requirements, are invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

- > Credendo STN does not hold financial assets which are not admitted to trading on a regulated financial market. In addition the localisation of the assets ensures their availability.
- > Investment assets are appropriately valued as all financial instruments held are regarded as quoted in an active market.
- > Assets held to cover the technical provisions are invested in a manner appropriate to the nature and duration of the insurance liabilities.

⁶ As to the periodic assessment required by art. 87 of the Law of 13 March 2016 on the statute and supervision of insurance and reinsurance undertakings: Given the short pay-out pattern of insurance liabilities, Credendo STN's technical provisions are not sensitive to the assumptions applied for extrapolating the relevant risk-free interest rate term structure. Credendo STN does not apply the matching or volatility adjustment.

⁷ There is no waiting period in case of bankruptcy or receivership.

- > Assets are properly diversified as to avoid excessive reliance on any particular asset, issuer (group) or geographical area. The strategic asset allocation, which is part of the risk appetite framework, sets quantitative limits per type of asset, counterparty and geographical area. Both diversification among appropriate asset classes and within each asset class avoid the unwarranted concentration of investment and the associated accumulation of risk in the portfolio. Investment funds are allocated to the asset classes on a 'look-through' basis.
- > Derivative instruments are used only insofar as they contribute to a reduction of risks or facilitate efficient portfolio management. At the end of 2019 Credendo STN holds only a negligible exposure of financial instruments (held as indirect lines) including characteristics similar to derivative products, asset-backed securities, collateralised debt obligations, hedge funds or alike, to be found in two funds.

C.2.2. Risk sensitivity

The following sensitivity analyses according to the requirements of IFRS 7 Financial Instruments §40 show for the most important types of market risk to which the Company is exposed how profit or loss would have been affected if changes in the relevant risk variable that were reasonably possible at the end of the reporting period had occurred. The impact on profit or loss is calculated on a pre-tax basis.

- > **Interest rate risk**
A sensitivity analysis on that small part of the bond portfolio at variable or floating interest rate points to a negligible decrease/increase in pre-tax profit of K EUR 68 (2018 : K EUR 79) due to change in financial income, if interest rates would have been respectively 100 bps lower/higher.
- > **Currency risk**
At the end of the reporting period, a sensitivity analysis on the net asset positions in USD and GBP in the Solvency II balance sheet points to an increase of the net position in USD of K EUR 2,904 and the net position in GBP of K EUR 1,275 if these currencies would appreciate with 10% vis-à-vis the EUR, ceteris paribus. A depreciation of the currencies with 10% would lead to inverse movements in the net position. Pre-tax profit would, for both currencies combined, respectively increase/decrease by K EUR 4,179.
- > **Equity price risk**
At the end of the reporting period, a sensitivity analysis on funds invested in equity instruments (not contained in the target volatility or other mixed funds) demonstrates that if equity market prices had been 10% higher/lower, with all other variables held constant, the pre-tax impact on other comprehensive income would have been K EUR 979 (2018 : K EUR 1,159) higher/lower respectively, due to the change in mark-to-market of equity available-for-sale (AFS).

C.3. Credit risk

Credit or counterparty default risk is defined as the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which Credendo STN is exposed. The credit risk exposure arises from financial transactions with security issuers, debtors, intermediaries, policyholders or reinsurers. Most notably, there is a significant credit risk when considering the investment portfolio and when considering the reinsurance recoverables.

The risk appetite framework set by the Board of Directors caps exposure to any counterparty so that no single exposure could threaten the solvency position: at the end of 2019 Credendo STN had no exposure to a single counterparty, combining the total of equity, bond, loan, derivative, bank deposit, and reinsurance recoverable exposures, higher than 10% of available own funds – apart from cash deposits with its main bank. The strategic asset allocation (cf. supra) includes limits that lead to sufficient diversification of credit risk exposure from financial investments and mitigation by imposing minimum credit quality.

Annex VII includes the capital charge for counterparty default risk as measured according to the Solvency II standard formula – the capital requirement for credit risk on financial instruments is,

however, captured by the spread risk as part of the market risk module. The receivables from the insurance activities mostly concern exposures to typically unrated counterparties, like policyholders and brokers, for which the overall credit risk is mitigated through the diversification of the exposures. Substantial part of the Solvency II capital requirement stems from the counterparty default risk on reinsurers (especially related to reinsurance recoverables). The following table⁸ demonstrates the distribution of Credendo STN's reinsurance recoverables in the IFRS financial statements per rating category of the counterparty:

Rating	31.12.2019	31.12.2018
AA	16.9%	13.8%
AA-	46.3%	41.9%
A+	21.9%	29.2%
A	9.3%	11.1%
A-	5.5%	3.6%
unrated	0.1%	0.4%

Credit risk is typically assessed through ratings reflecting the creditworthiness of the counterparty. The counterparty risk on reinsurers is assessed on the long-term foreign-currency rating of the reinsurance company. The available ratings are proof of Credendo STN's prudent reinsurance policy. All rated reinsurers held at least an A- rating from a respected credit rating agency at 31 December 2019. The unrated counterparties of Credendo STN are the Luxembourg export credit agency ODL and a captive whereon some small exposures are outstanding.

Credendo STN only uses external credit assessments issued or endorsed by an External Credit Assessment Institution (ECAI) in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council on credit rating agencies. The credit assessments used for estimating risk and capital charges are produced by S&P Global, Moody's, Fitch or AM Best and are used consistently (over time).

- > If more than one credit assessment from the mentioned ECAIs is available when assessing risk, the prudence inherent to the rules of Article 4, 4(e)(f) of Commission Delegated Regulation 2015/35 is applied and is considered to result in an appropriate assessment.
- > If only one credit assessment is available from the mentioned ECAIs, that assessment is considered appropriate taking into account that the exposures or financial instruments are not considered complex.
- > If an exposure is unrated, the Company considers other additional relevant information, if any. E.g. the unrated ODL counterparty risk is mitigated given the state guarantee from the Luxembourg government. The counterparty risk on the captive is mitigated due to the presence of a "pay when paid" clause in the contract.

C.4. Liquidity risk

Liquidity risk is defined as the risk that funds are not available in order to settle financial obligations when they fall due. Credendo STN's principal cash outflow commitments are related to its insurance liabilities – the company does not hold (non-)derivative financial liabilities. The required degree of liquidity in the investment portfolio differs according to the nature of the insurance business, especially the possibility to foresee the amount and the time of the insurance payments. As mentioned on the ALM strategy, in credit insurance a waiting period of 6 months before claims payment is applicable in case of non-payment due to protracted default – which is the most frequent cause of non-payment for the Company's activity. The existence of this waiting period reduces the uncertainty of the timing and amount of the cash outflows. Moreover, there are no liquidity considerations (unexpected cash outflows) arising from policyholder behaviour.

Operational liquidity or cash management covers the day-to-day cash requirements under normally expected or likely business conditions. The operational liquidity strategy relies on:

⁸ The part of reinsurers in the technical provisions does not take account of expected recoveries on expected and settled claims.

- > the overall investment strategy ensuring that Credendo STN holds sufficient cash and deposit holdings and an additional buffer from highly liquid financial investments (with minimum standards on credit risk for securities) to meet its obligations as they fall due – besides resources from net cash-inflows
- > optimising cash management by cash-pooling of current-account balances of the Credendo STN headquarter and its branches: on a daily basis the balances of the branch accounts are transferred to the headquarter account – once a week the branch accounts are credited to allow payment of general expenses
- > forecasting relevant cash-flows, especially related to premiums and claim payments and the reinsurers' part therein (a cash settlement for the reinsurers' share of larger losses may be demanded).⁹

Taking into account available resources and existing untapped sources of funding, and the fact that the company has no borrowings or significant financial liabilities, stress testing on liquidity risk is not part of the ORSA. The strategic liquidity management reflects that the risk of liquidity needs not being met on a longer-term basis is firmly mitigated by the fact that Credendo STN is client with various major banks, that are sufficiently diversified sources of funding – but today no such loans are outstanding. Given the untapped debt capacity, no liquidity contingency plan has yet been formalised. As the Company has no (non-)derivative financial liabilities, no maturity analysis as required by IFRS 7 Financial Instruments §39 is disclosed.

C.5. Operational risk

Operational risk covers a broad variety of possible risks that deal with a variety of possible causes. The Solvency II Framework defines operational risk as "the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events". These risks can be risks of faulty specified IT protocols or processes, risk of typing or input errors, legal risks, etc.

Although quantified in the Solvency II standard formula, operational risks are considered by Credendo STN as difficult to quantify and to anticipate. Hard-to-quantify risks are managed by the Company's system of governance and strong internal controls as to avoid or mitigate them. These risks are assessed qualitatively using qualitative tags for likelihood and impact of the (inherent and) residual risks.

Operational risk events are dominating the risks identified in the Company's risk & data quality survey (cf. B.3.1d). In addition to identifying the most potentially adverse operational risks, Credendo STN assesses its vulnerability to these risks and implements processes and procedures to mitigate, monitor and control material operational risks, in light of the overall risk appetite. Credendo STN has no appetite for residual risks assessed as risks occurring at least yearly and having a significant or major impact (defined taking account of the Company's available own funds). Any identified 'high-frequency, high-intensity' risk needs effective action of remediation for further mitigation/control by the internal control functions.

Business Continuity/Disaster Recovery Plan

Credendo STN's contingency and business continuity plans ensure the ability to operate on an on-going basis and limit losses in the event of severe business disruption. A detailed Business Continuity Management system (BCMS) defines roles and responsibilities of all stakeholders in order to build up organisational resilience and reduce the impact on the Company in case of a major incident. The BCMS foresees a crisis management capability and a recovery competence that should assure acceptable predefined service levels for prioritised services and includes emergency plans in case of crisis or disaster. Each of the Company's departments has a business continuity plan with identification of vital/critical persons/roles that need to be able to work during the first 3 days after the incident. In case of evacuation/non-accessibility – due to e.g. fire or terrorist activity – of the primary office, an alternate office is available for relocation in case of emergency and for organising staffing in case of delayed recovery.

⁹ The Company does not take account of expected profit included in future premiums for solvency capital and technical provisions calculations.

In defining the BCMS the regulatory requirements, the needs and requirements of key stakeholders as well as own organisational strategies and objectives have been considered. To ensure their performance the emergency plans are subject to periodical testing, evaluation, reporting and audit. Qualitative stresses that help to define triggers for action plans that answer 'what if'-questions are part of the ORSA process. They define different stages of the scenario (cause, failure of process, impacts) and are especially important in case of stressing of what are considered as "vital" (sub-)processes and for the maintenance of the BCMS. Qualitative stresses from operational risk events in the ORSA use two starting points:

- > a failure of an internal process, system or personnel (e.g. personnel execution errors, frauds, processing failures ...);
- > external causes (e.g. direct and indirect consequences of disasters such as terrorist attacks, fire, pandemics ...).

Electronic data processing

Credendo STN uses several IT systems for electronic information processing that need to be restructured and enhanced. A reorganisation of the IT resources and tools is ongoing by gradually replacing or improving the existing tools and systems that today often involve too many manual controls or intervention. The aim of this IT reorganisation is to reduce the number of technical platforms, the number of application platforms and the number and complexity of processes, in order to increase the efficiency and remediate the identified deficiencies.

A failure of IT systems is remedied by the use of 2 data centres, both dislocated: if one fails, the other should back-up.

Outsourcing

The outsourcing arrangements with parent Credendo ECA are subject to a formal and comprehensive written agreement covering the responsibilities of both parties and a qualitative description of the services. Policies and procedures for monitoring these outsourcing arrangements are in place.

Fraud risk

Credendo STN's insurance activities are conducted by qualified staff with the necessary experience and technical capabilities, acting in accordance with the Integrity Policy and Code of Conduct. Fraud risk is mitigated through the rules on delegation of authority, signature authority and the generalised application of the four-eyes principle. According to its latest annual report Credendo STN's compliance function was not informed of any form of internal fraud (-attempt) of which the Company would have been victim in 2019. One (small) case of external invoice fraud was detected.

Legal risk

Legal risk is defined as including, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. Credendo STN, like all other insurers, is subjected to litigation in the normal course of its business and does not believe that such type of litigation will have a material effect on its profit or loss and financial condition. Legal risks are closely monitored by the legal counsel and compliance functions, according to the domains of responsibility that have been identified between both functions, as these risks may jeopardise the reputation of the entities.

C.6. Other material risks

C.6.1. Strategic risk

Strategic risk is defined as the risk of the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Strategic risk is a function of the compatibility of the strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. Resources include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

Credendo STN has a well-established process for setting strategic high-level objectives, aligned with the Credendo strategy, that are effectively communicated within the organisation and are translated into detailed 5-year business plans. These strategic goals and objectives are approved and overseen by the Board of Directors and Executive Committee. The strategy and strategic goals are translated by the Executive Committee into more detailed business and operational plans. Follow-up of the business and operational plans ensures close monitoring of the progress on the business and operational objectives as to detect any risk on and deviation from the strategy. Changes to the regulatory environment are monitored by the internal control and finance functions.

C.6.2. Reputational risk

Reputational risk is defined as the risk of potential damage to an undertaking through deterioration of its reputation or standing due to a negative perception of the undertaking's image among customers, counterparties, shareholders and/or regulatory authorities. Reputational risk is essentially regarded as a risk consequent on the overall conduct of Credendo STN. Therefore, Credendo STN pays great attention to key values affecting its reputation, expectations of the stakeholders and sensitivity of the market where it operates to a loss of reputation and/or confidence.

Reputational risk is managed a.o. through:

- > compliance with the Integrity Policy and Code of Conduct
- > specific guidelines and procedures in business processes
- > the controls and corrective measures included in the Company-wide risk survey.

There is no other material information regarding Credendo STN's risk profile which should be included.

D. Valuation for Solvency Purposes

This Chapter describes, separately for assets, technical provisions and other liabilities, the bases and methods used for their valuation for solvency purposes, together with an explanation of any major differences in the bases and methods used for their valuation in financial statements.

Credendo STN prepares financial statements based on Belgian generally accepted accounting principles (BGAAP) as well as financial statements based on the international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002. The latter IFRS (International Financial Reporting Standards) financial statements are prepared for the Credendo Consolidated financial statements. The IFRS financial statements per 31 December 2019 have been prepared in accordance with IFRS as adopted by the European Union and published at that date, namely the standards published by the IASB (International Accounting Standards Board) and the interpretations issued by the IFRIC (International Financial Reporting Interpretations Committee).

The recognition criteria under IFRS are applied to the assets and liabilities in the Solvency II balance sheet. Assets and liabilities, other than technical provisions, are valued in the Solvency II balance in accordance with the IFRS standards provided that those standards include valuation methods that are consistent with the valuation approach set out in Article 75 of the 2009 Solvency II Framework Directive 2009/138/EC. Where those standards allow for the use of more than one valuation method or where the IFRS valuation methods are not consistent either temporarily or permanently with the valuation approach set out in Article 75 of Directive 2009/138/EC, valuation methods that are consistent with the latter article are used. Article 75 of the 2009 Solvency II Framework Directive requires for assets and for liabilities other than technical provisions that “insurance and reinsurance undertakings value assets and liabilities as follows:

- (a) assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
- (b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

When valuing liabilities under point (b), no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made”.

This chapter describes the valuation bases used for the Solvency II balance sheet and compares the values to the valuation in the Company's IFRS financial statements. Comments on BGAAP-based valuation are included (*in italic*) only when there is a material difference with the IFRS-based valuation.

D.1. Assets

The value for material classes of assets and quantitative differences according to respectively the IFRS financial statements and Solvency II balance sheet are as follows:

Credendo STN	2019	2018
In thousands EUR	Solvency II value	Solvency II value
ASSETS	IFRS financial statements value	
Goodwill	-	
Deferred acquisition costs	-	
Intangible assets	-	-
Deferred tax assets	6.902	7.595
Pension benefit surplus	-	-
Property, plant & equipment held for own use	2.127	43
Investments	117.387	116.157
Property (other than for own use)	-	-
Participations and related undertakings	3	3
Equities	15.003	18.788
Bonds	76.338	75.281
Collective Investments Undertakings	26.005	21.840
Derivatives	-47	161
Deposits other than cash equivalents	15	15
Other investments	70	69
Loans and mortgages	-	-
Reinsurance recoverables	2.286	2.555
Deposits to cedants	5.217	8.309
Insurance and intermediaries receivables	9.988	10.392
Reinsurance receivables	7.883	13.078
Receivables (trade, not insurance)	2.284	613
Cash and cash equivalents	36.377	26.345
Any other assets, not elsewhere shown	557	626
Total assets	191.008	185.712

In the above table, the investments in collective investments undertakings have been classified on a 'look-through' basis in the Solvency II balance sheet, which explains the different classification of Solvency II and IFRS financial statements values although the total amount of financial investments and cash (equivalents) is equal. Other differences between Solvency II and IFRS values¹⁰ relate to the part of reinsurers in the technical provisions given the different valuation according to Solvency II and IFRS and giving rise to additional deferred taxes.

The following table describes the valuation bases, methods and main assumptions used for the valuation for solvency purposes and those used for their valuation in the IFRS financial statements.

¹⁰ Material differences between IFRS and BGAAP valuation for assets relate to deferred tax assets (nil in BGAAP) and market-price valuation of financial investments (K EUR 112,880 in BGAAP in 2019). Expected recoveries on expected and paid claims are presented under receivables in the BGAAP statements while they are presented under the technical provisions in IFRS (and thus are lowering the latter amount as expected cash-in flows). The expected recoveries in the BGAAP statements are valued in 2019 at K EUR 56,992 as part of the (re)insurance receivables. Comparably, the BGAAP amount for reinsurance recoverables is calculated on claims provisions gross of expected recoveries while the IFRS value is calculated on an amount net of the expected cash inflows from recoveries. The ceded part of the expected recoveries in the BGAAP statements is valued in 2019 at K EUR 28,991 for Credendo STN.

ASSETS	IFRS/BGAAP financial statements	Solvency II balance sheet
Deferred tax assets	IAS 12 Recognised only insofar as it is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse	Other than the carry forward of unused tax credits and the carry forward of unused tax losses, this includes deferred taxes based on the difference between the values ascribed to assets and liabilities in the Solvency II balance sheet and the values ascribed to the same assets and liabilities for tax purposes
Property, plant & equipment held for own use	IAS 16 Initial measurement: at cost Subsequent measurement: cost model	Idem – although the Solvency II valuation method excludes models where the asset value is determined as cost less depreciation and impairment (cf. D.1.2. Property, plant & equipment held for own use). For solvency purposes, under an operating lease the lessee does not recognise any lease asset or liability.
Right-of-use assets	IFRS 16 Initial measurement: at cost Subsequent measurement: cost model	
Investments	IAS 39 Financial investments are initially recognised at fair value plus transaction costs for all financial investments not carried at fair value through profit or loss. Financial investments carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed in the income statement. Available-for-sale financial investments and financial investments at fair value through profit or loss are subsequently carried at fair value. <i>BGAAP</i> <i>Financial investments are entered at acquisition value and written down where the market value is less than their book value.</i>	Idem to IFRS valuation
Reinsurance recoverables	IFRS 4 & IAS 39 Credendo STN performs an impairment test on its reinsurance recoverables. If there is objective evidence that the reinsurance related assets need to be impaired, Credendo	Consistent with the valuation of technical provisions and with deduction for expected losses due to counterparty default. The reinsurance recoverables for claims provisions in the Solvency II

ASSETS	IFRS/BGAAP financial statements	Solvency II balance sheet
	<p>STN reduces the carrying amount of those assets accordingly and recognises that impairment loss in the income statement.</p> <p>BGAAP <i>The reinsurance recoverables for claims provisions in the BGAAP balance sheet are presented gross of expected recoveries. The ceded part of expected recoveries on expected and paid claims are presented as part of the reinsurance payables.</i></p>	balance sheet are net of expected recoveries.
Deposits to cedants	IAS 39	Idem
Receivables	<p>IAS 39 Measured at the amount expected to be recovered.</p> <p>BGAAP <i>The expected recoveries on expected and paid claims are presented as part of the (re)insurance receivables.</i></p>	Idem but the expected cash inflows from recoveries on claims are taken into account for estimating Solvency II best estimate claims provisions.
Cash and cash equivalents	<p>IAS 7, 39 Not less than the amount payable on demand</p>	Idem

D.1.1. Deferred taxes

Deferred taxes are recognised and valued in relation to all assets and liabilities, including technical provisions, which are recognised for tax or solvency purposes. The deferred taxes on the Solvency II balance sheet include deferred taxes on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in the Solvency II balance sheet, and the values ascribed to assets and liabilities as recognised and valued for tax purposes. At the end of 2019 additional deferred tax assets due to Solvency II valuation differences vis-à-vis the IFRS statements¹¹ relate to the reinsurance recoverables.

Deferred tax assets in the IFRS financial statements are only recognised for deductible temporary differences and losses carried forward if it is probable that future taxable profit will be available against which the deferred tax asset can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits. Credendo STN's ability to recover deferred tax assets is assessed through an analysis which is mainly based on the business plan and the uncertainty surrounding economic conditions and uncertainties in the markets in which Credendo STN operates. The underlying assumptions of this analysis are reviewed annually.

Deferred income tax is recognised in the IFRS financial statements, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred

¹¹ No deferred taxes are included in the BGAAP financial statements of Credendo STN. Deferred taxes in the IFRS financial statements from valuation differences vis-à-vis the BGAAP statements relate to the valuation of financial instruments and employee benefits.

income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets in the 2019 IFRS and Solvency II balance sheet arise from:

- > Tax loss carry-forwards: K EUR 3,649 (2018 : K EUR 4,806) – can be carried forward indefinitely
- > The provision for defined benefit obligations: K EUR 2,288 (2018 : 1,623) – can be carried forward indefinitely
- > SII reinsurance recoverables on best estimate technical provisions that are lower than the IFRS values : K EUR 965 (2018 : 1,165)

The largest part of the deferred tax assets relate to carried forward tax losses. Taking the business plan into account, these deferred tax assets will be recoverable using the estimated future taxable income the Company is expected to generate taxable income over the business plan time horizon. The losses have no expiry date.

D.1.2. Property, plant & equipment held for own use

Property, plant and equipment comprise land and buildings, office furniture, computer hardware, other equipment, furnishing, vehicles and other tangible fixed assets.

Although the IFRS financial statements measure the assets that are not subject to a lease arrangement according to the cost model, the carrying values are used in the Solvency II balance sheet.

All property, plant and equipment are carried at acquisition cost less any accumulated depreciation and less any accumulated impairment loss. Cost includes any directly attributable cost of bringing the asset to working condition for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Credendo STN and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of an item of property, plant and equipment to their residual values over their estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The latter impairment and the small amounts involved (i.e. K EUR 53) allow considering the IFRS cost model approach as a good proxy of the economic value to be used in the Solvency II balance sheet.

Credendo STN leases certain property, plant and equipment (vehicles). For these items, as from 1 January 2019 Credendo STN applies the accounting treatment prescribed by IFRS 16, i.e. recognises as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use. The right-of-use assets are initially measured at cost comprising the following elements (where applicable): (i) the amount of the initial measurement of lease liability; (ii) any lease payments made at or before the commencement date less any lease incentives received; (iii) any initial direct costs, and (iv) restoration costs. The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

D.1.3. Investments

Fair value of financial instruments

For financial instruments traded in active markets, the determination of fair values of financial investments and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, NYSE-Euronext) and broker quotes.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. All financial instruments held by the Company are regarded as quoted in an active market.

D.1.4. Reinsurance recoverables

The IFRS reinsurance recoverables equal the part of gross technical provisions ceded to reinsurers and amount to K EUR 5,551 (2018 : K EUR 6,494) - the reinsurance recoverables from claims provisions are net of expected recoveries.

The SII reinsurance recoverables are valued as the difference between the best estimate technical provisions gross of reinsurance and net of reinsurance, adjusted for expected losses due to counterparty default risk.

- > The Solvency II gross best estimate claims provisions are lowered with the expected cash flows from expected recoveries
- > Taking into consideration the mono-line non-life insurance activity and the available distinction between premium and claims best estimate provisions, simplifications have been used to calculate reliable and reasonably accurate approximations of the best estimate of technical provisions net of reinsurance: the best estimate provisions net of reinsurance are derived by applying gross-to-net techniques to the best estimates gross of reinsurance. The gross-to-net factors applied to the best estimates gross of reinsurance equal the ratio of the gross to net premium respectively claims provision per homogenous risk group in the IFRS accounts.
- > The recoverables are calculated as the difference between the estimated best estimate provisions gross and net of reinsurance, respectively. No particular adjustment to the value of the reinsurance recoverables has been made for time differences between direct payments by the Company and recoveries from the reinsurers. This time difference is considered minimal given the short tail character of the business and the clauses present in the reinsurance treaties reducing the timing interval between large claim payments and reinsurance recoveries.
- > The value of the reinsurance recoverables has been adjusted for expected losses due to counterparty default (CD) risk using the simplified calculation given in Article 61 of Commission Delegated Regulation 2015/35:

$$Adj_{CD} = \begin{cases} \text{where} \\ -\max(0, 5 \cdot \frac{PD}{1 - PD} \cdot Dur_{mod} \cdot BE_{rec}; 0) \end{cases}$$

- PD denotes the probability of default of that counterparty during the following 12 months.
- Dur_{mod} denotes the modified duration of the amounts recoverable from reinsurance contracts with that counterparty in relation to the homogeneous risk group.
- BE_{rec} denotes the amounts recoverable from reinsurance contracts with that counterparty in relation to that homogeneous risk group.

The assumption that the probability of default of the counterparty remains constant over time is considered realistic, taking into account the credit quality of the counterparties involved and the short term duration of the amounts recoverable from reinsurance contracts.

D.2. Technical provisions

The value of the technical provisions for the Company's lines of business – the non-proportional reinsurance has been set in run-off – used for the valuation for solvency purposes and those used for their valuation in IFRS financial statements is as follows:

Credendo STN	2019			2019	2018
Non-life Technical Provisions	Credit and suretyship insurance	Non-proportional property reinsurance	Solvency II total value	IFRS financial statements value	Solvency II total value
In thousands EUR					
BEST ESTIMATE					
Premium provisions					
Gross - Total	6.194	212	6.406	7.554	5.915
Gross - direct business	4.992		4.992		4.685
Gross - accepted proportional reinsurance business	1.203		1.203		896
Gross - accepted non-proportional reinsurance business		212	212		333
Total recoverable from reinsurance (after adjustment for expected losses due to counterparty default)	2.656	-	2.656	3.131	2.479
Net Best Estimate of Premium Provisions	3.538	212	3.750	4.423	3.435
Claims provisions					
Gross - Total	5.225	4.682	9.907	18.096	16.866
Gross - direct business	-3.598		-3.598		6.916
Gross - accepted proportional reinsurance business	8.823		8.823		5.299
Gross - accepted non-proportional reinsurance business		4.682	4.682		4.650
Total recoverable from reinsurance after adjustment for expected losses due to counterparty default	-370	-	-370	2.420	75
Net Best Estimate of Claims Provisions	5.595	4.682	10.277	15.676	16.791
Total Best estimate - gross	11.419	4.894	16.313		22.780
Total Best estimate - net	9.133	4.894	14.027		20.226
RISK MARGIN	2.604	1.395	3.999		3.519
TECHNICAL PROVISIONS - TOTAL	14.022	6.289	20.312	25.650	26.299

The gross IFRS technical provisions amount to K EUR 25,650 (2018 : K EUR 32,920). The gross SII technical provisions amount to K EUR 20,312, calculated as the sum of:

- > Best estimate provisions of K EUR 16,313
- > A risk margin amounting to K EUR 3,999.

The following table summarises the bases and methods used for the valuation of technical provisions in the IFRS financial statements and for solvency purposes. More detail on the methodologies and assumptions used in the valuation of the best estimate and the risk margin including details of any simplification and the associated level of uncertainty is available in the following paragraphs.

TECHNICAL PROVISIONS	IFRS/BGAAP financial statements	Solvency II balance sheet
Valuation basis	<p>IFRS 4 Insurance liabilities correspond to an insurer's net contractual obligations under an insurance contract. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.</p> <p>BGAAP <i>The BGAAP provisions include provisions for equalisation and catastrophe, which are not considered as acceptable in IFRS and Solvency II as they cover potential future claims for insurance contracts that are not in existence at the end of the reporting period. The provision is constituted in accordance with method No 1 under Regulation No 8 issued by the NBB (Banking, Finance and Insurance Commission – CBFA): as long as it does not reach 150% of the highest annual amount of premiums net of ceded reinsurance over the previous five years, the provision for</i></p>	<p>The value of technical provisions equals the sum of a best estimate and a risk margin. The best estimate corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash flows), using the relevant risk-free interest rate term structure. The risk margin ensures that the value of the technical provisions is equivalent to the amount that (re)insurance undertakings would be expected to require in order to take over and meet the (re)insurance obligations and is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support these obligations over the lifetime thereof.</p>

TECHNICAL PROVISIONS	IFRS/BGAAP financial statements	Solvency II balance sheet
	<p><i>equalisation is replenished each year with 75% of any positive technical result achieved in the credit insurance segment, provided this transfer does not exceed 12% of premiums net of ceded reinsurance. This provision serves to offset any technical loss at the end of the year.</i></p>	<p>The valuation does not rely on assumptions on:</p> <ul style="list-style-type: none"> > Future discretionary benefits as these are not applied by Credendo STN > Future management actions > Policy behaviour (no lapse risk) <p>The Company does not apply:</p> <ul style="list-style-type: none"> > the matching adjustment referred to in Article 77b > the volatility adjustment referred to in Article 77d > the transitional risk-free interest rate-term structure referred to in Article 308c > the transitional deduction referred to in Article 308d of Directive 2009/138/EC
Premium provisions	<p>The IFRS premium provisions comprise the amounts of the provision for unearned premiums, the provision for deterioration of the risk and the provision for profit-sharing and rebates.</p> <ul style="list-style-type: none"> > For credit insurance contracts, surety contracts and reinsurance contracts, other than inward reinsurance contracts not administered by Credendo STN, a provision for unearned premiums corresponds to the pro rata temporis share of the written premiums to be allocated to the period following the closing date in order to cover claims charges and operating costs of insured risks not yet expired at the closing date. > For other inward reinsurance contracts not administered by Credendo STN (in run-off as of 2013), no provision for unearned premiums is constituted, except for those contracts originating from Credendo ECA, the parent company of Credendo STN, for which a provision for unearned premiums continues to be provided for. > Credendo STN constitutes a provision for deterioration of unexpired risk, as foreseen in the Belgian regulations. For the credit (re)insurance contracts underwritten or administered by Credendo STN such provision is constituted when for outstanding transactions the risk assessment is aggravated in comparison with the original assessment and, as a result, the unearned premiums may be 	<p>The premium provisions correspond to the expected present value of cash flows from future premium and all future claim payments, arising from future events post the valuation date that have not yet expired and fall within the contract boundary, and to related administrative expenses.</p> <p>For credit insurance contracts, surety contracts and reinsurance contracts, other than inward reinsurance contracts not administered by Credendo STN, no account is taken of future premium or of insurance obligations outside the contract boundaries. Future premium, if any, is taken into account only for the inward reinsurance contracts (in run-off).</p> <p>The contract boundary definitions take account of Credendo STN's options to terminate the contract or amend premiums:</p> <ul style="list-style-type: none"> > Credendo STN has the unilateral right at all times to change (and cancel) credit limits and surety facilities: therefore future deliveries under existing credit limits and new bonds under existing facilities fall outside the contract boundaries > Credendo STN has the right to adjust premium as to fully reflect reassessed risk

TECHNICAL PROVISIONS	IFRS/BGAAP financial statements	Solvency II balance sheet
	<p>insufficient to cover the estimated future charges (claims charges and operating costs). This can be caused by a deterioration in the country or debtor risk (downgrading of the rating) or by the deterioration of the business environment in a country or trade sector giving rise to an increased risk of a systemic nature.</p> <p>> Finally, Credendo STN constitutes a provision for profit-sharing and rebates for in-force policies that foresee rebates or no-claim bonuses, which will be settled at the end of the closing date of the period for which the policy has been taken out. The provision is based on a statistical rate of profit-sharing and rebates which is adjusted on the basis of past experience.</p>	<p>The best estimate for Credendo STN's premium provisions is calculated according to the following simplification based on an estimate of the combined ratio per homogenous risk group:</p> <p>BE = CR * VM, where:</p> <ul style="list-style-type: none"> > BE = best estimate of premium provision > CR = estimate of combined ratio per product line on a gross of acquisition cost basis > VM = volume measure for unearned premium (i.e. provision for unearned premium as in the IFRS accounts). It relates to business that has incepted at the valuation date and represents the premiums for this incepted business less the premium that has already been earned against these contracts (determined on a pro rata temporis basis). This measure is calculated gross of acquisition expenses. <p>The above result is increased with the IFRS/BGAAP provision for future cash flows related to profit-sharing and rebates, which is considered best estimate.</p>
Claims provisions	<p>Credendo STN has three types of provisions for claims :</p> <p>> A provision for claims reported but not yet settled at the end of the reporting period, also known as RBNS provision (reported but not settled).</p> <p>For the credit insurance contracts directly underwritten or administered by Credendo STN and the surety contracts, the RBNS provision is calculated based on the probability of claim payment and probability of claim recovery on a case-by-case basis. The estimations take account of the different nature of the causes of risk: political risks (i.e. when the default is due to political risks) and commercial risks (i.e. when the default is due to the debtor) are entirely different.</p> <p>The RBNS provision for inward reinsurance corresponds to an estimate of the expected final loss of the claim, based on the information given by the ceding parties.</p>	<p>The best estimate provision for claims outstanding relates to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not. Cash-flow projections for the calculation include claim payments, recoveries and expenses relating to these events.</p> <p>The best estimate claims provisions consist for the credit insurance contracts directly underwritten or administered by Credendo STN of:</p> <ul style="list-style-type: none"> > A provision for claims incurred but not yet settled, estimated on an actuarial technique (Mack chain ladder). The Mack chain ladder methodology assumes that the claims development patterns seen in the past will be appropriate for the future. The data used for the incurred loss development method are defined as the sum of

TECHNICAL PROVISIONS	IFRS/BGAAP financial statements	Solvency II balance sheet
	<p>> A provision for claims occurring during the period but reported after the end of the reporting period, also known as IBNR provision (incurred but not reported). The IBNR provision is aimed at insuring on a statistical basis, taking past experience into account, the final losses of claims incurred but not yet reported at closing date.</p> <p>For the credit insurance contracts directly underwritten or administered by Credendo STN, the method is derived from a classic IBNR estimation in insurance which is a function of the expected frequency and size of incurred losses.</p> <p>For the surety contracts, no IBNR provision is calculated.</p> <p>For other inward reinsurance contracts (other than those originating from Credendo ECA), the IBNR provision is calculated by applying a prospective loss rate to the written premiums, after deduction of the claims paid, the expected recoveries of claims paid and the provision for expected claims. The provision is released when the risks have expired.</p> <p>> A provision for internal and external claims handling expenses. The provision for claims handling expenses at Credendo STN is estimated based on a historic average per claim file of internal and external handling costs adjusted for cost inflation, the expected number of files with incurred losses and the average handling life of these files.</p> <p>The claims provisions are net of expected recoveries on expected and settled claims.</p> <p>BGAAP: <i>The claims provisions in the BGAAP balance sheet are presented gross of expected recoveries on expected and paid claims. The expected recoveries on expected claims are presented as part of the insurance receivables.</i></p>	<p>cumulative paid losses (net of recoveries) plus RBNS claims reserves (net of expected recoveries).</p> <p>> A provision for claims settlement expenses, based on the amount in the IFRS/BGAAP accounts but leaving out the prudential margin</p> <p>The sum of the above provisions for direct (or administered) business are then split into different currencies according to their share in the statutory claims provisions and discounted using the related EIOPA yield curves.</p> <p>The best estimate claims provisions for the business set in run-off, i.e. suretyship and inward reinsurance (not administered by the Company), equal the IFRS/BGAAP claims provisions.</p> <p>The claims provisions are net of expected recoveries on expected and paid claims.</p>
Risk margin		<p>The overall risk margin (RM) is calculated based on a full projection of all future SCRs necessary to support the (re)insurance obligations over the lifetime thereof:</p> $RM = CoC \cdot \sum_{t \geq 0} \frac{SCR(t)}{(1 + r(t + 1))^{t+1}}$

TECHNICAL PROVISIONS	IFRS/BGAAP financial statements	Solvency II balance sheet
		<p>where:</p> <ul style="list-style-type: none"> > CoC denotes the Cost-of-Capital rate (6%) > SCR(t) denotes the Solvency Capital Requirement after t years > $r(t + 1)$ denotes the basic risk-free interest rate for the maturity of t + 1 years <p>The risk margin has been calculated from projecting all future SCRs necessary to support the (re)insurance obligations over the lifetime thereof and without taking renewals and future business into account.</p>

D.2.1. Homogeneous risk groups

To achieve an accurate valuation of technical provisions and avoid introducing distortions which might arise from combining dissimilar business, Credendo STN's (re)insurance obligations are segmented into homogeneous risk groups. As a mono-line non-life insurance group, segmentation is facilitated as there is no need to unbundle insurance policies into life and non-life parts or into various business lines. The segmentation is applied both to gross premium provisions and gross claims provisions.

Credendo STN's underwritten risks portfolio is segregated into three homogeneous risk groups:

- > Credit insurance or comprehensive policies directly underwritten or administered by Credendo STN
- > Direct suretyship (in run-off)
- > Inward reinsurance (in run-off).

D.2.2. Premium provisions

The premium provisions at the valuation date include the valuation of all recognised obligations within the boundary of the (re)insurance contracts, for all exposure to future claims events, where cover has inception prior to the valuation date.

- > The best estimate *BE* for the premium provisions is calculated according to the following simplification based on an estimate of the combined ratio *CR* :

$$BE = CR * VM.$$

That formula does not take future premiums for the underlying obligations into account as there are none within the contract boundaries for Credendo STN. The combined ratio *CR* is the sum of a longer-term average expense and claims ratio. Given the run-off of the suretyship and inward reinsurance activities and diminishing amounts involved, the CR estimation relates to the whole activity of Credendo STN.

The future cash flows, derived from a pay-out pattern based on chain ladder projection of a paid loss triangle, have been discounted with the EIOPA Euro yields curve. The latter impact however is negligible.

- > The above calculated premium provision is complemented with the IFRS/BGAAP provision for profit-sharing and rebates for Credendo STN's in-force comprehensive policies that foresee rebates or no-claim bonuses. The provision is based on a statistical rate set at the average benefit payments vis-à-vis premiums of the 5 past years. This rate is applied to the written premium volume of the 6 months preceding the closing date based on the assumption that the benefits and

rebates are paid yearly and the policies are on average half way the period for which they have been taken out.

- > The use of parameters that are calibrated on a longer data series (like the *CR* in above formula, the statistical rate for the provision for profit-sharing and rebates) reduces significantly the level of uncertainty associated with the best estimate premium provisions for solvency purposes.

D.2.3. Claims provisions

Provisions for claims outstanding relate to the cash flows in respect of claims events occurring before or at the valuation date, whether the claims arising from those events have been reported or not. The cash flows projected comprise all future claims payments and recoveries and include all claims management and claims administration expenses.

- > Credit insurance directly underwritten or administered by Credendo STN

The best estimate provision for claims incurred but not yet settled is estimated based on the Mack chain ladder methodology, assuming that the claims development patterns seen in the past will be appropriate for the future.

The data used for the incurred loss development method are defined as the sum of cumulative accident/occurrence-quarter paid losses (net of recoveries) plus accident/occurrence-quarter RBNS claims reserves (net of expected recoveries). A separate development triangle is built for respectively attritional losses and large losses. Age-to-age or development or link factors track the quarterly changes in incurred losses on historical claims since 4Q2007. This statistical series is considered long enough to allow the use of the chain ladder methodology. The development factors are winsorised to avoid atypical patterns. The average factors (weighted by incurred loss volume) are then used to project incurred losses for more recent occurrence quarters into the future and estimate ultimate losses. This is accomplished by multiplying the incurred losses for each occurrence quarter as of a given accounting date by the appropriate factor.

The undiscounted best estimate of the projected ultimate losses and the claims handling expenses provisions are then split into different currencies according to their share in the IFRS/BGAAP claims provisions and discounted using the related EIOPA yield curves.

- > The best estimate incurred claims provisions for the business set in run-off, i.e. suretyship and inward reinsurance (not administered by the Company), equal the IFRS/BGAAP claims provisions.
- > The best estimate provision for claims handling expenses is derived from the amount in the IFRS accounts by leaving out the prudential margin. The latter reflects a prudential assumption on the age of the average claim file or its status in the handling period.

D.2.4. Risk margin

The calculation of the risk margin assumes that the whole portfolio of (re)insurance obligations is taken over by another (re)insurance undertaking (the reference undertaking). The Solvency Capital Requirement of that reference undertaking captures the underwriting risk with respect to the transferred business, market risk if it is material, credit risk with respect to reinsurance contracts, intermediaries, policyholders and any other material exposures which are closely related to the (re)insurance obligations, and operational risk. There is no loss-absorbing capacity of technical provisions and deferred taxes and no future management actions assumed.

Credendo STN's risk margin has been calculated from projecting all future SCRs necessary to support the (re)insurance obligations over the lifetime thereof and without taking renewals and future business into account.

The overall risk margin is allocated to the 'credit & suretyship' and the 'non-proportional property reinsurance' business line according to their share in the gross best estimate provisions.

D.2.5. Level of uncertainty

As said in C.1.1b, the estimation of the ultimate liability arising from claims is Credendo STN's most critical accounting estimate. The claims development triangles in Annex V provide a measure of the Company's ability to estimate the ultimate value of claims. However, as Credendo STN mainly deals with short-term business, the gravity of the claims provisions is situated within the accident and one or two following years, after which the development flattens. Parameter & modelling uncertainty for technical provisions is further reduced by lodging responsibility for provisions valuation methodology and its maintenance with the actuarial function. Quarterly boni-mali analyses back-test the methods used for claims provisions against accounting data and guarantee the reliability of the methods chosen.

D.3. Other liabilities

The value for material classes of other liabilities and quantitative differences according to the IFRS financial statements and Solvency II balance sheet are as follows:

Credendo STN In thousands EUR	Solvency II value	2019 IFRS financial statements value	2018 Solvency II value
LIABILITIES			
Technical provisions – non-life	20.312	25.650	26.299
Best Estimate	16.313		22.780
Risk margin	3.999		3.519
Other technical provisions	-	-	-
Contingent liabilities	-	-	-
Provisions other than technical provisions	1.727	1.727	68
Pension benefit obligations	6.299	6.299	4.001
Deposits from reinsurers	12.045	12.045	12.018
Deferred tax liabilities	4.659	3.080	3.298
Derivatives	-	-	-
Debts owed to credit institutions	-	-	-
Financial liabilities other than debts owed to credit	-	-	-
Insurance & intermediaries payables	3.054	3.054	3.200
Reinsurance payables	2.299	2.299	3.074
Payables (trade, not insurance)	4.689	4.689	-
Subordinated liabilities	-	-	-
Any other liabilities, not elsewhere shown	787	787	8.086
Total liabilities	55.871	59.630	60.045
EXCESS OF ASSETS OVER LIABILITIES	135.137	133.678	125.667

Differences in the above table between Solvency II and IFRS values relate to¹²:

- > Technical provisions: the Solvency II technical provisions are lower than the IFRS amount – the latter includes prudential margins.
- > Deferred tax liabilities from the valuation differences on technical provisions (cf. D.3.3).

The following table describes the valuation bases, methods and main assumptions used for the valuation for solvency purposes and those used for their valuation in financial statements.

¹² The BGAAP amount for technical provisions is presented gross of expected recoveries on expected and paid claims that amount to K EUR 56,992. Comparably, the BGAAP amount for reinsurance payables includes the ceded part of these expected recoveries on expected and paid claims which is valued at K EUR 28,991.

OTHER LIABILITIES	IFRS financial statements	Solvency II balance sheet
Provisions other than technical provisions	IAS 37 The amount recognised is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The best estimate is the amount an entity would rationally pay to settle the obligation or to transfer it to a third party at the balance sheet date.	Idem
Pension benefit obligations	IAS 19	Idem to IFRS valuation
Deposits from reinsurers	IAS 39	Idem
Deferred tax liabilities	IAS 12 A deferred tax liability should be recognised for all taxable temporary differences	Other than the carry forward of unused tax credits and the carry forward of unused tax losses, include deferred taxes based on the difference between the values ascribed to assets and liabilities in the Solvency II balance sheet and the values ascribed to the same assets and liabilities for tax purposes
Payables	IAS 39 Measured at amortised cost	Idem
Any other liabilities, not shown elsewhere	IAS Other liabilities differ from payables as they arise from non-insurance-related activities.	Idem

Credendo STN has no financial liabilities other than lease liabilities. Therefore, explaining valuation differences between the Solvency II balance sheet and the general purpose financial statements from the impact of (changes in) its own credit risk is not applicable, except for this item.

As from 1 January 2019, in accordance with IFRS 16, the lease liabilities arising from the operating lease contracts where Credendo STN acts as the lessee, are recognised in the balance sheet. The lease liabilities are initially measured at the net present value of the minimum lease payments. Subsequently, they are measured using the effective interest rate method. For solvency purposes, the lessee does not recognise any lease asset or liability under an operating lease.

D.3.1. Provisions other than technical provisions

Accounting provisions other than technical provisions (and contingent liabilities) are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The amounts recognised in the financial statements (K EUR 68) relate to Credendo STN provisions for litigation or legal claims. Credendo STN, like all other insurers, is subjected to litigation in the normal course of its business. The amounts involved concern especially estimations by solicitors for legal costs expected during court proceedings.

D.3.2. Employee & termination benefits

The table below outlines the amounts recognised as employee benefit obligations:

Employee benefit obligations (in thousands EUR)	31/12/2019	31/12/2018
Post-employment benefits	2,446	1,078
Other long-term employee benefits	3,852	2,922
Total	6,299	4,001

Post-employment benefits: pension obligations

Credendo STN operates defined benefit pension plans based on employee pensionable remuneration and length of service. The plans are final salary plans coming in addition to the Belgian legal pension. The benefits are determined by the plan rules and are defined as a retirement pension with the option to convert the pension into a retirement lump sum. These pension benefits are externally funded by means of an annual dotation at an insurance company. The covering plan assets are invested into insurance products providing minimum guaranteed interest rates.

Because of the Belgian legislation applicable to 2nd-pillar pension plans (so-called 'Law Vandenbroucke'), all Belgian defined contribution plans have to be considered under IFRS as defined benefit plans. Law Vandenbroucke states that in the context of defined contribution plans, the employer must guarantee a minimum return on employee contributions and employer contributions. The interest rate to be guaranteed is variable starting from 2016, based on a mechanism linked to the return of the Belgian OLO bond with a minimum of 1.75% and a maximum of 3.75%. For 2019 the minimum return has been maintained at 1.75%.

Because of this minimum guaranteed return for defined contribution plans in Belgium, the employer is exposed to a financial risk (there is a legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employ service in the current and prior periods). Therefore these plans are classified and accounted for as a defined benefit plan under IAS 19.

As from 1 October 2014 Credendo STN has introduced a new defined benefit plan for all new hires and with the option for current employees to remain in the old defined benefit plan. The Company contributes to this new defined benefit plan a fixed percentage of the annual salary. The contributions are funded by the pension institution according to the plan rules as to the benefits payment to the employee.

Credendo STN's defined benefit plan assets have the following nature and fair value amounts:

Plan assets (in thousands EUR)	31/12/2019	31/12/2018
Equity instruments	1,192	1,147
Government and corporate bonds	10,357	10,055
Real estate	1,454	1,386
Qualifying insurance policies & other	2,831	2,698
Total	15,833	15,286

Actuarial gains and losses (re-measurements) that arise from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur.¹³ These actuarial gains and losses are recognised outside the income statement and are presented in the statement of comprehensive income.

Past-service costs whether vested or unvested are recognised immediately in the income statement.

Other long-term benefits

The other long-term benefits relate to medical benefits, including a hospital insurance plan, and to seniority bonus plans, providing a loyalty bonus for employees in recognition of long years of service.

¹³ There are thus no valuation differences resulting from the prohibition under Solvency II for deferred recognition of actuarial gains and losses.

D.3.3. Deferred tax liabilities

Additional deferred tax liabilities vis-à-vis IFRS financial statements¹⁴ have been estimated by applying a 29.58% tax rate on the net value differences for Credendo STN and arise for 2019 solely from technical provisions valuation differences as indicated in the table under D.2. The SII valuations of gross technical provisions, calculated as the sum of best estimate provisions and a risk margin, are lower than the IFRS technical provisions. The related additional deferred tax liabilities amount to K EUR 1,579 (2018 : K EUR 1,958).

D.4. Alternative methods for valuation

Credendo STN's use of quoted market prices is based on the criteria for active markets, as defined in international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002. As the criteria are satisfied, there is no need for using alternative valuation methods.

D.5. Any other information

Other material information regarding the valuation of assets and liabilities for solvency purposes concerns:

D.5.1. Assumptions on future management actions & policy holder behaviour

No assumptions about future management actions or about policy holder behaviour have been made for the valuation of assets and liabilities, including technical provisions.

D.5.2. Governance on valuation of assets & liabilities

The Company's Board of Directors has approved the policy on the Solvency II valuation of assets and liabilities as to ensure that valuation is compliant with Article 75 of Directive 2009/138/EC. That policy covers the process of valuation, including:

- > the description and need for documentation of the relevant models, and the sources of information to be used
- > the need for adequately documenting the valuation process and related controls
- > a description of the control procedures for data quality
- > the description and definition of roles and responsibilities of the personnel involved with the valuation
- > the independent valuation or verification of the value of material assets and liabilities.

The outsourcing of the financial and accounting administration to parent company Credendo ECA, in the framework of the service level agreement that is subject to the internal control principles on outsourcing, does not impact the adequacy of the administrative and accounting functions and control system to produce reliable financial statements.

¹⁴ Deferred tax liabilities in IFRS arise from the higher (vis-à-vis BGAAP) valuation of financial investments (K EUR 2,316) and other valuation differences (K EUR 765).

E. Capital Management

E.1. Own funds

E.1.1. Own funds management framework

Own funds are managed as to optimise the mix of available resources, taking into account that capital requirements are to be covered by own funds but also that different metrics are applied according to regulatory, rating agency or shareholders' view. The own funds management aims to maximise available resources that provide full absorption of losses on a going-concern basis.

The capital planning strategy aligns the internal capital demand (based on projections of capital requirements taking account of the risk appetite and longer term business strategy) and the internal capital supply (own funds) over the business planning period, identifying possible needs to raise additional resources:

- > To capture changes in the risk profile that may affect future capital requirements the business and capital planning horizon includes minimum 5 years
- > Capital requirements are projected according to the risk-based capital concepts used in the risk appetite framework for defining the overall risk tolerance
- > Capital planning includes projection of the expected development of own funds over the planning period (including changes in structure and quality and the need to raise new own funds)
- > The ORSA processes include testing sensitivity to the assumptions used in the business plan by subjecting identified risks to a sufficiently wide range of sensitivity and scenario analyses as well as reverse stress-tests. The ORSA report includes a contingency plan if stress testing points to capital inadequacy under adverse circumstances occurring with realistic frequency. The contingency plan outlines how the Company might respond in the result of a stressed situation, especially what relevant compensating measures and offsetting actions it could realistically take to restore or improve capital adequacy, and the ability to raise own funds of an appropriate quality in an appropriate timescale to ensure that capital requirements can be met.

Optimising capital management includes assessing whether to retain or transfer risks, taking the projection of capital required into account. The risks transferred especially relate to underwriting risk while the risk transfer takes the form of reinsurance where a portion of the risks assumed is ceded to other insurers. The reinsurance programme should support the business objectives and strategies and help to mitigate risk, identifying the level of risk transfer appropriate to the approach to risk and defined risk limits (i.e. established risk tolerances and maximum net risk to be retained) and taking into consideration the risk appetite framework and the availability and cost of reinsurance.

Capital management discipline is enforced by an effective monitoring process on a quarterly basis of the Solvency II capital adequacy and other key indicators related to the risk appetite framework. Reviewing the reinsurance strategy is part of the annual review of the business strategy (i.e. business plan). That review is underpinned by the assessment of whether the existing reinsurance programme and reinsurance counterparties continue to provide adequate, appropriate and secured risk transfer – without gaps resulting in more risks being retained than intended – and of the impact of likely adverse events through stress testing and scenario analysis to ensure that the catastrophe reinsurance cover can be relied upon to reduce the impact to a magnitude that will not threaten viability.

E.1.2. Structure & quality of own funds

Annex VI details the structure and quality of Credendo STN's own funds at the end of 2019. The reconciliation reserve is uniquely determined by the excess of assets over liabilities from valuation differences vis-à-vis the BGAAP financial statements.

Key elements of that reconciliation reserve concern the valuation differences mentioned in Chapter D, especially:

- > Solvency II technical provisions calculated as a sum of best estimates and risk margin. The best estimates include the expected recoveries of expected and paid claims (which are presented separately from technical provisions in BGAAP)
- > Solvency II reinsurance recoverables based on best-estimate technical provisions and adjusted for expected losses due to counterparty default. The Solvency II amounts include the ceded part of expected recoveries of expected and paid claims (which are presented separately in BGAAP)
- > The IFRS valuation of financial instruments and employee benefits
- > The unwinding of the BGAAP provision for equalisation and catastrophe

The following table discloses the valuation differences vis-à-vis the IFRS financial statements:

Own Funds : structure & quality	31/12/2019	31/12/2018
In thousands EUR		
Tier 1		
Ordinary paid-up share capital	113,400	113,400
Reconciliation reserve - excess of assets over liabilities	19,494	7,971
Difference in the valuation of assets vis-à-vis IFRS	-2,300	-2,774
Difference in the valuation of technical provisions vis-à-vis IFRS	5,338	6,621
Difference in the valuation of other liabilities vis-à-vis IFRS *	18,699	8,421
Value of net deferred tax assets	-2,243	-4,296
Tier 2		
Tier 3		
Net deferred tax assets	2,243	4,296
Available own funds	135,137	125,667
Eligible own funds	135,137	125,667

* IFRS liabilities include own funds other than capital

Credendo STN has no capital instruments issued as (subordinated) debt and does not hold own shares. Apart from the net deferred tax assets, all own fund items are classified in Tier 1 as all items are undated, permanently available to absorb losses and completely subordinated. Net deferred tax assets are recognised as Solvency II Tier 3 own funds and eligible to cover capital requirements up to 15% of the Solvency Capital Requirement. As the latter condition is fulfilled and as there are no restrictions on the Tier 1 items taken into account, all funds available are eligible for covering the regulatory capital requirements of the Company.

E.1.3. Deferred taxes

The net deferred tax assets recognized as Tier 3 own funds amount to K EUR 2,243 (cf. D.1.1 and D.3.3 for more detail on the amounts). The recognition and assessment of deferred tax assets (DTAs) is established in different paragraphs in IAS12 and in Article 15 of the Commission Delegated Regulation 2015/35. Deferred tax assets are only recognised for deductible temporary differences and for unused tax losses and tax credits carried forward if it is probable that future taxable profit will be available against which the deferred tax asset can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits.

Credendo STN's ability to recover deferred tax assets is assessed annually through an analysis which is mainly based on the business plan and the uncertainty surrounding economic conditions and uncertainties in the markets in which Credendo STN operates. The underlying assumptions of this analysis are reviewed annually.

Based on that analysis which takes into account:

- > the probability of future taxable profits for the Company (headquarter and branches), assuming the going concern status of the Company and its branches as a given and considering the recent earnings history and the profitability included in the 2020-24 business plan
- > the fact that neither IAS12 nor Article 15 of the Delegated Regulation imposes a deadline for using the DTAs,
- > the fact that under the applicable tax laws, no expiry dates are applicable to the current DTAs, and
- > the Company has feasible tax planning strategies available in the unlikely event that no sufficient taxable profit has been made,

the Company is confident that the current IAS 12 DTAs will be offset on taxable profits in the coming years. DTAs from valuation differences regarding Solvency II reinsurance recoverables on best estimate technical provisions, which are lower than the IFRS/BGAAP values, are to be utilised to the reversion of deferred tax liabilities from valuation differences regarding the corresponding Solvency II best estimate technical provisions and relating to taxes levied by the same taxation authority. Therefore, the calculated amount of DTAs have been fully recognized and no impairment is necessary.

The net DTAs, calculated as the difference between the amount of recognized DTAs and the amount of deferred tax liabilities, are available as basic own-fund items classified as Tier 3 in accordance with Article 76(a)(iii) of Commission Delegated Regulation 2015/35 and are recognised as eligible own funds applying the eligibility limits set out in Article 82 of Commission Delegated Regulation 2015/35.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Regulatory capital requirements

Annex VII includes the amounts of the Solvency Capital Requirement as calculated by the standard formula and split by risk modules, as well as of the Minimum Capital Requirement. At the end of 2019, the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) for Credendo STN amounted to:

Solvency & Minimum Capital Requirement	31/12/2019	31/12/2018
In thousands EUR		
Non-life underwriting risk	57,257	55,656
Market risk	29,746	21,752
Counterparty default risk	4,921	4,099
Diversification	-18,481	-14,682
Basic Solvency Capital Requirement	73,443	66,825
Loss-absorbing capacity of TP/DF ⁽¹⁾	-7,282	-6,556
Operational risk	2,516	2,511
Solvency Capital Requirement (A)	68,678	62,779
Minimum Capital Requirement	17,169	15,695
Eligible own funds (B)	135,137	125,667
Solvency ratio (B)/(A)	197%	200%

⁽¹⁾ Loss-absorbing capacity of technical provisions (TP) : not applicable

The Solvency Capital Requirement (and the Minimum Capital Requirement as it is determined by a floor value set at 25 % of the SCR) has increased by 9.4 % over the reporting period. That increase is mainly driven by higher capital charges for market risk stemming from less equity holdings eligible for the more favourable transitory shock, higher net exposure in foreign currencies and an increase in (corporate) bonds exposure with on average longer tenors.

The solvency ratio, calculated as eligible own funds as a percentage of the SCR, amounts to 197%. No undertaking-specific parameters have been used for the standard formula parameters. No

simplified calculations have been used for the risk- and sub-modules of the standard formula. The amount of notional deferred tax assets taken into account for the loss-absorbing capacity is determined by the cap set by the supervisory authorities (cf. E.2.2).

As said above, the MCR equals the floor set at 25% of the SCR amount as that result is higher than the linear Minimum Capital Requirement component calculated for non-life insurance and reinsurance obligations:

$$MCR_{(linear, nl)} = \sum_s \alpha_s \cdot TP_{(nl, s)} + \beta_s \cdot P_s, \text{ where}$$

- $TP_{(nl, s)}$ denotes the technical provisions without a risk margin for non-life insurance and reinsurance obligations in respectively the segments credit and suretyship insurance and non-proportional property reinsurance after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, with a floor equal to zero
- P_s denotes the premiums written for insurance and reinsurance obligations in respectively the segments credit and suretyship insurance and non-proportional property reinsurance during the last 12 months, after deduction of premiums for reinsurance contracts, with a floor equal to zero
- the factors α_s and β_s are set for respectively the segments credit and suretyship insurance (α 17.7%; β 11.3%) and non-proportional property reinsurance (α 18.6%; β 15.9%)

E.2.2. Loss-absorbing capacity of deferred taxes

The Solvency Capital Requirement is adjusted for the loss-absorbing capacity of notional deferred taxes¹⁵ which amounts to K EUR 7,282 at end 2019. The amount of notional DTAs taken into account is determined by the cap on the loss-absorbing capacity of deferred taxes introduced by the Belgian supervisor as that amount is lower than what the recoverability assessment indicates.

The Circular 2017_14 of the supervisor indeed determines the maximum level of notional deferred taxes that can be taken into account and which is calculated :

- > by cumulating the taxable profit over a period of maximum 5 years based on the business plan of the company – assuming that the maximum taxable profit after the shock (i.e. an instantaneous loss of an amount that is equal to the SCR amount) is capped by the amount projected before the shock
- > multiplied by the standard corporate tax rate
- > dependent on the SCR coverage ratio before applying the LAC DT – as low coverage limits the capacity to generate profit after the shock

Actual net DTAs in the Solvency II balance sheet are deducted from the cumulative taxable profit over the period of maximum 5 years to ensure that the notional DTAs arising from the instantaneous loss defined in Article 207(1) of Commission Delegated Regulation 2015/35 are not supported by the same future taxable profits already supporting the recognition of actual DTAs for valuation purposes in the Solvency II balance sheet (cf. E.1.3).

E.3. Use of the duration-based equity risk sub-module in the calculation of the SCR

Being a non-life insurer, Credendo STN is not using the duration-based equity risk sub-module for the calculation of its Solvency Capital Requirement.

E.4. Differences between the standard formula and any internal model used

No (partial) internal model is used by Credendo STN to calculate the Solvency Capital Requirement.

¹⁵ The term "deferred taxes" is used in Solvency II in two contexts: firstly to describe items on the Solvency II balance sheet (cf. D.1.1 and D.3.3) and secondly, in connection with the calculation of tax adjustments to the Solvency Capital Requirement. In order to avoid confusion, the term "notional deferred taxes" was introduced by EIOPA for items used in the calculation of the latter adjustment and defined as "the sum of the products of all relevant and material tax rates and all relevant and material changes in temporary differences between Solvency II valuation and the valuation for tax purposes resulting from the instantaneous loss referred to in Article 207(1) of Commission Delegated Regulation 2015/35" (cf. EIOPA Guidelines on loss-absorbing capacity of technical provisions and deferred taxes : https://eiopa.europa.eu/Publications/Guidelines/LAC_Final_document_EN.pdf).

E.5. Non-compliance with the MCR and significant non-compliance with the SCR

Credendo STN has not experienced any non-compliance with either the Minimum Capital Requirement or Solvency Capital Requirement during 2019 or previous periods.

E.6. Any other information

There is no other information considered material that warrants disclosure.

Annexes

These Annexes contain the templates that need to be disclosed as part of the SFCR. However, the following templates have not been included as they are empty or not-relevant for Credendo STN:

- > template S.12.01.02 specifying information on the technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance ('health SLT');
- > template S.22.01.21, specifying information on the impact of the long-term guarantee and transitional measures;
- > template S.25.02.21 specifying information on the Solvency Capital Requirement calculated using the standard formula and a partial internal model;
- > template S.25.03.21 specifying information on the Solvency Capital Requirement calculated using a full internal model;
- > template S.28.02.01 specifying the Minimum Capital Requirement for insurance undertakings engaged in both life and non-life insurance activity.

All amounts in the templates are expressed at unit values.

ANNEX I Balance sheet using the valuation in accordance with Article 75 of Directive 2009/138/EC (S.02.01.02)

S.02.01.02

Balance sheet

Balance sheet		Solvency II value		Solvency II value	
		C0010		C0010	
Assets				Liabilities	
Intangible assets	R0030			Technical provisions – non-life	R0510 20311674
Deferred tax assets	R0040	6901999		Technical provisions – non-life (excluding health)	R0520 20311674
Pension benefit surplus	R0050	0		TP calculated as a whole	R0530
Property, plant & equipment held for own use	R0060	2127321		Best Estimate	R0540 16312856
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	122402875		Risk margin	R0550 3998818
Property (other than for own use)	R0080			Technical provisions - health (similar to non-life)	R0560
Holdings in related undertakings, including participations	R0090	2737		TP calculated as a whole	R0570
Equities	R0100			Best Estimate	R0580
Equities - listed	R0110			Risk margin	R0590
Equities - unlisted	R0120			Technical provisions - life (excluding index-linked and unit-linked)	R0600
Bonds	R0130			Technical provisions - health (similar to life)	R0610
Government Bonds	R0140			TP calculated as a whole	R0620
Corporate Bonds	R0150			Best Estimate	R0630
Structured notes	R0160			Risk margin	R0640
Collateralised securities	R0170			Technical provisions – life (excluding health and index-linked and unit-linked)	R0650
Collective Investments Undertakings	R0180	122314663		TP calculated as a whole	R0660
Derivatives	R0190			Best Estimate	R0670
Deposits other than cash equivalents	R0200	15229		Risk margin	R0680
Other investments	R0210	70246		Technical provisions – index-linked and unit-linked	R0690
Assets held for index-linked and unit-linked contracts	R0220			TP calculated as a whole	R0700
Loans and mortgages	R0230			Best Estimate	R0710
Loans on policies	R0240			Risk margin	R0720
Loans and mortgages to individuals	R0250			Contingent liabilities	R0740
Other loans and mortgages	R0260			Provisions other than technical provisions	R0750 1726920
Reinsurance recoverables from:	R0270	2286057		Pension benefit obligations	R0760 6298673
Non-life and health similar to non-life	R0280	2286057		Deposits from reinsurers	R0770 12045289
Non-life excluding health	R0290	2286057		Deferred tax liabilities	R0780 4659116
Health similar to non-life	R0300			Derivatives	R0790
Life and health similar to life, excluding health and index-linked and unit-linked	R0310			Debts owed to credit institutions	R0800
Health similar to life	R0320			Financial liabilities other than debts owed to credit institutions	R0810
Life excluding health and index-linked and unit-linked	R0330			Insurance & intermediaries payables	R0820 3054173
Life index-linked and unit-linked	R0340			Reinsurance payables	R0830 2298799
Deposits to cedants	R0350	5216809		Payables (trade, not insurance)	R0840 4689391
Insurance and intermediaries receivables	R0360	9988377		Subordinated liabilities	R0850
Reinsurance receivables	R0370	7882938		Subordinated liabilities not in BOF	R0860
Receivables (trade, not insurance)	R0380	2283752		Subordinated liabilities in BOF	R0870
Own shares (held directly)	R0390			Any other liabilities, not elsewhere shown	R0880 786580
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400			Total liabilities	R0900 55870615
Cash and cash equivalents	R0410	31361209		Excess of assets over liabilities	R1000 135137368
Any other assets, not elsewhere shown	R0420	556646			
Total assets	R0500	191007983			

ANNEX II Premiums, claims and expenses (template S.05.01.02)

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											Line of business for: accepted non-proportional reinsurance					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110									68687667								68687667
Gross - Proportional reinsurance accepted	R0120									12658349								12658349
Gross - Non-proportional reinsurance accepted	R0130																2425126	2425126
Reinsurers' share	R0140									36965341							427381	37392721
Net	R0200									44380675							1997745	46378420
Premiums earned																		
Gross - Direct Business	R0210									68654433								68654433
Gross - Proportional reinsurance accepted	R0220									12815297								12815297
Gross - Non-proportional reinsurance accepted	R0230																2200427	2200427
Reinsurers' share	R0240									36977581							361321	37338902
Net	R0300									44492149							1839106	46331255
Claims incurred																		
Gross - Direct Business	R0310									30667458								30667458
Gross - Proportional reinsurance accepted	R0320									8628313								8628313
Gross - Non-proportional reinsurance accepted	R0330																244458	244458
Reinsurers' share	R0340									16223088							303513	16526601
Net	R0400									23072683							-59055	23013628
Changes in other technical provisions																		
Gross - Direct Business	R0410									1687629								1687629
Gross - Proportional reinsurance accepted	R0420									195946								195946
Gross - Non- proportional reinsurance accepted	R0430																0	0
Reinsurers'share	R0440									163164							0	163164
Net	R0500									1720410							0	1720410
Expenses incurred	R0550									20689984							349013	21038997
Other expenses	R1200																	3448179
Total expenses	R1300																	24487176

ANNEX III Premiums, claims and expenses by country (template S.05.02.01)

S.05.02.01

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		NL	CH	FR	GB	DE	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110	26313415	10932541	716	6153074	5307323	3150664	51857732
Gross - Proportional reinsurance accepted	R0120	87299	34268	7035448	0	0	0	7157015
Gross - Non-proportional reinsurance accepted	R0130	11613	827	1109744	1639	0	0	1123822
Reinsurers' share	R0140	14484565	4384764	3282018	2433569	2122929	1258812	27966657
Net	R0200	11927761	6582872	4863890	3721143	3184394	1891852	32171912
Premiums earned								
Gross - Direct Business	R0210	26411023	11077122	716	6109720	5324283	3096154	52019018
Gross - Proportional reinsurance accepted	R0220	66991	34268	7093097	0	0	0	7194357
Gross - Non-proportional reinsurance accepted	R0230	11613	827	1109744	1639	0	0	1123822
Reinsurers' share	R0240	14506798	4442484	3305078	2414518	2129759	1237005	28035641
Net	R0300	11982830	6669733	4898479	3696841	3194524	1859149	32301556
Claims incurred								
Gross - Direct Business	R0310	11647920	5362621	-543323	2485520	3471384	1277978	23702100
Gross - Proportional reinsurance accepted	R0320	56132	6243	5337795	-7759	0	0	5392411
Gross - Non-proportional reinsurance accepted	R0330	51915	-22187	316495	24956	0	0	371179
Reinsurers' share	R0340	11200619	1137679	1935277	850559	662392	560430	16346955
Net	R0400	555348	4208998	3175690	1652158	2808992	717548	13118735
Changes in other technical provisions								
Gross - Direct Business	R0410	1451834	71619	-44	34684	-9607	10051	1558537
Gross - Proportional reinsurance accepted	R0420	0	0	94473	0	0	0	94473
Gross - Non- proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	2986	28810	37771	13873	-3843	4020	83618
Net	R0500	1448848	42809	56657	20810	-5764	6031	1569391
Expenses incurred	R0550	8488721	2649627	329537	1131623	1294339	815982	14709829
Other expenses	R1200							27184
Total expenses	R1300							347691

ANNEX IV Non-life technical provisions (template S.17.01.02)

S.17.01.02

Non-life Technical Provisions

		Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligation	
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance		Non-proportional property reinsurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160		C0170
Technical provisions calculated as a whole	R0010								0							0	0	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050								0							0	0	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060								6194343							211546	6405889	
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140								2656266							0	2656266	
Net Best Estimate of Premium Provisions	R0150								3538077							211546	3749623	
Claims provisions																		
Gross	R0160								5224506							4682461	9906967	
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240								-370209							0	-370209	
Net Best Estimate of Claims Provisions	R0250								5594715							4682461	10277176	
Total Best estimate - gross	R0260								11418849							4894007	16312856	
Total Best estimate - net	R0270								9132792							4894007	14026799	
Risk margin	R0280								2603614							1395204	3998818	
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290								0							0	0	
Best estimate	R0300								0							0	0	
Risk margin	R0310								0							0	0	
Technical provisions - total																		
Technical provisions - total	R0320								14022463							6289211	20311674	
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330								2286057							0	2286057	
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340								11736406							6289211	18025617	

COMPREHENSIVE POLICIES & SURETYSHIP

Non-life insurance claims

Total Non-Life Business (comprehensive policies & suretyship)

Z0010	1
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Development year

[illegible]

Total

In Current year

Sum of years
(cumulative)

	C0170	C0180
R0100	-34469	-34469
R0160	824345	21415309
R0170	-9261	25894070
R0180	-177302	28088776
R0190	-743207	55883735
R0200	-185486	107548430
R0210	3906706	108233282
R0220	6069410	43728687
R0230	3921617	38067370
R0240	24478080	29099289
R0250	5589820	5589820
R0260	43640254	463514299

Development year

Year end (discounted data)

[illegible]

Total

	C0360
R0100	0
R0160	0
R0170	-706759
R0180	-343282
R0190	-15149301
R0200	967893
R0210	1227098
R0220	-203729
R0230	-2274474
R0240	2056080
R0250	14279608
R0260	-146866

ANNEX V Non-life insurance claims in the format of development triangles (template S.19.01.21)(c'ted)

INWARD REINSURANCE NOT ADMINISTERED BY THE COMPANY

S.19.01.21

Non-life insurance claims

Total Non-Life Business (inward reinsurance not administered by the Company)

Underwriting year	Z0010	2
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Gross Claims Paid (non-cumulative)

(absolute amount)

Development year												In Current year	Sum of years (cumulative)
Year	0	1	2	3	4	5	6	7	8	9	10 & +		
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior													
N-9	R0100	1110230	3262412	2205041	1521833	112280	722107	373791	123139	-9554	-288926	174529	174529
N-8	R0160	211514	5138420	2562498	712555	-332191	292338	82105	-33113	1129		-288926	9132353
N-7	R0170	425770	3559377	2540514	617934	1157715	894981	180528	-78322			1129	8635255
N-6	R0180											-78322	9298497
N-5	R0190	4343	0	0	0	0	178811	16074				16074	199228
N-4	R0200	0	0	0	0	0						0	0
N-3	R0210	0	0	0	0	0						0	0
N-2	R0220	0	0	0	0							0	0
N-1	R0230	0	0	0								0	0
N	R0240	0	0									0	0
	R0250	0										0	0
Total												-175516	27439862

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Development year												Year end (discounted data)	
Year	0	1	2	3	4	5	6	7	8	9	10 & +		
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		
Prior													
N-9	R0100										4992781	C0360	
N-8	R0160						1320907	839996	461216	190533			4911498
N-7	R0170					3404064	2807572	4246573	3071060				187431
N-6	R0180				3345555	2402038	2954829	1946639					3021062
N-5	R0190			143008	18905	20451	19208						1914947
N-4	R0200		5978	0	0	0							18896
N-3	R0210		210645	161095	7154	0							0
N-2	R0220	4444865	0	0	0								0
N-1	R0230	437832	0	0									0
N	R0240	0	0										0
	R0250	0											0
Total												R0260	10053834

ANNEX VI Own funds (template S.23.01.01)

S.23.01.01

Own funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

- Ordinary share capital (gross of own shares)
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings
- Subordinated mutual member accounts
- Surplus funds
- Preference shares
- Share premium account related to preference shares
- Reconciliation reserve
- Subordinated liabilities
- An amount equal to the value of net deferred tax assets
- Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

- Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

- Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

- Unpaid and uncalled ordinary share capital callable on demand
- Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
- Unpaid and uncalled preference shares callable on demand
- A legally binding commitment to subscribe and pay for subordinated liabilities on demand
- Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
- Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
- Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

- Total available own funds to meet the SCR
- Total available own funds to meet the MCR
- Total eligible own funds to meet the SCR
- Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

- Excess of assets over liabilities
- Own shares (held directly and indirectly)
- Foreseeable dividends, distributions and charges
- Other basic own fund items
- Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

- Expected profits included in future premiums (EPIFP) - Life business
- Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	113400000	113400000			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	19494485	19494485			
R0140					
R0160	2242883				2242883
R0180					
R0220					
R0230					
R0290	135137368	132894485	0	0	2242883
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	135137368	132894485	0	0	2242883
R0510	132894485	132894485	0	0	
R0540	135137368	132894485	0	0	2242883
R0550	132894485	132894485	0	0	
R0580	68677592				
R0600	17169398				
R0620	196.77%				
R0640	774.02%				

	C0060
R0700	135137368
R0710	
R0720	
R0730	115642883
R0740	
R0760	19494485
R0770	
R0780	
R0790	

ANNEX VII Solvency Capital Requirement calculated using the standard formula (template S.25.01.21)

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
Market risk	R0010 29746199		
Counterparty default risk	R0020 4921145		
Life underwriting risk	R0030 0		
Health underwriting risk	R0040 0		
Non-life underwriting risk	R0050 57256801		
Diversification	R0060 -18480677		
Intangible asset risk	R0070 0		
Basic Solvency Capital Requirement	R0100 73443469		
Calculation of Solvency Capital Requirement	C0100		
Operational risk	R0130 2516039		
Loss-absorbing capacity of technical provisions	R0140 0		
Loss-absorbing capacity of deferred taxes	R0150 -7281916		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160 0		
Solvency capital requirement excluding capital add-on	R0200 68677592		
Capital add-on already set	R0210 0		
Solvency capital requirement	R0220 68677592		
Other information on SCR			
Capital requirement for duration-based equity risk sub-module	R0400 0		
Total amount of Notional Solvency Capital Requirement for remaining part	R0410 0		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420 0		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430 0		
Diversification effects due to RFF nSCR aggregation for article 304	R0440 0		

ANNEX VIII Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance activity (template S.28.01.01)

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

MCR _{NL} Result	C0010		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	R0010	7828059		
			C0020	C0030
Medical expense insurance and proportional reinsurance	R0020			
Income protection insurance and proportional reinsurance	R0030			
Workers' compensation insurance and proportional reinsurance	R0040			
Motor vehicle liability insurance and proportional reinsurance	R0050			
Other motor insurance and proportional reinsurance	R0060			
Marine, aviation and transport insurance and proportional reinsurance	R0070			
Fire and other damage to property insurance and proportional reinsurance	R0080			
General liability insurance and proportional reinsurance	R0090			
Credit and suretyship insurance and proportional reinsurance	R0100	9132792	45063038	
Legal expenses insurance and proportional reinsurance	R0110			
Assistance and proportional reinsurance	R0120			
Miscellaneous financial loss insurance and proportional reinsurance	R0130			
Non-proportional health reinsurance	R0140			
Non-proportional casualty reinsurance	R0150			
Non-proportional marine, aviation and transport reinsurance	R0160			
Non-proportional property reinsurance	R0170	4894007.93	1315382	

Linear formula component for life insurance and reinsurance obligations

MCR _L Result	C0040		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	R0200			
			C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210			
Obligations with profit participation - future discretionary benefits	R0220			
Index-linked and unit-linked insurance obligations	R0230			
Other life (re)insurance and health (re)insurance obligations	R0240			
Total capital at risk for all life (re)insurance obligations	R0250			

Overall MCR calculation

	C0070	
Linear MCR	R0300	7828058.6
SCR	R0310	68677592
MCR cap	R0320	30904916
MCR floor	R0330	17169398
Combined MCR	R0340	17169398
Absolute floor of the MCR	R0350	3700000
	C0070	
Minimum Capital Requirement	R0400	17169398