

Public Disclosure Financial Condition Report 2023

Echo Rückversicherungs-AG

Index

I.	Management summary	2
II.	Financial report of Echo Re	3
A.	Business activities	3
A.1	Strategy	3
A.2	Group affiliation	4
A.3	Organisational chart of DEVK-group.....	4
A.4	External auditor.....	4
B.	Company performance	5
B.1	Technical result	5
B. 2	Investments	6
C.	Corporate governance and risk management.....	8
C.1	Organisational structure of Echo Re	8
C.2	Risk management Framework of Echo Re.....	9
C.3	Relevant lines of defence.....	9
C.4	Internal control system	10
D.	Risk profile	11
E.	Market value vs. statutory valuation.....	13
E.1	Market-based valuation used for solvency purposes.....	13
E.2	Market value margin	16
F.	Capital management	16
F.1	Goal.....	16
F.2	Strategy and time horizon	16
F.3	Equity.....	17
G.	Solvency.....	17
G.1	Available capital, target capital and SST ratio.....	17
G.2	Insurance risks.....	18
G.3	Market risks	19

I. Management summary

Echo Reinsurance Ltd (Echo Re) was established in November 2008 in Zurich as a public-limited company and received its reinsurance license from the Swiss Financial Market Supervisory Authority (FINMA). The company is a wholly owned subsidiary of DEVK Deutsche Eisenbahn Versicherung Sach- u. HUK-Versicherungsverein a.G. Betriebliche Sozial-einrichtung der Deutschen Bahn with its headquarter in Cologne, Germany.

2023 was still a challenging year for global economies and supply chains due to the war in the Ukraine, the escalating conflict in the Middle East and ongoing inflationary trends. While the political and economic environment remains volatile, Echo Re has not been directly affected by reinsurance losses arising from war and credit events or inflationary shocks. By contrast, the company's investment performance benefited from increased interest rates.

The period from 2017 to 2022 presented significant challenges for the global reinsurance industry. A series of catastrophes in key insurance markets, coupled with the uncertainties arising from the pandemic and global political instability, placed considerable strain on the reinsurance sector. Capital market players faced substantial outflows in their assets under management. All this led to a shortage of capacities in retrocession, Property NatCat reinsurance and general reinsurance.

As a result, in 2023 the retrocession and reinsurance market encountered one of its hardest markets in recent memory. Improved terms and conditions became prevalent for property catastrophe reinsurance and other lines of business across various markets, irrespective of whether the business had been loss free or had suffered losses. Echo Re successfully developed the business in this favourable environment, focusing on enhancing the regional diversification of its catastrophe-exposed portfolio and growing in the other lines of business.

Echo Re has only experienced three large losses in 2023, namely hurricane "Otis" (Mexico) with a claims burden of CHF 10.5m, the Morocco-EQ with a claim of CHF 5.4m and typhoon "Doksuri" with a claim amount of CHF 3.0m. Besides this, no other major Cat-event or single large loss in 2023 represents more than 1% of our total premium volume. The total amount of claims from all major loss events (claims burden \geq CHF 250,000 for our share) amounted to approx. CHF 26.7m, which means that losses from Cat-events or single large losses represent just under 7.2% of our total premium volume.

Despite the global political and economic instability, the year 2023 proved to be profitable for the global reinsurance industry, primarily due to the absence of significant catastrophe losses in key insurance markets. As we enter 2024, it is evident that the shortage of catastrophe capacity observed in 2023 has somewhat reduced. This improved the balance in the supply and demand for reinsurance capacity. In addition, more proactive renewal discussions have reduced the pressure on reinsurance placements while not eroding pricing discipline of the reinsurance and retrocession markets. However, upward pricing trend

has been flattened during the January renewals with a stable to only slightly improved pricing environment.

Echo Re's strategic plan for 2024 revolves around further developing its portfolio in a profitable manner. The focus will be on the meticulous execution of our strategy, emphasising the maximisation of diversification in terms of both geography and product lines. This strategic approach aims to optimise the utilisation of our capital, enhance the technical margin of our portfolio and bolster our ability to absorb losses effectively.

II. Financial report of Echo Re

A. Business activities

A.1 Strategy

The DEVK Group pursues additional geographical diversification through its subsidiary Echo Re to enable it to participate in the high growth markets outside Europe and North America. Echo Re has built up and grown the international treaty reinsurance business since its founding, with the territorial scope being broadened successively, particularly in Asia, Africa (since 2012), Latin America and the Caribbean (since 2015) and the Middle East.

Echo Re is primarily involved in non-life reinsurance in the proportional and non-proportional treaty business. Echo Re's strategic aim of being primarily active outside Europe and North America has been unchanged since it was established.

Due to its current size, Echo Re has only rarely acted as a leading reinsurer to date and usually underwrites subsequent shares in the reinsurance segments it engages in. Alongside the focus on a diversified expansion of the portfolio in the property segment, the company is focusing strategically on further expanding the portfolio in the specialist and niche business in the Agriculture, Engineering, Marine & Energy, Credit/Bond and Extended Warranty lines. The expansion of the portfolio has the aim of further enhancing diversification across business lines and regions, which will ultimately not only raise absolute profit potential, but also increase the portfolio's resilience.

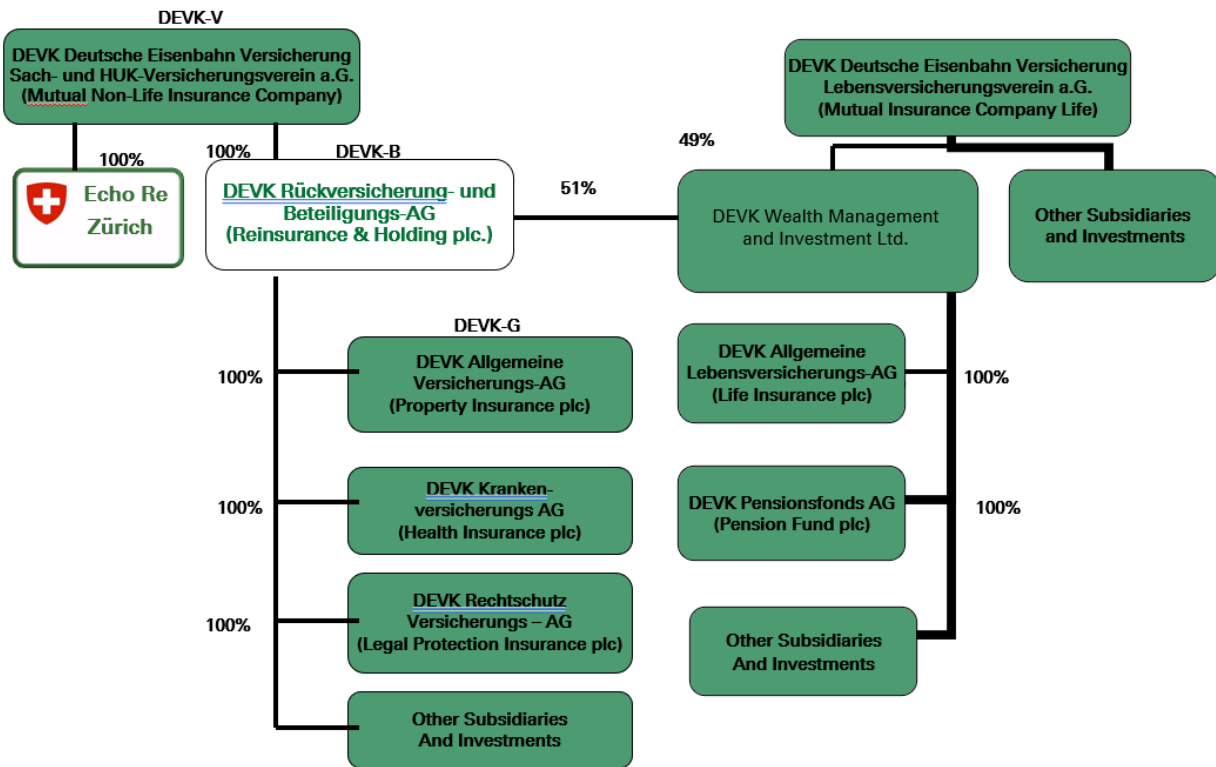
Alongside the steps to make the reinsurance portfolio more resilient, Echo Re continues to invest in building up the organisation with a focus on steadily expanding the business as well as staff numbers. A further focus of strategic planning is implementing projects to increase process efficiency by strengthening the integration and automation of business processes.

Echo Re does not have any branches outside Switzerland and does not underwrite any risks through managing general agents to ensure maximum control over the accepted reinsurance portfolio.

A.2 Group affiliation

The DEVK Group is a uniformly controlled group with two mutual insurance companies as parent companies. The DEVK Group has a history stretching back over 135 years and is mainly active in the primary life and non-life insurance segments. Within the Group, Echo Re is a wholly owned subsidiary of DEVK Deutsche Eisenbahn Versicherung Sach- u. HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn. Echo Re is one of two reinsurers within the DEVK Group alongside DEVK Re. The company has a strategic mandate to diversify the reinsurance portfolio in markets outside Europe (including Turkey and Israel) and in North America.

A.3 Organisational chart of DEVK-group



A.4 External auditor

KPMG AG (Badenerstrasse 172, Zurich) has audited the financial statements 2023 of Echo Re in its function as the appointed external audit company. The responsible licensed audit expert was Mr Nicolas Baumann.

B. Company performance

B.1 Technical result

Technical income	<u>2023</u>	<u>2022</u>
Gross premiums written	372.667.209,26	283.562.865,54
Reinsurance premiums ceded	-73.963.667,85	-52.806.590,52
Premiums written for own account	298.703.541,41	230.756.275,02
Change in unearned premiums, gross	-41.218.265,54	-17.337.328,80
Change in unearned premiums ceded	386.505,87	2.212.224,21
Premiums earned for own account	257.871.781,74	215.631.170,43
Technical interest income	273.026,28	258.699,05
Other technical income for own account	8.680.693,25	6.220.895,02
Total technical income	266.825.501,27	222.110.764,50
Technical expenses		
Claims payments, gross	-162.473.852,42	-127.883.671,93
Claims payments ceded	43.455.082,62	26.806.666,78
Change in claims reserves, gross	-24.794.728,51	-54.888.547,81
Change in claims reserves ceded	-20.039.119,31	18.840.491,71
Changes in equalization reserves	-2.500.000,00	0,00
Expenditures for claims incurred for own account	-166.352.617,62	-137.125.061,25
Acquisition costs, gross	-76.044.550,00	-66.131.679,72
General administrative expenses	-14.787.400,54	-10.829.854,74
Acquisition costs ceded	10.741.407,73	6.646.834,12
Acquisition and administration costs for own account	-80.090.542,81	-70.314.700,34
Other technical expenses for own account	-1.807.066,72	-1.409.054,70
Total technical expenses	-248.250.227,15	-208.848.816,29
Technical result	18.575.274,12	13.261.948,21

In 2023, gross premiums written grew by 31.4% to CHF 372.7m mainly driven by an increased number of cedants and rate increases. The GWP stem from the external business (CHF 287.1m), from fronting business (CHF 39.4m) and Group business (CHF 46.2m). At 40.8% of the GWP (PY: 38.4%), Property is the biggest LoB, followed by Agriculture at 17.3% (PY 19.1%) and the Motor business at 14.0 % (PY: 14.9 %). The Credit & Surety business with 6.1% and Marine/Energy business with 11.09 % of the GWP contributed to an improved diversification of the portfolio. The reinsurance premiums ceded mainly increased due to the Fronting business (CHF 39.4m), while CHF 34.6 of our external business was ceded.

In total, these effects led to an increase in premiums earned for own account by 19.6 % to CHF 257.9m.

Other technical income for own account originates from SLA fees for businesses underwritten for our sister company DEVK Re.

In 2023, gross claims payments increased disproportionately compared to 2022 by 27.1% in relation to the premium growth to a total of CHF 162.6m.

The change in gross claims reserves (incl. IBNR) decreased by CHF 30.8m compared to 2022 due to higher claims payments. Echo Re only experienced three large losses in 2023, namely hurricane "Otis" (Mexico) with a claims burden of CHF 10.5m, the earthquake in Morocco with a claims burden of CHF 5.4m and typhoon "Doksuri" with a claim amount of CHF 3.0m. Besides this, no other major catastrophe or single large loss in 2023 represents more than 1% of our total premium volume. The total amount of claims from all major loss events (claims burden \geq CHF 250,000 for our share) amounted to approximately CHF 26.7m, which means that losses from catastrophic events or single large losses represent just under 7.2% of our total premium volume. The equalisation reserve was increased by CHF 2.5m to CHF 10.0m.

Net acquisition costs only grew by 9.8% compared to 2022 and thus disproportionately to the premium growth driven by the higher proportion of the non-proportional business of our portfolio. General administrative expenses of CHF 14.8m (2022: CHF 10.8m) increased due to additional recruitments mainly in the Underwriting department and higher IT expenses as a consequence of launched automation projects.

B. 2 Investments

Investments	<u>2023</u>	<u>2022</u>
Fixed income securities	281.544.517,54	256.813.181,68
Equities	12.678.020,73	13.686.877,42
Other investments	23.401.211,76	20.097.385,71
Fixed deposits	24.745.900,00	10.752.150,00
	342.369.650,03	301.349.594,81

Considering the book value in the balance sheet, the company's investment portfolio consists mainly (82.2%) of fixed income securities with high ratings. The equities share decreased to 3.7% (2022: 4.5%) due to some portfolio restructuring. Investments in real estate and infrastructure participation (shown as "Other investments") further increased, so that they now account for 6.8% of total investments. 7.2% of the portfolio was invested in short-term fixed deposits.

Investment result	2023	2022
Investment income	9.307.086,94	6.235.431,41
of which		
Income from fixed income securities	5.913.801,64	4.043.447,02
Income from equities	521.791,23	483.243,53
Income from participations	470.878,51	523.859,20
Income of Fixed Deposit	388.242,38	21.785,08
Other investment income	0,00	37.176,91
Write-ups on shares	1.738.553,49	19.861,48
Realized gains on fixed income securities	5.369,40	10.305,45
Realized gains on equities	268.450,29	1.095.752,74
Investment expense	1.460.187,57	4.468.057,17
of which		
Bank und Asset Management	474.340,75	456.070,79
Expenses on fixed income securities	298.704,49	307.410,39
Expenses on equities	8.432,86	36.928,04
Amortization and impairment of equities	424.703,00	3.529.067,95
Realized losses on fixed income securities	0,00	95.660,18
Realized losses on equities	254.006,47	42.919,82
Investment result	7.846.899,37	1.767.374,24

Investment income was composed of regular income from fixed securities which increased due to the higher volumes invested in a still favourable interest rate environment, dividends and income from participations. In total, investment income increased by CHF 3.1m compared to 2022 as we also saw significant write-ups on shares of CHF 1.7m. The realised gains on equities were relatively low (CHF 0.3m). Investment expenses consist of administration expenses (bank and asset management fees) and expenses related to portfolio movements or revaluations. Due to the positive stock market development, the impairments on equities decreased to CHF 0.4m (PY CHF 3.5m).

NON-TECHNICAL RESULT

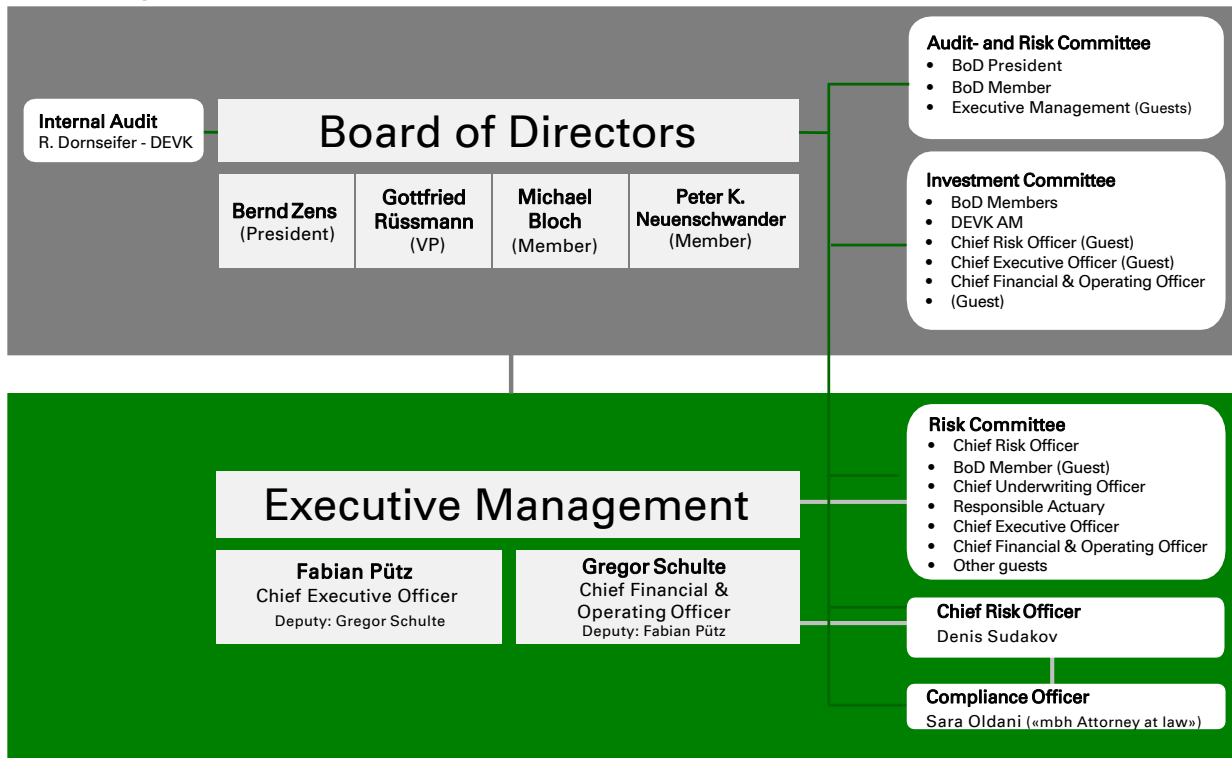
	<u>2023</u>	<u>2022</u>
Investment income	9.307.086,92	6.235.431,41
Investment expense	-1.460.187,55	-4.468.057,17
Investment result	7.846.899,37	1.767.374,24
Operating result	26.422.173,49	15.029.322,45
Other income	436.944,30	219.105,65
Other expenses	-631.125,58	-78.870,83
Foreign currency exchange gains	24.638.441,15	8.910.248,91
Foreign currency exchange losses	-25.461.245,19	-10.490.085,43
Result before taxes	25.405.188,17	13.589.720,75
Taxes	-324.967,02	-271.891,53
Result for the year	25.080.221,15	13.317.829,22

The foreign currency exchange losses of CHF 0.8m in total are caused by the further devaluation of the USD and EUR against the CHF.

The result for the year of CHF 25.1m significantly outperformed the 2023 forecast. The amount will be carried forward.

C. Corporate governance and risk management

C.1 Organisational structure of Echo Re



The Board of Directors of Echo Re is composed of four members, of whom two are Board members of the parent company (Mr Bernd Zens and Mr Gottfried Rüssmann) and two members were appointed to the Board as independent outside parties (Mr Michael Bloch and Mr Peter K. Neuenschwander).

In December 2022, an application was made to FINMA to outsource the compliance function to “mbh Attorney at law”, which was approved by the supervisory authority in February 2023.

C.2 Risk management Framework of Echo Re

Echo Re’s risk management framework consists of six elements: risk policy, risk management principles, risk management organisation (including the responsibilities at Board and management level), risk appetite framework, risk control framework (including risk management processes) and risk culture.

The **risk policy** describes and defines the organisational structure of risk management and how relevant risks are categorised, monitored, managed and reported.

The **risk appetite framework** sets out the overarching approach under which Echo Re assumes risks on a controlled basis and describes the risk types Echo Re either deliberately assumes or avoids. This framework establishes an appropriate balance between the risks assumed, the required risk capital and the return on capital. It is an integral component of the strategic planning process by setting out risk appetite for all material risks and describing a limit system and escalation processes in the event of limit breaches.

The **internal control system (ICS)** consists of the internal control measures used to monitor the core business processes and reduce operating risks.

The retrocession strategy is a central component of the company’s business and risk strategy and therefore a fundamental component of risk management. The retrocession strategy describes the approach for bringing the volatility of earnings into line with risk appetite.

C.3 Relevant lines of defence

Echo Re has built a “three lines of defence” model to ensure an appropriate governance structure:

- The first line of defence is the daily risk management by the business and support functions (including the design and implementation of controls).
- The second line of defence comprises the functions of risk management, compliance and appointed actuary. Its role is to independently supervise and monitor the assumption of risk, create transparency for the overall risk profile, ensure compliance with rules and guidelines and verify that the technical provisions are adequate.
- The internal audit outsourced within the DEVK Group is the third line of defence and enables an independent review of the company’s organisational structure and processes (including risk management).

Echo Re’s risk management works at several different levels:

- The Board of Directors (BoD) is the ultimate decision-making body at Echo Re. It does not delegate its responsibility for risk management. The BoD lays down the strategy and approves the risk management and ICS framework (including the relevant standards). The Board also approves the risk appetite framework including the limit system, the retrocession strategy and the SST and ORSA reports every year. It is also responsible for monitoring and managing all material risks. The Board of Directors is assisted by the Audit and Risk Committee (ARC), which Mr Zens and Mr Bloch are members of as delegates of the Board. The ARC deals primarily with technical issues (e.g. reserving) in greater detail.
- The Executive Board is responsible for developing a short- and medium-term business strategy, business plan and for implementing an appropriate risk strategy. The Executive Board has operational responsibility for the annual review of the risk appetite framework and limit system. It also ensures that FINMA's requirements are complied with and bears overall responsibility for the appropriateness and accuracy of the regulatory reports and public disclosure.
- The Risk Committee (RC) is a committee of the Executive Board. It assists the BoD and ARC in carrying out their activities in the area of risk management. Unless they are urgent, all material risks are reported to the RC before being communicated to the ARC and the Board of Directors. Previously the RC was the escalation body for the underwriting process described in the underwriting guidelines, but this function has been assumed by the ARC since 2021. The RC meets quarterly and is chaired by the Chief Risk Officer (CRO).
- The CRO works closely with the technical and actuarial functions and with the Loss, Finance and Operating departments to ensure that risks are identified, evaluated and monitored appropriately and that appropriate control and risk reporting tools are in place.

The Compliance Officer monitors compliance with all statutory, regulatory and internal requirements. This involves providing advice, carrying out evaluations and controls and reporting regularly to the BoD. This function was outsourced at the beginning of 2023.

Internal Audit carries out two audits with different areas of emphasis annually and reports to the BoD at a minimum on the actions carried out in these audits and the results. It is therefore part of the company's corporate governance.

C.4 Internal control system

The internal control system at Echo Re is based on the following elements:

- Individual risk register
- Standardised and documented controls
- Risk and Control Self-Assessments (RCSA)
- Independent controls and risk evaluation by risk management
- An annual ICS report to the BoD on the effectiveness of controls and possible improvements

The framework for evaluating operational risks comprises both quantitative and qualitative assessments. The potential consequences of these evaluations are described in detail in the ICS guidelines.

D. Risk profile

Echo Re classifies risks under the main categories of solvency, liquidity, profitability, market and credit risks, technical and operational risks and new emerging risks. For each of the quantifiable risks we define a risk appetite which lays down a measurable figure to monitor risk exposure, provide management information and escalate to the BoD in the event of a limit breach.

At Echo Re risk is assessed on three levels:

- Through the standard model in accordance with the requirements of the Swiss Solvency Test (SST).
- Through internal accumulation controls of crop failure risks and natural catastrophe (NatCat) risks, plus additional external analysis as part of the annual renewal process of the retrocession programme.
- In the course of the ORSA process which consists of a comprehensive review of the company risk profile including modelled and non-modelled risks and an assessment of the evolution of the risk profile over a three-year period.

Overall risk

For the purposes of calculating solvency, insurance risk, market risk and credit risk are quantified in the SST standard model. Target capital is based on the centred 99% expected shortfall and represents the average expected loss occurring over a time horizon of one year with an expected frequency of less than once in 100 years. As can be seen in the table below, the main driver of target capital is insurance risk (CHF 93.8m), followed by market risk (CHF 29.1m) and credit risk (CHF 10.5m). For further details please refer to chapter G.

in CHFm	99% Shortfall SST 2024	99% Shortfall SST 2023	Change to 2023
Insurance risk	93.8	80.4	+13.4 (+16.7%)
Market risk	29.1	29.0	+0.1 (+0.2%)
Credit risk	10.5	13.8	-3.3 (-24.1%)
Target capital	86.2	87.9	-1.6 (-1.9%)

Insurance risk

The biggest insurance risk arises from a possible cumulation of natural catastrophes. The table below shows the four biggest gross PML scenarios in the property business with a recurrence period of 250 years. The figures show the modelling results deriving from the

modelling software of the provider AIR/Verisk. The retrocession strategy is also set on the basis of internal PML computations.

Top-4 Scenarios	Gross PML 1/250 RP	Gross PML 1/250 RP	Change to 2022
CHFm	per 31.12.2023	per 31.12.2022	
Japan EQ	53.0	35.4	+17.6 (+49.9%)
Taiwan EQ	50.6	28.4	+22.2 (+78.2%)
China EQ	40.4	35.7	+4.7 (+13.0%)
Japan WS	39.7	35.4	+4.3 (+12.3%)

There was a solid growth in Japan EQ and Taiwan EQ between 2022 and 2023. Other region / perils grew less significantly.

Market and credit risk

Echo Re has a very conservative investment policy. The composition of the portfolio barely changed compared to the previous year. On the reporting date of 31 December 2023, the investments at market value consisted of 89.5% government and corporate bonds, 3.7% equities and around 6.8% holdings in real estate and infrastructure companies. Almost all of the fixed-income securities have investment grade ratings.

Operational risks

In addition to the risks quantified in the SST, Echo Re carries out a semi-quantitative evaluation of operational risks. The evaluation of operational risks was carried out with the help of the web-based application Swiss GRC Toolbox, which makes it possible to combine risks, controls, operational incidents and risk mitigation measures. The control environment is adequate and continually improving. In July 2021 FINMA confirmed that Echo Re's ICS complies with the regulatory and supervisory requirements. In addition, audits by Internal Audit in 2022 confirmed that the ICS is appropriate in the two areas tested (financial and technical accounting).

As a measure against potential cyber risks, regular penetration tests are carried out in close cooperation with our IT service provider to test the stability of the IT infrastructure. In addition, action was taken to raise staff awareness of phishing attacks.

Global pandemics represent a new operational risk, since they jeopardize the health and thus availability of staff and there is also a risk of premium losses due to the adverse impact on the economy. Society cannot directly influence this risk but can mitigate the consequences, mainly through flexible working models. The organisational and technical implementation of a home office model and the flexibilization of the IT infrastructure enable the company to react quickly and appropriately to pandemic and endemic challenges that might arise in the next financial year.

The framework for business continuity management was completely revised to take account of new scenarios and measures implemented by the company.

Other material risks

A qualitative evaluation is carried out for risks that are difficult to quantify (e.g. political risks or newly emerging risks). This is discussed in the RC. Twice a year Echo Re uses an approach to evaluate the political risk in its portfolio which takes account of the type of business, historical precedents and various limiting factors. The results of this evaluation and any measures that are needed as a result for risk mitigation are presented to the Board of Directors.

Echo Re does not underwrite any business in the areas which are currently seeing ongoing conflicts (e.g. Ukraine, Middle East), so the company should not be directly affected by this.

Material risk clusters

The most important source of risk concentration at Echo Re is the risk to the property portfolio from natural disasters and the agriculture portfolio from weather uncertainties. Both portfolios are monitored using zonal accumulation methods, which are supplemented by a probability-based analysis of the property portfolio for peak concentrations, as set out in the “Top 4 scenarios” table above.

Credit risk concentration is monitored at counterparty level in accordance with the thresholds laid down in the retrocession guidelines and investment guidelines.

Risk reduction

The company manages and controls its main risks through risk tolerance thresholds and a limit system. The retrocession strategy is an important component of Echo Re’s business and risk strategy. The level of retained risk is laid down annually by the BoD. The company purchases retrocession protection which is at least sufficient for modelled losses with a recurrence period of 100 years.

E. Market value vs. statutory valuation

E.1 Market-based valuation used for solvency purposes

This chapter discusses the items which contribute significantly to the difference between the equity reported in the statutory balance sheet and the SST balance sheet. The assets are discussed first, followed by the liabilities.

Assets 31.12.2023 CHF Mio	Statutory value	Differences between the statutory and the market conform value	Market conform value resp. best estimate
Fixed-income securities	281.5	-11.6	269.9
Government and central banks bonds	28.0	-0.8	27.2
<i>of which Swiss cantons and municipalities</i>	21.1		
<i>of which other public-sector entities</i>	6.9		
Corporate bonds	239.1	-10.3	228.8
<i>of which banks and securities dealers</i>	86.6		
Mortgage bonds / Covered bonds	7.5	0.2	7.7
Other bonds (incl. warrant bonds, supranational bonds)	6.9	-0.7	6.2
Equities	12.7	2.6	15.3
Equities and similar securities	12.7	2.6	15.3
Other investments	23.4	-2.4	21.0
Collective investment schemes	23.4	-2.4	21.0
Total investments	317.6	-11.4	306.2
Deposits made under assumed reinsurance contracts	26.9	0.0	26.9
Cash and cash equivalents	57.3	0.0	57.3
Share of technical provisions from reinsurance	42.3	-3.9	38.3
Deferred acquisition costs	32.0	-32.0	0.0
Receivables from insurance business	20.2	0.0	20.2
Other receivables	0.5	0.0	0.5
Accrued assets	173.5	0.0	173.5
Total other assets	352.7	-35.9	316.8
Total Assets	670.3	-47.3	623.0

The investment portfolio consists primarily of fixed-income securities and equities. The equities are valued in the statutory balance sheet (annual report) at the lower of cost or market value. Bonds are valued at amortised cost. The statutory valuation of the investment portfolio is CHF 317.6m, which is CHF 11.4m above the market-based valuation. This difference is almost entirely due to the rise in interest rates.

For the other assets there are essentially no differences between the valuation basis and methods for solvency purposes and the annual report. However, there are the following two exceptions:

- The item “Deferred acquisition costs” is neutralised in the SST balance sheet (statutory value: CHF 32.0m). This is reflected in the figure for the unexpired risk reserve (URR) in the liabilities, the equivalent of the unearned premium reserve (UPR) in the statutory accounts.
- The item “Share of technical provisions from reinsurance” is computed from actuarial estimates which were carried out on an ultimate view. The modelling of the entire SST is based on an underwriting year basis, so it also takes account of future losses on the premiums that have not been earned yet. The actuarial valuation produces a discounted value of CHF 38.3m (statutory value: CHF 42.3m)

The total effect of these measurement differences leads to a valuation difference of CHF -35.9m between the statutory and market-based valuation of other assets.

The aggregate valuation differential of investments and other assets therefore totals CHF -47.3m. The total assets of CHF 670.3m on a statutory basis therefore fall to CHF 623.0m on a market-oriented valuation basis.

In the next step we take a look at liabilities:

Liabilities 31.12.2023 CHF Mio	Statutory value	Differences between the statutory and the market conform value	Market conform value resp. best estimate
Technical provisions gross	407.6	-64.2	343.4
Reinsurance: non-life insurance business	407.6	-64.2	343.4
Market Value Margin		7.0	7.0
Non-technical provisions	0.0	0.0	0.0
Liabilities from insurance business	4.1	0.0	4.1
Other liabilities	0.9	0.0	0.9
Accrued liabilities	63.8	0.0	63.8
Total liabilities	482.8	-57.1	425.6

In the SST the technical provisions are an estimate for the payments and costs that will be incurred after the reporting date for all losses incurred and future losses corresponding to the unearned portion of the premium. These future losses are recognised in the unexpired risk reserve, which is the risk-based equivalent to the statutory unearned premium reserve. The discounted gross best estimate is used for the loss reserves in the SST balance sheet. The discounted net value of the loss reserves is the difference between this gross value and the technical provisions from reinsurance.

In the market value balance sheet, the fluctuation and safety reserves are omitted because these are additional safety reserves. The financial reserves are also ignored in the market value balance sheet. Due to these differences, there are total liabilities of CHF 425.6m in the market value balance sheet, which is CHF 57.2m lower than the corresponding figure in the statutory balance sheet.

The difference between assets and liabilities in the SST balance sheet is CHF 197.4m. After deducting the intangible assets of CHF 0.0m, there is risk-bearing capital (RBC) of CHF 197.4m as the market value margin (MVM) of CHF 7.0m, under the revised Insurance Supervision Ordinance (ISO) in force since 1 January 2024 is now counted in liabilities so that the target capital is reported excluding this amount. This effect has no impact on the calculation of the SST ratio. Compared to the 2023 SST, the RBC (on the unrevised ISO basis) rose by CHF 34.6m (revised basis CHF 42.2m), which was due to a solid technical result and financial results.

E.2 Market value margin

The market value margin stands at CHF 7.0m. It was calculated in accordance with the standard method provided by FINMA.

F. Capital management

F.1 Goal

The most important goal of Echo Re's investment policy is security (preservation of capital), subject to maintaining adequate quality of the investment portfolio and adequate returns. A further goal is that the structure of the investments enables the financial liabilities to be fulfilled at all times. It corresponds to the Group's philosophy and the associated guidelines that all companies within the DEVK Group should manage their investments according to uniform investment guidelines as far as possible. Echo Re mainly underwrites the reinsurance business in Asia, Latin America and MENA. A significant portion of this business is handled in USD or currencies that are linked to the US dollar. Moreover Echo Re underwrites the intra-group reinsurance business, which is settled in euro. This liability structure resulting from the reinsurance business is incorporated in the investment decisions to ensure that there is adequate currency matching in the coverage of the liabilities.

To minimise effects from currency movements on payments to and from customers, Echo Re maintains various currency accounts (EUR, USD, GBP, AED, JPY, INR, ZAR and CNY), which are used to make and receive payments.

F.2 Strategy and time horizon

In accordance with the internal investment guidelines, which were revised in 2022, the following framework is defined for the asset structure:

- Fixed-interest bonds should make up at least 65% of the investment portfolio and consist mainly of high-quality liquid securities with a maximum maturity of 10 years at purchase.
- Equities, ETFs and funds should comprise a maximum of 15% of the total investments and consist of a global selection of defensive and high-dividend stocks that are constituents of the major equity indices (SMI, DAX, Euro Stoxx, Euro Stoxx50, Dow Jones), with a subsidiary holding of growth stocks.
- Investments in real estate funds and vehicles are permitted up to a maximum of 10% of the portfolio.
- A maximum of 10% of the portfolio may be invested in infrastructure vehicles and funds.

To ensure sufficient diversification and reduce counterparty risk, investment in any one issuer or borrower group is limited to a maximum of 15% of the overall portfolio. In addition, the investment guidelines limit investments in bonds with a BB- rating to a maximum of 5% of the portfolio. If an investment falls below this rating, the relevant investments will be presented to the investment committee for review.

F.3 Equity

Equity	<u>2023</u>	<u>2022</u>
Share capital	120.000.000,00	120.000.000,00
Legal capital reserves		
Reserves (unrecognized capital contribution reserves)	498.399,00	498.399,00
Capital contribution reserves (recognized capital contribution reserves)	<u>73.370.181,91</u>	<u>73.370.181,91</u>
	73.868.580,91	73.868.580,91
Retained earnings		
Loss brought forward	-31.381.331,18	-44.699.160,40
Result for the year	<u>25.080.221,15</u>	<u>13.317.829,22</u>
	-6.301.110,03	-31.381.331,18
Total shareholders' equity	187.567.470,88	162.487.249,73

The share capital of Echo Re amounts to CHF 120.0m. Including the legal capital reserves of around CHF 73.9m and the retained earnings of CHF -6.3m, total shareholders' equity is CHF 187.6m. The increase is due to the 2023 annual result of CHF 25.1m.

G. Solvency

Echo Re has been using the standard model for reinsurers ("StandRe") to model its technical risks since the 2018 SST.

FINMA's reserve risks tool is used to model the reserve risk for all segments and determine the results for the individual reserve segments. These results are aggregated within StandRe, which determines the reserve risk.

When modelling premium risk, the major losses (excluding losses from natural catastrophes) and minor losses are processed in the different modules of StandRe. A partial internal model, which was approved by FINMA, was used to model the losses from natural catastrophes.

There were no changes to the StandRe model compared with the previous year. The standard models are also used to model market and credit risk. From the 2022 SST onwards, FINMA has replaced the old credit risk model based on Basel III with a stochastic model.

The results of the 2024 SST, which are shown in the tables below, are still subject to a supervisory review.

G.1 Available capital, target capital and SST ratio

The table below compares the results of the SST in 2024 and 2023. The results are centred expected shortfalls at a 99% confidence level.

(in CHFm)	SST 2024	SST 2023	Change from SST 2023
Insurance risk	93.8	80.4	+13.4 (+16.6%)
Market risk	29.1	29.0	+0.1 (+0.2%)
Credit risk	10.5	13.8	-3.3 (-24.2%)
Expected insurance result	13.5	9.0	+4.5 (+50.2%)
Expected investments result above risk free	3.8	2.8	+1.0 (+36.2%)
Market value margin (MVM)	7.0	7.6	-0.6 (-7.3%)
Target capital	86.2	80.3	+5.9 (+7.4%)
Risk bearing capital (RBC)	197.4	155.2	+42.2 (+27.2%)
SST-Quotient	228.8%	193.0%	35.8%

Table 1: Results of the 2023 SST vs. 2022 SST

The rise in insurance risk was driven by portfolio growth. Market risk remained stable. Credit risk fell slightly, mainly due to a large fronting deal in 2022, which was not repeated in 2023. The rise in the expected insurance result was due to an improved portfolio composition.

G.2 Insurance risks

In the table below, insurance risk is broken down into its individual components, with a comparison with the previous year's results. All figures are on a net basis.

(in CHFm)	SST 2024	SST 2023	Change from SST 2023
NatCat risk (NE)	62.4	39.1	+23.3 (+59.6%)
Individual Events 1 (IE1)	56.9	40.8	+16.1 (+39.5%)
Reserve risk (AER)	36.4	30.8	+5.6 (+18.2%)
Individual Events 2 (IE2)	34.3	46.6	-12.3 (-26.4%)
Premium risk (AEP)	32.9	26.8	+6.1 (+22.8%)
Insurance risk	93.8	80.4	+13.4 (+16.7%)
Diversification	-57.9%	-56.3%	-1.6%

Table 2: The individual components of insurance risk

Since this year the modelling of NatCat risks is based on a new model which was approved by FINMA. The NatCat components of agriculture and the marine business are now also covered in the model alongside the property, engineering and motor own damage segments. In addition there was solid growth in the NatCat portfolio. All of this led to a rise in this module.

The "Individual Events 1" (IE1) module includes both historically observed and portfolio-based non-NatCat-driven events. The rise here is mainly explained by the growth in the portfolio.

The “Individual Events 2” risk (IE2) models macroeconomic events which can have an impact on all underwriting years (e.g. loss inflation and legislative changes in motor liability). Although the individual risk is high, its contribution to overall technical risk is much smaller. The decline is due to a lower weighting of a number of scenarios.

The rise in premium risk (AEP) and reserve risk (AER) is also in keeping with the growth of the portfolio.

G.3 Market risks

Market risk is broken down here into its individual components, with a comparison with the results of the previous year.

(in CHFm)	SST 2024	SST 2023	Change from SST 2023
Spread risk	14.5	12.7	+1.8 (+14.2%)
FX risk	18.2	17.2	+1.0 (+5.8%)
Shares	4.9	4.9	0.0 (0.0%)
Real Estate + Infrastructure	4.1	3.8	+0.3 (+7.9%)
Interest rate risk	13.8	10.8	+3.0 (+27.8%)
Market risk	29.1	29.0	0.0 (0.0%)
Diversification	-47.7%	-41.3%	-6.5%

Table 3: Breakdown of market risk into individual risks

Market risk is modelled using the standard model with the parameters such as volatilities and correlations between individual risk factors laid down by FINMA. There were no significant changes in these parameters compared with the 2023 SST.

The Public Disclosure Financial Condition Report 2023 was approved by the Board of Directors in its meeting on 29 April 2024.

Attachments:

- Annual report of Echo Rückversicherungs-AG as at 31 December 2022
- Solo reinsurer with P&L, market-consistent balance sheet and solvency as at 31 December 2022