Swiss Re Capital Markets Europe S.A.

Pillar III Risk Exposure – Narrative report

R.C.S. Luxembourg B228 476

Swiss Re Capital Market Europe S.A (the company) presents its risks analysis for the year ended 31 December 2020.

Results, reserve and dividends
The Company has reported a loss but remained in a strong financial position at the year end. The loss for its second financial year amounted to EUR 0,439 million. Due to the record of the loss, no allocation to the legal reserve was possible as in accordance with the Luxembourg company law
No dividends were declared or paid during the year ended 31 December 2020.
In the current risk report, all figures are presented in Euro ("EUR"), being the functional currency of the Company.

Financial reporting framework
The Company prepared the financial statements in accordance with Luxembourg legal and regulatory requirements by the amended law of 19 December 2002.

Development and performance
The Company has been incorporated on October 10th, 2018 and has been authorized on March 27th, 2019 by the Commission de Surveillance du Secteur Financier (CSSF) to operate as an investment firm and obtained the reinsurance brokerage licence on March 22nd, 2019 from the Commissariat aux Assurances (CAA)

Profitability risk can be defined as the risk that the Company's profitability will decrease substantially due to adverse market trends.
SRCME is providing services offering solutions to hedge the risks of weather (ECM) and environmental related (re)insurance product (ILS).
The ILS products are usually offered to clients wishing to hedge high-risk but low-probability events (such as natural disasters or pandemics) whereas ECM products will be rather offered to clients wishing to hedge a low-risk but higher-probability event

For the period ended 2020, the financial loss reported by the Company is mainly explained by the delay in the on-boarding process of clients resulting in a lower than expected numbers of deals. The Company is however expecting to implement solutions shortly to target the break even by 2021.

Principal objectives and strategies
The principal objective of the Company is to act as a carrier for the derivatives transactions entered into by the ECM and ILS business units to serve their EU clients. This means the company advises, arranges, manages and deals as authorised by the CSSF and CAA. The Company enters into derivatives on behalf of ECM and ILS trading desk. These trades consist of an external facing trade with an opposite, but otherwise identical in terms, internal back-to-back trade that passes all of the risk to another Swiss Re Group entity.
Swiss Re Europe Holdings S.A. ("SREH"), the Company's immediate parent is incorporated in Luxembourg. The Company's ultimate parent undertaking and controlling party is Swiss Re Ltd ("SRL") (together with SRL's other subsidiaries, "the Group"), which is incorporated in Switzerland.

Business model
The risk profile of the Company is low, largely because risks of the transactions are shifted to other legal entities in the Swiss Re Group via the back-to-back trades described above. The Company's level of capitalisation and its capital structure are determined by regulatory capital requirements as well as management's view of risks and opportunities arising both from its business operations and from capital markets.
The board delegates power to the day to day affairs to the authorized management composed of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). The Company has a Carrier Group Committee (CGC) which includes the Authorized Management as well as Chief Compliance

Officer, Chief Risk Officer, Finance Officer and Legal Officer plus group functions such as Operations, IT, Treasury, Middle Office, Market, Credit and Liquidity Risks. The CGC meets 10 times a year and only CEO and CFO are granted with voting rights.

Future outlook

The Company was incorporated in 2018 in response to Brexit to continue to serve our European customers as its sister company based in the UK will not be able to keep on serving our European clients. As a result, it is expected to record more trades and reach profitability. The company will take advantage of new investment business opportunities which reflect its focus on its core business areas. No significant change in the nature of the Company's principal activities related to ECM and ILS business is currently anticipated.

Principal risks and uncertainties

The Company has exposure principally to the other Swiss Re Group entities that provide the back-to-back risk hedges. The Company's financial risks are reviewed on an ongoing basis by senior management and the risk officers of the Company who report to the Committee ten times a year. A summary of the Company's market risk exposure is presented to the Board at scheduled meetings. From these reviews, strategies are developed to appropriately mitigate these risks using market procedures and financial instruments.

Capital management

Capital adequacy and the use of regulatory capital are monitored daily by management, employing techniques based on the guidelines developed by the BASEL Committee and the European Community Directives, as implemented by the CSSF, for supervisory purposes. The required information for capital and liquidity are filed with the CSSF on a quarterly and monthly basis, respectively.

The CSSF requires that the Company holds a minimum level of regulatory capital at least equal to the higher of:

a) The base capital resources requirement which is currently €730,000 (share capital of the company being €730,001)

b) The sum of its credit risk, market risk and operational risk capital requirements

As of the reporting date, the Company holds additional capital to cover its Pillar 2 stress scenario. The additional Pillar 2 capital held at 31 December 2019 was € 9.8 mio.

The Internal Capital Adequacy Assessment Process (ICAAP) calculation made in 2020 was done according to the projection of the business for the year to come. The company has sufficient financial resources, in terms of both capital and liquidity, to ensure that there is no significant risk that its liabilities cannot be met as they fall due, even in the most severe economic downturn.
During the year the Company was fully compliant with its regulatory capital requirements and there were no reportable breaches.
The Company regularly assesses its financial resources, including capital resources and liquidity resources, to ensure that they are adequate in both amount and quality, so that there is no significant risk that its liabilities cannot be met as they fall due, therefore is fully compliant with the overall liquidity adequacy rule.
The ICAAP is performed annually. However, if changes in business strategy or operational environment suggest that the current level of financial resources is no longer adequate, the full assessment process will be performed more frequently. Less detailed internal capital adequacy assessments are carried out monthly based on the risk reports described in the section financial risk. If the monthly internal assessment highlights a need to increase the capital requirement then this will be carried out.

a) Capital Resources

	2020	2019
	€,000	€,000
Tier 1 Capital Resources		
Ordinary Share Capital	14,000	14'000
Retained Earnings	(2,277)	(1,838)
Capital Redemption Reserve	-	-
Total Capital Resources	**11,723**	**12,162**

After adjustments for cumulative gains and losses due to changes in own credit risk on fair valued liabilities and other transitional adjustments to Common Equity Tier 1 Capital in accordance with the Capital Requirements Regulation ("CRR") as set out in the Official Journal of the European Union, the eligible Tier 1 capital at 31 December 2020 was € 11,712 mio.

b) Capital Resource Requirements

Capital resource requirements represent the minimum regulatory capital that the Company needs to hold.

	2020	2019
	€,000	€,000
Interest Rate Position Risk Requirement	-	49
Foreign Currency Position Risk Requirement	92	11
Counterparty Risk Capital Component	951	147
Non-Trading Book Credit Risk	36	40
Large Exposure Risk Requirement	102	-
Credit Valuation Adjustment Risk	44	20
Operational Risk Requirement	258	217
Capital Conservation Buffer	463	151
Total Capital Resources Requirement	**1946**	**635**

Capital Requirement Directives IV ("CRD IV") became effective 1 January 2014. CRD IV sets quantitative and qualitative enhancement to the capital adequacy for investment firms.

The CRD framework consists of three pillars:

- Pillar 1 specifies the minimum amount of capital that a financial services firm is required to maintain to support its business
- Pillar 2 requires the firm to assess whether any additional capital should be maintained against any risks not adequately covered under Pillar 1
- Pillar 3 specifies the disclosures which the firm is required to make about its capital, its risk exposures and its risk assessment process.

See section in regards of financial risk for additional information about the company's risk exposures.

The Company calculates the Operational Risk Capital Requirement using the Standardised Approach in accordance with Article 317 of the CRR. The Operational Risk Requirement for 2020is €258,000 (2019: €217,000).

Counterparty Credit Risk is calculated via the Standard Approach and the exposures at 31 December 2020 to European corporates and Group companies. The Company recognises three external credit assessment institutions: Fitch, Standard & Poor's and Moody's.

External derivative positions are hedged by backing the risk out to a Group entity via equal and opposite back-to-back trades. Cash collateral is posted to the Company by the Group entity to cover the Group counterparty risk. This leaves only the risk of default by the external counterparty.

CRD IV seeks to improve the transparency of firm activities by requiring annual disclosure of profits, taxes and subsidies in different jurisdictions. The table below shows jurisdictions, profits and tax paid for the years ended 31 December 2020.

Jurisdiction	Description of activities	Name	Number of employees	Turnover	Profit before tax	Accounting tax charge	Cash tax paid on profit or loss	Public subsidies received
Luxembourg	Investment management	Swiss Re Capital Markets Europe	7	1,955	0	5	-	-
UK	Investment management	Swiss Re Capital Markets Europe, UK Branch	1	-	-	-	-	-

2019 €,000

Jurisdiction	Description of activities	Name	Number of employees	Turnover	Profit before tax	Accounting tax charge	Cash tax paid on profit or loss	Public subsidies received
Luxembourg	Investment management	Swiss Re Capital Markets Europe	7	,173	0	1	-	-
UK	Investment management	Swiss Re Capital Markets Europe, UK Branch	1	-	-	-	-	-

Return on assets for the year ended 31 December 2019 was -4%.

Key Performance Indicators

The following key performance indicators are evaluated at the CGC meetings. Regulatory Capital held against the Company's own internally calculated requirements is considered a key measure by management of the Company's risk exposure:

	Measure	2020	2019
Regulatory capital against requirements	%	1,126	2,893
Liquidity stress test results	%	803	565

The liquidity stress test results discussed in section of financial risk represent the coverage ratio of cash sources over cash uses for the cumulative period of 1 to 90 days under a stressed scenario.

Financial risk

Financial risk management

The Company's financial risks are reviewed 10 times a year by the CGC.

A) Market risk

A summary of the Company's market risk is presented to the CGC and to the Board at the scheduled meetings. Market Risk encompasses foreign exchange risk, interest rate risk, credit risk and environmental risk and arises from entering into derivative contracts with both market counterparties and affiliates for the purpose of both trading activity and also to offset risk.

B) Foreign exchange risk

Foreign exchange risk is managed on an ongoing trade position basis as part of the Company's and Group's cash management procedures. When amounts in non-EUR currency are paid or received, foreign exchange contracts are put in place to convert the assets or liabilities into EUR, thereby reducing foreign exchange exposure and risk. Foreign exchange risk sensitivity analysis is a constituent part of the daily VaR and aggregate stress values.

C) Interest rate risk

As the company does not engage in long term unhedged fixed interest positions, interest rate risk is not considered a material risk.
The interest rate risk as of December 31st, 2020 was nil according to the standard formula.

D) Liquidity risk

The Company's liquidity risk is reviewed on an ongoing basis at the meetings of the CGC. The Committee reviews and challenges the Liquidity Risk data presented to it by the Liquidity Risk Officer and the Head of Treasury to ensure the Company has not breached any of the limits set by the Board. The key liquidity measures are the Stress Result and the Funding Coverage Ratio at the 1 week and 3-month time horizons. The Stress Result applies assumptions to both the Company's resources and expected requirements based on a 3-notch downgrade in Swiss Re's credit rating. At the year end, the Stress Coverage was 803% for both time horizons (for which the required limit is 110%).

Liquidity is managed using Group borrowing / lending, (reverse) sale and repurchase agreements with external and Group counterparties. Cash and liquid asset levels are reviewed to ensure that there are always sufficient liquid resources available to meet all contractual obligations when they fall due.

E) Credit risk

Credit Risk is monitored on a daily basis using credit ratings obtained from External Credit Assessment Agencies including Moody's and Standard & Poor's. The Company's exposures are predominately related to financial institutions and corporates.

Where Credit risk is deemed unacceptably high and when it is deemed to be beneficial, the Company will enter into an International Swaps and Derivatives Association (ISDA) Master netting agreement with the counterparty as a way to mitigate credit risk.

As at 31 December 2020 the Company was exposed to the following credit risks.

1) The company entered into 13 derivatives on behalf of Swiss Re's ECM business unit. These trades consist of external facing trades with an opposite but otherwise identical terms, internal back-to-back trade that passes all to the risk to another Swiss Re Group entity. For the derivatives accounted for at lower of cost or market value, under the "positions à termes fermés" accounting principle, the balance net to zero as back-to-back finance.

2) Credit Risk on traded debt securities and derivatives: The table below discloses the Company's maximum credit exposure, split between those held in the Group companies and those held externally:

2020

€,000	Group	Non-Group	Total
Derivative financial instruments	2,727	1215	3,942
Financial assets at fair value through profit or loss		10,604	10,604
Other financial assets	7'302	660	7,962
Cash at bank and in hand	-	2,264	2,264
Total	10,029	14,743	24,772

2019

€,000	Group	Non-Group	Total
Derivative financial instruments	-	1,226	1,226
Financial assets at fair value through profit or loss		12,336	12,336
Other financial assets	0,117	-	0,117
Cash at bank and in hand	-	2,492	2,492
Total	0,117	16,054	16,171

The table below summarises the credit quality of the Company's financial assets at the balance sheet date. No financial assets were either past due or impaired in the current or prior year.

2020 $,000	Fair value through profit or loss	Other financial assets	Cash at bank and in hand	Collateral Receivable	Total
Swiss Re Group companies:					
AAA – A-		7,302			7,302
Non-group counterparties:					
AAA – A-	10,604		2,264		12,868
BBB – B-	3,942	660			4,602
	14,546	7,962	2,264	-	24,772

2019 $,000	Fair value through profit or loss	Other financial assets	Cash at bank and in hand	Collateral Receivable	Total
Swiss Re Group companies:					
AAA – A-		,117			,117
Non-group counterparties:					
AAA – A-	12,336		2,492		14,829
BBB – B-	1,226				1,226
	13,562	,117	2,492	-	16,171

At the balance sheet date, the Company own a fixed income security in the form of German Government Bonds valued at € 10,604 mio.

F) Operational Risk

Operational risk is monitored by an operational risk officer and reported to management on a regular basis during the CGC.

The Company maintains Risk and Control Self Assessments for each functional area which enables it to develop risk matrices. These are entered into the Operational Risk Management Information System. The system takes into account the inherent risk of a specified risk, and the design and operating effectiveness of the controls that mitigate the risk are captured.

Loss history is also maintained. No losses arose as a result of operational events in the current or prior year.

G) Environmental Risk

Risk management provides monitoring and oversight, granularly and aggregated, through the business cycle for ECM and ILS business. It is the policy of the Company to execute back-to-back ECM and ILS trades immediately with a Group Entity; therefore, the Company is not exposed to environmental risk relating to these trades on a net basis. The fair value of the ECM and ILS derivative assets is driven by movements of observed weather patterns.

H) Brexit Risk

The United Kingdom (U.K.) has entered the "Transition Period" as part of the process of leaving the European Union (E.U.) (referred to as Brexit). Significant negotiation between the U.K. and the remaining members of the E.U. started in 2020, and there remains uncertainty on the future relationship notably the nature of access for UK entities to E.U. markets following the cessation of the Transition Period. This commutes to uncertainty surrounding our business, including our relationships with existing and future counterparties. The Group is continuously monitoring and considering potential implications of Brexit on Swiss Re. The incorporation of SRCME and its UK branch are remediation for Swiss Re in general and avoid disruption in the business and service rendered to all our clients.

I) Covid Risk

The impact of the global pandemic of 2020, which extends to considerable degree into 2021, is only minimally disruptive to SRCME. It has not affected demand for the financial products that create income for the businesses that the carrier uses, nor is it expected to.