SOLVENCY AND FINANCIAL CONDITION REPORT
31 DECEMBER 2016

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Solvency and Financial Condition Report

Executive Summary

The Solvency and Financial Condition Report ("SFCR") hereby presented aims to provide the user with an overview of the business and performance, system of governance, risk profile, the valuation for solvency purposes and the capital management of Probus Insurance Company Europe DAC ("the Company") for the year ended 31 December 2016.

Under business and performance there have been no major changes to the way the Company operates. The only change in the business mix in 2016 was the discontinuation of the property programme from March 2016. There are also no plans to change the business mix in 2017.

There have been no material changes in the system of governance during 2016. There have been some changes in the board and committee composition due to the resignation and appointment of new directors but the overall structure of the board and the committees have remained the same. There have been some minor changes to the terms of reference of the board and the committees in order to maintain compliance with the Companies Act 2014.

The risk profile of the Company also remains unchanged. No new risks have arisen during 2016 while robust structures remain in place to mitigate existing risks. Stress testing of risks is completed at least annually as part of the Own Risk and Solvency Assessment ("ORSA") process.

The only difference between the financial statement values and the valuation for solvency purposes for the Company's assets and liabilities is in the technical reserves. The Company has used the standard formula for the purposes of calculating its Solvency Capital Requirement ("SCR") and no alternative valuation techniques have been employed.

Under capital management there have been no changes to the composition of the Company's own funds held during 2016.

Section A Business and Performance

A.1 Business

The Company, LEI code 635400Q3OJTNLWUODN38, is a designated activity company limited by shares. The Company is incorporated in the Republic of Ireland registered under the company number 252557. The Company's registered office is located at Hertz Europe Business Centre, Swords Business Park, Swords, Co. Dublin.

The Company is part of the Hertz Rent-a-Car organisation. The Company's immediate parent is Hertz International RE Limited ("Hire Dublin") which is incorporated in Ireland with a registered office at 30 North Wall Quay, IFSC, Dublin 1. Hire Dublin owns 100% of the issued shares of the Company. The ultimate holding company is Hertz Global Holdings, Inc. ("Hertz Holdings") which is incorporated in the United States with a registered office at 8501 Williams Road, Estero, FL 33928, United States.

The Company is subject to financial supervision and regulation by the Central Bank of Ireland's Insurance Supervision Division ("CBI") located at Spencer Dock, North Wall Quay, Dublin 1, Ireland.

The Company is subject to annual external audits. Audit services are performed by Ernst & Young ("EY") located at Ernst & Young Building, Harcourt Centre, Harcourt Street, Dublin 2.

The Company has two lines of business as at 31 December 2016, third party Motor Vehicle Liability insurance ("Motor Vehicle Liability") and personal accident insurance ("Assistance"). The business is sourced from Hertz European corporate entities on a freedom of services basis. Motor Vehicle Liability is by far the more material comprising approximately 97% of the premium written. UK, Italy, France, Germany and Belgium are the five largest countries where premium is written.

A.2 Underwriting Performance

Underwriting performance	31 December 2016 €	31 December 2015 €	Movement year over year €
Net premium earned			
Motor Vehicle Liability	7,353,714	4,118,657	3,235,057
Assistance	1,729,933	1,835,184	(105,251)
Property	105,769	403,405	(297,636)
	9,189,416	**6,357,246**	**2,832,169**
Net claims paid			
Motor Vehicle Liability	6,369,520	7,318,942	(949,423)
Assistance	116,722	361,474	(244,752)
Property	(325,214)	403,790	(729,004)
	6,161,028	**8,084,207**	**(1,923,179)**
Commission received (motor)	2,411,657	1,402,190	1,009,467
Underwriting profit/(loss)	**5,440,044**	**(324,771)**	**5,764,815**

On an overall level underwriting profit has improved significantly year over year. In 2015 the Company made an underwriting loss while in 2016 the Company has made an underwriting profit excluding all technical and administration expenses.

As mentioned above, Motor Vehicle Liability continues to be the larger of the two lines of business written contributing 97% of the premium written in 2016. In 2015, Motor Vehicle Liability contributed 93% of the gross written premium while Assistance contributed 5%. The remaining 2% in 2015 came from the property programme which was discontinued from 31 March 2016.

The top five countries (in terms of gross written premium) for Motor Vehicle Liability in 2016 were the UK, Italy, France, Germany and Belgium. This is unchanged from 2015, however the UK share of the gross written premium has increased.

A.3 Investment Performance

Investments	Solvency II balance sheet heading	31 December 2016 €	31 December 2015 €	Movement year over year €
HHN loan	Other loans and mortgages	20,000,000	20,000,000	-
Investments (cash on deposit)	Deposits other than cash equivalents	44,745,218	22,550,120	22,195,098
Cash at bank	Cash and cash equivalents	13,367,324	15,476,177	(2,108,853)
Swiss bonds	Government bonds	-	277,092	(277,092)
Total investments		**78,112,542**	**58,303,389**	**19,809,153**

The Company holds one intercompany loan with Hertz Holdings Netherlands B.V. ("HHN"). This loan is on an arms-length basis with interest paid on a quarterly basis. Interest is calculated on a EURIBOR floating rate base plus a spread. Interest earned for 2016 was €424,267, compared to €406,009 in 2015.

Additionally the Company holds excess cash on deposit for periods not exceeding three months. Remaining cash remains in current accounts to meet payments as they fall due. Interest earned on all of these accounts amounted to €26,675 in 2016, compared to €15,355 in 2015. In addition, charges (including negative interest charged for certain deposits) came to €183,161 for 2016, compared to €58,392 in 2015.

Previously the Company was required to hold Swiss bonds by the Swiss Regulator FINMA. The last of these bonds matured on 26 January 2016 and the Company recognised a loss of €485 in the profit and loss account in 2016 on this maturity. Accrued interest on the bond of €4,281 as at the end of 2015 was received in January 2016.

A.4 Performance of other activities

Other material expenses of the Company are split between insurance and administration costs. Under insurance costs the material expenses relate to VAT, claims handling and data processing and MIB payments. Under administration costs the material expenses relate to salaries and related staff costs, legal fees, actuarial fees, audit and tax fees and interest The Company had no leasing arrangements in place during 2016 or 2015.

A.5 Any other information

There is no other material information beyond what has been discussed above to note.

Section B System of Governance

B.1 General information on system of governance

The Company's internal operational structure is as follows. Both the general manager and the finance manager also sit on the board as executive directors. The board is made up of three additional non-executive directors ("NEDs") from the wider Hertz group and two independent non-executive directors ("INEDs") from outside of the Company and Hertz. The board is supported by both a risk and audit committee. Each committee is made up of three board members, two INEDs and one other, and both are chaired by an INED. The terms of reference of the board and the committees are reviewed and updated annually.

There have been no material changes in the system of governance during 2016.

The remuneration for staff is based on fixed salary reviewed annually Staff are entitled to an annual bonus which is calculated on a standard percentage of base salary and is dependent on the performance of Hertz globally. There are currently no supplementary pension/early retirement schemes in place for any staff member.

INEDs are paid an annual fee and no remuneration is paid to NEDs from the Hertz group.

There have been no material transactions during 2016 (2015: nil) with the shareholder, any board member or any other influential party.

Key functions are managed by the Company's in house staff. Risk and compliance are overseen by the compliance officer with input from the general manager and all relevant views, advice and findings are reported to the risk committee and the board on a quarterly basis. It is ensured that the compliance officer is provided with the necessary operational independence and appropriate resources as required.

Finance is managed by the finance manager with responsibility for monthly, quarterly and annual reporting. External audit is also managed by the finance function. Sufficient staff levels are maintained within the finance function to ensure segregation of duties and appropriate levels of review. All relevant finance and audit views, advice and findings are reported to the audit committee and the board on a quarterly basis.

Internal audit is outsourced to Hertz Internal Audit Function who perform annual reviews. An arms-length service level agreement ("SLA") is in place for this relationship which is also in accordance with the Company's outsourcing policy. The relationship is managed by the Company's compliance officer and to provide for the independence of the internal audit function, as per Article 46-2 of the Solvency II Directive, all relevant views and findings resulting from the annual review are reported directly to the audit committee and the board. See section B6 for further details on the internal audit function.

The actuarial function is outsourced to Willis Towers Watson and the relationship is managed by the general manager and finance manager. A contract is in place for the work performed (which is also in accordance with the Company's outsourcing policy) and representatives from Willis Towers Watson present their actuarial reports to the risk committee and the board as required.. See section B7 for further details on the actuarial function.

B.2 Fit and proper requirements

The Company has its own Fitness and Probity policy and adheres to the current fitness and probity standards as circulated by the CBI and recently amended in Irish law under Statutory Instrument ("SI")

585 of 2015. The Company's policy for recruitment of key function holders takes into consideration first and foremost the business need for the appointment of an individual. The individual selected must be competent and capable, honest, ethical and act with integrity and be financially sound. Once the optimal candidate possessing the required skills has been sought the required application of due diligence is documented and then a submission is made to the CBI for pre-approval. Training is provided/arranged for directors in relation to key topics. All individuals with relevant qualifications are expected to comply with the continuing professional development ("CPD") requirements of their relevant institutes. Quarterly compliance training is also provided to the Company's staff by the compliance officer.

The Company carries out an annual audit of persons performing a controlled function or pre-approval controlled function by asking them whether there have been any material changes regarding their compliance with the fitness and probity standards. The Company also resends the standards to the necessary individuals and ensures they resign their agreements with the Company on an annual basis. If the Company becomes aware of any concerns re the fitness and probity of these individuals this will be investigated and appropriate actions taken. The CBI will also be notified.

The Company's board as at December 2016 was comprised as follows:

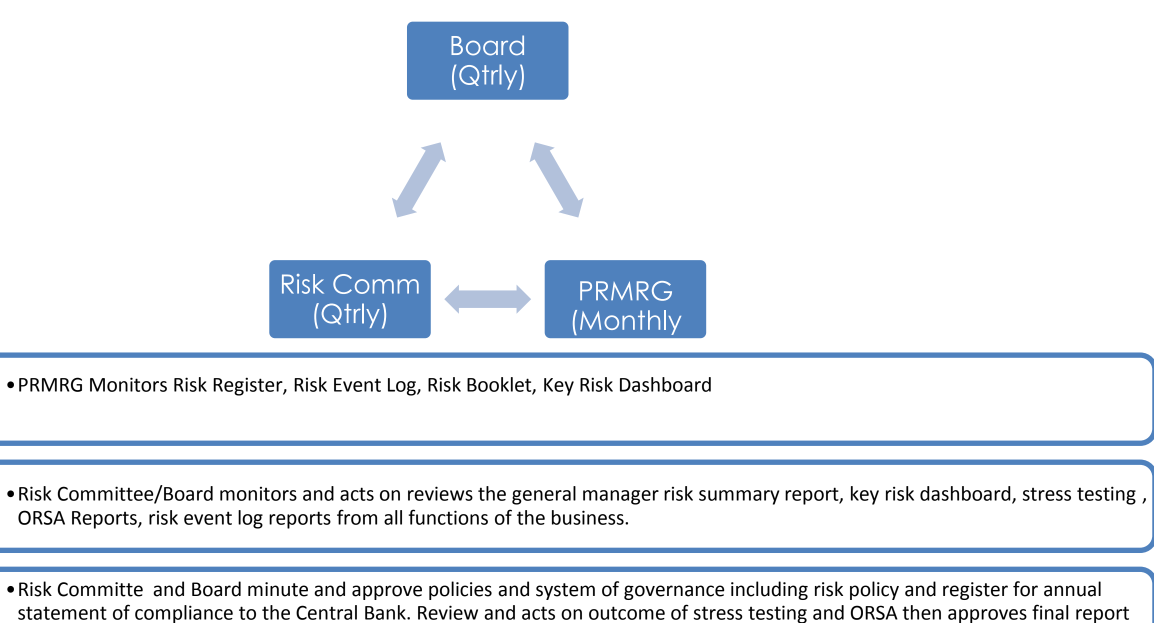
Name	Position	Fitness & Probity Reference	Effective Appointment Date
Thomas J. Santorelli	Group Director and Chairman (Hertz Vice President of Insurance, Risk & Claims Management)	PCF-3 Chairman of the Board PCF-2 Non-Executive Director	14th December 2015
Nuns Moodliar	Non-Executive Director (Hertz International, Vice President Legal and Corporate Affairs)	PCF-2 Non-Executive Director	1st July 2005
Robin Kramer	Non-Executive Director (Hertz Senior Vice President & Chief Accounting Officer)	PCF-2 Non-Executive Director	4th October 2016
Stephen Hodgins	Independent Non-Executive Director (Chair of the Probus Risk Committee)	PCF-2 Non-Executive Director PCF-5 Chairman of the Risk Committee	1st December 2016
John Perham	Independent Non-Executive Director (Chair of the Probus Audit Committee)	PCF-2 Non-Executive Director PCF-4 Chairman of the Audit Committee	1st September 2016

Martin Scullion	Executive Director (Probus, General Manager)	PCF-1 Executive Director PCF-8 Chief Executive	27th July 2006
Charlotte Torr	Executive Director (Probus, Finance Manager)	PCF-1Executive Director PCF-11Head of Finance	9th January 2008

B.3 Risk management system and ORSA

The Company's Risk Management System is governed by the Risk Management Policy. This states that the board is ultimately responsible for ensuring the effectiveness of the risk management system, setting the Company's risk appetite and overall risk tolerance limits as well as approving the main risk management strategies and policies. The strategy of the risk management system is to identify, assess, manage key risks and to monitor the impact of internal and external events on Board chosen appetite and tolerance metrics. The key annual process being the ORSA scenario testing and observing events that could materially impede the entity's ability to achieve its strategic objectives.

Within its adopted system of governance the Company has a systematic way of managing risk as follows:



The Probus Risk Management Review Group ("PRMRG") is made up of the Company's operational managers. The PRMRG operates as a support to the risk committee as it monitors the risks on a monthly basis. The work of the PRMRG forms the basis of the reports made to the risk committee and the board.

The PRMRG monitors the risk register which lists all of the risks the Company is currently required to manage from local or EU requirements through a stated risk appetite and tolerance. Supporting the risk register risks is a risk booklet which documents the in-depth justification and assumptions used to plot management's current outlook on the risk. Each risk has an appetite and tolerance limits with an internal escalation trigger for the risk committee/board plus in extreme circumstances an external escalation to the CBI. Additionally, the Company maintains a running risk event log (adopted from

international best practice) capturing on an ad-hoc basis all current and upcoming events that could affect a risk on the Company's risk register and the planned actions and remediation. The most key material risks for the Company are summarised in a report called the Key Risk Dashboard. This has metrics versus risks appetite and tolerance and allows for analysis of trends. This enables management to make informed decisions.

As discussed above the Company's risk committee meets on a quarterly basis. The risk committee meets with terms of reference set in accordance with the local and EU requirements. The risk committee reviews the general manager risk summary report, key risk dashboard, stress testing, ORSA reports and risk event log reports from all functions of the business. The Risk Committee decides upon actions to take where appropriate or recommends to the Board for approval.

The ORSA process is governed by the Risk Management Policy which states that an ORSA must be performed at least annually and for any material business need.

The objective of the ORSA is to lay out the results of the assessment of the Company's own risks in order to guide the board in setting its risk appetite and capital needs into the future. It aligns its outcome with the key strategies used to govern the Company's business.

The ORSA is completed in four stages:

- **Stage 1 Planning** – The capital projection & stress testing plan is put together by the Company's risk and compliance function. The gathering of data and collation is executed by the Company's finance team as the majority of the information originates for the previous years audited financial statements, underwriting and technical provisions data. This is formalised into an assumptions report by the compliance officer then reviewed by the Company's management and risk committee/board. The definition of assumption inputs is distributed to the board and the directors are asked to revert with comments for inclusion in the scenario/projection process.

- **Stage 2 Modelling** – The calculation of base case projections on 1, 2 and 3 year forward basis is executed by the Company's finance function using the Deloitte model adopted from the SII standard formula. The Company's financial analyst gathers together data inputs sources and performs calculations which are then reviewed by the finance manager. The results are then reviewed by the Company's management and risk committee/board. Scenario and stress identification is performed by the Company's risk and compliance function and testing is performed by the Company's finance function.

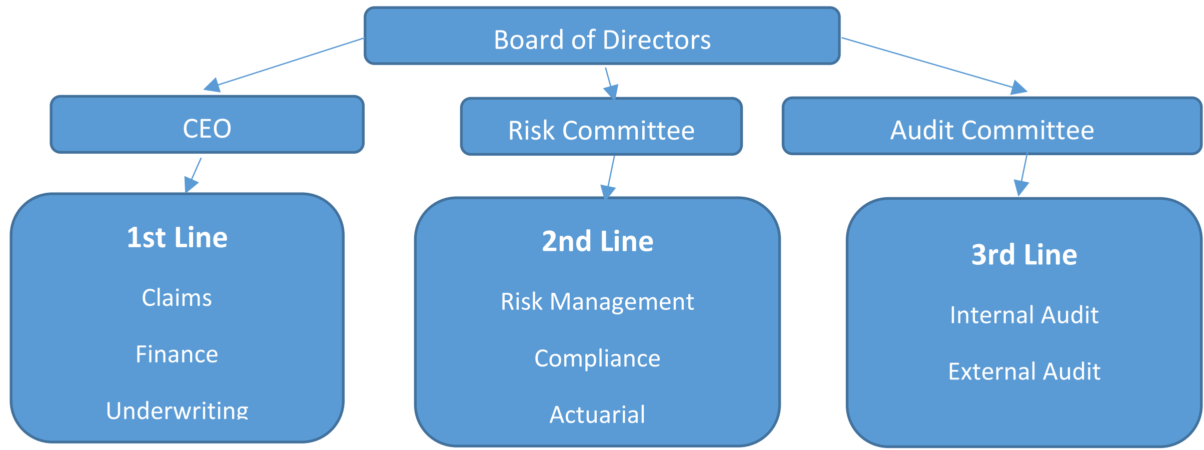
- **Stage 3 Interpret** – The analysis of the impact on capital requirements is done collectively by the Company's management. At this Stage the HoAF opinions is sought on the exercise. The results are reported to risk committee/board and once approved will be formatted and sent to the CBI.

- **Stage 4 Response** - Resulting actions are proposed by the Company's management in conjunction with the HoAF opinion and report on the process is then reviewed by the Risk Committee and Board. Follow-up actions are executed by management who will report on progress to the risk committee and board.

The approval of the Risk Management/ORSA Policy as part of the annual review of the system of governance enables compliance with the first requirement. The record of production and review of

the ORSA report satisfies requirements 2 and 3. The board approval of the internal report allows the Company to fulfil its obligation to submit the ORSA Supervisory Report 14 days after board approval.

B.4 Internal control system



In accordance with Article 46(2) of Directive 2009/138/EC "Internal control" the Company's board has established an effective internal control system. The Company employs a full time compliance officer to oversee the compliance function with additional support from the general manager. The Company has an established an internal control framework comprised of board policies on compliance and internal control. These are directly linked to key procedures that support material activities. Key activities have their own specific policy where deemed necessary by regulation or business activity risks. The compliance function quarterly reports directly to the risk/audit committee and board advising them on compliance with the laws, regulations, adoption of Solvency II and other applicable regulations. This reporting identifies and assesses the impact of any past or foreseen changes to the legal environment. The board reviews these policies annually. To assist the board, the policy framework is reviewed on an annual basis versus current developments in requirements and business activity. Policies are updated accordingly by the Company's management and reported to the board with a summary of changes. The summary of changes is presented to the directors in advance of Q4 meetings for efficient annual review, feedback and approval.

B.5 Internal audit function

The Company has established an internal audit policy and, as discussed above, an arm's length SLA for the governance of the outsourced internal audit function is in place with Hertz Internal Audit Department (HIAD).

HIAD are accountable to the audit committee and board. To provide for the independence of the internal audit function, as per Article 46-2 of the Solvency II Directive, its personnel report to HIAD management, HIAD then report directly to the audit committee. HIAD attend meetings of the audit committee upon request. All internal audit activities shall remain free of influence by any element of the Company, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

B.6 Actuarial function
The Head of Actuarial Function ("HoAF") role is outsourced to Willis Towers Watson. The Company has an SLA governing this relationship that meets all current Solvency II and relevant guideline requirements. The board have also established a policy on underwriting that encompasses all aspects of underwriting, reinsurance and actuarial areas to assist in the effective implementation of the risk management system.

The Company ensures that the HoAF provides an actuarial opinion to the CBI on an annual basis which addresses the technical provisions of the Company as reported in any quantitative reporting templates (“QRTs”) to the CBI. This is referred to as the Actuarial Opinion on Technical Provisions (AO TP). In addition to, and connected with the AO TP, the Company ensures that the HoAF also provides an Actuarial Report on Technical Provisions (“AR TP”) to the board on an annual basis, which supports the AO TP. This report shall also be provided to the CBI upon request.

The Company ensures that the HoAF provides an actuarial opinion to the board in respect of each ORSA process of the Company. The opinion is provided to the board at the same time as the results of the ORSA process to which it relates. The opinion addresses, at a minimum and having regard to the Company’s individual risk situation, the following:

a. The range of risks and the adequacy of stress scenarios considered as part of the ORSA process.
b. The appropriateness of the financial projections included within the ORSA process.
c. Whether the Company is continuously complying with the requirements regarding the calculation of technical provisions and potential risks arising from the uncertainties connected to this calculation.

Additionally the HoAF is required to produce an opinion on the overall underwriting policy, on reinsurance arrangements and to provide an overall actuarial function report. The HoAF is also responsible for the coordination of the technical provisions, data quality, monitoring experience, internal and external actuarial reporting and contributing to the risk management system.

The Company ensures that the HoAF has the necessary access to information and resources, including appropriate authority and reporting lines, as required for the purpose of providing the opinions and performing the tasks allocated, in particular those specified under the Solvency II Regulations and the CBI domestic actuarial regime requirements. Where the HoAF has a material concern regarding any issue covered he is expected to draw the board’s attention to that. The HoAF is also expected to indicate any material limitations and the extent and basis of any material reliance on work performed by others in meeting the responsibilities addressed by relevant regulations and guidance.

B.7 Outsourcing
The Company outsources and enters into outsourcing arrangements only where there is a sound commercial basis and to take advantage of external expertise. The Company’s management undertake due diligence of chosen service provider to make sure all pre-stated requirements are met. The Company takes into account the impact of the proposed outsourcing arrangement on the operations.

The Company’s management routinely evaluate the performance of the outsourced service provider to ensure service and key performance indicator (“KPI's”) are as expected plus meets current business needs versus the current in-force SLA. Ongoing oversight activity is specified for the critical outsourced functions:

- Actuarial - The underwriting policy refers to required interaction and oversight of outsourced actuarial activities of the HoAF as per Solvency II requirements and sets

expectations for scope of work, performance, reporting and oversight. These considerations have been incorporated into the current governing SLA.

- Internal Audit - The internal audit policy refers to required interaction and oversight of outsourced internal audit activities as per Solvency II requirements and sets expectations for scope of work, performance, reporting and oversight. These considerations have been incorporated into the current governing SLA.
- Claims - Third party claims administration (TPA) outsourced function is overseen through constant contact, annual country specific audits and involvement in thematic group project initiatives. The Company's claims policy and related procedure set requirements, expectations for scope of work, performance, reporting and oversight. These considerations have been incorporated into the current governing SLA with each relevant TPA.
- Information Technology – the Company contracts Hertz It in an arms-length agreement to provide its IT infrastructure. The Probus IT policy and related procedures set requirements, expectations for scope of work, performance, reporting and oversight. Individual contracts exist with 3rd party vendors of critical systems.

Annual SLA/contract evaluation is undertaken as part of a specific compliance procedure re the contract management system.

B.8 Adequacy of system of governance

The Company's board believes it has established an adequate system of governance based on the nature scale and complexity of the risk within the business whilst adopting all applicable requirements of an Irish insurer of the Company's size. This is supported by key outsourced functions maintained through routine oversight and control monitoring process via KPIs in contracts as per above. As per section on B.5 Internal Control System there is strong evidential processes through the 3 lines of defence that report to the board to maintain oversight and allow them to execute their responsibilities.

B.9 Any other information

There is no other material information beyond what has been discussed above to note.

Section C Risk Profile

C.1 Risk profile

The Company has identified the following information relating to risks. Risk impact and probability are examined by the Company in terms of events which may impact the risk positively or negatively with an impact which may be expressed qualitativly or quantitatively.

1. Underwriting risk
   Underwriting risk can be subcategorized into two material areas: Premium Risk and Reserve Risk. The capital charge in the SII SCR Standard formula has remained consistent over 2016 as there have been no changes in the type of business written or the reserving process.

	2016 SCR charge €	Day 1 SCR charge €
Premium and reserve risk	6,641,405	6,612,274

Premium risk is the risk that premium for the year will be insufficient to cover that year's claims and costs. Additionally there is the risk that the Company's premium rating is insufficient. Premium risk has a medium monetary value due to the reinsurance structure that is currently in place and current deductible arrangements and exclusion of natural catastrophe losses.

Reserve risk is the risk that technical provisions established for past losses will be insufficient to cover these claims and the Company's reserve calculations prove to be insufficient to meet actual claim costs. Reserve risk has a medium monetary value.

Both Lapse and Catastrophe Risk are other sub components of the Underwriting Risk which incur charges under the SII SCR Standard formula. Lapse risk is nil for the current period. Catastrophe is an inherent risk borne by the nature of providing 3rd Party Liability Motor insurance in EU countries where there is potentially unlimited liability.

	2016 SCR charge €	Day 1 SCR charge €
Lapse risk	-	-
Catastrophe risk	720,253	3,223,626

As at Day 1 the Company's property programme was still in operation which led to a much larger catastrophe risk charge under the SII SCR Standard formula. With the ending of this programme in March 2016 the Catastrophe risk charge has dropped significantly.

Mitigation

Mitigation controls are in place for Premium and Reserve risk.

The Company is subject to an annual pricing review and an actuarial review by Willis Towers Watson for the production of their Solvency II reports plus bi-annual reviews of the technical provisions and quarterly/annual review of the SCR calculation. Further controls include board policies covering premium and reserves (Underwriting Policy and Reinsurance Policy) and the monitoring of reinsurers ratings.

2. Market risk

Market risk can be subcategorized into four areas:

a. Interest Rate Risk
b. Currency Risk
c. Spread Risk
d. Concentration Risk

	2016 SCR charge €	Day 1 SCR charge €
Interest Rate Risk	4,211	111,171
Currency Risk	2,256,650	2,002,011
Spread Risk	1,092,273	1,785,607
Concentration risk	14,348,924	14,341,883

a. Interest Rate Risk

Interest rate risk is the variability in value borne by an interest bearing asset or liability. For the Company this is the risk that cash and investments held as interest bearing deposits are subject to variability of market rates. Excluding receivables all of the Company's assets are held in cash deposits with banks, subject to interest rate movement, for a maximum of three months. In prior years the Company had been required to hold Swiss bonds to cover the technical reserves held for the Swiss branch. The final remaining bond matured in January 2016 which accounts for the reduction in the SII SCR Standard formula charge. Interest rate risk has a low monetary value.

b. Currency Risk

Currency risk is assessed based on the change in the net asset value of the Solvency II balance sheet following a shift of the exchange rates up or down of all foreign currencies against the reporting currency. The Company is a Euro regulated company that operates in Ireland with operations in territories with Euro, Swiss Franc and Sterling as their functional currency. The increase in the SII SCR Standard formula charge is a result of increased Sterling assets and liabilities driven by the surcharge premium issued in September 2016. Currency risk has a low monetary value.

c. Spread Risk

Spread risk arises from the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk free interest rate term structure.The Company's capital charge for spread risk in the SII SCR Standard formula is driven largely by the unrated intercompany loan with HHN. The other elements are borne from cash deposits. The Spread risk has a low monetary value.

d. Concentration Risk

Concentration risk is the risk that assets are held with too few institutions. For the Company this is the risk that cash deposits are held with too few banks and one or more becomes unable to repay. Concentration risk arises from the accumulation of exposures with the same counterparty. This is only calculated for assets considered in

the equity, property and spread risk sub-modules – not for assets covered under the counterparty default risk module.

The SII SCR Standard formula charge for Concentration Risk is the largest charge as at 31 December 2016 and is driven by the intercompany loan held with HHN which is unrated. As the loan value and credit rating for HHN have not changed year over year the charge has remained relatively stable. Concentration risk has high monetary value.

Mitigation

The Company currently has board established policies to materially manage Market Risk and its sub-risks, namely the Probus Asset Liability Management Policy, Probus Capital Management and Dividend Policy, Probus Investment and Liquidity Risk Management Policy. Within the appendices to the corporate governance framework is a list of material board reserved decisions. The HHN loan is also held under an arms-length agreement which is reviewed annually.

3. Credit Risk

Credit risk can also be described as counterparty default risk which is the risk that a technical counterparty cannot meet its contractual obligations or has a volatile credit rating. For the Company this is the risk that its technical counterparties (i.e. reinsurers, credit institutions) either collapse or become less secure.

	2016 SCR charge €	Day 1 SCR charge €
Counterparty Default Risk	6,466,486	30,819,782

Key areas where the Company is exposed to credit risk are:

- reinsurers' share of technical reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- deposit amounts due from bank counterparties.

Mitigation

Controls are in place for credit risk. The Company currently has a board established Underwriting Policy, Capital Management and Dividend Policy to materially manage credit risk/counterparty risk.

4. Liquidity Risk

Liquidity risk can also be described as illiquidity risk which is the risk that a given asset cannot be traded quickly enough to prevent a loss. Liquidity risk may stem from:

i. a loss or reduction in the value of existing funding;
ii. off-balance sheet commitments being called;
iii. investments or acquisitions that require new funding;
iv. timing mismatches between asset maturities/realisation and liability cash flows; and
v. problems arising from holding difficult-to sell assets to meet current liabilities.

Mitigation
The Company uses the board approved Investment Policy to mitigate liquidity risk.

5. Operational Risk
   Operational risk is the risk of a loss arising from inadequate internal processes, personnel or systems, or from external events. For the Company this is the risk that it incurs losses from IT failures, legal and regulatory non-compliance, internal control breakdowns, loss of key personnel, outsourced arrangements etc. The Company's business processes are reliant on systems, personnel, procedures and must comply with laws and regulations from many stakeholders. The operational risk has a medium monetary value.

   Mitigation
   Controls applied by the Company are the following:
   i. the Company's board powers of reserved decision, an annual review of the Company's Corporate Governance Framework & Policies;
   ii. annual review of documented prescribed procedures highlighting sign-off and segregation of duties;
   iii. annual SOX /Internal audit testing of procedures;
   iv. annual PWC/EY external audit (group and local) testing of controls,
   v. business resumption protocols for the Company's operations;
   vi. annual claims oversight audits per country carried out by Head of Claims reporting to the board;
   vii. business resumption plan for IT/building damage or failure including IT back-ups,
   viii. monitoring of service level agreements for key outsourced activities;
   ix. regular PRMRG meetings.

6. Other Material Risks
   Other material risks are Capital Risk

Capital Risk

Capital risk is the risk that capital is required to act as a cushion to absorb losses arising from business operations and allow the Company to remain solvent under challenging conditions. Capital risk arises mainly as a result of the quality or quantity of capital available, the sensitivity of a firm's exposures to external shocks and/or the level of capital planning and management process. Capital risk has a high monetary value.

Mitigation
Both prevention and detection controls are in place for capital risk. Under prevention controls the Company:

i. as part of the quarterly board meeting process, monitors adverse trends that would impact the SCR charge and takes pro-active mitigating action before events would cause material harm;
ii. complies with Hertz policies and procedures, maintains a Corporate Governance Framework and Policies along with annual actuarial reviews by Willis Towers Watson.

Under detection controls there are:

i. monthly reviews of financial reporting by the Company's finance manager and the wider Hertz finance team;
ii. daily reviews by Hertz treasury of institution ratings and values of bank balances held;
iii. quarterly review of the Solvency II QRTs by the finance manager and SII SCR Standard formula calculation by Willis Towers Watson;
iv. quarterly SOX reporting to Hertz group for review; and
v. quarterly risk committee/board reporting documents and bi-annual Willis Towers Watson review of claims reserves.

C.2 Off Balance Sheet Positions

The Company holds two Letters of Credit in the amounts of CHF 200,000 and €82,700,000 respectively to support reinsurance obligations to the company.

C.3 Risk concentration

The Company is subject to risk concentration from its reinsurance arrangements within the Hertz Group specifically with Hire Bermuda Limited (85% of business is ceded). This is partly mitigated by the related LOC. The clean irrevocable LOC held by Hire Bermuda Limited with Natixis for €82.7million is treated as collateral within the SII SCR standard formula.

Additionally the Company's loan to HHN of €20million represents the largest part of the concentration charge in the SII SCR Standard formula. The concentration charge results from the concentration risk module which applies a monetary amount to the largest single name exposure counterparties. In the case of the Company this is deposits with HSBC, BCEE and the HHN intercompany loan. The loan is held on an arms-length loan agreement and the Company's management and board are comfortable that this loan is secure. However the board have agreed to explore ways to mitigate the charge being imposed during 2017. There are currently no plans to enter into any further loans or arrangements which would create future risk concentrations.

C.4 Mitigating Risks

See individual sections by risk in C1 above.

C.5 Future premiums

Currently this is not applicable as all profits are captured within a one year contractual boundary – see QRT S.23.01.01.01.

C.6 Stress Testing

The ORSA was approved for submission by the Company's board 4th October 2016. Stress testing is completed as part of the annual ORSA process. The Company's board along with management are involved in deciding upon areas to stress test. The calculations are completed by the finance team and are reviewed by the management team before presenting them to the risk committee and board for review.

The Company measures the SCR or capital risk on two axes, impact and likelihood.

The impact or consequence is that the outcome of an event impacts an objective either positively or negatively. The impact may be certain or uncertain and may be expressed qualitatively or quantitatively. Each SCR% risk impact is assessed as belonging to one of the following ranges:

- **Low Impact (above 130%)** – If the SCR cover was to approach this level it would result in no escalation necessary, minimal solvency impact.
- **Medium Impact (between 100% to 130%)** – If the SCR cover was to approach 125% level it would result in escalation to the risk committee and board. This movement would be of material monetary value to the Company. There is potential for breach of laws and regulations and potential reputational impact for Hertz/the Company in the future to public disclosure requirements from 2017 onwards on 2016 levels.
- **High Impact (Less than 100% SCR level)**- If the SCR cover was to fall below 100% it would result in immediate required escalation within 5 days to the CBI, potentially would make the Company insolvent with material negative effect on the financial statements. There is a potential breach of laws and regulations and with possible sanctions and imposed action plans on the entity. Most likely of these actions would be a required injection of capital to CBI stated level of SCR%. For Hertz and the Company there would be a potential reputational impact in the future to public disclosure requirements from 2017 onwards on 2016 levels.

The probability or likelihood is the chance of something happening, determined objectively or subjectively, described using general terms or mathematically. Each risk probability is assessed as belonging one of the following ranges:

- **Low Probability** – Risk event to happen in the range of 1/10 years to 1/200 years
- **Medium Probability**- Risk event to happen in the range of 1 every year to 1/10 years
- **High Probability**- Risk event to happen within the range of 0 to 12 months

For the 2016 ORSA the Company ran fourteen scenarios starting with the June results as a base scenario. Of the fourteen scenarios, seven were deemed to be low probability, six were deemed to be medium probability and one was deemed to be high probability. Only one of the scenarios had the possibility of bringing the SCR below the CBI mandated level of 100%.

C.7 Any other information

There is no other material information beyond what has been discussed above to note.

Section D Valuation for Solvency Purposes

D.1 Assets

As the Company has a limited number of assets there are no differences between the financial statements statement of financial position value and the Solvency II balance sheet value.

Comparison of balance sheet amounts 31 December 2016	Financial Statements Statement of financial position €	Solvency II Balance Sheet €	Difference €
Other financial investments/deposits other than cash equivalents	44,745,218	44,745,218	-
Other debtors affiliated/other mortgages and loans	20,000,000	20,000,000	-
Debtors arising out of direct reinsurance/insurance intermediaries receivable	16,187,782	16,187,782	-
Deferred tax/ deferred tax assets	6,335	6,335	-
Cash at bank/cash and cash equivalents	13,367,324	13,367,324	-
Other debtors non-affiliated/any other assets not elsewhere shown	619,565	673,455	(53,890)
Prepayments	7,631	-	7,631
Accrued interest	46,259	-	46,259
Total assets	**94,980,114**	**94,980,114**	**-**

Other assets held by the Company fall under the following Solvency II categories:

1. Investments (other than assets held for index linked and unit linked contracts) made up of the subcategory deposits other than cash equivalents – for the Company this consists of deposits held for not more than three months. In 2015 investments also included the subcategory corporate bonds which for the Company consisted of a single Swiss bond which matured in January 2016;
2. Loans and mortgages made up of the subcategory other loans and mortgages – for the Company this consists of an intercompany loan held with HHN;
3. Insurance and intermediaries receivables – for the Company this is made up of receivables from companies within the group due to the provision of insurance;
4. Cash and cash equivalents – for the Company this consists of cash at bank in current accounts; and
5. Any other assets – for the Company this consists of non-affiliated debtors, sundry debtors, accrued interest, prepayments and corporation tax assets.

The Company holds no investment products and as such there are no specific valuation techniques employed in valuing the assets in the statement of financial position. Deposits are initially recognized at the transaction price and are subsequently recognized on an undiscounted basis. In previous years the bonds held were recognised initially at transaction price with subsequent recognition in the statement of financial position at the current fair value. Fair value was established by the bonds value on the open market. Movements in fair value were recognized in the profit and loss account. Prepayments are included on a 12 month straight line basis. Accrued interest is based on rates supplied by the wider Hertz group which are based on Euribor plus a spread with the maximum accrual amount being 3 months.

Risk in the asset mix is low as intercompany amounts owed are always paid one month in arrears via the Hertz netting department and deposits are held with banks with a strong rating. Bank ratings and limits on deposits are monitored by Hertz Treasury department.

D.2 Technical provisions

Solvency II Gross Technical Provisions	**31 December 2016 €**	**31 December 2015 €**	**Difference year over year €**
Motor Vehicle Liability Best Estimate	150,341,208	141,118,089	9,223,119
Motor Vehicle Liability Risk Margin	2,287,359	5,343,264	(3,055,905)
Assistance Best Estimate	434,880	538,474	(103,594)
Assistance Risk Margin	109,784	105,002	4,782
Property Best Estimate	-	718,756	(718,756)
Property Risk Margin	4,263	27,891	(23,628)
Total Solvency II Gross Technical Provisions	**153,177,494**	**147,851,476**	**5,326,018**

Comparison of balance sheet amounts	**Financial Statements Statement of Financial Position 31 December 2016 €**	**Solvency II Balance Sheet 31 December 2016 €**	**Difference €**
Motor Vehicle Liability	151,202,642	152,628,567	(1,425,925)
Assistance	433,567	544,664	(111,097)
Property	-	4,263	(4,263)
Total Solvency II Gross Technical Provisions	**151,636,209**	**153,177,494**	**(1,541,285)**

Technical provisions have been calculated in accordance with Solvency II regulations and article 77b of the Solvency II Directive. Gross technical provisions comprising discounted best estimate and risk

margin were €153.2million as at December 2016 (2015: €147.9million) made up of €150.3million best estimate and €2.3million risk margin for Motor Vehicle Liability (2015: €141.1million best estimate and €5.3million risk margin) and €0.4million best estimate and €0.1million risk margin for Assistance (2015: €0.5million best estimate and €0.1million risk margin).

The remainder of the gross technical reserves of €0.7million in 2015 came from the Property programme which was closed in March 2016. This was made up of €0.7million best estimate and €27k risk margin. (As the Property programme only finished in March 2016 a residual amount of €4k remains in the risk margin as relating to this line of business in 2016; this is immaterial for the 2016 results). Based on the structure of the Company and the timing of the premium payment there is no unearned premium reserve as at 31 December 2016, therefore no premium provision is required.

Solvency II Reinsured Technical Provisions	**31 December 2016 €**	**31 December 2015 €**	**Difference year over year €**
Motor Vehicle Liability Best Estimate	128,653,718	119,762,821	8,890,897
Motor Vehicle Liability Default Adjustment	(2,652,371)	(4,006,074)	1,353,703
Property Best Estimate	-	393,807	(393,807)
Property Default Adjustment	-	(20)	20
Total Solvency II Reinsured Technical Provisions	**126,001,347**	**116,150,534**	**9,850,813**

Comparison of balance sheet amounts	**Financial Statements Statement of Financial Position 31 December 2016 €**	**Solvency II Balance Sheet 31 December 2016 €**	**Difference €**
Motor Vehicle Liability	129,382,038	126,001,347	3,380,691
Total Solvency II Reinsured Technical Provisions	**129,382,038**	**126,001,347**	**3,380,691**

Reinsured technical reserves comprising discounted best estimate adjusted for default were €126million as at December 2016 (2015: €116.1million). All of the reinsured technical reserves for 2016 related to Motor Vehicle Liability made up of €128.7million best estimate and €-2.7million default. In 2015 the reinsured reserves were split between Motor Vehicle Liability €115.8million (€119.8million best estimate and €-4million default) and Property €0.4million (€0.4million best estimate). The default adjustment is calculated following the prescribed approach as specified in the Solvency II technical specifications.

Reinsurance consists of an 85% quota share arrangement with Hire Bermuda which began in 2007. Prior to this the quota share arrangement had been with Hire Dublin which has been in run off since 31 December 2006. The quota share arrangement covers claims up to US$5million for 2016 (2015: US$10million).

Discounted best estimate is calculated by using payout patterns calculated by Willis Towers Watson and applying a discount factor. The discount factor applied is the European Insurance and Occupational Pensions Authority ("EIOPA") basic risk-free interest rate term structure with no

volatility or matching adjustments for each appropriate currency. Removing the discount factor, the gross and reinsured best estimate technical provisions are equal to the gross and reinsured technical provisions in the financial statements of the Company.

Risk margin is calculated in accordance with Solvency II technical specifications. For the Company this is a simplified risk margin allocation based on the calculation of the standalone SCR for the different lines of business.

For the technical provisions in the financial statements, insurance contracts estimates have to be made both for the unexpected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods. These actuarial projections are performed by Willis Towers Watson as the Company's outsourced actuarial function. Technical provisions and related reserve adjustments are reviewed by management before any changes are made to the Company's books.

Technical provisions are subject to uncertainty from various factors including:

1. The claims development process due to one off large claims and the accumulation of medium sized losses;
2. Reserve estimation due to differences in parameters and assumptions;
3. External environmental factors including inflation in claims settlements, legal changes and changes in attitude to litigation, fluctuations in exchange rates and changes in underwriting approach or other factors; and
4. Failures to make recoveries from reinsurance companies.

Willis Towers Watson consider the first three to be the most material when determining the technical provisions best estimates. However they feel the risk is mitigated by the quota share reinsurance held with Hire Bermuda and the excess of loss treaty above US$5million.

D.3 Other liabilities

Comparison of balance sheet amounts 31 December 2016	Financial Statements Statement of financial position €	Solvency II Balance Sheet €	Difference €
Creditors arising out of direct insurance operations/insurance and intermediaries payable	24,155,982	24,155,982	-
Other creditors including tax and social security/payables (trade not insurance)	1,037,056	1,037,056	-
Accruals and deferred income/any other liabilities not elsewhere shown	266,035	266,035	-
Total liabilities	**25,459,073**	**25,459,073**	**-**

As with other assets, the Company has a limited number of other liabilities. There are no differences between the financial statements value and the Solvency II balance sheet value of these liabilities.

Liabilities held by the Company fall into the following Solvency II categories:

1. Insurance and intermediaries payable – for the Company this consists of intercompany amounts owed to Hire Bermuda Limited for the 85% quota share arrangement;
2. Payables (trade, not insurance) – for the Company this consists of Insurance Premium Tax ("IPT") charges accrued; and
3. Any other liabilities – for the Company this consists of accrued expenses.

As there are no complex liabilities in the statement of financial position there are no specific valuation bases employed. Liabilities are initially recognized at the transaction price and are subsequently recognised on an undiscounted basis. Accrued expenses are included based on prior year experiences and are included on a straight line basis i.e. over twelve months.

D.4 Alternative methods for valuation

This is not applicable for the Company.

D.5 Any other information

There is no other material information beyond what has been discussed above to note.

Section E Capital Management

E.1 Own funds

Solvency II Own Funds	31 December 2016 €	31 December 2015 €	Difference year over year €
Ordinary share capital	6,866,246	6,866,246	-
Deferred tax assets	6,335	-	6,335
Reconciliation reserve	35,472,313	28,670,671	6,801,642
Total Basic Own Funds	**42,344,894**	**35,536,917**	**6,807,977**

Own funds for the Company are made up of ordinary share capital, deferred tax assets and reconciliation reserve. Both share capital and the reconciliation reserve are unrestricted tier 1 funds and are 100% eligible to cover the SCR and MCR of the Company. Deferred tax assets are classified as tier 3 basic funds and are excluded from the MCR calculation.

Financial statements vs Solvency II	31 December 2016 €	31 December 2015 €
Financial statements: Profit and loss account and translation reserve	40,400,624	38,026,914
Solvency II: Reconciliation reserve	35,472,313	28,670,671
Difference	**4,928,311**	**9,356,243**

The difference between the financial statements equity and the Solvency II balance sheet equity is driven by the differences in the technical provisions valuations as detailed above. Movement in the statement of financial position equity year over year is a result of the profit made for the year 2016. Solvency II reconciliation reserve consists of the excess of assets over liabilities and as such movement year over year relates to movements in the excess of assets over liabilities. Solvency II assets have increased by €33.2million while Solvency II liabilities have increased by €26.4million in the same period.

The board have agreed to maintain an SCR cover of 130%. A decrease resulting in a percentage of between 125% and 130% will not require action however the percentage moving any lower than 125% will require action from the board to restore the 130% level. The Company's strategy in relation to own funds is laid out in its Capital Management and Dividend Policy which is reviewed annually by the board.

E.2 SCR and Minimum Capital Requirement ("MCR")

Eligible capital at 31 December 2016 amounted to 165% of the SCR or €25.6million (2015: 77% or €46.3million) and amounted to 662% of the MCR at 31 December 2016 or €6.4million (2015: 307% or €11.6million). Linear MCR is calculated as a percentage of the net technical provisions plus net premium written of both the motor vehicle liability and assistance lines of business. The MCR used is then the higher of this and the floor of the MCR calculation which is 25% of the SCR. The MCR presented throughout 2016 for the Company is 25% of the SCR calculated.

The main drivers of the movements are changes in the default and catastrophe sub modules.

The Default sub module attracted a charge of €30.8million at Day 1 but by year end 2016 it had reduced to €6.5million. Default risk is based on counterparty default risk. This is calculated by applying 15% to assets which are less than 3 months overdue and 90% to assets which are more than 3 months overdue. Additionally a further calculation giving the loss given default risk on the reinsurance recoverables, cash at bank and risk mitigation contracts is also applied.

The calculation for loss given default is complex and can increase significantly if the standard deviation of the loss distribution exceeds 7% of the loss given default. At Day 1 the standard deviation exceeded this 7% threshold and a factor of 5 was applied to the standard deviation calculated of €5.8million. In Q1, Q2, Q3 and Q4 the standard deviation dropped below this 7% threshold and therefore a factor of 3 was applied each time significantly lowering the charge. Driving this change in the standard deviation has been an increase in the LOC which mitigates the reinsurance recoverable risk.

The Catastrophe sub module attracted a charge of €3.2million at Day 1 but by year end it had reduced to €0.7million. Catastrophe risk has dropped significantly as the Company's exposure to catastrophe risk has reduced during 2016 with the closure of the property programme.

The only other material change in the SCR/MCR calculation during 2016 came about in Q2 where it was advised by Willis Towers Watson, as the Company's actuary, that the Company, along with using the LOC as collateral in the assets for the SCR calculation, could also include the LOC as an unrated reinsurance asset. (The LOC is included in the calculation as a reinsurance asset while 75% of the LOC value is included as collateral.) This had the effect of increasing the June SCR by 25%. After discussion with the board the decision was taken to apply this new treatment. This change was retroactively applied to the Day 1 and Quarter 1 returns in January 2017 after discussion with the CBI. This increased the Day 1 SCR from 71% to 77% and the Quarter 1 SCR from 120% to 133%.

The Company uses the EIOPA SII SCR Standard formula and does not use company specific parameters or simplified calculations in its computations.

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

This is not applicable for the Company.

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

This is not applicable for the Company.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the SCR

Non-compliance with the SCR was noted at Day 1. This was rectified for Quarter 1 2016 with an increase in the amount covered by the LOC and there have been no instances of non-compliance for the remainder of 2016 (the LOC was further increased at Q2 2016). The SCR and MCR are monitored on a monthly basis and quarterly return calculations are reviewed by Willis Towers Watson for reasonableness.

E.6 Any other information

There is no other material information beyond what has been discussed above to note.