# Allianz Re Dublin
# Designated Activity Company

Solvency and Financial Condition Report
Year ended 31 December 2020

*Registered number 307500*

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Disclaimer regarding rounding

Figures in this report are presented in millions of Euro ('EUR mn') unless stated otherwise. Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not reflect precisely the absolute figures.

# Executive Summary

Allianz Re Dublin Designated Activity Company ('AZRD', 'Allianz Re Dublin dac' or 'the Company') has prepared this Solvency and Financial Condition Report ('SFCR') for public disclosure in compliance with the requirements set forth in the Commission Delegated Regulation (EU) 2015/35 ('Delegated Regulation') of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) ('Solvency II Directive').

The structure of the SFCR follows the requirements set forth in Chapter XII, Section 1, Article 290 – Article 303 and Annex XX of the Delegated Regulation, and consists of the following sections: (A) Business and Performance, (B) System of Governance, (C) Risk Profile, (D) Valuation for Solvency Purposes and (E) Capital Management.

**A Business and Performance**

Allianz Re Dublin dac, a subsidiary of Allianz Europe B.V. and an associated company of Euler Hermes Group SAS, is a legal entity of Allianz Group with Allianz SE the ultimate parent company. The Company is an Irish composite reinsurance undertaking under supervision of the Central Bank of Ireland ('CBI') and underwrites most property and casualty reinsurance lines of business from cedants within Allianz Group. The Company's cedants, some of which have a worldwide presence and cover risks globally, are domiciled primarily in Western European countries or the United States.

The Company's portfolio of assumed reinsurance risks increased significantly in 2020 mostly driven by large quota share agreements. The main retrocession arrangements, a whole account stop loss ('WASL') and a per event natural catastrophe ('NatCat') excess of loss cover with Allianz SE, continued to be in place. The Company further acquired 100% of Euler Hermes Reinsurance AG and set up a permanent establishment in the United States.

The Company's technical result before tax for 2020 decreased to a loss EUR 4.6mn from a profit of EUR 0.7mn in 2019. The deterioration of the technical result was mostly due to claims relating to the global pandemic. Despite a falling interest rate environment, the 2020 investment result was higher than last year mostly driven by realized gains and also a higher asset base.

**B System of Governance**

This section aims at enabling the public to assess whether the system of governance is set up in an appropriate manner with regard to the Company's strategic objectives and business operations. No material changes to the Company's system of governance were implemented in 2020.

The Company's Board of Directors (hereafter 'the Board') is responsible for the overall management and oversight of the Company. The Board strives to keep the current corporate governance framework up to date with new legislation and to identify best practice.

The Board is composed of a majority of non-executive Directors and performs its duties with the support of the following Committees: Audit Committee, Risk Committee, Finance and Investment Committee, Underwriting Committee and Reserve Committee. The general operational management and control of the Company is delegated to the Chief Executive Officer ('CEO').

The Company's Fit and Proper Policy sets out principles, criteria and processes to ensure the fitness and probity of those who manage the undertaking or work within key functions.
The Company has set up a comprehensive risk management framework which ensures the coordination of the Company's business and risk strategies and the integration of the different elements of the risk management system.

The internal control system of the Company comprises the set of activities undertaken to achieve the objectives of (i) effective and efficient operations, (ii) reliability of management and financial reporting and (iii) compliance with applicable laws and regulations.

The Company's internal control system is embedded into the operational and organisational set-up throughout the Company and is articulated along the three-lines-of-defence model. According to the model, the first line of defence covers operational controls; assurance functions (risk management, actuarial and compliance) represent the second line, while internal audit provides the third line of defence.

**C Risk Profile**

The section describes the risk management, exposure and sensitivity for each material risk category. In line with the Company's risk strategy, underwriting risk is the largest and most important strategic risk for the Company and is to be sought as long as the risk bearing capacities of the Company are not exceeded and it can generate enough profit or reduce capital, to create value for the shareholder. Any other risk is to be actively avoided if possible or managed down to an acceptable level.

With regards to the Prudent Person Principle, the section outlines how the security, quality, liquidity, profitability and diversification of the investment portfolio are achieved and how specific rules are applied for certain investment categories, e.g. derivatives.

**D Valuation for Solvency Purposes**

This SFCR provides information on the Market Value Balance Sheet ('MVBS') and a comparison of MVBS and the Company's statutory financial statements, which are based on *Financial Reporting Standard 101 Reduced Disclosure Framework* ('FRS 101'). Explanations for material differences in the valuation of assets, technical provisions and other liabilities are provided in this section.

There were no material changes to the valuation of assets, technical provisions and other liabilities in 2020 compared to the previous reporting period. However, new asset categories have been recognized, especially participations, that had not been on the Company's balance sheet before, which require a different valuation under MVBS and FRS 101.

The matching adjustments and the transitional measures referred to in Articles 308c and 308d of the Solvency II Directive are not applied.

**E Capital Management**

The Company uses the Allianz internal model for the calculation of the Solvency Capital Requirement ('SCR') and applies an integrated capital framework as described in its Capital Management Policy.

As at 31 December 2020, the Company's Own Funds amounted to EUR 2,407.6mn, of which EUR 2,407.3mn were Tier 1 Basic Own Funds eligible to meet the SCR and Minimum Capital Requirement ('MCR').

As at 31 December 2020, the SCR amounted to EUR 1,051.1mn and the MCR to EUR 473.0mn. The Company's solvency ratio therefore was 229.0% (219.6% excluding the impact of the Volatility Adjustment).

The Company complied with the MCR and the SCR at all times during the financial year 2020 and is expected to continue doing so despite the continued impact of COVID-19-related claims. The Company has remained profitable in 2020 despite these claims and the experience of 2020 has been reflected in the pricing and conditions of contract renewals for 2021.

# A Business and Performance

## 1 Business

### 1.1 Financial supervision, group membership and legal structure

Allianz Re Dublin dac is a composite reinsurance undertaking domiciled in Ireland under financial supervision of the Central Bank of Ireland (New Wapping Street, North Wall Quay, Dublin 1, Ireland).

The Company, a legal entity of Allianz Group, is a subsidiary of Allianz Europe B.V. (ownership interest of 55.05%) with a registered office at Keizersgracht 484, 1017 EH, Amsterdam, the Netherlands and an associated company Euler Hermes Group SAS (ownership interest of 44.95%) with a registered office at 1 Place des Saisons, 92048 Paris-La Défence, France. This follows an ordinary share capital increase of EUR 2,711.8mn on August 1, 2020. The shares were acquired by Euler Hermes Group SAS. Allianz Re Dublin dac received 100% of the shares in Euler Hermes Reinsurance AG with a registered office at Richtiplatz 1, 8304 Wallisellen, Switzerland as compensation.

Allianz SE, the parent company of Allianz Group, has its headquarters in Königinstrasse 28, 80802 Munich, Germany and holds the legal form of a European company (Societas Europaea, 'SE').

The German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht ('BaFin'), Graurheindorfer Str. 108, 53117 Bonn, Germany) is the group supervisor of Allianz Group.

The Company's position within Allianz Group's legal structure is shown below:

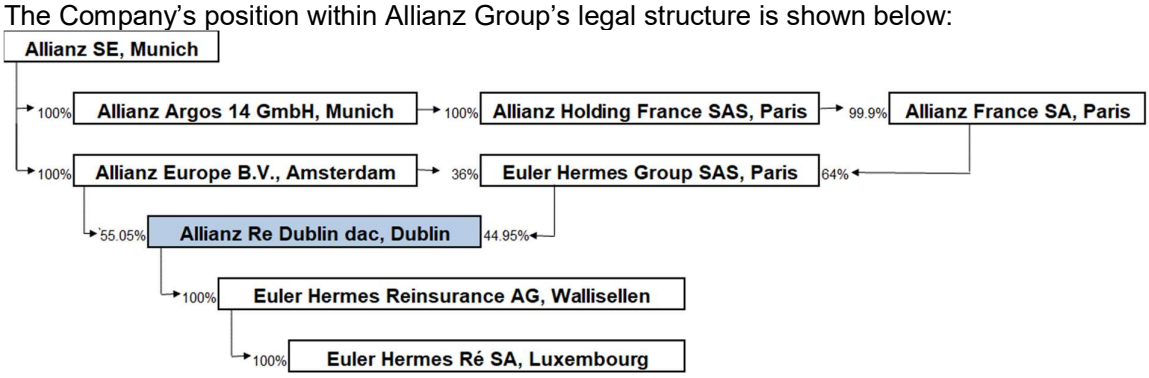


**Figure 1:** The Company's position within Allianz Group's legal structure as at 31 December 2020

### 1.2 External auditors

PricewaterhouseCoopers (One Spencer Dock, North Wall Quay, Dublin 1, Ireland) audited the Company's financial statements and the relevant elements of this report for the year ended 31 December 2020. The conduction of the audit and the resulting opinion is stated in the independent auditors' report signed by the audit partner Paraic Joyce.

## 1.3 Principal activities

The principal activity of the Company is the transaction of international reinsurance business. The Company utilises its in-house expertise to provide reinsurance to companies within Allianz Group.

## 1.4 Significant business and other events

***Non-Life reinsurance business***

In 2020, the Company's gross written premium amounted to EUR 4,015.7mn with the large increase compared to the prior year's level due to additional business written in 2020. This additional business were mostly new large net quota share agreements with Allianz Partners, Fairmead, and Liverpool Victoria. The main retrocession arrangements, a whole account stop loss ('WASL') and a per event NatCat excess of loss cover with Allianz Societas Europaea ('Allianz SE'), continued to be in place.

On 1 August 2020, having secured regulatory approval, the Company completed the acquisition of 100% of Euler Hermes Reinsurance AG ('EH Re AG'). The main rationale for the acquisition was to further streamline the Allianz Group holding structure, to progress the consolidation of all group internal reinsurers under Allianz Reinsurance globally and to provide capital benefits to the Company and by extension, Allianz Group. As part of this transaction the Company increased its share capital by EUR 2,711.8mn and received the participation in EH Re AG from Euler Hermes Group SAS in exchange for the new shares.

The Company has set up in September 2020 a Permanent Establishment in the United States ('USPE'). As part of this establishment, Allianz Reinsurance Management Services Inc. ('AZRMS') acts as a dependent agent for the Company with the authority via a management service agreement to underwrite and bind reinsurance risks ceded by Allianz Group US affiliates. In 2020, the Company underwrote through the USPE a new 50% quota share reinsurance agreement with Jefferson Insurance Company ('Jefferson') and loss portfolio transfer with Allianz Global Risks US Insurance Company ('AGR US').

***Regulatory developments***

In 2020, the Company completed the annual Solvency II submission including a summary of the Regular Supervisory Report for financial year 2019 and conducted a review of all policies implemented per the Solvency II Directive requirement to ensure each policy was fully executed and operational within the Company.

# 2 Underwriting performance

The Company defines underwriting performance based on FRS 101 as applied in the Company's Financial Statements for all qualitative and quantitative information provided in this chapter in line with the Quantitative Reporting Templates S.05.01 and S.05.02 as

| | |
|---|---|
| | *premiums* |
| +/- | *claims incurred* |
| +/- | *acquisition and administrative expenses incurred* |
| +/- | *change in other technical provisions* |
| = | *underwriting result* |

Information is provided net of retrocession, if not stated otherwise.

## 2.1 Non-life underwriting performance

In 2020, the Company's ***gross written premium*** amounted to EUR 4,015.7mn with the strong increase compared to the prior year's level mostly due to new large net quota share agreements with Allianz Partners, Fairmead, and Liverpool Victoria.

| In EUR mn | 2020 | 2019 |
|---|---|---|
| Gross written premiums | 4,015.7 | 1,846.2 |
| Net earned premiums | 3,386.0 | 1,730.7 |
| Net claims incurred | (2,475.6) | (1,359.8) |
| Net change in other technical provisions | (1.4) | (1.7) |
| Net expenses incurred | (942.8) | (399.6) |
| **Net underwriting result** | **(33.7)** | **(30.4)** |

**Table 1:** Non-life underwriting performance

Due to the impact of the global pandemic, the Company's ***underwriting result*** net of reinsurance slightly deteriorated to a loss of EUR 33.7mn (2019: loss of EUR 30.4mn), while the prior year had been marked by a loss due to one large stop loss contract recording a significant loss due to underlying performance of the contract's worldwide casualty line of business.

The increase in expenses is predominantly the result of higher acquisition costs due to the additional business volume and a reduced impact from the result composition of a large stop loss treaty in comparison to prior year.

## 2.2 Non-life underwriting performance by material line of business

The Company underwrites most property and casualty reinsurance lines of business including property, natural catastrophe, motor, aviation, liability, marine, engineering, workers' compensation, agricultural, credit and space and provides both proportional and non-proportional reinsurance cover to its cedants.

| Underwriting performance by material line of business in EUR mn | | Gross written premiums | | Net underwriting result | |
|---|---|---|---|---|---|
| | | 2020 | 2019 | 2020 | 2019 |
| accepted proportional reinsurance (r/i) | Medical | 1,038.5 | 0 | 5.4 | 0 |
| | Motor* | 650.8 | 394.4 | 73.8 | (2.0) |
| | Fire and other damage to property | 558.1 | 285.2 | (120.0) | (52.4) |
| | Miscellaneous financial loss | 349.3 | 239.7 | 19.9 | 16.6 |
| | General liability | 474.2 | 253.4 | (51.4) | 24.2 |
| | Other accepted proportional r/i | 147.8 | 177.9 | (2.6) | (4.0) |
| accepted non-proportional reinsurance (r/i) | Property | 400.7 | 315.0 | (64.9) | 152.8 |
| | Casualty | 315.0 | 141.4 | 85.6 | (160.9) |
| | Other accepted non-proportional r/i | 81.3 | 39.1 | 20.5 | (4.6) |
| **Total non-life portfolio** | | **4,015.7** | **1,846.2** | **(33.8)** | **(30.4)** |

* Includes Motor vehicle liability and Other motor accepted proportional reinsurance

**Table 2:** Non-life underwriting performance by material line of business

***Medical***, has become the Company's biggest proportional line of business in terms of premiums in 2020. This increase was mainly driven by a single quota share agreement with an Allianz entity in France. Medical comprises of medical expenses insurance similar to non-life business.

***Motor***, the Company's second biggest proportional line of business in terms of premiums, is predominantly Motor vehicle liability and to a smaller extent Motor own damage and other Motor lines of business.

The net underwriting result in the ***Fire and other damage to property*** line of business remained at an unsatisfactory level.

The ***Miscellaneous financial loss*** portfolio comprises pet insurance, travel insurance and to a significantly smaller extent also business interruption reinsurance.

The underwriting performance of the ***General liability*** reinsurance portfolio deteriorated compared to last year.

The following lines are summarised under ***Other accepted proportional reinsurance***:

- Assistance reinsurance;
- Credit and suretyship reinsurance;
- Income protection reinsurance;
- Legal expenses reinsurance;
- Marine, aviation and transport reinsurance;
- Workers' compensation reinsurance.

***Property***, the biggest ***accepted non-proportional reinsurance*** line of business in terms of premiums, showed a strong deterioration due to the impact of COVID-19 despite limited natural catastrophe activity.

The ***accepted non-proportional Casualty reinsurance***, on the other hand, returned to profitability after it had been driven into loss in 2019 due one large stop loss contract recording a significant loss due to underlying performance of the contract's worldwide casualty line of business.

The following lines are summarised under ***Other accepted non-proportional reinsurance***:
- Marine, aviation and transport reinsurance;
- Health reinsurance.

### 2.3 Non-life underwriting performance by material geographical area

The Company provides reinsurance protection to cedants domiciled primarily in Western European countries and the United States. Some cedants have a worldwide presence and cover risks globally.

The allocation of the Company's portfolio to geographical areas in this chapter follows the definition applicable for reinsurance in the Quantitative Reporting Template S.05.02 and is based on the cedant's country of residence.

| Underwriting performance by material geographical area in EUR mn | | Gross written premiums | | Net underwriting result | |
|---|---|---|---|---|---|
| | | 2020 | 2019 | 2020 | 2019 |
| Country of residence | Ireland | 292.7 | 282.7 | (45.3) | (15.1) |
| Other material geographical areas | United Kingdom | 1,505.1 | 899.5 | 48.1 | 22.3 |
| | France | 1,145.6 | 110.7 | (1.0) | 68.1 |
| | Germany | 833.2 | 418.7 | 105.2 | (76.1) |
| | Other markets | 239.2 | 134.6 | (140.8) | (29.5) |
| **Total non-life portfolio** | | 4,015.7 | 1,846.2 | (33.7) | (30.4) |

**Table 3:** Non-life underwriting performance by material geographical area

The Company's country of residence is ***Ireland***. The figures for Ireland presented in Table 3 include not only the proportional and non-proportional cessions from the Company's Irish cedant but also the Company's administrative costs and the expense for the Company's retrocession predominantly to Allianz SE (Reinsurance).

The ***United Kingdom*** is the Company's biggest source of business in terms of premiums as the result of three large quota share cession. The second largest source of business is ***France***, mostly driven by a single large quota share agreement relating to a portfolio of medical expense insurance.

The underwriting result of the cessions from the Company's cedants residing in ***Germany*** returned to profitability after its performance had been affected negatively in the prior year by one large stop loss contract recording a significant loss due to underlying performance of the contract's worldwide casualty line of business.

The underwriting result from ***Other markets*** was strongly negative driven by the strengthening of the company reserve and other loss reserves allocated to this segment.

# 3 Investment performance

The following table provides details on the Company's investment performance based on FRS 101 as disclosed in the Company's Financial Statements:

| Investment performance in EUR mn | 2020 | 2019 |
|---|---|---|
| Interest income on securities and deposits | 63.6 | 61.1 |
| Realised gains on other financial investments | 11.3 | 4.1 |
| Realised FX gains | 228.7 | 102.0 |
| Unrealised gains / (losses) on FX forwards | (0.4) | 1.4 |
| **Investment return** | **303.3** | **168.7** |
| | | |
| Investment management and interest expenses | (9.4) | (9.8) |
| Realised losses on other financial investments | (2.0) | (1.1) |
| Realised FX losses | (231.0) | (105.4) |
| Amortisation of securities | (12.8) | (12.3) |
| **Investment charges** | **(255.2)** | **(128.6)** |
| **Investment result** | **48.1** | **40.0** |

**Table 4:** Investment income and expenses

Despite a falling interest rate environment, the 2020 investment result was higher than prior year mainly due to an increase in realised gains and a higher asset base. The Company reported EUR 2.7bn (2019: EUR 2.5bn) worth of debt and other fixed income securities and EUR 3.3bn (2019: EUR 2.0bn) worth of deposits to cedants under FRS 101 relating to reinsurance accepted in its MVBS. For further details on the fixed income portfolio please refer to section D Valuation for Solvency Purposes, in particular D.1.7 Investments and D.1.9 Loans and Mortgages, for further details on the deposits to cedants relating to reinsurance accepted please refer to chapter D.1.11.

The following table provides information on gains / (losses) recognised directly in equity:

| Other comprehensive income / (loss) in EUR mn | 2020 | 2019 |
|---|---|---|
| Unrealised gains / (losses) on available-for-sale investments | 36.5 | 51.3 |
| Tax on unrealised gains / (losses) on available-for-sale investments | (4.6) | (6.4) |
| **Total** | 31.9 | **44.9** |

**Table 5:** Other comprehensive income / (loss)

For the MVBS the Company defines securitisation as the sum of investments in 'structured notes' and 'collateralised securities'. In line with the Company's Strategic Asset Allocation ('SAA'), the Company invested EUR 126.3mn in collateralised securities (2019: EUR 104.3mn) and nil in structured notes (2019: nil).

The Company's principles and processes with regards to investments in securitisation are documented in the AZRD Functional Rules for Investment Management.

# 4 Performance of other activities

The Company has in place a serviced office rental agreement with Allianz p.l.c. for a term expiring 1 January 2023.

There were no other material lease arrangements – neither operational nor financial – in place as at 31 December 2020.

# 5 Any other information

All material information on the Company's business and performance has been provided in the previous chapters.

# B System of Governance

## 1 General information on the system of governance

### 1.1 Roles and responsibilities

The Company is a composite reinsurer undertaking registered in Ireland with the company number 307500. A company registered in Ireland is subject to Irish regulations and laws. Company law requires the Directors of the Company to prepare financial statements for each financial year. Under that law they have prepared the Financial Statements in accordance with Irish Generally Accepted Accounting Practice (accounting standards issued by the UK Financial Reporting Council, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and Irish law) addressing the financial reporting requirements and disclosure exemptions for the individual financial statements of subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a wholly owned subsidiary of Allianz SE and part of the global operating entity ('OE') Allianz Reinsurance ('Allianz Re'), an object in the management hierarchy of Allianz Group, encompassing Allianz SE (Reinsurance) (the reinsurance department of the parent company), Allianz Re Dublin dac and further legal entities.

To ensure an effective oversight and steering, the Board define the Company's business strategy, working closely together with the Functional Board of Allianz Re. The overall responsibility for the global steering lies with the Functional Board of Allianz Re.

#### 1.1.1 The Board of Directors

Responsibility for Corporate Governance, i.e. the overall management and oversight of the Company, lies with the Company's Board of Directors. The Directors are committed to achieving and maintaining the highest standards of Corporate Governance in regards to the procedures, processes and attitudes according to which the organisation is directed and managed.

The Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings (the 'Requirements') issued in November 2015 set out the minimum core standards of Corporate Governance. The Company is subject to the Requirements and has been designated by the CBI as a 'Medium-High' risk impact institution and accordingly is required to comply with the majority of its requirements, including the requirement to exercise adequate control and oversight over the activities of its subsidiaries. The Directors and senior management believe the Company is materially compliant with the Requirements.

The Board is constituted and regulated in accordance with and under the provisions of the Companies Act 2014. Board and Director proceedings and conduct are regulated specifically by the provisions of the Company's Constitution. In addition, the Board must comply with the provisions of the Requirements.

Within the Directors' Report forming part of the Company's Financial Statements for the financial year ended 31 December 2020 dated 3 March 2021, the Board issued the following Directors' Compliance Statement: 'The Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations and have drawn up a compliance policy statement; put in place appropriate arrangements or structures that are, in

the Directors' opinion, designed to secure material compliance with the Company's relevant obligations; and reviewed, during the financial year those arrangements or structures.'
The current Board consists of eight Directors, the majority of whom are non-executive Directors ('NED'); four are independent non-executive Directors ('INED'). The roles of the Board's Chairman and Company's Chief Executive Officer ('CEO') are separate. The Board's Chairman is a non-executive Director, in line with the provisions set forth in the Company's Board Charter. The Company's Directors are:

- Amer Ahmed (Chairman) – Non-executive
- Colm Costello – Chief Executive Officer
- Manfred Eberl – Non-executive
- Thomas David Kingston – Independent non-executive
- Frank Mee – Non-executive
- Andrew Stephen Melcher – Independent non-executive
- Michelle Moore – Independent non-executive
- Michael Steel – Independent non-executive

In accordance with the Articles of Association, the Directors are not required to retire by rotation.

The overall corporate governance responsibility of the Board covers the following:

- The effective, prudent and ethical oversight of the Company;
- Setting the business strategy;
- Ensuring that there is an appropriate succession plan in place for both the Board and Senior Management; and
- Ensuring that risk and compliance are properly managed within the organisation.

Responsibility for general operational management and control of the Company is delegated by the Board to the CEO with certain powers reserved (including those which cannot be delegated under law or the Constitution of the Company; these Board Reserve Powers are detailed in the Company's Board Charter).

The matters requiring approval by the Board include, but are not limited to:

- Approval of the Terms of Reference for all Board Committees;
- With the exception of current management of the Company's investment and hedge portfolios, any purchase, sale, transfer of shares or securities which impact the capital structure of the Company;
- Decisions regarding the dividend policy;
- The removal from office of any of the heads of a control function as defined by the Corporate Governance Requirements for Insurance Undertakings issued in 2015;
- Any incorporation of or acquisition or control of any company including without limitation, by way of take-over or merger;
- Approval of the audited Financial Statements of the Company, including approval of any significant changes in accounting policies or practices;
- Changes to the structure, size and composition of the Board including appointment and dismissal of the CEO.

### 1.1.2 Committee framework

The Board operates an effective committee structure to assist it in its governance of the Company. The committee framework comprises (1) Board Committees that involve one or more Board member(s), though not the Chairman of the Board, and (2) Management Committees, where only the executive Director is represented. The committees furthermore involve participants, who are either directly involved at the functional level or are involved in similar roles at Allianz SE or at Allianz Re, and admit guests (both standing and ad-hoc), but

these have no voting rights. The Board retains responsibility for oversight of any matters delegated to any committee or to the management.

The Board has established and maintains the following committees:

- Audit Committee (Board Committee)
- Risk Committee (Board Committee)
- Finance and Investment Committee (Board Committee)
- Underwriting Committee (Management Committee)
- Reserve Committee (Management Committee)

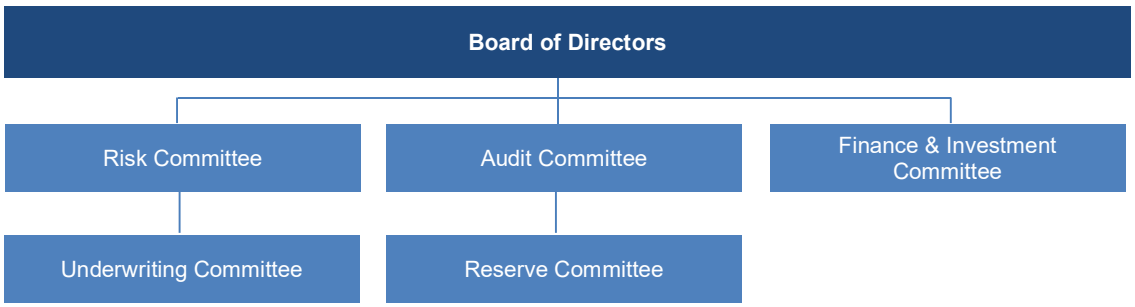


**Figure 2:** Overview of the Company's committee structure as at 31 December 2020

Committees aim to facilitate business steering and to safeguard the Company's oversight function (hereby also supporting the internal control system). Committees have clearly defined mandates, authority, appropriate independence and are composed in a manner appropriately reflecting different functions. Committees report their decisions and activities to the Board for further discussions or for approval. For each committee, terms of reference have been approved and are regularly reviewed.

### *Risk Committee*

The Risk Committee's objective is to define and maintain oversight of all risk management activities within the Company. It supports the Board and supervises the Head of Risk, key function holder of the Company's risk management function, by acting as the primary risk controlling body within the Company. Specific functions and responsibilities of the Risk Committee include the following:

- Oversee the overall risk position of the Company, monitoring all risk types (both quantifiable and unquantifiable, e.g. emerging risk, reputational risk);
- Define, maintain and monitor the structure and scope of the risk management and controlling frameworks, including risk limits, guidelines, the capital model and risk methodology (procedures for the identification, assessment, quantification and reporting of risks);
- Promote and enhance a strong risk culture and develop risk talent for the Company;
- Consider, assess and contribute to the development of the Company's risk / return strategy;
- Ensure that appropriate internal reporting to the Committee, the Board and the Group, is in place both on regular and ad-hoc basis.

The Risk Committee is chaired by an independent non-executive Director.

### *Audit Committee*

The Audit Committee is constituted to assist the Board in fulfilling its oversight responsibilities. Specific oversight responsibilities of the Audit Committee include:

- The integrity of the Company's Financial Statements;

- The Company's compliance with legal and regulatory requirements, including review and pre-approval of annual quantitative and qualitative regulatory reporting such as the Quarterly Reporting Templates ('QRTs') and narrative reports;
- The independent auditor's qualifications and independence;
- The performance of the Company's internal audit function and independent auditors.

The Audit Committee is subject to stringent requirements to ensure its independence. The Chairman of the Board shall not be a member of the Audit Committee. The Audit Committee is composed of non-executive Directors, the majority of those Directors being independent. At least one of the Directors on the committee shall have an appropriate qualification and at least one of the Directors on the committee shall be a person who has competence in accounting or auditing.

The Chairman of the Audit Committee must be an independent non-executive Director.

### *Finance and Investment Committee*

The Finance and Investment Committee is constituted to support the Board in fulfilling its oversight responsibilities regarding investments and market risk in compliance with the Company's risk framework. The Committee assumes the following main functions:

- Oversee and review the investment portfolios of the Company within the framework set by the Company's Risk Appetite Framework;
- Review and recommend to the Board the Company's Strategic Asset Allocation ('SAA');
- Oversee planning and development of asset allocation and investment income;
- Oversee the Company's capital structure and liquidity position;
- Advise on a dividend policy, in line with the Company's Capital Management policy;
- Decide on the Company's derivative strategies;
- Approve setup of investment-related contracts, incl. asset management mandates;
- Implement a defined investment management process;
- Approve individual investment transactions with significant impact for the Company.

The Finance and Investment Committee is chaired by a non-executive Director.

### *Underwriting Committee*

The Underwriting Committee is a management committee that reports to the Risk Committee. It is constituted to assist the Board in fulfilling its oversight responsibilities regarding underwriting activities and acts as consulting and procedure/processes proposal making body to the Risk Committee. The Underwriting Committee's mission is to lay down the underwriting policies within the Company. Specific responsibilities of the Underwriting Committee are:

- Oversee the overall underwriting position of the Company;
- Define the structure and scope of the underwriting management and controlling frameworks for approval by the Risk Committee, including underwriting policies, limits, guidelines and underwriting methodology;
- Discuss and propose approval of certain deals with high exposure to the Company;
- Monitor on an ongoing basis the Company's underwriting performance.

The Underwriting Committee is chaired by the Company's Head of Underwriting.

### *Reserve Committee*

The Reserve Committee is a management committee that reports to the Audit Committee. It is constituted to assist the Board in fulfilling its oversight responsibilities regarding the Company's technical reserves.

The mission of the Committee is to regularly review portfolio experience and the actuarial reserve proposals as well as to qualitatively review the risks inherent in the reserves. It decides the level of loss and loss expense reserves to be carried by the Company under FRS 101 and the technical provisions under Solvency II at the close of each calendar quarter and makes a recommendation for the appropriate levels to be pre-approved by the Audit Committee and approved by the Board of Directors at year end.

In particular, the Committee assumes the following main functions and responsibilities:

- Maintain an adequate level of loss reserves to be carried by the Company on an FRS 101 and MVBS basis;
- Oversight of Reserving Policy, including proposing changes to the Audit Committee and Board for approval;
- Review the approach, methods and granularity of loss reserve analysis for the major business segments;
- Ensure that approved changes in carried reserves are well understood and communicated so that appropriate business responses are implemented.

The Reserve Committee is chaired by the Company's Chief Financial Officer ('CFO').

### 1.1.3 Policy framework

Steering and controlling of the Company is supported by a set of corporate rules which are aligned with the corresponding corporate rules adopted by the Allianz Group. Corporate rules include all the Company's internal rule-setting documents issued by an authorised owner with the intention to establish binding regulations or guidelines of relevant topics (related to business segments, operations, functions, or specific issues). Each corporate rule needs documented approval by the respective approval body.

The Company has in place a defined policy framework that outlines the relevant criteria for creating and updating corporate rules including the underlying rule-setting process. The policy framework, in concrete, comprises four levels (from top to bottom): (1) Code of Conduct; (2) Policies; (3) Standards; and (4) Functional Rules.

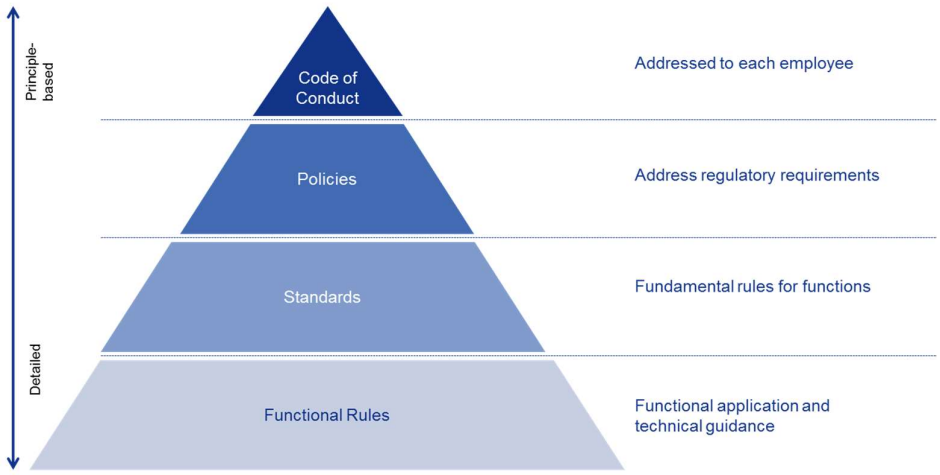


**Figure 3:** The Company's policy framework

In particular, the Company has adopted the below listed policies:

| Policy | Responsible | Rationale |
|---|---|---|
| Accounting and Reporting Policy | CFO | Defining the framework for the provision of reliable and high quality financial information by the Company |
| Actuarial Policy | Head of Actuarial Function | Describing the framework for actuarial work within the Company |
| Anti-Corruption Policy | Head of Compliance | Setting out AZRD's minimum anti-corruption and anti-bribery standards |
| Board Diversity Policy | Head of Compliance | Establishing core principles regarding diversity with regard to selection of persons for nomination to become members of the Board |
| Capital Management Policy | Head of Risk | Establishing the core principles and processes for the Company's capitalisation |
| Compliance Policy | Head of Compliance | Establishing core principles regarding key responsibilities, organisational framework and reporting and monitoring duties of the Compliance Function |
| Fit and Proper Policy | Head of Compliance | Establishing core principles and processes to ensure sufficient knowledge, experience, professional qualifications, integrity and soundness of judgment for senior management and key function holders |
| Governance and Control Policy | Head of Compliance | Describing core principles and processes to ensure an effective management and oversight of the Company's business |
| Internal Audit Policy | Head of Compliance | Ensuring the effectiveness of the controls necessary to achieve the Company's goals |
| IT & Information Security Policy | Head of Compliance | Establishing core principles, responsibilities, tasks and organizational framework for Information Technology (IT) and Information Security. |
| Legal Policy | Head of Compliance | Establishes core principles of the legal function, its key responsibilities and tasks as well as its organisational framework |
| Outsourcing Policy | Head of Compliance | Determining the relevant processes and strategies for outsourcing to ensure adherence to regulatory requirements |
| Reserving Policy | Head of Actuarial Function | Establishing the core principles and processes for the calculation and reporting of non-life reserves |
| Remuneration Policy | CEO | Setting the framework for the Company's remuneration system and facilitating the implementation of regulatory requirements |
| Retrocession Policy | Underwriting Function / Head of Risk | Establishing the core principles and processes for retrocession placement |
| Risk Policy | Head of Risk | Laying down the fundamental elements of the risk management and risk controlling framework |
| Whistleblowing Policy | Head of Compliance | Establishing core principles regarding whistleblowing and the Audit Committee acting as the Company's Integrity Committee |

**Table 6:** Policies adopted by the Company as at 31 December 2020

### 1.1.4 Key functions

The Company's Fit and Proper Policy specifies that heads of department are considered key function holders and comparable to the Central Bank of Ireland's designation of pre-approval controlled functions ('PCFs').

The Company's key functions and key function holders have been identified as:

| Key function | Key function holder |
|---|---|
| Risk management function | Head of Risk |
| Compliance function | Head of Compliance |
| Internal audit function | Outsourced to Allianz SE |
| Actuarial function | Head of Actuarial Function |
| Accounting and reporting function* | Chief Financial Officer |
| P&C underwriting function* | Head of Underwriting |

*Considered a key function by the Company although not mandated by Solvency II
**Table 7:** Key function holders

### *Risk management function*

Please refer to chapter B.3 for a detailed description of the set-up of the risk management function and the Head of Risk's roles and responsibilities.

### *Compliance function*

Please refer to chapter B.4.4.1 for a detailed description of the roles and responsibilities of the Compliance function.

### *Internal audit function*

Please refer to chapter B.5 for a detailed description of the roles and responsibilities of the internal audit function.

### *Actuarial function*

Please refer to chapter B.6 for a detailed description of the roles and responsibilities of the actuarial function.

### *Accounting and reporting function*

Although not mandated by the Solvency II framework, the Company considers the accounting and reporting function a key function in line with Allianz Group's policy and as documented in the Company's Fit and Proper Policy. The CFO is the key function holder for this role, which is a pre-approval controlled function under the CBI's Fitness and Probity Regime and embedded in the global Allianz Re accounting and reporting function.

The principles for the Company's accounting and reporting function are defined in the Company's Accounting and Reporting Policy:

- Transparency in cooperation with all internal and external stakeholders;
- Compliance with the legal framework;
- Consistency;
- Interpretation of external reporting requirements;
- Information quality – neutral, complete, unbiased, faithfully representing underlying economics, proportionate to the needs of the addressees;
- Collaboration between departments;
- Reporting culture minimizing the potential for errors.

Main responsibilities include:

- Establishment of accounting and reporting principles and procedures according to local accounting standards and regulatory guidance as set out by the CBI and in accordance with Allianz Group accounting and reporting principles and procedures;
- Support of Audit Committee in audit tender processes;
- Closing: coordination, information collection, closing entries and qualitative reviews;
- External reporting: regulatory reporting including Solvency II quantitative and qualitative reporting, reporting to Allianz Group, local statutory reporting;
- Documentation.

### *P&C underwriting function*

The Company's underwriting policies provide the basis for the P&C underwriting function which is – although not mandated by the Solvency II framework – considered a key function by the Company as documented in its Fit and Proper Policy. The Head of Underwriting is the key function holder, fulfilling the Head of Underwriting P&C pre-approval controlled function under the CBI's Fitness and Probity regime, and acts as chairman and secretary to the Company's Underwriting Committee. Please refer to chapter B.1.1.2 for a detailed description of the roles and responsibilities of the Underwriting Committee.

***Underwriting authority framework:***
The delegation of underwriting authority enables the authorised person to enter into binding reinsurance contracts on behalf of the Company. The underwriting authorities only apply to business where a decision within the Company is admissible by law and Group policies. The underwriting authority framework is proposed by the Head of Underwriting and requires approval by the Underwriting Committee and Risk Committee. Details of the current framework are outlined in the Company's Standard for Non-Life Treaty Underwriting and Functional Rule for Non-Life and Life & Health Underwriting.

***Assignment of underwriting authorities:***
Upon alignment with the Global Allianz Re Chief Underwriting Officer ('CUO'), authority to the Head of Underwriting is assigned by the Company's CEO who will sign the respective authority letter together with the Company's CFO.
The Head of Underwriting assigns, modifies and withdraws upon consultation with the Global Allianz Re CUO and the Allianz Re Underwriting Governance all other underwriting authorities by formal authority letters. The individual authority letters will be signed by the Company's CEO and the Head of Underwriting. The recipient of the underwriting authority has to acknowledge the assignment of authority by countersigning the authority letter.
Any delegation of underwriting authority to internal or external parties not outlined in the framework requires prior written authorisation of the Underwriting Committee as well as the Board and has to be recorded by the Allianz Re Underwriting Governance accordingly.

## 1.2 Material changes in the system of governance in 2020

No material changes to the system of governance were implemented in 2020.

## 1.3 The Company's remuneration policy

Remuneration structures and incentives are designed to encourage sustainable value-creating activities. The remuneration policy provides for an appropriate balance of fixed and variable remuneration components for executive Directors, senior management and other employees of the Company:

***1, Base salary:*** Base salary is the fixed remuneration component. Annual adjustments also take account of sustained performance in the position, the performance of the Company and general economic and compensation market conditions. The proportion of the fixed component within total remuneration is designed to balance performance incentives to avoid excessive risk-taking. Base salary is expressed as an annual cash sum paid in monthly instalments.

***2, Variable remuneration:*** Variable remuneration is designed to encourage and reward achievement of annual performance goals. Annual targets, both quantitative and qualitative are set in advance of the performance period and documented in Allianz Group's HR system. In the case of breaches of the Allianz's Code of Conduct, compliance or other relevant criteria, pay-out can be reduced partially or in full.

Selected key performance indicators ('KPIs') from the financial plans form the basis for the financial and operational targets which shall reflect the strategy of the Company and global Allianz Re. The performance management system has been furthermore adjusted to support Allianz Group's strategic Renewal Agenda. Under the 'Inclusive Meritocracy' approach, financial KPIs can make up half the performance equation. The remaining element is linked to individual performance linked predominantly to qualitative criteria. For executives the approach places greater emphasis on behavioural aspects of performance through a common standard designed to drive cultural change across Allianz Group. These are Customer and Market Excellence, Collaborative Leadership, Entrepreneurship, and Trust. The relative importance of the fixed and variable components is based on the individual roles and responsibilities.

The Company's employees including members of the executive management and key function holders are entitled to join the Company pension scheme which is a defined contribution scheme. The Company contributes an amount equal to a percentage of the employee's base salary into the pension fund. The assets of the plan are held separately from the Company in independently administered funds. Employees contribute additional contributions.

Non-executive Directors (excluding those non-executive Directors who work for an Allianz Group company) are entitled to a fixed remuneration and do not receive any performance-related variable remuneration.

## 1.4 Material transactions with related parties

The Company has not paid any dividend during the year (2019: nil). The Directors have resolved to pay a dividend of EUR 135mn to its shareholders, which has not been objected to by the Central Bank of Ireland. It is expected to be paid in mid-2021.

All material transactions of the Company with related parties were conducted on an arm's length basis, and were related to the following types of transaction:

- The Company engages in reinsurance transactions with Allianz SE (Reinsurance) and other Allianz Group entities;
- The Company uses the Allianz SE Cash Pool;
- The Company providing a loan to Allianz SE;
- The Company invests in debt notes issued by an affiliated entity;
- The Company engages in derivative transactions with Allianz SE to hedge its foreign exchange risk.

As mentioned in section A above, on 1 August 2020 the Company completed the acquisition of 100% of Euler Hermes Reinsurance AG, another Allianz Group entity.

Materiality is based on the thresholds set by BaFin, the group supervisor for Allianz Group, for the reporting of significant and very significant internal transactions provided by Allianz SE to the group supervisor on an annual basis.

# 2 Fit and proper requirements

The Company's Fit and Proper Policy sets out principles, criteria and processes to ensure the fitness and probity of those persons who manage the undertaking or work within key functions. The Policy provides guidance on how fitness and probity are assessed depending on the findings and information gathered during recruiting, regular reviews and ad-hoc reviews, and on the consequences of a negative assessment. The policy furthermore contains a definition of fitness and probity and the requirements for the various relevant positions and describes the processes necessary to ensure the fitness and probity of the persons holding these positions.

At recruitment, the specific fitness requirements for both internal and external candidates must be determined. A CV is to be submitted by each candidate and interviews are scheduled. Reference checks and public media searches may be made by the Company as part of background checks to ensure the applicant's information is correct; in the absence of any document required as part of the background check the Company can request a self-declaration to serve as proof. Any employment contract for a pre-approval controlled function ('PCF') role under the CBI's Fitness and Probity Regime is subject to receiving CBI approval initially and continually adhering to the Fit and Proper standards.

Performance reviews take place on a regular basis for all permanent employees of the Company in order to, amongst other goals, assess the fitness and probity of staff. In addition, PCF and controlled functions are required to certify that they are aware of the Fit & Proper standards, and to agree to continue to abide by those standards. These individuals must also declare whether they are aware of any material developments in relation to their compliance with the standards of which the Company ought to be aware.

On an ongoing basis, professional training ensures that the fit and proper requirements are constantly met and training on compliance topics (including ethical business behaviour, anti-fraud and anti-corruption) is offered to provide employees with clear rules for proper behaviour. The Company requires individuals to self-certify that they are compliant with their particular continuing professional developments requirements.

Ad-hoc reviews of a person's fitness and probity may take place in certain extraordinary situations giving rise to questions regarding a person's fitness or probity.

The Company's Fit and Proper Policy specifies that heads of department are key function holders and therefore comparable to the Central Bank of Ireland's designation of PCFs. Please refer to chapter B.1.1.4 for an overview of the Company's key function holders.

In respect of key function holders, the Directors and any person performing a PCF within the Company are subject to the Fitness and Probity standards, the Code issued under Section 50 of the Central Bank Reform Act 2010. All persons performing PCFs in 2020 have declared that they meet the Fitness and Probity standards, that they are competent and capable, act honestly, ethically and with integrity, and are financially sound.

The internal audit function is outsourced to Allianz SE which is regulated by BaFin, the German Federal Financial Supervisory Authority. The arrangement is governed by a service level agreement and therefore is exempt from the CBI's Fitness and Probity Regime. In order to comply with the Company's Fit and Proper Policy, confirmation has been received from the service provider that all personnel are fit and proper.

# 3 Risk management system including the own risk and solvency assessment

## 3.1 Risk management framework

Figure 4 shows how the parts of the Company's Risk Management Framework (hereafter 'RMF') fit together. The Business Strategy (which is not part of the RMF) steers the Risk Strategy which, in turn, dictates the Risk Appetite. These three core elements of the business influence the Internal Model ('IM'), the Top Risk Assessment ('TRA'), Risk Reports and the Own Risk and Solvency Assessment ('ORSA'). The IM and TRA are also used in both the Risk Reports and the ORSA, and any issues arising from the ORSA may be fed back into the TRA, or back into one of the core elements. The whole process is governed by the Risk Policy.

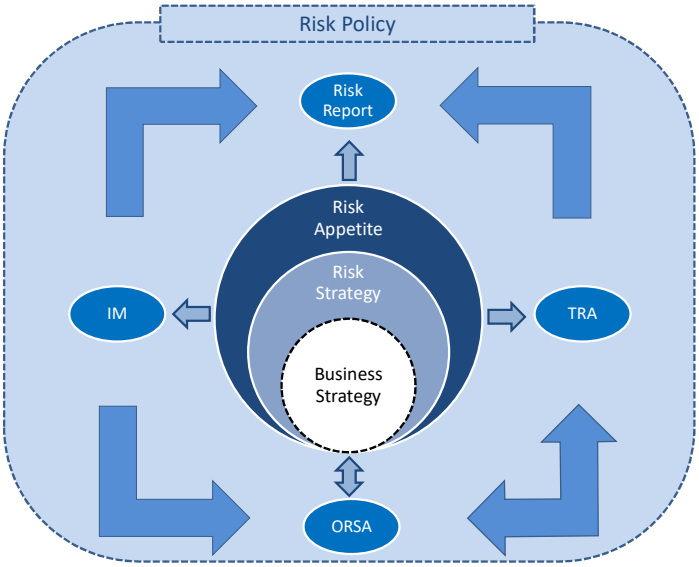


**Figure 4:** Risk management framework

The risk management framework's four primary components are:

***Risk identification and underwriting:*** A robust system of risk identification and underwriting forms the foundation for adequate risk management decisions. Supporting activities include standards for underwriting, valuation methods, individual transaction and new product approvals, emerging / operational / top-risk assessments, and scenario analysis, etc.

***Risk strategy and risk appetite:*** The Risk Strategy defines the Risk Appetite consistent with the Business Strategy. It ensures that rewards are appropriate based on the risks taken and capital required and that delegated authorities are in line with our overall risk-bearing capacity and strategy.

***Risk reporting and monitoring:*** A comprehensive qualitative and quantitative risk monitoring and reporting framework provides management with the transparency needed to assess whether the risk profile falls within delegated limits and to identify emerging issues and risks quickly. For example, risk dashboards and limit consumption reports as well as scenario analysis and stress tests are regularly prepared and communicated.

***Communication and transparency:*** Transparent risk disclosure provides the basis for communicating our strategy and performance to internal and external stakeholders, ensuring

a sustainable positive impact on valuation and financing. It also strengthens the risk awareness and risk culture throughout the Company.

## 3.2 Risk Strategy and Risk Appetite Framework

The Company's risk strategy and overall risk appetite are coordinated with and derived from the Company's business strategy. As a reinsurer, the Company actively pursues insurance risks as long as its risk bearing capacities are not exceeded (e.g. by creating undue accumulations of risks) and they can generate enough profit or reduce capital, to create value for the shareholder. Any other risk should be actively avoided if possible or managed down to an acceptable level.

A detailed description of how the Company interprets the Risk Strategy is set out in the Risk Appetite Framework, which incorporates the Company's Risk Appetite Statement outlining the level of risk the Company is willing and able to accept in pursuit of economic value. The Risk Appetite is expressed in qualitative and quantitative metrics for the key risks faced by the Company across a short, medium and long term horizon.

The Risk Appetite Framework includes a clearly defined monitoring, escalation and reporting framework in particular covering the following elements:
1. Obligatory requirements including target and minimum solvency ratios;
2. Top risks – reviewed in the annual TRA
3. Limits management based on the Risk Tolerance and Control Statements.

### *Link to business strategy*

Business Strategy and Risk Appetite are set by the Board and are dependent upon, and inter-related with, one another – as outlined in the Business Strategy of Allianz Re Dublin dac reviewed and approved by the Board on 22 September 2020.

The business strategy is implemented by a Group-wide management dialogue process which leads to a three-year business plan and to the financial plan of the Company. Risk assessments, including outputs from the IM, and a review of the Risk Appetite Statement, form an integral part of this process. As such, the entire business strategy and planning process is part of the Company's ORSA process.

### *Principles for risk management*

The fundamental principles of risk management, included in the Risk Policy, provide a high-level guidance to the risk management of the Company:
- The Board is responsible for the risk strategy;
- Risk capital is a key risk indicator;
- Consistent qualitative and quantitative methods are to be used to measure and evaluate risks;
- A consistent limit system is to be developed to ensure adherence to the Risk Appetite and to manage concentration risk exposure;
- Appropriate risk mitigation techniques are to be employed to address instances where identified risks breach the established Risk Appetite;
- Consistent and efficient monitoring is to be established to ensure risk tolerance limits and top risk target ratings are adhered to;
- Complete, consistent and timely risk reporting and risk communication is to be made available to all relevant levels of management.

### 3.3 Risk governance

Risk management is to be embedded throughout the Company and enacted at all levels of authority. Responsibilities for risk management are clearly defined and allocated in a manner that allows for the appropriate separation of duties consistent with the 'three lines of defence' model as described in chapter B.4.

***Board of Directors***
The Board holds ultimate responsibility for the Company. It is responsible for (i) setting and approving the Risk Strategy including the Risk Appetite and (ii) ensuring the Company's adherence to this Risk Strategy. Ultimately it is responsible for assessing the risk exposure of the Company and ensuring the risk management framework and internal control framework reflect its Risk Appetite.

The Board aims to establish a risk culture by demonstrating that the management of risks is an important factor towards the achievement of business objectives. Accordingly, the Board shall:

- Review and approve business strategies and main policies, as well as the Company Risk Strategy (including the Risk Appetite Statement);
- Identify and understand major risks faced by the Company within the execution of the business strategies;
- Ensure that a suitable and proportionate system of risk management is established and maintained, including regular internal reviews of the system of governance; and
- Ensure that the system of risk management is effective.

While risk management is the responsibility of the Board as a whole, one member of the Board (the Chairman of the Risk Committee) is designated to oversee the risk management system.

In fulfilling these tasks, the Board is supported by the Company's committee framework. Please refer to chapter B.1.1.2 for further details.

***Head of Risk***
The Head of Risk is the key function holder as regards the independent risk oversight of the Company. The role is a PCF and reports into the Risk Committee. His core task is to establish and maintain the Company's risk management framework in close coordination with the global Allianz Re function, encompassing:

- Maintenance of risk policies and guidelines and the Risk Strategy for the Risk Committee and Board;
- Co-ordination of risk identification, assessment, measurement, monitoring and reporting;
- Co-ordination, tracking and follow-up on all risk mitigation actions taken;
- Organisation, collation, preparation and distribution of the Risk Report and other material for the Risk Committee;
- Ensuring proper operation of the risk capital calculations, performed jointly with the Risk Controlling team of Allianz Re;
- Supporting the Company's employees in the assessment and communication of risks upon request.

For day-to-day operations the Head of Risk is supported in his oversight and control responsibilities by the Risk Controlling team of Allianz Re, of which he is a member. The Risk Controlling Team develops methods and processes for identifying, assessing and monitoring risks within all units of global Allianz Re, consistently with the Group's approach based on systematic qualitative and quantitative analysis.

The Head of Risk acts as secretary to the Risk Committee.

***Risk owners***
Risk Owners are responsible for the risk in their area of the business. They are also responsible for developing, implementing and monitoring remediation plans for breaches in the Risk Appetite and for flagging risk issues to the Head of Risk that have the potential for deterioration if not acted upon immediately.

## 3.4 Risk categorisation

According to the Allianz Group Risk Policy, which is adopted as part of the Company's Risk Policy, risk is defined as an unexpected, negative change in the appraisal value of Allianz or, insofar as influenced by a failure of Allianz to meet fiduciary or regulatory requirements, in the economic position of Allianz stakeholders. Appraisal value in this context includes both current economic value and the value of future business.

Risks are categorised into one of the following eight broad risk categories, which may then be further broken down into risk types:

***Market risk***: Unexpected losses arising due to changes in market prices or parameters influencing market prices, as well as the resultant risk from options and guarantees that are embedded in contracts or from changes to the net worth of assets and liabilities in related undertakings driven by market parameters. In particular, these include changes driven by equity prices, interest rates, real estate prices, exchange rates, inflation rates, credit spreads and implied volatilities. By that it also includes changes in market prices due to a worsening of market liquidity.

***Credit risk:*** Unexpected losses in the market value of the portfolio due to deterioration in the credit quality of counterparties including their failure to meet payment obligations or due to non-performance of instruments (i.e. payment overdue).

***Underwriting risk (or actuarial or insurance risk):*** Unexpected financial losses due to the inadequacy of premiums for catastrophe and non-catastrophe risks, due to the inadequacy of reserves or due to the unpredictability of mortality, morbidity or longevity.

***Business risk:*** Unexpected decrease in actual results compared to business assumptions, which leads to a decline in income without a corresponding decrease in expenses; this includes lapse risk.

***Operational risk:*** Unexpected losses resulting from inadequate or failed internal pro-cesses and systems, from human misbehaviour or errors or from external events.

***Reputational risk:*** Unexpected drop in the value of the Allianz share price, value of in-force business or value of future business caused by a decline in the reputation of Allianz Group or one or more of its specific OEs from the perspective of its stakeholders.

***Liquidity risk:*** Unexpected financial losses due to a failure to meet, or to meet based on unfavourably altered conditions, short-term current or future payment obligations, as well as the risk that in the event of an OE liquidity crisis, refinancing is only possible at higher interest rates or by liquidating assets at a discount.

***Strategic risk:*** Unexpected negative changes in an entity's value arising from the adverse effect of management decisions regarding business strategies and their implementation.

Some of the risk categories may accumulate as a result of an unbalanced risk profile with one or more disproportionately large risks (concentration risk). Expected or possible changes to

the current risk profile due to future events whose impacts are either unknown or subject to great uncertainty may also emerge within the eight risk categories (emerging risk). Concentration risk and emerging risk do not constitute separate risk categories.

## 3.5 Risk management processes

For all material quantifiable and non-quantifiable risks, a comprehensive risk management process is in place that incorporates (i) risk identification, (ii) risk assessment, (iii) risk response and control activities, (iv) risk monitoring, and (v) risk reporting. The process is implemented and conducted within the confines of the Risk Strategy and Risk Appetite and periodically assessed for adequacy. Please refer to section C Risk Profile for details.

### 3.5.1 Top Risk Assessment (qualitative approach)

All material quantifiable and non-quantifiable risks across all risk categories, including any risk concentrations, are analysed via the annual performance of a TRA. The Company has adopted the methodology for TRA as laid down in the Allianz Standard for Top Risk Assessment.

The principle objective of the TRA is to identify and remediate significant threats to financial results, operational viability or the delivery of key strategic objectives, regardless of whether they relate to quantifiable or non-quantifiable risks. It is the Company's approach for ensuring that top risks are identified, assessed, managed, mitigated and monitored.

The ultimate responsibility for identifying and assessing risks as well as for setting an appropriate risk target and implementing risk mitigation plans lies with the risk owner at senior management level.

### 3.5.2 Internal risk capital model (quantitative approach)

Risk capital for all material and quantifiable risks, namely market, credit, underwriting, business and operational risk, are calculated on a quarterly basis using the Allianz Internal Model.

The Company uses the IM to ensure that adequate capital is held to protect against unexpected, extreme economic losses. It is also used for decision-making and risk management processes. For example, the Company considers the IM in the following decisions:

- Setting the business strategy, capital planning and the risk strategy including the limit framework;
- The underwriting process (covering underwriting and business risks) in the analysis and development, as well as in the pricing and approval, of new and existing treaties;
- Setting the retrocession strategy;
- The strategic asset allocation (the analysis of the risk bearing capacity with respect to market and credit risk).

The Board is responsible for approving the IM and any material changes to it, subject to a stringent model validation process, thereby ensuring the ongoing appropriateness of the model for the Company's risk capital calculation.

The framework for model governance is given by the Allianz Group's Internal Model Governance Guidelines comprising the Allianz Standard for Model Governance and the Allianz Standard for Model Change, which have been adopted locally. The framework covers the lifecycle of the IM from model development to its implementation and use, ensuring the on-

going adequacy of the internal risk capital model to business profile. Specifically, key topics covered include: model changes, model updates, validation, approval, implementation and operational use, as well as the monitoring of the ongoing appropriateness for use.

For model validation the following approach is applied:

- Model owner activities assess whether the results produced by the model are appropriate and the existing documentation is sufficient;
- Independent validation considers model specific validation topics, such as coverage, methodology, calibration, data, computational process, results and documentation as well as qualitative aspects, such as model governance, expert judgment, data quality, and use test;
- Suitability assessments assess whether central model components are appropriate taking into account local specificities;
- Transversal model validation is employed to validate the entire model taking into consideration results across all validation areas and the interrelation between them.

The annual validation report drafted by the Head of Risk and presented to the Risk Committee and Board for approval is produced to document the results of the regular validation assessment and confirm the ongoing appropriateness of the internal risk capital model, as well as its fulfilment of Solvency II regulatory requirements.

The Allianz Standard for Model Change sets the rules and principles for ensuring the appropriateness of IM changes based on the following key principles:

- The internal risk capital model may need to be changed after initial validation and approval to ensure that it remains appropriate after events that may require a model change (e.g. changes in the risk profile, business model or operating environment);
- All model changes must go through a structured model change and approval process before the changed model can be used;
- The depth of the respective model governance (i.e. approval body) depends on the materiality and proportionality of the model component;
- The quantitative impact of individual changes, as well as the combined impact of multiple changes, are analysed as an integral part of the model change process.

### 3.5.3 Risk reporting

The Head of Risk is responsible for the regular reporting of all major risks of the Company in a quarterly Risk Report. Once the Risk Committee has signed off the Risk Report (or requested changes have been implemented) the final version is made available to the Board and the employees of the Company.

At a minimum, the Risk Report covers all limits in the Risk Appetite Statement and all Key Risk Areas identified in the TRA process. In particular all Key Risk Indicators identified are reported on a regular basis to provide management with an early warning system. Risk issues identified by management that have the potential for deterioration if not acted upon immediately are flagged to the Head of Risk without delay, who will include them in an ad hoc report to the Risk Committee.

## 3.6 Own risk and solvency assessment (‘ORSA’)

The ORSA is a comprehensive assessment of all risks inherent in the business in order to determine whether current and future capital will be sufficient to ensure sustained solvency in the face of these risks. It is part of a cyclical and iterative system involving the Board, senior management, the risk function and employees of the Company. It aims to provide the Board

with confidence on how the strategy of the Company will perform against various risks (both quantifiable and non-quantifiable).

It goes beyond the determination of capital needs determined by solely applying risk capital models. Additionally, it considers stress scenarios, model limitations, and other non-quantifiable risks and determines how these risks translate into capital needs or how they can be otherwise mitigated.

As such, the ORSA is an integral part of the business strategy and is performed and documented at least once a year ('regular ORSA'). It is also performed whenever the risk profile changes significantly ('ad-hoc ORSA').

# 4 Internal control system

## 4.1 Internal controls

Internal controls describe the set of activities undertaken by the Company to provide reasonable assurance regarding the achievement of the following objectives:

- Effective and efficient operations;
- Reliability of management and financial reporting;
- Compliance with applicable laws and regulations.

The internal control system is articulated along the 'three-lines-of-defence model' with graduated control responsibilities:

The ***first line of defence*** is performed in the business through the management of day-to-day activities, risk management and controls. In particular, the first line of defence is responsible for the operational management of risks and returns by taking or directly influencing the origination and acceptance of risks.

The ***second line of defence*** provides independent oversight and challenges the day-to-day risk taking and controls by the first line. The second line of defence defines the overarching control frameworks within which the business is entitled to operate; it oversees adherence to control frameworks and challenges business decisions; and finally it advises on risk mitigation strategies and control activities. The following functions are considered to represent the second line of defence: risk management function (Head of Risk), compliance function (Head of Compliance) and actuarial function (Head of Actuarial Function).

The ***third line of defence*** provides independent assurance across the first and second lines. Its activities include particularly an independent assessment of the effectiveness and efficiency of the internal controls of the Company, including the activities exercised by the first and second lines. The third line of defence is represented by the Internal Audit Function.

To ensure an effective internal control system, all control functions are obliged to co-operate and to exchange necessary information and advice.

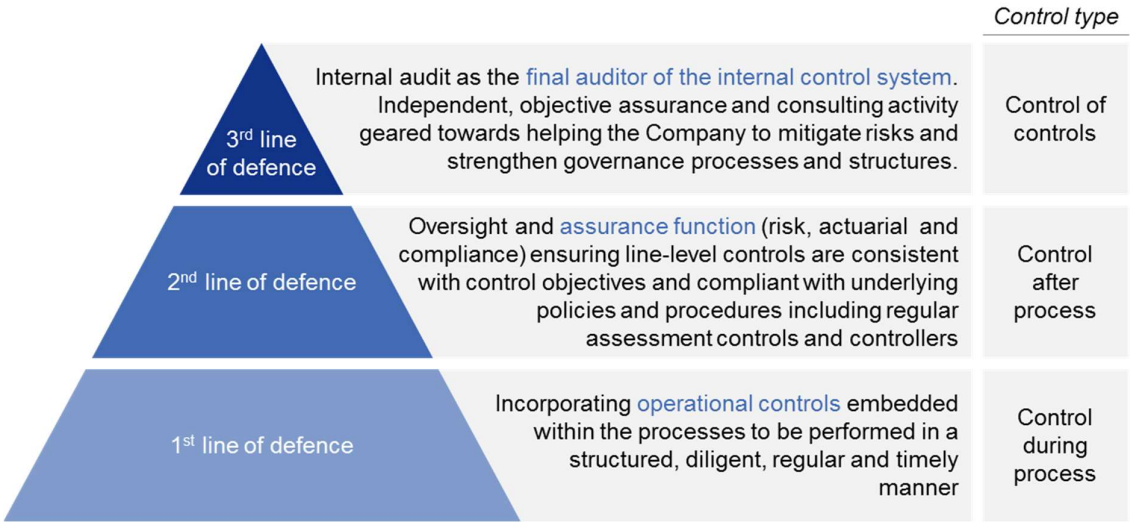


**Figure 5:** Internal control system

Regardless of the activity in question, the implementation of the Company's internal control system is based on the following general principles, as set out in the Company's Governance and Control Policy:

- Four eyes principle: material decisions are taken by at least two representatives of the Company;
- Segregation of duties: where appropriate, duties are segregated in order to avoid potential conflict of interest; examples include separating payments, settlement and bookings from trade takings; separation of limit setting and authorisations of transactions; separation of control performance and control testing or monitoring;
- Three lines of defence model: line management responsibility and independent risk oversight are separated in the internal control framework;
- Raising awareness to perform internal controls by defining and communicating clear responsibilities;
- Implementing and maintaining structured processes for which key controls are in place and are working effectively.

## 4.2 Internal control framework

The internal control system comprises a series of specific entity level controls (Entity-Level Controls Assessments, 'ELCA') and an Integrated Risk and Control System ('IRCS') at the process level. The ELCA controls cover all elements of the System of Governance and are therefore an important source of information for the regular review of the Company's System of Governance. At process level, the IRCS framework ensures that there are effective controls or other risk mitigation measures for all material operational risks.

The objective of IRCS is to bring one approach to conduct risk and control assessment in a manner that allows a focus on key risks and controls. It aims to integrate governance and increase effectiveness and efficiency.

The IRCS framework consists of several steps:

1. ***Scoping.*** The scoping exercises allows the Company to focus efforts on the most significant risks and associated key controls.

2. ***Risk and Control assessment.*** Assessment of in-scope risks and identification of their key controls. A qualitative conclusion is drawn regarding the overall adequacy of these controls. If a specific risk level is not acceptable, remediation activities need to be established.

3. ***Key control testing.*** Key controls are tested in line with a structured risk-based testing plan

4. ***Monitoring and Reporting.*** IRCS reporting is conducted and information provided to management regarding identified deficiencies, established remediation activities and the overall effectiveness of the IRCS. The risk landscape is monitoring continuously to initiate actions as needed.

Although no system of internal control can provide absolute assurance against misstatement or loss, the Company's systems are designed to provide the Directors with reasonable assurance of the management of business objectives and compliance, and that physical and financial assets are safeguarded, transactions are authorised and recorded properly and material errors and irregularities are either prevented or detected with minimum delay.

## 4.3 Main control areas of first line of defence

In addition to the key controls illustrated above, examples of normal controls that the Company has in place are described in this chapter.

### 4.3.1 Controls around risk capital calculations

The Company has implemented a control concept in the risk capital calculation and aggregation process as the internal risk capital calculations incorporate economic factors which are not fully reflected in accounting results. This control concept has been integrated into the IRCS framework as much as possible, and thus the same requirements apply (e.g. documentation, clear assignment of responsibilities, etc.). Key risks have been identified and respective controls have been implemented to mitigate risk capital miscalculation.

Additionally, the model governance framework adopted by the Company establishes a set of compulsory model governance and control principles in line with the Solvency II requirements for IM use. The framework also defines the general requirements for data quality assurance and documentation, including the specific areas of expert judgment, external models and data. It ensures that all models used to determine solvency capital requirements produce reliable output.

### 4.3.2 Controls around underwriting

Underwriting is the Company's core activity and is therefore subject to thorough controls. The control environment on the underwriting process is included in the IRCS framework.

Underwriting controls are set out locally in the Standard for Underwriting and the Functional Rule for Non-Life and Life & Health Underwriting, which follow the Allianz Group Standard for P&C Underwriting. These documents jointly outline the set of rules detailing which exposures, clauses and conditions may or may not be written in the P&C business, or are subject to upfront approvals. The definition of the structure and scope of the underwriting governance and controlling framework is one of the key responsibilities of the Company's Underwriting Committee.

The Company's underwriting activities are subject to, among others, the following principles:

- **Four eyes principle:** Technical assessments, pricing decisions (including contract signing) are reviewed by at least two people. The four eyes principle is properly documented and applies to all commitments made on behalf of the Company.
- **Segregation of duties:** Duties are segregated between client managers, underwriters, the underwriting processing team of Allianz Re (which manages the administration of the contracts) and the Company's accountants.
- **Transfer pricing (arm's length principle):** All reinsurance contracts, incoming as well as outgoing, between Allianz Group Companies and the Company are based on arm's length terms, i.e. rates and conditions are in line with market practice.
- **Technical pricing:** A technical pricing / risk assessment is an integral and mandatory part of the underwriting process.
- **Transaction Summary Sheet:** The creation of a Transaction Summary Sheet is mandatory for all business and includes the conclusions of the underwriter and where necessary the actuary, Cat modeller, etc. together with final conclusions of the client manager. Included in this summary sheet are flagging guidance (Red, Amber, Green) for technical pricing economics, coverage & conditions and robustness of technical pricing, including data quality.

- **Expert consultation:** In specific circumstances defined by the guidelines, Allianz SE (Reinsurance) and Group experts are consulted prior to any underwriting decision (for example, Allianz SE (Reinsurance) Centre of Competence NatCat for natural catastrophes exposures).
- **Actuarial involvement and sign-off:** Certain reinsurance programmes require actuarial support as deemed necessary by the underwriter.
- **Documentation:** All treaties have to be entered in the underwriting IT system GRIP4UW, in order to ensure transparency and accountability.
- **Underwriting file reviews:** A self-review process whereby the underwriting files belonging to the business are regularly assessed against the underwriting practices and functions and their linkage to relevant underwriting guidelines to ensure continued compliance. Such reviews are conducted by independent underwriters within Allianz Re but from outside of the Company.

In addition to the controls implied by the underwriting principles, and the controls set up within the IRCS framework, a fundamental control process is represented by the referral process which is fully documented in the Standard for Underwriting and the Functional Rule for Non-Life and Life & Health Underwriting.

As the Company's underwriting strategy is steered in alignment with the overall global Allianz Re underwriting strategy, the referral process is also instrumental in coordinating portfolio steering across the entities and locations that compose Allianz Re.

Therefore, for treaty programmes exceeding certain quantitative thresholds (expected premium income or exposure / capacity), a mandatory referral process is in place known as a Global Review. The Global Review is jointly performed by the Allianz Re CUO and Global Managing Director Reinsurance who may consult with other Global Functional Board members. Global referrals are pure underwriting referrals and as the Global CUO is also a member of the Underwriting Committee, such reviews can be done simultaneously. Following this consultation the final decision rests with the Underwriting Committee.

#### 4.3.3 Controls around investments

In addition to the controls around investments included in the IRCS framework (e.g. regular reconciliations of trades, positions, or cash flows), a high level control framework around the Company's financial assets is in place as part of the overall investment management governance.

The Company's Finance and Investment Committee, when defining the Company's Strategic Asset Allocation, monitors quotas and leeway for the main asset classes. This Committee, together with the Risk Committee, is also responsible for the financial control process, in particular for the oversight of investment risks and results.

#### 4.3.4 Controls around IT

Activities related to IT application development and maintenance have been outsourced by the Company to Allianz SE (Reinsurance), which is part of the legal entity Allianz SE, a German, BaFin-regulated entity, and the respective service level agreements are subject to the Company's Outsourcing Policy. Allianz SE (Reinsurance) in turn outsources IT activities to Allianz Technology. These outsourced processes are governed by the Group's IT standards and guidelines which require Allianz SE (Reinsurance) and Allianz Technology to adhere to a group-wide IT risk management and internal control framework.

The Company has in place a Board approved Information Security Framework and Strategy.

#### 4.3.5 Entity Level Controls

Entity Level Controls represent control activities whose conduct has a fundamental impact on the operating effectiveness of the Company and its process level controls. Examples of entity level controls implemented at the Company are controls over the effectiveness of the organisational structure or controls over the implementation of the Allianz Code of Conduct.

The design and operating effectiveness of the entity level controls is regularly assessed by the internal audit function through an Entity Level Controls Assessment and includes a follow-up to ensure that any associated control deficiencies are addressed in an appropriate and timely manner.

### 4.4 Second line of defence controls

Second line of defence controls are effected by the risk management function (please refer to chapter B.3), the actuarial function (please refer to chapter B.6) and the compliance function in the ongoing performance of their duties.

#### 4.4.1 Compliance function

The Head of Compliance is the key function holder as regards the independent compliance function, which is a PCF and part of the second line of defence. He has a direct reporting line to the Company's Audit Committee and a functional reporting line to the Allianz Re Head of Legal and Compliance.

The activities and processes of the compliance function are performed locally by the Head of Compliance with additional support provided by the Legal and Compliance department of Allianz Re.

The objectives of the compliance function are:

- Support and monitor compliance with applicable law, regulations and administrative provisions to protect the Company against compliance risks. This includes the identification, assessment and mitigation of these risks;
- Advise senior management and Board on compliance risks, including compliance with laws, regulations and administrative provisions adopted pursuant to the Solvency II Directive.

The Company has in place a structured compliance risk assessment process which is described in the Company's Compliance Policy.

### *Compliance risk identification and assessment*

Compliance risk is defined as the risk of legal or regulatory sanctions, significant financial loss or loss to reputation that the Company may suffer as a result of not complying with laws, regulations and administrative provisions as applicable to its activities. Within his area of responsibility, the Head of Compliance identifies and evaluates potential areas of compliance risk which might lead to damage to the Company's reputation, regulatory sanctions or financial loss. Results of the assessment form the basis for the compliance plan, the compliance report and for the compliance risk sections of the Risk and Control Self-Assessment ('RCSA') and possibly the TRA, both owned by the risk management function.

### *Compliance risk management*

The Head of Compliance advises and assists the management with measures to prevent, mitigate or minimise compliance risks. In particular, he develops and implements an annual compliance plan, outlining the planned compliance control activities for the individual relevant risk areas including underlying timeframes.

A compliance culture is promoted within the Company through an on-going cycle of compliance training and education, with the aim of ensuring strong awareness and understanding of compliance standards, procedures and guidelines. Compliance related training is coordinated by the Head of Compliance.

The Head of Compliance is responsible for adequately responding to compliance violations, if required by escalating to the Company's Audit Committee or to the appropriate Allianz Group bodies (e.g. the Group's Integrity Committee). In order to capture relevant incidents, the Head of Compliance facilitates and channels employee reporting and analyses other evidence related to potential incidents. However, employees have also the possibility to independently report a compliance case using a dedicated functionality of the Allianz intranet (Allianz whistleblowing function).

### *Compliance risk reporting*

A quarterly compliance report is prepared by the Head of Compliance for submission to the Audit Committee and Risk Committee. The report outlines key activities, relevant compliance obligations and indicates any deficiencies and actions taken.

### 4.4.2 Risk and Control Self-Assessment

The effectiveness of the internal control system is regularly assessed in the Risk and Control Self-Assessment ('RCSA') by the Head of Risk. This is a risk-based, structured appraisal involving the entire management of the Company. The objective of the RCSA is to identify and assess operational risks with particular focus on low frequency high impact events, that may potentially result in significant financial losses or may have significant impacts on the balance sheet. In cooperation with the relevant functions, such risks are managed by assessing the control environment and establishing remediation activities and/or controls where necessary.

For further details please refer to chapter C.5.

# 5 Internal audit function

Internal audit independently reviews processes and determines whether the Company's control framework, as designed and represented by the management, is adequate, in place and operating effectively.

The internal audit team is a key function and represents the third line of the 'three lines of defence' system. The outsourcing of the internal audit services does not imply any delegation of management responsibility for the internal audit function, which remains the corporate responsibility of the Company.

In particular, audit activities are performed in accordance with the Company's strategic and annual audit plans, as agreed between the Company's Audit Committee and internal audit function. Results of audits completed are formally reported by the internal audit function to the Company's Audit Committee. Internal audit assists the Company in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of control touch points and governance processes. This means that a key responsibility of the internal audit is to assess the quality of the internal control system, while being independent of the activities which are audited.

Internal audit has interfaces and a close cooperation with other functions. In line with regulatory requirements, reciprocal oversight is exercised amongst the other risk and control functions: Risk, Actuarial and Compliance, notwithstanding the internal audit function's responsibility to review and audit these functions.

The following Allianz Group Audit Policy requirements ensure independence and objectivity of the internal audit function:

- The internal audit function must have a standing within the organisational structure that ensures to maintain the necessary independence. Necessary independence means that no undue influence is exercised over the internal audit function, for instance in terms of reporting, objectives, target setting, compensation or by any other means. Internal audit must avoid conflicts of interest in fact or appearance. Internal auditors and the internal audit function have the authority to express assessment and recommendations but cannot give orders (except in cases of suspicion of illegal activities or fraud).

- Each holder of an internal audit function (i.e. head of the internal audit department) must report directly to the CEO and, when permitted, to the respective Group Company's Audit Committee. The Head of Internal Audit must regularly have direct interaction with the CEO and the Chair of the applicable Audit Committee, where existing. Internal audit departments also report functionally to Allianz Group Audit and are subject to oversight from Group Audit.

- The internal audit function shall have the right to communicate with any employee and obtain access to any information, records or data necessary to carry out its responsibilities, to the extent legally permitted. It has the responsibility and the right to review activities, procedures and processes in all areas of the Group, without limitation. Internal audit has the unlimited right to obtain information and management must inform internal audit of serious deficiencies and major changes in internal control systems. This information must be handled with discretion and confidentiality.

# 6 Actuarial function

The Head of Actuarial Function, a PCF, is the actuarial key function holder and part of the second line of defence in relation to reporting, oversight and controlling activities. The actuarial function and its activities are governed by the Company's Actuarial Policy.

The core tasks performed by the actuarial function as a second line of defence are based on regulatory requirements, in particular:

- coordination of calculation of technical reserves for accounting and regulatory purposes and other controlling and reporting figures;
- expression of an opinion on the overall underwriting policy and on the adequacy of (outwards) reinsurance arrangements; and
- contribution to the effective implementation of the risk management system including expressing an opinion on each ORSA process.

In line with the 'Domestic Actuarial Regime and Related Governance under Solvency II', latest version issued by the CBI in 2018, the Head of Actuarial Function produces an Actuarial Opinion on Technical Provisions ('AOTP') for the Board and the CBI and an Actuarial Report on Technical Provisions ('ARTP'), supporting the AOTP, for the Board. The regime also requires an independent peer review of the technical provisions and the associated AOTP and ARTP, thereby providing an 'independent view of the Company's calculation of technical provisions'. For the Company, this peer review is to take place at least every three years and was carried out in 2021 on the technical provisions as at end of 2020.

With respect to the non-life portfolio, activities related to the calculation of technical provisions have been outsourced to the Corporate Actuarial department of Allianz SE (Reinsurance), the arrangement being governed by a service level agreement and subject to the Company's Outsourcing Policy. Oversight of the calculation of technical provisions is provided by the Company's Head of Actuarial Function.

# 7 Outsourcing

The Company has a Board approved Outsourcing Policy, which is the local implementation of the Allianz Group Outsourcing Policy. The policy requires that prior to the commencement of any outsourcing of critical or important functions or activities, formal written notification should be provided to the CBI, in line with the CBI's Outsourcing Notification Process under Solvency II. All outsourcing arrangements are subject to on-going monitoring and annual review.

The Company seeks to retain a lean organisation, focused on the business of reinsurance and leverages other Allianz Group entities with capacity or core competencies in specific operational and technical areas.

The Company's outsourcing of any critical or important operational functions or activities, as at 31 December 2020, are set out below:

| Provider | Outsourced service(s) or function(s) | Jurisdiction of Provider | Relationship Owner |
|---|---|---|---|
| Allianz SE (Reinsurance) | Claims Services | Germany | CFO |
| Allianz SE (Reinsurance) | IT Services | Germany | CEO |
| Allianz SE (Reinsurance) | Actuarial, NatCat & Risk Management Services | Germany | Head of Risk, Head of Actuarial Function |
| Allianz SE | Internal Audit | Germany | CEO |
| Allianz Investment Management SE | Investment Management | Germany | CFO |
| Allianz Reinsurance Management Services, Inc. | Underwriting Services | United States | Head of Underwriting |
| Pacific Investment Management Company Europe Ltd | Asset Management | United Kingdom | CFO |
| Pacific Investment Management Company LLC | Asset Management | United States | CFO |

**Table 8:** The Company's outsourcing arrangements for critical or important operational functions or activities as at 31 December 2020

# 8 Any other information

## 8.1 Assessment of adequacy

The Company operates in a continually changing environment with new risks emerging on a constant basis, however the Company has a successful track record of managing these risks. The Directors have expressed their confidence that they have put in place a strong management team, a solid risk management and governance framework, processes and controls capable of dealing with risks as they arise.

Furthermore, in line with the Company's Internal Audit Policy, the quality of the internal control system is assessed by the Internal Audit function, that is independent of the activities which are audited. In particular, audit activities are performed in accordance with the Company's strategic and annual audit plans, as agreed between the Company's Audit Committee and Internal Audit function. Results of audits completed are formally reported by the Internal Audit function to the Company's Audit Committee.

## 8.2 Any other material information

All material information on the Company's system of governance has been provided in the previous chapters.

# C Risk Profile

The current risk profile of the Company is captured by the solvency requirements. The Company is subject to Solvency II and uses the Allianz IM for the calculation of the Solvency Capital Requirement ('SCR').

| As at 31 December in EUR mn | 2020 | 2019 |
|---|---|---|
| Solvency Capital Requirement | 1,051.1 | 733.8 |
| Own Funds | 2,407.6 | 1,255.5 |
| **Solvency Ratio** | **229%** | **171%** |

**Table 9:** The Company's capital position and solvency requirements

The Company's IM results per risk category are set out below:

| As at 31 December in EUR mn | | 2020 | 2019 |
|---|---|---|---|
| Stand-alone | Market risk | 507.2 | 189.8 |
| | Credit risk | 48.7 | 43.1 |
| | Underwriting risk[1] | 674.0 | 707.4 |
| | Business risk | 15.4 | 8.1 |
| | Operational risk | 21.9 | 17.9 |
| **Aggregation (undiversified)** | | **1,267.2** | **966.4** |
| ./. Diversification | | (181.9) | (200.1) |
| **Aggregation (diversified)** | | **1,085.3** | **766.2** |
| ./. Tax | | (34.2) | (32.4) |
| **Solvency Capital Requirement** | | **1,051.1** | **733.8** |

**Table 10:** The Company's IM results per risk category

The Company has established risk limits for each of the main risks, using the internal risk capital model where appropriate. The first set of limits reflects the upper boundary of what the Board views as acceptable risks for the Company to assume, and therefore they are documented in the Risk Appetite Statement. Accumulation and aggregation of risks across categories and concentration of risks within categories are considered. All upper boundary limits are monitored in the quarterly risk report.

Secondary risk limits may be set to provide early warning or directional information. Early warning indicators are also included within the Risk Appetite Statement. All secondary risk limits are included in the quarterly risk report.

A description of the IM and how risks are measured and aggregated is provided in section E Capital Management.

None of the changes to the IM that were implemented during 2020 were material for the Company.

[1] The underwriting risk of EUR 674.0mn differs from the Underwriting risk in QRT 25.03.21.01 (EUR 1,458.3mn) as the figure in the table has been adjusted to correct for the limiting impact of the WASL. This takes place in the IM as part of a final adjustment to the Underwriting risk capital but is included in QRT 25.03.21.01 in the diversification line (R0060 C0100).

# 1 Underwriting risk

The underwriting risk (also referred to as insurance or actuarial risk) consists of:
- Non-Catastrophe (Non-Cat) premium risk,
- Natural Catastrophe (NatCat) premium risk, and
- Reserve risk.

They are the largest and most important strategic risks of the Company. As a reinsurer, the Company actively pursues underwriting risk as a core competence. The Company's Risk Strategy states: insurance risks should be sought as long as the risk bearing capacities of the Company are not exceeded (e.g. by creating undue accumulations of risks) and they can generate enough profit or reduce capital, to create value for the Group.

The framework for premium risks is set out in the Company's Underwriting Guidelines, which includes the Standard for Underwriting and the Functional Rule for Non-Life and Life & Health Underwriting, including reinsurance pricing. These documents set out the types of insurance risk the Company is willing to accept, how premium adequacy is ensured and what reviews and approvals are required. All treaties are designed and priced independently of any risk-mitigating retrocession that may be available.

It is mandatory that an internal reference price is calculated in accordance with the guidelines and with the tools approved by Actuarial Pricing. The key points of the pricing methodology have to be approved the Underwriting Committee as part of the framework and noted by the Risk Committee. Final approval for the underwriting of individual treaties is handled within Underwriting authorities (as outlined in the Functional Rule for Non-Life and Life & Health Underwriting).

For details on controls for underwriting activities please refer to chapter B.4.3.2.

Reserve risk is managed according to the Company's Reserving Policy. The following processes are in place to ensure adequate reserve setting:
- Quarterly reserve calculations by dedicated actuarial department;
- Process and methodology in line with Group Actuarial reserving standards;
- Reserves are presented to and agreed by the Company's Reserve Committee;
- IRCS documentation of the reserving process.

***Concentration of underwriting risk***

The Company writes various types of non-life insurance risks, including property, motor and liability. The most significant risks arise from natural catastrophes (high-severity low-frequency events); this risk is not geographically specific, and hence there is little concentration risk under these treaties. Concentration of risk may arise from insurance contracts issued to a cedant, within a geographical location. The relative variability of the outcome is mitigated if there is large portfolio of similar risks. Concentration of risk is also mitigated through retrocession.

***Sensitivity of underwriting risk***

In order to adequately manage the Company's risk exposures, scenario analyses are performed. The base case is the official plan for the coming year from the Group-wide management dialogue process. Various claims scenarios based on the IM results are reviewed to inform senior management and the Board of the sensitivity of the Company's solvency ratio to underwriting variability. For example, the impact from a once in ten-year NatCat event totalling EUR 258mn in gross losses was expected to decrease the Company's Own Funds by EUR 109mn which would reduce the Company's Solvency II ratio by 25 percentage points.

***Retrocession of underwriting risk***

The Company utilises retrocession to mitigate its underwriting risk to within the defined risk appetite, to protect the solvency of the Company, to improve the efficiency of its use of capital and to meet Group strategic goals. The Company uses the scenario analyses mentioned above as a basis for setting its retrocession structures.

The Company's Retrocession Policy specifies the principles that govern the appropriate structures and counterparties for retrocession arrangements. The Risk Appetite Statement defines the Company's risk limits and the associated minimum levels of retrocession that are appropriate for the Company.

Specific retrocession consideration at individual reinsurance treaty level forms part of the general underwriting consideration while very large or strategically significant treaties will be considered by the Risk Committee and also require the approval of the Board. The underwriting function acts as point of entry for all Company retrocession topics and is responsible for monitoring compliance and non-compliance with the Retrocession Policy.

Included within this retrocession program is a Whole Account Stop Loss ('WASL') treaty which limits the overall exposure of the Company. This is the primary risk mitigation program that has been put in place for the Company and ensures that the potential underwriting losses of the Company are within acceptable limits. The retrocession limit has been calibrated to cover 1:200 year losses.

In addition to this the company has in place since 1 January 2021 an Event & Risk XL covering both Natural Catastrophe & Man Made loss events above a EUR 100mn retention up to a limit of EUR 500mn (2020: Natural Catastrophe loss events above a EUR 100mn retention up to a limit of EUR 300mn). This inures to the WASL.

# 2 Market risk

Investment risk for the portfolio, including liquidity, is monitored in the Risk Committee. The management of the investment assets of the Company is the responsibility of the Finance and Investment Committee ('FICo'), who have outsourced the execution within a specified mandate to Pacific Investment Management Company Europe Ltd and Pacific Investment Management Company LLC (together 'PIMCO') and receive advice from Allianz Investment Management SE ('AIM').

The FICo is responsible for the SAA of the portfolio which aims to ensure that the assets and liabilities are appropriately matched by currency and duration, with a certain amount of leeway to cover tactical decisions and market or liability movements. The IM is used in setting the SAA.

The robustness of Allianz Group's Non-Life SAAs are annually tested under several dimensions, including market stresses, using both historic data and forward looking scenarios (e.g. AIM capital market scenarios). Changes to the portfolio of assets would be tested against IM capital limits.

Other than derivative instruments used to hedge foreign exchange exposures and the assets to meet liquidity requirements, investments are generally made in various types of bonds (sovereign, covered, corporate, etc.) with the aim of generating maximum return, subject to acceptable risk (credit default, asset liability mismatch, etc.).

The target level of security of the portfolio of assets, including quantitative limits, is set out in the Risk Appetite Statement and monitored in the quarterly risk reports. The target profitability for investments is based on benchmark indices which are stated in the investment mandates.

The Company is exposed to various forms of market risk. These risk factors include interest rate risk, foreign exchange risk and market sensitivity risk. The Company targets assets (mainly bonds) that match its portfolio of liabilities by currency and by duration. Hence, the Company is exposed to concentration risk by product (bonds) and by currency (and therefore by geographical area). Other asset characteristics (industry, counterparty, etc.) are well diversified. In the sections below, the sensitivity of the Company's Own Funds to movements in parameters and resulting impact on Solvency II capital ratio have been assessed. The impacts on the SCR have been ignored as they are considered to be less material.

On 1 August 2020, the Company completed the acquisition of 100% of Euler Hermes Reinsurance AG ('EH Re AG'). According to Article 13(20) of the Solvency II Directive, "Holdings in related undertakings, including participations" are defined as the ownership, direct or by way of control, of 20% or more of the voting rights or capital of undertaking. The Company's holding of 100% of Euler Hermes Re AG falls into this category. This participation is treated under Equity Risk within the Internal Model.

### *Market sensitivity risk*

Market risk is mitigated by the formulation of, and adherence to, clearly defined investment policy statements. Limits are set in relation to the magnitude and nature of risk exposure which can be undertaken. These guidelines are subject to strict internal controls and reporting procedures and are monitored by the FICo, which is chaired by a Director. The contractual appointment of external investment experts also serves to mitigate the risk.

Each quarter, as part of the risk closing process, the IM is used to generate the SCR, and to perform sensitivity analyses on the level of Own Funds following various shocks to the market. The shocks are applied to the assets and liabilities and the net movement provides the impact on the Own Funds. The analyses show that the Company is able to withstand relatively severe shocks in the market.

***Interest rate risk***

For the Company, interest rate risk arises primarily from investments in fixed interest securities and is managed, in the main, by matching the average duration of the fixed interest debt securities held to the average duration of the insurance liabilities they support.

The average expected duration of the liabilities was approximately 2.4 years for the reporting period (2019: approximately 2.8 years). Interest rate risk in respect of cash holdings is mitigated by holding cash and term deposits only to provide short term liquidity.

As of 31 December 2020, sensitivity analyses show that an increase in interest rates by 100 basis points would cause a drop in the Own Funds of EUR 20.1mn which would reduce the Solvency II capital ratio from 229% to 227%.

***Foreign exchange risk***

The Company currently transacts business primarily in three currencies – Euro, Pound Sterling and US Dollar. Therefore, it holds technical reserves and balances in these currencies.

The Company's functional currency is Euro. This means that exchange movements in Sterling or US Dollar against the Euro can result in foreign exchange gains or losses in the Company's Euro denominated accounts. This risk is controlled by ensuring that assets and liabilities match so that any exchange movement in foreign currencies against the Euro results in matching foreign exchange gains and losses.

As of 31 December 2020, sensitivity analyses show that a weakening of 10% of foreign currencies would cause a drop in the Own Funds of EUR 31.7mn and therefore a decrease in the Solvency II capital ratio from 229% to 226%.

***Credit spread risk***

The internal risk capital framework fully acknowledges the risk of declining market values for the Company's fixed income assets due to the widening of credit spreads. However, the Company's risk management and appetite also take into account the business model's underlying economics. Applying the volatility adjustment – a standard method developed for this case – to the underlying interest rate curve, reflects the fact that fixed income assets are typically held until maturity which means that short-term changes in market prices do not materially affect the Company. This allows the Company to invest in bonds yielding spreads over the risk-free return and earn this additional yield component as a long term investor.

Even excluding the mitigating impact of the volatility adjustment, as of 31 December 2020, sensitivity analyses show that an increase in credit spread of 100 basis points for bonds would cause a drop in the Own Funds of EUR 39.1mn and a corresponding reduction in the Solvency II capital ratio from 229% to 225%.

***Inflation risk***

As a reinsurance undertaking, the Company is exposed to changing inflation rates, predominantly due to its non-life reinsurance obligations. Since inflation increases both claims and costs, higher inflation rates will lead to higher liabilities. Inflation assumptions are taken into account in pricing and the risk of changing inflation rates is reflected in the IM.

As of 31 December 2020, sensitivity analyses show that a permanent increase in global inflation by 100 basis points would cause a drop in the Own Funds of EUR 222.6mn and a corresponding reduction in the Solvency II capital ratio from 229% to 208%.

# 3 Credit risk

For the Company, credit risk arises from one of three sources:

***Assumed reinsurance***

All of the Company's premium is received directly from cedants or one of their appointed brokers. All cedants are Allianz Group companies. The Company does not have security in respect of any of its premium debtors, therefore these debtors have to be classified as "unrated". All reinsurance debtors are due within 90 days.

AZRD writes credit and suretyship reinsurance from Euler Hermes, which means the Company is also exposed to credit defaults of external entities through its inwards reinsurance business. For the purposes of this report, these exposures are treated under underwriting risk. However, AZRD monitors the accumulation of its exposures to single obligors, where the Company may have both an underwriting risk (through Euler Hermes) and an investment exposure (e.g. through corporate bonds).

***Outgoing reinsurance (i.e. retrocession)***

Retrocession is managed according to the Company's Retrocession Policy. The Company considers only retrocession companies with strong credit profiles.

In 2020 the Company retroceded business mainly to the following retrocession partners: Allianz SE (credit rating AA) and further retrocessionnaires including Swiss Reinsurance Company Ltd. (credit rating AA-), Muenchener Rueckversicherungs-Gesellschaft AG (credit rating A+), National Indemnity Co. (credit rating AA+), E+S Rueckversicherung AG (credit rating AA-), AXIS Re SE (credit rating A) and Transatlantic Reinsurance Co. (credit rating A+).

***Investments***

The Company has an exposure in relation to its bank deposits, bond and derivative portfolios. The Company manages the risk on its fixed income portfolio within its defined risk appetite by implementing investment guidelines for the PIMCO managed bond funds which set the minimum issue quality for purchases at S&P rating BBB- (or Moody's / Fitch equivalent) with the exception of Board-approved single transactions.

Derivatives are marked to market.

The Company assesses its credit risk using Allianz Group's Credit Risk Platform ('CRisP'). CRisP is a modelling framework that is used for the monthly monitoring of limit breaches and the quarterly monitoring of credit risk accumulation.

CRisP is a proprietary Allianz Group-wide obligor and country limit management system for identification, assessment and management of exposure concentration risk in order to restrict potential losses from single credit events and on annual aggregated basis at the Group and entity level. The limit framework covers obligor concentration risk related to credit and equity exposures. Credit risk limits are set by the Company's Risk Committee, while the implementation is delegated to the Company's FICo. It is the responsibility of the Head of Risk, supported by the Allianz Re Risk Controlling Team, to monitor the exposure and request corrective actions in case of breaches.

# 4 Liquidity risk

The Company's SAA, including appropriate minimum and maximum parameters, takes cognisance of the Company's liquidity requirements in meeting all liabilities as they fall due over the short and medium term. In general, the Company generates sufficient operational cash inflows to satisfy most payment requirements in conjunction with the minimum cash holding parameters.

The Company uses the Allianz Group Cash Pool operated by Allianz SE as its preferred liquidity investment vehicle in line with the AZRD Standard for Liquidity Risk Management.

The Company employs actuarial methods for estimating the liabilities arising from reinsurance contracts. In the course of standard liquidity planning the cash flows from the investment portfolio are reconciled with the estimated liability cash flows.

The Company mitigates liquidity risk by holding funds on short term deposits. The quality of the investments also provides comfort that the Company can meet high liquidity requirements in unlikely events. Furthermore, in the case of an extraordinary event, a portion of the applicable payments may usually be made with a certain time lag, which reduces the risk that short-term current payment obligations cannot be met.

Liquidity risk is measured over various time horizons (1 week, 1 month, 3 months and 12 months). The following figures relate to the 12 months horizon which has the poorest liquidity coverage. At the end of the reporting period, the Company was exposed to EUR 1,128mn liquidity risk, based on the information provided internally to the management and the Board of Directors. The Company had available liquidity of EUR 4,016mn to cover this exposure. Available liquidity includes cash plus assets available for sale, valued after assuming a haircut to allow for forced sale. Under the most extreme stress event (large catastrophe claim), the liquidity risk would increase to EUR 1,852mn, while the available liquidity would reduce to EUR 3,798mn, still providing adequate liquidity coverage.

The expected profit included in future premiums as at 31 December 2020 amounted to EUR 267.4mn (gross of reinsurance) (2019: 215.8mn gross of reinsurance).

# 5 Operational risk

The Company's operational risk management framework is set by adopting the Allianz Standard for Operational Risk Management. The operational risk is managed through a combination of processes, the main ones being the Operational Risk Loss Data Capture Process and the Risk and Control Self-Assessment ('RCSA').

The capture and reporting of operational risk event data are to meet Allianz operational risk management requirements and external regulatory requirements. The Operational Risk Loss Data Capture Process collects all potential or realised operational losses in a central IT-System "Open Pages" (also called Operational Risk Governance System, 'ORGS'). The Company leverages the framework and processes of Allianz Re which are implemented in line with the Group guidelines and described in the Allianz Re Operational Risk Loss Data Capture Process. This is the Allianz Re implementation of the Allianz Group Operational Risk Event Capture Guideline.

The Risk and Control Self-Assessment process is a group-wide process, similar to the TRA but focussing only on operational risk with the following objectives:

- to ensure, through scenario based analyses, that effective risk mitigation activities are in place for all potentially large operational risks;
- to identify operational risk scenarios to be included in the operational risk capital model;
- to identify operational risks that may be subject to the Top Risk Assessment process ('TRA').

There is a clear link between TRA and RCSA:

- Risk experts from the TRA are risk owners in the RCSA process to ensure proper communication and information.
- Operational top risks correspond to one or more risk scenarios in the RCSA.
- Every year, relevant risk scenarios are identified for each business area, based on expert opinion and experience, incorporating an operational risk scenario catalogue made available by Group Risk. A risk owner at management level is appointed for each identified risk scenario.

The RCSA process feeds into a detailed Scenario Analysis, which gives input into the operational risk capital model. The framework for the RCSA process is described in the Operational Risk and Control Self-Assessment Guideline issued by Group Risk.

In addition to the general operational risk management processes described above, additional framework and processes focused primarily on specific operational risk types also exist. Most notable amongst these are the frameworks related to Legal and Compliance Risk, Business Continuity Risk and Outsourcing Risk.

***Legal and compliance risk***

The Company leverages guidelines issued from Group Legal and Compliance. The Company's Governance and Control, Compliance, and Fit and Proper policies have been developed using this process, adjusted for specific local requirements (e.g. CBI Fitness and Probity Regime, CBI Corporate Governance Requirements). Regular assessments regarding Legal and Compliance risk are conducted. The results of these assessments are shared with the Head of Risk. As Legal and Compliance risk forms part of operational risk these aspects are also discussed on an aggregate level in the RCSA.

***Business continuity risk***

The Company leverages the Business Continuity Management ('BCM') Framework as established by the Allianz Group Protection & Resilience function. As required, a BCM plan, a business impact analysis and risk identification assessment have been developed. They are updated annually by the Company's BCM officer and reviewed by the Company's Head of Risk.

***Outsourcing risk***

The governance of all outsourced activities is covered by the Company's Outsourcing Policy. In addition, IT application development and maintenance are outsourced by the Company to Allianz SE (Reinsurance) who in turn outsources IT-related activities to Allianz Technology. These processes follow Allianz Group's IT standards and guidelines.

# 6 Other material risks

***Reputational risk***

The Company does not see high potential for reputational risk as a reinsurer, as it writes only internal business. The Company places reliance on the fact that Allianz operating entities should already conduct a detailed reputational risk assessment in accordance with Group requirements set out in the Allianz Standard for Reputational Risk and Issues Management. Nonetheless, at Allianz Re level there is a defined process in place to identify, assess and manage and report reputational risk which is followed by the Company. Among the reputational risk management activities, reputational risk is assessed annually for each top risk within the TRA. Action plans (if in place) are monitored and reported according to the TRA process.

***Business (cost and lapse) risk***

This is the risk of not writing new business and still incurring fixed acquisition cost (cost risk) and the risk of not renewing existing business and hence losing profits embedded in these contracts (lapse risk). Given the internal nature of the Company's clients and the structure of many of the treaties, this risk is seen as low for the Company. Accordingly, business risk has a minimal impact on the Company's risk capital.

***Key person risks***

Within the business, sudden and unsought departures for most roles can be covered in the short-term by other employees elsewhere in the Allianz Group. However, there are certain roles which require skills and experience that are not widely available within the Group and therefore represent significant risk should the current employee leave the Company or is unable to fulfil his role. These key person risks are monitored by the Risk Committee and managed via succession planning by the CEO and Board.

***New product risks***

Most P&C reinsurance renewal arrangements do not constitute new products as they are traditional reinsurance treaties. This risk is most likely to materialise as part of a non-traditional, capital management reinsurance strategy for the Group or for one of the OEs. There is a defined process for new products in the underwriting guidelines, and new products require approval from the Risk Committee and the Board.

***Emerging risk***

Emerging risks include risks from new technological developments (e.g. cyber risk), new or changing environmental, industry or regulatory risks, socio-demographic changes or pandemic events. These risks have implications on credit and insurance risks, bear a high loss potential (e.g. asbestos, drug related product liability claims and gene technology) and are often difficult to quantify due to a lack of historical information. Other emerging risks may be identified during normal business activities and should be reported to the Head of Risk.

# 7 Any other information

## 7.1 The Prudent Person Principle

The specific requirements of the Prudent Person Principle and its implementation within the Company's Standards for Investment Management. This standard outlines the principles and rules which apply to the investment assets of the Company. The implementation of the Prudent Person Principle comprises rules concerning the due diligence and processes, the care, skills and delegation, the quality of investments, diversification, and specific rules for certain investment categories.

***General rules***

In general, the Company only invests in assets and instruments whose risks it can properly identify, measure, monitor, manage, control and report, taking into account the assessment of its overall solvency needs, the specific risk profile, approved risk tolerance limits including limits for off-balance exposure and the business strategy. Accordingly, an investment is only admissible if it can be properly modelled in the applied internal risk model, adequately reflecting its risk profile. Asset Liability Management is the central part of the Investment Process for the Company: assets held to cover technical provisions are invested in accordance with the nature and duration of the liabilities.

***Due diligence and processes***

The Company has established an investment management function to ensure the security, quality, liquidity, profitability and availability of its investment portfolio as a whole. In performing its investment management function, the Company has transferred its investment management tasks to Allianz Investment Management SE ('AIM') in accordance with the rules and procedures as described in the Company's Outsourcing Policy. The services to be performed are described in the service level agreement between AIM and the Company.

***Care, skill and delegation***

The Company ensures, within the service level agreements with AIM, that the involved and appointed parties and individuals have the necessary knowledge and qualifications for managing, steering and controlling the investment portfolios in order to understand (i) the risks associated with the investments, (ii) the Company's Investment Risk Management Policy, (iii) the necessary level of "familiarity" with the liabilities and (iv) regulatory constraints to appropriately carry out their responsibilities.

***Qualitative features of investments***

The Company invests all insurance investment assets in such a manner as to ensure achievement of the target level for the security, quality, liquidity, profitability and availability of its portfolio as a whole. The target level of security of the portfolio of assets, including quantitative limits, is set out in the Risk Appetite Statement and monitored in the quarterly risk reports. The target profitability for investments is based on benchmark indices which are stated in the investment mandates.

The level of security and quality of the overall portfolio of insurance investment assets is high in order to ensure that the Company can fulfil promises to its cedants at all times. That means that risks taken in the investment portfolio are in line with overall solvency and risk bearing capability of the Company and of Allianz Group as a whole, taking into account characteristics

of the assets such as tangibility, sustainability, rarity, demand, liquidity, credit quality of counterparties, gearing or encumbrances, tranches, localisation and availability.

The investment portfolio consists mainly of fixed income investments and cash, with a limited amount of FX forwards used to hedge foreign exchange risk within the framework set by the Company's hedging strategy.

The Company diversifies its whole portfolio to increase the security of the portfolio, to ensure the coverage of the technical provisions and to avoid excessive reliance on any particular asset, excessive exposure to any issuer or group of undertakings, excessive concentration of risk in a geographical area or excessive accumulation of risk in the portfolio as a whole.

Security and quality of investment portfolios are regularly assessed, both within the investment management tasks performed by AIM and also in the Company's relevant committees. In particular, the Company's FICo oversees the investment portfolio of the Company. Appropriate KPIs have been implemented to measure and monitor the level of security and quality of the assets of the portfolio.

Fixed income investments are measured by means of credit quality and market risk. Credit quality is continually monitored to ensure that total portfolio credit risk is in line with the overall solvency situation. The quality of the fixed income investments is not solely measured on the basis of ratings but by calculating credit risk using probability of default and loss given default and tenor concentration.

***Specific rules for derivative instruments***

Derivative investments are only allowed at the Company insofar as they contribute to a reduction of risks, i.e. to hedge foreign exchange risk.

***Specific rules for investments in new asset classes or otherwise unusual, large or complex investments***

An investment or investment activity is of a non-routine nature if it concerns a new asset class or requires material changes in operating processes (e.g. settlement, accounting, monitoring and cost controlling), in risk capital models, in IT systems, or shows significant impact from an accounting, compliance, legal, regulatory or tax view (e.g. implementation of a complex holding structure) or from a treasury perspective (e.g. in case of significant cash outflows or need to provide collaterals).

Before making any investment or performing any investment activity of a non-routine nature, the New Financial Instrument Implementation Process would have to be adhered to.

Investments in assets which are not admitted to trading on a regulated financial market are kept to prudent levels. Such assets are known as over the counter ('OTC'). OTC derivative contracts are traded directly between two parties, without going through an exchange or other intermediary. The Company has only one type of OTC derivative: FX Forwards. These assets are used to hedge foreign exchange risk for the portfolio.

## 7.2 Any other material information

The Company has not transferred risk to a special purpose vehicle and does not hold any material off-balance sheet positions.

# D Valuation for Solvency Purposes

## 1 Assets

In order to compare the assets as reported in the Financial Statements based on FRS 101 and the Solvency II Market Value Balance Sheet figures, the FRS 101 data is remapped to the MVBS line item structure. Accordingly, the classes shown below are those used in the Solvency II Market Value Balance Sheet ('MVBS').

| Assets as at 31 December 2020 | MVBS | FRS 101 (MVBS class.) | *Delta* |
|---|---|---|---|
| 1. Goodwill | 0.0 | 0.0 | 0.0 |
| 2. Deferred acquisition costs | 0.0 | 241.2 | (241.2) |
| 3. Intangible assets | 0.0 | 0.0 | 0.0 |
| 4. Deferred tax assets | 0.3 | 0.3 | 0.0 |
| 5. Pension benefit surplus | 0.0 | 0.0 | 0.0 |
| 6. Property, plant and equipment held for own use | 0.0 | 0.3 | (0.3) |
| 7. Investments(other than assets held for index/unit-linked) | 3,575.7 | 5,030.5 | (1,454.8) |
| 7.1 Property (other than for own use) | 0.0 | 0.0 | 0.0 |
| 7.2 Participations | 1,257.0 | 2,711.8 | (1,454.8) |
| 7.3 Equities | 0.0 | 0.0 | 0.0 |
| 7.4 Bonds | 2,317.83 | 2,317.8 | 0.0 |
| 7.5 Collective investments undertakings | 0.0 | 0.0 | 0.0 |
| 7.6 Derivatives | 0.8 | 0.8 | 0.0 |
| 7.7 Deposits other than cash equivalents | 0.0 | 0.0 | 0.0 |
| 7.8 Other investments | 0.0 | 0.0 | 0.0 |
| 8. Assets held for index-linked and unit-linked funds | 0.0 | 0.0 | 0.0 |
| 9. Loans and mortgages | 856.1 | 855.1 | 1.0 |
| 9.1 Loans on policies | 0.0 | 0.0 | 0.0 |
| 9.2 Loans and mortgages to individuals | 0.0 | 0.0 | 0.0 |
| 9.3 Other loans and mortgages | 856.1 | 855.1 | 1.0 |
| 10. Reinsurance recoverables from: | 460.8 | 526.3 | (65.5) |
| 10.1 Non-life and health similar to non-life | 458.1 | 523.6 | (65.5) |
| 10.1.1 Non-life excluding health | 313.2 | 361.9 | (48.6) |
| 10.1.2 Health similar to non-life | 144.9 | 161.7 | (16.8) |
| 10.2 Life & health similar to life, excl. health/index-linked | 2.7 | 2.7 | (0.0) |
| 10.3 Life index-linked and unit-linked | 0.0 | 0.0 | 0.0 |
| 11. Deposits to cedants | 3,474.6 | 3,347.3 | 127.3 |
| 12. Insurance and intermediaries receivables | 4.9 | 66.2 | (61.3) |
| 13. Reinsurance receivables | 0.0 | 0.5 | (0.5) |
| 14. Receivables (trade, not insurance) | 4.5 | 4.3 | 0.1 |
| 15. Own shares (held directly) | 0.0 | 0.0 | 0.0 |
| 16. Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0.0 | 0.0 | 0.0 |
| 17. Cash and cash equivalents | 3.5 | 3.5 | 0.0 |
| 18. Any other assets, not elsewhere shown | 0.0 | 103.8 | (103.8) |
| **Total assets** | **8,380.5** | **10,179.3** | **(1,798.9)** |

**Table 11:** Comparison of MVBS and FRS 101 – Assets

### 1.1 Goodwill

Not relevant for the Company.

### 1.2 Deferred acquisition costs

Under FRS 101 deferred acquisition costs represent any un-expensed acquisition costs. They are recognised on the balance sheet and calculated in line with the unearned premium to which they are attributable. In MVBS deferred acquisition costs are included in the best estimate of the technical provisions and are not recognised separately on the asset side. Therefore, in contrast to FRS 101, the MVBS does not contain an asset for deferred acquisition costs. For further details please refer to chapter D.2 on technical provisions.

### 1.3 Intangible assets

Not relevant for the Company.

### 1.4 Deferred tax assets

Deferred tax assets ('DTA') are the amounts of income tax recoverable in future periods with respect to deductible temporary differences, tax losses and tax credits. Deferred taxes – except deferred tax assets arising from the carry forward of unused tax losses or unused tax credits – shall be valued on the basis of the difference between:

- the values ascribed to assets and liabilities recognised and valued in accordance with the Solvency II Directive and
- the values ascribed to assets and liabilities as recognised and valued for tax purposes.

Deferred taxes shall be recognised and valued in relation to all assets and liabilities that are recognised for Solvency II or for tax purposes. Please refer to chapter D.3.5 Deferred tax liabilities for further details.

### 1.5 Pension benefit surplus

The Company operates a defined contribution pension scheme and therefore does not have a pension benefit surplus (or deficit).

### 1.6 Property, plant and equipment held for own use

This position reflects the following tangible fixed assets: computer equipment, office fixtures and fittings. These are stated at cost less depreciation. The charge for depreciation is calculated to write down the cost to their estimated residual values by equal instalments over their expected useful lives which are as follows:

- Computer equipment and software 3 years;
- Office fixtures and fittings 5 years.

In addition, under FRS this position includes a right-of-use asset calculated in accordance with IFRS 16 for the office rental agreement with Allianz p.l.c. for a term expiring 1 January 2023.

The asset class is immaterial for the Company.

## 1.7 Investments (other than assets held for index/unit-linked)

***Property (other than for own use)***
Not relevant for the Company.

***Participations***
According to Article 13(20) of the Solvency II Directive, "Holdings in related undertakings, including participations" are defined as the ownership, direct or by way of control, of 20% or more of the voting rights or capital of undertaking. The Company holds since 2020 a share of 100% in Euler Hermes Re AG, which falls into this category.

The participations shall be valued, according to Article 13(1) of the Delegated Regulation, at a quoted market price in an active market, if available. If there is no quoted market price, then participations in insurance undertakings shall be valued using the adjusted equity method. The participations have to be valued with the equity method that is based on a Solvency II consistent recognition and measurement for the subsidiary's balance sheet, i.e., the value of the participation is the proportionate share of the net asset value of the undertaking's MVBS.

As there is no quoted market price for Euler Hermes AG, the Company values the participation based on the adjusted equity method. The difference in valuation between MVBS and FRS 101 is due to the fact that the net asset value of the undertaking under MVBS only reflects the value of the in-force business, while the FRS 101 value reflects the price paid for the participation.

***Equities***
Not relevant for the Company.

***Bonds***
This category includes government and corporate bonds including collateralised securities. Government bonds are bonds issued by public authorities, e.g. central governments, supra-national government institutions, regional governments or municipal governments. Corporate bonds are bonds issued by corporations and covered bonds which are backed by cash flows from mortgages or public sector loans.

| As at 31 December 2020 in EUR mn | |
|---|---|
| Government bonds | 601.4 |
| Corporate bonds | 1,590.1 |
| Structured notes | |
| Collateralised securities | 126.3 |
| **Total** | **2,317.8** |

**Table 12:** The Company's bond portfolio

All bonds held by the Company as at 31 December 2020 were classified as "available for sale" investments and measured at fair value as either modelled with significant observable market inputs (EUR 2,235.3mn / Level 2 based on the hierarchy set out in IFRS 7) or inputs not based on observable market data (EUR 67.5mn / Level 3) under FRS 101. There is no difference in valuation between FRS 101 and MVBS for bonds classified as "available for sale" and measured at fair value.

***Collective investments undertakings***
Not relevant for the Company.

***Derivatives***
Derivatives are financial instruments whose values are based on the price movements of the underlying assets to which they are linked. Derivatives with positive values are reported on the asset side. All derivatives are valued at fair value under FRS 101 and MVBS with fair values obtained from quoted prices prevailing in active markets. As at 31 December 2020 the Company held only short-dated FX forwards.

***Deposits other than cash equivalents***
Not relevant for the Company.

***Other investments***
Not relevant for the Company.

### 1.8 Assets held for index-linked and unit-linked funds

Not relevant for the Company.

### 1.9 Loans and mortgages

In MVBS, loans and mortgages are financial assets created when creditors lend funds to debtors, with or without collateral.

In line with this definition, the Company's loans and mortgages include
(1) EUR 502.9mn held in the Allianz SE cash pool, measured at nominal value under FRS 101 and also MVBS as it is considered a good proxy for the fair value within the materiality and proportionality principles;
(2) EUR 353.2mn issued as a loan to the Company's ultimate parent Allianz SE measured at amortized cost under FRS 101 and at fair value under MVBS.

### 1.10 Reinsurance recoverables

The valuation basis for reinsurance recoverables is different under FRS 101 and MVBS. For details please refer to chapter D.2 on Technical Provisions.

### 1.11 Deposits to cedants

Deposits to cedants consist of deposits relating to reinsurance accepted. The difference between FRS 101 and MVBS is due to different measurement bases: Deposits to cedants are measured at market value in MVBS but are recorded at face value in FRS 101.

Where the interest rates are close to the market rate and/or the duration of the deposits is one year or less, the nominal value can be considered a good proxy for the market value within the materiality and proportionality principles. However, for a long-duration contract with a fixed guaranteed interest rate, the face value does not represent the economic value appropriately and the deposit is revalued by applying the risk-free rate to the expected future cash flows.

### 1.12 Insurance and intermediaries receivables

In the MVBS, insurance and intermediaries receivables include those receivables from policyholders, insurers, and others participating in the insurance business that are not considered as future technical cash inflows in the technical provisions.

Receivables from insurance and intermediaries are generally measured at their nominal amount with an adjustment for the probability of default of the counterparty as applicable. The nominal value is considered a good proxy for the fair value within the materiality and proportionality principles. Therefore, insurance and intermediaries of receivables are measured at nominal value with an adjustment for the probability of default of the counterparty under both IFRS and MVBS if required.

### 1.13 Reinsurance receivables

In the MVBS, reinsurance receivables include those receivables from reinsurers that are linked to the reinsurance business but that are not considered as future technical cash inflows in the reinsurance recoverables.
Reinsurance receivables are generally measured at their nominal amount with an adjustment for probability of default of the counterparty if required. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

### 1.14 Receivables (trade, not insurance)

Receivables (trade, not insurance) include amounts receivable from employees or various business partners and tax-related receivables. They are not insurance-related. Receivables (trade, not insurance) are measured at their nominal amount under FRS 101. The nominal value is considered a good proxy for the fair value within the materiality and proportionality principles.

### 1.15 Own shares (held directly)

Not relevant for the Company.

### 1.16 Amounts due in respect of own fund items or initial fund called up but not yet paid in

Not relevant for the Company.

### 1.17 Cash and cash equivalents

Cash and cash equivalents include notes and coins in circulation that are commonly used to make payments, and deposits with very short duration exchangeable for currency at par and which are directly usable for making payments by cheque, draft, giro order, direct debit/credit or other direct payment facility without penalty or restriction.

Cash and cash equivalents are measured at the nominal amount in FRS 101. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

### 1.18 Any other assets, not elsewhere shown

Any other assets, not elsewhere shown include any assets that are not included in the other Balance Sheet items. The only asset included in this category for the Company are deferred

charges from a retroactive reinsurance treaty. Under FRS 101 an initial loss that is due to the fact that the time value of money is not reflected in the measurement of the reinsurance provisions and deposits, is deferred and amortized over the settlement period. Under MVBS both deposits and technical provisions reflect the time value of money. Hence, the recognition of this asset under MVBS would not be appropriate.

# 2 Technical provisions

## 2.1 Non-life technical provisions per material line of business

The following table shows the Company's non-life technical provisions[2] net of reinsurance by material lines of business:

| As at 31 December 2020<br>In EUR mn | | Net Best Estimate Liabilities | Risk Margin | Net Technical Provisions |
|---|---|---|---|---|
| accepted proportional reinsurance (r/i) | Motor* | 765.8 | 2.1 | **767.9** |
| | General liability | 1,774.3 | 18.0 | **1,792.3** |
| | Fire and other damage to property | 648.3 | 2.5 | **650.7** |
| | Other accepted proportional r/i | 727.3 | 8.3 | **735.6** |
| accepted non-proportional reinsurance (r/i) | Property | 512.0 | 19.5 | **531.4** |
| | Casualty | 414.6 | 9.7 | **424.3** |
| | Other accepted non-proportional r/i | 126.8 | 5.1 | **131.9** |
| **Total[1]** | | **4,969.0** | **65.1** | **5,034.2** |

* Includes Motor vehicle liability and Other motor accepted proportional reinsurance

Table 13: The Company's non-life technical provisions net of reinsurance by material line of business

The technical provisions correspond to the current amount that the Company would have to pay if it was to transfer its reinsurance obligations immediately to another reinsurance undertaking. It equals the sum of the Best Estimate Liabilities ('BEL') and the Risk Margin ('RM'), which are calculated separately.

### 2.1.1 General principles for the calculation of technical provisions

***Proportionality***

The actuarial function ensures that technical provisions are determined appropriately, using data, assumptions, and methods proportionate to the risk profile of the legal entity, taking into account the nature, scale and complexity of the risks in question.

***Materiality***

The concept of materiality is an essential dimension of the calculation of technical provisions. It is reflected in the Company's materiality concept for technical provisions, which applies to the scope, valuation method, assumptions, and data quality, and has been approved by the Board of Directors. The materiality concept is used in model governance to ensure that actuarial models are appropriate for the calculation of technical provisions.

***Expert judgment***

In line with the above, the valuation of technical provisions for all lines of business is a process that requires expert judgment in a number of areas – for example, regarding the credibility assigned to historical data, the extent to which prospective models can be relied upon, and the appropriate extent to which uncertainty must be considered in an estimation. Regardless of the technique, judgment is required in making additions or adjustments to estimates in order to allow for circumstances hitherto not included and which need to be incorporated in the BEL (for example, binary events). Hence, expert judgment cannot be regarded separately from all other tasks performed by the actuarial function. Rather, its role is to complement the statistical analysis performed, interpret the results obtained, and identify a solution in the event of any shortcomings.

[2] Excluding EUR 76.4mn Life technical provisions comprising EUR 75.6mn BEL and EUR 0.9mn RM.

As part of the analysis, the actuarial function substantiates the appropriateness of the expert judgment, in order to avoid biased estimates that either over- or underestimate the true underlying risk. That said, expert judgment is not applied in isolation, unless there is no reliable alternative, for example because of a lack of relevant data. Where an assumption depends on expert judgment, it is expressed by person(s) with relevant knowledge and a comprehensive understanding of the subject.

The internal governance framework requires documentation on the expert judgment applied. The selection of the level and scope of documentation considers proportionality and materiality based on quantitative and qualitative indicators.

### 2.1.2 Best Estimate Liabilities

The BEL represent the probability-weighted average of the expected future cash flows for the term of the policy, taking into account the time value of money (expected present value of future cash flows) and using the relevant risk free interest rate (i.e. currency specific swap-rate curve with volatility adjustment) term structure.

BEL are calculated for all in-force policies at the valuation date. Their calculation is based on up-to-date and credible information and best estimate assumptions and is performed using adequate, applicable and relevant actuarial and statistical methods.

The cash flow projection used in the calculation takes account of all the cash inflows and cash outflows required to settle the reinsurance and retrocession obligations over their lifetime including future claims and annuity payments, future expenses (e.g. for maintenance, servicing, overhead, commission) and future premiums. The BEL comprise claims and premium provisions. These are calculated separately.

The best estimate of the claims provision comprise best estimates of claims reserves, including salvage and subrogation as well as loss adjustment expenses. They also consider low probability and extreme events (‘low frequency, high severity’), i.e. ‘binary events’.

The best estimate of the premium provision is defined as the expected present value of future in- and outgoing cash flows including (for example) future premium payments, future claims, future expenses, etc. It follows from the definition that in some cases, the resulting premium provision might lead to a negative provision, i.e. an asset.

For discounting, the relevant risk-free interest rate for the term (i.e. currency specific swap-rate curve with volatility adjustment) is used.

### 2.1.3 Risk Margin

Solvency II requires an allowance for the cost of holding non-hedgeable risk capital. No RM is required for hedgeable financial risks as these can be transferred to the capital markets. The cost of capital is the expected cost of transferring the non-hedgeable financial, insurance and operational risks to another insurer, reinsurer or other market participants.

The RM is defined as the cost of capital required to run off the business until final settlement, thus representing the cost of holding the necessary capital in excess of BEL. In other words, at the time the balance sheet is drawn up, all contractual obligations are reported as their expected value (discounted for the time value) plus RM.

The Company's insurance risk is capped due to the Whole Account Stop Loss ('WASL'). This is taken into account in the calculation of the RM, along with future WASL premiums to reflect the cost of future capital restrictions.

## 2.2 Sources of uncertainty in the non-life technical provisions

There is an inherent uncertainty in any estimate of loss reserves. This is because the ultimate liability for claims is subject to the outcome of events yet to occur. Examples of these events include jury decisions, court interpretations, legislative changes, subsequent damage to property, changes in the medical conditions of claimants, public attitudes and social/economic conditions such as inflation. The estimation of reinsurance reserves introduces additional uncertainty as the reinsurer is a further step removed from the actual underlying claims and exposures and is heavily reliant on the claims administration, underwriting and reporting of its cedants.

So while the technical provisions reflect the best estimate of the ultimate claims liability of the in-force business, future claims emergence is likely to deviate, possibly materially, from these estimates.

The projection of future claim reporting and payment profiles is based, in part, on historical experience. It is possible however, that this historical data will not be predictive of future claim reporting and this would impact the accuracy of the estimates. While this is always an issue for any insurance company, it is amplified for reinsurance business where, for example, changes to any one of the numerous underlying cedants' claims handling processes have the potential to reduce the accuracy of projections based on historical development.

Likewise, the methodologies implicitly assume that relevant claims inflation in the future will reflect the experience of previous years. When this turns out not to be the case, it has the potential to result in losses different to the estimates contained within the technical provisions. This is likely to be most material for those classes of business that are most exposed to inflation (e.g. long-tailed liability classes) and for non-proportional structures that inherently amplify the effects of changes in inflation. Given the recent history of comparatively low inflation, the Company has included an explicit future inflation assumption in the estimation of the claims provisions for those classes most likely to be affected.

The claims provisions attempt to take into account the full range of possible loss outcomes on a probability-weighted basis, including an allowance for low frequency, high severity scenarios known as 'binary events' or 'events not in data'. However, because these events have a low probability of occurrence, the provisions held for these events on a probability-weighted basis are likely to be minimal. This means that losses due to potential future claims arising from causes that are not substantially recognised in the historical data have the potential to significantly exceed the expected losses contained within the technical provisions. For example, if a new latent claim type liability were to arise in respect of policies issued by the Company, this could substantially increase the technical provisions going forward (as this new type of claim now becomes far more likely).

The premium provision is subject to additional uncertainty over and above that contained within the claims provision in that it contains cost estimates for future exposure. Particularly at year end, it must also contain an allowance for business bound in the main renewal season for the following year that are not yet recorded on the Company's systems but which nonetheless fall within the contract boundary. Similarly, allowance must be made for premium contracted and on the system but not yet received. Both of these involve additional assumptions which increase the level of uncertainty, although this is mitigated to a degree by reasonableness checks.

For the Company, there is a further significant source of uncertainty arising out of quality of historical data, although there is an ongoing effort to improve the data. There is currently no separation of large individual losses or losses due to large loss events from attritional losses in the triangulated data. In general, these two types of losses would be expected to develop differently and their inclusion in triangles may distort the derived development patterns. Significant improvements have been made in recent years which have enabled large loss triangles to be populated, however these triangles are solely for information purposes (i.e. projections of patterns are not performed for large loss triangles). Although judgmental adjustments may be made from knowledge of the timing of such losses, these adjustments can never be as accurate as they would be from projecting attritional and large losses separately. These data issues add materially to the uncertainty associated with the estimates of the technical provisions.

## 2.3 Comparisons between Solvency II and FRS 101

Although the definitions of best estimate under FRS 101 and Solvency II are not identical in terms of wording, the theoretical concepts and calculation methods applied in the estimation process are the same; and so is the judgment used in model selection and calibration.

The main differences between IFRS and MVBS values result from the following:

- Different consideration of risk: Under MVBS there is an explicit RM.
- Different valuation basis: MVBS and FRS 101 have different definitions for contract boundaries. Accordingly, FRS 101 unearned premium reserves differ from the MVBS premium provisions. Differences relate to e.g. the allowance for future profits in Own Funds and the consideration of the future premium cash inflow in the premium provision in MVBS.
- Interest rates: MVBS technical provisions are calculated by discounting the cash flows with a risk-free interest rate curve, while the Company's FRS 101 claims reserves are not discounted for the time-value-of-money, except for those that relate to future payments for Periodic Payment Order ('PPO') claims under the UK non-proportional liability lines of business.
- Inclusion of technical receivables and payables from (re-)insurance not yet due. These amounts are considered within the MVBS technical provisions, but are included in a separate line item under FRS 101.

The following table sets out differences between valuation for financial reporting and valuation for solvency purposes.

| As at 31 December 2020 in EUR mn | MVBS | FRS 101 | *Delta* |
|---|---|---|---|
| Gross Premium Provision / UPR | 407.0 | 1,093.1 | *(686.1)* |
| Gross Claims Provision / Reserves | 5,020.2 | 4,746.0 | *274.2* |
| Risk Margin | 65.1 | | *65.1* |
| **Non-life technical provisions** | 5,492.3 | 5,839.1 | (346.8) |

**Table 14:** Valuation differences of non-life technical provisions

## 2.4 Reinsurance Recoverables

The amounts recoverable from retrocession contracts are best estimates and calculated consistently with the boundaries of the underlying contracts to which they relate. No RM is reported in the retrocession recoverable section as the RM recognised within the technical provisions is already net of retrocession.

However, the retrocession recoverable is reduced to take into account expected losses due to counterparty default. That adjustment is based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default).

Cash in-flows include at least (1) recoverables from retrocession contracts for claims payments or benefits and related expenses; and (2) retrocession commission. Cash out-flows include at least future premiums for retrocession contracts.

## 2.5 Methods

The calculation of the technical provisions is performed using an appropriate valuation method. This is crucial as it ensures that the nature and complexity of the insurance risks are adequately addressed and the limitations are known. The choice between life or non-life actuarial methodologies is based on the nature of the liabilities being valued and on the identification of risks which materially affect the underlying cash flows.

The selection of the appropriate method is based on expert judgment which considers, among other factors, the quality, quantity and reliability of the available data and analyses all important characteristics of the business. The method is designed to ensure that the assumptions and parameters used in the method are clear and explicit. Key influencing factors are identified. Key drivers and uncertainties associated with the BEL are analysed and documented. This is done, for example, by performing stress and scenario testing, back-testing and movement analyses.

The methods used are appropriate for the nature and complexity of the risks. Some aspects (not exhaustive) that are considered are as follows:

- Whether the analysis is by accident period or underwriting period;
- The type of business being valued;
- The type of reinsurance cover provided;
- The maturity of the business;
- Relevant industry practice.

In the analysis of the claim experience, the following aspects (not exhaustive) are considered:

- Development of claim payments;
- Development of reported losses;
- Incidence and development of large claims;
- Potential impact of catastrophes.

Risk-free discount rates are used to discount future best-estimate cash flows. The reference rate is the swap yield curve appropriate to the currency of the cash flows, unless the concept of proportionality applies, plus a volatility adjustment.

The Company applies the volatility adjustment according to article 77d of Directive 2009/138/EC. As at 31 December 2020 a change of the volatility adjustment to zero would

- increase the technical provisions (gross of reinsurance) by EUR 30.5mn and decrease the Own Funds by EUR 12.4mn;
- increase the Solvency Capital Requirement by EUR 39.6mn and the Minimum Capital Requirement by EUR 17.8mn.

The Company does not apply:

- The matching adjustment (Art. 77b of the Solvency II Directive);
- The transitional risk-free interest rate term structure (Art. 308c of the Solvency II Directive);
- The transitional deduction (Art. 308d of the Solvency II Directive).

# 3 Other liabilities

In order to compare the liabilities as reported in the Financial Statements based on FRS 101 and the Solvency II MVBS figures, the FRS 101 data is remapped to the MVBS line item structure. Accordingly, the liability classes shown below are those used in the Solvency II MVBS.

| Liabilities as at 31 December 2020 | MVBS | FRS 101 (MVBS class.) | *Delta* |
|---|---|---|---|
| 19. Technical provisions - non life | 5,492.3 | 5,839.1 | (346.8) |
| 19.1. Technical provisions - non-life (excluding health) | 4,845.1 | 5,146.8 | (301.6) |
| 19.1.1 TP calculated as a whole | 0.0 | 0.0 | 0.0 |
| 19.1.2 Best Estimate | 4,785.4 | 5,146.8 | (361.4) |
| 19.1.3 Risk margin | 59.8 | 0.0 | 59.8 |
| 19.2. Technical provisions - health (similar to non-life) | 647.2 | 692.3 | (45.1) |
| 19.2.1 TP calculated as a whole | 0.0 | 0.0 | 0.0 |
| 19.2.2 Best Estimate | 641.8 | 692.3 | (50.5) |
| 19.2.3 Risk margin | 5.4 | 0.0 | 5.4 |
| 20. Technical provisions - life (excl. index/unit-linked) | 79.1 | 78.2 | 0.9 |
| 20.1. Technical provisions - health (similar to life) | 0.0 | 0.0 | 0.0 |
| 20.1.1 TP calculated as a whole | 0.0 | 0.0 | 0.0 |
| 20.1.2 Best Estimate | 0.0 | 0.0 | 0.0 |
| 20.1.3 Risk margin | 0.0 | 0.0 | 0.0 |
| 20.2. Technical provisions - life (excl. health similar to life) | 79.1 | 78.2 | 0.9 |
| 20.2.1 TP calculated as a whole | 0.0 | 0.0 | 0.0 |
| 20.2.2 Best Estimate | 78.2 | 78.2 | 0.1 |
| 20.2.3 Risk margin | 0.9 | 0.0 | 0.9 |
| 21. Technical provisions - index-linked and unit-linked | 0.0 | 0.0 | 0.0 |
| 21.1 TP calculated as a whole | 0.0 | 0.0 | 0.0 |
| 21.2 Best Estimate | 0.0 | 0.0 | 0.0 |
| 21.3 Risk margin | 0.0 | 0.0 | 0.0 |
| 22. Other technical provisions | 0.0 | 0.0 | 0.0 |
| 23. Contingent liabilities | 0.0 | 0.0 | 0.0 |
| 24. Provisions other than technical provisions | 1.7 | 1.7 | 0.0 |
| 25. Pension benefit obligations | 0.0 | 0.0 | 0.0 |
| 26. Deposits from reinsurers | 226.5 | 163.0 | 63.5 |
| 27. Deferred tax liabilities | 32.7 | 11.8 | 20.9 |
| 28. Derivatives | 0.1 | 0.1 | 0.0 |
| 29. Debts owed to credit institutions | 2.5 | 2.5 | 0.0 |
| 30. Financial liabilities other than debts owed to credit institutions | 0.0 | 0.0 | 0.0 |
| 31. Insurance and intermediaries payables | 2.3 | 184.3 | (182.0) |
| 32. Reinsurance payables | 0.0 | 55.3 | (55.3) |
| 33. Payables (trade, not insurance) | 0.3 | 0.6 | (0.3) |
| 34. Subordinated liabilities | 0.0 | 0.0 | 0.0 |
| 35. Any other liabilities, not elsewhere shown | 0.3 | 0.3 | 0.0 |
| **Total liabilities** | **5,837.9** | **6,336.8** | **(498.9)** |
| **Excess of assets over liabilities** | **2,542.6** | **3,842.6** | **(1,300.0)** |

Table 15: Comparison of MVBS and FRS 101 – Liabilities

### 3.1 Provisions other than technical provisions

These provisions refer to liabilities of uncertain timing and amount. They may include, e.g., staff-related provisions or other expense provisions. There are no material differences between FRS 101 and MVBS in valuation.

### 3.2 Contingent liabilities

Not relevant for the Company.

### 3.3 Pension benefit obligations

The Company operates a defined contribution pension scheme and has made all contribution obligations by end of year.

### 3.4 Deposits from reinsurers

Please refer to chapter D.1.11 Deposits to cedants for the valuation approaches also applicable to deposits from reinsurers under FRS 101 and for the MVBS.

### 3.5 Deferred tax liabilities

Deferred tax liabilities ('DTL') are the result of temporary differences between the Company's accounting and tax carrying values, the anticipated and enacted income tax rate, and estimated taxes payable for the current year. This liability may or may not be realised during any given year, which makes the deferred status appropriate.

Deferred taxes – except deferred tax assets arising from the carry forward of unused tax losses or unused tax credits – shall be valued on the basis of the difference between:

- the values ascribed to assets and liabilities recognised and valued in accordance with the Solvency II Directive and
- the values ascribed to assets and liabilities as recognised and valued for tax purposes.

Deferred taxes shall be recognised and valued in relation to all assets and liabilities that are recognised for Solvency II or for tax purposes.

The difference between MVBS and FRS 101 relates mostly to deferred taxes on temporary differences resulting from revaluation adjustments concerning values of assets and liabilities under FRS 101 and MVBS. The delta mainly comes from the different valuation of Technical Provisions.

### 3.6 Derivatives

Derivatives are financial instruments whose values are based on the price movements of the underlying assets to which they are linked. Derivatives with negative values are reported on the liability side. All derivatives are valued at fair value under FRS 101 and MVBS with fair values obtained from quoted prices prevailing in active markets where available. Otherwise, valuation techniques including discounted cash flow analysis and option pricing are used to value the instruments. There is no difference between FRS 101 and MVBS.

As at 31 December 2020 the Company held only short-dated FX forwards.

### 3.7 Debts owed to credit institutions

Not relevant for the Company.

### 3.8 Financial liabilities other than debts owed to credit institutions

Not relevant for the Company.

### 3.9 Insurance and intermediaries payables

Insurance and intermediaries payables refer to amounts owed to insurers and others participating in the insurance business that are not considered under technical provisions in the MVBS. They are generally measured at their nominal amount, i.e. the amount due on repayment. Due to their short-term nature, the nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles. Insurance and intermediaries payables are measured at nominal value under FRS 101 and MVBS.

### 3.10 Reinsurance payables

Reinsurance payables refer to amounts owed to retrocessionaires other than deposits that are linked to the retrocession, which are not considered in the technical provisions. They are generally measured at their nominal amount, i.e. the amount due on repayment. Due to their short-term nature, the nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles. Reinsurance payables are measured at nominal value under FRS 101 and MVBS.

### 3.11 Payables (trade, not insurance)

Payables (trade, not insurance) include amounts owed to employees, suppliers and various business partners as well as tax-related payables. They are not insurance-related. In addition, under FRS this position includes the lease liability calculated in accordance with IFRS 16 for the office rental agreement with Allianz p.l.c. for a term expiring 1 January 2023

### 3.12 Subordinated liabilities

Not relevant to the Company.

### 3.13 Any other liabilities, not elsewhere shown

Any other liabilities, not elsewhere shown include any liabilities that are not included in the other balance sheet items. They mainly include other liabilities and deferred income. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles. There are no differences between FRS 101 and MVBS. This liability class is immaterial for the Company.

# 4 Alternative methods for valuation

Information on the valuation methods applied is provided under the respective line items.

# 5 Any other information

## 5.1 Going concern assessment

When assessing the going concern of the Company, the potential impact of COVID-19 was carefully considered. This included the impact of the pandemic on the Company's financial and solvency position, the potential financial downside due to the settlement of related claims, the impact on the Company's underwriting activities, claims and investments, its liquidity position, operational resilience and implications arising from the continued 'lockdown' measures, and legal and compliance challenges arising from COVID-19. Considering all these factors, the Directors are satisfied with the Company's ability to continue as a going concern.

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## 5.2 Other information

All material information regarding the valuation of its assets, technical provisions and other liabilities for solvency purposes is addressed in the above chapters.

# E Capital Management

## 1 Own Funds

### 1.1 Objectives, policies and processes for managing Own Funds

The Company applies an integrated capital framework as described in its Capital Management Policy. The main objectives of the Company's capital management are:

- to provide the Company with a level of capital adequate to fulfil its regulatory requirements at all times in an efficient manner, and
- to deliver on its business strategy within the constraints of its Risk Appetite.

The Risk Appetite of the Company is reviewed and approved at least once a year and includes an explicit discussion of capital targets and thresholds. The Head of Risk prepares a recommendation for the Risk Appetite for the Risk Committee, coordinating the capital target and threshold discussions with the FICo and/or the CFO and CEO. The Risk Committee recommends the Risk Appetite for approval to the Board. In the Risk Committee and the FICo, regular updates on the status of the Company's capitalisation are presented.

Any capital repatriation recommendations (e.g. dividends) are proposed by the FICo to the Board within the framework set out within the Company's Capital Management Policy. The Board takes the final decision on any capital repatriation actions.

There were no material changes over the reporting period with regards to objectives, policies and processes employed by the Company for managing its Own Funds.

### 1.2 Structure, amount and quality of Own Funds

The classification into tiers follows the criteria set out in Articles 93 to 96 of the Solvency II Directive 2009/138/EC as well as in Articles 69 to 78 of the Solvency II Delegated Regulation: Ordinary share capital (paid-in), the reconciliation reserve and other own fund items approved by the supervisory authority as basic own funds are classified as Tier 1 unrestricted Own Funds.

The Own Funds of EUR 2,407.6mn (2019: EUR 1,255.5mn) mostly consist of unrestricted Tier 1 Basic Own Funds. Only EUR 0.3mn are Tier 3 capital relating to the DTA of the Company. The Own Funds relate to the ordinary share capital and other own fund items approved by the CBI as basic own funds amounting EUR 2,772.0mn (2019: EUR 60.2mn) and the reconciliation reserve amounting to EUR -364.8mn (2019: EUR 1,195.3mn). The reconciliation reserve consists mainly of valuation differences and foreseeable dividends.

The whole amount of Own Funds is available to fully absorb losses on a going-concern basis.

There are no ancillary Own Funds. No items of the Company's basic Own Funds are subject to the transitional arrangements referred to in Article 308b(9) and (10) of the Solvency II Directive.

Table 16 provides details with regard to the individual basic own fund items and the respective classification into tiers:

| As at 31 Dec 2020 in EUR mn | Total | Tier 1 | Tier 2 | Tier 3 |
|---|---|---|---|---|
| Ordinary share capital (gross of own shares) | **2,715.2** | 2,715.2 | - | - |
| Other own fund items approved by CBI as basic own funds | **56.8** | 56.8 | - | - |
| Reconciliation reserve | **(364.8)** | (364.8) | - | - |
| Value of net deferred tax assets | **0.3** | - | - | 0.3 |
| **Total basic Own Funds after adjustments** | **2,407.6** | 2,407.3 | - | 0.3 |
| **Total eligible Own Funds to meet the SCR** | **2,407.6** | 2,407.3 | - | 0.3 |
| **Total eligible basic Own Funds to meet the MCR** | **2,407.3** | 2,407.3 | - | - |

| As at 31 Dec 2019 in EUR mn | Total | Tier 1 | Tier 2 | Tier 3 |
|---|---|---|---|---|
| Ordinary share capital (gross of own shares) | **3.4** | 3.4 | - | - |
| Other own fund items approved by CBI as basic own funds | **56.8** | 56.8 | - | - |
| Reconciliation reserve | **1,195.3** | 1,195.3 | - | - |
| **Total basic Own Funds after adjustments** | **1,255.5** | 1,255.5 | - | - |
| **Total eligible Own Funds to meet the SCR** | **1,255.5** | 1,255.5 | - | - |
| **Total eligible basic Own Funds to meet the MCR** | **1,255.5** | 1,255.5 | - | - |

**Table 16:** Classification of Own Funds

The Own Funds as at the end of the reporting period exceeded the Own Funds as at the end of the previous year mainly as a result of the strategic participation in Euler Hermes Re AG, together with the higher expected profits from business bound at year-end versus expectations for 2020 profits.

### 1.3 Reconciliation between FRS 101 and MVBS excess of assets over liabilities

Deviations arise from different valuation approaches between MVBS and FRS 101 as described in section D and are mainly attributable to the following key drivers:

- IFRS balance sheet items that are not recognised in the MVBS (e.g. goodwill, deferred acquisition costs) and MVBS balance sheet items that are not recognised in FRS 101 (e.g. risk margin);
- Differences in recognition / valuation of technical provisions and reinsurance recoverables (chapter D.2) and the valuation of deposits to cedants / from reinsurers (chapter D.1);
- Deferred taxes on the above mentioned balance sheet differences.

The following table shows a high-level reconciliation between FRS 101 equity as shown in the Company's Financial Statements to Solvency II (MVBS) excess of assets over liabilities:

| As at 31 December 2020 in EUR mn | |
|---|---|
| **FRS 101 equity** | **3,842.6** |
| Deferred acquisition costs | (241.2) |
| Holding in related undertakings | (1,454.8) |
| Deposits to cedants / from reinsurers | 63.8 |
| Reinsurance recoverables & reinsurance receivables / payables | (10.6) |
| Technical provisions Non-Life & Life & insurance receivables / payables | 466.5 |
| Deferred tax liabilities | (20.9) |
| Other | (102.7) |
| Total net adjustment | (1,300.0) |
| **Solvency II Excess of Assets over Liabilities** | **2,542.6** |

**Table 17:** Reconciliation of FRS 101 Equity to Solvency II Excess of Assets over Liabilities

## 2 Solvency Capital Requirement and Minimum Capital Requirement

The Company's Solvency Capital Requirement ('SCR') as at 31 December 2020 amounted to EUR 1,051.1mn (2019: EUR 733.8mn) and the Minimum Capital Requirement ('MCR') to EUR 473.0mn (2019: EUR 330.2mn).

The level of the Company's SCR and MCR as at the end of the reporting period is higher compared to the level as at the end of the previous reporting period reflecting the additional risk capital for the acquisition of Euler Hermes Re AG, partially offset by a slight reduction in the Company's underwriting risk due to the lower economic retention under the WASL.

The Company uses the Allianz IM for the calculation of the Solvency Capital Requirement. A split of the SCR into the risk categories according to the IM is shown in Table 10 in section C.

The calculation of the MCR follows the methodology described in the Solvency II regulation and uses the SCR as an input parameter.

# 3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not make use of the duration-based equity risk sub-module.

# 4 Differences between the standard formula and the Allianz internal model

## 4.1 Purposes

The IM is used for various purposes, in particular for quantification and comparison of different risk categories and segments. It is a fundamental element for risk-based and forward-looking steering. Moreover, by using an IM, the calculated risk capital better reflects the Company's underlying business and is more appropriate compared to the standard formula approach of Solvency II.

## 4.2 Scope

Risk categories covered by the IM are presented and explained in chapter C.

## 4.3 Methods used

The IM is based on a Value at Risk ('VaR') approach using a Monte Carlo simulation. Risk calculation begins with the market value balance sheet, attributing each position to relevant risk drivers and associated risk categories. For example, a bond will be included in the respective market risk categories (interest rate, credit spread and / or currency risk) as well as the credit risk category. Risk capital is defined as the change in economic net fair values of assets and liabilities over the projected time period based on the underlying distribution assumptions for each risk factor.

Following this approach, the maximum loss in the portfolio value of the business in scope of the model within a specified timeframe ('holding period') and probability of occurrence ('confidence level') is determined. A confidence level of 99.5% and a holding period of one year are assumed. The risk capital is computed as the 99.5% Value at Risk from the profit and loss distribution, where in each scenario the change in economic value is derived from the simultaneous realisation of all risk factors.

Wherever possible, distributions are calibrated to market data or internal historical data, e.g. for setting actuarial assumptions. In addition, recommendations from the insurance industry, supervisory authorities and actuarial associations are considered.

The IM contains different risk categories, which can be subdivided into risk types. For each level the IM delivers risk figures on a stand-alone basis (i.e. before diversification against other risk types or categories) and on an aggregated level (taking diversification into account). A description of each risk category can be found in section C.

An industry-standard approach based on a Gaussian copula is used for the aggregation of risks. A correlation matrix defines the interdependencies between risks of the copula. Wherever possible, correlation parameters for each pair of market risks are derived through statistical analysis of historical market data, considering quarterly observations over several years. In case historical market data or other portfolio-specific observations are insufficient or not available, correlations are set according to a well-defined, Allianz Group-wide process. This is done by a dedicated internal Allianz Group committee, the Correlation Settings Committee, which combines the expertise of risk and business experts. In general, correlation parameters are defined such that they represent the joint movement of risks under adverse conditions.

For the valuation of technical provisions, a volatility adjustment is applied on top of the risk-free interest rate curve. Conceptually, as the volatility adjustment ('VA') is derived from credit spreads, simulated changes in the credit spreads also imply changes in the volatility adjustment in each underlying scenario of the risk calculation. Consequently, these changes can be anticipated and considered for the valuation of technical provisions in each underlying scenario and then reflected in the risk capital. Therefore, the internal model contains a dynamic component to cover this impact. Allianz's approach to modelling the dynamic component does not replicate the EIOPA VA methodology. In the risk capital calculations, the model reflects the impact of the dynamic movement of the volatility adjustment based on the credit spread movements of the Allianz portfolio. This asset-side effect is converted to a liability-side impact by using asset and liability durations. To account for deviations with respect to the EIOPA VA methodology, Allianz applies a scaling factor for the dynamic volatility adjustment. A regular validation is performed to verify the appropriateness and prudence of the approach.

To determine the diversified risk capital, the change in economic value is calculated for the 200-year event based on the joint realisation of risks applying the methodology described above.

## 4.4 Main differences between the standard formula and the internal model

A fundamental difference between the standard formula and the IM is that the standard formula uses factor-based shock scenarios while the IM derives the risk capital by simulating each risk driver (and its corresponding economic P&L impact) based on its assumed distribution and dependence on other risk drivers.

The following table provides an overview of differences between the standard formula and the IM by risk module (including only those modules relevant for the Company):

| Risk Module | Standard Formula | Internal Model |
|---|---|---|
| **Equity** | Several standardized equity shocks, depending on classification of equity investments<br>▪ 39 % for equities listed in countries that are members of EEA or OECD (type 1)<br>▪ 49 % for remaining equity-type investments, commodities, and alternative investments (type 2)<br>▪ Symmetric adjustment is applied to 39 % and 49 %, base shocks depending on the relation between the current and the average historical market level.<br>▪ Strategic participation with a risk charge of 22 %<br>▪ Other reduced capital charge for qualifying infrastructure (corporate) and long-term equity investments<br>▪ Aggregation of equity shocks based on simplified correlation assumption of 0.75 between type 1 and the rest | Underlying distribution for each equity risk factor modelled is calibrated to market data<br>▪ Traded equity indices (ca. 35 % − 60 %, depending on the index)<br>▪ Non-traded equity indices (ca. 10 % − 80 % depending on the index and risk classification)<br>▪ Participations (35 %)<br>▪ Volatility stress applied<br>▪ Aggregation is based on correlations between different risk factors calibrated to market data and expert estimates<br>For the Company only the aspects relating to participations are relevant. |
| **Interest rate** | ▪ Pre-defined up / down shocks as percentage change to the EIOPA risk-free rates varying by term to maturity from 20% to 75%. Minimum up-shock of 100bp<br>▪ Worst shock determines capital requirement<br>▪ Down shocks of the negative rates are not allowed | ▪ Underlying distributions of interest-rate term nodes are calibrated to market data for each interest rate curve modelled<br>▪ Interest rates shocks in up to 10 nodes are modelled stochastically, no min/max shock size applied<br>▪ Volatility stress applied<br>▪ Shifted log-normal model allows for down-shocks in negative rates |
| **Inflation** | ▪ Not covered explicitly | ▪ Explicit risk factors for inflation expectation rates calibrated to market data, with the underlying distributions being calibrated to market data |
| **Spread** | Spread risk is subdivided into three categories for bonds and loans, securitisations, and credit derivatives. Shock impacts are calculated using a pre-defined methodology for each category, and summed up to obtain the overall spread module figure.<br>▪ For bonds, loans, and securitisations, shock factors depend on the respective modified duration and credit rating. No spread risk on certain bonds and loans (e.g. EEA sovereign bonds) denominated and funded in domestic currency<br>▪ Credit derivatives: shock factors for an increase in spreads depend on the credit rating of the underlying. Down-shock of 75% for all ratings. Shock is then determined by the larger resulting capital requirement<br>▪ Where approved by the regulator, the EIOPA volatility adjustment is used as a constant discount rate for the valuation of the technical provisions. | Modelling of various spreads differentiated by e.g. sector, rating, country/region. The underlying distribution of each spread modelled is calibrated to market data. Main differences:<br>▪ EEA sovereign bonds, AAA and AA rated non-EEA sovereign bonds, supranational bonds, and mortgage loans on residential property are not exempt from spread risk<br>▪ Shocks which under the internal model are calibrated for securitisations are lower than those in the standard formula, which can be as high as 100%<br>▪ For valuation purposes of the technical provisions, the EIOPA volatility adjustment is used where approved by the regulator. In addition, the volatility adjustment is also modelled dynamically within the risk capital calculation. The dynamic component's contribution towards the value of the technical provisions is determined based on the own portfolio movements caused by simulated changes in credit spreads during risk capital calculation. |

| | | |
|---|---|---|
| **Currency** | ▪ +/- 25% for each currency, except for currencies pegged to the EUR<br>▪ Worst-case scenario is selected for each currency<br>▪ No diversification / netting of cross currencies | ▪ Exchange rates shocks for different currencies vs. EUR (from ca. 18% - 33% depending on the currency) |
| **Concentration** | ▪ Formula based on exposure, rating, and total assets held | ▪ Implicitly covered in the credit risk models and via diversification in market risk modules |
| **Credit risk / counterparty default risk** | Scope: Limited to specific exposure types<br>▪ Type 1: Mainly reinsurance arrangements, derivatives, cash at bank, deposits with ceding undertakings, and commitments<br>▪ Type 2: Mainly receivables, policyholder debtors, retail mortgage loans<br>▪ Counterparty default risk module does not contain bond portfolio and credit insurance<br>▪ Methodology: Closed-formula approach to determine possible losses resulting from unexpected counterparty default<br>▪ Parameters: Assigned according to Delegated Regulation (e.g. PDs, LGDs). PDs predominantly based on ratings from external rating agencies | Scope: Much broader scope including<br>▪ Investment portfolio: Fixed-income investments, cash positions, derivatives, securities lending and structured transactions, receivables, off-balance exposures (e.g. guarantees and commitments)<br>▪ Reinsurance exposures<br>▪ Credit insurance exposures<br>▪ Methodology: portfolio model based on Monte Carlo simulation and covering default and migration risk. Loss distribution is determined by taking into account interdependencies and exposure concentrations<br>▪ Parameters: Mostly own internal estimates (e.g. PDs, LGDs). Ratings derived via an internal rating approach based on long-term ratings from rating agencies |
| **Underwriting Risk for Non-life & Health (not similar to life techniques)** | (1) Premium and reserve risk<br><br>In the standard formula, a factor-based approach is used to estimate the combined premium and reserve risk:<br><br>▪ Standard volatility factors (market averages) by Solvency II ('SII') line of business are applied to different volume measures, such as net earned premiums and net claim reserves<br>▪ In a linear correlation approach, values are aggregated over SII lines of business and risk modules using pre-defined correlations<br>▪ Different submodules for Non-life and Health (not similar to life techniques) SII lines of business<br>▪ Allowance for geographical diversification based on a pre-defined set of regions | (1) Premium and Reserve risk<br><br>In the IM, premium Non-Cat and reserve risk are modelled individually:<br><br>▪ Actuarial models are fitted to local company-specific data, leading to a reflection of the individual risk profile<br>▪ Standard actuarial techniques such as frequency/severity modelling and bootstrapping are used<br>▪ The granularity of the modelling is more detailed than SII line of business and in line with the risk profile observed<br>▪ Application of reinsurance for premium risk is more advanced in the IM, as single large losses are modelled separately and non-proportional reinsurance contracts can be applied<br>▪ The aggregation method used is based on a copula approach |

| | | |
|---|---|---|
| | (2) Catastrophe risk<br>▪ Catastrophe risk is split into 4 modules: Natural Catastrophe, Non-proportional property reinsurance, Man Made, Other<br>▪ Standardised shock scenarios are applied as specified by the delegated Acts<br>▪ The 1-in-200-year-loss Natural Catastrophe is largely based on shocked sums insured and gross premiums. Reinsurance is applied based on the consideration of single events. Separate approach for Health Catastrophe risk (Mass Accident, Accident Concentration and Pandemic modules) | (2) Catastrophe risk<br>▪ Natural Catastrophe risk is based on probabilistic models, which use special modelling techniques to combine portfolio data (such as the geographic distribution and characteristics of insured objects and their values) with simulated natural disaster scenarios to estimate the magnitude and frequency of potential losses<br>▪ Man-made risk is modelled together with Premium Non-Cat risk<br>▪ Reinsurance can be reflected, e.g. single event losses are simulated and mitigated with the respective reinsurance arrangement, if applicable |
| | (3) Business risk<br>▪ Only lapse risk is considered with focus on deterioration of future earnings | (3) Business risk<br>▪ Both the lapse and the cost risk are explicitly modelled with a focus on cost coverage |
| **Loss absorbing capacity of tax** | ▪ The adjustment is equal to the change in value of deferred taxes that results from an instantaneous loss of an amount equal to the basic solvency capital requirement plus capital requirement for operational risk plus adjustment for the loss absorbing capacity of technical provisions. Under the standard formula, only the corporate tax rate is considered | ▪ The tax relief on risk capital is based on tax rates applied to the overall market-value balance sheet shock in the 99.5-quantile scenario, capped by the level of net deferred tax liabilities plus loss carry back capacity. In the IM framework, a separate tax rate for equities is considered in addition to the corporate tax rate |
| **Loss absorbing capacity of technical provisions** | ▪ Ensures that for participating business there is no multiple usage of the future discretionary benefit buffers<br>▪ The BSCR is calculated with and without allowance for FDB and the total relief is limited to the current value of FDB | ▪ As SCR figures are calculated directly on a net basis, based on replicating portfolios for technical provisions, they already include the loss-absorbing capacity of technical provisions |
| **Intangible asset risk** | ▪ 80% of intangible assets recognised | ▪ Intangible asset risk is not covered by the IM |
| **Operational Risk** | ▪ Factor-based approach based on earned premium amount and technical provisions | ▪ Scenario-based risk modelling approach<br>▪ Risk identification within each entity<br>▪ Aggregation of operational risks based on loss frequency and loss severity distributions |
| **Aggregation** | ▪ Simple correlation approach with pre-defined correlations between risk modules | ▪ Aggregation based on Correlation matrix calibrated where possible to available market data or based on expert judgment in case no or limited data is available.<br>▪ Aggregation model (Copula approach) |

**Table 18:** Main differences between standard formula and Allianz IM

For non-life underwriting risk, the difference with respect to the risks covered by the IM compared to the standard formula is very limited. However, there are differences in the modelling approach. The standard formula does not reflect reinsurance across categories, and provides only limited benefit from the Company's Whole Account Stop Loss ('WASL') against premium risks (both NatCat and Non-Cat) and no benefit against reserve risk. Furthermore, the standard formula does not deal with the aggregation benefits of the WASL (the retrocession

covers all actuarial risks concurrently). The IM deals with these (and other) issues more accurately and is therefore a more appropriate model. All other risk categories under the IM are also covered, if only implicitly, by the standard formula.

Another difference concerns the credit risk module: in contrast to the standard formula, the respective risk module of the IM covers the entire bond and loan portfolio as well as credit insurance exposures. This allows the Company to model diversification and concentration effects across all credit risk bearing exposures.

## 4.5 Data

A variety of data sources is used as input for the IM and for the calibration of parameters. Where reasonable, the input data is identical to the data used for other purposes, e.g. for statutory accounting. The appropriateness of this data is regularly verified internally and by external auditors.

# 5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company complied with the Minimum Capital Requirement and the Solvency Capital Requirement during the financial year 2020.

# 6 Any other information

All material information regarding the Company's capital management is addressed in the above chapters.

# Appendix I – Abbreviations

| | |
|---|---|
| AIM | Allianz Investment Management SE |
| Allianz Re | Allianz Reinsurance |
| Allianz SE | Allianz Societas Europaea |
| AOTP | Actuarial Opinion on Technical Provisions |
| ARTP | Actuarial Report on Technical Provisions |
| AWP | Allianz Worldwide Partners |
| AZRD | Allianz Re Dublin Designated Activity Company |
| BaFin | Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) |
| BCM | Business Continuity Management |
| BEL | Best Estimate Liability |
| CBI | Central Bank of Ireland |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| COVID-19 | Coronavirus disease |
| CRisP | Credit Risk Platform |
| CUO | Chief Underwriting Officer |
| DAC | Designated Activity Company |
| DTA / DTL | Deferred Tax Asset / Deferred Tax Liability |
| EIOPA | European Insurance and Occupational Pensions Authority |
| ELCA | Entity-Level Controls Assessments |
| EU | European Union |
| EUR | Euro |
| FICo | Finance and Investment Committee |
| FRS 101 | Financial Reporting Standards 101 Reduced Disclosure Framework |
| FX | Foreign exchange |
| IFRS | Internal Financial Reporting Standard |
| IRCS | Integrated Risk and Control System |
| IM | Internal Model |
| INED | Independent Non-Executive Director |
| KPI | Key Performance Indicator |
| MCR | Minimum Capital Requirement |
| MN | Millions |
| MVBS | Market Value Balance Sheet |
| NatCat | Natural Catastrophe |
| NED | Non-Executive Director |
| OE | Operating Entity |
| ORGS | Operational Risk Governance System |
| ORSA | Own Risk and Solvency Assessment |
| OTC | Over The Counter |
| P&C | Property and Casualty |
| P&L | Profit and Loss |
| PCF | Pre-approval Control Function |
| PIMCO | Pacific Management Investment Company |
| QRT | Quantitative Reporting Template |
| RCSA | Risk and Control Self-Assessment |
| R/I | Reinsurance |
| RM | Risk Margin |
| RMF | Risk Management Framework |
| SAA | Strategic Asset Allocation |
| SCR | Solvency Capital Requirement |
| SE | Societas Europaea |
| SFCR | Solvency and Financial Condition Report |
| SII | Solvency II |
| THOU | Thousands |
| TP | Technical Provisions |
| TRA | Top Risk Assessment |
| UPR | Unearned Premium Reserve |
| WASL | Whole Account Stop Loss |
| WHO | World Health Organization |

## Appendix II – List of References

*Allianz Group*, Allianz Code of Conduct for Business Ethics and Compliance
*Allianz Group*, Allianz Group Risk Policy
*Allianz Group*, Allianz Internal Model Governance Framework
*Allianz Group*, Allianz Standard for Operational Risk Management
*Allianz Group*, Allianz Standard for Reputational Risk and Issues Management
*Allianz Group*, Allianz Standard for Top Risk Assessment
*Allianz Group*, Group Audit Policy
*Allianz Group*, Operational Risk and Control Self-Assessment Guideline
*Allianz Group*, Operational Risk Event Capture Guideline

*Allianz Re*, Operational Risk Loss Data Capture Process

*Allianz Re Dublin dac*, Accounting and Reporting Policy
*Allianz Re Dublin dac*, Actuarial Policy
*Allianz Re Dublin dac*, Anti-Corruption Policy
*Allianz Re Dublin dac*, Audit Committee Terms of Reference
*Allianz Re Dublin dac*, Board Charter
*Allianz Re Dublin dac*, Board Diversity Policy
*Allianz Re Dublin dac*, Business Strategy of Allianz Re Dublin dac
*Allianz Re Dublin dac*, Capital Management Policy
*Allianz Re Dublin dac*, Compliance Policy
*Allianz Re Dublin dac*, Constitution
*Allianz Re Dublin dac*, Directors' Report and Financial Statements for the Financial Year ended 31 Dec 2020
*Allianz Re Dublin dac*, Finance and Investment Committee Terms of Reference
*Allianz Re Dublin dac*, Fit and Proper Policy
*Allianz Re Dublin dac*, Functional Rule for Non-Life and Life & Health Underwriting
*Allianz Re Dublin dac,* Functional Rules for Investment Management
*Allianz Re Dublin dac*, Governance and Control Policy
*Allianz Re Dublin dac*, Information Security Framework and Strategy
*Allianz Re Dublin dac*, Internal Audit Policy
*Allianz Re Dublin dac*, Legal Policy
*Allianz Re Dublin dac*, 2020 ORSA Report
*Allianz Re Dublin dac*, Outsourcing Policy
*Allianz Re Dublin dac*, P&C Reserving Policy
*Allianz Re Dublin dac*, Remuneration Policy
*Allianz Re Dublin dac*, Reserve Committee Terms of Reference
*Allianz Re Dublin dac*, Retrocession Policy
*Allianz Re Dublin dac*, Risk Appetite Framework
*Allianz Re Dublin dac*, Risk Committee Terms of Reference
*Allianz Re Dublin dac*, Risk Policy
*Allianz Re Dublin dac*, Standard for Liquidity Risk Management
*Allianz Re Dublin dac*, Standard for Model Governance
*Allianz Re Dublin dac*, Standard for Model Change
*Allianz Re Dublin dac*, Standard for Underwriting
*Allianz Re Dublin dac*, Standards for Investment Management
*Allianz Re Dublin dac*, Underwriting Committee Terms of Reference
*Allianz Re Dublin dac*, Whistleblowing Policy

*Central Bank of Ireland*, Central Bank Reform Act
*Central Bank of Ireland,* Corporate Governance Requirements for Insurance Undertakings
*Central Bank of Ireland,* Domestic Actuarial Regime and Related Governance under Solvency II
*Central Bank of Ireland*, Guidelines on Preparing for Solvency II - Submission of Information

*European Commission,* Commission Implementing Regulation (EU) 2015/2452
*European Commission,* Commission Delegated Regulation (EU) 2015/35 ('Delegated Regulation')
*European Insurance and Occupational Pensions Authority (EIOPA)*, Guidelines on Submission of Information to National Competent Authorities (EIOPA-CP-13/010)
*European Insurance and Occupational Pensions Authority (EIOPA)*, Guidelines on reporting and public disclosure (EIOPA-BoS-15/109)
*European Parliament and European Council*, Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) ('Solvency II Directive')
*European Parliament and European Council*, Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

# Appendix III – Annual Quantitative Reporting Templates

In line with Article 2 of the Commission Implementing Regulation (EU) 2015/2452 all monetary amounts in the Quantitative Reporting Templates disclosed in this Appendix are rounded to and presented in thousands of Euro ('EUR thou').

**S.02.01.02 Balance Sheet (1/2)**
In EUR thou as at 31 December 2020

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Intangible assets | **R0030** | |
| Deferred tax assets | **R0040** | 318 |
| Pension benefit surplus | **R0050** | |
| Property, plant & equipment held for own use | **R0060** | 5 |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 3,575,666 |
| Property (other than for own use) | **R0080** | |
| Holdings in related undertakings, including participations | **R0090** | 1,257,002 |
| Equities | **R0100** | |
| Equities - listed | **R0110** | |
| Equities - unlisted | **R0120** | |
| Bonds | **R0130** | 2,317,832 |
| Government Bonds | **R0140** | 599,392 |
| Corporate Bonds | **R0150** | 1,592,182 |
| Structured notes | **R0160** | |
| Collateralised securities | **R0170** | 126,258 |
| Collective Investments Undertakings | **R0180** | |
| Derivatives | **R0190** | 832 |
| Deposits other than cash equivalents | **R0200** | |
| Other investments | **R0210** | |
| Assets held for index-linked and unit-linked contracts | **R0220** | |
| Loans and mortgages | **R0230** | 856,110 |
| Loans on policies | **R0240** | |
| Loans and mortgages to individuals | **R0250** | |
| Other loans and mortgages | **R0260** | 856,110 |
| Reinsurance recoverables from:: | **R0270** | 460,816 |
| Non-life and health similar to non-life | **R0280** | 458,135 |
| Non-life excluding health | **R0290** | 313,244 |
| Health similar to non-life | **R0300** | 144,891 |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | 2,681 |
| Health similar to life | **R0320** | |
| Life excluding health and index-linked and unit-linked | **R0330** | 2,681 |
| Life index-linked and unit-linked | **R0340** | |
| Deposits to cedants | **R0350** | 3,474,619 |
| Insurance and intermediaries receivables | **R0360** | 4,938 |
| Reinsurance receivables | **R0370** | 0 |
| Receivables (trade, not insurance) | **R0380** | 4,451 |
| Own shares (held directly) | **R0390** | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | **R0400** | |
| Cash and cash equivalents | **R0410** | 3,534 |
| Any other assets, not elsewhere shown | **R0420** | 0 |
| **Total assets** | **R0500** | 8,380,457 |

**S.02.01.02 Balance Sheet (2/2)**
In EUR thou as at 31 December 2020

| | | Solvency II value |
|---|---|---|
| **Liabilities** | | **C0010** |
| Technical provisions – non-life | **R0510** | 5,492,304 |
| Technical provisions – non-life (excluding health) | **R0520** | 4,845,146 |
| Technical provisions calculated as a whole | **R0530** | |
| Best Estimate | **R0540** | 4,785,394 |
| Risk margin | **R0550** | 59,752 |
| Technical provisions - health (similar to non-life) | **R0560** | 647,157 |
| Technical provisions calculated as a whole | **R0570** | |
| Best Estimate | **R0580** | 641,778 |
| Risk margin | **R0590** | 5,379 |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | 79,107 |
| Technical provisions - health (similar to life) | **R0610** | |
| Technical provisions calculated as a whole | **R0620** | |
| Best Estimate | **R0630** | |
| Risk margin | **R0640** | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | 79,107 |
| Technical provisions calculated as a whole | **R0660** | |
| Best Estimate | **R0670** | 78,239 |
| Risk margin | **R0680** | 869 |
| Technical provisions – index-linked and unit-linked | **R0690** | |
| Technical provisions calculated as a whole | **R0700** | |
| Best Estimate | **R0710** | |
| Risk margin | **R0720** | |
| Contingent liabilities | **R0740** | |
| Provisions other than technical provisions | **R0750** | 1,671 |
| Pension benefit obligations | **R0760** | |
| Deposits from reinsurers | **R0770** | 226,540 |
| Deferred tax liabilities | **R0780** | 32,711 |
| Derivatives | **R0790** | 84 |
| Debts owed to credit institutions | **R0800** | 2,498 |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | 2,349 |
| Reinsurance payables | **R0830** | 0 |
| Payables (trade, not insurance) | **R0840** | 281 |
| Subordinated liabilities | **R0850** | |
| Subordinated liabilities not in Basic Own Funds | **R0860** | |
| Subordinated liabilities in Basic Own Funds | **R0870** | |
| Any other liabilities, not elsewhere shown | **R0880** | 341 |
| **Total liabilities** | **R0900** | 5,837,887 |
| **Excess of assets over liabilities** | **R1000** | 2,542,569 |

## S.05.01.02 Premiums, claims and expenses by line of business

In EUR thou as at 31 December 2020

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | | | | | Line of business for: accepted non-proportional reinsurance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty | Marine, aviation, transport | Property | Total |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0200 |
| **Premiums written** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | R0110 | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | R0120 | 1,038,512 | 10,494 | 0 | 497,030 | 153,811 | 16,810 | 558,147 | 474,159 | 60,929 | 17,480 | 42,040 | 349,285 | | | | | 3,218,697 |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | | | | | | | | | 8,818 | 315,000 | 72,505 | 400,719 | 797,043 |
| Reinsurers' share | R0140 | 0 | 0 | 0 | 730 | 0 | 0 | 3,513 | 102,173 | 0 | 0 | 0 | 0 | 0 | 9,519 | 851 | 62,669 | 179,456 |
| Net | R0200 | 1,038,512 | 10,494 | 0 | 496,300 | 153,811 | 16,810 | 554,634 | 371,986 | 60,929 | 17,480 | 42,040 | 349,285 | 8,818 | 305,482 | 71,654 | 338,050 | 3,836,285 |
| **Premiums earned** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | R0210 | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | R0220 | 792,673 | 8,635 | 0 | 502,411 | 155,448 | 18,455 | 476,699 | 394,740 | 60,651 | 17,550 | 34,518 | 286,454 | | | | | 2,748,235 |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | | | | | | | | | 8,838 | 311,176 | 69,131 | 401,116 | 790,260 |
| Reinsurers' share | R0240 | 0 | 0 | 0 | 1,203 | 0 | 0 | 3,494 | 74,595 | 22 | 0 | 173 | 0 | 0 | 9,504 | 819 | 62,648 | 152,459 |
| Net | R0300 | 792,673 | 8,635 | 0 | 501,208 | 155,448 | 18,455 | 473,205 | 320,145 | 60,629 | 17,550 | 34,345 | 286,454 | 8,838 | 301,672 | 68,312 | 338,468 | 3,386,036 |
| **Claims incurred** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | R0310 | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | R0320 | 646,840 | 8,418 | -36,778 | 293,909 | 119,218 | 14,424 | 419,052 | 321,810 | 39,630 | 8,870 | 15,010 | 199,782 | | | | | 2,050,186 |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | | | | | | | | | | 10,517 | 101,864 | 28,308 | 316,789 | 457,479 |
| Reinsurers' share | R0340 | 0 | 0 | -36,778 | 1,127 | 0 | 0 | 1,963 | 48,130 | 0 | 0 | 129 | 0 | -174 | 17,710 | 416 | -414 | 32,109 |
| Net | R0400 | 646,840 | 8,418 | 0 | 292,782 | 119,218 | 14,424 | 417,089 | 273,680 | 39,630 | 8,870 | 14,881 | 199,782 | 10,692 | 84,155 | 27,892 | 317,203 | 2,475,555 |
| **Changes in other technical provisions** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | R0410 | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | | | | | | | 698 | | | | | | | | | 698 |
| Gross - Non-proportional reinsurance accepted | R0430 | | | | | | | | | | | | | | 744 | | | 744 |
| Reinsurers' share | R0440 | | | | | | | | | | | | | | | | | |
| Net | R0500 | | | | | | | | 698 | | | | | | 744 | | | 1,442 |
| **Expenses incurred** | R0550 | 140,446 | 2,934 | 0 | 139,745 | 31,065 | 4,310 | 176,134 | 97,156 | 27,590 | 3,858 | 17,291 | 66,809 | 70 | 131,177 | 18,038 | 86,166 | 942,789 |
| **Other expenses** | R1200 | | | | | | | | | | | | | | | | | |
| **Total expenses** | R1300 | | | | | | | | | | | | | | | | | 942,789 |

## S.05.02.01 Premiums, claims and expenses by country

In EUR thou as at 31 December 2020

| | | Home Country | Total Top 5 and home country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | |
|---|---|---|---|---|---|---|---|---|
| | R0010 | | | (GB) United Kingdom | (FR) France | (DE) Federal Republic of Germany | | |
| | | C0080 | C0140 | C0090 | C0090 | C0090 | C0090 | C0090 |
| **Premiums written** | | | | | | | | |
| Gross - Direct Business | R0110 | | 0 | | | | | |
| Gross - Proportional reinsurance accepted | R0120 | 269,608 | 3,058,018 | 1,380,691 | 1,040,749 | 366,970 | | |
| Gross - Non-proportional reinsurance accepted | R0130 | 23,123 | 718,550 | 124,428 | 104,809 | 466,189 | | |
| Reinsurers' share | R0140 | 57,587 | 178,566 | 5,079 | 13,064 | 102,835 | | |
| Net | R0200 | 235,144 | 3,598,002 | 1,500,039 | 1,132,494 | 730,324 | | |
| **Premiums earned** | | | | | | | | |
| Gross - Direct Business | R0210 | | 0 | | | | | |
| Gross - Proportional reinsurance accepted | R0220 | 261,770 | 2,641,928 | 1,299,436 | 794,910 | 285,813 | | |
| Gross - Non-proportional reinsurance accepted | R0230 | 23,123 | 713,391 | 123,756 | 104,809 | 461,702 | | |
| Reinsurers' share | R0240 | 57,683 | 150,641 | 4,827 | 13,064 | 75,067 | | |
| Net | R0300 | 227,211 | 3,204,678 | 1,418,365 | 886,654 | 672,448 | | |
| **Claims incurred** | | | | | | | | |
| Gross - Direct Business | R0310 | | 0 | | | | | |
| Gross - Proportional reinsurance accepted | R0320 | 186,642 | 1,980,546 | 939,053 | 648,774 | 206,077 | | |
| Gross - Non-proportional reinsurance accepted | R0330 | 14,490 | 284,814 | 51,108 | 92,531 | 126,685 | | |
| Reinsurers' share | R0340 | 3,499 | 56,335 | 3,910 | 1,348 | 47,577 | | |
| Net | R0400 | 197,633 | 2,209,025 | 986,251 | 739,956 | 285,185 | | |
| **Changes in other technical provisions** | | | | | | | | |
| Gross - Direct Business | R0410 | | 0 | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | 698 | 698 | | | | |
| Gross - Non-proportional reinsurance accepted | R0430 | | 744 | 744 | | | | |
| Reinsurers' share | R0440 | | 0 | | | | | |
| Net | R0500 | 0 | 1,442 | 1,442 | 0 | 0 | | |
| **Expenses incurred** | R0550 | 74,857 | 887,175 | 382,550 | 147,748 | 282,020 | | |
| **Other expenses** | R1200 | | | | | | | |
| **Total expenses** | R1300 | | 887,175 | | | | | |

## S.12.01.02 Life and Health SLT Technical Provisions

In EUR thou as at 31 December 2020

| | | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | **Total (Life other than health insurance, incl. Unit-Linked)** | Health insurance (direct business) | | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | **Total (Health similar to life insurance)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| | | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0150** | **C0160** | **C0170** | **C0180** | **C0190** | **C0200** | **C0210** |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | | | | | | | | | | | |
| **Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole** | **R0020** | | | | | | | | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | | | | | | | |
| **Gross Best Estimate** | **R0030** | | | | | | | | | 78,239 | 78,239 | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0080** | | | | | | | | | 2,681 | 2,681 | | | | | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | **R0090** | | | | | | | | | 75,558 | 75,558 | | | | | | |
| **Risk margin** | **R0100** | | | | | | | | | 869 | 869 | | | | | | |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | |
| Technical provisions calculated as a whole | **R0110** | | | | | | | | | | | | | | | | |
| Best Estimate | **R0120** | | | | | | | | | | | | | | | | |
| Risk margin | **R0130** | | | | | | | | | | | | | | | | |
| **Technical provisions - total** | **R0200** | | | | | | | | | 79,107 | 79,107 | | | | | | |

## S.17.01.02 Non-life Technical Provisions

In EUR thou as at 31 December 2020

| | | Direct business and accepted proportional reinsurance | | | | | | | | | | | | Accepted non-proportional reinsurance | | | | Total Non-Life obligation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0170 | C0180 |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | | | | | | | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | **R0050** | | | | | | | | | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | | | | | | | | |
| Premium provisions | | | | | | | | | | | | | | | | | | |
| Gross | **R0060** | 187,919 | 4,659 | | 99,012 | -16,205 | 649 | 128,335 | 31,364 | -2,442 | 14,087 | -1,955 | 101,785 | -3,113 | -33,828 | -11,590 | -91,707 | 406,970 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0140** | | | | 310 | | | -1,442 | 5,131 | 12 | | 61 | 725 | 0 | 786 | 69 | -16,786 | -11,133 |
| Net Best Estimate of Premium Provisions | **R0150** | 187,919 | 4,659 | | 98,702 | -16,205 | 649 | 129,777 | 26,233 | -2,454 | 14,087 | -2,016 | 101,060 | -3,113 | -34,614 | -11,660 | -74,922 | 418,103 |
| **Claims provisions** | | | | | | | | | | | | | | | | | | |
| Gross | **R0160** | 200,138 | 11,486 | 193,490 | 681,650 | 20,426 | 45,502 | 509,717 | 1,946,354 | 59,758 | 5,868 | 6,350 | 46,043 | 47,200 | 533,883 | 97,810 | 614,526 | 5,020,202 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0240** | | | 144,346 | 5,677 | | 0 | 4,268 | 198,334 | 254 | | 656 | 20 | 546 | 84,665 | 2,890 | 27,613 | 469,268 |
| Net Best Estimate of Claims Provisions | **R0250** | 200,138 | 11,486 | 49,144 | 675,973 | 20,426 | 45,502 | 505,449 | 1,748,020 | 59,504 | 5,868 | 5,694 | 46,023 | 46,655 | 449,218 | 94,920 | 586,913 | 4,550,935 |
| **Total Best estimate - gross** | **R0260** | 388,057 | 16,145 | 193,490 | 780,662 | 4,221 | 46,151 | 638,052 | 1,977,718 | 57,316 | 19,956 | 4,395 | 147,828 | 44,087 | 500,056 | 86,220 | 522,819 | 5,427,173 |
| **Total Best estimate - net** | **R0270** | 388,057 | 16,145 | 49,144 | 774,675 | 4,221 | 46,151 | 635,226 | 1,774,254 | 57,050 | 19,956 | 3,678 | 147,084 | 43,541 | 414,605 | 83,260 | 511,992 | 4,969,038 |
| **Risk margin** | **R0280** | 3,700 | 493 | 465 | 983 | 416 | 706 | 3,163 | 18,007 | 762 | 550 | 688 | 927 | 721 | 9,704 | 4,390 | 19,456 | 65,131 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | | |
| Technical provisions calculated as a whole | **R0290** | | | | | | | | | | | | | | | | | |
| Best Estimate | **R0300** | | | | | | | | | | | | | | | | | |
| Risk margin | **R0310** | | | | | | | | | | | | | | | | | |
| **Technical provisions - total** | | | | | | | | | | | | | | | | | | |
| Technical provisions - total | **R0320** | 391,757 | 16,638 | 193,955 | 781,645 | 4,636 | 46,856 | 641,216 | 1,995,725 | 58,078 | 20,505 | 5,083 | 148,756 | 44,808 | 509,760 | 90,610 | 542,276 | 5,492,304 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | **R0330** | | | 144,346 | 5,987 | | 0 | 2,826 | 203,465 | 266 | | 717 | 745 | 546 | 85,451 | 2,960 | 10,828 | 458,135 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | **R0340** | 391,757 | 16,638 | 49,609 | 775,658 | 4,636 | 46,856 | 638,390 | 1,792,260 | 57,812 | 20,505 | 4,366 | 148,011 | 44,262 | 424,309 | 87,651 | 531,448 | 5,034,169 |

## S.19.01.21 Non-life insurance claims information

In EUR thou as at 31 December 2020

| Accident year / Underwriting year | Z0020 | 2 - Underwriting year |
|---|---|---|

**Gross Claims Paid (non-cumulative)**

(absolute amount)

| Year | | Development year 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 |
| Prior | R0100 | | | | | | | | | | | 2,645 |
| N-9 | R0160 | 2,382 | 51,772 | 62,088 | 37,206 | 23,198 | 6,686 | 2,670 | 1,529 | 3,447 | 4,072 | |
| N-8 | R0170 | 2,767 | 42,152 | 26,656 | 7,026 | 4,828 | 1,859 | 578 | 390 | 10,395 | | |
| N-7 | R0180 | 12,598 | 49,308 | 30,404 | 11,561 | 4,599 | 4,297 | 986 | 827 | | | |
| N-6 | R0190 | 5,607 | 8,537 | 7,211 | 7,032 | 5,573 | 6,767 | 2,631 | | | | |
| N-5 | R0200 | 5,275 | 358,108 | 19,182 | 10,784 | 15,058 | 8,298 | | | | | |
| N-4 | R0210 | -117,104 | 878,800 | 9,494 | 12,269 | 12,414 | | | | | | |
| N-3 | R0220 | -556,900 | 1,360,076 | 94,877 | 94,133 | | | | | | | |
| N-2 | R0230 | -415,278 | 1,269,265 | 35,942 | | | | | | | | |
| N-1 | R0240 | -141,783 | 1,254,712 | | | | | | | | | |
| N | R0250 | -633,676 | | | | | | | | | | |

| | In Current year | Sum of years (cumulative) |
|---|---|---|
| | C0170 | C0180 |
| R0100 | 2,645 | 2,645 |
| R0160 | 4,072 | 195,049 |
| R0170 | 10,395 | 96,652 |
| R0180 | 827 | 114,581 |
| R0190 | 2,631 | 43,357 |
| R0200 | 8,298 | 416,706 |
| R0210 | 12,414 | 795,874 |
| R0220 | 94,133 | 992,186 |
| R0230 | 35,942 | 889,930 |
| R0240 | 1,254,712 | 1,112,929 |
| R0250 | -633,676 | -633,676 |
| R0260 | 792,392 | 4,026,233 |

**Gross undiscounted Best Estimate Claims Provisions**

| Year | | Development year 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 |
| Prior | R0100 | | | | | | | | | | | 84,728 |
| N-9 | R0160 | 0 | 0 | 0 | 0 | 0 | 74,159 | 55,856 | 38,072 | 36,628 | 27,308 | |
| N-8 | R0170 | 0 | 0 | 0 | 0 | 95,725 | 67,511 | 62,397 | 59,630 | 33,714 | | |
| N-7 | R0180 | 0 | 0 | 0 | 98,904 | 84,078 | 72,041 | 65,126 | 53,877 | | | |
| N-6 | R0190 | 0 | 0 | 102,189 | 83,893 | 77,393 | 64,411 | 62,233 | | | | |
| N-5 | R0200 | 0 | 131,437 | 129,440 | 117,421 | 105,924 | 83,240 | | | | | |
| N-4 | R0210 | 1,067,321 | 184,037 | 174,548 | 144,142 | 119,562 | | | | | | |
| N-3 | R0220 | 2,047,446 | 718,362 | 601,309 | 470,025 | | | | | | | |
| N-2 | R0230 | 1,457,787 | 301,161 | 312,253 | | | | | | | | |
| N-1 | R0240 | 2,070,202 | 330,237 | | | | | | | | | |
| N | R0250 | 3,489,161 | | | | | | | | | | |

| | | Year end (discounted data) |
|---|---|---|
| | | C0360 |
| | R0100 | 83,694 |
| | R0160 | 26,738 |
| | R0170 | 33,073 |
| | R0180 | 53,435 |
| | R0190 | 60,740 |
| | R0200 | 82,352 |
| | R0210 | 118,377 |
| | R0220 | 452,825 |
| | R0230 | 313,553 |
| | R0240 | 331,356 |
| | R0250 | 3,464,061 |
| Total | R0260 | 5,020,202 |

**S.22.01.21 Impact of long term guarantees and transitional measures**
In EUR thou as at 31 December 2020

| | | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|---|
| | | C0010 | C0030 | C0050 | C0070 | C0090 |
| Technical provisions | R0010 | 5,571,411 | 0 | 0 | 30,499 | 0 |
| Basic own funds | R0020 | 2,407,569 | 0 | 0 | -12,356 | 0 |
| Eligible own funds to meet Solvency Capital Requirement | R0050 | 2,407,569 | 0 | 0 | -12,356 | 0 |
| Solvency Capital Requirement | R0090 | 1,051,129 | 0 | 0 | 39,567 | 0 |
| Eligible own funds to meet Minimum Capital Requirement | R0100 | 2,407,252 | 0 | 0 | -12,356 | 0 |
| Minimum Capital Requirement | R0110 | 473,008 | 0 | 0 | 17,805 | 0 |

## S.23.01.01 Own Funds

In EUR thou as at 31 December 2020

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | C0010 | C0020 | C0030 | C0040 | C0050 |
| Ordinary share capital (gross of own shares) | R0010 | 2,715,225 | 2,715,225 | | 0 | |
| Share premium account related to ordinary share capital | R0030 | | | | | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R0040 | | | | | |
| Subordinated mutual member accounts | R0050 | | | | | |
| Surplus funds | R0070 | | | | | |
| Preference shares | R0090 | | | | | |
| Share premium account related to preference shares | R0110 | | | | | |
| Reconciliation reserve | R0130 | -364,773 | -364,773 | | | |
| Subordinated liabilities | R0140 | | | | | |
| An amount equal to the value of net deferred tax assets | R0160 | 318 | | | | 318 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | 56,800 | 56,800 | 0 | 0 | 0 |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | R0220 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | | |
| **Total basic own funds after deductions** | R0290 | 2,407,569 | 2,407,252 | 0 | 0 | 318 |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R0310 | | | | | |
| Unpaid and uncalled preference shares callable on demand | R0320 | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | | | | | |
| Other ancillary own funds | R0390 | | | | | |
| **Total ancillary own funds** | R0400 | | | | | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 2,407,569 | 2,407,252 | 0 | 0 | 318 |
| Total available own funds to meet the MCR | R0510 | 2,407,252 | 2,407,252 | 0 | 0 | |
| Total eligible own funds to meet the SCR | R0540 | 2,407,569 | 2,407,252 | 0 | 0 | 318 |
| Total eligible own funds to meet the MCR | R0550 | 2,407,252 | 2,407,252 | 0 | 0 | |
| **SCR** | R0580 | 1,051,129 | | | | |
| **MCR** | R0600 | 473,008 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 229% | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 509% | | | | |

| **Reconciliation reserve** | | C0060 |
|---|---|---|
| Excess of assets over liabilities | R0700 | 2,542,569 |
| Own shares (held directly and indirectly) | R0710 | |
| Foreseeable dividends, distributions and charges | R0720 | 135,000 |
| Other basic own fund items | R0730 | 2,772,342 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R0740 | |
| **Reconciliation reserve** | R0760 | -364,773 |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | |
| Expected profits included in future premiums (EPIFP) - Non-life business | R0780 | 267,415 |
| **Total Expected profits included in future premiums (EPIFP)** | R0790 | 267,415 |

## S.25.03.21 Solvency Capital Requirement – for undertakings on Full Internal Models

In EUR thou as at 31 December 2020

| Unique number of component | Components description | Calculation of the Solvency Capital Requirement |
|---|---|---|
| C0010 | C0020 | C0030 |
| 10 | IM - Market risk | 507,179 |
| 11 | IM - Underwriting risk | 1,458,313 |
| 12 | IM - Business risk | 15,410 |
| 13 | IM - Credit risk | 48,716 |
| 14 | IM - Operational risk | 21,923 |
| 15 | IM - LAC DT (negative amount) | -34,193 |
| 16 | IM - Capital Buffer | 0 |
| 17 | IM - Adjustment due to RFF/MAP nSCR aggregation | 0 |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Total undiversified components | R0110 | 2,017,347 |
| Diversification | R0060 | -966,218 |
| Capital requirement for business operated in accordance with Art, 4 of Directive 2003/41/EC (transitional) | R0160 | 0 |
| **Solvency capital requirement, excluding capital add-on** | R0200 | 1,051,129 |
| Capital add-ons already set | R0210 | 0 |
| **Solvency Capital Requirement** | R0220 | 1,051,129 |
| **Other information on SCR** | | |
| Amount/estimate of the overall loss-absorbing capacity of technical provisions | R0300 | 0 |
| Amount/estimate of the overall loss-absorbing capacity ot deferred taxes | R0310 | -34,193 |
| Total amount of Notional Solvency Capital Requirements for remaining part | R0410 | 0 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | 0 |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | R0430 | 0 |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | 0 |

| | | Yes/No | LAC DT |
|---|---|---|---|
| **Approach to tax rate** | | C0109 | C0130 |
| Approach based on average tax rate | R0590 | No | |
| **Calculation of loss absorbing capacity of deferred taxes** | | | |
| Amount/estimate of LAC DT | R0640 | | 34,193 |
| Amount/estimate of LAC DT justified by reversion of deferred tax liabilities | R0650 | | 32,393 |
| Amount/estimate of LAC DT justified by reference to probable future taxable economic profit | R0660 | | 0 |
| Amount/estimate of LAC DT justified by carry back, current year | R0670 | | 1,800 |
| Amount/estimate of LAC DT justified by carry back, future years | R0680 | | 0 |
| Amount/estimate of Maximum LAC DT | R0690 | | 127,117 |

**S.28.01.01 Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (1/3) – Linear formula component for non-life insurance and reinsurance obligations**
In EUR thou as at 31 December 2020

**Linear formula component for non-life insurance and reinsurance obligations**

| | | C0010 |
|---|---|---|
| MCRNL Result | R0010 | 935,630 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | C0020 | C0030 |
| Medical expense insurance and proportional reinsurance | R0020 | 388,057 | 1,038,512 |
| Income protection insurance and proportional reinsurance | R0030 | 16,145 | 10,494 |
| Workers' compensation insurance and proportional reinsurance | R0040 | 49,392 | 0 |
| Motor vehicle liability insurance and proportional reinsurance | R0050 | 774,675 | 496,300 |
| Other motor insurance and proportional reinsurance | R0060 | 4,246 | 153,811 |
| Marine, aviation and transport insurance and proportional reinsurance | R0070 | 46,234 | 16,810 |
| Fire and other damage to property insurance and proportional reinsurance | R0080 | 635,230 | 554,634 |
| General liability insurance and proportional reinsurance | R0090 | 1,775,255 | 371,986 |
| Credit and suretyship insurance and proportional reinsurance | R0100 | 57,056 | 60,929 |
| Legal expenses insurance and proportional reinsurance | R0110 | 19,985 | 17,480 |
| Assistance and proportional reinsurance | R0120 | 3,692 | 29,167 |
| Miscellaneous financial loss insurance and proportional reinsurance | R0130 | 147,109 | 277,614 |
| Non-proportional health reinsurance | R0140 | 43,551 | 8,818 |
| Non-proportional casualty reinsurance | R0150 | 414,782 | 305,482 |
| Non-proportional marine, aviation and transport reinsurance | R0160 | 83,309 | 71,654 |
| Non-proportional property reinsurance | R0170 | 512,229 | 338,050 |

**S.28.01.01 Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (2/3) – Linear formula component for life insurance and reinsurance obligations**
In EUR thou as at 31 December 2020

| | | C0040 |
|---|---|---|
| MCRL Result | R0200 | 1,587 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV ) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| Obligations with profit participation - guaranteed benefits | R0210 | 0 | |
| Obligations with profit participation - future discretionary benefits | R0220 | 0 | |
| Index-linked and unit-linked insurance obligations | R0230 | 0 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | 75,558 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 0 |

**S.28.01.01 Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (3/3) – Overall MCR calculation**
In EUR thou as at 31 December 2020

| **Overall MCR calculation** | | **C0070** |
|---|---|---|
| Linear MCR | **R0300** | 937,217 |
| SCR | **R0310** | 1,051,129 |
| MCR cap | **R0320** | 473,008 |
| MCR floor | **R0330** | 262,782 |
| Combined MCR | **R0340** | 473,008 |
| Absolute floor of the MCR | **R0350** | 3,600 |
| **Minimum Capital Requirement** | **R0400** | 473,008 |