



**Allianz p.l.c.**

**Solvency and Financial Condition Report**

For the year ended 31 December 2018

Registered number: 143108

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## Executive Summary

Allianz plc (hereafter referred to as “AZI” or the “Company”), has prepared this Solvency Financial Condition Report (hereafter SFCR) to satisfy the public disclosure requirements under the Commission Delegated Regulation (EU) 2015/35 (hereafter ‘Delegated Regulation’) of the European Parliament supplementing Directive 2009/138/EC, known as Solvency II, which came into effect from 1 January 2016. This report covers the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management process of the Company as set out in the Delegated Regulation. The ultimate administrative body that has responsibility for all these matters is the Company’s Board of Directors, who use the assistance of various governance and control functions that it has put in place to monitor risk and manage the business.

### A. Business and Performance

The Company is a wholly owned subsidiary of Allianz Holdings p.l.c and is ultimately owned by Allianz SE, who offers non-life insurance, life/health insurance, reinsurance and asset management products and services in over 70 countries, with the largest of its operations in Europe. Allianz SE, the parent company of the Allianz Group, has its headquarters in Munich, Germany and holds the legal form of a European company or Societas Europaea (SE).

The Company is regulated by the Central Bank of Ireland and complies with the "Corporate Governance Requirements for Insurance Undertakings 2015". The principal activity of the Company is the transaction of property, motor, liability and marine insurance business within the Island of Ireland. The Company offers a wide range of non-life insurance products to both individual and corporate customers. The Company is one of the leading non-life insurers in Ireland. The key performance indicators for 2018 are noted below:

|                       | 2018    | 2017    |
|-----------------------|---------|---------|
| Gross premium written | €568.3m | €609.0m |
| Underwriting result   | €20.4m  | €15.6m  |
| Operating result      | €30.8m  | €31.1m  |
| Profit after taxation | €32.2m  | €33.4m  |
| Shareholders’ funds   | €396.4m | €375.4m |

Shareholders’ funds of €396.4m were €21m above the 2017 level reflecting retained earnings in 2018. A dividend payment of €20m was made during 2018. Our capital and solvency position remains strong; the latter continues to be supported through a quota share reinsurance arrangement.

### B. System of Governance

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 sub-committees. Four sub-committees have been established: Audit Committee, Risk Committee, Remuneration Committee, and Nomination Committee. The general operational management and control of the company is delegated to the Chief Executive Officer, supported by an executive Board of Management.

The Company complies with the Fitness and Probity requirements of the Central Bank of Ireland, Allianz SE Group Fit and Proper Policy and its own internal ‘Minimum Competency Code & Fit and Proper Person Policy’ which 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 Company is committed to having an Internal Control System (ICS) that fulfils its organisational needs and all relevant regulatory requirements. The Company's ICS 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 business operations; assurance functions (risk management, actuarial and compliance) represent the second line, while internal audit provides the third line of defence.

### **C. Risk Profile**

The company uses the Allianz Internal Model to calculate the capital requirement. For all material risks, a comprehensive quantitative and qualitative 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 section on the risk management system also includes a description of the risk management strategies and processes for each risk category.

### **D. Valuation for Solvency Purposes**

This SFCR provides information on the Market Value Balance Sheet (hereafter 'MVBS') and a comparison of MVBS and statutory figures, which are based on FRS 101 Reduced Disclosure Framework requirements. Therefore, a quantitative and qualitative explanation for material differences in the valuation of assets, technical provisions and other liabilities is included.

### **E. Capital Management**

The Company uses a Central Bank of Ireland approved internal model for the calculation of the Solvency Capital Requirement (SCR). The company was sufficiently capitalised at year end 2018 with own funds exceeding the SCR by €131m resulting in a solvency coverage ratio of 163%.

## A. Business and Performance

### A.1 Business and external environment

#### A.1.1 Financial Supervision, group membership and legal structure

Allianz plc is a non-life insurance company located at Allianz House, Elmpark, Merrion Road, Dublin 4, Republic of Ireland. The Company has a branch in Belfast located at 3 Cromac Quay, The Gasworks, Ormeau Road, Belfast, Northern Ireland.

**Ownership structure as at 31 December 2018** - the Company is a subsidiary of Allianz Holdings plc, who, in turn, is a wholly owned subsidiary of Allianz Europe B.V. Allianz Europe B.V is owned by Allianz SE. The directors regard Allianz SE (registered in Germany) as the ultimate parent Company, its headquarters in Koeniginstrasse 28, 80802 Munich, Germany and holds the legal form of a European company (Societas Europaea).

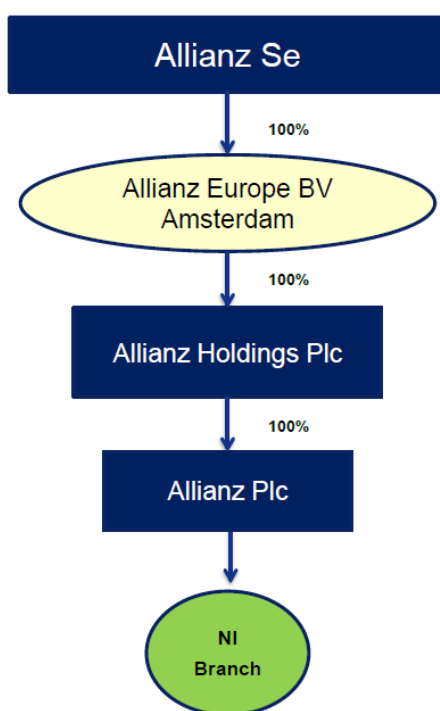


Figure 1: Current Corporate Group Structure Allianz plc as at 31 December 2018

#### A.1.2 External Auditor

PriceWaterhouseCoopers (PwC), audited the financial statements of the company and issued an unmodified opinion. They are located at Spencer Dock, North Wall Quay, Dublin 1, Ireland.

#### A.1.3 Supervisor

The Company is regulated by the Central Bank of Ireland (CBI), PO Box 559, New Wapping Street, North Wall Quay, Dublin 1, Ireland.

The German Federal Financial Supervisory Authority ("Bundesanstalt für Finanzdienstleistungsaufsicht" or "BaFin"), Dreizehnmorgenweg 13-15, 53175 Bonn is responsible for the overall supervision of the Allianz SE Group.

#### ***A.1.4 Principal Activities***

The principal activity of the Company is the transaction of property, motor, liability and marine insurance business within the Island of Ireland. The Company offers a wide range of non-life insurance products to both retail and corporate customers. The Company is one of the leading non-life insurers in Ireland.

#### ***A.1.5 Significant business and other events***

##### **Insurance activity**

The Company renewed the 50% quota share agreement with Allianz Re Dublin dac for 2018.

##### **Regulatory Developments**

The Solvency II directive came into effect on 1 January 2016. The Company met its requirements during 2018.

##### **UK exit from the EU (Brexit)**

The potential impact of Brexit continues to be closely monitored in terms of NI trading conditions and any knock on impact on the ROI economy from trading with the UK. We operate a matched asset and liability position in sterling for NI business which limits foreign currency exposure in our results. The Company is fully committed to serving our NI customers for the long-term. We have applied to the Prudential Regulatory Authority (PRA) in the UK for a Third Country Branch (TCB) licence to continue doing business in Northern Ireland post Brexit. This process is ongoing and is intended to address the requirements following an orderly UK exit from the EU. In the short term and if a 'deal' is reached in the Brexit negotiations then an implementation period will be in place until end 2020 where the current EU freedom of Establishment / Services regimes will remain in place and we will continue to operate in NI as we are today. Following this the UK will leave the EU. It is expected at this point that UK legislation [Temporary Permissions Regime (TPR)] will be in place to allow companies to continue trading for a further two to three years, i.e. up to end 2023. This effectively grants the company a temporary TCB licence and we will continue to operate broadly as is within the TPR. Towards the end of this TPR we will seek to have our application for a TCB authorised and also then continue to operate in NI past 2023. In a 'no deal' scenario the TPR will be in place immediately and as above we will be authorised to continue trading in NI. We have received confirmation that we have been automatically entered into this TPR regime given our ongoing preparations with the PRA. Preparations continue across a range of topics to consider and prepare for the wider possible impacts of Brexit on our business.

##### **Appointments and resignations**

The following director appointments and resignations took place during the year:

Niranjan Peiris [Australian] – Non-Executive (appointed as Director on 10th January 2018)

Ann Kelleher Independent Non-Executive (appointed as Director on 16th October 2018)

Roderick Ryan – Independent Non Executive (resigned as Director 31st December 2018)

## ***A.2 Performance from underwriting activities***

The Company defines underwriting result for all qualitative and quantitative information provided in this section, in line with QRTs S.05.01 and S.05.02, and its financial statements as:

(Net earned) premiums - claims incurred (including changes in other technical provisions) - expenses incurred = underwriting result

### ***A.2.1 Underwriting Performance***

#### **Premium**

Top line performance was challenged with gross premium written of €568m being 7% below the previous year. Policy volumes fell as we maintained our underwriting discipline.



## Underwriting result

| <b>Net Underwriting Result – total</b> |             |             |
|--|-------------|-------------|
| <b>€'m</b>                             | <b>2018</b> | <b>2017</b> |
| Net Earned Premiums                    | 274.2       | 277.5       |
| Net Claims Incurred                    | (186.1)     | (194.6)     |
| Net expenses incurred                  | (67.7)      | (67.3)      |
| <b>Underwriting Result</b>             | <b>20.4</b> | <b>15.6</b> |

Table 1: Non-life - Underwriting performance

2018 saw a further improvement in underlying trading performance. The benefit of rate increases applied in correcting under performing accounts delivered a more sustainable and positive underwriting result.

### A.2.2 Underwriting Performance by material line of business

| <b>Net Underwriting Result - by solvency II line of business</b> |                 |                 |
|--|-----------------|-----------------|
|  | <b>2018 €'m</b> | <b>2017 €'m</b> |
| *Motor   | 7.5             | 22.8            |
| Fire and other damage to property insurance                      | 9.3             | 4.5             |
| General liability insurance                                      | (1.8)           | (14.7)          |
| Marine, aviation and transport insurance                         | 0.9             | 0.2             |
| Other  | 2.5             | 1.0             |
| <b>Total</b>   | <b>18.4</b>     | <b>13.8</b>     |

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

\*Includes Motor vehicle liability and Other Motor

The difference between the 2018 total underwriting result of €20.4m (per the Financial Statements) and the €18.4m reported above related to investment management expenses of €2m (2017: €1.8m), which are excluded for Solvency II reporting. Motor vehicle liability insurance continues to be Allianz Ireland's biggest line of business. However margin on the business reduced in 2018, largely related to Northern Ireland business. We have seen market rate reductions in the motor business from an increase in competition. The underwriting profit on Fire and property damage insurance increased aided by the benign weather. The underwriting loss on our General Liability insurance portfolio reduced in 2018 due to further rate correction and portfolio cleaning.

### A.2.3 Underwriting Performance by geographical area

| <b>Net U/W Result</b> |             |             |
|-----------------------|-------------|-------------|
| <b>€'m</b>            | <b>2018</b> | <b>2017</b> |
| Ireland               | 23.9        | 15.5        |
| United Kingdom        | (5.3)       | (1.9)       |
| Other                 | (0.2)       | 0.2         |
| <b>Total</b>          | <b>18.4</b> | <b>13.8</b> |

Table 3: Non-life - Underwriting performance by material geographical area

The Company operates in the Republic of Ireland and Northern Ireland. The improved overall positive underwriting performance has been achieved on the back of improved underwriting profits in the Republic of Ireland in 2018 which more than offset a deterioration in trading performance in Northern Ireland.

### A.3 Performance from investment activities

The Company assets held for investment purposes are used to match our insurance liabilities and shareholders' funds. The vast majority of assets are invested in bonds.

#### A.3.1 Information on income and expenses arising from Investments

In 2018, our total investment return in the profit and loss account amounted to €16.4m. The two components were investment income and realised gains. The prevailing low yield investment environment continues to put pressure on investment income levels. In 2018 there was a modest increase in property allocation during the year. We continue to take a long-term investment perspective and our careful attention to risk has been valuable in navigating the uncertain environment. At the year end we held 91% of our investments in fixed income assets and our strategy remains relatively conservative.

An analysis of our investment result by type of asset is shown below:

|  | Debt instruments | Equities   | Real Estate, Cash & Other | Total       |
|--|------------------|------------|---------------------------|-------------|
| 2018   | €M               | €M         | €M                        | €M          |
| Interest and similar income                                    | 11.0             | 2.3        | 8.7                       | 22.1        |
| Realized gains and losses                                      | 2.1              | 2.3        | 0.0                       | 4.4         |
| Impairments (net)  | -3.7             | 0.0        | 0.0                       | -3.7        |
| <b>Subtotal</b>  | <b>9.4</b>       | <b>4.6</b> | <b>8.7</b>                | <b>22.7</b> |
| Income from fair value options, trading & FX                   | <i>n.a.</i>      |            |                           | (2.3)       |
| Investment expenses  | <i>n.a.</i>      |            |                           | (4.1)       |
| <b>Total income (net of expenses) arising from investments</b> |                  |            |                           | <b>16.4</b> |

Table 4: Analysis of the investment result in the profit and loss account

|  | Debt instruments | Equities   | Real Estate, Cash & Other | Total       |
|--|------------------|------------|---------------------------|-------------|
| 2017   | €M               | €M         | €M                        | €M          |
| Interest and similar income                                    | 8.6              | 0.2        | 7.0                       | 15.8        |
| Realized gains and losses                                      | 10.6             | 0.0        | 0.0                       | 10.6        |
| Impairments (net)  | 0.0              | 0.0        | 0.0                       | 0.0         |
| <b>Subtotal</b>  | <b>19.1</b>      | <b>0.2</b> | <b>7.0</b>                | <b>26.4</b> |
| Income from fair value options, trading & FX                   | <i>n.a.</i>      |            |                           | (0.2)       |
| Investment expenses  | <i>n.a.</i>      |            |                           | (3.6)       |
| <b>Total income (net of expenses) arising from investments</b> |                  |            |                           | <b>22.6</b> |

Table 5: Analysis of the investment result in the profit and loss account

### *A.3.2 Gains/Losses recognised directly in equity*

The following amounts were recorded in the statement of other comprehensive income where capital losses from market movements in available for sale bonds were more than offset by gains in the defined benefit pension scheme from changes in pension discount rate and mortality assumptions.

| €'m  | 2018         | 2017         |
|--|--------------|--------------|
| Available-for-sale investments – change in fair value (net of tax) | (21.3)       | (7.1)        |
| Re-measurements of defined benefit pension liability (net of tax)  | 30.1         | 0.6          |
| <b>Total other comprehensive income</b>                            | <b>(8.8)</b> | <b>(6.5)</b> |

**Table 6: Composition of the other comprehensive income**

### *A.3.3 Information about investments in securitisation*

In relation to the Solvency II Market Value Balance Sheet items, we define securitisation as the sum of investments in 'structured notes' and 'collateralised securities'. As of 31 December 2018, our exposure to collateralised securities was not material and related solely to one Asset Backed Securities (ABS) investment which totalled to €0.5m and had a rating of BBB+. Collateralised securities primarily comprise ABS and Mortgage Backed Securities (MBS) according to the Solvency II classification rules. Covered bonds are not categorised as investments in securitisation as those are assigned to the corporate bonds exposure.

### *A.4 Performance of other activities*

The Company occupies property under various operating leases. At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were as follows:

| €'m   | 2018        | 2017        |
|---|-------------|-------------|
| Not later than one year                           | 4.6         | 4.6         |
| Later than one year and not later than five years | 13.6        | 17.0        |
| Later than five years                             | 0           | 4.2         |
| <b>Subtotal</b>                                   | <b>18.2</b> | <b>25.8</b> |
| Subleases   | (1.1)       | (0.8)       |
| <b>Total</b>                                      | <b>17.1</b> | <b>25.0</b> |

**Table 7: Operating leases**

For the year ended 31 December 2018, rental expenses totalled €3.9m, net of sublease rental income received of €1.1m. None of the above leases contain terms which would be considered restrictive or onerous for the Company.

### *A.5 Any other disclosures*

All material information has been provided in the previous sections.

## **B. System of Governance**

### **B.1 General Governance arrangements**

#### ***B.1.1 General Information***

Responsibility for corporate governance in terms of the overall management and oversight of the Company lies with the Board of Directors (Board). The Board is committed to high standards of corporate governance. This section describes the corporate governance framework and how the principles of good governance are applied. The framework is subject to ongoing review to help ensure best practice and compliance with applicable existing and new Irish and European legislation. The Board is supported in satisfying its responsibilities by the Board of Management (BoM) who oversee the day to day operations of the Company.

A key component of the systems of governance is the independence and work of the control functions within the Company. Section B.2 describes the fit and proper requirements implemented by the Company to ensure that the control functions have the ability to carry out their duties. In addition the Company carries out regular internal assessments of the effectiveness of each function to ensure their current and ongoing appropriateness.

The internal control system is described in Section B.4 and specifically includes the risk governance structure of the Company based on the three lines of defence model. This includes the key responsibilities of the control functions, how they achieve independence in carrying out their roles and their reporting responsibilities to the Board.

There have been no material changes to the Systems of Governance during 2018. The company strategy, corporate plan and governance structure have not changed and the annual review of strategy and corporate plan will follow the same robust governance processes as in previous years.

The key elements of the corporate governance framework currently in place are detailed below.

#### ***B.1.2 Board oversight***

The 2018 board comprised a number of non-executive directors and two executive directors. The roles of the chairman and chief executive are separate. The Board members were as follows:

Dr. Brigitte Bovermann [German] – Non Executive and Chairman of the Board  
Sean McGrath – Chief Executive Officer  
Marie Corry – Executive  
Robert Dix – Independent Non Executive  
Richard Hudson [British] – Independent Non Executive  
Roderick Ryan – Independent Non Executive (resigned as Director 31st December 2018)  
Sean Casey – Independent Non Executive  
Niranjan Peiris [Australian] – Non-Executive (appointed as Director on 10th January 2018)  
Ann Kelleher Independent Non-Executive (appointed as Director on 16th October 2018)

The board meets regularly and also operates an effective committee structure with defined terms of reference to assist it in its governance of the Company. There are defined matters specifically reserved for board decision. Six board meetings were held during 2018 where some of the key responsibilities include approving the annual risk appetite of the business, monitoring adherence to the risk appetite through review of corporate plans and operations supported by a full system of financial reporting, planning and budgetary control, regular management accounts reporting against budget and key performance indicators.

There are separate audit, remuneration, nomination and risk committees. The audit, remuneration and nomination committees are comprised exclusively of non-executive directors. The risk committee is comprised of a majority of non-executive directors.

The composition and nature of these committees during 2018 is outlined below:

| <b>Board Committees</b>       |  |
|-------------------------------|--|
| <b>Risk Committee</b>         | 4 Members<br>- Chairperson: Roderick Ryan (resigned 31/12/18)<br>- Executive: Marie Corry<br>- Independent Non Executive - Sean Casey<br>- Independent Non Executive - Richard Hudson<br>- Independent Non Executive - Ann Kelleher (appointed 16/10/18) |
| <b>Audit Committee</b>        | 3 Members<br>- Chairman: Robert Dix<br>- Non Executive - Niranjan Peiris<br>- Independent Non Executive - Roderick Ryan (resigned 31/12/18)<br>- Independent Non Executive - Sean Casey (appointed 16/10/18)   |
| <b>Nomination Committee</b>   | 3 Members<br>- Chairperson: Niranjan Peiris<br>- Independent Non Executive - Robert Dix<br>- Independent Non Executive - Richard Hudson  |
| <b>Remuneration Committee</b> | 3 Members<br>- Chairperson: Niranjan Peiris<br>- Independent Non Executive - Robert Dix<br>- Independent Non Executive - Richard Hudson  |

**Table 8: Allianz plc Committees**

### ***B.1.3 Internal control***

The directors have overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Company implements a three-level internal controls framework known as the three lines of defence model. Based on this framework, operational controls constitute the first line of defence (operational controls embedded within processes and performed in a structured, diligent and timely manner). Assurance and oversight functions constitute the second level of defence (such as compliance, actuarial, risk). Internal audit constitutes the third line of defence. Further detail can be found in B.4 below. Responsibility for implementation of the internal control system is delegated to executive management. Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and compliance. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the directors with reasonable assurance on 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.

An effective Internal Control Framework is a critical component in the effective management of the Company. Internal control is not a procedure or policy performed at a certain point in time, but rather a set of continually operating processes involving all employees and directors of the Company. The Internal Control Framework of the Company comprises five interrelated components:

- Control Environment;
- Risk Assessment;
- Control Activities;
- Monitoring; and
- Information, Communication and Reporting.

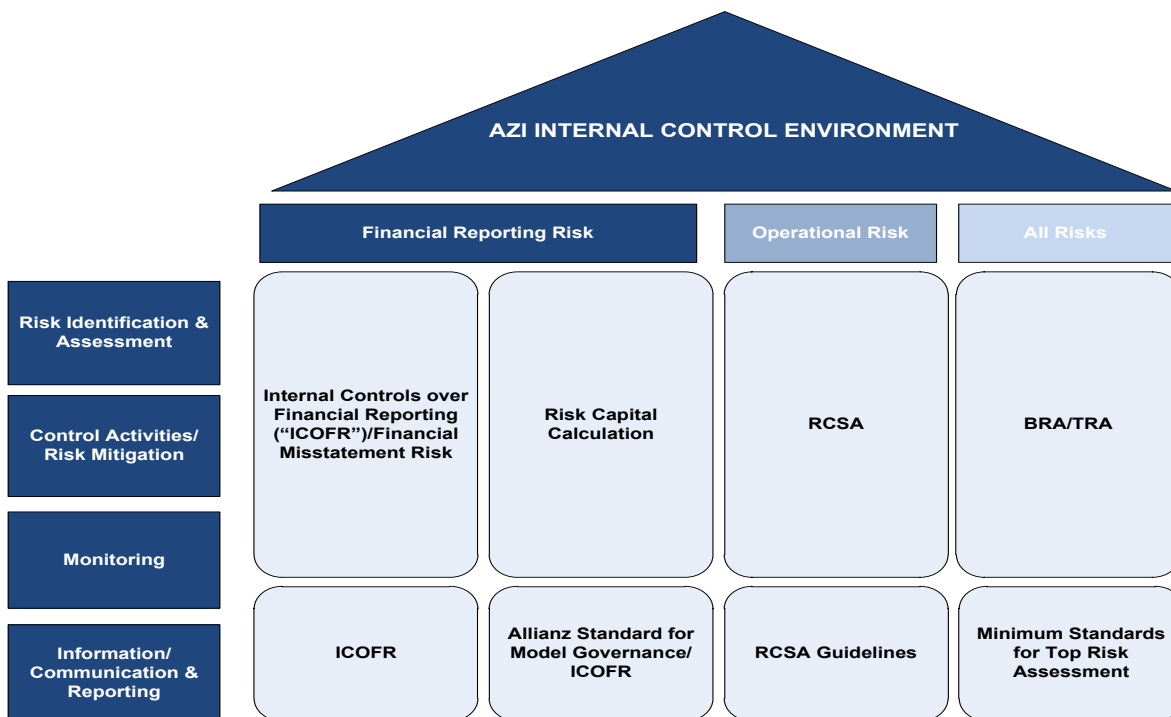


Figure 1: Internal Control Framework

Steering and controlling the Company is further supported by a set of corporate rules. At Group level, Allianz SE has defined a policy framework that outlines the relevant criteria for creating and updating corporate rules including the underlying rule-setting process which each component of the Allianz Group, including the Company, must apply. The policy framework comprises four levels (from top to bottom):

- Allianz Code of Conduct
- Allianz Policies
- Allianz Standards and
- Allianz Functional Rules



Figure 2: Policy framework of Allianz plc

The Company has developed a suite of local policies in order to ensure that these Group rules are applied as well as all other local regulatory requirements. The adoption of these rules has been approved by the Board or its Risk Committee as required. The most material of these policies from a Risk Management perspective are outlined below:

| Policy   | Owner                         | Department              |
|--|-------------------------------|-------------------------|
| Internal Control Policy                                | Chief Risk Officer            | Risk Management         |
| Internal Audit Policy                                  | Head of Internal Audit        | Internal Audit          |
| Risk Management Policy                                 | Chief Risk Officer            | Risk Management         |
| Compliance Policy                                      | Head of Compliance            | Compliance              |
| Actuarial Policy                                       | Head of Actuarial Function    | Actuarial               |
| Minimum Competency Code & Fit and Proper Person Policy | Head of Compliance            | Compliance              |
| Outsourcing Policy                                     | Outsourcing Committee         | Outsourcing Committee   |
| Capital Management Policy                              | Chief Financial Officer       | Finance                 |
| Financial Reporting Policy                             | Chief Financial Officer       | Finance                 |
| Remuneration Policy                                    | Head of People and Resourcing | People and Organisation |

**Table 9: Allianz plc policies**

Besides the general elements related to any control activities as shown above and in addition to the risk management framework, specific controls are implemented around entity level controls, financial reporting, IT, risk capital calculation, underwriting and investments. All of these are supplemented by an appropriate suite of management reports.

#### ***B.1.4 Risk management***

Effective risk management is established through the risk management system. This includes the risk management system policy documentation, risk governance embedded in the organisational structure, regular risk reporting, risk management processes and systems. The Internal Model is fully integrated into the risk management system and is the key tool used by management to aid decision making. The risk management strategy articulates the Company's attitude to the recognition and management of risk. The risk management principles and objectives are set down in the risk management strategy and are inter-related with the Company's corporate strategy and risk appetite statement.

The board is ultimately responsible for risk management and carries out this function in conjunction with its risk sub-committee, through delegation of authority to the chief executive and through the defined reserved powers of the board structure. The risk committee carries out its duties by regular review of the risk profile of the Company. This is achieved via appropriate internal model and other capital model output, reviews of the top risks in the risk register across all risk categories to which the Company is exposed and other risk assessments as required. The risk committee provides regular updates to the board on the risk profile of the Company and adherence to the approved risk appetite statement..

An internal management risk committee, chaired by the chief risk officer, assists the board risk sub-committee in the running of the risk management activities. The chief risk officer leads the risk management function and is responsible for the internal model, risk management documentation, processes and risk reporting. Risk reporting includes regular and continuing analysis of trading operations and performance, monitoring of adherence to the board approved policies including the risk appetite statement, monitoring of capital and reserving adequacy and updates to the Company's risk register to include operational and emerging risks. The internal model and Standard & Poors' model are key components of the Company's risk management system.

Other key procedures which the directors have established to provide effective risk management and internal control are:

- the Company internal audit function reports to the audit committee which reviews the reports and plans of internal audit and reports from the independent external auditor to monitor and provide reasonable assurance of internal control;
- the Company has an established organisational structure with clearly defined lines of responsibility and reporting. Key risks are controlled through defined authorisation levels and appropriate control procedures. Experienced and suitably qualified staff are responsible for important business functions;

### ***B.1.5 Consumer protection***

The Company operates a strong consumer protection framework which was overseen by the Customer Forum (CF) in 2018. The forum is responsible for steering transformation of the customer experience and for governance and oversight of customer outcomes across Allianz Ireland (AZI). Consumer updates are provided to each Board meeting. The AZI consumer protection risk management framework is subject to ongoing development and is being informed by the CBI's Consumer Protection Risk Assessment (CPRA) guidelines and CBI Consumer Protection Outlook Reports.

The CF ensured effective consumer protection outcomes that are aligned to CPRA including:

- a positive consumer-focused culture that is embedded and demonstrated within the Company
- a consumer protection risk management framework that is fit for purpose and ensures that customers' best interests are protected, and
- a fully compliant approach, treating customers, existing and new, in a fair and transparent way.

The CF drives the customer centricity agenda: via insights, idea generation, monitoring and action relating to customer experience, service provision, pricing and proposition development and culture. The CF evaluates consumer protection risk based on a broad range of quantitative and qualitative management information including customer complaints, brand awareness and net promoter score metrics and is supported by the Market Management function.

### ***B.1.6 Directors' Compliance Statement***

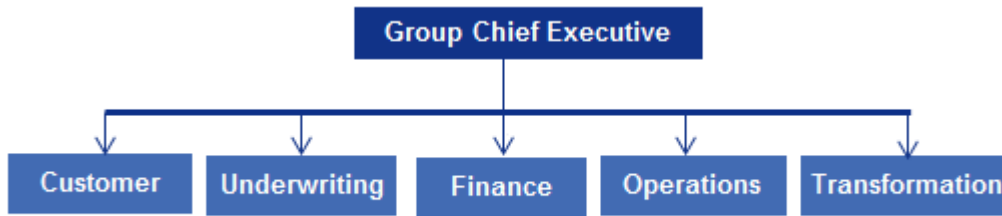
The directors, in accordance with Section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section arising from the Companies Act 2014 and Tax laws ('relevant obligations'). The directors confirm that:

- a compliance policy statement has been drawn up setting out the Company's policies that, in their opinion, are appropriate with regard to such compliance;
- appropriate arrangements and structures have been put in place that, in their opinion, are designed to provide reasonable assurance of compliance in all material respects with those relevant obligations; and
- a review of the Company's compliance arrangements and structures has been conducted during the period.

### ***B.1.7 Board of Management***

The BOM manages the Company on a day to day basis under the supervision of the Board. Its responsibilities include, inter alia, setting the business objectives and the strategic direction, establishing a sound business organisation and implementing an efficient risk management system. Certain management tasks are delegated to individual members of the BoM. These responsibilities comprise responsibilities for business segments as well as functional responsibilities. The organisational structure at year end 2018 was as follows:





**Figure 3: Organisational Structure**

A part of the BoM's work is assigned to Committees as part of the first line of defence. These committees comprise members of the BoM with other members of senior management. The following first line management committees operated throughout 2018:

- Underwriting Policy Committee
- Reserving Committee
- Reinsurance Committee
- Investment Committee
- Financial Reporting and Disclosure Committee
- Customer Forum
- Error Management Group

Details of the allocation of responsibilities and relevant procedures are outlined in the documented terms of reference for each committee. Key decisions in the Company are discussed and approved in the respective committees. The second and third line functions are appropriately represented on these committees and there are clear policies and procedures in place to ensure that any input from these functions required for a decision is included in the relevant documentation.

***B.1.8 Declaration of Conformity with the Corporate Governance Code for Insurance Undertakings issued by the CBI***

The Company complied with the "Corporate Governance Requirements for Insurance Undertakings 2015" (the Code) in 2018. The Code imposes minimum corporate governance standards for insurance undertakings including provisions on the membership of the Board of Directors, the role and responsibilities of the Chairman and other directors and the role and operation of various Board committees. The Company has been designated under the Code as a "High Impact designated Institution" and complies with the requirements for same.

***B.1.9 EU Solvency II Directive***

The Company meets the requirements of the EU Solvency II Directive (Directive). The objective of the Directive is to implement solvency requirements that better reflect the risks that insurers and reinsurers face. The Company has adopted the Allianz SE Group developed internal capital model into which our business details are fed and from which an appropriate risk capital charge is calculated. The governance structure of the Company has been reviewed to ensure that formal risk management processes are fully embedded in line with the Code and the Solvency II Directive.

***B.1.10 Remuneration policy and practices***

***B.1.10.1 Remuneration Principles***

The Company's Remuneration Policy sets the framework for the system and facilitates the implementation of regulatory requirements. The implementation of the Remuneration Policy is guided by the principle of

proportionality, taking into account the nature of the business, size, complexity and regulation of the business and is consistent with the framework operated throughout the Allianz Group.

#### ***B.1.10.2 Principles of Remuneration Policy including any fixed or variable proportions***

Remuneration structures and incentives are designed to encourage sustainable value creating activities for the Company. The Remuneration Policy and practices are set relative to the following principles:

- Remuneration policy and practices support the Company's business objectives, risk strategy and values.
- The Remuneration Policy applies to all Company staff and takes into account the respective roles of administration, customer service, key functions and senior management.
- The policy includes both fixed and variable components and these are appropriately balanced.
- When defining an individual's performance both financial and non-financial performance will be considered. Non financial performance includes adherence to all compliance policies which include, but is not limited to, the Code of Conduct, business ethics, project delivery and personal development.
- The policy is transparent, clearly documented and appropriately communicated. The Company is committed to providing competitive compensation and benefits to all employees based on merit and equality. The objectives of the Remuneration Policy are to promote transparency, fairness and performance expectations for each staff member. The policy is designed to ensure unauthorised or unwarranted excessive risk taking does not take place within the organisation.

#### ***B.1.10.3 Remuneration Components – General principles for employees***

The model provides for a balance between fixed and variable remuneration components. The Company's employees are entitled to join the company pension scheme which is a defined contribution scheme. The following components set the remuneration structure for senior executives to comply with applicable regulations with some individual variations in the mix of components:

- **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, general economic and compensation market conditions. The proportion of the fixed component within total remuneration is designed to balance performance incentives and to avoid excessive risk-taking. Base salary is expressed as an annual cash amount which is paid in monthly instalments and subject to the appropriate deductions. Base pay is reviewed annually and approved by the Remuneration Committee of the Board in the Company and as appropriate by Allianz SE.

- **Variable remuneration**

Variable remuneration is designed to encourage and reward achievement of both annual performance goals and the sustainable success of the Group and local companies. It is structured to align with Allianz's overall risk positioning strategy and to reward personal contributions. Annual targets, both quantitative and qualitative are set and communicated in advance of the performance period and generally conform with SMART (specific, measurable, attainable, relevant and time-bound) principles. In the case of breaches of the Allianz's Code of Conduct, compliance or other relevant criteria, the pay-out can be either reduced partially or in full. The Remuneration Committee in the Company also approves variable compensation in respect of executives and as appropriate there is Allianz SE oversight and approval. Members of the Board of Management and other executives participate in the Allianz Group Equity Incentive Scheme. The scheme comprises of Restricted Stock Units (RSU's) that are administered and managed by the ultimate parent Company, Allianz SE. RSU's constitute the right to receive the value of an Allianz SE share equivalent to the stock market price at the time of exercise. The variable remuneration of second and third line control functions is based on personal objectives only with no influence from the Company's financial results.

### ***B.1.11 Material Transactions***

The Company paid a dividend of €20m during 2018. All other material transactions of the Company with other Allianz Group entities were conducted on an arm's length basis. These transactions primarily relate to reinsurance business ceded by the Company to Group companies and to payments for services provided by the parent and other Group companies along the provision of IT infrastructure by Allianz Technology and Investment Management services with PIMCO.

There were no transactions with directors or others with significant influence in the period.

## **B.2 Fit and proper requirements**

The Company complies with the Fitness and Probity requirements of the Central Bank of Ireland. In addition, the Company also complies with the Allianz SE Group Fit and Proper Policy (GFPP). In order to facilitate compliance with both of these policies, the Company has also adopted its own internal 'Minimum Competency Code & Fit and Proper Person Policy'.

The GFPP sets out principles, criteria and processes which ensure the fitness and propriety of the Board members, the Senior Management and Key Functions holders (as defined in the policy). The Central Bank of Ireland ("CBI") has designated certain functions as being Pre-Approval Controlled Functions (PCF). The Company will not appoint a person to a PCF role without the prior written approval of the CBI. In addition to the foregoing, and in advance of making any offer to appoint a person to a PCF role, the Company carries out a full and thorough due diligence exercise on all proposed appointments at PCF level in order to determine that the person is:

- i. Competent and capable
- ii. Honest and ethical and acts with integrity
- iii. Financially sound

The GFPP contains a definition of fitness and probity and the fitness and probity requirements for the various relevant positions and describes the processes necessary to ensure the fitness and probity of the persons holding these positions. Those processes are:

- At recruitment:
  - The specific fitness requirements for the position must be determined,
  - A curriculum vitae must be available (except for internal candidates with a long tenure),
  - Several interviews, one of which with an HR professional, are to be conducted, and
  - A background check (for external candidates to Senior Management of Key Function Holders positions) or a compliance check and global assessment (for internal candidates to Global Executive positions) must be undertaken. Background checks include the submission of copies of the relevant qualifications, proof of good repute and no previous bankruptcy by the candidate and the conduction of a reference check and public media search.
- Regular reviews through performance reviews (for all persons in the scope of the GFPP) and career development conferences (for the Senior Management and Key Function Members) take place on an annual basis.
- Ad-hoc reviews of a person's fitness and probity take place in certain extraordinary situations giving rise to questions regarding a person's fitness or probity.

On an ongoing basis, professional training ensures that the fitness requirements are constantly met and training on ethical business behaviour, anti-fraud and anti-corruption is offered to provide employees with clear rules for proper behaviour.

Controlled functions, which relate to having significant influence and compliance responsibilities, are included in the Prescribed and Significant Control Function Policy. Responsibility for the Prescribed & Significant Control Function Policy lies with the Company Secretary in conjunction with the Head of People and Resourcing.

The People and Organisation department conduct an annual audit of employees performing Control Functions by confirming with employees whether there are any material developments in relation to their compliance with the fitness and probity standards.

The Company submits an Annual PCF Confirmation Return to the CBI and maintains appropriate information and records in order to demonstrate its compliance with the CBI Fitness and Probity Standards. In respect of Key Function holders, the directors and any person performing a Pre-Approval Controlled Function within the Company are subject to the fitness and probity standards and the Code issued under Section 50 of the Central Bank Reform Act 2010.

All persons performing Pre-Approval Controlled Functions 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 Company does not outsource any of its key functions to an external undertaking. This narrative relates mainly to the CBI’s Fitness and Probity requirements from a prudential regulatory perspective.

The Company’s key function holders have been identified as follows:

| <b>Key function</b>               | <b>Key Function Holder</b> |
|-----------------------------------|----------------------------|
| Risk Management Function          | Chief Risk Officer         |
| Compliance Function               | Head of Compliance         |
| Internal Audit Function           | Head of Internal Audit     |
| Actuarial Function                | Head of Actuarial Function |
| Accounting and Reporting Function | Chief Financial Officer    |

**Table 10: Company key function holders**

## **B.3 Risk management system**

### **B.3.1 Risk management Framework**

The Company considers risk management to be one of its core competencies. It is therefore an integral part of our business process. The Company’s risk management framework covers, on a risk-based approach, all operations including IT, processes, products, and departments/subsidiaries within the Company. The key elements of the Company’s risk management framework are:

- Promotion of a strong risk management culture, supported by a robust risk governance structure.
- Consistent application of an integrated risk capital framework across the Company to protect our capital base and support effective capital management.
- Integration of risk considerations and capital needs into management and decision-making processes through the attribution of risk and allocation of capital to the various business segments.

This comprehensive framework ensures that risks are identified, analysed, assessed, and managed in a consistent manner across the Company. Our risk appetite is defined by a clear risk strategy and limit structure. Close risk monitoring and reporting allows us to detect potential deviations from our risk tolerance at an early stage.

For the benefit of shareholders and policyholders alike, our risk management framework adds value to the Company through the following four primary components:

**Risk strategy and risk appetite:** Our risk strategy clearly defines our risk appetite. It ensures that rewards are appropriate for the risks taken and that the delegated authorities are in line with our overall risk-bearing capacity. The risk-return profile is improved through the integration of risk considerations and capital needs into decision-making processes. This also keeps risk strategy and business objectives consistent with each other and allows us to take opportunities within our risk tolerance.

**Risk identification and assessment:** A sound risk identification and assessment framework forms the foundation for adequate risk-taking and management decisions such as individual transaction approvals, new product approvals, and strategic asset allocations. The framework includes risk assessments, risk standards, valuation methods, and clear minimum standards for underwriting

**Risk reporting and monitoring:** Our comprehensive qualitative and quantitative risk reporting and monitoring framework provides senior management with the transparency and risk indicators to help them decide on our overall risk profile and whether it falls within delegated limits and authorities. For example internal risk allocation, and limit consumption reports are regularly prepared, communicated and monitored.

**Communication and transparency:** Finally, transparent and robust risk disclosure provides the basis for communicating this strategy to our 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.

#### ***B.3.1.1 Strategy and objectives***

The risk strategy is a core element of the the Company's risk management framework that defines a strategy for the management of risks that the company faces during the pursuit of its broader business strategy. With the risk strategy, the Company aims to:

- Protect the Allianz brand and reputation,
- Remain solvent even in the event of extreme, worst case scenarios,
- Maintain sufficient liquidity to always meet its obligations, and
- Provide resilient profitability.

The Corporate Strategy, the Risk Management Strategy and the Risk Appetite are all set by the Board and are dependent upon, and inter-related with, one another. At the centre of the Company's corporate planning and risk management activity are the 'Corporate Objectives'. These Corporate Objectives are largely static objectives that guide the Corporate Strategy and underpin the Risk Management Strategy and Risk Appetite. Broadly speaking they represent the long term desires of the shareholders.



**Figure 3: Illustration of the interdependencies involved in the strategy development**

The Corporate Strategy, pursuant to the Corporate Objectives, is set on an annual basis and follows the Corporate Planning process. The process consists of the following stages:

1. Strategic Dialogue: The annual strategic dialogue takes place mid-year and agrees the key strategic objectives for the business over the following three years through discussion between the Company and Allianz SE Board of Management.
2. Corporate Plan: The annual corporate plan is prepared following the strategic dialogue and represents the detailed planning phase of the process. The key performance targets and capital position, for the current forecast year and three following years, form the basis for discussions at the planning dialogue.
3. Planning Dialogue: The planning dialogue takes place in the fourth quarter of each year and challenges the outcome of the corporate plan preparation in terms of performance and risk appetite. It ensures the outcome is aligned with both the strategic dialogue and Allianz Group's strategic direction. It is attended by members of the BOM, the relevant Allianz SE Business Division and other Allianz SE senior management representatives. The agreed plan is then recommended to the Board for approval.

The Corporate Strategy is informed by the amount of risk the company is willing and able to accept. Implementation of the risk strategy is supported through the risk appetite, which establishes in more concrete terms the risk tolerance level of the Company with respect to all material qualitative and quantitative risks.

The Company's risk appetite inherently contains the following five core elements:

- Setting target ratings for top risks,
- Allocating capital and defining minimum (target) capital ratios,
- Managing liquidity to ensure flexibility,
- Defining quantitative financial limits, and
- Defining local policies

The risk strategy and corresponding risk appetite are transferred into standardised limit management processes covering all quantified risks throughout the Company and taking into account the effects of risk diversification and risk concentration.

### ***B.3.1.2 Risk Governance Structure***

As a key element of our risk management framework, the Company's approach to risk governance enables an integrated management of local and global risks and ensures the risk profile remains consistent with the Company's risk strategy and capacity to bear risks.

### *B.3.1.2.1 Overall risk organisation and roles in risk management*

The Corporate Strategy, the Risk Management Strategy and the Risk Appetite are all set by the Board and are dependent upon, and inter-related with, one another. The Risk Management Strategy and Risk Appetite are reviewed and approved by the Board on an annual basis in line with the corporate planning process. Responsibility for update of the documents rests with the Chief Risk Officer (CRO). Specific risk types are managed at a more detailed strategy and policy level. Strategy and policy documentation is in place for the following risk areas:

- Insurance Risk
- Market Risk
- Credit Risk
- Operational Risk
- Liquidity Risk

Risk area strategy and policy documents are updated upon material change to the Risk Management Strategy, the Risk Management Policy, Risk Appetite, relevant Allianz Group Minimum Standards, and/or at least annually. Documents will be reviewed and recommended for approval by the business areas to which they relate to the Management Risk Committee and the Board Risk Committee. Ultimate responsibility for approval rests with the Board.

The Company has developed a comprehensive Risk Universe in line with the Allianz Group Risk methodology. Each of the risk categories and sub categories from the Company's Risk Universe are mapped to the risk area strategy and policies.

In addition to the above the protection of the reputation of the Company is a key risk management objective as set down in the Company Risk Management Strategy. The Company has a Reputational Risk and Issues Management Policy that defines standards for the management of reputational risk and issues.

The CRO is responsible for providing comprehensive, understandable and well interpreted information on the risk types documented above, enabling management to understand the company's overall risk profile. The CRO is responsible for management of the Risk Management Function and its responsibilities. The roles and responsibilities of the Risk Management Function are documented in its Terms of Reference, which is reviewed and approved on annual basis. The CRO has also assumed the role of Governance and Control caretaker of the company and the Management Risk Committee is also now acting as the Governance and Control Committee of the Company.

The Company has an integrated structure in place to oversee the operation of the Risk Management Framework and in turn the Risk Management Function operating within the Company. The Board has overall responsibility for ensuring an effective risk management system is in place throughout Allianz Ireland. The Board is responsible for ensuring it (collectively) has an adequate understanding of each of the components of the risk management system and, also, of the technical aspects underpinning risk management including the Internal Model and the calculation of technical provisions. The Board is responsible for the approval of several important risk management documents including strategies, policies and regulatory disclosures. The Risk Committee assists the Board in fulfilling its responsibilities regarding risk management. This includes the advance review of information and documentation prior to Board review. The RiCo has responsibility to escalate matters and breaches to the Board as appropriate. The RiCo Terms of Reference are reviewed and approved by the Board on an annual basis. The Management Risk Committee is a risk oversight committee made up of senior members of management. The committee, which is chaired by the CRO, reports directly to the RiCo. The Management Risk Committee is responsible for oversight and challenge of the risk management structures in place and outlined in this policy. The Management Risk Committee Terms of Reference are reviewed and approved by the RiCo annually.



### ***B.3.1.3 Risk management Process***

#### ***B.3.1.3.1 Adequacy of internal risk capital model to business profile and model governance***

The Company uses the Allianz Group Internal Model for the purposes of calculating the Company SCR. The Company works within the Group model governance framework covering both Group managed and locally managed model components. The use of the internal Model is subject to approval by the Board of Directors of the Company. In line with Solvency II requirements a set of compulsory model governance and control principles are applied to the whole life cycle of the internal risk capital model, covering, for instance, the model change process. The Allianz Internal Model Governance Framework encompasses the governance rules and principles to ensure the initial and ongoing appropriateness of the internal model. The framework covers the whole life cycle of the internal model from model development to model implementation and use. Specifically, key topics covered include: model changes, model updates, validation, approval, implementation and operational use and the monitoring of the ongoing appropriateness for use. The following standards and documents constitute the main model governance building blocks:

- Allianz Standard for Model Governance
- Annual Internal Model Validation Report
- Allianz Standard for Model Change

The Parameters and Assumptions Approval Committee (PAAC), chaired by the CRO, oversee the model governance framework and activity of the Company. The PAAC reports to the Management Risk Committee, RiCo and ultimately the Board. The PAAC oversees a well defined calendar of activities including model production and model validation. Specifically the model governance framework requires a regular re-validation of model components with appropriate success criteria and escalation in case of an issue. Ultimately the Board approves the Internal Model annually via the annual validation report. This report details all relevant model validation results to assess the appropriateness of the Internal Model. There were no material changes to the model governance framework during 2018.

The Internal Model is fully embedded in the company and is used extensively in key business decisions. Some refinements to the model have been agreed with Bafin and implemented since the beginning of Solvency II. This underpins the Company's objective to ensure the ongoing appropriateness of the model.

#### ***B.3.1.3.2 Top Risk Assessment and other specific risk management processes***

The Group's top risk assessment (TRA) is the Company's process focusing on the identification, assessment, mitigation and monitoring of both quantifiable and non-quantifiable risks (including concentration and emerging risks) with potential to significantly threaten the achievement of company objectives. The process follows a standard qualitative assessment methodology whereby local experts assign ratings for risks that reflect their materiality to the Company and management enacts mitigation plans in the event an assessed risk exceeds the risk tolerance level. Requirements for the TRA are defined in the Allianz Standard for Top Risk Assessment (ASTRA).

The TRA process requires an annual risk assessment to identify risks that may merit inclusion in the TRA. The risk function initiates and facilitates the TRA process by performing a preliminary analysis of potential top risk candidates based on consideration of existing TRA results and results from other risk assessment and management processes, as well as consideration of changes in internal and external business and control environments upon which new top risks may have materialised. These are discussed, challenged and finalised with the responsible risk experts and/or risk owners throughout the company with actions to mitigate any risks where the risk is above target level.

Although the end-to-end TRA process occurs on an annual cycle, quarterly monitoring activities are also in place. In the event that, due to the emergence of new potential top risks during the year, an extraordinary out-of-cycle update to the set of in scope top risks is required the general TRA process applies.



In addition to the TRA and the processes outlined in Section C, the Company has some additional specific risk management processes. The Company identifies, assesses, manages and monitors operational risks and control weaknesses via a structured risk and control self-assessment through the Integrated Risk and Control System (IRCS) process. The IRCS is a risk management process by which the Company must ensure, through performance of a qualitative based analysis that effective controls or other risk mitigation activities are in place for all potentially large impact operational risks. Business experts are required to consider results from previous IRCS activities, and Operational Risk Events, when carrying out the scenario analysis.

The management of legal and compliance and the outsourcing risk is covered as part of the broader operational risk management framework.

In general, liquidity risk in the Company is a secondary risk following external events, such as natural disasters, that are generally reflected in the internal risk capital model. The liquidity position of the Company is monitored on a regular basis by the Finance department and reported to the Risk Department regularly in order to ensure that the Company is always able to meet short-term current or future payment obligations.

The management of strategic risks is implicitly embedded into the execution of the annual Strategic Dialogue process, including the establishment of strategic priorities and execution of the steps towards their fulfilment.

### ***B.3.2 Own Risk and Solvency Assessment***

The Company performs an Own Risk and Solvency Assessment (ORSA) on at least an annual basis known as a regular ORSA, as well as following any internal or external events or transactions with potential to materially alter the Company's risk profile termed an ad-hoc ORSA. The ORSA is a comprehensive assessment of all risks inherent to the business in order to determine whether current and future capital will be sufficient to ensure ongoing solvency against these risks. It goes beyond the determination of capital needs provided solely through application of risk capital models by additionally considering stress scenarios, model limitations and other non-quantifiable risks and how these risks translate into capital needs or are otherwise mitigated. The ORSA process and the ORSA report are integral to the decision making process in the Company. Capital management is a key use of the ORSA and the production of the ORSA report is aligned with our planning process to ensure that it is used in the decision in relation to the capital adequacy of the company. Another key use of the ORSA is in the development of key management actions that are designed to aid the company in achieving its strategic and corporate objectives. These actions are documented in the ORSA report and tracked quarterly by the Risk Committee of the Board. The Risk Committee and Board provide regular guidance and challenge of ORSA activity, for example, in nominating additional scenarios to be reviewed as to impacts.

#### ***B.3.2.1 ORSA Process***

The main elements and associated timing of the ORSA process is outlined in the diagram below:

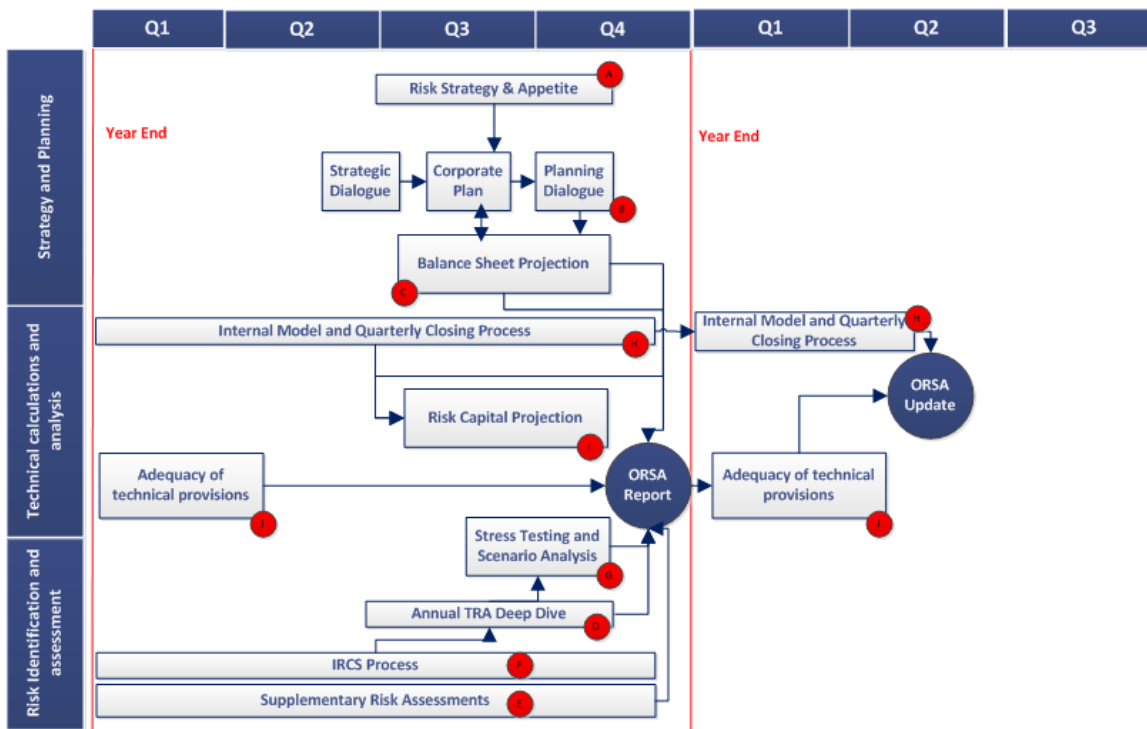


Figure 4: ORSA process

The outcome of each ORSA is documented in an ORSA results report, which contains all risk related information that is relevant for the overall ORSA conclusion. Preparation of the ORSA report is coordinated by the risk management function (RMF). The Management Risk Committee discusses the outcome of the ORSA, challenging the results where necessary, and comes to a decision of whether they should recommend approval of the ORSA conclusion and corresponding ORSA results report to the Board Risk Committee for review, challenge and/or recommendation to the Board for approval. The Board has overall responsibility for reviewing the ORSA results report and challenging, either directly or through delegates, as appropriate, the completeness of the assessment and its conclusions and its ultimate approval. The conclusion reached assesses whether current and projected capitalisation is sufficient, even under consideration of (i) severe but reasonably frequent and therefore tangible outcomes of risk situations and (ii) scenarios that emphasise the relevant risk exposures and critical modelling assumptions against the background of the Company’s specific risk business profile. It also assess if all material risks have been identified and sufficiently managed to within risk appetite, including model limitations and risks not reflected in the risk capital model, taking into account the effectiveness of the system of governance and internal control. The approved report is provided to the CBI and to Allianz Group.

## B.4 Internal control system

The Company is committed to having an Internal Control System (ICS) that fulfils its organisational needs and all relevant regulatory requirements. The Company’s Internal Control System is based on a strong control culture which emphasises and demonstrates to all employees the importance of internal controls in the Company. As part of this, the Company seeks to avoid policies and practices that may provide incentives for inappropriate activities.

The Company operates a ‘Three Lines of Defence Model’ consisting of multiple committees, control functions and individuals with specified responsibilities and authority. To ensure an effective Internal Control System, all functions within the three lines of defence are obliged to co-operate and to exchange necessary information and advice.

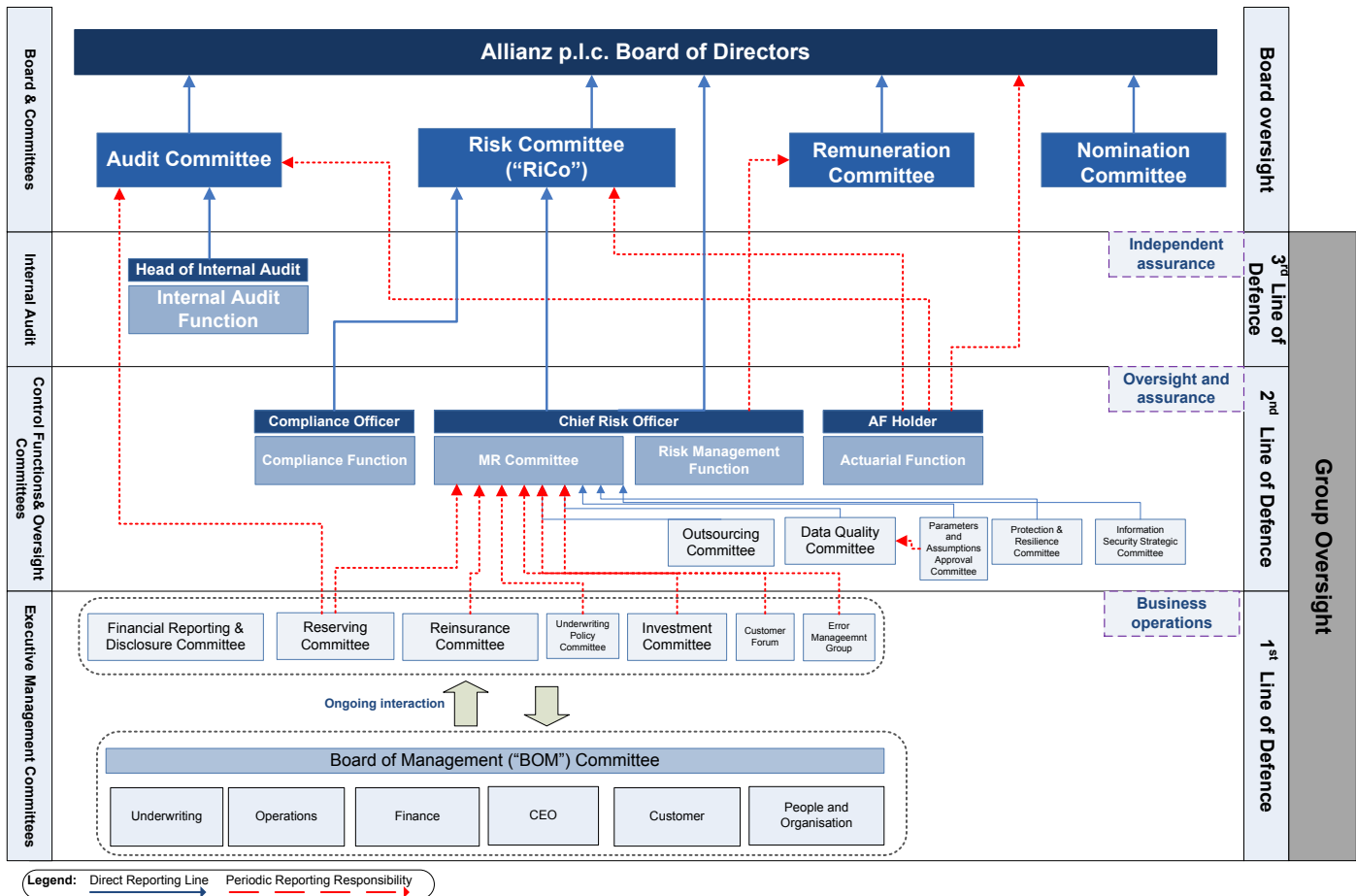


Figure 5: Three lines of defense

### B.4.1 Three lines of defence model

The Company applies a "three lines of defence"-model with graduated control responsibilities.

- **"First line of defence"**: is performed in the business through the management of day-to-day activities, risk management and controls. Key activities include:
  - Operational management of risks and returns by taking or directly influencing the origination, pricing and acceptance of risks,
  - Designing and implementing methodologies, models, management reports or other control standards to support the optimisation of risks and returns, and
  - Participating in business decisions based on an equal vote.

Any function not deemed as second or third line perform first line controls.

- **"Second line of defence"**: provides independent oversight and challenge of the day-to-day risk taking and controls by the first line. It is performed by the assurance functions Risk Management, Actuarial, and Compliance. Its key activities include:
  - Defining the overarching control frameworks,
  - Performing controlling activities,
  - Providing assurance on the design and operation of the control environment, and
  - Advising on risk mitigation strategies and control activities.

Its competencies include:

- Independence in terms of reporting lines, objectives, target setting and compensation towards the first line responsibility,
  - A direct reporting line to the relevant member of the BoM,
  - The right to veto business decisions on sound reasons, and
  - The right to request all relevant information necessary for the application of professional judgment.
- **“Third line of defence”**: provides independent assurance across the first and second lines. It is performed by the Internal Audit Function and its activities include particularly:
    - An independent assessment of the effectiveness and efficiency of the ICS as well as a review of the system of governance

#### *Relationship between control functions within the “three lines of defence”-model*

To ensure an effective ICS, all functions are obliged to cooperate and to exchange necessary information and advice. Given that control activities may be exercised by staff in different organisational units, appropriate mechanisms are in place between the control functions to allow fully informed and educated decision making.

#### *Relationship between second line functions and Internal Audit Function*

The Actuarial, Compliance and Risk Management Functions are separated from the Internal Audit Function with no instruction right or reporting of one function into the other. The Actuarial, Compliance and Risk Management Functions are included in the Audit programme and methodology of the Internal Audit Function, including a periodic assessment of the adequacy and effectiveness of these functions. The Head of Internal Audit keeps the Heads of Actuarial, Compliance and Risk Management informed of any Audit findings in their area of responsibilities. For further details on the description on the Internal Audit Function, please see section “Internal Audit Function”.

#### *Joint responsibilities of second and third line functions*

The Risk Management, Actuarial, Compliance, and Internal Audit Functions jointly ensure and assess, at least once per year, that clear and consistent responsibilities and processes regarding the control framework are in place and executed (e.g. via an annual top risk assessment (TRA) dialogue). These functions closely cooperate, maintain reciprocal oversight and are aware of the concrete tasks and competencies of each sister function. The responsibility of the Internal Audit Function to independently assess the effectiveness and efficiency of the Company’s ICS remains unaffected.

The distinction between the different lines of defence is principle-based and determined by activities. Independent oversight of any “first line of defence”-function is exercised by the following second line functions:

- Compliance,
- Risk Management (Risk), and
- Actuarial.

#### *B.4.2 Compliance Activity*

The Head of Compliance is the Key Function Holder as regards the independent Compliance Function of the Company and is part of the second line of defence. The objectives of the Compliance Function are:

- Support and monitor compliance with applicable law, regulations and administrative provisions issued by regulatory and supervisory authorities in order to assess the impact of these on the Company and to protect the Company against compliance risks. This includes identification, assessment, and mitigation of these risks;
- Identifying, documenting and assessing compliance risks associated with the business activities of the Company;
- Ensuring ongoing compliance with regulatory requirements through ongoing monitoring and compliance testing;

- Annual staff training on compliance matters, including CTF and financial sanctions, anti-corruption and bribery, and data protection.
- Educating staff on compliance issues and acting as a point of contact within the Company for compliance queries from staff members.
- Establishing written guidance to staff on the appropriate implementation of compliances laws, rules and standards through policies and procedures and other documents such as internal codes of conduct, practice guidelines, CTF/FS manual etc.
- The Compliance Function reviews the policies and procedures on a regular basis to ensure they remain appropriate and up to date;
- Attendance at regular functional committees within the Company including the MRC, Outsourcing; Customer Forum;
- Advising senior management and the Board on compliance with laws, regulations, standards, including keeping them informed on developments in the area;
- Liaising with external bodies including regulatory authorities, insurance associations and external experts;
- Reporting to the Board and its committees on compliance related matters;
- Interacting with the Allianz Group compliance function through the submission of any Allianz Group reporting requirements in a timely manner; the exchange of best practices with other members of the
- compliance function in the group; the alignment of policies to the compliance framework of Allianz Group, where applicable and possible in accordance with local legislation; and
- Overseeing the resolution of compliance issues reported to the Compliance Function or otherwise identified by the Compliance Function and reporting on the management of such issue resolution to senior management (through the Management Risk Committee and/or Board of Management) and to the Board (through the Risk Committee).

The role is a Pre-Approved Controlled Function and the Head of Compliance has a direct reporting line to the Company's Risk Committee of the board and a functional reporting line to the CFO and Compliance of the operating entity Allianz Group.

The Compliance Policy is approved by the Board and the Compliance Plan is reviewed and approved annually by the Risk Committee of the Board. The risk areas assigned to the Compliance Function (Compliance Risk Areas) include:

- Consumer Protection
- Code of conduct
- Anti-corruption and bribery
- Anti-fraud
- Counter Terrorist Financing and Economic Sanctions
- Data Protection
- Capital Markets
- Antitrust
- Regulatory referrals, inspections and regulatory reporting
- Internal investigations and whistleblowing.

On a regular basis, the Compliance Function identifies documents and assesses the compliance risk associated with Allianz's business activities. This helps to ensure that the overall compliance framework reflects the risk exposure. The Compliance Function supports the Risk Management Function in the TRA and in the RCSA at a Company level. The results are reviewed and used for steering of compliance programmes as well as for the overall compliance planning process. The Compliance Policy details organisational safeguards and powers. As specified in the Compliance Policy, the Compliance Function has the general oversight regarding all areas of applicable laws, rules and regulations pertaining to the topics listed above. This includes the interpretation of the relevant legal and

regulatory requirements, monitoring of all relevant regulatory changes and advising senior management on all regulatory aspects. The Compliance Function interacts with other functions, being a second line of defence of the Company, and contributes to the reinforcing of the risk control framework of the Company

#### ***B.4.3 Legal Function***

The Legal Function has the general oversight regarding all areas of applicable laws, rules and regulations from a prudential perspective. This includes:

- the provision of legal advice and support to the business
- advising and managing the engagement of external legal advice or counsel
- management of non-claims related litigation
- acting as 'first point of contact' with the CBI's Prudential Supervision Team
- maintenance of all company secretarial registers

#### ***B.4.4 Actuarial Function***

Refer to Section B.6 Actuarial Function for an outline of second line of defence activities.

#### ***B.4.5 Internal Audit Function***

Refer to Section B.5 Internal Audit for an outline of third line of defence activities.

### **B.5 Internal audit function**

#### ***B.5.1 Audit Function***

The Company has put an Internal Audit policy in place. The Internal Audit policy constitutes a local adaption of the Allianz Group Audit Policy taking into consideration the specific circumstances and requirements of the Company. Compliance with the Group Internal Audit policy is mandatory within Allianz Group. The purpose of the Internal Audit Policy is to ensure that the organisation and work of the Company's Internal Audit function adheres to a consistent set of minimum rules and operating procedures such that the effectiveness of the controls necessary to achieve the Company's goals is ensured. The policy is supplemented by the local Standard Audit Manual, which is derived from the Allianz Group Standard Audit Manual.

The Head of Internal Audit in the Company is the owner of the Policy and is responsible for maintaining and updating the Policy. The document will be reviewed at least once per year. The Policy and all material changes require approval by the Audit Committee and Board of Directors of the Company.

The Internal Audit Function is an independent assurance function forming the 'Third Line of Defence' in the Company governance and internal control framework. Internal Audit evaluates and makes recommendations for improvements in the effectiveness of the systems of governance and internal control through the application of a systematic and disciplined internal audit process.

An Audit Universe which covers all risk and governance areas is defined and is reviewed and updated annually on a risk basis. The Audit Universe drives audit coverage and activity by directing internal audit activity on a risk basis within an overall strategic objective to obtain adequate risk coverage of the entire universe as part of a five year strategic audit cycle. Within the strategic cycle, prioritisation and frequency of audit review for individual risk areas is based on risk assessment or regulatory expectation.

Internal Audit formally reports the results of all audits completed, makes improvement and risk control based recommendations, agrees the related remediation actions with management and implements remediation issue follow-up and reporting processes. Internal Audit reporting is to the Audit Committee, CEO, Group Audit and, additionally, to the relevant responsible management. Internal Audit performs follow-up monitoring to ensure the deficiencies are resolved.

### ***B.5.2 Maintaining independence***

The following Audit Policy requirements ensure independence and objectivity of the Internal Audit function:

The reporting structure ensures that the Internal Audit Function has a standing within the Company's organisational structure that maintains 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, and 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/fraud).

The Head of Internal Audit must confirm to the CEO and Audit Committee, at least annually, the independence of the Internal Audit activity. Independence is achieved by ensuring that audit is positioned outside of functional roles and responsibilities, that there are no obvious conflicts of interest in assignments and that auditors have not been engaged in drafting procedures, designing, installing or operating systems, or implementing recommendations. They may not carry out operational roles.

The Head of the Internal Audit department reports directly to the Company's CEO and also has a reporting line to the Chairman of the Audit Committee. Internal Audit also reports functionally to Allianz Group Audit and is 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 Company, 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.

In addition to auditing activities, management may seek the advice of Internal Audit on internal control related topics which Internal Audit may provide. However, Internal Audit cannot compromise its independence and cannot implement working procedures. The advisory function of Audit may not jeopardise its core audit activities and the fulfilment of its audit plan.

### **B.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 performs tasks that are based on regulatory and business requirements and consist of coordination and 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 the reinsurance arrangements, and contribution to the effective implementation of the risk management system.

The core tasks performed by the Actuarial Function in 2018, as defined by the Domestic Actuarial Regime and Related Governance, issued by the CBI in 2018 and the Guidance for (Re)Insurance Undertakings on the Head of Actuarial Function Role, issued by the CBI in 2016, included:

- The co-ordination of the calculation of reserves (and other figures to be reported) for accounting and regulatory purposes;
- Providing an opinion on the compliance of the Technical Provisions, as reported in the annual QRTs, with all relevant Solvency II requirements;
- The expression of an opinion on the overall underwriting policy including pricing and product development and the adequacy of reinsurance arrangements;

- Contribution to the effective implementation of the risk management system; and
- To provide an opinion on the ORSA process.

The Head of Actuarial Function for the Company produces all of the above on an annual basis. In relation to Technical Provisions requirements, the Head of Actuarial Function provides an Actuarial Opinion on Technical Provisions ('AOTP') for 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 reserving" every two years. The Company also performs a more limited scope independent review in the interim years.

The Actuarial Function operates in such a way that necessary independence from the day-to-day risk-taking and risk-mitigating (first line of defence) activities are maintained. This requires that no undue influence be exercised over the Actuarial Function, in terms of reporting, objectives, target-setting, compensation or other means.

## B.7 Outsourcing

Outsourcing is the use of a third party (either an affiliated entity within the same group or an external entity) to perform activities on a continuing basis that would normally be undertaken by the company. The third party to whom an activity is outsourced is a service provider. The company outsources and enters into outsourcing arrangements only where there is a sound commercial basis for doing so, and where the risk can be effectively managed.

The Company has a local outsourcing policy, which is the local implementation of the Group Outsourcing Policy (GOP) which was defined to ensure adherence by all relevant Allianz legal entities to the Solvency II requirements regarding outsourcing.

The outsourcing policy establishes the principles and processes for outsourcing of functions or services to an internal or external provider. Its main objective is to determine the relevant processes and strategies for outsourcing on a company level and ensure adherence to regulatory requirements. In particular, this includes key definitions for outsourcing, criteria for selecting, mandating and monitoring providers, determination of clear roles and responsibilities as well as controlling rights, and rules for the closing and termination of outsourcing agreements.

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 Central Bank of Ireland (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.

For the critical operational functions/activities that are outsourced, please see the table below:

| Number | Supplier                  | Critical operational functions/activities | Jurisdiction   |
|--------|---------------------------|---|----------------|
| 1      | Allianz Technology        | IT services                               | Ireland Branch |
| 2      | Sedgwick (ROI)            | Claims & Assistance Management            | Ireland        |
| 3      | Thornton & Partners (ROI) | Claims & Assistance Management            | Ireland        |
| 4      | ProAdjust (ROI)           | Claims & Assistance Management            | Ireland        |
| 5      | DWF                       | Claims & Assistance Management            | Ireland        |
| 6      | PIMCO Europe Limited      | Investment Management                     | United Kingdom |

**Table 11: List of outsourcers**



## **B.8 Any other information**

The Company continuously aims to improve its compliance and governance systems by ensuring that they are reviewed, evaluated, and recommendations are made to the Board regarding enhancing and developing the systems, including the outcomes from compliance monitoring programmes, root cause analysis and complaints, breaches and risk events, and incremental development as the systems mature.

The Company's Governance and Control policy requires the Company to undertake a review of its Systems of Governance on an annual basis. This exercise was undertaken in 2018 by the Risk Function supported by the Finance Department and the Internal Audit. This review considers a five years cycle testing plan, covering both the design effectiveness and the operating effectiveness of the framework. The Company concluded that its System of Governance is designed appropriately and operating effectively in all material respects.

## C. Risk Profile

### C.1 Summary of Risk Profile

The Company's principal activity is the transaction of property, motor, liability and marine insurance business within the island of Ireland. As a result, the main risks and therefore drivers of risk capital requirement are insurance-related risk. Our strategic position is to maintain and expand our underwriting portfolio through accepting exposures at economic prices and providing good value and quality service to our policyholders.

Within the Company, risk is measured and steered based on the Internal Model, which derives risk capital based on a 1-in-200 year deterioration in own funds.

Risk management of operating performance is addressed through a full system of corporate planning and budgetary control together with monthly and quarterly management accounting processes. The Board-approved risk appetite framework requires the Company to maintain risk appetite metrics in order to provide an early warning in relation to events that could threaten the ability of the Company to meet its corporate objectives and are reported to the Board on a quarterly basis. They also define a range of limits covering all risk categories, and any breaches of these limits require a remediation plan which must be approved by the RiCo.

No material risk has been transferred to special purpose vehicles and the Company has no material exposure arising from off-balance sheet positions.

### C.2 Detailed Overview by Risk Category

#### C.2.1 Underwriting Risk

##### Risk Exposure

The general insurance underwritten by the Company is both of a short tail nature such as motor, household and commercial property business and longer tail in the form of commercial liability, guarantee and marine business.

The Internal Model is the key measure used to assess underwriting risk. No material change has occurred to this measure during 2018.

The Company uses reinsurance to mitigate underwriting risk to within a defined risk appetite, to protect its solvency and to improve the efficiency of its use of capital.

Underwriting risk, continually assessed by management, is primarily made up of the following risk types (in descending order of materiality):

- Reserve risk
- Premium non-catastrophe ("non-cat") risk
- Natural catastrophe ("nat-cat") risk
- Terror risk

Further details have been included about these below:

##### C.2.1.1 Reserve risk

The projection of outstanding reserves is based upon the Company's historical experience. It is a key assumption that this historical data will be predictive of the future loss reporting and claims development of the Company. These projections are predominantly based on the following accepted actuarial reserving methods:

- Paid Loss Development Method
- Incurred Loss Development Method

- Expected Loss Ratio Method
- Paid Bornhuetter-Ferguson Method
- Incurred Bornhuetter-Ferguson Method

The final selected loss estimates are based on a judgemental consideration of the results of each method and qualitative information such as that provided in meetings with experts in various other departments. The choice of method to estimate ultimate losses considers, among other things, the line of business, the number of years of experience and the accident year being developed.

There are instances where past data is not appropriate or where no data exists to project. These include recent accident years where the claims experience has not emerged and lines of business where past data is not available. In these cases, explicit assumptions are made about the level of claims inflation and expected changes in claims frequency. The booked claims provision includes a qualitative reserve on top of the actuarial best estimate reserves.

Reserve risk measures the volatility of the reserves that are held to cover claims resulting from past events that have not yet been settled, over a one-year time horizon. Liability business is the key driver of reserve risk capital, followed by motor. Most reserve risk capital is held in respect of the longer-tailed injury lines of business, for which the ultimate claim settlement amounts are subject to considerable uncertainty due to changes in the claims environment.

#### ***C.2.1.2 Premium risk***

Premium risk measures the volatility of underwriting profitability over a one-year time horizon. Motor is the most significant contributor to premium non-cat risk capital, followed by liability and property.

The premium nat-cat and terror risk types are not material compared with premium non-cat risk.

#### **Underwriting strategy**

The Company's underwriting strategy and acceptance criteria are communicated through comprehensive underwriting guidelines which are adhered to on a strict basis. Risk acceptance is controlled through structured delegated underwriting authority limits (DUA's) for underwriting staff. DUA's are allocated based on business need and appropriate skill sets and are reviewed regularly.

#### **Pricing risk**

Actuarial management conduct regular reviews of rating changes on renewals and new business compared to budget. They evaluate whether a product's price covers both its costs and the required profit margin. Frequent tracking of product profitability against target loss ratios is also performed.

#### **Reinsurance concentration and significant weather event or Catastrophe risks**

Reinsurance strategy and extent of cover is reviewed annually by the Reinsurance Committee, the Risk Committee and the Board of Directors to ensure that the levels of protection being purchased are sufficient in relation to developments in exposure and are within the risk appetite of the Company. These reviews are supported through the use of sophisticated modelling techniques used by Allianz worldwide as part of the internal model together with local actuarial and risk management input. The reinsurance cover required is placed only with reinsurers that meet Allianz Group counterparty requirements as manifested in the reinsurer security listing which is updated annually. Catastrophe protection covering our risk portfolio from significant windstorm and other natural hazards is purchased based on the outputs of sophisticated models.

#### **Claims management risk**

As with underwriting, claims registration and estimation is governed by strict guidelines and procedures. These include formal regular claims estimate review process, regular training of personal injury and damage staff and regular review of large cases by senior management.

At an overall level, monitoring of average settlement costs and a legal panel help ensure claims are not being settled too expensively. Senior claims management operate a proactive approach in monitoring developments in the internal claims handling process and the external claims environment for trends that impact the Company.

### **Reserving risk including latent claims**

There is close monitoring of claims settlement averages and savings or deterioration on settlements. Actuarial management meet with internal claims management and external professional society peer groups to discuss claims handling and environmental issues. There is an annual statutory actuarial opinion on technical provisions and an annual third party expert review with reputable firms of consulting actuaries to report on reserving adequacy is also commissioned.

The risk of unanticipated latent claims, or adverse developments, arising on our historic portfolios is reviewed at periodic actuarial and claims meetings. Monitoring of these claims or any new types of claim is investigated on an ongoing basis and fully reserved for.

Specific assumptions relating to the calculation of the claims reserves are reviewed at the quarterly Reserving Committee meeting.

### **Risk Sensitivity**

Please refer to Section C.5 for a description of the stress and scenario tests performed on the most material risks on a quarterly basis. For underwriting risk, these include stresses on the underwriting result and the 1-in-5 year net reserve deterioration. Additional underwriting risk deteriorations are considered as part of the TRA.

## ***C.2.2 Market Risk***

### **Risk Exposure**

Market risk is the risk of loss arising due to changes in market prices or parameters influencing market prices. This includes changes in market prices due to a worsening of market liquidity.

The Company has invested in quoted debt securities, derivatives, collective investment schemes, private equity limited partnerships and loans. These investments are subject to market risk whereby the value of the investments may fluctuate as a result of changes in market prices, changes in market interest rates or changes in foreign currency rates of the currency in which the investments are denominated.

The Internal Model is the key measure used to assess market risk. No material change has occurred to this measure during 2018.

The key change that occurred to the level of market risk exposure during 2018 was the implementation of a Pension Increase Exchange (PIE) initiative at Q4. The purpose of this exercise was to reduce inflation risk on pension liabilities by offering scheme members the opportunity to commute future inflationary increases in return for a higher fixed annuity payment. The PIE was actuarially cost-neutral and, hence, had no material impact on own funds. The impact on risk capital was immaterial.

The sub-sections below provide further details with regard to each individual market risk type:

### ***C.2.2.1 Interest Rate Risk***

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are also exposed to interest rate risk. The average duration of the insurance liabilities is low and, as such, the SCR of AZI is not highly-sensitive to interest rate movements.

### ***C.2.2.2 Foreign Exchange (FX) Risk***

FX risk is the risk that fluctuations in exchange rates may lead to a material change in the value of currency assets or liabilities. FX risk is not large as most business is transacted in euro, and the net currency exposure is reviewed monthly in arrears and surpluses or deficits are dealt with through the purchase and sale of currency.

### ***C.2.2.3 Inflation Risk***

As an insurance company we are exposed to changing inflation rates, predominantly due to inflation of our pension obligations. In addition, inflation of claims costs (driven by price, wage and court-award inflation) leads to increased liabilities.

### ***C.2.2.4 Credit Spread Risk***

Our internal risk capital framework allows for the risk of declining market values for our fixed income assets – such as bonds – due to the widening of credit spreads. The key drivers of credit spread risk capital are credit rating and the duration of fixed income assets.

### ***C.2.2.5 Equity Risk***

Equity risk is the risk that arises from the possibility that changes in stock markets affect the value of the portfolio.

### ***C.2.2.6 Real Estate Risk***

Real Estate risk is the risk that arises from the possibility that changes in Real Estate values affect the value of the portfolio

### **Risk Concentration**

The main market risk concentration for the Company is credit spread and equity. The investment strategy is primarily focused on fixed income instruments. The fixed income is a broadly diversified portfolio.

### **Risk Mitigation**

The extent of the exposure to market risk is mitigated by the formulation of, and adherence to, clearly defined investment policy statements which are regularly reviewed and approved by the Board of Directors. 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 both the investment and finance committees, which are chaired by the chief executive and which include other senior management members, and members of the Board of Directors.

In addition, the employment of appropriately qualified and experienced personnel to manage the Company's investment portfolio and contractual appointment of external investment experts also serves to mitigate the risks. The Company has not changed the processes used to manage its risks from previous periods.

Below is some detail on the key risk mitigation techniques and the processes for monitoring their continued effectiveness, by individual market risk type:

- Interest rate risk 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.
- FX risk is managed through the Company's policy of matching its non-euro currency liabilities with assets on an economic basis.
- Inflation assumptions are taken into account in our product development and pricing processes and the risk of changing inflation rates is incorporated into the internal model.
- Credit spread risk is managed by selecting assets with a strong credit rating.

Interest, FX and inflation risk are managed similarly by the Trustees within the pension scheme

## Risk Sensitivity

Please refer to Section C.5 for a description of the stress and scenario tests performed on the most material risks on a quarterly basis. For market risk, these include stresses on equities, interest rates and a combined market shock. Additional market risk deteriorations are considered as part of the TRA.

### C.2.3 Credit Risk

#### Risk Exposure

Credit risk is measured as the potential economic loss in the value of our portfolio due to changes in the credit quality of our counterparts ("migration risk") or the inability or unwillingness of the counterparty to fulfil contractual obligations ("default risk"). Key areas where the Company is exposed to credit risk are:

- **Investment credit risk:** Counterparty risk in respect of debt securities, cash and cash equivalents.
- **Reinsurance credit risk:** Reinsurers' share of insurance liabilities and amounts due from reinsurers in respect of claims already paid;
- **Other counterparty credit risk:** Amounts due from insurance intermediaries and other policyholders either through normal credit terms or other instalment billing.

Credit spread risk is excluded from the scope of credit risk and is managed as part of the market risk module.

The Internal Model is the key measure used to assess credit risk. No material change has occurred to this measure during 2018.

Please note that credit risks were not subject to any material changes during 2018.

#### Risk Concentration

Details of credit risk concentrations have been provided below:

- **Investment credit risk:** Please refer to Section C.2.2 (Market Risk) above;
- **Reinsurance credit risk:** Concentration of Reinsurance credit risk does exist due to the specialised nature of reinsurance; however the debt profile and exposure are actively managed. Due to the quota share agreement, Allianz Re Dublin dac hold 83% of total net reinsurance exposure as at the 31st December 2018. Other than Allianz Re Dublin dac, only Allianz Global Corporate & Specialty held more than 5% of total net reinsurance exposure as at 31<sup>st</sup> of December 2018.
- **Other counterparty credit risk:** There are concentrations of risk in relation to the intermediaries through which the Company distributes its business, but we believe that the Central Bank of Ireland's rules in relation to separate client bank accounts and the Financial Conduct Authority's Client Asset rules greatly mitigate this risk.

#### Risk Mitigation

Controls in place to mitigate credit risk include the following:

- **Investment credit risk:** As part of the investment policy statements, all developed market debt must be rated "BBB-" (merging market debt "B-") at the time of purchase. Additional concentration risk limits are set, including those for individual issues, issuers and country exposures.

The Company controls its exposures to loans and receivables according to a series of credit risk policies that reflect the individual considerations of the risk categories. These policies are supported by a series of procedures (e.g. counter party assessment processes) and limits (e.g. investment and bank counter party limits), which are designed to ensure that the Company's appetite for risk is not exceeded.

- **Reinsurance credit risk:** Reinsurance is used to manage insurance risk. Reinsurance does not, however, discharge the Company's liability as primary reinsurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder.

Reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Allianz Group's security criteria.

At the 31<sup>st</sup> of December 2018, 14% of net reinsurance exposure related to companies with a credit rating of A or better. However, this figure would rise to 96% if Allianz Re Dublin dac were taken into account. Management consider Allianz Re Dublin dac as effectively AA-rated due their stop loss arrangement with Allianz SE.

- **Other counterparty credit risk:** Insurance receivables are closely monitored via the credit control process. For amounts due from intermediaries, credit terms are applied which are determined by a range of factors including the type of business, size of account and financial standing. Intermediaries are obliged to return annual accounts to the Central Bank of Ireland and to the Financial Conduct Authority for inspection to assess their financial status as they are directly regulated firms.

In addition, the majority of intermediaries are affiliated to broker representative organisations who insist that their members are adequately bonded. Business dealt with on a direct basis is on a cash only basis and no credit is extended. Provisions are made where there is a doubt over the recoverability of any balance.

For policyholders, credit is managed so that the amount due is matched to the unexpired risk. Where amounts fall outside credit terms a full range of credit control procedures are applied. Where these are not successful, the debt is impaired.

### **Risk Sensitivity**

Please refer to Section C.5 for a description of the stress and scenario tests performed on the most material risks on a quarterly basis. For credit risk, these include stresses on interest rates. Additional credit risk deteriorations (e.g. reinsurance credit risk) are considered as part of the Top Risk Assessment (TRA).

### ***C.2.4 Liquidity Risk***

#### **Risk Exposure**

Liquidity risk is the risk that the Company may be unable to meet payment of obligations in a timely manner at a reasonable cost. The Company is exposed to daily calls on its cash resources, mainly from claims.

The principal objective of the Company's treasury function is to ensure that sufficient funding is available at an optimal cost and net cash flows are monitored on a daily basis. The majority of the Company's financial liabilities, excluding claims outstanding and deposits received from reinsurers, fall due within one year and the Company has sufficient liquidity to meet its requirements. No material change occurred to the liquidity profile of the Company during 2018.

#### **Risk Concentration**

There are no significant liquidity risk concentrations within the Company portfolio at year-end 2018.

#### **Risk Mitigation**

Liquidity risk is managed in line with the Allianz p.l.c. Liquidity Risk Strategy and Policy. The level of liquid assets is monitored quarterly as part of the Board-approved risk appetite framework. The liquidity risk policy sets out the risk management process for managing liquidity cost.

The Company's stock of liquid assets is set out in investment parameters approved by the Board and is maintained at a level considered sufficient to meet both normal and abnormal trading condition requirements and to ensure that a contingency plan is in place to mitigate the risk of extreme liquidity events.

### **Risk Sensitivity**

Stresses are performed on the liquidity position. At year-end 2018, the stresses did not lead to a material deterioration in the liquidity profile of the Company.

#### **C.2.5.1 Expected Profits in Future Premiums**

The expected profits in future premiums are not considered to be material for the Company due to the nature of non-life insurance business. While cash-flows from future premiums are an important consideration in assessing liquidity risk, the expected profits in these future premiums do not form a material part of this assessment

### ***C.2.5 Operational Risk***

#### **Risk Exposure**

The Company defines operational risk as the risk of loss resulting from inadequate or failed internal processes and systems, from human misbehaviour or error and from external events. Operational risk includes legal and compliance risk and excludes strategic risk. Operational risk also excludes reputational risk, although the management of operational risk is closely related to the management of reputational risk. Losses from operational risk may be in the form of additional expense, regulatory sanctions or legal settlements.

The Internal Model is the key measure used to assess operational risk. No material change has occurred to this measure during 2018.

Operational risks were not subject to any material changes during 2018.

#### **Risk Concentration**

The Company is not exposed to any material concentrations of operational risk.

#### **Risk Mitigation**

The Company seeks to manage its exposure to such risk and to minimise financial losses through operating an Operational Risk Strategy and Policy, which is overseen by the Risk Management Function, Management Risk Committee and Risk Committee on behalf of the Board of Directors. The two primary and complementary methods of operational risk identification in place within the Company are the Risk and Control Self-Assessment (RCSA) and the TRA. The RCSA process is the Company's structured and formalised approach for ensuring that operational risks are identified, assessed, managed, mitigated and monitored. The TRA is an annual process, updated quarterly, for the identification and assessment of all enterprise risks, some of which may be operational risks. The TRA is informed by the RCSA process. The TRA aims to identify business wide operational risks or 'top risks' which require the attention of senior management and risk management committees.

Controls are in place to mitigate the key operational risk exposures.

#### **Risk Sensitivity**

Stresses are performed on key operational risk exposures as part of the TRA.

### ***C.2.6 Other Material Risks***

#### **Risk Exposure**

The Company operates a defined benefit pension scheme which was closed to future accrual on 31 December 2015. The pension scheme trust, as required by the Pension Acts, is a separate legal entity from the Company. The Board



of Trustees of the scheme has responsibility for the management and administration of the trust affairs and to act in the best interests of the members in accordance with the terms of the Trust Deed and rules.

The Company is exposed to longevity risk, i.e. the risk that due to improving life expectancies, the current estimate of future pension liabilities might be insufficient. The internal model is the key measure used to assess longevity risk, and the risk associated with the pension scheme in general.

#### **Risk Concentration**

There are no significant concentrations of risks within the pension scheme at year-end 2018.

#### **Risk Mitigation**

From a Company perspective, the financial and capital implication of operating the scheme is monitored by a Management Oversight Pensions Committee. In addition, monitoring of pension risk is a standing agenda item at the quarterly Risk Committee of the Board of Directors.

#### **Risk Sensitivity**

Please refer to Section C.5 for a description of the stress and scenario tests performed on the most material risks on a quarterly basis. For pension risk, these include stresses on interest rates and equities.

#### **Reputational**

##### **Risk Exposure**

The Company's reputation as a well-respected and socially aware insurance provider is influenced by its behaviour in a range of areas such as product quality, corporate governance, financial performance, customer service, employee relations, intellectual capital and corporate responsibility. Reputational risk is the risk of an unexpected drop in the value of the Allianz Group share price, the value of the in-force business or the value of future business caused by a decline in its reputation.

No material changes occurred to the level of reputational risk during 2018.

##### **Risk Concentration**

There are no significant reputational risk concentrations within the Company at year-end 2018.

##### **Risk Mitigation**

Reputational risk management decisions are integrated into the overall risk management framework and reputational risks are identified and assessed as part of the TRA process, during which senior management also decides on a risk management strategy and related actions.

##### **Risk Sensitivity**

Stresses are performed on reputational risk as part of the TRA.

### **C.3 Prudent Person Principle**

Allianz Group has set up a comprehensive risk management framework in order to promote a strong risk management culture. This framework is laid down in the Allianz Corporate Rules Book. The guiding principle for investment risk management is the Prudent Person Principle (Article 132 of the Solvency II EU Directive).

The Prudent Person Principle comprises a portfolio and a single-investment dimension:

- All assets need to be invested to ensure the quality, security, liquidity, profitability and availability of the investment portfolio as a whole. This also includes the need to structure the investment portfolio appropriate to the nature and duration of insurance liabilities covered with these assets.
- Assets are only admissible if the investors can properly identify, measure, monitor, manage, control, report and appropriately integrate their risks in their solvency assessment.

Additionally, the Prudent Person Principle lays down criteria for the quality of processes and the qualification of the people working in the investment management function.

### ***C.3.1 Portfolio Dimension of the Prudent Person Principle***

The Strategic Asset Allocation (SAA) defines the long-term investment strategy for the overall investment portfolio. The SAA is based on a detailed asset-liability analysis that respects the financial frame of the company: The financial frame comprises a consistent set of all investment relevant KPIs (e.g. the degree of asset – liability cash flow match, the Solvency Capital Ratio in the internal model, limits on financial risks), as well as a mid-term view of their development and impact.

When setting up the SAA, care is taken to ensure an adequate target level of quality and security (e.g. ratings, collateral) together with a sustainable return as well as sufficient liquidity and availability of the investment portfolio as a whole.

This ex-ante assessment is substantiated by an ongoing adherence to the SAA (including leeway's and limits) in the investment process and an ex-post monitoring in order to allow for corrective action in case of target deviations.

In addition to the general asset class limits set by the SAA, Allianz's risk management framework imposes consistent and well-balanced limits on investment risks: financial risks arising from all types of assets and counterparty exposures, and addressing both market and credit risk factors.

The Allianz Board of Directors has adopted the Group Financial Limit Framework for limit setting via the AZI Risk Appetite Framework. The Board has delegated the authority for limit approval to the Risk Committee. All limits are subject to annual review and approval

Further information on our investment portfolio composition can be found in Section A.3.

### ***C.3.2 Single-Investment Dimension of the Prudent Person Principle***

To ensure that single investment decisions adhere to the Prudent Person Principle, Allianz Ireland and Allianz Group have

- specified a catalogue of routine investments ("Standard Investment List") and
- set up a New Financial Instrument ("NFI") process for non-routine investments.

The Standard Investment List relates to investments that are done on a regular basis for a considerable period of time, are adequately catered for in internal processes and IT systems and for which the entity has thorough investment expertise. Standard Investments constitute the basis of each insurance portfolio.

Before performing any investment of a non-routine nature the NFI Process has to be adhered to in order to assess, in particular, the ability to manage all investment specific risks, the consistency with policyholders' interests and the impact of this investment on the quality, security, liquidity, profitability and availability of the whole portfolio.

### ***C.3.3 Special governance regarding the use of derivatives***

Derivatives in the insurance portfolios are only allowed insofar as they contribute to a reduction of risks or facilitate efficient portfolio management.

The use of investment portfolio derivatives must always take place within an approved derivative strategy, that defines motivation, background and scope, risks addressed by the strategy, eligible instruments, limits for steering and appropriate risk control (e.g. via netting, collateral and avoidance of counterparty concentrations), and countermeasures in case a limit is reached.

Details are governed by the Allianz Functional Rules for Derivatives.

## C.4 Risk Diversification

Diversification typically occurs in the context of combined risks that are not, or only partly, dependent on each other. This may be the case for risk in different regions, different entities or for different types of risks. For example, an operational risk event can be regarded as highly independent of a change in credit spreads.

Diversification is a key element in managing risks efficiently by limiting the economic impact of any single event and by contributing to relatively stable results and risk profile in general. Therefore the aim is to maintain a balanced risk profile without any disproportionately large risk concentrations and accumulations. Monitoring concentrations and accumulations of non-market risks is done on a standalone basis (i.e. before diversification effects) within a limit framework in order to avoid substantial losses from single events such as natural catastrophes, terror or credit events. Also, avoiding concentration risk in the asset portfolio is a key principle of the Prudent Person Principle.

Given that the Company transacts property, motor, liability and marine insurance business within both the Republic of Ireland and Northern Ireland, diversification is key to our business model. Also, significant diversification occurs between the P&C and pension portfolios due to low correlations between the relevant risk factors. The level of diversification within the P&C and pension portfolios and at the overall portfolio level is monitored on an ongoing basis.

## C.5 Stress and Scenario Testing

For each risk category and risk type, the Company has estimated the risk capital over a range of return periods. The analysis shows that reserve risk is the key risk for the Company at all of these return-periods. Premium non-cat, credit spread and credit risk are the second, third and fourth most significant risks for the Company on a standalone basis.

As part of the quarterly reporting to the Board, the Company performs stress and scenario tests on the risks which are deemed to be the most material, i.e. primarily the risks outlined above. These stress and scenario tests have been carried out as at year-end 2018 and the solvency coverage ratio has been re-assessed and compared with the risk appetite thresholds in each case. A brief summary of the scenarios has been provided below:

- **Equity:** 30% decrease in equity markets;
- **Real Estate:** 30% decrease in real estate values;
- **Interest Rates Up:** 100 basis point (bp) increase in interest rates;
- **Interest Rates Down:** 100 bp decrease in interest rates;
- **Underwriting (Non-Cat and Nat-Cat):** Adverse large loss and attritional experience (non-CAT) combined with 2 CAT events which are above planned expectations.
- **Reserve Strengthening:** 1-in-5 year net reserve deterioration;
- **Combined Market Shock I:** 30% reduction in equities, combined with a 100 bp increase in interest rates.
- **Combined Market Shock II:** 30% reduction in equities, combined with a 100 bp decrease in interest rates.
- **1 -in-5 Year Non-Financial Shock:** 66% of the 1-in-10 year non-financial shock

At year-end 2018, two of the above stress and scenario tests would have reduced the solvency coverage ratio below the amber risk appetite threshold of 127%. The most severe of these was the 1-in-5 year non-financial shock, which has a significant impact on P&C liabilities and would have resulted in a red risk appetite breach. The second most severe test was the reserve strengthening (1-in-5 year) scenario, which would have given rise to an amber breach.

As part of the ORSA process, the impact of the above stress and scenario tests on the solvency coverage ratio is assessed over the business planning horizon on an annual basis. This helps management to understand the sensitivities of the Company's coverage to these stress events and to plan accordingly.

## **C.6 Any other information**

All material information regarding the risk profile of the Company has been provided above.

## D. Valuation for Solvency Purposes

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. The classes shown below are therefore the same as used in the Solvency II Market Value Balance Sheet. The aggregation is based on the nature and function of assets and their materiality for solvency purposes. The recognition and valuation rules used for preparing the financial statements under FRS 101 and those used to value assets and liabilities for solvency purposes are described in the paragraphs below.

### D.1 Assets

| D.1 Assets  | FRS 101 | Reclassification adjustments | Solvency II valuation adjustments | Solvency II |
|---|---------|------------------------------|-----------------------------------|-------------|
| 1. Goodwill   |         |                              |                                   |             |
| 2. Deferred acquisition costs                                 | 14.6    |                              | -14.6                             | 0.0         |
| 3. Intangible assets  | 3.1     | -0.2                         | -2.8                              | 0.0         |
| 4. Deferred tax assets  | 9.6     | -9.3                         | 3.9                               | 4.2         |
| 5. Pension benefit surplus                                    | 38.2    | 5.4                          |                                   | 43.7        |
| 6. Property, plant and equipment held for own use             | 4.6     | 0.0                          | -4.6                              | 0.0         |
| 7. Investments (other than assets held for index/unit-linked) | 1,572.2 | 10.8                         | 0.0                               | 1,583.0     |
| 7.1 Property (other than for own use)                         |         |                              |                                   |             |
| 7.2 Holding in related undertakings, including participation  |         |                              |                                   | 0.0         |
| 7.3 Equities  | 7.1     | 0.0                          | 0.0                               | 7.1         |
| 7.3.1 Equities - listed                                       |         |                              |                                   | 0.0         |
| 7.3.2 Equities - unlisted                                     | 7.1     | 0.0                          |                                   | 7.1         |
| 7.4 Bonds   | 1,359.2 | 10.8                         | 0.0                               | 1,370.0     |
| 7.4.1 Government Bonds  | 414.5   | 12.0                         |                                   | 426.5       |
| 7.4.2 Corporate Bonds   | 944.7   | -1.2                         |                                   | 943.5       |
| 7.4.3 Structured notes  |         |                              |                                   |             |
| 7.4.4 Collateralised securities                               | 0.0     | 0.0                          |                                   | 0.0         |
| 7.5 Collective Investments Undertakings                       | 191.5   | 0.0                          |                                   | 191.5       |
| 7.6 Derivatives   | 4.6     | 0.0                          |                                   | 4.6         |
| 7.7 Deposits other than cash equivalents                      | 9.8     | 0.0                          |                                   | 9.8         |
| 7.8 Other investments   |         |                              |                                   |             |
| 8. Assets held for index-linked and unit-linked contracts     |         |                              |                                   |             |
| 9. Loans and mortgages  | 15.8    | 0.0                          | 0.3                               | 16.1        |
| 9.1 Loans on policies   |         |                              |                                   |             |
| 9.2 Loans and mortgages to individuals                        |         |                              |                                   |             |
| 9.3 Other loans and mortgages                                 | 15.8    | 0.0                          | 0.3                               | 16.1        |
| 10. Reinsurance recoverables from:                            | 760.4   | -2.3                         | -61.1                             | 697.0       |
| 10.1 Non-life and health similar to non-life                  | 760.4   | -2.3                         | -61.1                             | 697.0       |
| 10.1.1 Non-life excluding health                              | 756.6   | -2.3                         | -60.7                             | 693.6       |
| 10.1.2 Health similar to non-life                             | 3.8     | 0.0                          | -0.4                              | 3.4         |
| 10.2 Life and health similar to life, excl. health/index-lin  |         |                              |                                   |             |
| 10.2.1 Health similar to life                                 |         |                              |                                   |             |
| 10.2.2 Life excl. health and index-linked and unit-linked     |         |                              |                                   |             |
| 10.3 Life index-linked and unit-linked                        |         |                              |                                   |             |
| 11. Deposits to cedants                                       |         |                              |                                   |             |
| 12. Insurance and intermediaries receivables                  | 143.5   | -136.0                       |                                   | 7.5         |
| 13. Reinsurance receivables                                   | 0.3     |                              |                                   | 0.3         |
| 14. Receivables (trade, not insurance)                        | 19.2    | -10.6                        |                                   | 8.6         |
| 15. Own shares (held directly)                                |         |                              |                                   |             |
| 16. Amounts due in respect of own fund item or initial funds  |         |                              |                                   |             |
| 17. Cash and cash equivalents                                 | 4.7     | 0                            |                                   | 4.7         |
| 18. Any other assets, not elsewhere shown                     |         |                              |                                   |             |
| Total assets  | 2,586.2 | -142.2                       | -79.0                             | 2,365.0     |

**Table 12: Comparison of MVBS and FRS 101 balance sheet – Assets**

The total assets per FRS101 above do not agree to the financial statements total of €2,619m, owing to €33m of assets being netted off against liabilities shown in table 23.

#### D.1.1 Goodwill

Goodwill is not applicable for the Company.

#### D.1.2 Deferred Acquisition Costs

Under FRS 101, Deferred Acquisition Costs (DAC) represent the proportion of commission and management expenses which are attributable to unearned premiums. These costs are deferred and amortised on the same basis

as related premiums are earned. In the MVBS, cash flows relating to DAC are included in the best estimate of the technical provisions and are not recognised separately on the asset side in contrast to FRS 101. For further details, please refer to the section on Technical Provisions.

### *D.1.3 Intangible Assets*

This line item includes intangible assets other than goodwill. Intangible assets are non-monetary assets without physical substance. Under FRS 101, intangible assets are measured at amortised cost. They are only recognised in the MVBS when they are separable and there is evidence of exchange transactions for the same or similar assets, indicating it is saleable in the market place. They are measured at fair value with their market price. No intangible assets are recognised in MVBS at year end 2018.

### *D.1.4 Deferred Tax Assets*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised in line with IAS 12 only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be future taxable profits available against which the temporary differences can be utilised.

Deferred taxes are recognised and valued in relation to all assets and liabilities that are recognised for Solvency II or for tax purposes. There is no expiry date for deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the balance sheet. 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.

### *D.1.5 Pension Benefit Surplus*

Pension benefit obligations are measured in accordance with IAS 19 as the Company considers the valuation method according to IAS 19 the most appropriate valuation under Solvency II.

Allianz Holdings p.l.c. operates a defined benefit pension scheme for qualifying employees of Allianz p.l.c. The scheme closed to future accrual of benefits on 31 December 2015 and from 1 January 2016 pension benefit is delivered to all qualifying employees through a defined contribution pension scheme.

The defined benefit scheme is a funded pension scheme governed by a trust deed. The trustees of the scheme are required by law to act in the best interests of members and are responsible for setting certain policies, e.g. investment policy, of the scheme. An actuarial valuation of each of the scheme's obligations using the projected unit method and a fair valuation of each of the scheme's assets is performed annually by external actuaries in accordance with the requirements of FRS101.

### **Defined benefit plans**

The following table sets out the defined benefit obligation and the fair value of plan assets:

|                                     | <b>2018</b> | <b>2017</b> |
|-------------------------------------|-------------|-------------|
|                                     | <b>€'m</b>  | <b>€'m</b>  |
| Fair Value of plan assets           | 385.7       | 399.2       |
| Defined benefit obligation          | (342.1)     | (392.3)     |
| Related deferred taxation liability | (5.4)       | (0.2)       |
| Net Defined Benefit Balance         | 38.2        | 6.7         |

**Table 13: Changes in defined benefit obligation**

The chart below shows the current asset allocation:

| as of 31 December | 2018<br>€'m  | 2018<br>%  | 2017<br>€'m  | 2017<br>%  |
|-------------------|--------------|------------|--------------|------------|
| Equity securities | 45.8         | 11.9       | 53.8         | 13.5       |
| Debt securities   | 320.4        | 83.0       | 327.1        | 81.9       |
| Real estate       | 8.3          | 2.2        | 8.1          | 2.0        |
| Other             | 11.3         | 2.9        | 10.3         | 2.6        |
| <b>Total</b>      | <b>385.8</b> | <b>100</b> | <b>399.3</b> | <b>100</b> |

**Table 14: Asset allocation**

The actuarial valuation is dependent upon a series of assumptions, the key assumptions being discount rates and rate of pension increases as follows:

|   | 2018<br>% | 2017<br>% |
|---|-----------|-----------|
| Rate of increase in pensions in payment | 1.6       | 1.8       |
| Discount rate                           | 2.0       | 1.8       |

**Table 15: Actuarial assumptions**

There are no valuation differences between FRS101 and MVBS values, but the MVBS presentation excludes deferred tax which has been reclassified from item 4. Deferred Tax Assets.

#### ***D.1.6 Property, plant and equipment held for own use***

Property, plant and equipment held for own use includes tangible assets which are intended for permanent use and is measured at cost less depreciation and accumulated impairment losses in FRS101. Under Solvency II guidelines property, plant and equipment must be measured at economic fair value. The economic fair value for the property, plant and equipment is considered to be immaterial.

#### ***D.1.7 Investments***

##### **Property (other than for own use)**

Property (other than for own use) is not applicable for the Company.

##### **Equities**

This category includes private equity fund investments of €7.1m (2017: 4.1m) which are measured at fair value in accordance with IAS 39. The fair value of private equity funds are delivered as net asset values by the fund managers. The net asset values are calculated using industry-specific valuation methods. Allianz plc has only limited insight into the specific inputs used by the fund managers and hence a narrative sensitivity analysis is not applicable. There is no difference between FRS 101 and MVBS values.

##### **Bonds**

This category includes government and corporate bonds as well as 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 include bonds issued by corporations and covered bonds which are backed by cash flows from mortgages or public sector loans. Collateralised securities comprise securities whose value and payments are derived from a portfolio of underlying assets. They include Asset Backed Securities (ABS). All financial assets as defined in IAS 39 are valued at fair value.

As at 31 December 2018 in €'m:

| €'m                             | FRS 101 | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II Values |
|---------------------------------|---------|------------------------------|-----------------------------------|--------------------|
| 7.4.1 Government Bonds          | 414.5   | 12.0                         |                                   | 426.5              |
| 7.4.2 Corporate Bonds           | 944.7   | -1.2                         |                                   | 943.5              |
| 7.4.3 Structured notes          | -       | -                            | -                                 | -                  |
| 7.4.4 Collateralised securities | -       | -                            | -                                 | -                  |
| <b>Total Bonds</b>              | 1,359.2 | -                            | -                                 | 1,370.0            |

As at 31 December 2017 in €'m:

| €'m                             | FRS 101 | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II Values |
|---------------------------------|---------|------------------------------|-----------------------------------|--------------------|
| 7.4.1 Government Bonds          | 478.0   | 4.3                          | -                                 | 482.3              |
| 7.4.2 Corporate Bonds           | 862.7   | 7.5                          | -                                 | 870.2              |
| 7.4.3 Structured notes          | -       | -                            | -                                 | -                  |
| 7.4.4 Collateralised securities | 0.2     | -                            | -                                 | 0.2                |
| <b>Total Bonds</b>              | 1,340.9 | 11.8                         | -                                 | 1352.7             |

**Table 16: Table of Company bonds**

Their fair values are based on quoted bid prices on an active market. Fair values for unlisted securities, if held, are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. There is no valuation difference between FRS 101 and MVBS for bonds, but the MVBS presentation includes accrued income which has been reclassified from item 14. Receivables (trade, not insurance).

### Investment funds

Investment Funds are defined as undertakings for collective investment in transferable securities in an alternative investment fund as defined in Article 4(1) of Directive 2011/61/EU. Investment Funds mainly include stock funds, debt funds, and real estate funds. All financial assets as defined in IAS 39 are valued at fair value.

The fair value of Investment Funds of €191.5 (2017: €152.5m) is mainly determined by quoted market prices.

There is no valuation difference between FRS 101 and MVBS for Investment funds

### Derivatives

Derivatives are classified as Held for Trading (HFT) unless they have been designated as hedges. The derivatives are over the counter (OTC) and the majority are related to an executive incentive scheme with the remainder relating to FX forward contracts. The derivatives were put in place to protect against the associated liability recorded in the balance sheet. All derivatives are held at fair value in line with IAS 39. Fair values are 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. Gains and losses arising from HFT derivatives are recognised in investment return or investment charges in the profit and loss account.

There is no difference between FRS 101 and MVBS values.

### Deposits other than cash equivalents

Deposits other than cash equivalents include short-term investments measured at nominal amount as the nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles. All financial assets as defined in IAS 39 are valued at fair value.



There is no valuation difference between FRS 101 and MVBS.

### **Other investments**

Other investments are not applicable for the Company.

#### ***D.1.8 Assets held for index-linked and unit-linked funds***

Assets held for index-linked and unit-linked funds are not applicable for the Company.

#### ***D.1.9 Loans and Mortgages***

As per 31 December 2018 Allianz plc held €15.8m in Loans and Mortgages. Loans and mortgages are measured at amortized cost using the effective interest method under FRS 101 while they are measured at their fair value in the MVBS.

#### ***D.1.10 Reinsurance recoverables***

For details on reinsurance recoverable refer to the section on Non-Life Technical Provisions D.2.4 Reinsurance recoverables.

### **Non-life and health similar to non-life**

See comment above (D.1.10).

### **Life and health similar to life, excl. health/index-linked**

Life and health similar to life, excl. health/index-linked is not relevant for the Company.

### **Life index-linked and unit-linked**

Life index-linked and unit-linked is not relevant for the Company.

#### ***D.1.11 Deposits to cedants***

Deposits to cedants are not relevant for the Company.

#### ***D.1.12 Insurance and intermediaries receivables***

Insurance and intermediaries receivables include amounts due by policyholders, insurers, and others participating in the insurance business that is not included in cash inflows of technical provisions. For FRS 101 receivables from insurance and intermediaries are generally measured at their nominal amount with an adjustment for the probability of default of the counterparty. The nominal value is considered a good proxy for the fair value for Solvency II within the materiality and proportionality principles.

The difference between FRS 101 and MVBS relates to the recognition of certain premiums that are already included in receivables under FRS 101, while they are recognised within technical provisions in the MVBS. The insurance receivables under FRS 101 and MVBS can differ as the premiums are booked according to cash flows under Solvency II. On this basis, premiums written but not yet due (e.g. future payments or reinstatement premium) are not shown as receivables in the MVBS, like in FRS 101, but are included in the technical provisions.

#### ***D.1.13 Reinsurance receivables***

Reinsurance receivables include amounts due by reinsurers that are linked to the reinsurance business but that are not reinsurance recoverables. They include receivables from reinsurers that relate to settled claims of policyholders or beneficiaries, payments in relation to other than insurance events or settled insurance claims. Reinsurance receivables are generally measured at their nominal amount with an adjustment for the probability of default of the counterparty. The nominal value is considered a good proxy for the fair value within the materiality and proportionality principles. There is no difference between FRS 101 and MVBS values.

#### ***D.1.14 Receivables (trade, not insurance)***

Receivables (trade, not insurance) include amounts receivable from employees or various business partners and are not insurance-related. Receivables (trade, not insurance) are measured at nominal value with an adjustment for

probability of default for counterparty risk under FRS 101 and MVBS, unless the market value deviates materially from the adjusted nominal value. Then, the market value is used in the MVBS.

| €'m                                       | FRS 101     | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II Values |
|---|-------------|------------------------------|-----------------------------------|--------------------|
| Accrued Income                            | 10.9        | (10.9)                       |                                   | 0                  |
| Tax recoverable                           | 0.02        |                              |                                   | 0.02               |
| Other Debtors                             | 8.3         | 0.2                          |                                   | 8.5                |
| <b>Receivables (trade, not insurance)</b> | <b>19.2</b> | <b>(10.7)</b>                |                                   | <b>8.5</b>         |

**Table 17: Breakdown of Receivables**

#### **D.1.15 Own shares**

Not relevant for the Company.

#### **D.1.16 Amounts due in respect of own fund item or initial funds**

Not relevant for the Company.

#### **D.1.17 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. They are typically maturities of three months or less from the acquisition date and are subject to an insignificant risk of change in their fair value. Cash and cash equivalents are measured at nominal amount. The nominal value is considered a good proxy for the fair value within the materiality and proportionality principles.

There is no valuation difference between FRS 101 and MVBS values as the respective assets are measured at their nominal values.

#### **D.1.18 Any other assets, not elsewhere shown**

Any other assets, not shown elsewhere shown are not applicable for the Company.

## **D.2 Technical Provisions**

### **D.2.1 Technical provisions per Aggregated-LoB as of 31 December 2018**

The technical provisions are discounted using risk-free yield curves that include an uplift for the volatility adjustment of c. €4.5m at year end 2018. The following table shows the MVBS technical provisions gross of reinsurance recoverables as shown in QRT S.02.01.02:

| €'m   | FRS 101 | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II Values |
|---|---------|------------------------------|-----------------------------------|--------------------|
| <b>As at 31 December 2018</b>                             |         |                              |                                   |                    |
| 19. Technical provisions - non life                       | 1,446.3 | (124.0)                      | (52.0)                            | 1,270.3            |
| 19.1. Technical provisions - non-life (excluding health)  | 1,438.6 | (123.6)                      | (51.5)                            | 1,263.5            |
| 19.1.1 TP calculated as a whole                           |         |                              |                                   |                    |
| 19.1.2 Best Estimate                                      | 1,438.6 | (123.6)                      | (79.4)                            | 1,235.6            |
| 19.1.3 Risk margin  |         |                              | 27.9                              | 27.9               |
| 19.2. Technical provisions - health (similar to non-life) | 7.7     | (0.4)                        | (0.5)                             | 6.8                |
| 19.2.1 TP calculated as a whole                           |         |                              |                                   |                    |
| 19.2.2 Best Estimate                                      | 7.7     | (0.4)                        | (0.6)                             | 6.6                |
| 19.2.3 Risk margin  |         |                              | 0.1                               | 0.1                |

| €'m                                   | FRS 101 | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II Values |
|---------------------------------------|---------|------------------------------|-----------------------------------|--------------------|
| <b>As at 31 December 2017</b>         |         |                              |                                   |                    |
| 19. Technical provisions - non life   | 1,431.3 | (133.7)                      | (34.5)                            | 1,263.2            |
| 19.1. Technical provisions - non-life | 1,422.2 | (133.2)                      | (34.9)                            | 1,254.0            |

|   |         |         |        |         |
|---|---------|---------|--------|---------|
| (excluding health)  |         |         |        |         |
| 19.1.1 TP calculated as a whole                           | -       |         | -      | -       |
| 19.1.2 Best Estimate                                      | 1,422.2 | (133.2) | (84.9) | 1,204.0 |
| 19.1.3 Risk margin  | -       |         | 50.0   | 50.0    |
| 19.2. Technical provisions - health (similar to non-life) | 9.2     | (0.5)   | 0.4    | 9.1     |
| 19.2.1 TP calculated as a whole                           | -       |         | -      | -       |
| 19.2.2 Best Estimate                                      | 9.2     | (0.5)   | 0.2    | 8.9     |
| 19.2.3 Risk margin  |         |         | 0.1    | 0.3     |

**Table 18: MVBS technical provisions on Aggregated-LoB basis**

### ***D.2.1.2 Description of the basis for the valuation of Best Estimate Liabilities and Risk Margin***

For solvency purposes the technical provisions correspond to the current amount that the company would have to pay if it was to transfer its insurance obligations immediately to another (re)insurance undertaking. The calculation of technical provisions equals the sum of Best Estimate Liabilities and a Risk Margin, which are calculated separately. Further quantitative information can be found in Appendix H - QRT S.17.01.02.

| Line of Business                            | Gross Best Estimate Liability | Risk Margin | Recoverables from Reinsurance contracts and SPVs | Total Technical Provisions net of Recoverables |
|---|-------------------------------|-------------|--|--|
| Motor                                       | 581.4                         | 12.6        | -317.7   | 276.2  |
| Fire and other damage to property insurance | 57.5                          | 2.9         | -45.9  | 14.5   |
| General liability insurance                 | 563.5                         | 11.8        | -306.9   | 268.4  |
| Marine, aviation and transport insurance    | 4.7                           | 0.2         | -4.7   | 0.3  |
| Other                                       | 35.1                          | 0.6         | -21.8  | 13.9   |
| Total                                       | 1242.2                        | 28.1        | -697.0   | 573.3  |

**Table 19: MVBS technical provisions by LoB**

#### ***D.2.1.2.1 Best Estimate Liabilities (BEL)***

- BEL are calculated for all in-force policies at the valuation date.
- The BEL are defined as the probability-weighted average of the future cash flows, taking into account the time value of money (expected value of future cash flows), using the relevant risk-free interest rate term structure.
- The calculation of the BEL is based on up-to-date and credible information and realistic assumptions and is performed using adequate, applicable and relevant actuarial and statistical methods.
- The cash flow projection used in the calculation of the BEL takes account of all the cash inflows and cash outflows required to settle the insurance and reinsurance obligations over the lifetime thereof, including future claims, future expenses (maintenance, servicing, overhead, commission, investment management), future premiums (contracted premiums).
- BEL comprise claims provisions and premium provisions.
- The calculation is gross without deduction of the amounts recoverable from reinsurance contracts. These amounts are calculated separately.
- The claims provisions consider the full range of future events and includes low probability and extreme events (“low frequency, high severity”), i.e., latent claims and “events not in data”.
- The BEL represents the mean of the cash flows, this includes the best estimate of claims reserves including salvage and subrogation and loss adjustment expenses and the best estimates of premium provisions.
- The BEL for non-life and health (similar to non-life) insurance obligations are calculated separately for the claims provisions and for the premium provisions. Thereby, the premium provisions relate to future expected claim events covered by (re)insurance obligations falling within the contract boundary. The best estimate of the premium provision is defined as the expected present value of future in- and out-going cash flows including, e.g., 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.

- The claims provisions relates to claim events that have already occurred, regardless of whether the claims arising from these events have been reported or not. Cash flow projections for the calculation of the provisions for claims outstanding include benefits, expenses and premiums relating to these events.
- For discounting, the relevant risk-free interest rate for the term (i.e. currency specific swap-rate curve with volatility adjustment) is used.

#### ***D.2.1.2.2 Risk Margin***

The market value of liabilities is defined as the discounted best estimate liabilities plus a risk margin, representing the cost of capital to run-off the business until final settlement. Therefore, the risk margin is the cost of holding the necessary capital in excess of the BEL. In other words, at the time the balance sheet is drawn up, all contractual obligations are carried at their expected value (discounted for time value) plus the risk margin.

To calculate the cost of capital the risk profile for the underlying business is required. The Solvency Capital Requirement (SCR) is the risk capital required for one year only. Hence, the SCR for individual points of time in the future needs to be estimated. The risk margin is based on a cost of capital approach for run-off of business in scope for MVBS closing. Solvency II requires an allowance for the cost of holding non-hedgeable risk capital but no risk margin is required for hedgeable financial risks as these are 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 rate assumed is 6%, per article 39 of the Delegated Regulation.

Credit risk with respect to reinsurers is assumed to be fully hedgeable and is, therefore, excluded from the calculation of the risk margin.

Appropriate diversification benefits between Lines of Business (LoB) are reflected in the calculation of the risk margin at Company level.

#### ***D.2.1.2.3 Aspects of technical provisions***

The calculation of the technical provisions (claims provisions, premium provisions and risk margin) is done using appropriate valuation methods. This is crucial as only appropriate valuation methods ensure that the nature and complexity of the insurance risks are adequately addressed and the limitations of the methods are known. The choice between 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 the choice of 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, mainly the appropriateness of the best estimate regarding influencing factors and their variability. The key drivers and uncertainties associated with the best estimate liabilities are explored. This is done, for example, by the application of stress and scenario testing. Back-testing methods, i.e., actual versus expected values and movement analysis, are used to follow up on reserves development over time as an additional method to validate estimates.

Sometimes there are situations where an assessment needs to be done on scarce data and on information which could not be treated as reliable. Therefore, the value of technical provisions does not rely solely on models. It relies on a variety of techniques including the application of expert judgment or the assessment of a range of best estimate liabilities based on sound reasoning and business knowledge. However, even in case of scarce data the aim is to arrive at one (defined and justified) value for best estimate liabilities.

#### ***D.2.2 Uncertainty – Level of sensitivity***

An analysis of the level of sensitivity of the model is performed to gain an understanding of the volatility of the underlying business. Sensitivity testing of the model is not only limited to stochastic simulations, e.g. Bootstrapping. It also considers model uncertainty, which includes scenario testing, consideration of the result of ranges coming

from different models and back-testing to monitor the change in estimates due to additional information. Stochastic simulations are used to estimate uncertainty in future claims development based on the selected best estimate liabilities. If the internal risk model is applied, the approach that is defined under the internal model framework is followed. Allowance for model uncertainty in the valuation process produces different point estimates. This is achieved by considering the results from the application of different methods, i.e., paid, incurred or frequency/severity, because different methods credit the importance of certain information over others. Scenario testing is the variation of specific underlying assumptions within the methods, which are also used to derive a range of possible estimates. For example, scenario testing provides a good insight on the effects of inflation or events not in data on reserve estimation. Back-testing validates the choice of previous selections and highlights the limitations in the accuracy of estimates over time. If the assumptions used in the range calculations mentioned above are reasonable, the outcome might contribute to the final decision regarding the ultimate reserve levels.

The range of possible outcomes is reasonable and based on statistical modelling of past events. The level of uncertainty is clearly explained to ensure the correct use of the results. Based on this modelling, key assumptions or those with potentially material impact are monitored loosely. The analysis suggests is a 1-in-4 chance of current reserves deteriorating by €41m post quota share (2017: €30m post quota share) and a 1-in 10 chance of current reserves deteriorating by €81m post quota share (2017: €72m post quote share).

Actual versus expected analysis is done regularly to assess the reasonableness of the methodologies and parameter selections. This includes a reconciliation of the current and previous loss reserve valuations. All material deviations/differences are analysed between actual and expected experience. The same applies to changes in assumptions and methodology. These are investigated and satisfactorily explained. Expert judgment is included in the validation process.

A movement analysis is carried out between the current quarter and prior year-end. The purpose of the movement analysis is to provide an insight into the movement of reserves between two periods. The full movement reserves should reconcile to the balance sheet at the beginning and the end of the analysed period. Transparency of movements is generated by a breakdown into major contributors such as:

- payments made from reserves,
- new information relevant for reserve estimation,
- the change in judgement on reserve estimates,
- new business covered, and
- adjustments to the scope to match opening and ending reserves.

The scope of the movement analysis includes claims reserves and premium provision but not the RM.

### *D.2.3 Valuation differences between Solvency II and FRS 101*

Although the wording for the definition of best estimate under FRS 101 and Solvency II is not identical, the same theoretical concepts and calculation methods are applied in the estimation process. Judgments with regard to model selection and calibration are also identical. Events not in data under Solvency II, which are a form of scenario testing under FRS 101, are considered under both regimes.

In comparison with FRS 101, there are four additional aspects under Solvency II: Premium provisions, estimation of cash flow pattern, discounting with risk-free rates and risk margin. Separate calculations of these four individual aspects are required and shown in the Actuarial Report. This is also approved by the Actuarial Function for recording in the MVBS. The following table sets out differences between valuation for financial reporting and valuation for solvency purposes.

| €'m<br>As of 31 December 2018        | FRS 101 | MVBS  | Variance |
|--------------------------------------|---------|-------|----------|
| UPR (net of DAC) / Premium Provision | 159.0   | 6.0   | 153.0    |
| Claim Reserves / Provisions          | 557.3   | 539.2 | 18.1     |
| Risk Margin                          | -       | 28.1  | (28.1)   |
| Net Technical provisions – non-life  | 716.4   | 573.3 | 143.1    |

| €'m<br>As of 31 December 2017        | FRS 101 | MVBS  | Variance |
|--------------------------------------|---------|-------|----------|
| UPR (net of DAC) / Premium Provision | 137.0   | 1.3   | 135.7    |
| Claim Reserves / Provisions          | 537.4   | 520.8 | 16.6     |
| Risk Margin                          | -       | 50.3  | (50.3)   |
| Net Technical provisions – non-life  | 674.4   | 572.4 | 102.0    |

**Table 20: Valuation differences of technical provisions**

The differences between the best estimate technical provisions valuation for Solvency purposes and the valuation in the financial statements can be split into the following drivers:

- Premium provisions - Under SII the premium provisions are equal to a best estimate of future cashflows in respect of unexpired exposures rather than the unearned proportion of written premium (UPR). Expected profits are immediately recognised which is not the case under FRS 101 (UPR) methodology.
- Deferred acquisition costs – Under SII DAC are no longer recognised as an asset.
- Future premium – Under SII future premiums are treated as a technical provision but under FRS 101 future premiums are treated as a non-technical provision.
- There is an explicit risk margin in Solvency II allowing for the cost of capital. There is an additional qualitative reserve under FRS 101, but under Solvency II this is considered part of the best estimate and therefore included within the Technical Provisions for MVBS to provide for Events not in Data.
- The remaining difference is immaterial and related to discounting.

#### *D.2.4 Reinsurance recoverables*

| €'m<br>As at 31 December 2018                              | FRS 101 | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II Values |
|--|---------|------------------------------|-----------------------------------|--------------------|
| <b>TP calculated as a whole</b>                            |         |                              |                                   |                    |
| Best estimate  | 760.4   | (2.3)                        | (61.1)                            | 697.0              |
| <b>Technical provisions – non-life (excluding health)</b>  | 756.6   | (2.3)                        | (60.6)                            | 693.6              |
| TP calculated as a whole                                   | -       | -                            | -                                 | -                  |
| Best estimate  | 756.6   | (2.3)                        | (60.6)                            | 693.6              |
| <b>Technical provisions - health (similar to non-life)</b> | 3.8     | 0.0                          | (0.5)                             | 3.4                |
| <b>Technical provisions – non-life</b>                     | 760.4   | (2.3)                        | (61.1)                            | 697.0              |

| €'m<br>As at 31 December 2017                              | FRS 101 | Reclassification Adjustments | Solvency II Valuation Adjustments | Solvency II Values |
|--|---------|------------------------------|-----------------------------------|--------------------|
| <b>TP calculated as a whole</b>                            |         |                              |                                   |                    |
| Best estimate  | 756.9   | (5.3)                        | (60.8)                            | 690.8              |
| <b>Technical provisions – non-life (excluding health)</b>  | 752.3   | (5.3)                        | (60.6)                            | 686.4              |
| TP calculated as a whole                                   | -       | -                            | -                                 | -                  |
| Best estimate  | 752.3   | (5.3)                        | (60.6)                            | 686.4              |
| <b>Technical provisions - health (similar to non-life)</b> | 4.6     | 0.0                          | (0.2)                             | 4.4                |
| <b>Technical provisions – non-life</b>                     | 756.9   | (5.3)                        | (60.8)                            | 690.8              |

**Table 21: Non-life – Reinsurance recoverables according to MVBS**

The amounts recoverable from reinsurance contracts are calculated consistently with the boundaries of the underlying insurance or reinsurance contracts to which they relate.

The calculation of reinsurance recoverables is based on the best estimate for the recoverable. No risk margin is reported in the section of the reinsurance recoverable as the risk margin recognised within the technical provisions is already net of reinsurance. In addition, a credit default adjustment (CDA) is calculated.

The time difference between recoveries and direct payments is taken into account when calculating the reinsurance recoverables. For the purpose of calculating the amounts recoverable from reinsurance contracts, the cash-flows shall only include payments in relation to compensation of insurance events and unsettled insurance claims.

Cash in-flows include at least:

- recoverables from reinsurance contracts and recoverables for related expenses, and
- reinsurance commission and profit participation as specified in individual reinsurance contracts.

Cash out-flows include at least:

- future premiums / adjustment premiums for reinsurance contracts , and
- interest on reinsurance deposits.

The result from the calculation of reinsurance recoverables is adjusted to take into account the CDA, i.e. the expected losses due to default of the counterparty as a result of insolvency or a dispute. This adjustment shall be based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default).

## ***D.2.5 Actuarial methodologies and assumptions***

### ***D.2.5.1 Proportionality***

The Actuarial Function ensures that the technical provisions are determined by using data, assumptions and methods that are proportionate to the risk profile of the Company, taking into account the nature, scale and complexity of the risks. The principle of proportionality means that the Company is allowed to choose and apply a valuation method which is:

- suitable to achieve the objective of deriving BEL, but
- not more sophisticated than is needed in order to reach this objective.

This does not mean size is the only relevant factor when the principle of proportionality is considered. Instead, the Company's risk profile is the primary guide in assessing the need to apply the proportionality principle.

### ***D.2.5.2 Materiality***

Each Actuarial Function review establishes a level of materiality concept appropriate for reserving and consistent for the purposes of using it under FRS 101 and in the MVBS. This enables informed decisions on each aspect of the reserving process in assessing the potential for a material misstatement of technical provisions. Levels of materiality are different from Company to Company and at OE or Group level and are relative to the scale and complexity of the underlying business.

### ***D.2.5.3 Risk Margin (RM)***

The RM is calculated on the basis of the formula provided by EIOPA (Articles 37 - 39 of the Delegated Regulation), where it is defined as the cost of capital rate times the sum of discounted Solvency Capital Requirements (SCR) using the risk-free rate for the respective maturity. The Company calculates the SCR using the Allianz internal model. Diversification between lines of business is taken into account. The required cost of capital rate for the RM calculation is based on the EIOPA prescribed rate of 6%.



#### **D.2.5.4 Simplifications**

##### **D.2.5.4.1 Expert judgment**

Valuation of technical provisions is a process which requires expert judgment in a number of areas, for example, regarding the credibility assigned to historical data, the extent to which reliance should be placed on prospective models and the requirement to consider uncertainty in the estimation. Regardless of the technique, judgment is required in making additions or adjustments to the estimates to allow for circumstances not included in the history that need to be incorporated in the BEL (for example events not in data). Hence, expert judgment is not dissociated from any task performed by the Actuarial Function. Its role is expressed in complementing the statistical analysis performed, in the interpretation of the results and in the identification of a solution in the presence of shortcomings. As part of the analysis, the actuary shows the appropriateness of the expert judgment to avoid biased estimates that either over- or underestimate the true underlying risk. However, expert judgment is not applied in isolation unless there is no reliable alternative, for example because of a scarcity of relevant data. Where an assumption depends on expert judgment, this shall be applied by person(s) with the relevant knowledge, understanding and comprehension of the subject.

##### **D.2.5.4.2 Counterparty default adjustment**

Article 42 of the Delegated Regulation specifies that *“Adjustments to take account of expected losses due to default of a counterparty....shall be calculated separately from the rest of the amounts recoverable”*. In our calculation, we are considering the risk-mitigating effect of reinsurance even though the risk of the counterparties’ default remains. This is considered separately and an adjustment is made to the reinsurance recoveries accordingly. Based on the former calculation, the Counterparty default adjustment is small compared to the amount of ceded reserves. Taking proportionality and materiality into consideration, the following simplifications (not material) are used with regard to the granularity of the calculation:

- Although, the Counterparty default adjustment needs to be calculated based on the discounted best estimate liabilities, the simplification is to calculate the nominal best estimate without discounting, depending on the size of the Counterparty default adjustment. This approach is then considered to be conservative in a normal interest rate environment.
- It is usually necessary to perform the calculation by counterparties, reserving segments and accident years. However, simplification can be applied by calculating on an aggregated level, e.g. by counterparties with the same probability of default, segments or accident years can be combined in one calculation. If an aggregated amount is calculated, it can be split into the appropriate segments at a later stage to meet reporting requirements.

##### **D.2.5.5 Methods**

The methods used are appropriate for the nature and complexity of the risks. Some aspects (but not limited to) that are considered are as follow:

- the type of business being valued,
- the maturity of the business,
- the Company’s environment,
- relevant industry practice, and
- the particular circumstances of the Company

In the analysis of the claim experience, the following aspects (but not limited to) are considered:

- claim frequency,
- claim severity,
- pattern of claim occurrence (or seasonality),
- development of reporting of claims,
- development of claim settlement or finalisation,



- development of claim payments,
- development of incurred losses,
- incidence and development of large claims, and
- the potential impact of catastrophes.

Diagnostics are also used to help identify potential trends and/or anomalies in the data:

- closed claim count/reported claim count,
- paid loss/incurred loss,
- paid loss/closed claim count,
- incurred loss/reported claim count,
- outstanding case reserves/open claim count,
- incurred loss/earned premium,
- residual plots (a comparison of actual data values versus predicted data values), and
- average premium rates.

#### *D.2.5.6 Estimation in special cases*

The section above might not be applicable for special types of business or claims where standard methods are not appropriate. Hence, alternative methodologies tailored to the individual characteristics are considered. When such alternative methodologies are employed, the rationale for the selected approach, methodology, potential validation and back testing are documented. Events not in data and qualitative adjustments are examples where such documentation is requested.

In the following sections some unique characteristics of the special types of business/claims are explained:

##### *D.2.5.6.1 Asbestos and other latent claims*

Due to the long latency of asbestos claims, methods projecting the future cost of claims based on the triangulation of reported claims and claim payments to date do not yield reasonable results. There are a number of different methodologies that are common to model this claim type including exposure based models and industry aggregate claims models.

##### *D.2.5.6.2 Discounting and cash flow of technical provisions*

To evaluate the market value of technical provisions, cash flow patterns, discounted loss and premium provisions and risk margins have to be calculated. The estimates of technical provisions for the MVBS and best estimate used in the risk capital model have to be consistent. Therefore, identical cash flow patterns and risk-free yield curves are used. For cash flow projections the in-coming and out-going cash flows (including expenses) required to settle the insurance obligations have to be considered. It is necessary to consider the currency of the cash flows unless the concept of proportionality applies. If benchmarks for cash flow patterns are used, the time lags in the patterns between direct, assumed and ceded (especially non-proportional) business are taken into account. The estimate of a market value requires discounting. For discounting the relevant interest rate for the term is used. To avoid inconsistencies, the yield curves (floored) are taken from one single source.

The unwinding of discount is considered. As discounting is applied to future cash payments to arrive at a present value for the technical provisions, it becomes necessary to unwind that discount for each successive period to arrive at the undiscounted value at the date of payment.

The table below shows the impact of the Volatility Adjustment (VA) on the TPs, Own Funds, SCR and MCR of the Company as at year-end 2018. Please refer to QRT 22.01.21 for further details.

| YE (€m)                      | 2018<br>Base Value | 2018<br>Impact of Zero VA | 2017<br>Base Value | 2017<br>Impact of Zero VA |
|------------------------------|--------------------|---------------------------|--------------------|---------------------------|
| Technical Provisions         | 1,270.2            | 9.2                       | 1145.4             | 1.6                       |
| Own Funds                    | 339.2              | (8.1)                     | 337.3              | (1.2)                     |
| Solvency Capital Requirement | 207.9              | 8.2                       | 242.5              | 4.6                       |
| Minimum Capital Requirement  | 77.4               | 0.4                       | 70.7               | 0.1                       |

**Table 22: Impact of the Volatility Adjustment**

The Company applies the VA according to Article 77d of the Solvency II Directive 2009/138/EC. A reduction of the VA to zero would still result in a coverage ratio in excess of the Board-approved risk appetite amber threshold of 127%.

### D.3 Other Liabilities

| D.3 Other liabilities  | FRS 101 | Reclassification<br>adjustments | Solvency II<br>valuation<br>adjustments | Solvency II |
|--|---------|---------------------------------|---|-------------|
| 23. Contingent liabilities   |         |                                 |   |             |
| 24. Provisions other than technical provisions                         | 0.9     | 3.3                             |   | 4.2         |
| 25. Pension benefit obligations  |         |                                 |   |             |
| 26. Deposits from reinsurers   | 656.0   | 0.0                             | 4.5                                     | 660.5       |
| 27. Deferred tax liabilities   | 3.9     | -3.9                            |   | 0.0         |
| 28. Derivatives  |         |                                 |   | 0.0         |
| 29. Debts owed to credit institutions                                  |         |                                 |   |             |
| 30. Financial liabilities other than debts owed to credit institutions | 4.5     |                                 |   | 4.5         |
| 31. Insurance and intermediaries payables                              | 16.9    | -12.0                           |   | 4.9         |
| 32. Reinsurance payables   | 15.1    | -2.3                            | -1.2                                    | 11.7        |
| 33. Payables (trade, not insurance)                                    | 7.4     |                                 | -3.2                                    | 4.2         |
| 34. Subordinated liabilities   |         |                                 |   |             |
| 34.1. Subordinated liabilities not in BOF                              |         |                                 |   |             |
| 34.2. Subordinated liabilities in BOF                                  |         |                                 |   |             |
| 35. Any other liabilities, not elsewhere shown                         | 38.7    | -3.3                            |   | 35.5        |
| Total other liabilities  | 743.6   | -18.2                           | 0.1                                     | 725.4       |

**Table 23: Comparison of MVBS and FRS 101 balance sheet – Liabilities**

The total liabilities per FRS101 above do not agree to the financial statements total of €777m, owing to €33m of liabilities being netted off against assets shown in table 12.

#### D.3.1 Contingent liabilities

The Company does not have any current contingent liabilities. Contingent liabilities are measured at the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability using the basic risk-free interest rate term structure. Under FRS 101, contingent liabilities are not recognised in the balance sheet but are disclosed with their best estimate in the notes according to IAS 37. Contingent liabilities are recognised in the MVBS if they are material.

#### D.3.2 Provisions other than technical provisions

These provisions refer to liabilities of uncertain timing and amount. They include, e.g., staff-related provisions, provisions for stock-based compensation, and provisions for legal expenses. The provisions are valued at nominal value and this is considered to be a good proxy for fair value. Although there are no material differences between FRS 101 and MVBS values there is a reclassification between the 'Provisions other than technical provisions' and the 'Any other liabilities, not elsewhere shown' lines.

#### D.3.3 Deposits from reinsurers

Deposits received from reinsurers represent the collateral contractually withheld by the Company from its reinsurers and represents their share of the Companies technical liabilities. For FRS 101 these deposits are measured at their

repayment amount. For MVBS the deposits are revalued to their market value. A valuation difference is noted for Solvency II due to the contract terms of the underlying reinsurance agreement.

#### ***D.3.4 Deferred tax liabilities***

Deferred tax liabilities (DTL) are the amounts of corporation tax payable in future periods with respect to taxable temporary differences.

The net DTL is nil after offsetting to DTA. Refer to Section D.1.4.

#### ***D.3.5 Derivatives***

Derivatives are financial instruments that have values based on the expected future price movements of the assets to which they are linked. Derivatives with negative values are reported on the liability side. Derivatives are measured at fair value according to IAS 39 without taking into account adjustments for own credit standing. There is no liability for derivatives in FRS 101 or MVBS. Refer to Section D.1.7 for the derivative classified as an asset.

#### ***D.3.6 Debts owed to credit institutions***

Debts owed to credit institutions are liabilities to banks, the carrying amount is considered to be a reasonable estimate of the fair value.

There are no debts owed to credit institutions as at 31 December 2018.

#### ***D.3.7 Financial liabilities other than debts owed to credit institutions***

Financial liabilities other than debts owed to credit institutions as defined in FRS 26 (IAS 39) are valued at fair value.

#### ***D.3.8 Insurance and intermediaries payables***

Insurance and intermediaries payables refer to amounts due to policyholders, insurers and others participating in the insurance business, but are not technical provisions. They include amounts past-due to (re)insurance intermediaries (e.g. commissions due to intermediaries but not yet paid) and excludes loans and mortgages due to insurance companies, if they are not linked to insurance business but are only related to financing (and are, therefore, included in financial liabilities). They are generally measured at their nominal amount, without taking account of subsequent changes to own credit standing. The nominal value is considered a good proxy for the fair value within the materiality and proportionality principles.

The difference relates to the recognition of commissions that are already included in the payables under FRS 101 while they are recognised within technical provisions in the MVBS.

#### ***D.3.9 Reinsurance payables***

Reinsurance payables are amounts payable, due to reinsurers other than deposits that are linked to the reinsurance business, but that are not included in reinsurance recoverables. They include payables to reinsurers that relate to ceded premiums. They are measured at their nominal amount without taking account of subsequent changes to own credit standing. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

Reinsurance payables are measured at the amount due, which represents the amount expected to be paid. As these are liabilities there is no allowance made for own credit standing.

The difference mainly relates to the recognition of certain premiums that are already included in the payables under FRS 101 while they are recognised within technical provisions in the MVBS.

#### ***D.3.10 Payables (trade, not insurance)***

Payables (trade, not insurance) include the total amount of trade payables, including amounts due to employees, suppliers, etc. and are not insurance-related. Payables are generally recognised with their settlement amount under

FRS 101 which is also considered to be the market value. There is a revaluation difference between FRS 101 and MVBS relating to the write off of deferred income.

#### ***D.3.11 Subordinated liabilities***

Subordinated liabilities are not applicable to the Company.

#### ***D.3.12 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 are generally measured at their nominal amount, without taking account of subsequent changes to own credit standing. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

There is no difference between FRS 101 and MVBS aside from the reclassification between the 'Any other liabilities, not elsewhere shown' and the 'Provisions other than technical provisions' lines.

### **D.4 Alternative methods for valuation**

Information on alternative methods for valuation is provided under the description of the MVBS line items respectively.

### **D.5 Any other information**

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

## E. Capital Management

### E.1 Own funds

#### E.1.1 Objectives, policies and process for managing own funds

Capital is a key resource for the Company and is used to support the business in achieving its corporate objectives. It is a key part in determining the Company's risk strategy and defining the risk appetite regarding risk bearing capacity of the business. The Company Capital Management policy describes the set of activities undertaken by the Company to ensure that appropriate capitalisation is maintained to achieve the corporate objectives.

The Board bears the overall responsibility for capital management and is responsible for the Capital Management Policy and the related Risk Appetite Framework.

Any capital repatriation recommendations (e.g. dividends) are proposed by management to the Board of Directors within the framework set out within the Company's Capital Management Policy. The Board of Directors has the final say on any capital repatriation decisions.

The current liquidity plan and solvency projections reflect all planned changes in own funds for the next 3 years. 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.

#### E.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), share premium related to ordinary share capital, surplus funds and the reconciliation reserve are classified as Tier 1 unrestricted Own Funds, the amount equal to the value of net deferred tax assets is classified as Tier 3 Own Funds as detailed in QRT S.23.01.01.

The Basic Own Funds amount to €339.3m (2017: €337.4m) and consist of €335.1m (2017: €329m) Tier 1 unrestricted Own Funds and €4.1m (2017: €8.4m) Tier 3 Own Funds. Tier 1 unrestricted Own Funds relate to fully paid in share capital of €31.3m (2017: €31.3m) along with share premium of €0.5m (2017: 0.5m), the Reconciliation Reserve amounting to €293m (2017: €286.8m) and Other Own Fund items approved by supervisory authority as Basic Own Funds of €10.4m. Tier 3 Basic Own Funds relate to an amount equal to the value of net deferred tax assets.

The Company holds no ancillary own funds. The Reconciliation Reserve consists of retained earnings. There are no items deducted from Own Funds and no restrictions affecting the availability and transferability of same. The amount of Basic Own Funds that is eligible to cover the SCR is €339.3m (2017: €337.4) and €335.1m (2017: €329m) for the MCR. The following table provides details with regard to the individual Basic Own Funds items and the respective classification into tiers as shown below

| In €'m as at 31 Dec 2018  | Total        | Tier 1 unrestricted | Tier 2 | Tier 3     |
|---|--------------|---------------------|--------|------------|
| Ordinary share capital (gross of own shares)  | 31.3         | 31.3                | -      | -          |
| Share premium account related to ordinary share capital   | 0.5          | 0.5                 | -      | -          |
| Reconciliation Reserve (solo)   | 293.0        | 293.0               | -      | -          |
| An amount equal to the value of net deferred tax assets   | 4.1          | -                   | -      | 4.1        |
| Other Own Fund items approved by the supervisory authority as basic own funds not specified above | 10.4         | 10.4                | -      | -          |
| <b>Total Basic Own Funds after adjustments (solo)</b>   | <b>339.3</b> | <b>335.1</b>        | -      | <b>4.1</b> |

| In €'m as at 31 Dec 2017  | Total | Tier 1<br>unrestricted | Tier 2 | Tier 3 |
|---|-------|------------------------|--------|--------|
| Ordinary share capital (gross of own shares)  | 31.3  | 31.3                   | -      | -      |
| Share premium account related to ordinary share capital   | 0.5   | 0.5                    | -      | -      |
| Reconciliation Reserve (solo)   | 286.8 | 286.8                  | -      | -      |
| An amount equal to the value of net deferred tax assets   | 8.4   | -                      | -      | 8.4    |
| Other Own Fund items approved by the supervisory authority as basic own funds not specified above | 10.4  | 10.4                   | -      | -      |
| Total Basic Own Funds after adjustments (solo)  | 337.4 | 329.0                  | -      | 8.4    |

**Table 24: Classification of 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 Directive 2009/138/EC.

### ***E.1.3 Reconciliation between FRS 101 (Statutory accounts) and MVBS excess assets over liabilities***

The €37m difference between FRS101 equity and MVBS Own Funds is attributable to four key items:

1. FRS 101 balance sheet items that are not recognised in the MVBS (e.g. DAC) and MVBS items that are not recognised in FRS 101 (e.g. risk margin and discounting).
2. Revaluation to fair value of assets and liabilities that are valued at amortised cost under FRS 101 (such as tangible assets).
3. Differences in recognition and valuation of technical provisions, reinsurance recoverables and deposits from reinsurers.
4. Deferred taxes on the above mentioned balance sheet differences.
5. Foreseeable dividend.

The following table reconciles the FRS 101 equity to MVBS Own Funds.

| As at 31 December 2018                 | €'m 2018 | €'m 2018 | €'m 2017 | €'m 2017 |
|--|----------|----------|----------|----------|
| <b>FRS 101 Equity</b>                  |          | 396.4    |          | 375.4    |
| Gross Deferred Acquisition Costs       | (48.00)  |          | (51.4)   |          |
| Reinsurance Deferred Acquisition Costs | 33.40    |          | 37.1     |          |
| <b>Net Deferred Acquisition Costs</b>  |          | (14.6)   |          | (14.3)   |
| Deposits from reinsurers               |          | (4.5)    |          | (1.0)    |
| Gross Technical Provisions             | 80.0     |          | 84.7     |          |
| Reinsurance Technical Provisions       | (59.9)   |          | (60.8)   |          |
| <b>Net Technical Provisions</b>        |          | 20.10    |          | 23.9     |
| Risk Margin                            |          | (28.0)   |          | (50.3)   |
| Other Asset Revaluations               | (7.2)    |          | (5.3)    |          |
| Other Liability Revaluations           | 3.0      |          | 3.5      |          |
| <b>Total Revaluations</b>              |          | (4.2)    |          | (1.9)    |
| Deferred Tax                           |          | 4.0      |          | 5.4      |
| <b>Forseeable Dividend</b>             |          | (30.0)   |          |          |
| <b>MVBS Own Funds</b>                  |          | 339.2    |          | 337.3    |

**Table 25: Reconciliation FRS 101 to MVBS**

The line-by-line description of the differences between FRS 101 and MVBS can be found in Section D of this report.

## **E.2 Solvency Capital Requirement and Minimum Capital Requirement**

### ***E.2.1 Determination of SCR and MCR***

When determining the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR), the Company uses results derived from the Allianz Internal Model.

### E.2.2 Values of the SCR and MCR

The SCR at the 31<sup>st</sup> of December 2018 amounts to €208m, and the MCR amounts to €77m. A split of the SCR by the different risk categories modelled by the internal model is shown in the following table:

| <b>Risk Category</b>                      | <b>SCR at 31/12/2018<br/>in EUR (€m)</b> | <b>SCR at 31/12/2017<br/>in EUR (€m)</b> |
|---|--|--|
| Market Risk                               | 168                                      | 175                                      |
| Insurance Risk                            | 202                                      | 235                                      |
| Longevity Risk                            | 26                                       | 53                                       |
| Business Risk                             | 9  | 7  |
| Credit Risk                               | 36                                       | 35                                       |
| Operational Risk                          | 27                                       | 22                                       |
| <b>Sum of standalone risks</b>            | <b>468</b>                               | <b>527</b>                               |
| Diversification impact                    | (257)                                    | (281)                                    |
| Loss absorbing capacity of deferred taxes | (3)                                      | (4)                                      |
| <b>SCR</b>                                | <b>208</b>                               | <b>243</b>                               |

Table 26: SCR split by risk category

While the SCR in Table 26 above is consistent with QRT S.25.03.21, please note that there are differences in the levels of risk capital within each risk category and the diversification benefit. This is due to the fact that Table 26 is based on standalone risk capital whereas QRT S.25.03.21 applies diversification within each risk category, e.g. it allows for diversification between the various types of market risk. Also, Table 26 presents longevity risk explicitly whereas it is integrated into Underwriting Risk in QRT S.25.03.21.

### E.2.3 Inputs used for the MCR calculation

The calculation of the MCR which can be seen in QRT S.28.01.01 and follows the methodology described in the Solvency II regulation using, for example, the SCR as an input parameter for determining the possible range for the MCR. Accordingly, the changes in the MCR are explained by reference to the analysis of the SCR movements.

### E.2.4 Material Changes to the SCR or MCR over the reporting period

The SCR decreased from €243m at YE 2017 to €208m at YE 2018. The main drivers of this reduction were the impact of the annual insurance risk calibration update and the increased benefit from restricting pension surplus in the SCR calculation (arising from a c€37m increase in the level of base pension surplus during 2018). The MCR has increased from 2017 primarily due to increased technical provisions.

## E.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.

## E.4 Differences between the standard formula and the internal model

### Internal Model Uses

The key areas in which the Internal Model is used within the Company are as follows:

- Calculation of SCR
- ORSA
- Business planning

- Monitoring and control of risk
- Decision-making.

These Internal Model uses and supporting analyses are reported to the relevant committees and senior management and, where appropriate, the Board. Senior management and the Board have sufficient familiarity with the Internal Model to challenge its outputs and ensure its ongoing appropriateness for use within the business. It is a fundamental element for risk based and forward-looking steering. Moreover, by using an internal model, the calculated risk capital better reflects the underlying business and is more appropriate compared to the standard formula approach of Solvency II. This section first describes the scope of the internal model and the underlying methodology followed by the methods used for the aggregation of risk categories and concluded by an overview of the differences between the internal model and the standard formula.

#### E.4.1 Scope of the internal model

The Internal Model covers all risk categories reflecting the Company’s risk profile which are deemed quantifiable under Solvency II; it is in this respect, therefore, a full Internal Model. The pie charts below show how total standalone risk capital at year-end 2018 is sub-divided between the different risk categories:

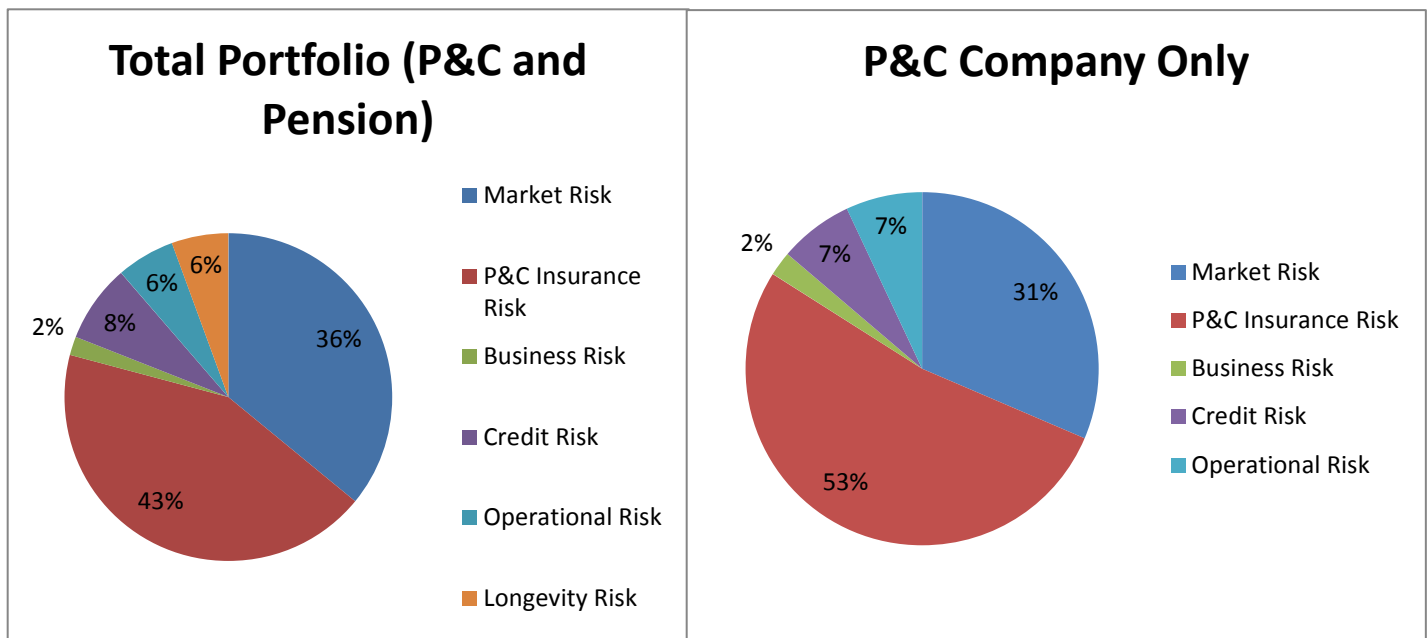


Table 27: Risk categories

As may be seen from the above, P&C insurance risk is the most significant risk category at year-end 2018, contributing 43% to the sum of standalone risk capital. At 36%, market risk is the second most significant risk category, with credit risk contributing 8% to the sum of standalone risk capital.

The following table provides an overview of the diversified risk capital (Solvency Capital Requirement, or “SCR”), own funds and solvency coverage ratio of the Company at year-ends 2017 and 2018:

| €'m            | YE 2018 | YE 2017 |
|----------------|---------|---------|
| SCR            | 208     | 243     |
| Own Funds      | 339     | 337     |
| Coverage Ratio | 163%    | 139%    |

Table 28: Overview of diversified risk capital

The Board-approved risk appetite framework requires the Company to maintain a solvency coverage ratio above the risk appetite “amber” threshold of 127%; hence, the risk appetite coverage metric was green at both year-ends 2017



and 2018. The risk appetite metrics provide an early warning in relation to events that could threaten the ability of the Company to meet its corporate objectives and are reported to the Board on a quarterly basis. They also define a range of limits covering all risk categories, and any breaches of these limits require a remediation plan which must be approved by the RiCo. No material risk has been transferred to special purpose vehicles and the Company has no material exposure arising from off-balance sheet positions.

Risk categories covered by the internal model are presented and explained in Section C.

#### ***E.4.2 Methodology underlying the internal model***

Our internal risk capital model is based on a Value-at-Risk (VaR) approach using a Monte Carlo simulation. The starting point of the risk calculation is the market value balance sheet and the attribution of each position to the relevant risk categories. A bond, for example, will be contained in the respective market risk categories like interest rate, credit spread or currency risk as well as the credit risk category. Risk capital is defined as the change in economic value over the projected time period based on the underlying distribution assumptions for each risk factor. Where possible, the distributions are calibrated to market data or our own internal historical data e.g. for setting actuarial assumptions. In addition we consider recommendations from the insurance industry, supervisory authorities and actuarial associations.

Following this approach, we determine the maximum loss in the portfolio value of our businesses in the scope of the model within a specified timeframe (“holding period”) and probability of occurrence (“confidence level”). The risk capital is computed as the 99.5%-VAR from the profit and loss distribution for a one year holding period, where in each scenario the change in economic value is derived from the joint realisation of all risk factors. This 1-in-200 year event is modelled as an instantaneous loss shock for all balance sheet positions.

The internal model contains different risk categories, which can themselves be further subdivided into different risk types.

For each level, the internal model delivers risk figures on a standalone basis i.e. before diversification to other risk types or categories but also on an aggregated level taking diversification into account (see Section E.4.3 Aggregation of Risks). A more detailed description of each risk category can be found in Section C.

#### ***E.4.3 Aggregation of Risks***

For the aggregation of risks we use an industry-standard approach, the Gaussian copula approach. The dependence structure between risks of the copula is given by a matrix of correlations. Where possible, we derive correlation parameters for each pair of market risks 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, Group-wide process. Correlations are determined by the Correlation Settings Committee, which combines the expertise of risk and business experts. In general, we set the correlation parameters to represent the joint movement of risks under adverse conditions.

To calculate the diversified risk capital, the change in economic value is determined for the 1-in-200 year event based on the joint realisation of risks based on the methodology described in the previous section.

#### ***E.4.4 Main differences per risk module between the internal model and the standard formula***

A fundamental difference between the standard formula and internal model is that the standard formula uses factor-based shocks while the internal model derives the risk capital on the basis of simulating each risk driver (and its corresponding economic P&L impact) based on its assumed distribution and dependency to other risk drivers.

The following table provides an overview of differences between the standard formula and internal model by risk module:

| Risk Module   | Standard Formula<br>(factor based approach)  | Internal Model<br>(stochastic simulation)   |
|---------------|--|---|
| Equity        | <p>Three standardised equity shocks, depending on classification of equity investments</p> <ul style="list-style-type: none"> <li>▪ 39% for equities listed in countries that are members of EEA or OECD (type 1)</li> <li>▪ 49% for remaining equity-type investments, commodities, and alternative investments (type 2)</li> <li>▪ Symmetric adjustment is applied to 39% and 49%, base shocks, depending on the relation between the current and the average historic market level. For qualifying infrastructure equity investments only 77% of the symmetric adjustment is applied.</li> <li>▪ Aggregation of equity shocks based on simplified correlation assumption of 0.75</li> </ul> | <p>Underlying distribution for each equity risk factor modeled is calibrated to market data</p> <ul style="list-style-type: none"> <li>▪ 35% - 74% for modelled indices</li> <li>▪ 10% - 80% for private equity, depending on risk classification</li> <li>▪ Aggregation is based on correlations between different risk factors calibrated to market data</li> </ul> |
| Interest rate | <ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ Worst shock determines capital requirement</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Underlying distributions of interest-rate term nodes are calibrated to market data for each interest rate curve modeled</li> <li>▪ Various changes in the yield curve considered, such as twists</li> </ul>  |
| Property      | <ul style="list-style-type: none"> <li>▪ 25% for all properties</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Country/sector-specific real-estate indices with shocks ranging from 19% - 33%</li> </ul>  |

|                      |  |  |
|----------------------|--|--|
| <b>Spread</b>        | <p>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.</p> <ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ 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.</li> </ul> | <p>Modeling of various spreads differentiated by, e.g., sector, rating, country/region. The underlying distribution of each spread modeled is calibrated to market data. Main differences:</p> <ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ 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%</li> <li>▪ Aggregation based on correlations between modelled spreads, calibrated to market data.</li> </ul> |
| <b>Currency</b>      | <ul style="list-style-type: none"> <li>▪ +/- 25% for each currency, except for currencies pegged to the EUR</li> <li>▪ Worst-case scenario is selected for each currency</li> <li>▪ No diversification/netting of cross currencies</li> </ul>  | <ul style="list-style-type: none"> <li>▪ -19% - 34% for different currencies vs. EUR</li> </ul>  |
| <b>Concentration</b> | <ul style="list-style-type: none"> <li>▪ Formula based on exposure, rating, and total assets held</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Implicitly covered in the credit risk models and via diversification in market risk modules</li> </ul>  |

|   |                                 |   |  |
|---|---------------------------------|---|--|
| <b>Credit risk / counterparty default risk</b>                                    |                                 | <p>Scope: Limited to specific exposure types</p> <ul style="list-style-type: none"> <li>▪ Type 1: Mainly reinsurance arrangements, derivatives, cash at bank, deposits with ceding undertakings, and commitments</li> <li>▪ Type 2: Mainly receivables, policyholder debtors, retail mortgage loans</li> <li>▪ Counterparty default risk module does not contain bond portfolio and credit insurance</li> <li>▪ Methodology: Closed-formula approach to determine, for exposures in scope of the module, possible losses resulting from unexpected counterparty default</li> <li>▪ Parameters: Assigned according to Delegated Regulation (e.g. PDs, LGDs). PDs predominantly based on ratings from external rating agencies</li> </ul> | <ul style="list-style-type: none"> <li>▪ Scope: Much broader scope including <ul style="list-style-type: none"> <li>▪ Investment portfolio: Fixed-income investments (e.g. bonds, loans, mortgages), cash positions, derivatives, securities lending and structured transactions, receivables, off-balance guarantees, and commitments</li> <li>▪ Reinsurance exposures</li> <li>▪ Credit insurance exposures</li> </ul> </li> <li>▪ 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</li> <li>▪ Parameters: Mostly estimated using empirical market data over a long-term horizon (e.g. PDs, LGDs). Ratings derived via an internal rating approach based on agency ratings enhanced by an internal assessment</li> </ul> |
| <b>Underwriting risk life and health</b>  |                                 | <ul style="list-style-type: none"> <li>▪ Longevity risk: Not included in the standard formula</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Longevity risk: Modified Lee-Carter model</li> </ul>  |
| <b>Underwriting risk for non-life &amp; health (not similar to life technics)</b> | <b>Premium and reserve risk</b> | <p>In the standard formula, a factor-based approach is used to estimate the combined premium and reserve risk:</p> <ul style="list-style-type: none"> <li>▪ Standard volatility factors (market averages) by SII line of business are applied to different volume measures, such as net earned premiums and net claim reserves</li> <li>▪ In a linear correlation approach, values are aggregated over lines of business and risk modules using pre-defined correlations</li> <li>▪ Different submodules for Non-life and Health NSLT SII lines of business</li> <li>▪ Allowance for geographical diversification based on 18 regions</li> </ul>  | <p>In the Internal model, premium NonCat and reserve risk is modeled individually:</p> <ul style="list-style-type: none"> <li>▪ Actuarial models are fitted to local company-specific data, leading to a much better reflection of a company's individual risk profile</li> <li>▪ Standard actuarial techniques such as frequency /severity modeling and bootstrapping are used</li> <li>▪ The granularity of the modelling is more detailed than SII line of business and in line with the risk profile observed in the companies</li> <li>▪ Reinsurance application for premium risk is much more advanced in the internal model, as single large losses are modeled separately and non-proportional reinsurance contracts can be applied</li> <li>▪ The aggregation method used is based on a Gaussian copula.</li> </ul>   |

|                                       |  |  |   |
|---------------------------------------|--|--|---|
|                                       | <b>Catastrophe Risk</b>  | <ul style="list-style-type: none"> <li>▪ Catastrophe risk is split in 4 modules: Natural Catastrophe, Non-proportional property reinsurance, Man Made, Other</li> <li>▪ Standardised shock scenarios are applied as specified by the delegated Acts</li> <li>▪ 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)</li> </ul> | <ul style="list-style-type: none"> <li>▪ Natural Catastrophe risk is based on probabilistic models, which use special modeling 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</li> <li>▪ Man-made risk is modeled together with Premium NonCat risk</li> <li>▪ Reinsurance can be reflected, e.g. single event losses are simulated and mitigated with the respective reinsurance arrangement, if applicable</li> </ul> |
|                                       | <b>Business risk</b>   | Only lapse risk is considered with focus on deterioration of future earnings   | Both the lapse and the cost risk are explicitly modelled with a focus on cost coverage  |
| <b>Loss absorbing capacity of tax</b> | 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 carryback capacity. Within the IM framework, a separate tax rate for equities is considered in addition to the corporate tax rate  |   |
| <b>Intangible asset risk</b>          | 80% of intangible assets recognised  | Intangible asset risk is not covered by the internal model   |   |
| <b>Operational Risk</b>               | <ul style="list-style-type: none"> <li>▪ Factor-based approach based on earned premium amount and technical provisions</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Scenario-based risk modeling approach</li> <li>▪ Risk identification within each entity</li> <li>▪ Aggregation of operational risks based on loss frequency and loss severity distributions</li> </ul>  |   |
| <b>Aggregation</b>                    | <ul style="list-style-type: none"> <li>▪ Simple correlation approach with pre-defined correlations between risk modules</li> </ul>   | <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ Aggregation model (Copula Approach)</li> </ul>   |   |

**Table 29: Overview of differences between the standard formula and internal model**

For underwriting risk Non-Life, the difference with respect to the risks covered by the internal model compared to the standard formula is very limited. The main categories are reflected in both models, and there is no material risk covered by the standard formula that is not covered by the internal model.

In the standard formula, the mandatory Fire Cat scenario requires the maximum concentration of property risk within a 200m radius to be assessed on a sums insured basis. This is considered by the Company to be far more remote than a 1-in-200 year scenario, as a man-made catastrophe event would have to occur in the exact area that our concentrations are based and cause a complete loss to all properties. The Company is satisfied that the Internal Model gives an appropriate reflection of fire catastrophe losses, and to its risk profile as a whole.

The credit risk module of the internal model, in contrast to the counterparty default risk module of the standard formula, covers the entire bond and loan portfolio and also credit insurance exposures. This approach allows us to model diversification and concentration effects across all credit risk-bearing exposures.

The market risk module of the internal model strongly benefits from diversification benefits within and across sub-modules. This drives a lower credit spread risk capital in the internal model as compared to the standard formula.

Operational risk capital for the standard formula is calculated on a factor-based approach, where the underlying economic risk profile is only partly reflected. The internal model calculation of the operational risk capital is based on our operational risk management framework (described in Section C3.5), which in contrast leads to an adequate coverage of the underlying risks.

#### ***E.4.5 Nature and appropriateness of data***

Various sources of data are used as input for the internal model and for the calibration of parameters as described in previous sections. Where reasonable, the input data is identical to the data used for other purposes, for example for local GAAP (FRS101). The appropriateness of this data is regularly verified internally and by external auditors.

### **E.5 Non-Compliance with the Minimum Capital Requirement and significant non-compliance with the Solvency Capital Requirement**

The Company complied with the Minimum Capital Requirement and the Solvency Capital Requirement for year end 2018.

### **E.6 Any other information**

All important information regarding the capital management of the undertaking is addressed in the above sections.

## F. Glossary

|       |  |
|-------|--|
| AIM   | Allianz Investment Management  |
| AZT   | Allianz Technology   |
| ASMG  | Allianz Standards for Model Governance   |
| ASORM | Allianz Standards for Operational Risk Management  |
| BaFIN | Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) |
| BCM   | Business Continuity Management   |
| BEL   | Best Estimate Liability  |
| CBI   | Central Bank of Ireland  |
| CF    | Controlled Functions   |
| CRisP | Credit Risk Platform   |
| ECB   | European Central Bank  |
| EIOPA | European Insurance & Occupational Pensions Authority   |
| ELCA  | Entity Level Controls Assessment   |
| FICO  | Finance & Investment Committee   |
| GAAP  | General Accepted Accounting Practice   |
| ICOFR | Internal Control of Financial Reporting  |
| IMF   | International Monetary Fund  |
| L&H   | Life & Health  |
| LoB   | Line of Business   |
| MRC   | Management Risk Committee  |
| MVBS  | Market Value Balance Sheet   |
| MCK   | Minimum Capital Requirement  |
| OE    | Operating Entity   |
| OECD  | Organisation for Economic Co-operation and Development   |
| ORGS  | Operation Risk Governance System   |
| ORSA  | Own Risk & Solvency Assessment   |
| P&C   | Property & Casualty  |
| PCF   | Pre-approval Control Function  |
| PFE   | Potential Future Exposures   |
| PIMCO | Pacific Management Investment Company  |
| RAI   | Risk Analysis Infrastructure   |
| RCSA  | Risk and Control Self-Assessment   |
| RCSAG | Risk & Control Self-Assessment Guideline   |
| RiCo  | Risk Committee   |
| RM    | Risk Margin  |
| RMF   | Risk Management Framework  |
| RTCS  | Risk Tolerance & Control Statements  |
| SAA   | Strategic Asset Allocation   |
| ScA   | Scenario Analysis  |
| SCR   | Solvency Capital Requirement   |
| TP    | Technical Provisions   |
| TRA   | Top Risk Assessment  |
| UPR   | Unearned Premium Reserve   |

## G. References

- Allianz Group*, “Allianz Code of Conduct for Business Ethics and Compliance”, 2016;  
*Allianz Group*, “Allianz Standard for Operational Risk Management”, 2018;  
*Allianz Group*, “Allianz Standard for Model Governance,” 2018;  
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*Allianz plc*, “Actuarial Function Terms of Reference”, 2018;  
*Allianz plc*, “Internal Audit Policy”, 2018;  
*Allianz plc*, “Capital Management Policy”, 2018;  
*Allianz plc*, “Minimum Competency Code and Fitness and Probity Policy”, 2017;  
*Allianz plc*, “Compliance Policy”, 2018;  
*Allianz plc*, “Finance Committee Terms of Reference”, 2018;  
*Allianz plc*, “Outsourcing Policy”, 2018;  
*Allianz plc*, “Reserve Committee Terms of Reference”, 2018;  
*Allianz plc*, “Reserving Policy”, 2018;  
*Allianz plc*, “Operational Risk Strategy and Policy”, 2018;  
*Allianz plc*, “Risk Committee Terms of Reference”, 2017;  
*Allianz plc*, “Risk Management Policy”, 2018;  
*Allianz plc*, “Governance and Control Policy”, 2018;  
*Allianz plc*, “Underwriting Risk Strategy & Policy,” 2016;  
*Allianz plc*, “Liquidity Risk Strategy & Policy,” 2018;  
*Allianz plc*, “Credit Risk Strategy & Policy,” 2018;  
*Allianz plc*, “Market Risk Strategy & Policy,” 2018;
- Central Bank of Ireland*, “Central Bank Reform Act”, 2010;  
*Central Bank of Ireland*, “Corporate Governance Code for Credit Institutions and Insurance Undertakings”, 2015;  
*Central Bank of Ireland*, “Guidelines on Preparing for Solvency II - Submission of Information”, 2013;
- European Insurance and Occupational Pensions Authority (EIOPA)*, “Guidelines on Submission of Information to National Competent Authorities (EIOPA-CP-13/010)”, 2013;  
*European Parliament and European Council*, “Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)”, 2009



## H. Annex: Quantitative Reporting Templates

This Annex lists the annual quantitative templates submitted to the CBI in respect of the year 31 December 2018

The following templates are reproduced in this Annex:

| <b>Code</b> | <b>Template Name</b>  |
|-------------|---|
| S.02.01.02  | Balance Sheet   |
| S.05.01.02  | Premiums, claims and expenses by line of business                                     |
| S.05.02.01  | Premiums, claims and expenses by country  |
| S.17.01.02  | Non-Life Technical Provisions   |
| S.19.01.21  | Non-Life Insurance Claims   |
| S.22.01.21  | Impact of long term guarantees and transitional measures                              |
| S.23.01.01  | Own Funds   |
| S.25.03.21  | Solvency Capital Requirement - for undertakings on Full Internal Models               |
| S.28.01.01  | Minimum Capital Requirement – only life or non-life insurance or reinsurance activity |

**Annex I**

**S.02.01.02**

**Balance sheet**

|  | <b>Solvency II<br/>value</b> |
|--|------------------------------|
|  | <b>C0010</b>                 |
| <b>Assets</b>  |                              |
| Intangible assets  | R0030 -                      |
| Deferred tax assets  | R0040 4,149.97               |
| Pension benefit surplus  | R0050 43,655.00              |
| Property, plant & equipment held for own use   | R0060 -                      |
| Investments (other than assets held for index-linked and unit-linked contracts)        | R0070 1,583,012.38           |
| Property (other than for own use)  | R0080 -                      |
| Holdings in related undertakings, including participations                             | R0090 -                      |
| Equities   | R0100 7,137.76               |
| Equities - listed  | R0110 -                      |
| Equities - unlisted  | R0120 7,137.76               |
| Bonds  | R0130 1,370,045.87           |
| Government Bonds   | R0140 426,516.19             |
| Corporate Bonds  | R0150 943,529.69             |
| Structured notes   | R0160 -                      |
| Collateralised securities  | R0170 -                      |
| Collective Investments Undertakings  | R0180 191,520.11             |
| Derivatives  | R0190 4,556.12               |
| Deposits other than cash equivalents   | R0200 9,752.51               |
| Other investments  | R0210 -                      |
| Assets held for index-linked and unit-linked contracts                                 | R0220 -                      |
| Loans and mortgages  | R0230 16,105.40              |
| Loans on policies  | R0240 -                      |
| Loans and mortgages to individuals   | R0250 -                      |
| Other loans and mortgages  | R0260 16,105.40              |
| Reinsurance recoverables from:   | R0270 697,018.13             |
| Non-life and health similar to non-life  | R0280 697,018.13             |
| Non-life excluding health  | R0290 693,644.51             |
| Health similar to non-life   | R0300 3,373.62               |
| Life and health similar to life, excluding health and index-linked and unit-linked     | R0310 -                      |
| Health similar to life   | R0320 -                      |
| Life excluding health and index-linked and unit-linked                                 | R0330 -                      |
| Life index-linked and unit-linked  | R0340 -                      |
| Deposits to cedants  | R0350 -                      |
| Insurance and intermediaries receivables   | R0360 7,514.51               |
| Reinsurance receivables  | R0370 282.02                 |
| Receivables (trade, not insurance)   | R0380 8,626.36               |
| 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 4,685.36               |
| Any other assets, not elsewhere shown  | R0420 -                      |
| <b>Total assets</b>  | <b>R0500 2,365,049.14</b>    |

**Annex I****S.02.01.02****Balance sheet**

|   | <b>Solvency II<br/>value</b> |
|---|------------------------------|
|   | <b>C0010</b>                 |
| <b>Liabilities</b>  |                              |
| Technical provisions – non-life   | <b>R0510</b> 1,270,288.59    |
| Technical provisions – non-life (excluding health)                              | <b>R0520</b> 1,263,523.31    |
| TP calculated as a whole  | <b>R0530</b> -               |
| Best Estimate   | <b>R0540</b> 1,235,594.14    |
| Risk margin   | <b>R0550</b> 27,929.17       |
| Technical provisions - health (similar to non-life)                             | <b>R0560</b> 6,765.28        |
| TP calculated as a whole  | <b>R0570</b> -               |
| Best Estimate   | <b>R0580</b> 6,631.14        |
| Risk margin   | <b>R0590</b> 134.14          |
| Technical provisions - life (excluding index-linked and unit-linked)            | <b>R0600</b> -               |
| Technical provisions - health (similar to life)                                 | <b>R0610</b> -               |
| TP calculated as a whole  | <b>R0620</b> -               |
| Best Estimate   | <b>R0630</b> -               |
| Risk margin   | <b>R0640</b> -               |
| Technical provisions – life (excluding health and index-linked and unit-linked) | <b>R0650</b> -               |
| TP calculated as a whole  | <b>R0660</b> -               |
| Best Estimate   | <b>R0670</b> -               |
| Risk margin   | <b>R0680</b> -               |
| Technical provisions – index-linked and unit-linked                             | <b>R0690</b> -               |
| TP calculated as a whole  | <b>R0700</b> -               |
| Best Estimate   | <b>R0710</b> -               |
| Risk margin   | <b>R0720</b> -               |
| Contingent liabilities  | <b>R0740</b> -               |
| Provisions other than technical provisions                                      | <b>R0750</b> 4,194.03        |
| Pension benefit obligations   | <b>R0760</b> -               |
| Deposits from reinsurers  | <b>R0770</b> 660,492.12      |
| Deferred tax liabilities  | <b>R0780</b> -               |
| Derivatives   | <b>R0790</b> 10.51           |
| Debts owed to credit institutions   | <b>R0800</b> 31.20           |
| Financial liabilities other than debts owed to credit institutions              | <b>R0810</b> 4,485.43        |
| Insurance & intermediaries payables   | <b>R0820</b> 4,937.02        |
| Reinsurance payables  | <b>R0830</b> 11,685.95       |
| Payables (trade, not insurance)   | <b>R0840</b> 4,178.10        |
| Subordinated liabilities  | <b>R0850</b> -               |
| Subordinated liabilities not in BOF   | <b>R0860</b> -               |
| Subordinated liabilities in BOF   | <b>R0870</b> -               |
| Any other liabilities, not elsewhere shown                                      | <b>R0880</b> 35,463.60       |
| <b>Total liabilities</b>  | <b>R0900</b> 1,995,766.56    |
| <b>Excess of assets over liabilities</b>  | <b>R1000</b> 369,282.58      |









**Annex I**  
**S.17.01.02**  
**Non-life Technical Provisions**

**Technical provisions - total**

Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re  
after the adjustment for expected losses due to counterparty  
default - total

Technical provisions minus recoverables from  
reinsurance/SPV and Finite Re - total

| <b>Direct business and accepted proportional reinsurance</b> |                                   |                                       |  |                          |  |  |                                |                                       |
|--|-----------------------------------|---------------------------------------|--|--------------------------|--|--|--------------------------------|---------------------------------------|
| Medical<br>expense<br>insurance                              | Income<br>protection<br>insurance | Workers'<br>compensation<br>insurance | Motor<br>vehicle<br>liability<br>insurance | Other motor<br>insurance | Marine, aviation<br>and transport<br>insurance | Fire and other<br>damage to<br>property<br>insurance | General liability<br>insurance | Credit and<br>suretyship<br>insurance |
| <b>C0020</b>   | <b>C0030</b>                      | <b>C0040</b>                          | <b>C0050</b>                               | <b>C0060</b>             | <b>C0070</b>                                   | <b>C0080</b>   | <b>C0090</b>                   | <b>C0100</b>                          |
| <del>6,765.28</del>  | <del>-</del>                      | <del>-</del>                          | <del>578,571.35</del>                      | <del>15,362.17</del>     | <del>4,970.79</del>                            | <del>60,379.00</del>                                 | <del>575,267.44</del>          | <del>22,791.11</del>                  |
| <b>R0320</b>   | 6,765.28                          | -                                     | 578,571.35                                 | 15,362.17                | 4,970.79                                       | 60,379.00  | 575,267.44                     | 22,791.11                             |
| <b>R0330</b>   | 3,373.62                          | -                                     | 307,779.15                                 | 9,915.53                 | 4,676.41                                       | 45,855.86  | 306,911.23                     | 15,630.88                             |
| <b>R0340</b>   | 3,391.66                          | -                                     | 270,792.20                                 | 5,446.64                 | 294.38   | 14,523.14  | 268,356.21                     | 7,160.23                              |



**Annex I**  
**S.17.01.02**  
**Non-life Technical Provisions**

|   | Direct business and accepted proportional reinsurance |            |                              | Accepted non-proportional reinsurance |                                       |   | Total Non-Life obligation |                                       |
|---|---|------------|------------------------------|---------------------------------------|---------------------------------------|---|---------------------------|---------------------------------------|
|   | 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 |
|   | C0110   | C0120      | C0130                        | C0140                                 | C0150                                 | C0160   | C0170                     | C0180                                 |
| <b>Technical provisions calculated as a whole</b>   | <b>R0010</b>  | -          | -                            | -                                     | -                                     | -   | -                         | -                                     |
| 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 | <b>R0050</b>  | -          | -                            | -                                     | -                                     | -   | -                         | -                                     |
| <b>Technical provisions calculated as a sum of BE and RM</b>  |   |            |                              |                                       |                                       |   |                           |                                       |
| <b>Best estimate</b>  |   |            |                              |                                       |                                       |   |                           |                                       |
| Premium provisions  |   |            |                              |                                       |                                       |   |                           |                                       |
| Gross   | <b>R0060</b>  | -          | -                            | 4,033.37                              | -                                     | -   | -                         | 85,651.66                             |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default   | <b>R0140</b>  | -          | -                            | 1,726.89                              | -                                     | -   | -                         | 79,658.49                             |
| Net Best Estimate of Premium Provisions   | <b>R0150</b>  | -          | -                            | 2,306.48                              | -                                     | -   | -                         | 5,993.17                              |
| <b>Claims provisions</b>  |   |            |                              |                                       |                                       |   |                           |                                       |
| Gross   | <b>R0160</b>  | -          | -                            | 2,045.84                              | -                                     | -   | -                         | 1,156,573.62                          |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default   | <b>R0240</b>  | -          | -                            | 1,148.56                              | -                                     | -   | -                         | 617,359.64                            |
| Net Best Estimate of Claims Provisions  | <b>R0250</b>  | -          | -                            | 897.28                                | -                                     | -   | -                         | 539,213.98                            |
| <b>Total Best estimate - gross</b>  | <b>R0260</b>  | -          | -                            | 6,079.21                              | -                                     | -   | -                         | 1,242,225.28                          |
| <b>Total Best estimate - net</b>  | <b>R0270</b>  | -          | -                            | 3,203.76                              | -                                     | -   | -                         | 545,207.15                            |
| <b>Risk margin</b>  | <b>R0280</b>  | -          | -                            | 102.24                                | -                                     | -   | -                         | 28,063.31                             |
| <b>Amount of the transitional on Technical Provisions</b>   |   |            |                              |                                       |                                       |   |                           |                                       |
| Technical Provisions calculated as a whole  | <b>R0290</b>  | -          | -                            | -                                     | -                                     | -   | -                         | -                                     |
| Best estimate   | <b>R0300</b>  | -          | -                            | -                                     | -                                     | -   | -                         | -                                     |
| Risk margin   | <b>R0310</b>  | -          | -                            | -                                     | -                                     | -   | -                         | -                                     |

**Annex I**  
**S.17.01.02**  
**Non-life Technical Provisions**

**Technical provisions - total**

Technical provisions - total  
Recoverable from reinsurance contract/SPV and Finite Re  
after the adjustment for expected losses due to counterparty  
default - total  
Technical provisions minus recoverables from  
reinsurance/SPV and Finite Re - total

| Direct business and accepted proportional reinsurance |              |                              | Accepted non-proportional reinsurance |                                       |   |                                       | Total Non-Life obligation |
|---|--------------|------------------------------|---------------------------------------|---------------------------------------|---|---------------------------------------|---------------------------|
| 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 |                           |
| <b>C0110</b>  | <b>C0120</b> | <b>C0130</b>                 | <b>C0140</b>                          | <b>C0150</b>                          | <b>C0160</b>  | <b>C0170</b>                          | <b>C0180</b>              |
| <del>-</del>  | <del>-</del> | <del>6,181.45</del>          | <del>-</del>                          | <del>-</del>                          | <del>-</del>  | <del>-</del>                          | <del>1,270,288.59</del>   |
| <b>R0320</b>  | -            | 6,181.45                     | -                                     | -                                     | -   | -                                     | 1,270,288.59              |
| <b>R0330</b>  | -            | 2,875.45                     | -                                     | -                                     | -   | -                                     | 697,018.13                |
| <b>R0340</b>  | -            | 3,306.00                     | -                                     | -                                     | -   | -                                     | 573,270.46                |

Annex I  
S.19.01.21  
Non-life insurance claims

Total Non-Life Business

Gross Claims Paid (non-cumulative)  
(absolute amount)

| Year  | Development year |            |            |           |           |           |           |           |          |          |          | In Current year | Sum of years (cumulative) |            |              |
|-------|------------------|------------|------------|-----------|-----------|-----------|-----------|-----------|----------|----------|----------|-----------------|---------------------------|------------|--------------|
|       | 0                | 1          | 2          | 3         | 4         | 5         | 6         | 7         | 8        | 9        | 10 & +   |                 |                           | C0170      | C0180        |
| Prior | R0100            |            |            |           |           |           |           |           |          |          |          |                 |                           | 8,208.63   | 8,208.63     |
| N-9   | R0160            | 120,705.81 | 84,226.37  | 20,566.55 | 39,565.46 | 14,710.30 | 10,623.23 | 6,069.14  | 4,432.71 | 6,152.35 | 1,946.32 |                 | R0160                     | 1,946.32   | 308,998.24   |
| N-8   | R0170            | 107,324.30 | 116,481.57 | 45,268.25 | 18,876.18 | 11,406.28 | 10,720.67 | 6,374.07  | 4,575.58 | 3,803.61 |          |                 | R0170                     | 3,803.61   | 324,830.51   |
| N-7   | R0180            | 83,227.95  | 59,314.80  | 23,803.35 | 18,354.50 | 12,413.51 | 9,993.65  | 10,061.93 | 2,556.92 |          |          |                 | R0180                     | 2,556.92   | 219,726.61   |
| N-6   | R0190            | 81,816.37  | 51,514.04  | 23,293.56 | 17,760.67 | 18,139.64 | 10,242.33 | 7,854.32  |          |          |          |                 | R0190                     | 7,854.32   | 210,620.93   |
| N-5   | R0200            | 88,746.34  | 70,997.11  | 27,873.70 | 21,614.57 | 15,605.83 | 14,597.95 |           |          |          |          |                 | R0200                     | 14,597.95  | 239,435.50   |
| N-4   | R0210            | 92,521.39  | 50,803.17  | 26,822.79 | 28,715.31 | 28,793.35 |           |           |          |          |          |                 | R0210                     | 28,793.35  | 227,656.01   |
| N-3   | R0220            | 82,047.86  | 61,821.57  | 32,095.28 | 26,242.67 |           |           |           |          |          |          |                 | R0220                     | 26,242.67  | 202,207.38   |
| N-2   | R0230            | 95,168.51  | 55,549.82  | 35,335.24 |           |           |           |           |          |          |          |                 | R0230                     | 35,335.24  | 186,053.57   |
| N-1   | R0240            | 95,067.79  | 60,546.03  |           |           |           |           |           |          |          |          |                 | R0240                     | 60,546.03  | 155,613.82   |
| N     | R0250            | 97,325.68  |            |           |           |           |           |           |          |          |          |                 | R0250                     | 97,325.68  | 97,325.68    |
| Total | R0260            |            |            |           |           |           |           |           |          |          |          |                 | R0260                     | 287,210.72 | 2,180,676.88 |

Gross undiscounted Best Estimate Claims Provisions  
(absolute amount)

| Year  | Development year |            |            |            |            |           |           |           |           |           |           | Year end (discounted) |            |              |
|-------|------------------|------------|------------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------------|------------|--------------|
|       | 0                | 1          | 2          | 3          | 4          | 5         | 6         | 7         | 8         | 9         | 10 & +    |                       | C0360      |              |
| Prior | R0100            |            |            |            |            |           |           |           |           |           |           |                       | 141,167.10 |              |
| N-9   | R0160            | -          | -          | -          | -          | -         | -         | -         | 19,001.86 | 16,909.86 | 15,760.37 |                       | R0160      | 15,269.62    |
| N-8   | R0170            | -          | -          | -          | -          | -         | -         | 28,161.46 | 21,585.57 | 13,437.38 |           |                       | R0170      | 13,170.43    |
| N-7   | R0180            | -          | -          | -          | -          | -         | 35,604.73 | 20,486.51 | 17,000.26 |           |           |                       | R0180      | 16,715.75    |
| N-6   | R0190            | -          | -          | -          | -          | 51,329.55 | 37,037.32 | 26,594.88 |           |           |           |                       | R0190      | 26,073.37    |
| N-5   | R0200            | -          | -          | -          | 76,501.55  | 58,008.29 | 39,825.44 |           |           |           |           |                       | R0200      | 39,110.96    |
| N-4   | R0210            | -          | -          | 144,706.45 | 116,859.75 | 72,857.35 |           |           |           |           |           |                       | R0210      | 71,791.06    |
| N-3   | R0220            | -          | 217,017.86 | 172,885.66 | 140,519.01 |           |           |           |           |           |           |                       | R0220      | 138,275.11   |
| N-2   | R0230            | 275,739.16 | 241,681.97 | 199,051.18 |            |           |           |           |           |           |           |                       | R0230      | 196,560.10   |
| N-1   | R0240            | 283,822.72 | 244,578.53 |            |            |           |           |           |           |           |           |                       | R0240      | 241,469.79   |
| N     | R0250            | 263,041.60 |            |            |            |           |           |           |           |           |           |                       | R0250      | 259,995.54   |
| Total | R0260            |            |            |            |            |           |           |           |           |           |           |                       | R0260      | 1,156,573.64 |

**Annex I**

**S.22.01.21**

**Impact of long term guarantees and transitional measures**

|  |              | <b>Amount with Long Term<br/>Guarantee measures and<br/>transitionals</b> | <b>Impact of transitional on<br/>technical provisions</b> | <b>Impact of<br/>transitional on<br/>interest rate</b> | <b>Impact of volatility<br/>adjustment set to zero</b> | <b>Impact of matching<br/>adjustment set to zero</b> |
|--|--------------|---|---|--|--|--|
|  |              | <b>C0010</b>  | <b>C0030</b>  | <b>C0050</b>   | <b>C0070</b>   | <b>C0090</b>   |
| Technical provisions                                       | <b>R0010</b> | <b>1,270,288.59</b>   |   |  | <b>9,295.50</b>  |  |
| Basic own funds  | <b>R0020</b> | <b>339,282.58</b>   |   |  | <b>(8,133.56)</b>                                      |  |
| Eligible own funds to meet Solvency<br>Capital Requirement | <b>R0050</b> | <b>339,282.58</b>   |   |  | <b>(8,133.56)</b>                                      |  |
| Solvency Capital Requirement                               | <b>R0090</b> | <b>207,853.89</b>   |   |  | <b>8,204.13</b>  |  |
| Eligible own funds to meet Minimum<br>Capital Requirement  | <b>R0100</b> | <b>335,132.61</b>   |   |  | <b>(9,295.50)</b>                                      |  |
| Minimum Capital Requirement                                | <b>R0110</b> | <b>77,438.55</b>  |   |  | <b>435.00</b>  |  |

Annex I  
S.23.01.01  
Own funds

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated**

**Regulation (EU) 2015/35**

|   | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|-------|-----------------------|---------------------|--------|--------|
|   | C0010 | C0020                 | C0030               | C0040  | C0050  |
| Ordinary share capital (gross of own shares)  |       |                       |                     |        |        |
| Share premium account related to ordinary share capital   |       |                       |                     |        |        |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings |       |                       |                     |        |        |
| Subordinated mutual member accounts   |       |                       |                     |        |        |
| Surplus funds   |       |                       |                     |        |        |
| Preference shares   |       |                       |                     |        |        |
| Share premium account related to preference shares  |       |                       |                     |        |        |
| Reconciliation reserve  |       |                       |                     |        |        |
| Subordinated liabilities  |       |                       |                     |        |        |
| An amount equal to the value of net deferred tax assets   |       |                       |                     |        |        |
| Other own fund items approved by the supervisory authority as basic own funds not specified above                     |       |                       |                     |        |        |

|       | Total      | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3   |
|-------|------------|-----------------------|---------------------|--------|----------|
|       | C0010      | C0020                 | C0030               | C0040  | C0050    |
| R0010 | 31,250.00  | 31,250.00             |                     |        |          |
| R0030 | 493.45     | 493.45                |                     |        |          |
| R0040 | -          | -                     |                     |        |          |
| R0050 | -          | -                     |                     |        |          |
| R0070 | -          | -                     |                     |        |          |
| R0090 | -          | -                     |                     |        |          |
| R0110 | -          | -                     |                     |        |          |
| R0130 | 292,971.16 | 292,971.16            |                     |        |          |
| R0140 | -          | -                     |                     |        |          |
| R0160 | 4,149.97   |                       |                     |        |          |
| R0180 | 10,418.00  | 10,418.00             |                     |        |          |
| R0220 |            |                       |                     |        |          |
| R0230 |            |                       |                     |        |          |
| R0290 | 339,282.58 | 335,132.61            |                     |        | 4,149.97 |
| R0300 |            |                       |                     |        |          |
| R0310 |            |                       |                     |        |          |
| R0320 |            |                       |                     |        |          |
| R0330 |            |                       |                     |        |          |
| R0340 |            |                       |                     |        |          |
| R0350 |            |                       |                     |        |          |
| R0360 |            |                       |                     |        |          |
| R0370 |            |                       |                     |        |          |
| R0390 |            |                       |                     |        |          |
| R0400 |            |                       |                     |        |          |
| R0500 | 339,282.58 | 335,132.61            |                     |        | 4,149.97 |
| R0510 | 335,132.61 | 335,132.61            |                     |        |          |
| R0540 | 339,282.58 | 335,132.61            |                     |        | 4,149.97 |
| R0550 | 335,132.61 | 335,132.61            |                     |        |          |
| R0580 | 207,853.89 |                       |                     |        |          |
| R0600 | 77,438.55  |                       |                     |        |          |
| R0620 | 1.63       |                       |                     |        |          |
| R0640 | 4.33       |                       |                     |        |          |

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

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

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

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

**Total ancillary own funds**

**Available and eligible own funds**

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

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

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

**Reconciliation reserve**

**Expected profits**

|   |  |  |  |  |  |
|---|--|--|--|--|--|
| Expected profits included in future premiums (EPIFP) - Life business      |  |  |  |  |  |
| Expected profits included in future premiums (EPIFP) - Non- life business |  |  |  |  |  |
| <b>Total Expected profits included in future premiums (EPIFP)</b>         |  |  |  |  |  |

|       | C0060      |
|-------|------------|
| R0700 | 369,282.58 |
| R0710 | -          |
| R0720 | 30,000.00  |
| R0730 | 46,311.42  |
| R0740 | -          |
| R0760 | 292,971.16 |
| R0770 | -          |
| R0780 | 31,024.33  |
| R0790 | 31,024.33  |

**Annex I**

**S.25.03.21**

**Solvency Capital Requirement - for undertakings on Full Internal Models**

| Unique number of component | Components description                          | Calculation of the Solvency Capital Requirement |
|----------------------------|---|---|
| <b>C0010</b>               | <b>C0020</b>                                    | <b>C0030</b>                                    |
| 10                         | IM - Market risk                                | 84,977.34                                       |
| 11                         | IM - Underwriting risk                          | 158,789.94                                      |
| 12                         | IM - Business risk                              | 7,720.96  |
| 13                         | IM - Credit risk                                | 35,962.82                                       |
| 14                         | IM - Operational risk                           | 26,952.40                                       |
| 15                         | IM - LAC DT (negative amount)                   | (3,283.00)                                      |
| 16                         | IM - Capital Buffer                             | -   |
| 17                         | IM - Adjustment due to RFF/MAP nSCR aggregation | -   |

**Calculation of Solvency Capital Requirement**

Total undiversified components

Diversification

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)

**Solvency capital requirement excluding capital add-on**

Capital add-ons already set

**Solvency capital requirement**

**Other information on SCR**

Amount/estimate of the overall loss-absorbing capacity of technical provisions

Amount/estimate of the overall loss-absorbing capacity of deferred tax

Total amount of Notional Solvency Capital Requirements for remaining par

Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))

Total amount of Notional Solvency Capital Requirement for matching adjustment portfolio

Diversification effects due to RFF nSCR aggregation for article 30:

**R0110**

**R0060**

**R0160**

**R0200**

**R0210**

**R0220**

**R0300**

**R0310**

**R0410**

**R0420**

**R0430**

**R0440**

**C0100**

|                       |
|-----------------------|
| 311,120.47            |
| (103,266.58)          |
| -                     |
| 207,853.89            |
| -                     |
| 207,853.89            |
| <del>207,853.89</del> |
| -                     |
| 3,283.00              |
| -                     |
| -                     |
| -                     |
| -                     |

**Annex I**

**S.28.01.01**

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

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

| MCR <sub>NL</sub> Result   | C0010 |            | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|--|-------|------------|---|---|
|  | R0010 | 77,438.55  |   |   |
|  |       |            | C0020   | C0030   |
| Medical expense insurance and proportional reinsurance                   | R0020 | 3,257.52   | 2,311.61  |   |
| Income protection insurance and proportional reinsurance                 | R0030 | -          | -   |   |
| Workers' compensation insurance and proportional reinsurance             | R0040 | -          | -   |   |
| Motor vehicle liability insurance and proportional reinsurance           | R0050 | 258,249.09 | 140,275.52  |   |
| Other motor insurance and proportional reinsurance                       | R0060 | 5,434.56   | -   |   |
| Marine, aviation and transport insurance and proportional reinsurance    | R0070 | 62.21      | 3,759.60  |   |
| Fire and other damage to property insurance and proportional reinsurance | R0080 | 11,655.72  | 63,475.26   |   |
| General liability insurance and proportional reinsurance                 | R0090 | 256,552.92 | 46,801.27   |   |
| Credit and suretyship insurance and proportional reinsurance             | R0100 | 6,791.43   | 2,229.40  |   |
| Legal expenses insurance and proportional reinsurance                    | R0110 | -          | -   |   |
| Assistance and proportional reinsurance                                  | R0120 | -          | -   |   |
| Miscellaneous financial loss insurance and proportional reinsurance      | R0130 | 3,203.77   | 5,223.62  |   |
| Non-proportional health reinsurance                                      | R0140 | -          | -   |   |
| Non-proportional casualty reinsurance                                    | R0150 | -          | -   |   |
| Non-proportional marine, aviation and transport reinsurance              | R0160 | -          | -   |   |
| Non-proportional property reinsurance                                    | R0170 | -          | -   |   |

**Overall MCR calculation**

|                                    | C0070 |            |
|------------------------------------|-------|------------|
| Linear MCR                         | R0300 | 77,438.55  |
| SCR                                | R0310 | 207,853.89 |
| MCR cap                            | R0320 | 93,534.25  |
| MCR floor                          | R0330 | 51,963.47  |
| Combined MCR                       | R0340 | 77,438.55  |
| Absolute floor of the MCR          | R0350 | 3,700.00   |
|                                    | C0070 |            |
| <b>Minimum Capital Requirement</b> | R0400 | 77,438.55  |