Allianz Global Corporate & Specialty SE Singapore Branch

2016

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Supplementary Information 2016

This Disclosure is a supplementary note to the audited financial statements which are publicly available both on the website of the Monetary Authority of Singapore and from the Accounting and Corporate Regulatory Authority. This Disclosure, read in conjunction with the audited financial statements, is issued pursuant to MAS Notice 124 – Public Disclosure Requirements.

Allianz Global Corporate and Specialty SE Singapore Branch

Allianz Global Corporate & Specialty SE Singapore Branch (AGCS Singapore) is incorporated as a branch of Allianz Global Corporate & Specialty SE (AGCS SE). AGCS SE is a global company registered in Munich, Germany. The company operates an international network of companies in Europe, Americas, Asia and Africa which reflect the global needs of corporate and specialty customers. AGCS is one of the few specialist corporate insurers with a genuine global market presence that can provide "one carrier" insurance solutions across the whole spectrum of corporate and specialty risks.

AGCS Singapore is a key branch in Asia as it also acts as the regional hub for Asia. There are a dedicated team of experts to serve business clients with international activities or specialist risk exposures across Asia.

AGCS Singapore, continuously reviews the opportunities of growth both locally and in Asia. This is achieved by both assessing the markets and introducing new products such as Cyber and coverage for non-damage forms of business interruption. Of equal importance is our commitment to improve systems and processes in order to maximize efficiency and service delivery for the customer. Emerging challenges of the business are more global in nature rather than specific to doing business in Asia, but include increase in regulation and market competition.

As the regional hub, AGCS Singapore leverages on the core strength of AGCS SE within the corporate and specialty segments, namely, underwriting expertise, product specialty and access to AGCS's worldwide network and full range of services from risk consulting to claims, to generate sustainable profitable growth.

Business Review of AGCS Singapore

A marginal decrease in Gross Written Premiums (GWP) by SGD 4.6mn to SGD 209.1mn (2015: SGD 213.7m) due to decline in rates due mainly to Property, Energy and Marine line of business.

The decrease in reinsurance cession by SGD 9.2mn from SGD72.4mn in 2015 was aligned with a lower GWP. The reinsurance cession rate remains stable at around 30% of GWP.

Claims incurred decreased by SGD 5.3mn to SGD 62.4mn largely due to improvement in claims experience in Marine, Aviation and Engineering which is partially offset by a deterioration in the claims incurred in both Property and Energy.

The Loss ratio net of reinsurance has decreased by 2% to 44% from 46% in 2015 which led to an increase in underwriting results which follows the results as observed in the claims incurred position.

The following comments on the development of AGCS Singapore business are based on gross figures unless specified.

Marine and Aviation

Gross written premium reduced by SGD 20.6m to SGD 14.9mn in 2016. The significant reduction in premium is due to Aviation business with a reduction of SGD 4.9mn as a result of repositioning Aviation business in the United Kingdom branch where there is a significant hub for this type of insurance. In the Marine business, there was a reduction of SGD 15.7mn due to the increased trend of value reduction from the soft market and portfolio account reviews.

Property and Energy

Gross written premium decreased by SGD 12.3mn in 2016 from SGD106.9mn in 2015 mainly from the Energy driven by the reductions to both rates and activity as a result of continuing negative economic conditions in this market. In 2016, underwriting result deteriorated by SGD 29.4mn to SGD 7.0mn primarily from several large claims in Energy and Property.

Liability and Financial Lines

Gross written premium increased by SGD 12.4mn in 2016 from 2015 to SGD 54.0mn mainly due to new business driven by Liability class of business with the introduction of Environmental Liability product and also successful cross selling efforts across other classes of business.

Engineering

Gross written premium increased by SGD 16.7mn to SGD 40.8mn due to new business from engineering projects. Underwriting result improved by SGD 4.9m to SGD 4.5mn as a result of a benign claims development.

Investment income

There is a significant increase in the investment income as a result of a gain recognized from the sale of debt securities, improving from a loss of sale of SGD 2.2m in 2015 to a gain of sale of 5.3m 2016. The loss previously recognized in 2015 was mainly due sale of bonds to lock in higher yield bonds.

Corporate Governance

AGCS SE Singapore branch leverages on the risk governance framework of AGCS SE. AGCS SE has a comprehensive governance framework in place which affects the way the company is directed, administered and controlled. AGCS SE promotes a strong risk management culture supported by a robust risk, compliance and corporate governance structure.

Under the umbrella of the Supervisory Board of AGCS SE, the AGCS SE Board of Management is ultimately responsible and accountable for taking and managing risk. Embedded in this risk governance framework, AGCS SE has set up committees on a global as well as legal entity level. Hereby, the AGCS SE

Board of Management defines the risk tolerance framework, based on recommendation of the AGCS Risk Committee, in which the committees operate.

The Committees aim to facilitate business steering and to strengthen the AGCS SE oversight function supported by the internal control system. The company utilizes a system of three types of committees, namely Board Committee, Functional Committee and Advisory Committee which have clearly defined mandates, authority, appropriate independence and are composed in a manner that is properly reflecting different functions, as described in a dedicated charter and policy/standard.

In order to distinguish between management of risk and independent oversight, the risk governance framework is hereby structured along three lines of defense. The business operations, as first line of defense, is responsible for the management of day-to-day activities, risk management and controls, while the second line of defense provides an independent risk oversight and challenge the day-to-day risk taking and controls by the first line. Both are complemented by the third line of defense, which provides independent assurance across the first and second line of defense.

The AGCS Risk Management and Control process details and identifies all of the material risk management and control processes. It follows a regular cycle, and in case of a high risk situation, these processes can be accelerated or undertaken immediately by the Chief Risk Officer. The results of the processes are reported to the Risk Committee as well as the Board of Management.

The Risk Management and control processes are:

1. **Risk Management Process:** As part of the overall framework for all risk relevant methods, structures and governance processes, AGCS SE has a well-defined risk framework in place that supports the company wide risk management system, which includes market, credit, insurance, business and operational risks. Further roles and responsibilities, risk mitigation actions and escalation procedures are outlined.
2. **Risk Strategy.** Its objective is to define AGCS' overall risk tolerance with respect to all material qualitative and quantitative risks.
3. **Internal Control System.** Its objective is to proactively manage significant operational risks to AGCS, ensuring effectiveness of key controls at all times.
4. **Internal Risk Capital.** It measures quantifiable risks using internal model which are based on the Value-at-Risk with a pre-determined confidence level.
5. **Own Risk and Solvency Assessment.** The ORSA shall be performed to comply with regulatory requirements, and in particular, the internal risk capital shall play an important role in the company's assessment of its risk profile. The assessment shall be forward-looking and shall be taken into account on an ongoing basis in strategic decisions.
6. **Top Risk Assessment.** It is a periodic analysis of all material quantifiable and non-quantifiable Risks to identify and remediate significant threats to financial results, operational viability or the delivery of key strategic objectives.
7. **Underwriting Governance.** It comprises the process of product designing, premium rating and underwriting policies as well as risk management.
8. **Product Development and Control process.** It examines the risks of insurance and reinsurance products in advance for their impact on the undertaking's overall risk profile.
9. **Claims Management Governance.** It comprises of ensuring compliance to the process of claims investigation and determination of our financial obligation to the policyholders.

10. **Reserving Risk Governance.** It follows best practice in reserving and maintains adequate carried reserves for AGCS. .
11. **Investment risk and asset liability Governance.** It consists of complying with the guidelines for the control of market, asset liability management, foreign exchange, credit risks.
12. **Credit risk management.** It consists of ensure the appropriate control of credit risks which refer to unexpected credit losses caused by the failure of counterparties to meet payment obligations or by changes in their creditworthiness.
13. **Reinsurance risk Governance** ensuring the use of reinsurance strategy as a capital management and value generation tool.
14. **Risk reporting.** It documents the overall risk situation on a quarterly basis.
15. **Business Continuity Governance**. It analyzes the processes within the business in order to prioritize the recovery of the necessary resources following an incident or event that could not be prevented.
16. **Meet Your Business Objectives System (MYBOS).** On a regular basis, risk and control assessments are conducted for the (sub-) functions in the AGCS Operating Model and lines of business following a structured risk-based rolling 4-year-plan.
17. **Ad hoc Process.** As part of the independent risk oversight role, Risk Management reviews important internal or external events and evolving or unexpected significant changes to the business strategy or business environment of AGCS.
18. **Exceptions.** It consists of process to inform Risk Management of significant impact of internal or external development, including changes to the risk management processes and controls.

The policies and controls are subject to review and updates if and where necessary.

Investment and Asset-Liability Management

The AGCS Investment and Asset-Liability-Management Standard of AGCS SE applies to AGCS Singapore. AGCS SE actively manages its investment portfolio and is actively taking investment risks in a controlled and limited manner. It has a mid to long-term focus with an emphasis on strategic asset allocation and the goal of realizing the long-term risk premium of asset classes. Tactical asset allocation is used on a limited basis as an enhancement to the strategic asset allocation in order to profit from market opportunities.

The AGCS investment strategy takes these factors into consideration:

- Local as well as group-wide external and internal regulations, and policies
- The risk-bearing capacity and risk tolerance of AGCS' legal entities
- The general principles of a congruent Asset-Liability-Management
- The return objectives, expectations, and risk tolerance of the shareholders
- The expectations of external parties (e.g. regulators, rating agencies, clients)

The investment activities follow the general principles of a congruent ALM with a sufficient duration and currency matching within prescribed limits, and have a clear focus on liquid and high quality assets. All technical reserves are supported by investments in cash and fixed income securities.

The investment portfolio duration incorporates a going-concern perspective to mitigate the economic exposure to interest rate risk. Additionally, its maturity profile reflects the expected payment profile of our liabilities.

Solvency Margin

The capital adequacy ratio for the Singapore Branch as at 31 December 2016 was 261%, which was higher than previous year's CAR of 258%.

AGCS Singapore leverages on the capital management framework of AGCS SE, which aims to fulfill at all times all regulatory and rating solvency requirements, both at Group and single operating entity level. Therefore, target capitalization ratios and limits are in place to ensure an adequate buffer above these requirements. These targets and limits are defined taking into account the risks involved and enterprise wide risk governance and management.

The following capital positions are closely monitored and managed:

- The regulatory capital position managed and monitored on a quarterly basis considering two capital ratios as follows:
  Minimum Capital Ratio (MCR) which represents a capitalization level above the external capital requirements that is targeted to not be breached.
  Management Ratio (MR) which is the translation of AGCS' capital adequacy risk tolerance into a target capitalization. It is designed to give a reasonable buffer over the MCR taking into consideration the typical volatility of the capital ratio, plausible stress scenarios as well as the availability of remediation measures and the timeliness of their implementation. .
- AGCS Singapore is required to keep its regulatory and economic capital adequacy within the MR zone and to provide a remediation plan that comes into action in case of of a material shortfall below any MR or even a MCR. .

The following stress test analyses are performed:

1. Equity drop. Market value of all equity investments drop by 30%
2. Interest rates up: Parallel shift in yield curves by 100 bps up
3. Interest rates down: Parallel shift in yield curves by 100 bps down
4. Credit: 2-notch downgrade for the entire credit portfolio
5. New business: New business volume increases that is not within plan which leads to an additional reserve requirement
6. Mini Cat: Losses due to a 1-in-10 year NatCat event
7. Reserves Strengthening: Highest 1-in-10 reserve run-off loss of all lines of business measured over a 1 year horizon at the level of product line of business
8. Large loss: Self-selected large loss scenario based on a range of large loss events specific to AGCS Singapore
9. Combined scenario: A drop in market value of all equity investments by 30% and parallel shift in yield curves by 100 bps up.

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