Allianz Global Corporate &
Specialty SE Singapore Branch

2017

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Supplementary Information 2017

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 SE 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 Pacific. There are a dedicated team of experts to serve business clients with international activities or specialist risk exposures across the region.

AGCS Singapore, continuously reviews the opportunities of growth both locally and across the Asia Pacific. 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 Pacific, 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

Gross Written Premiums (GWP) grew by 5.9%, an increase of SGD 12.mn to SGD 221.4mn (2016: SGD 209.1mn) mainly driven by new business generated in Property, Energy and Liability. The Standard Chartered Bancassurance and International Health business which AGCS Singapore insures also contributed to the increase in GWP.

The reinsurance cession rate has increased from 33% from 30% in 2016 as a result of growth in Energy, Cyber and Terrorism business which is subject to global quota share reinsurance. In addition, the initiation of the Standard Chartered Bancassurance deal and International Health business which is managed by AGCS Singapore Branch also played a part in increasing reinsurance cession rate.

Claims incurred remained stable at SGD 62.3mn (2016: SGD 62.4mn) largely due to improvement in claims experience in Marine, Aviation and Liability which is partially offset by deterioration in the claims incurred in both Property, Engineering and Energy.

The Loss ratio net of reinsurance has decreased by 4.6% to 39.8% from 43.7% in 2016 primarily driven by higher net earned premium as a result of GWP growth which in turn led to an increase in underwriting results.

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

Marine and Aviation

Gross written premium increased by SGD 1.7mn to SGD 16.5mn in 2017. The increase in Marine business is driven by recovery in the marine sector and the completion of the portfolio account reviews. In addition, the repositioning of the Aviation business to the United Kingdom branch of AGCS SE was also completed which is currently on run-off. Net underwriting results improved significantly by SGD 15.8mn driven by absence of large claims and improvement in claims development.

Property and Energy

Gross written premium significantly increased by SGD 14.5mn in 2017 from SGD94.6mn in 2016 driven by new business and upsells due to capitalization of new and existing opportunities in addition to improving market conditions. Net underwriting result deteriorated by SGD 26.1mn. This is a net underwriting loss of SGD 19.1mn due to several large claims in Energy and Property.

Liability and Financial Lines

Gross written premium slightly increased by SGD 0.5mn in 2017 from 2016 to SGD 54.5mn mainly due to growth in Professional Indemnity and Cyber insurance. In 2017, a net underwriting profit of SGD 16.0mn is an improvement of SGD 12.1mn compared to 2016 largely driven by the absence of major large claims.

Engineering

The decrease in Gross written premium by SGD 7.2mn to SGD 33.7mn is driven by absence of engineering single-project opportunities. Net underwriting result deteriorated slightly by SGD 0.3m to SGD 4.2mn as a result of the shortfall in gross premiums written.

Investment income

Investment income further improved in 2017 by SGD 1.5mn from SGD 11.5mn in 2016 mainly driven by an organic growth of the investment portfolio following positive cash flows.

Corporate Governance

AGCS SE Singapore branch is part of 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. This comprehensive framework ensures that risks are identified, analyzed, assessed, and managed consistently across AGCS SE. 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 Audit, 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 SE's overall risk tolerance with respect to all material qualitative and quantitative risks.
3. **Internal Control System:** Its objective is to manage significant operational risks to AGCS SE through control activities and to ensure 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 (ORSA):** 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 product design, premium rating and underwriting standards 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 the investigation and amount of a financial obligation to a policyholder or third parties.
10. **Reserving Risk Management:** It follows best practice in reserving and ensures adequate carried reserves for AGCS SE.
11. **Investment Risk and Asset Liability Management:** It consists of managing and controlling investment market, asset liability management, foreign exchange, credit and derivative risks.
12. **Credit Risk Management:** It consists of managing and control of credit risks which refer to unexpected credit losses caused by the failure of debtors, bond issuers, reinsurance partners or counterparties to meet payment obligations or by changes in their creditworthiness.
13. **Reinsurance Risk Management:** it is considered a capital management or value generation tool in its own right whilst recognizing that factors other than risk and return will also influence AGCS SE's reinsurance strategy.
14. **Risk reporting:** It documents the overall risk situation on a quarterly basis.
15. **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.
16. **Risk Management Framework Quality Assurance:** A self-assessment of the effectiveness of AGCS' Risk Management Function as well as implementation maturity of the Risk Management Framework and corresponding risk management and control processes.
17. **Ad hoc Processes:** As part of the independent risk oversight role, Risk Management monitors significant internal or external events and significant changes to the business strategy or business environment of AGCS. If these could have a significant impact on AGCS' business model or strategic business objectives or could have a significant potential of threatening AGCS in any way, Risk Management will initiate an ad-hoc risk and control assessment and/or notification to raise awareness early on and start discussion to seek a decision, if required.

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. This results in a mid to long-term focused investment policy 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 / Branches
- 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

AGCS SE and the Singapore Branch, in particular, aim to comply with capital requirements even after adverse events. A well-established capital management process is designed to achieve this objective, comprising of the regular identification and assessment of key capital adequacy risks for each relevant capital regime, the review of the target capitalization as an integral part of the annual planning process, and the monthly monitoring which ensures the ability to take timely capital steering actions when necessary. The target capitalization is defined taking into consideration the business plan, typical volatility of the capital ratio, relevant stress scenarios, as well as the availability of remediation measures and the timeliness of their implementation. In addition, a minimum capital ratio is defined between the external requirement and the target ratio to support the capital steering. It represents a capital level where remediation actions would normally be triggered.

The Singapore Branch comfortably complies with the supervisory capital requirement with SGD 346mn available capital covering SGD 131mn regulatory capital requirements, showing a capital ratio of 263% as at year-end 2017, and thus provides superior policyholder protection. All capital management processes proved to be effective.

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