

SII SFCR 2019

SOLVENCY AND FINANCIAL
CONDITION REPORT 2019

ALLIANZ GLOBAL CORPORATE & SPECIALTY SE

Allianz 

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At a glance

Allianz Global Corporate & Specialty SE

Table 1: Key indicators of AGCS SE

€ thou

	Chapter	2019	2018	Difference
Gross premiums written	A.2	4 520 499	4 170 162	350 337
Net underwriting result (before equalization reserve)	A.2	-93 800	-106 604	12 804
Investment performance	A.3	249 259	257 204	-7 945
Profit before deduction	A.5	-11 870	89 931	-101 801
Eligible capital	E.1	3 116 044	2 812 081	303 963
Solvency Capital Requirement	E.2	1 980 722	1 664 902	315 820
Solvency ratio	C	157%	169%	-12%

Figures shown

The figures shown in the report have been rounded in line with commercial principles. The rounding may, in individual cases, lead to values in this report which do not add up to the exact sum shown, and to percentages which are not the exact result of the values shown. Unless stated otherwise, all figures refer to the 2019 reporting year and/or the cut-off date of 31 December 2019. Figures in brackets constitute comparison values from the previous year.

In the interests of better legibility, the terms "employee" and "deputy" are used throughout this Solvency and Financial Condition Report. Naturally, these terms also designate our female colleagues.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Basis of the report

With this report, Allianz Global Corporate & Specialty SE (AGCS SE) presents, for the fourth time, a report on the solvency and financial condition of the company (referred to as the "Solvency and Financial Condition Report, and abbreviated to "SFCR").

This report constitutes a core element of the system of financial supervision for primary insurance and reinsurance companies which came into force on 1 January 2016 under the designation "Solvency II". The legal basis in this respect was formed by the Solvency II Directive (Directive 2009/138/EC of the European Parliament and Council), which was issued on 9 November 2009 by the European Parliament and European Council, on the taking-up and pursuit of the business of insurance and reinsurance in Europe, and which is transposed into German law via a fully revised German Insurance Supervision Act (VAG) that entered into force on 1 January 2016.

In order to provide greater detail on the implementation, the European Commission passed a Delegated Regulation (Commission Delegated Regulation 2015, referred to in short as "Solvency-II-CDR) on 10 October 2014, which, as a delegated act, applies directly in the member states of the European Union.

Further details can be found in Technical Implementing Standards, guidelines of the European Insurance and Occupational Pensions Authority (EIOPA) and notes provided by the German Federal Financial Supervisory Authority (BaFin).

Solvency II supports risk-based solvency rules for the equity base by means of qualitative requirements in respect of risk management and expanded reporting requirements. In addition to the narrative report as presented here to the general public, there are quarterly reports to the supervisory authority, including numerous electronic reporting templates, additional extensive qualitative and quantitative reports to the national supervisory authority and, not least, an ad-hoc reporting which is aimed at notifying the supervisory authority in a timely manner of significant events and decisions taken by the management.

In addition to the reporting pursuant to Solvency II, the requirements in respect of the annual financial statements in accordance with the German Commercial Code (HGB) as well as the reporting requirements associated therewith continue to apply unchanged for the most part.

In line with the principles of the supervisory system, this report is written from a risk-oriented viewpoint and shows how the company addresses risks. Using a standardized procedure, the company evaluates and describes its main business processes. In addition, assets and liabilities valued in economic terms (at market value) are juxtaposed in the so-called Solvency Overview. The excess of assets over liabilities is shown here as the equity base.

The Allianz Group has an approved partial Internal Model to determine the Solvency Capital Requirements according to § 111 of the German Insurance Supervision Act (VAG), which it refines on an ongoing basis. The Internal Model of AGCS SE is part of the superordinate Internal Model of the Allianz Group.

Contents

The Solvency and Financial Condition Report supplements the quantitative reporting requirements that are appended to this report. In this conjunction, the report's structure follows the requirements of the Delegated Regulation and the pertinent notes provided by the Federal Financial Supervisory Authority (BaFin), and consists of five chapters, which cover fiscal year 2019 and hence the reporting period from 1 January to 31 December 2019. The cut-off date for this report is 31 December 2019.

In the interests of better legibility, the terms "employee", "deputy" and "head" are used throughout this Solvency and Financial Condition Report. Naturally, these terms also designate our female colleagues.

Chapter A describes the [business activities](#) of AGCS SE and the [business performance](#) in 2019.

AGCS SE, which forms part of the worldwide network of the Allianz Group, pursues its insurance and reinsurance business activities from Germany and from branch offices in nine European and four Asian countries.

As a global risk carrier for industrial and specialty business lines, AGCS SE is mainly active in the insurance lines Fire and Other Property Insurance, General Liability Insurance, as well as Marine, Aviation and Transport Insurance.

Following a net underwriting loss of € 106 604 thou in the previous year, AGCS SE also ended fiscal 2019 with a net underwriting loss (before changes to the equalization reserve) amounting to € 93 799 thou. The net investment result reduced to € 249 259 thou, such that, for the first time, an overall loss of € 11 870 thou was compensated for by Allianz SE, its sole shareholder, within the scope of a profit and loss transfer agreement.

Chapter B provides a description of corporate [governance system](#) of AGCS SE. It covers information on the organizational structure and operating procedures. The Board of Management carries full responsibility for AGCS SE. The key functions Actuarial, Compliance, Risk Management and Internal Audit play special roles which, in view of personnel capacities, employee qualifications and organizational infrastructure, are endowed in such a manner that they are able to discharge their duties in a due and proper manner. Considering the nature, scope and complexity of the risks inherent in the business activities of AGCS SE, the Board of Management of AGCS SE has judged the company's governance system to be adequate. AGCS SE conducts its Own Risk and Solvency Assessment (ORSA) at least once a year. The most recent ORSA report contains no criticism or material recommendations to the Board of Management.

Chapter C deals with the AGCS SE risk profile. Information on the significant business risks of AGCS SE is provided, which is also mapped in the AGCS Internal Model. These include, in particular, the underwriting risk, market risk, credit risk, liquidity risk and the operational risk. Along with a description of these risks, the chapter contains an assessment of their materiality and highlights risk concentrations and risk-mitigation techniques. As in the previous year, the risk profile of AGCS SE is dominated by the underwriting risk and market risk.

Chapter D of the report focuses on the **valuation principles** used to prepare the Solvency Overview in accordance with supervisory law, including an analysis of the differences in value compared to the financial reporting in accordance with commercial law. For the valuation of assets, insurance reserves and other obligations, the rules for the economic assessment under Solvency II were implemented. For the valuation of the insurance reserves in the market-value balance sheet, assumptions for reserving (e.g. claims-settlement patterns) were made strictly based on the data history even if redundancies in historical individual claims reserves would have resulted in negative late-claims reserves. As per 31 December 2019, the assets pursuant to supervisory law totaled € 16 392 746 thou and the insurance reserves amounted to € 9 077 723 thou.

Chapter E "**Capital Management**" presents a reconciliation of equity under commercial law to own funds under supervisory law and the amount of own funds eligible to meet the regulatory Solvency Capital Requirement.

AGCS SE uses an Internal Model to determine the Solvency Capital Requirement instead of the standard formula. This model shows that at the end of the reporting year, AGCS SE had sufficient own funds (€ 3 116 044 thou) to meet the capital requirement of € 1 980 722 thou. This results in a solvency ratio of 157%, compared to 169% during the previous year.

Thanks to its equity base as well as its transparent and thorough risk-management processes, AGCS SE is optimally equipped to meet the requirements of Solvency II.

The present Solvency and Financial Condition Report shows the company's sound economic situation.

COVID-19 – IMPORTANT DEVELOPMENT PURSUANT TO ARTICLE 54 OF THE EU DIRECTIVE

Upon the occurrence of every important development which substantially impacts the significance of the information published in the SFCR, appropriate information on the nature and ramifications are required in the Solvency and Financial Condition Report pursuant to Article 54 of the Solvency II Directive. In this regard, the current situation in respect of the coronavirus/COVID-19 is deemed to be such an important development.

The following sections on all five subject areas covered by the SFCR present this information in relation to COVID-19 insofar as this information can be assessed at the time at which the report is drawn up at the end of March 2020.

A. BUSINESS AND PERFORMANCE

The COVID-19 pandemic is currently affecting all aspects of our personal and professional lives, the health of the global population, economic development worldwide and the financial markets. Despite the uncertainties specified, AGCS SE is very well prepared for this situation. This pertains to both the maintenance of business operations and the robust capital resources in times of crises. In the meantime, the operations of AGCS SE have, for the most part, been transferred to HomeOffice - this changeover was performed without any major difficulties. In this manner, AGCS SE has ensured the safety of its own employees and is, at the same time, prepared to maintain functioning operations and business continuity - even in the face of tighter restrictions to public life.

The crisis caused by COVID-19 has led both to negative effects on investments and to increased losses on the product side. As a result, the solvency has been noticeably reduced. Although we assume that the COVID-19 outbreak will continue to have an impact on the underwriting result and volumes beyond our planning period, the uncertainties in this regard are still very high. Nevertheless, based on our current knowledge, the negative effects will be manageable according to the risk profile of AGCS SE.

Currently, AGCS has two reinsurance treaties placed with Allianz Re which provide coverage against pandemic losses. The first is the Clash Cover, which allows aggregation of losses from non-cat events, and the second is the Short Tail Aggregate cover concluded this year.

The investment performance of AGCS SE is shaped by income from holdings in affiliated enterprises and from debt instruments. As such, the pressures caused by the turbulence in the financial markets during the initial months of 2020 will be reflected in our investment performance only to a limited extent - amongst others, via a lower return on investment in parts of the debt instruments.

B. SYSTEM OF GOVERNANCE

The Risk Management function is, amongst others, responsible for the assessment of risks and the monitoring of limits and risk accumulations. This also includes the assessment of potential risks resulting from the COVID-19 pandemic.

The ORSA report for fiscal year 2019 was not yet complete as per the editorial deadline of the report at hand. The solvency is found to be satisfactory both at the cut-off date of 31 December 2019 as well

as over the planning period until 2022 based on the planning conducted in October 2019. Potential ramifications of the COVID-19 pandemic are, to the extent that they can be estimated at the present, being currently analyzed and, as the case may be, presented in the regular ORSA report. If required, an extraordinary ORSA report will be prepared in addition.

In general terms, external events have no impact on the AGCS SE governance system. The question as to whether the COVID-19 pandemic could, during its course, necessitate adjustments to the governance is currently being looked into.

C. RISK PROFILE

Underwriting risk

Within the scope of our business activities in property/casualty reinsurance we receive premiums from our clients and offer them insurance protection in return. Underwriting risks associated with the COVID-19 pandemic could result, on the one hand, from a decline in premiums for insurance contracts with a premium calculation based on premium volume or use and from potential cancellations, non-renewals or liability reductions in the event of renewals. On the claims side, losses caused by COVID-19 could, for example, occur in the areas of business interruption insurance, insurance of events and liability insurance. The extent of these losses, both in terms of the business areas affected and their amount, cannot yet be definitively estimated, as the situation is evolving daily. Newly occurring events, such as the current COVID-19 pandemic, are analysed and taken into account in the context of specific analyses or the regular review of models by experts.

Market risk

The COVID-19 pandemic is expected to have an impact on all market risks of AGCS SE, whereby, due to the risk profile, changes in equity risk and currency risk are of central importance. These two risks are mainly determined by the investments and the portfolio of listed shares. The portfolio of listed shares was sold in March 2020, which led to a reduction in equity and currency risk. The market risks associated with the COVID-19 pandemic are estimated on the basis of specific analyses.

Credit risk

The COVID-19 pandemic is likely to impact the credit risk stemming from investments in fixed-income securities and reinsurance in particular. The credit risks associated with the COVID-19 pandemic are assessed on the basis of specific analyses.

Liquidity risk

In the current market environment, which is characterised by the COVID-19 pandemic, the liquidity situation of AGCS SE is influenced in particular by the possible absence or delay in premium payments and higher claims payments. AGCS SE is closely monitoring these developments to ensure that AGCS SE has adequate liquidity even in the event of a possible shortage of liquidity in the market. As AGCS SE's

liquidity risk reporting focuses on stress scenarios in which premium payments are not made or higher claims payments occur, and defines its risk appetite on the basis of stress scenarios, AGCS SE currently expects the liquidity situation to remain adequate even if the crisis continues to develop adversely.

Operational risk

The operational risks associated with the COVID-19 pandemic result, in particular, from possible operational delays due to public measures aimed at restricting social contact, health problems borne by employees and delays in the provision of external services or the cancellation thereof.

Any other information

The statements made in respect of the risks associated with the COVID-19 pandemic are subject to the reservation that both risk identification and assessment are temporary in nature at the time this report is prepared (end of March 2020).

D. VALUATION FOR SOLVENCY PURPOSES

The assets of AGCS SE are characterised in particular by investments in debt instruments, affiliated companies and real estate. The valuation of our investments was reduced in the first three months of 2020, mainly due to higher risk premiums on corporate bonds and share price losses.

On the liabilities side, financial liabilities and technical provisions represent the largest balance sheet items. The technical provisions at the end of 2019 do not contain any explicit reserves for the pandemic triggered by the SARS CoV 2 virus that is currently underway. However, reserves will increase in the course of 2020. For the 1st quarter of 2020, € 128 000 thou reserves have already been set aside explicitly for losses triggered by the COVID-19 pandemic, € 54 000 thou of which are provisions for anticipated losses. This reflected in particular the cancellation of events and productions in the entertainment sector.

E. CAPITAL MANAGEMENT

In view of the Solvency II capital ratio of 157% as at 31 December 2019 and the stress tests carried out, AGCS SE is not likely to breach its solvency capital requirement or minimum capital requirement. This statement also applies in the context of the COVID-19 pandemic: The results of the solvency calculation for the first quarter of 2020 indicate a significant reduction in the solvency ratio. However, the capital resources of AGCS SE remain within the target corridor defined by the management. The regulatory solvency capital requirement and the minimum capital requirement are being met. In view of the significant uncertainties with regard to the further development of claims in connection with COVID-19, in particular the potential state intervention in insurance contracts currently under discussion, which could lead to a subsequent change in the scope of liability, there is a risk of a further decline in the solvency ratio in the course of 2020. In this context, there is also uncertainty as to the extent to which claims from COVID-19 are to be treated within the framework of existing reinsurance. The risks associated with the further course of the COVID-19 pandemic and their impact on solvency are updated and estimated on the basis of regular scenario analyses.

BUSINESS AND PERFORMANCE



A.1 BUSINESS AND PERFORMANCE

Allianz Global Corporate & Specialty SE (AGCS SE) is a European public company (Societas Europaea) and a wholly owned direct subsidiary of Allianz SE, Munich, headquartered in Munich. It was created in 2006 as the Allianz SE global risk carrier for industrial and specialty business lines. AGCS SE offers corporate customers a broad spectrum of insurances and services, in particular, in the insurance lines Fire and Other Property Insurance, General Liability Insurance, as well as Marine, Aviation and Transport insurance. In the market, AGCS SE distinguishes itself through excellent claims handling, cross-border solutions as part of international insurance programs, captive and fronting services, risk consulting and structured risk-transfer solutions. To be close to its customers, AGCS SE maintains teams in 34 countries worldwide. The network comprising Allianz offices in over 70 countries as well as network partners at other locations allows us to serve clients in more than 200 countries and jurisdictions around the globe.

During the reporting period, AGCS carried out its operations via the already existing branches in London, UK, Paris, France, Vienna, Austria, Copenhagen, Denmark, Milan, Italy, Antwerp, Belgium, Madrid, Spain, Rotterdam, Netherlands, Stockholm, Sweden, Singapore, Hong Kong, China, in Seoul, South Korea, as well as via its reinsurance branch in Mumbai, India. With respect to the countries of origin, AGCS SE generated a large part of its gross written premiums in Germany, Great Britain, the USA and France.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Bernhard-Wicki-Straße 8, D-80636 Munich was appointed as auditors for fiscal year 2019

AGCS SE is subject to the supervision of:

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AGCS SE is a member of the Allianz Group headed by Allianz SE, Munich. The Solvency II Report of Allianz SE is published on the company's website. It can be consulted there or is available upon request from the company. AGCS SE is included at group-level in the Solvency Overview of Allianz SE.

A simplified overview of the AGCS SE structure which contains our key affiliated enterprises as of 31 December 2019 is appended to this report.

Table 2: Key affiliated enterprises

€ thou		
Name, legal form	Country	Participation ratio in % (corresponds to voting-right ratio)
AGCS International Holding B.V.	The Netherlands	100.0
AGCS Marine Insurance Company	US	83.0
AGR US, Chicago	US	83.0
Allianz Fire and Marine Insurance Japan Ltd.	Japan	100.0
Allianz Global Corporate & Specialty Resseguros Brasil S.A.	Brazil	100.0
Allianz Global Corporate & Specialty South Africa Ltd.	South Africa	100.0
Allianz Risk Consulting GmbH	Germany	100.0
Allianz Risk Transfer AG	Liechtenstein	100.0
SpaceCo S.A.	France	100.0

A.2 UNDERWRITING PERFORMANCE

A.2.1 Overall underwriting result

AGCS SE prepares and publishes its annual financial statements in accordance with German accounting rules (HGB - German Commercial Code). As such, the following comments in respect of the underwriting result prior to equalization reserve are based on the items of the income statement pursuant to the German Accounting Regulations for Insurance Companies (RechVersV).

During the fiscal year, the company once again posted a positive premium development as well as an improvement in the cost ratio. Overall, an underwriting loss was, however, reported after consideration of claims expenses.

AGCS SE generated an increase of 8.4% in gross written premiums for the year in question. In addition to the renewal of existing business relationships and the acquisition of new business, the positive development in premiums was primarily attributable to higher premium rates. The net premiums earned exceeded the prior year level by 13.4%.

Under consideration of the positive premium development, higher claims expenses resulted only in a slight increase in the net loss ratio. As a result of an improved net cost ratio, the net combined ratio dropped to 105.0 (107.1)%.

Table 3 "Underwriting performance" compares the most important key indicators for 2019 against those of the previous year.

Table 3: Underwriting performance

€ thou	2019	2019	2019	2019	2018
	Item pursuant to Reporting Template S.05.01.b	Reclassification of the expenses for claims settlement and investment management ¹	Items not included in the reporting template	HGB	HGB
Gross premiums written	4 520 499	-	-	4 520 499	4 170 162
Net premiums earned	1 497 684	-	-	1 497 684	1 320 898
Other net underwriting income	-	-	-	-	-
Net claims expenses	-1 055 071	-84 328	-	-1 139 399	-1 003 202
Changes in other insurance reserves (net)	-807	-	-	-807	-777
Net expenses for premium refunds	-	-	-13 856	-13 856	-10 137
Net operating expenses	-526 613	93 106	-	-433 507	-410 797
Other underwriting expenses (net)	-	-	-3 915	-3 915	-2 589
Net underwriting result (before equalization reserve)	-	-	-	-93 800	-106 604
Net loss ratio				76.1%	75.9%
Net cost ratio				28.9%	31.1%
Net combined ratio				105.0%	107.1%
Expenses for investment management reclassified under the non-technical income statement pursuant to HGB		-8 778			

¹ Pursuant to the requirements in Annex I of the Implementing Regulation 2015/2450, Annex II, S.05.01, both the expenses for claims settlement as well as the expenses for investment management are shown as part of the net operating expenses in the reporting template. By contrast with the above and in compliance with the Insurance Accounts Directive Article 38.1 sentence 2 and Article 42.1 and the implementation thereof in § 41.2 and § 46.2 of the German Accounting Regulations for Insurance Companies (RechVersV), the claims settlement costs have to be shown as part of the net claims expenses and the expenses for investment management have to be included within the non-technical account under HGB.

The increase in gross premiums written during the reporting year to € 4 520 499 (4 170 162) thou is also reflected in the rise in net premiums earned to € 1 497 684 (1 320 898) thou. This is primarily attributable to a higher premium volume in Great Britain, in particular, in Marine, Aviation and Transport Insurance, as well as in Non-Proportional Property Reinsurance. During the reporting year, the underwriting result was, for the most part, impacted negatively by the net claims costs, which increased by € 136 197 thou on a year earlier to reach € 1 139 399 (1 003 202) thou. The increase in the net claims expenses was accompanied by higher claims expenses arising from fiscal year losses in the amount of € 1 084 157 (977 266) thou, caused by overall higher individual claims both in the area of major claims and in terms of frequency. The proportion of CAT losses was on the decline this year as well.

Higher net run-off losses in the amount of € 55 242 (loss of 25 936) thou were reported. Together with the positive premium development, the net loss ratio experienced only a slight increase to 76.1 (75.9)%.

The change in other net insurance reserves resulted from an allocation to the lapse reserve in the amount of € 807 (allocation of 777) thou, almost on a par with the previous year.

At € 433 507 (410 797) thou, the net operating expenses reported were higher than those of the previous year. Under consideration of the positive premium development, AGCS SE was, however, able to attain an improved net cost ratio of 28.9 (31.1)%. Overall, the company posted a net underwriting loss before equalization reserve of € 93 800 (profit 106 604) thou.

A.2.2 Underwriting performance by insurance line

Table 4: Underwriting performance by insurance line¹

	Gross premiums written		Net underwriting result (before equalization reserve)	
	2019	2018	2019	2018
Direct business and proportional reinsurance accepted				
Fire and Other Property Insurance	1 479 979	1 276 293	-23 150	-121 821
General Liability Insurance	1 442 061	1 468 572	-78 814	-7 855
Marine, Aviation and Transport Insurance	834 382	698 739	-38 199	3 029
Miscellaneous Financial Loss	346 427	323 860	29 809	51 662
Other insurances	40 197	41 163	7 954	-4 409
Sub-total ¹	4 143 047	3 808 627	-102 400	-79 394
Non-proportional reinsurance accepted				
Non-proportional property reinsurance	254 820	237 990	30 440	-17 650
Non-proportional liability reinsurance	76 592	82 936	-26 616	-9 761
Non-proportional marine, aviation and transport reinsurance	45 845	40 609	4 610	201
Non-proportional health reinsurance	196	-	166	-
Sub-total ²	377 452	361 535	8 600	-27 210
Total	4 520 499	4 170 162	-93 800	-106 604

¹ Insurance lines with negligible premium income have been excluded from the comments.

The following chapter comments on key revenue figures, in particular, gross premium income and the net underwriting result prior to the equalization reserve for the individual insurance lines as part of a year-on-year comparison.

A.2.2.1 DIRECT BUSINESS AND PROPORTIONAL REINSURANCE ACCEPTED

With gross premiums written amounting to € 1 479 979 (1 276 293) thou, the insurance line Fire and Other Property Insurance constituted the largest insurance line this year. Gains were primarily generated at the branch offices in the Great Britain and Germany. The net underwriting loss amounting to € 23 150 (loss of 121 821) thou was lower year-on-year. Lower fiscal year losses during the reporting year played the decisive role in this conjunction.

At € 1 442 061 (1 468 572) thou, the gross premiums reported by the insurance line General Liability Insurance were lower than in 2018. The non-renewal of the quota reinsurance contracts with our American subsidiary in 2019 made a substantial contribution towards this result. Higher expenses stemming from fiscal year losses were the cause for the increase in the net underwriting loss to € 78 814 (loss of 7 855) thou.

The gross premiums in Marine, Aviation and Transport Insurance experienced an increase to € 834 382 (698 739) thou in the reporting year, and a substantial proportion of this sum is attributable to our branch offices in Great Britain and Germany. Higher expenses for fiscal year losses led to a net underwriting loss in the amount of € 38 199 (profit of 3 029) thou.

The insurance line Miscellaneous Financial Loss generated an increase in gross premiums written to € 346 427 (323 860) thou. For the most part, this growth stemmed from new business generated at the branch office in Germany. Due to higher net expenses from fiscal year losses, the net underwriting profit experienced a decline to € 29 809 (profit of 51 662) thou.

The insurance lines Medical Expenses insurance, Occupational Incapacity insurance, Worker's Compensation insurance, Motor Vehicle

liability insurance, Other Motor insurance, Credit and Deposit insurance, Legal Expenses insurance and legal support were summarized under Other Insurance. The reporting year posted a decline in gross premiums written in the amount of € 40 197 (41 163) thou. Higher run-off gains from prior year claims played a decisive role in the net underwriting profit of € 7 954 (loss of 4 409) thou.

A.2.2.2 NON-PROPORTIONAL REINSURANCE ACCEPTED

The gross premiums written in the insurance line Non-Proportional Property Reinsurance rose to € 254 820 (237 990) thou during the reporting year. The new business generated at the branch office in Great Britain made a decisive contribution in this respect. Together with lower run-off losses from prior year claims, the premium development led to a net underwriting profit of € 30 440 (loss of 17 650) thou.

By contrast, the gross premiums in Non-Proportional Liability Reinsurance experienced a decline to € 76 592 (82 936) thou, in particular at the branch offices in Great Britain and Germany. In addition, the reporting year posted higher net expenses for fiscal year losses. Overall, the reporting year closed with a net underwriting loss of € 26 616 (loss of 9 761) thou.

Non-proportional marine, aviation and transport reinsurance reported a climb in gross premiums written to € 45 845 (40 609) thou. This was caused by higher supplementary and reinstatement premiums for the reinsured business of our American subsidiary. Higher run-off gains from prior year claims played a key role in the increased net underwriting profit amounting to € 4 610 (profit of 201) thou.

A.2.3 Underwriting performance by country

An explanation of the business developments in the various countries on the basis of HGB gross figures is the most meaningful, because the outgoing non-proportional reinsurance business can be attributed to the individual countries only by means of distribution keys.

Table 5: Underwriting performance by country¹

€ thou	Gross premiums written	Gross underwriting result
2019		
Germany	915 624	-318 923
Great Britain	779 025	-59 609
The United States of America	709 378	32 914
France	414 605	81 662
China	187 501	63 545
Italy	121 008	96 997
Total Top 6	3 127 141	-103 414
Other countries	1 393 358	125 914
Total	4 520 499	22 501
2018		
Germany	873 518	166 271
Great Britain	609 448	89 483
The United States of America	748 799	110 195
France	395 228	124 442
China	191 243	33 005
Italy	104 201	-51 184
Total Top 6	2 922 437	472 212
Other countries	1 247 726	-43 125
Total	4 170 163	429 087

¹ The allocation to countries takes place according to the requirements of the Implementing Regulation (EU) 2015/2450, Annex II, S.05.02. For items that cannot be directly allocated (e.g. internal costs), appropriate keys were used.

The core market of AGCS SE is Germany. In this country of origin, gross premiums written increased from the prior year to € 915 624 (873 518) thou. This was essentially due to an increase in premiums in Marine, Aviation and Transport Insurance. As a result of higher gross claims expenses, particularly in the area of prior year claims in General Liability Insurance, a gross loss of € 318 923 (profit of € 166 271) thou was posted. The majority of the premiums and claims expenses in the country of origin Germany were accounted for by the branch office in Germany, in which the business - following deduction of facultative and other obligatory reinsurances - was ceded in full to Allianz SE (quota reinsurance contract with Allianz SE).

The increase in written premiums in the country of origin Great Britain to € 779 025 (609 448) thou was, for the most part, attributable to a higher premium volume in the insurance lines General Liability Insurance, Marine, Aviation and Transport Insurance as well as Fire and Other Property Insurance. Higher gross claims expenses in Marine, Aviation and Transport Insurance as well as in the insurance line Fire and Other Property Insurance resulted in a gross underwriting loss of € 59 609 (profit of 89 483) thou.

During the reporting year, the gross premiums written for the country of origin United States of America sank to € 709 378 (748 799) thou; this was, for the most part, due to the cancellation of the quota reinsurance contracts with our American subsidiary in 2019. Following the increase in gross claims expenses, particularly in the area of prior year claims, a lower gross underwriting profit in the amount of € 32 914 (profit of 110 195) thou was reported.

In the country of origin France, gross premiums written experienced an increase to € 414 605 (395 228) thou. The climb in gross claims expenses resulted in a lower gross underwriting profit amounting to € 81 662 (profit of 124 442) thou.

Compared to 2018, the gross premium volume in the country of origin China grew to € 187 501 (191 243) thou. The gross underwriting

result posted a profit of € 63 545 (profit of 33 005) thou, taking falling gross claims expenses into account.

At € 121 008 thou, premiums written for the country of origin Italy surpassed the prior-year figure of € 104 201 thou. Following a previous year fraught with major claims, gross claims expenses experienced a fall and resulted in a gross underwriting profit in the amount of € 96 997 (loss of 51 184) thou.

In the other countries, the gross premiums written amounting to € 1 393 358 (1 247 726) thou slightly exceeded the prior year level. Following a decline in gross claims expenses, the gross underwriting profit amounted to € 125 914 (loss of 43 125) thou.

A.3 INVESTMENT PERFORMANCE

Table 6: Investments

€ thou

	Current income/expenditure (-)	Profit	Loss	Write-ups	Write-downs/write-offs	Investment performance
2019						
Participations and other holdings						
Holdings in affiliated enterprises, including participations	76 382	-	-	255	-138	76 499
Real estate (except for own use)	5 440	-	-	2	-1 644	3 798
Debt instruments						
Sovereign bonds	26 752	10 019	-276	10 907	-1 429	45 973
Corporate bonds	39 235	12 209	-280	17 145	-2 103	66 205
Collateralized securities	2 661	782	-49	700	-171	3 924
Other loans and mortgages	6 557	-	-13	-	-	6 544
Short-term and other investments						
Collective Investment Undertakings	6 181	56 786	-37	3	-	62 933
Deposit receivables	-	-	-	-	-	-
Short-term investments (incl. derivatives)	986	-	-	-	-	986
Investment management expenses	-17 590	-	-	-	-12	-17 602
Total	146 605	79 796	-655	29 012	-5 499	249 259
2018						
Participations and other holdings						
Holdings in affiliated enterprises, including participations	12 214	-	-	60	-412	11 862
Real estate (except for own use)	5 274	-	-	-	-1 741	3 533
Debt instruments						
Sovereign bonds	27 731	8 042	5 532	7 772	-10 566	27 448
Corporate bonds	32 421	7 956	-3 351	4 656	-15 763	25 918
Collateralized securities	2 340	1 444	-212	753	-9	4 317
Other loans and mortgages	5 575	137	-7	-	-10	5 696
Short-term and other investments						
Collective Investment Undertakings	108 741	77 590	-	415	-3	186 742
Deposit receivables	-	-	-	-	-	-
Short-term investments (incl. derivatives)	-	-	-	-	-	-
Investment management expenses	-8 312	-	-	-	-	-8 312
Total	185 984	95 169	-9 102	13 656	-28 504	257 205

In 2019, the overall investment income amounted to € 249 259 (257 205) thou. This decrease can essentially be attributed to the lower contribution to the investment income by the Collective Investment Undertakings.

The investment income generated by participations and other holdings increased to € 80 297 (15 395) thou in 2019 due to higher distributions by Allianz Risk Transfer AG and Allianz International Holding B.V. In addition, starting in 2019, gains from profit transfer agreements and costs resulting from loss absorption are shown in the investment income from participations and other holdings.

Investment income from debt instruments increased to € 122 646 (63 379) thou. The higher result is primarily due to increased write-ups and greater current gains. Compared to the previous year, write-downs experienced a significant decline to € 3 703 (26 348) thou, of which € 1 429 (10 566) thou were attributable to government bonds and € 2 103 (15 763) thou to corporate bonds.

The investment income from short-term and other investments fell sharply in comparison to the previous year. The Collective Investment

Undertakings posted lower current gains and realized gains in the amount of € 62 930 (186 331) thou, and write-ups amounting to € 3 (415) thou are not offset against write-downs (€ 3 thou).

The current investment management expenses generated a loss of € 17 602 (8 312) thou. This includes expenses for directly held currency derivatives in the amount of € 11 466 thou.

The valuation reserves in AGCS SE investments experienced an overall increase to € 1 343 326 (810 356) thou. The valuation reserves are composed of undisclosed reserves of € 1 347 008 (814 975) thou and undisclosed liabilities of € 3 682 (4 619) thou. The valuation reserves for investments in affiliated enterprises and participations increased to € 501 368 (408 840) thou. The valuation reserves for directly held real estate amounted to € 66 364 (45 425) thou. The valuation reserves on the Collective Investment Undertakings experienced gains, primarily due to the positive development on the stock markets in 2019, and reached € 637 483 (284 140) thou. On bearer bonds, the valuation reserves climbed to € 123 182 (63 325) thou. For mortgage

bonds, the valuation reserves increased to € 2 701 (1 674) thou. The valuation reserves for other loans came to € 12 224 (6 952) thou.

A.3.1 Information on profits and losses directly recorded in equity

There were no profits or losses that were directly recorded in equity.

A.3.2 Information on securitized investments

A small part of the investment results comes from securitized investments, i.e. directly held collateralized securities. According to IFRS financial reporting rules, collateralized securities include mortgage backed securities (MBS) and other asset-backed securities (ABS). Mortgage bonds do not fall under securitized investments; these are classified as corporate bonds.

At 31 December 2019, the investment in directly held collateralized securities amounted to a total of € 80 234 (73 415), all of which have an investment grade rating.

A.4 DEVELOPMENT OF OTHER ACTIVITIES

The fiscal year experienced exchange rate losses amounting to € 102 021 (52 669) thou. In addition, there were no other material gains and expenses during the reporting period. No material leasing agreements were concluded by AGCS SE, either as lessee or as lessor.

A.5 ANY OTHER INFORMATION

A withdrawal from the equalization reserve and similar reserves of € 11 733 (99 177) thou gave rise to an underwriting loss for own account in the amount of € 82 066 (7 427) thou. In addition to the investment income of € 249 259 (257 205) thou, other income and expenses amounting to -€ 131 576 (-65 616) thou contribute towards the non-technical performance, which resulted primarily from the exchange-rate developments of the US Dollar and British Pound with respect to the euro. The deduction of taxes from income and from return and of Other Taxes amounting to a total of € 47 487 (94 231) thou results in a loss in the amount of € 11 870 (profit of 89 931) thou. The loss was compensated for within the scope of the profit transfer agreement in place with Allianz SE.

All relevant information regarding the business and performance of AGCS SE has been addressed in the previous sections.

SYSTEM OF GOVERNANCE

B

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 Steering principles of AGCS Global

B.1.1.1 DEFINITIONS

The AGCS SE Board of Management bears management responsibility for AGCS Global (hereafter AGCS), which consists of AGCS SE and its direct and indirect subsidiaries. The organizational structure and process organization which the AGCS SE Board of Management has established to this end considers both the interests of AGCS as a whole as well as those of the individual legal entities. In addition, the specific features of the various legal entities and local markets are incorporated into the organization.

AGCS is managed through a vertical management structure including management units at global, regional and local level. Regional level refers to the respective regions, each of which in turn comprises several countries. Local level refers to the level of legal entities and/or branch offices of a legal entity.

STEERING OF AGCS AT GLOBAL LEVEL

The overall responsibility for global steering lies with the Board of Management of AGCS SE. In particular, this comprises the definition of the business strategy, including the risk and investment strategy and the organizational structure.

Global functions take responsibility for all specific subject-related matters of overarching relevance for all of AGCS. Some client-facing functions are managed at regional level by the regional managers.

The AGCS insurance business comprises different lines of business. Both the regions and the individual lines of business of AGCS SE are steered through an integrated management and control process.

The business strategy of AGCS SE is developed through an institutionalized management process with the parent company - Allianz SE - which leads to a three-year business plan and ultimately to financial plans for AGCS SE. The three-year plan forms the basis for the steering of the business lines and for the investment management of AGCS SE, as well as for incentivizing employees and the Board of Management with variable compensation components.

The development of the business lines is monitored by means of a monthly analysis of key financial and operational performance indicators. In addition to the analysis of business developments, specific risk-control processes have been implemented.

Decisions concerning the development of new business segments are taken within the scope of an institutionalized process. This process takes into account the development of key indicators such as the expected combined ratio and the return on risk capital (RoRc).

Local regulatory and solvency requirements, including requirements of rating agencies, are material and binding in the decision-making process. It is part of the responsibility of the respective global or regional management level of AGCS to ensure prompt and mandatory compliance with all external requirements.

STRUCTURE OF THE AGCS SE MANAGEMENT BOARD

AGCS SE uses a divisional structure for the Board of Management, which comprises divisions with functional responsibilities as well as divisions with responsibility for business lines.

As per 31 December 2019, the Board of Management of AGCS SE comprised seven members. The overall responsibility of all Board of Management members notwithstanding, the various insurance lines are assigned to the individual members of the Board of Management as follows:

Joachim Müller, Chief Executive Officer & interim Chief Underwriting Officer Specialty
as of 1 December 2019
Responsible for: Audit, Claims, Communications, Legal and Compliance

Chris Fischer Hirs, Chief Executive Officer & interim Chief Underwriting Officer Specialty
until 30 November 2019
Responsible for: Audit, Claims, Communications, Legal and Compliance

Andreas Berger, Chief Regions & Markets Officer Region 1
until 28 February 2019
Responsible for: Africa, Central & Eastern Europe, Mediterranean, True Customer Centricity at AGCS, One Allianz, Global Broker Management, International Insurance Solutions, Sales Planning and Reporting, AON Global Broker Coordination

Bill Scaldaferrri, Chief Regions & Markets Officer Region 2
Responsible for: North America, Marsh Global Broker Coordination

Sinéad Browne, Chief Regions & Markets Officer Region 3
Responsible for: Asia Pacific, Regional Unit London, South America, Willis Towers Watson and Jardine Lloyd Thompson Global Broker Coordination

Hartmut Mai, Chief Underwriting Officer Corporate
until 31 March 2019
Responsible for: Underwriting Corporate Lines, Alternative Risk Transfer, Engineering, Financial Lines, Liability, MidCorporate, Allianz Risk Consulting, Crossfunctional Smart Evolution (XSE)

Chief Regions & Markets Officer Region 1
as of 1 April 2019

Responsible for: Africa, Central & Eastern Europe, Mediterranean, True Customer Centricity at AGCS, One Allianz, Global Broker Management, International Insurance Solutions, Sales Planning and Reporting, AON Global Broker Coordination

Dr. Thomas Sepp, Chief Underwriting Officer Corporate
as of 1 April 2019

Responsible for: Underwriting Corporate Lines (Energy and Construction, Property), Alternative Risk Transfer, Engineering, Financial Lines, Liability, Allianz Risk Consulting, Global Portfolio Management

Paul O'Neill, Chief Underwriting Officer Specialty
until 30 September 2019

Responsible for: Underwriting Specialty Lines (Aviation, Energy, Entertainment, Marine), Underwriting Academy, Underwriting Integrity and Solutions, Portfolio Management

Bettina Dietsche, Chief Operating Officer

Responsible for: Human Resources, IT, IT Security, Organization and Business Transformation, Operations, Release Management, Shared Services Unit

Nina Klingspor, Chief Financial Officer
until 31 March 2019

Responsible for: Accounting, Actuarial, Catastrophe Management, Corporate Finance and Treasury, Finance Solutions, Planning and Performance Management, Reinsurance, Risk Management.

Claire-Marie Coste-Lepoutre, Chief Financial Officer
as of 1 March 2019

Responsible for: Accounting, Actuarial, Catastrophe Management, Corporate Finance and Treasury, Finance Solutions, Planning and Performance Management, Reinsurance, Risk Management.

Henning Haagen, Chief Underwriting Officer Specialty
as of 1 March 2020

Responsible for: Underwriting Specialty Lines (Aviation, Entertainment, Marine), MidCorporate, Underwriting Integrity & Solutions, Underwriting Academy

Board of Management divisions - the Chief Executive Officer, the Chief Finance Officer and the Chief Operating Officer are responsible for all functional matters pertaining to AGCS SE.

Board of Management divisions responsible for business divisions - the Chief Regions & Markets Officers (CRMO) and the Chief Underwriting Officers (CUO) are responsible for managing the business segments of AGCS SE.

The assignment of responsibilities to individual Board members is supported by the process rules of the AGCS SE Board of Management, including the distribution of divisional responsibilities and the schedule of business responsibilities. The structure and the internal allocation of responsibilities are regularly reviewed.

The process rules define the work of the Board of Management in detail. They define the responsibilities of the individual members of the Board of Management and of the full Board of Management.

In general, the Board of Management convenes on a monthly basis. The agenda and the relevant documents are distributed no later than three days before a Board meeting. Each member of the Board

may request a meeting subject to the communication of the subject matter in question; every member of the Board also has the right to put topics on the agenda.

Decisions by the full Board of Management shall be taken by a simple majority of the participating members, unless there are other mandatory statutory requirements to the contrary. In case of a tie, the Chairman has a casting vote. If, in case of issues of fundamental importance, a member of the Board believes that the decision taken by the majority of their colleagues on the Board of Management is irreconcilable with their own responsibility, this member of the Board has the right and the duty - after prior communication to the Chairman of the Board - to report this issue to the Chairman of the Supervisory Board.

MANAGEMENT STRUCTURE OF SUBSIDIARIES

The subsidiaries are each steered by local management teams with the corresponding responsibilities and reporting lines to the Board of Management of AGCS SE.

B.1.1.2 BOARD OF MANAGEMENT AND SUPERVISORY BOARD

Sound structural and operational arrangements are essential for sustainable corporate governance. The Board of Management and the Supervisory Board of AGCS SE therefore attach great importance to complying with the corresponding recommendations of the German Corporate Governance Code. As is the case with the parent company Allianz SE, AGCS SE complies with the current recommendations put forward by this Code.

As a Societas Europaea based in Germany, AGCS SE must meet the special requirements for this form of enterprise as well as the regulations of the German Stock Corporation Act. A main feature of the company is therefore the two-tier management system with a Board of Management and a Supervisory Board.

The Board of Management reports regularly and comprehensively to the Supervisory Board with regard to the business developments, capital resources and the earnings situation, planning and achievement of objectives as well as the business strategy and risk exposure of the company.

Certain decisions by the Board of Management are – in accordance with statutory requirements or the statutes of the company – subject to the approval of the Supervisory Board. This includes consent in respect of certain transactions, amongst other things.

B.1.1.3 PRINCIPLES AND FUNCTION OF THE SUPERVISORY BOARD

The Supervisory Board comprises six members, who are appointed by the Annual Shareholders' Assembly. Two of these members are appointed upon proposal by the employees and the Annual Shareholders' Assembly is bound to adopt these two proposals. The employee representatives hail from countries with the highest numbers of AGCS SE employees. Members on the Supervisory Board presently include one employee representative from Germany and one from the United Kingdom.

The size and composition of the Supervisory Board are determined by the general Societas Europaea regulations (SE Participation Act), which have been implemented in the statutes of the company.

The Supervisory Board oversees the management of the company by the Board of Management and advises it in leading the company. Among others, it examines the annual financial statements and deals with such subjects as the risk strategy, the risk situation and the main areas of activity of the Internal Audit and the Compliance departments.

The Supervisory Board is also responsible for:

- appointing and dismissing the members of the Board of Management,
- determining the remuneration the members of the Board of Management and
- appointing the auditor of the annual financial statements.

The Supervisory Board convenes once per calendar half-year. Additional meetings shall be convened if this is required for the purposes of deliberation or to pass resolutions. The Supervisory Board takes all decisions based on a simple majority.

The Supervisory Board of AGCS SE has not formed any committees. Given its relatively small size, all relevant subjects and decisions are discussed and decided in plenary sessions.

B.1.2 Organizational structure and process organization

B.1.2.1 COMMITTEES

Certain matters concerning AGCS SE are delegated for decision-making or for adopting and/or preparing pertinent resolutions to dedicated bodies ("Committees"). Committees are tasked with business steering at AGCS SE and performing the oversight function at the company. As such, Committees need clearly defined mandates, must be endowed with the pertinent authority to take decisions as well as the appropriate independence, and represent various functions.

There are three different types of Committees at AGCS SE:

- Board Committee
- Functional Committee
- Advisory Committee

The decision-making authority of committees is limited to decisions that do not require the involvement of the full Board of Management of AGCS SE as stipulated by statutory requirements and/or outlined in the statutes of the company.

AGCS SE has a total of four Board Committees.

REINSURANCE COMMITTEE

The voting members of the Reinsurance Committee are the Chief Executive Officer (chair), Chief Financial Officer, Chief Underwriting Officer Corporate, Chief Underwriting Officer Specialty, Chief Regions & Markets Officer Region 1 and the Chief Regions & Markets Officer Region 2.

The non-voting secretary of the Reinsurance Committee is the Global Head of Reinsurance. Another permanent non-voting guest, albeit with veto and escalation rights, is the Chief Risk Officer. In addition,

the Chief Actuary is a permanent - non-voting - guest on the Reinsurance Committee.

The Reinsurance Committee meets quarterly and is quorate when at least five voting members are present. Resolutions are passed by a simple majority of votes.

The essential tasks of the Reinsurance Committee are:

- definition of a company-wide reinsurance strategy;
- development of specific a reinsurance strategy for certain business segments, depending on the nature and size of the segment as well as on the price structure of the reinsurance and market position;
- decisions about the purchase of contract reinsurance / retrocession;
- monitoring the (capital) efficiency of contract reinsurance / retrocession;
- decisions in respect of group-internal reinsurance.

RISK COMMITTEE

The voting members of the AGCS Risk Committee are the Chief Financial Officer (chair), Chief Executive Officer, Chief Claims Officer, Chief Operating Officer, Chief Regions & Markets Officer Region 1, Chief Underwriting Officer Corporate and the Chief Underwriting Officer Specialty.

The non-voting secretary of the AGCS Risk Committee is the Chief Risk Officer. Other non-voting guests are the Chief Actuary, Global Head of Internal Audit and a representative of Allianz Group Risk.

The AGCS Risk Committee convenes quarterly and is quorate when at least five voting members are present. If no consensus can be reached, a resolution based on a simple majority will be passed as long as the Committee is quorate.

The essential tasks of the AGCS Risk Committee are:

- decisions in respect of the structure and environment of risk management and the internal control framework;
- regular performance of the Own Risk and Solvency Assessment (ORSA), including surveillance of identification, evaluation, reporting and risk control processes.
- drawing up a risk strategy and submission of this strategy to the full Board of Management of AGCS SE for approval;
- ensuring that the Board of Management of AGCS SE is adequately involved in the risk management and control processes, and regularly informed about the current risk profile of AGCS SE.

UNDERWRITING COMMITTEE

The voting members of the Underwriting Committee are the Chief Underwriting Officer Specialty (chair), Chief Executive Officer, Chief Underwriting Officer Corporate, Chief Regions & Markets Officer Region 2 and the Chief Regions & Markets Officer Region 3.

The non-voting secretary of the Underwriting Committee is the Global Head of Underwriting Integrity & Solutions. Additional permanent non-voting guests are the Chief Risk Officer (including veto and escalation rights) the Global Head of Reinsurance, the Global Head of Claims as well as the Global Head of Portfolio Management.

The Underwriting Committee convenes quarterly and is quorate when at least five voting members are present. Resolutions are passed by a simple majority of votes.

The essential tasks of the Underwriting Committee are:

- decisions about new product launches;
- preparation of the documents to be presented to the Board in view of entering new markets;
- decisions regarding deviations from the AGCS Underwriting Standards, which influence the net exposure of AGCS SE and AGCS Global beyond reinsurance retention;
- annual approval of the business plans of the Chief Underwriting Officers;
- quarterly review of rate changes;
- quarterly review of product developments;
- identification and migration of all material risks related to strategic business developments.

PORTFOLIO BOARD

The voting members of the AGCS Portfolio Board are all members of the AGCS SE Board of Management, whereby the Chief Operating Officer acts as chair of the board.

The non-voting secretary of the AGCS Portfolio Board is the Head of Central Program Office Governance. Further non-voting guests are the Chief Risk Officer, the Global Head of Organization and Business Transformation, the Global Head of Central Program Office, the Chief Information Officer and the Global Head of Planning and Performance Management.

The AGCS Portfolio Board convenes quarterly and is quorate when at least five voting members are present.

The essential tasks of the AGCS Portfolio Board are:

- ensuring that all projects in the portfolio are executed in line with the agreed strategic priorities of AGCS;
- decisions regarding the project portfolio and the budget;
- review of new projects and ensuring adequate financing of these projects;
- review of the risks and problems of the portfolio and decision on the necessary remediation measures.

In addition, the company has appointed the following Functional Committees:

LOCAL INVESTMENT MANAGEMENT COMMITTEE

The voting members of the Local Investment Management Committee are the Chief Executive Officer (chair), Chief Financial Officer, Regional Chief Information Officer of Allianz Investment Management SE and the Chief Investment Manager of Allianz Investment Management SE responsible for Allianz Germany Property & Casualty.

Permanent non-voting guests are the Chief Risk Officer (including veto and escalation rights), a corresponding regional Board member of Allianz SE, the Head of Allianz Investment Management Munich IMPC, the Global Head of Corporate Finance & Treasury and the Head of Global ALM and Investment Risk Analysis.

The Local Investment Management Committee convenes quarterly and is quorate when at least three voting members are present.

The essential tasks of the Local Investment Management Committee are:

- consulting on all investment subjects for AGCS SE;
- preparation of decision papers for the AGCS SE Board of Management in respect of strategic asset allocation;
- investment performance review;
- steering of the IFRS investment result;
- liquidity review of AGCS SE;
- definition of a derivatives strategy.
- monitoring of investment-related outsourcing contracts;
- approval of individual investment transactions.

LOSS RESERVE COMMITTEE

The voting members of the Loss Reserve Committee are the Chief Actuary (chair), Chief Executive Officer, Chief Financial Officer, Chief Underwriting Officer Corporate, Chief Underwriting Officer Specialty, Chief Risk Officer and the Global Head of Claims.

The non-voting secretary is the Head of Actuarial Reserving & Analysis. Permanent non-voting guests of the Loss Reserve Committee are the Global Head of Accounting, Global Head of Planning & Performance Management, Head of Reserving & Analysis Specialty, Chief Actuary AGCS North America, Chief Actuary ART, a representative from Allianz Group Actuarial and a representative from the executive division Anglo Broker Markets / Global Lines of Allianz SE.

The Loss Reserve Committee convenes quarterly and is quorate when at least three voting members are present.

The essential tasks of the Loss Reserve Committee are:

- determination, justification and communication of the reserves to be formed under IFRS and Solvency II at the end of each quarter;
- review of activities related to the loss reserving and trend observation;
- ensuring that the requirements stipulated by Allianz Group in respect of loss reserves are complied with.

B.1.2.2 COMMITTEES AT LOCAL LEVEL

In general, committees are established only at global level. Subsidiaries or branch offices shall establish local committees only if they are necessary to fulfill local, statutory or regulatory requirements. In addition, committees can be formed at the regional or local level when this is required in the interests of good organizational structure and process organization. Their establishment is coordinated and agreed upon in advance with the pertinent global body as well as the AGCS SE Global Governance function.

B.1.2.3 RULES AND REGULATIONS

Company rules and regulations include all internal rules established by an authorized party with the aim of creating a company-wide binding standard or a binding guideline. Every company rule must be documented and approved by a relevant body. There is also a defined set of rules within AGCS SE - the AGCS Functional Rule on Corporate Rules - that describes the process and relevant criteria for drawing up and updating company rules and regulations.

The set of rules and regulations encompasses five levels:

- Code of Conduct
- AGCS Policies
- AGCS Standards
- AGCS Functional Rules
- AGCS Charters

B.1.2.4 "THREE LINES OF DEFENSE" MODEL

An elementary component of our control framework is the "Three Lines of Defense" model.

The distinctions between the different Lines of Defense are defined by the following activities:

- The First Line of Defense is maintained by the operative business units, for example, through their daily activities, risk management, and the internal controls. Its key activities include:
 - operational management of risks by assuming or directly influencing the organization, the evaluation and acceptance of risks;
 - drafting and implementation of methods, models, management reports or other controls to steer risks and support expected profits;
 - participation in business decisions.
- The Second Line of Defense ensures independent surveillance and reviews the daily risk assumption and control by the First Line of Defense. Its key activities include:
 - definition of an overarching control framework within which the operating business units can act;
 - surveillance of compliance with the control framework, review of business decisions and similar activities;
 - evaluation of the design and effectiveness of the control environment, including evaluation of control models and methods; consulting on risk-minimization strategies and control activities (including the provision of expert opinions) for the operative business units and company management.

The Second Line of Defense is characterized by the following features:

- independence of reporting, objectives, setting of objectives and responsibilities of the First Line of Defense;
 - direct reporting line and unrestricted access to the respective Board member (or to another adequate member of the management team);
 - veto right against business decisions on the basis of well-founded reasons in coordination and agreement with the respective global functions within AGCS SE or Allianz SE;
 - the right to be involved in material business decisions and to be provided with all relevant information.
- The Third Line of Defense provides independent control over the First and Second Lines of Defense. Its activities include in particular:

- an independent evaluation of the effectiveness and efficiency of internal controls as well as the activities of the First Line of Defense and the Second Line of Defense;
- reporting to the divisional Board Member in charge.

The Third Line of Defense has the same competencies as the Second Line of Defense, with the exception of the veto right against business decisions.

B.1.2.5 RECIPROCAL OVERSIGHT

To ensure an effective internal control system, all control functions are obliged to cooperate and exchange necessary information. Given that control activities may be exercised by staff in different organizational units, appropriate mechanisms have been established between the control functions to allow for fully informed and well-founded decision-making.

- Where control activities of the Second Line of Defense are assumed by the First Line of Defense, the assignment of responsibilities is based on clear and documented management decisions.
- The Second Line of Defense and the Internal Audit function are separate; they have no reciprocal right of instruction and no reporting line from one function into the other. The Actuarial, Legal, Compliance and Risk Management functions form part of the audit program of the Internal Audit function; the adequacy and effectiveness of these functions are regularly assessed. The Head of Internal Audit keeps the Heads of Actuarial, Legal, Compliance and Risk Management informed of any audit findings related to their area of responsibilities.
- The Actuarial, Legal, Compliance, Risk Management and Internal Audit functions jointly assess the responsibilities and processes at least once a year and thus ensure that the responsibilities and processes which are defined in the control framework are implemented in the individual functions in a clear and systematic manner. These functions cooperate closely, maintain an intensive exchange of thoughts and ideas, and are familiar with the specific tasks and competencies of the sister functions.

The responsibility of the Internal Audit function to independently assess the effectiveness and efficiency of the internal control system remains unaffected.

B.1.2.6 ACTUARIAL FUNCTION

The Actuarial function carries out tasks based on regulatory and business requirements.

It heads the Loss Reserve Committee, which makes decisions about the amount of insurance reserves, issues a recommendation to this body regarding the appropriate amount of such provisions. The Actuarial function is represented and entitled to vote via its holder.

The Actuarial function also expresses an opinion regarding the company's underwriting and acceptance policy of underwriting risks and the appropriateness of the reinsurance structure.

The Actuarial function interfaces and works closely together with the Risk Management function. In particular, it is responsible for modeling all underwriting risks within the Internal Risk Capital Model.

B.1.2.7 COMPLIANCE FUNCTION

As part of the internal control system and as the Second Line of Defense, the Compliance function supports and monitors the adherence to the applicable statutory and administrative provisions, and advises the Board of Management in respect of all compliance-related issues.

In addition, the Compliance function monitors the relevant legal environment and informs the Board of Management of material changes in a timely manner.

In close coordination with Risk Management, the Compliance function evaluates the compliance risk for allocated risk areas regularly on an annual basis, and monitors the implementation of corresponding risk-minimizing measures.

In order to perform its tasks and in collaboration with the operating entities, the Compliance function has established a global compliance framework, which is regularly reviewed in terms of adequacy and effectiveness by the Allianz Group Compliance function within the scope of a maturity analysis.

B.1.2.8 RISK MANAGEMENT FUNCTION

The Risk Management function is headed by the Chief Risk Officer, who reports to the Chief Financial Officer. Risk Management supports the various bodies responsible for risk control mentioned above through the analysis and communication of risk-management related information.

The Risk Management function is, for example, responsible for monitoring limits and accumulations for certain types of risk such as natural catastrophes and the exposure to financial markets.

In addition, the Risk Management function independently supports the operating entities by developing a common risk management framework and by monitoring compliance with method and process requirements.

The Risk Management function strengthens and facilitates the risk network through regular, close exchanges with the management of the legal entities and local key functions such as local risk management, the local actuarial functions and the local investment departments. A strong risk network which also extends to the Allianz Group ensures that risks are identified early on and made known to the management in a timely manner.

B.1.2.9 INTERNAL AUDIT FUNCTION

The Internal Audit function forms the Third Line of Defense. The Internal Audit function of AGCS SE regularly conducts an independent review of the Risk Management function. In addition, adherence to business standards, including compliance with the internal control framework, is tested by the Internal Audit function on a cyclical basis.

The Internal Audit function evaluates and issues recommendations on improving the effectiveness of the internal control system by applying systematic audit approaches. The audit universe is defined and reviewed on an annual basis using risk-based approaches. This audit universe is then used to steer and prioritize internal audit activities. The entire audit universe must be adequately covered within a five-year period.

For every audit conducted, the Internal Audit function produces an audit report, including recommendations, based on facts and professional judgement, a summary of the most important results and an overall assessment. Implementation measures for the remedy of deficiencies identified in the audit report are drawn up in consultation with the entity audited. The Internal Audit function systematically checks

with the deficiencies identified have been remedied or, in individual cases, a risk acceptance has been established by the responsible management.

B.1.2.10 GENERAL

AGCS SE endows the key functions in view of personnel capacities, employee qualifications and organizational infrastructure in such a manner that they can fulfill their task in a due and proper manner.

Quantitative information on staffing of the key functions

The **Actuarial team - CFO Actuarial** - comprises a total of 25 employees, of whom 10 employees are explicitly assigned to the Actuarial function. The **Compliance function** has a total of 25 employees. Of this team, 13 employees work exclusively for the Compliance function. The remaining 12 employees perform additional tasks for the Legal department. The Risk Management function consists of 15 employees. The **Internal Audit function** has, at global level, a total of 20 employees, who cover AGCS SE as well as its majority-owned subsidiaries.

In addition, AGCS SE makes sure that the key functions have comprehensive access to all information relevant to their areas of activity and are not subject to any operating influences, which would interfere with the orderly performance of their tasks. Their activities are regularly reported by the heads of the respective departments to the Board of Management of AGCS SE; in case of critical developments, these are reported immediately.

B.1.3 Remuneration

The remuneration policy of AGCS SE is aligned to the business and risk strategy, and, in this conjunction, it is structured such that it takes into account the internal organization as well as the inherent risks, depending on the type, scope and complexity of the business activities. Its aim is to recruit highly qualified managers and employees and to have them stay with the company over the long run.

B.1.3.1 GENERAL

Variable and fixed remuneration components are appropriately balanced. The fixed component takes into account the position as well as the responsibilities of the individual employee, while considering the market environment. At the same time, it comprises a sufficiently high proportion of the total remuneration so that the employee is not dependent on the variable remuneration. The variable remuneration share in the total remuneration increases with growing responsibility and ranges from 8 to 70% of the total remuneration. Variable remuneration components are designed to incentivize performance without, at the same time, encouraging the employee to take risks which may not be compatible with the risk profile of the company. The amount of the performance-related variable components results from both the evaluation of individual performance and of the corresponding business unit as well as the overall result of the company.

B.1.3.2 REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration of the members of the Supervisory Board of AGCS SE is approved in accordance with our Statutes and German Stock Law by the Annual Shareholders' Assembly. The members of the

Supervisory Board receive an annual fixed remuneration as well as a flat attendance fee.

As a general rule, Supervisory Board members that currently hold a Board mandate or a similar position in a company of the Allianz Group waive their Supervisory Board remuneration by means of a written declaration to the Board of Management.

B.1.3.3 REMUNERATION OF MEMBERS OF THE BOARD OF MANAGEMENT

The remuneration of the Board of Management consists of performance-related and non-performance related components. The non-performance related remuneration covers fixed remuneration and additional benefits (essentially a company car and insurances via certain group insurance policies). The various components of the performance-related remuneration are described in a Group-wide plan, the Allianz Sustained Performance Plan. The Allianz Sustained Performance Plan comprises the three following components:

- annual bonus: a performance-related cash payment that depends on the target achievement level in the fiscal year in question;
- three-year bonus (mid-term bonus): a performance-related cash payment which reflects the target achievement over a three-year period;
- equity-based remuneration (Group Equity Incentives): a performance-related remuneration in the form of virtual shares, the so-called "Restricted Stock Units". The amount of shares allocated is based on the achievement of annual targets. Following expiry of the four-year lock-up period, the participants of the Allianz Sustained Performance Plan receive the equivalent of one Allianz SE share for each Restricted Stock Unit. In this manner, the participants participate in the long-term performance of Allianz Group over a four-year period that reflects the development of the Allianz share price.

The annual target achievement level is decisive in determining the amount of the annual bonus. It also forms the basis for the annual non-binding allocation of the three-year bonus and the annual allocation of the Restricted Stock Units. The actual payments of the three-year bonus and of the equity-based remuneration are dependent on the sustainable development over a longer performance period.

The quantitative and qualitative performance targets for the variable remuneration of Board members are annually set by the Supervisory Board.

B.1.3.4 REMUNERATION OF SENIOR EXECUTIVES

Above a certain hierarchy level, the remuneration system and the remuneration of directors are determined by the AGCS SE Remuneration Committee. The Allianz Sustained Performance Plan also sets forth the conditions for variable remuneration, which consists of two components: an annual bonus and equity-based remuneration.

B.1.3.5 REMUNERATION OF ALL OTHER EXECUTIVES

The remuneration system and the remuneration of all other executives are generally determined by the AGCS SE Remuneration Committee. In this category, the annual bonus generally constitutes only the variable remuneration component. In justified exceptional cases, an equity-

based remuneration component may be granted in the form of Restricted Stock Units.

B.1.3.6 REMUNERATION OF NON-EXECUTIVE EMPLOYEES

The fixed remuneration for non-executive employees is based on the collective pay scale agreements for the private insurance industry as well as on supplementary agreements in the employment contract. The corporate targets relevant to the variable remuneration of non-executive employees are set by the Board of Management of AGCS SE at the beginning of the year. The year-end target achievement level results in a factor which, when multiplied with the agreed target bonus – the product of annual salary and target bonus percentage – results in the individual variable remuneration.

B.1.3.7 COMPANY RETIREMENT PENSIONS AND COMPARABLE BENEFITS FOR MEMBERS OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Members of the Board of Management

This is aimed at granting competitive and cost-effective pension benefits (retirement pension, occupational disability, invalidity, survivors' benefits) through appropriate pension commitments. For this purpose, Board members participate in contribution-based retirement pension plans. Allianz Versorgungskasse VVaG and Allianz Pensionsverein e.V. constitute the basic provision for Board members who joined Allianz on or before 31 December 2014. These contribution-based commitments cover company pension benefits for basic salaries up to the assessment ceiling for the statutory pension insurance system. With effect as of 1 January 2015, the company pays contributions into an insurance plan "My Allianz Pension" that guarantees paid-in contributions. Taking into account the benefit level to be reached, the Supervisory Board decides every year as to whether and in which amount a budget for paying contributions is to be made available. The budget includes an additional risk premium meant to cover loss of life and the risk of occupational disability or invalidity. Upon retirement, the accumulated capital is paid out or converted into lifelong pension benefits. Pension benefits fall due at the earliest upon reaching age 62.

Members of the Supervisory Board

Supervisory Board members are not granted any pension benefits for their membership in the Supervisory Board.

B.1.4 Assessment of the adequacy of the System of Governance

As a general rule, the effectiveness and appropriateness of the governance system is reviewed once per year, and additionally on special occasions. In 2019, the review was conducted under the lead responsibility of the Global Governance function of AGCS SE, which is embedded in the Legal department. The results of the review and the corresponding measures derived therefrom to further strengthen the governance system were presented for final evaluation to the Board of Management of AGCS SE. As a whole, the Board found the governance system to be effective and appropriate.

B.2 FIT AND PROPER REQUIREMENT

B.2.1 Requirements in terms of professional qualifications, knowledge and expertise of persons who effectively run the company or hold other key functions

The AGCS Fit and Proper Policy adopted by AGCS SE defines the requirements in terms of professional qualifications, knowledge and expertise of persons who effectively run the company or hold other key functions as follows:

Members of the Board of Management

The Board of Management as a body must collectively possess at any time the know-how required for managing an insurance undertaking in the following subject areas:

- insurance and financial markets,
- corporate strategy and business models – risk management and internal control system,
- governance system and business organization,
- finance,
- actuary as well as
- supervisory framework conditions for the business activities of the enterprise.

Every individual Board member must possess the qualifications, knowledge and experience that are required for their concrete area of responsibility within the Board as well as for understanding and controlling the activities of the other Board members. In addition to theoretical and practical knowledge of the insurance business, this also includes adequate senior management experience. Such experience generally exists if the Board member has, for at least three years, held a senior executive position in an insurance undertaking of comparable nature and size.

Members of the Supervisory Board

The Supervisory Board as a body must collectively possess at any time the know-how and experience that are required for the diligent and independent execution of its tasks, in particular the supervision and counseling of the Board of Management.

Other key function holders

These must possess the knowledge required for their respective position and – to the extent that their concrete activities include management tasks – have adequate management experience.

B.2.2 Procedure for the evaluation of the professional qualifications and personal propriety of persons who effectively run the company or hold other key functions

The required professional qualification and propriety are ensured by means of the following processes:

- In the selection process, the candidates must submit various documents on the basis of which their qualifications and propriety can be assessed (for example curriculum vitae, certificate of good conduct, extract from the central trade register, extract from the judicial record). In addition, at least two personal interviews must be conducted with potential Board members and key function holders – with at least one of the interviews involving an HR professional. The employee representatives on the Supervisory Board are elected by the Annual Shareholders' Assembly upon binding proposal by the employees. Following their election, they, too, must submit the documents mentioned above.
- The appointment of new members of the Board of Management and the Supervisory Board as well as key function holders must also be reported to the supervisory authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* - BaFin). This obligation of notification applies to both the members of the Supervisory Board appointed by the Annual Shareholders' Assembly as well as to the employee representatives on the Supervisory Board elected by the workforce in accordance with the statutory provisions. The explicit consent of Federal Financial Supervisory Authority (BaFin) is required for the appointment of new members to the Board of Management as well as of holders of key functions. On the basis of the documentation to be submitted, the supervisory authority (BaFin) determines whether the new mandate holders meet all supervisory law requirements with respect to their qualifications and propriety. In case of doubts about the qualification, the supervisory authority (BaFin) has the right to demand participation in professional training programs. In extreme cases, the authority can also demand the dismissal of persons who fail to meet the fit and proper requirements.
- During the mandate / the employment relationship, compliance with the fit and proper requirements must undergo regular review. In addition to general measures for all employees (for example target-setting meetings and regular talks with the supervisor), there are special procedures in place for the members of the Board of Management and the Supervisory Board. The Supervisory Board annually reviews the qualifications and propriety of the individual Board members as well as of the Board as a whole. For this purpose, the Board members submit relevant documents (for example a declaration of fitness and propriety). In addition, the Supervisory Board performs an annual self-evaluation with respect to its own fitness and propriety. This evaluation is based, amongst others, on the self-assessment of the Supervisory Board

members with regard to their knowledge in the areas of investment, underwriting and accounting. On the basis of the results, a development plan for the Supervisory Board is drawn up and adopted by the Supervisory Board. The self-assessments of the Supervisory Board members as well as the development plan adopted must be submitted to the BaFin supervisory authority.

- If there are indications that a member of the Board of Management or the Supervisory Board or a holder of another key function no longer meets the fit and proper requirements, an extraordinary review of this particular case will take place.
- Finally, all persons covered by our Fit and Proper Policy have an obligation to keep their knowledge up-to-date at all times, for example by means of appropriate continued education and training programs. With respect to propriety, the respective Compliance departments offer regular training and continued education measures in the fair and regulatory conduct of business. These may concern, for example, subjects such as combating corruption and antitrust law. For members of the Supervisory Board, the company offers regular training sessions that provide in-depth information on subjects of relevance to the work of the Supervisory Board. In addition, Supervisory Board members have a budget for external continued education and training programs.

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1 Risk management system

The organizational structure and process organization of the risk management system of AGCS SE allow for the steering of risks in an integrated manner. At the same time, they ensure that risks assumed are consistent with the company's risk-bearing capacity and, specifically, with the risk appetite defined in the risk strategy. The organizational structure and process organization of the risk management system follow a top-down approach: The highest control function is that of the Supervisory Board, which, together with the Board of Management, assumes responsibility for the company's risk profile and the committees involved.

SUPERVISORY BOARD OF AGCS SE

The Supervisory Board of AGCS SE oversees and advises the Board of Management on managing the company. This task includes the control of the adequacy and effectiveness of the risk management system. The Supervisory Board is regularly informed about the risk strategy, current solvency, the financial situation and the profitability of AGCS SE. This also includes the findings of internal and external audits. To be able to perform its supervisory and control function in an adequate manner, the Supervisory Board also has the right to request information from the Internal Audit function.

BOARD OF MANAGEMENT OF AGCS SE

The Board of Management has the ultimate responsibility for the company's business as well as its organizational structure and process organization. Its responsibilities include:

- implementation of the AGCS Risk Policy within the structural arrangements and work processes of AGCS SE, as well as in the business guidelines of the company to the extent that these are relevant to the business activities of AGCS SE and the risks associated therewith;
- development and implementation of the risk strategy of AGCS SE, the risk tolerance defined therein (limits), as well as aligning the business strategy of AGCS SE with the risk strategy of both AGCS SE and of the Allianz Group;
- setting up a Risk Management function which is responsible for the independent monitoring of risks under the responsibility of the AGCS SE Chief Finance Officer;
- definition and implementation of risk management processes, including processes for assessing the company's solvency;
- use of the Internal Model of the Allianz Group as adapted to the business of AGCS SE.

In case of the delegation of one of the above responsibilities to a committee, it must be ensured that all members of the Board of Management:

- are informed about risk management subjects and are aware of the decisions that have to be taken.
- have the right to personally participate in the committees in order to voice their opinions or concerns.
- are informed completely and in a timely manner about the committee's decisions.

An overarching risk governance system is defined by the implemented guidelines and standards for the organizational structure, the risk strategy, the system of limits, and documentation and reporting requirements. These guidelines ensure, on the one hand, that there is prompt and complete communication of risk-relevant developments within the company and of the decisions taken, and, on the other, the implementation of a process for taking and implementing decisions.

B.3.1.1 RISK MANAGEMENT APPROACH

For AGCS SE as an international insurance company with industrial and corporate clients, risk management is a core competency and thus an essential component of its business processes.

The risk management at AGCS SE is aimed at increasing the company's value sustainably by optimally weighing up the risk and earnings situation. The risk capital policy is applied with the objective of protecting the capital base of AGCS SE, reinforcing its financial strength and fulfilling the tasks arising from the insurance business. The risk management system can help to protect AGCS SE's financial strength in the interests of Allianz SE as shareholder, while safeguarding the entitlements of the policyholders. Our risk management includes the necessary strategies, processes and reports for identifying, assessing, observing and steering existing and potential risks. Another core task of risk management is translating risk drivers, dependencies and capital requirements for risks into decision-making templates for the management by allocating risks and their capital requirements to segments and regions. AGCS SE supports the company's risk culture with a comprehensive, systematically implemented organizational structure and process organization for the Risk Management function.

B.3.1.2 BASIC PRINCIPLES OF RISK MANAGEMENT

Risk management at AGCS SE assesses the company's risk bearing capacity. It is based on a coherent understanding of the risks assumed and the risk management processes, as well as of the associated control mechanisms. In this process, risk management pursues the following basic principles:

Basic principle 1: Responsibility of the Board of Management for the risk strategy

The Board of Management of AGCS SE establishes and pursues the risk strategy and ensures compliance with the related risk tolerance, which is aligned to the business strategy on a regular basis. The risk strategy constitutes a general approach to the management of all material risks that arise within the framework of the business activities and pursuit of the business objectives. The risk tolerance for all material quantifiable and non-quantifiable risks takes into account the expectations of Allianz SE as shareholder, regulatory requirements and the requirements of rating agencies. Both the risk strategy and the risk tolerance are reviewed at least once per year, and, if necessary, adjusted and communicated to all functions concerned.

Basic principle 2: Risk capital as key control parameter

Risk capital is the key dimension in defining the risk tolerance as part of the company's solvency assessment. It serves as the key indicator for the company's decision-making and risk management processes in respect of capital allocation and limits. In this context, capital is considered to be an available financial resource. With regard to material business decisions, the influence on risk capital is taken into consideration.

Calculations and aggregations are performed consistently across all operating segments in order to establish a standard for measurements and to be able to compare risks.

Additionally, stress testing and scenario analyses are performed as part of the solvency assessment to ensure the availability of sufficient capital in order to protect the company against unexpected and extreme economic scenarios.

Basic principle 3: Clear definition of the structural arrangements and risk management processes

AGCS SE has established an organizational structure that is clearly defined and ensures the monitoring of all risk categories. This organizational structure also defines the roles and responsibilities of all functions involved. This structure is communicated clearly and in full to all relevant functions.

Basic principle 4: Consistent risk assessment

Relevant risks, including both single and accumulation risks, are measured across all risk categories using consistent quantitative and qualitative methods. Quantitative risks are assessed using the Internal Model for risk capital calculation. Risk assessments and calculations are clearly defined in the risk capital regulations of AGCS SE and ensure a consistent approach within the Allianz Group. The results are analyzed and evaluated with the help of statistical models and qualitative expert assessments.

Single risks that cannot be quantified with the risk capital model, as well as complex risk structures resulting from a combination of several single risks or risk categories are assessed with the help of qualitative criteria and partially simplified quantitative methods (for example, scenario analyses).

If a quantification is not possible, the evaluation is made on the basis of qualitative criteria.

Basic principle 5: (Continued) development and integration of the limit system

AGCS SE has a consistent limit system than ensures adherence to the risk tolerance, governs the handling of concentration risks and – to the extent appropriate – supports capital allocation. The limit system covers all relevant risks sizes and drivers of risk capital and is supplemented by further-reaching operative limits. The limit system is regularly reviewed via the risk strategy and the internal guidelines related thereto by the Board of Management, which then approves it.

Basic principle 6: Mitigation of risks exceeding the risk tolerance

If individual risks exceed their limit or the sum of risks exceeds the risk tolerance, the risk exposures are reduced to an appropriate degree. To this end, measures are defined to retain the risks within the limits while covering the planned risk tolerance at the same time by, for example, adjusting the reinsurance solutions, strengthening the control environment, reducing or hedging the risk positions or adjusting the risk tolerance.

Risk limitations are only applied in the framework of economically and legally imposed framework conditions.

Basic principle 7: Consistent and effective monitoring

Risk tolerance and the management of risks have been integrated into a standardized process for the definition of limits, which comprises all quantifiable risks of AGCS SE and takes into account risk diversification and concentration. Clearly defined and strictly imposed reporting requirements and escalation processes ensure that, in case of limit breaches, compliance with the risk tolerance is re-established and, if required, risk limitation measures are initiated immediately.

In addition, an early risk warning system, a reporting system for material risks, the assessment of new types of risks and a process for new products have been established to identify new risks and new types of risks. The identified risks are regularly reported and examined.

Basic principle 8: Consistent risk reporting and risk communication

The Risk Management function of AGCS SE produces regular risk reports and, if necessary, additional ad hoc reports, which cover risk-relevant topics in a transparent manner and are submitted to the AGCS Risk Committee. These reports are supplemented by risk assessments that are particularly relevant for external stakeholders (supervisory authorities, rating agencies, etc.). The results of the Own Risk and Solvency Assessment (ORSA) are documented in the annual ORSA Report. The data and assumptions on which the information is based are embedded in a comprehensive control environment, thus ensuring appropriate data quality for complete, consistent and timely reporting to the management.

The ad-hoc reporting system covers events that are unexpected with respect to the amount or scale of the loss, or can have an unexpectedly strong impact on the risk profile of AGCS SE. This impact concerns the income statement, the company's equity base, the reputation, the continuation of business operations as well as non-compliance with regulatory or legal requirements.

The ad hoc and the regular reporting systems are subject to consistent materiality thresholds. Reporting to the Risk Management function of the Allianz Group is performed regularly via emails as well as regular or ad-hoc meetings.

Basic principle 9: Integration of risk management into business processes

To the extent possible, risk management processes are directly integrated into the business processes. This includes strategic and tactical decisions of the company as well as decisions related to day-to-day business operations to the extent that these impact the risk profile. This comprehensive integration ensures that the Risk Management function primarily plays a role in defining future risk exposures, and only secondarily assesses and steers existing risks as part of a reactionary process.

The risk culture fostered by the Board of Management of AGCS SE is essential for the success of this integration. By acting as a role model for a strong risk culture, the Board of Management demonstrates that the management of risks is an important factor in achieving business objectives.

Basic principle 10: Comprehensive and timely documentation

All business decisions that potentially can have a material impact on the risk profile of AGCS SE must be documented in a timely fashion. The documentation must be established in such a manner as to provide a clear understanding of the consideration of material risk implications.

B.3.1.3 FIT AND PROPER REQUIREMENT

The adequate staffing of key functions is essential for the best possible implementation of all processes. For this reason, the Chief Financial Officer of AGCS SE consults with the Group Chief Risk Officer of Allianz SE in case of the hiring or dismissal of the Chief Risk Officer of AGCS SE and makes sure that the professional and personal qualifications of the Chief Risk Officer fully meet the requirements of the AGCS Fit and Proper Policy.

The Chief Risk Officer must have the qualifications, experience and knowledge to meet their responsibilities. They must discharge their duties in a manner commensurate with the complexity of the business as well as the nature and size of the company. In addition, they must distinguish themselves through honesty, integrity and a strong reputation and possess the corresponding expertise and financial strength.

Essentially, the Chief Risk Officer must have the following knowledge:

- knowledge of the regulatory framework and applicable requirements;
- knowledge of financial and insurance markets;
- knowledge of the business strategy and the business model of AGCS SE;
- knowledge of the organizational structure and process organization.

B.3.1.4 RESOURCES

The AGCS SE Risk Management function has sufficient resources to be able to meet its responsibilities in a proper and risk-oriented manner. Once a year, the tasks of the Risk Management function are discussed and determined for the coming year. In this process, the set priorities and tasks are also aligned with the qualifications and number of employees to ensure the feasibility of the priorities and tasks. Not only the available resources of AGCS SE are taken into account, but also the regional risk management functions in our subsidiaries.

In addition, reciprocal oversight is performed between the key functions in accordance with the regulatory requirements. This reciprocal oversight takes place between the Internal Audit, the Compliance function, the Legal Department, the Actuarial function, Accounting and the Risk Management function.

B.3.1.5 RISK STRATEGY

The risk strategy of AGCS SE is the core element of the risk management regulations. It defines the general risk appetite using the specifications with regard to the minimum capitalization of the company or for subsidiaries and participations of AGCS SE. In addition, the risk strategy refers to separate standards in which the risk tolerance for individual risks is defined. Risk tolerance is defined by taking all material, qualitative and quantitative risks of the company into account. The regulations are aimed at ensuring that all obligations with respect to our customers are met while creating sustainable added value for our shareholder at the same time.

Our business strategy is determined by the Board of Management of AGCS SE, discussed with the Supervisory Board and coordinated with Allianz Group. In the strategic dialog and the planning dialog, business and risk strategy are aligned with each other.

B.3.2 Policy framework for the organizational structure and process organization of risk management

AGCS SE has established an effective governance system to promote implementation of the business strategy, to ensure adequate monitoring and control of business risks, and to guarantee compliance with legal requirements. This system includes guidelines for the methods used to assess risks, for the risk management structures and for the risk governance processes.

For capital market risks, credit risks, underwriting risks, business risks, and operational risks, additional guidelines apply; they define the risks entered into and stipulate the risk tolerance for these risk categories. This risk tolerance forms the foundation for the risk-based steering of the business. In addition, the guidelines specify responsibilities and the scope of authority, and define measures for minimizing risk and for escalation if limits are exceeded. For each risk category, the guidelines supplement the requirements and provisions in the superordinate ORSA Standard, the Top Risk Assessment Guideline and the Standard on Model Governance.

B.3.3 Specific material risks for AGCS Global and AGCS SE

B.3.3.1 FRAMEWORK FOR TOP RISK SCOPING AND ASSESSMENT

The Top Risk Scoping and Assessment (TRSA) is a periodic analysis of all material quantifiable and non-quantifiable risks to identify and steer threats to the financial results, as well as the operational viability of and adherence to strategic objectives. The requirements in respect of a consistent and transparent process for the Top Risk Scoping and

Assessment are documented in the AGCS Guideline on Top Risk Scoping and Assessment.

Once the Board of Management has determined the material risks, these are assigned to the respective members of the Board of Management. The Board members are responsible for making the risk profile transparent and for defining measures to mitigate the risk in the event that the risk tolerance defined by the Board is exceeded. The outcome of this risk assessment is reviewed by the Risk Management function on a quarterly basis or ad hoc if needed and reported to the Risk Committee as well as to the Board of Management. In addition to the quarterly review, all quantifiable risks are also modeled within the Internal Risk model.

The TRSA process for AGCS Global and AGCS SE is validated by supplementary risk and control assessments. It actively manages quantitative and non-quantifiable risks relevant to AGCS on a global level and the AGCS SE legal entity. It is a key instrument for the Board of Management to take over ultimate responsibility for these risks.

The TRSA process is divided into four phases:

- identification (annually);
- analysis and evaluation (quarterly);
- steering (quarterly);
- monitoring (quarterly).

B.3.4 Governance of the Internal Risk Capital Model

The Internal Model of Allianz, which is used by AGCS SE, covers all material quantifiable risks, and takes into account market risks, credit risks, underwriting risks, business risks and operational risks.

The Internal Model is based on a Value-at-Risk (VaR) approach that uses a Monte-Carlo simulation. This approach defines the maximum loss in the portfolio value within the specified timeframe ("holding period") and on the basis of a specific probability of occurrence ("confidence level"). In this conjunction, a confidence level of 99.5% and a holding period of one year are applied. The risk simulation considers risk events of all modeled risk categories ("risk sources"). The respective portfolio value resulting therefrom is defined by deducting the fair value of the liabilities from the fair value of the assets.

The required internal risk capital is the difference between the portfolio's current value and its value under unfavorable conditions, determined on the basis of a 99.5% confidence level. Since the influence of both favorable and unfavorable events on all risk sources and all business units within the scope of the model is considered simultaneously, diversification effects beyond products and regions are also taken into account. With the results of our Monte Carlo simulation, AGCS SE is able to analyze the risk related to each risk source both separately and in connection with other risk sources. Particularly with respect to market risks, several pre-defined stress scenarios are also analyzed, which are based either on historical or hypothetical market movements. The model approach used also allows for the identification of scenarios that have a positive effect on solvency.

Material risks which are not completely considered in the calculation of the Solvency Capital Requirement are exclusively non-quantifiable risks such as the reputational risk, the liquidity risk and the strategic risk. Conceptually, these do not fall within the scope of application

of the Internal Model and are steered via other risk management processes.

During the 2019 reporting year, no material changes were made to the governance of the Internal Model.

B.3.4.1 DESCRIPTION OF RISK CATEGORIES

The risk categories relevant to AGCS SE are described in the following table:

Table 7: Risk categories relevant to AGCS SE

Risk category	Definition
Market risk	Unexpected losses arising due to changes in market prices or parameters influencing market prices, as well as the resultant risk from options and guarantees that are contained in contracts or changes to the value of assets or liabilities in participations resulting from corresponding changes to parameters. In particular, these include changes to equity prices, interest rates, real estate prices, exchange rates, credit spreads and implied volatilities. Therefore, the market price risk also includes market price changes due to a deterioration in market liquidity.
Credit risk	Unexpected losses in the market value of the portfolio due to deterioration in the credit rating of counter-parties, including their failure to meet payment obligations or due to non-performing instruments (for example overdue payments).
Underwriting risk	Losses due to unexpectedly high future losses, including those resulting from natural or man-made catastrophes, as well as run-off losses from existing claims reserves.
Business risk	Losses due to unexpectedly high lapse rates in the in-force business and the corresponding loss of income as well as continuing fixed costs in the face of declining new business.
Operational risk	Unexpected losses due to inadequate or defective internal processes and systems, to human misconduct or due to errors or external events.
Reputational risk	Unexpected drop in the value of Allianz share price, loss in value of in-force business or of future business, caused by a decline in the reputation of Allianz Group, or of a specific operating entity from the perspective of its shareholder.
Liquidity risk	Unexpected financial losses due to non-fulfillment of current short-term or future payment obligations or if fulfillment is based on adverse changes in terms and conditions, as well as the risk of refinancing at higher interest rates or via the sale of assets at a discount within the course of a liquidity crisis.
Strategic risk	Unexpected negative changes in the value of a business entity due to wrong management decisions regarding the business strategy and the implementation thereof.

B.3.4.2 ADEQUACY OF INTERNAL RISK CAPITAL MODEL IN RESPECT OF BUSINESS PROFILE AND MODEL GOVERNANCE

The use of the Internal Risk Capital Model is subject to approval by the Board of Management of AGCS SE. The respective operating entities need an initial approval of the model and ongoing confirmation of its appropriateness. According to Solvency II requirements, a set of compulsory model governance and control principles, which, for example, cover the model change process, apply to the whole lifecycle of the Internal Risk Capital Model.

The Internal Model is aimed at reflecting the risk profile of AGCS SE and is based on state-of-the-art methods for the modeling of risks. With this aim in mind, all stakeholder groups are called upon to submit proposals for model changes and improvements, which will then be considered in accordance with the model governance processes.

The Allianz Internal Model governance framework encompasses the governance rules and principles to ensure the initial and ongoing appropriateness of the Internal Risk Capital Model.

In this conjunction, the framework covers the whole lifecycle of the Internal Model from its development to its implementation and use. The most important topics include: model changes, model updates, validation, approval, implementation and operational use, as well as the monitoring of ongoing appropriateness during use. The following standards and documents constitute the key elements of the model governance framework.

AGCS STANDARD ON MODEL GOVERNANCE

The AGCS Standard model governance sets the rules and principles for ensuring the appropriateness of the Internal Model:

- All elements of the Internal Model must go through a structured validation and approval process before the model may be used.
- A validation process takes into account all relevant qualitative and quantitative aspects and ascertains the adequacy of the Internal Model with regard to the risk profile of the company and its reliability as a basis for risk-related decisions.
- There must be controls in place to prevent or detect errors during operative use of the Internal Model.
- There must be ongoing documentation of all quantitative and qualitative components of the Internal Model to provide evidence of model appropriateness.

With respect to model validation, the following approach is applied:

- The model owners assess whether the results produced by the model are appropriate and whether the existing documentation is sufficient.
- Independent validation considers model-specific validation topics, such as coverage, methodology, calibration, data, calculation methods, results, and documentation, as well as qualitative aspects including model governance, expert assessments, data quality, and use test.
- At the local level, suitability assessments must be performed to assess where the central model components are appropriate and take into account local specifics.
- Overarching models are used to validate the entire model, taking into consideration the results obtained across all validation areas and the interrelations between them.

ANNUAL VALIDATION REPORT

The annual validation report is produced to document the results of the regular model validation process, to present the ongoing appropriateness of the Internal Model, and to comply with the regulatory requirements of Solvency II.

ALLIANZ STANDARD FOR MODEL CHANGE

The Allianz Standard for Model Change adopted by AGCS SE defines rules and principles with which the appropriateness of changes to the Internal Model is ensured:

- Should incidents necessitate a change to the model (for example, changes in the risk profile, business model or operating environment), the Internal Model must be re-validated and re-approved in order to ensure that its appropriateness is maintained following incidents which require a change to the model.
- All model changes must go through a structured model change and approval process before the changed model can be used.
- The decision-making body for approving model changes depends on the materiality and proportionality of the model component.
- The quantitative impact of individual changes, as well as the combined impact of multiple changes, is analyzed as an integral part of the model change process.
- Model changes are – in accordance with model governance – subdivided into greater, smaller and non-essential model changes, whereby the sum of several smaller and non-essential model changes can be the equivalent of a greater model change.

Within the scope of the governance of the Internal Model, the respective model owners and the governance and coordination function of the Internal Model assume a special role.

Model owners are the expert functions for the respective risk categories. If required, they develop their own model components, evaluate central model components with respect to their suitability for AGCS, and are responsible for the ongoing suitability of the model for the respective risks.

The governance and coordination function of the Internal Model is responsible for overarching validation and coordinates greater model changes, the annual validation report as well as the authorization process with the Board of Management. In accordance with the framework, the Board can delegate approvals to the AGCS Risk Committee.

B.3.5 Own Risk and Solvency Assessment (ORSA)

Own Risk and Solvency Assessment (ORSA) is the comprehensive term for a multitude of activities that are related to one another and cover the entire annual period. These activities enable AGCS to ensure, on an ongoing basis, a sufficient and balanced ratio between own funds and risks entered into.

The following elements of the ORSA process are of particular importance:

- ensuring the consistency of business strategy and risk strategy: As part of risk planning, the operative planning result derived from the business strategy is reviewed with respect to the company's risk bearing capacity. In addition, risk tolerances for the planning period are determined from the planning results. The future tolerances and the corresponding concepts are defined in the risk strategy or in documents related to the risk strategy. This process ensures the consistency of business and risk strategy.
- risk capital calculation: The risk capital is determined in reference to market, credit, underwriting, business and operational risks on the basis of the Internal Model. The total risk capital corresponds to the sum of the individual categories, diminished for diversification effects and deferred taxes.
- determination of sensitivities in the solvency situation under stress scenarios.
- limit system maintenance: The results of the planning process are analyzed with respect to their effect on capital resources and, if necessary, limits are adjusted for the next fiscal year. Adherence to the limits is monitored over the course of the year. If necessary, measures are taken in order to ensure the exposure to risk within the framework stipulated. Quantitative limits are in place for market, credit and underwriting risks.
- Top Risk Assessment: The Top Risk Assessment supplements the overall solvency assessment with the evaluation of risks which are not quantified in the Internal Model. To the extent that risks are identified there, an adjustment of the overall solvency needs will be performed. Each individual risk is evaluated on an estimate of the loss amount and frequency. The frequency selected varies for each scenario selected by experts, which generally reflects a scenario from the Internal Model. On a quarterly basis, the risk situation with respect to material risks is, in turn, reported within the scope of the Top Risk Assessment meetings and – if necessary – decisions with regard to risk-mitigation measures are taken.
- capital management: For AGCS SE, it is of crucial importance that adequate capitalization with respect to supervisory requirements, rating capital requirements and market-specific needs is ensured at all times.
- calculation of economic and regulatory solvency positions as well as their sensitivity to stress scenarios.
- review of the appropriateness of the Internal Model: The Internal Model for determining the internal risk capital is validated regularly. In this manner, it is ensured that the model correctly reflects the risk profile of the company. In addition, changes in the model are also reviewed with respect to their appropriateness for AGCS SE.
- determining the effectiveness of the internal control system: The determination of the effectiveness of the internal control system includes the latest results of control tests, audit reports, and reviews and assessments by third-party providers. The ERIC Advisory Group - comprising mainly representatives from the four key functions (Risk Management, Actuarial, Compliance and Audit) - was established for the discussions on the assessment of the effectiveness of the internal controls and, hence, of the overall governance system.
- Ad-hoc risk assessments: The regular ORSA processes described above are supplemented as needed with non-regular assessments of the risk profile. A pertinent need exists if the risk profile of

AGCS SE undergoes significant changes or if such changes are to be expected.

The business requirements determine when and how an ORSA process is conducted. Certain ORSA-related processes are conducted quarterly, for example risk reporting, while other processes that are related to strategic decisions, take place annually or on an ad-hoc basis as required.

The findings of the ORSA processes provide support for business decisions. For example, the draft proposal for changes to the reinsurance structure includes the material impact to be changed with regard to key financial indicators, limit utilization and risk capital.

The most important process steps their timelines and their inter-connection are presented in the chart "ORSA process" appended to this report. The appropriateness of the ORSA processes is reviewed annually.

The insights and measures adopted from all ORSA processes are summarized in an ORSA report. The preparation of the ORSA report is coordinated by the Risk Management function and contains all risk-related information that is relevant for the result of the ORSA assessment.

As a general rule, the ORSA report is finalized in the second quarter of the fiscal year and approved by the Board of Management.

The annual reporting also takes into account input from the latest reviews of prior year ORSA reports (for example, by Group Audit) or changed external requirements. In compiling the report, the input from essential stakeholders in the areas of capital management, underwriting, investment management, reinsurance and accounting as well as regulatory changes is taken into account.

The final draft of the ORSA report is submitted to the CRO for review. The AGCS SE Risk Committee discusses the results of the ORSA report and decides whether it can recommend the approval of the ORSA assessment and of the corresponding ORSA report to the full Board of Management, or whether the Risk Management function should coordinate further changes before the report is submitted anew to the Risk Committee.

Following the recommendation by the Risk Committee, the ORSA report is submitted to the Board of Management AGCS SE for approval. As a last step, the ORSA report is made available to the Federal Financial Supervisory Authority (BaFin) and all persons holding a key role in the decision-making processes in connection with company strategy, risk strategy as well as risk and capital management (for example, the key function holders of AGCS SE).

The ORSA report for fiscal 2018 contains neither criticisms nor material recommendations to the Board of Management. The overall solvency needs are adequately mapped in the Solvency-II ratio. The ORSA report for fiscal 2019 was not yet complete as per the editorial deadline of the report at hand. The solvency ratio is found to be satisfactory at the cut-off date of 31 December 2019 as well as over the entire planning period until 2022.

B.4 INTERNAL CONTROL SYSTEM

With the so-called ERIC system (“Enterprise-wide Risk-based Integrated Control System”), AGCS SE has implemented a formalized internal control system, by means of which significant operational risks for the company are continuously steered via the monitoring of control activities, and, in particular, effective key controls are ensured. This system is defined in a written internal guideline and based on internationally recognized control frameworks such as the COSO Model (Committee of Sponsoring Organizations of the Treadway Commission). In compliance with statutory and supervisory requirements as well as Allianz Group regulations, the ERIC system is aimed at the following:

- The achievement of strategic business objectives is effectively supported, and the operational viability of AGCS SE is ensured.
- Governance elements and business processes are effective.
- Applicable laws and supervisory requirements as well as Allianz guidelines and internal directives of AGCS SE are complied with.
- The processes provide complete and error-free information for the internal and external financial reporting and other reporting, as well as for regulatory reporting. In this manner, internal management decisions are supported effectively while fulfilling the expectations of external stakeholders.

As part of the ERIC system, those key controls are formalized that are required to avoid or mitigate significant operational risks for AGCS SE. The ERIC system provides a comprehensive view of these risks and controls, and gives the Board of Management the appropriate assurance that the above-mentioned objectives can be reached. The ERIC system uses a uniform approach to perform assessments of operational risks and controls within different functional areas; as such, it also supports the collaboration and exchange of information between the key functions under Solvency II (Compliance, Risk Management, Actuarial and Internal Audit). The results of the activities within the framework of the ERIC system are stored in a separate database so as to, for example, allow for standardized reporting.

Overall, the ERIC system promotes risk and control awareness within the organization and creates transparency with respect to the responsibilities for risks and controls. The quality of key controls is structured and assessed efficiently. With the additional support of an effective risk management system for operational risks, potentially significant operational risks are detected early on and the required measures taken to avoid or mitigate these risks, so as to comply with the operational risk tolerance set by the Board of Management of AGCS SE or by the AGCS Risk Committee.

B.4.1 Essential elements of the ERIC-System

The internal control system concerns operational risks. However, to improve the readability of the following explanations, the word ‘operational’ has been omitted in the following.

The ERIC system is based on the following principles:

- focus on significant risks;
- focus on key controls;
- promotion of positive risk and control awareness;
- ensuring the effectiveness of key controls;

- documentation of risks, controls and business processes;
- integration of service providers used into the internal control system;
- control strategies such as separation of tasks or the four-eyes principle.

Risk and control assessment programs constitute the essential procedures to determine which operational risks are covered by the internal control system; they concentrate on significant risks in respect of the objectives defined above. All programs furnish their own view of the risk and control environment of AGCS SE and complement one another reciprocally. Due to the use of a consistent method in all programs, the available results can be used repeatedly and overlapping assessments can be avoided to a very large extent. A balanced combination of these programs ensures the completeness as well as the efficiency and feasibility of the ERIC system.

Significant risks and key controls are identified and evaluated on four levels:

- management level (for example, entity-level controls, global operational risk assessment program)
- IT level (for example, general IT controls and IT application controls)
- process level (for example, important business processes, financial and regulatory reporting)
- supplementary level (for example, programs with local or functional focus)

The core process for the ERIC system consists of four steps and follows an annual cycle:

- definition of the scope for risks
- evaluation of risks and review of the control design as well as documentation/adaptation of controls and, if necessary, identification, remediation and re-examination of control weaknesses
- testing of controls (e.g. testing their operative effectiveness) and, if necessary, identification, remediation and re-examination of control weaknesses
- monitoring and reporting

Testing of controls is particularly important to be able to, on the one hand, demonstrate to external stakeholders that the internal controls are effectively applied, and, on the other, to build up and maintain these stakeholders’ trust in the reliability of the internal control system. Clear and up-to-date documentation of key controls is decisive for the efficient testing of controls.

Missing key controls or key controls not implemented appropriately or not applied effectively are considered to be a control weakness that must be remedied. In collaboration with the Risk Management function, the materiality of the control weaknesses is assessed and a realistic, detailed plan for subsequent remediation is established with the pertinent responsibilities and deadlines. As soon as the measures specified in the plan have been completed, the control must be re-examined once again.

The above steps are accompanied by the so-called AGCS SE ERIC Advisory Group, an advisory committee of AGCS SE, in which the following functions are represented as voting members:

- Risk Management,
- Legal Department,
- Compliance,
- Actuarial,
- Accounting,
- IT-Governance and
- Corporate protection and resilience, including information security.

In addition, the Internal Audit function and the Global Governance function are, in their capacity as permanent guests, integrated in the work performed by the AGCS SE ERIC Advisory Group. This composition supports the so-called reciprocal oversight between the key functions and thus compliance with the pertinent regulatory requirements. The AGCS SE ERIC Advisory Committee regularly forms an opinion on

- the completeness and consistency of the ERIC system,
- the operative execution of the processes under the ERIC system,
- the appropriateness and completeness of the scope for the risk and control assessments,
- the effectiveness of the ERIC system and, in particular, the materiality of possible control weaknesses, and
- the appropriateness and effectiveness of the governance system.

The Risk Management function coordinates and supervises all activities that are required for the ERIC system, in particular the subsequent remediation of control weaknesses. It regularly makes an up-to-date overview available to the AGCS SE ERIC Advisory Committee and to the AGCS SE Risk Committee.

In addition, the Risk Management function compiles a so-called ERIC Report at least once a year. This report is first submitted to the AGCS SE ERIC Advisory Committee for review and then to the AGCS SE Risk Committee for approval and used as a basis for a decision regarding the overall effectiveness of the ERIC-system. Finally, the report is submitted to the AGCS SE Board of Management for formal acknowledgment and to the AGCS SE Supervisory Board for their information.

B.4.2 Compliance Function

The Compliance function monitors the adherence by AGCS SE to regulatory and statutory requirements in a risk-oriented manner, and sees its role as an active consultant with regard to all compliance-related questions.

B.4.2.1 TASKS OF THE COMPLIANCE FUNCTION

The Compliance function has the following main tasks:

- advising senior management and supervisory bodies with regard to the adherence to laws, ordinances and administrative provisions (external requirements) applicable to AGCS SE and the impact of material changes to the legal environment, so that pertinent measures may be planned and implemented.

- identifying and assessing compliance risks (risks of legal or supervisory sanctions, material financial losses and of reputational losses which AGCS SE would incur as a consequence of non-adherence to external requirements). The compliance-risk assessments are coordinated and agreed upon with the Risk Management function with regard to methodology, timing and procedure.
- monitoring adherence to external requirements applicable to AGCS SE and reporting. With this task, the Compliance function ensures, in a risk-based manner, that the processes underlying the adherence to the external requirements are appropriate and effective.
- assessing the potential impact of changes to the legal environment on AGCS SE activities. This includes constant observation and analysis of the legal environment as well as ensuring timely communication of relevant and material changes to the AGCS SE Board of Management so that it has sufficient time for the implementation of necessary measures. In addition, the Compliance function informs Allianz Group Compliance of material legal amendments with potential ramifications for the Allianz Group.
- the development and implementation of the Compliance Plan, which is to be reviewed on an annual basis and covers all compliance-relevant activities of AGCS SE; it is also aligned to the Compliance Plan put together by Allianz Group Compliance. The Compliance Plan is reviewed and approved by the AGCS SE Board of Management.
- in order to fulfill its tasks, the Compliance function has the unrestricted right of access to all information, documents and data.

Moreover, the Compliance function has set up a Compliance Management System in line with the risk content and proportionality principle, which it operates in order to perform its tasks. The Compliance Management System comprises the main tasks described above and the following additional elements: compliance culture and integrity, compliance training and communication, compliance principles and processes, investigations and a whistle-blower system, as well as regular reporting to the AGCS SE Board of Management as well as additional committees as required.

B.4.2.2 COMPLIANCE ORGANIZATION

The Compliance function consists of the Compliance department and additional functions and departments tasked with the compliance mission. The responsibilities are set forth in the AGCS Compliance Policy. This policy also contains the respective organizational structures and operating procedures at global, regional and local levels. Detailed guidelines and work instructions supplement the framework for a functioning Compliance organization. In addition, the Allianz Code of Conduct constitutes a central building block for creating a uniform understanding of compliance within AGCS SE.

The AGCS SE Board of Management is responsible for the organizational and operational structures and procedures with which adherence to the AGCS Compliance Policy as well as the assignment of the pertinent compliance-risk areas are ensured. It establishes and maintains an effective Compliance function that is adequate and effective with respect to its compliance risk exposure. The Board of Management also appoints the key function holder for Compliance.

The holder of the key function Compliance at AGCS SE is the AGCS Global Compliance Officer. They also head the Compliance department.

The AGCS Global Compliance Officer has a direct reporting line to the AGCS SE Board of Management; the AGCS Global Compliance Officer is accountable to the Supervisory Board and to the Group Chief Compliance Officer of the Allianz Group.

Compliance reporting, which takes place at least on a half-yearly basis, covers the results of the previous compliance risk assessment, possible changes to the compliance risk profile, material changes to the legal environment and the activities associated therewith, findings from supervisory activities, overviews of other current compliance activities, status of compliance reviews/audits, a summary of reported, relevant violations and/or deficits as well as recommended correction measures for the relevant compliance-risk areas.

In terms of organization, the Compliance function is attached to the AGCS SE Legal & Compliance department.

B.4.2.3 FIT AND PROPER REQUIREMENT

The AGCS Global Compliance Officer must be adequately qualified and have the requisite practical experience in order to be able to perform the tasks of the Compliance function under due consideration of the complexity of AGCS SE and the principle of proportionality.

The AGCS SE Global Compliance Officer must have the following knowledge:

- knowledge of the relevant internal and external requirements;
- knowledge of insurance markets;
- knowledge of the business strategy and the business model of AGCS SE;
- knowledge of the internal AGCS SE organizational structure and process organization.

B.4.2.4 RESOURCES OF THE COMPLIANCE FUNCTION

The resources of the AGCS SE Compliance function are planned and deployed in such a manner that they are able to perform their tasks in a proper and risk-related manner. The planning is done within the framework of the annual risk-related Compliance Plan.

In addition, reciprocal oversight is conducted between the key functions in line with the regulatory requirements; this oversight also considers the availability of resources for a function as part of the overall assessment.

B.4.2.5 MATERIAL CHANGES

There were material changes of an organizational nature during the reporting year.

With effect from 1 February 2019, the Global Compliance Officer's direct reporting line to the AGCS SE Board of Management was supplemented by a disciplinary reporting line to the responsible divisional Board Member. In the course of this expansion, the Compliance function was, in organizational terms, separated from the Legal & Compliance Department, and will continue to operate as an independent Compliance Department from that point onwards.

B.5 INTERNAL AUDIT FUNCTION

The Internal Audit function is a key function within the internal control system of AGCS SE.

Internal Audit is an independent, objective review and advisory function with the aim of creating added value and improving the business processes of the organization. It supports the organization in achieving its objectives by using a systematic, targeted approach to evaluate and help improve the effectiveness of its risk management as well as its controls and its management and monitoring processes.

For this purpose, Internal Audit provides analyses, assessments, recommendations and information within the framework of its audit activities.

Within the Allianz Group, the Internal Audit function bears the audit responsibility for AGCS SE and all other insurance undertakings of the AGCS Group. At the same time, it is part of the worldwide Audit function of Allianz Group, which is functionally steered by the Group Audit unit of Allianz SE. As the superordinate group audit body, Group Audit monitors and oversees the audit activities of AGCS SE on a functional basis.

Internal Audit works for the Board of Management and reports directly to it. In disciplinary terms, the Internal Audit function reports to the Chairman of the AGCS SE Board of Management, and also the AGCS SE Supervisory Board. The head of Internal Audit or his deputy has direct and unfettered access to the Chairman of the Board of Management and the Supervisory Board (in particular, to the Chairman of the Supervisory Board) and may also be involved in Supervisory Board meetings. In the same vein, the Chairman of the Supervisory Board can directly request information from the head of Internal Audit.

The Chairman of the Board of Management of AGCS SE is informed regularly about the audit activities, audit results and essential developments from the point of view of Internal Audit. In addition, each final audit report is distributed to all members of the Board of Management.

In the first half of each fiscal year, the Board of Management receives an activity report that covers the entire AGCS Group for the past reporting year. In addition, the head of Internal Audit, as part of their annual reporting, confirms to the Board of Management and the Supervisory Board the organizational independence of Internal Audit.

The work of Internal Audit is based on a comprehensive, annually updated Audit Plan that covers all essential activities and business units (audit objects) of AGCS SE and the AGCS Group. As part of the annual planning process of Internal Audit, a risk-oriented assessment of the audit objects is made. Thereafter, an operating plan, derived from the annual planning, is drawn up. Based on this, each audit goes through the phases of audit preparation, execution, reporting and follow-up measures.

The preparation of the audit includes the analysis of the audit subject, appropriate risk assessment, familiarization with the subject of the audit, detailed planning of the audit process and gathering of information.

The phase of audit performance itself comprises the following activities: opening interview, audit activities (field work), documentation of audit activities, determination of audit findings, post-audit / final interview. The activities required for the audit are determined and documented in an Audit-internal document – the Audit Program.

For each audit, Internal Audit immediately compiles an audit report within the reporting framework. This report serves as targeted, concise information about the subject of the audit and the audit findings for the Board of Management, the higher executive management level with functional responsibility for the area audited and the audited units.

Following the distribution of the audit report, the Internal Audit function monitors the timely implementation of the measures agreed upon with regard to the findings made by the responsible units specified in the audit report (follow-up). In monitoring the progress of the implementation, Internal Audit follows up on all observations, independent of their risk content.

As part of its business organization, the AGCS SE Board of Management is to issue several mandatory guidelines, which also include the AGCS SE Audit Policy.

For the Internal Audit function, the AGCS Audit Policy is an internal company guideline; as a basic principle, it is reviewed annually as well as on special occasions. To this end, a central process has been established, which is coordinated by the Legal function. In this process, the unit responsible for the subject area first of all examines the guideline with respect to any required adaptation. The revised version is then discussed and agreed upon with the Legal Department and presented to the AGCS Risk Committee for approval. In addition, essential changes are submitted for approval to the Board of Management and subsequently announced within the company.

The organization and proper set-up of Internal Audit as a key function is specified in the AGCS Audit Policy adopted by the Board of Management; in this conjunction, the supervisory requirements under the German Insurance Supervision Act (VAG) as well as the requirements of Group Audit are taken into account. This guideline describes the organizational structure and position of the Internal Audit function within the company, as well as the principles of the audit activity, its tasks, its responsibilities, its essential processes as well as the reporting lines and information rights. The AGCS Audit Policy is based on the provisions of Group Audit Policy.

The AGCS Audit Manual supplements and specifies the AGCS Audit Policy, and is reviewed and published by the head of Internal Audit annually as well as on special occasions.

Internal Audit has an obligation to immediately report essential findings from its area of responsibility to Group Audit.

Internal Audit performs its tasks autonomously and independently. The Board of Management - within the scope of the AGCS Audit Policy as approved by it - ensures its functional independence in order to safeguard the functioning of the company's business organization (information and audit rights, amongst others). In addition, this independence is insured by the position of Internal Audit within the organizational structure; it is independent of the First- and Second Lines of Defense functions.

In conducting its audits and its reporting as well as the evaluation of the audit findings, the Internal Audit function is not subject to any instructions or other influences. In the framework of its management rights, the Board of Management can order additional audits, which in no way abrogate the autonomy and independence of the Internal Audit.

Internal auditors perform a balanced evaluation of all relevant circumstances and do not let their own interests or those of others influence their judgment. As a basic rule, employees working in Internal Audit may not take on any assignments that are not in line or do not appear to be in line with the audit activity.

Internal Audit performs its audits with the required expertise and appropriate professional diligence. The members of the Internal Audit function apply a maximum degree of expert objectivity in the compilation, evaluation and transmission of information on the audited activities or business processes. Audit findings must be based on fact and backed up by sufficient evidence.

Internal Audit can be asked for its evaluation of subjects that concern the internal control system. In this respect, Internal Audit must preserve its necessary independence and may not be involved to a substantial degree in the development, implementation and execution of processes and work instructions. In addition, this advisory activity should not be designed in such a way that it endangers the fulfillment of the core tasks of Internal Audit and the Audit Plan.

The resources of the AGCS SE Internal Audit function are planned and deployed in such a manner that the tasks may be performed in a proper and risk-oriented fashion. The planning is done within the framework of the annually drawn up Audit Plan.

In addition, reciprocal oversight is performed between the key functions in the ERIC Advisory Group in line with regulatory requirements; this oversight also generally considers the availability of appropriate resources for a function as part of the overall assessment.

The head of the Internal Audit function, who is also the holder of the Internal Audit key function, does not perform any further activities within AGCS SE.

B.6 ACTUARIAL FUNCTION

The Actuarial function is embedded in the AGCS SE Actuarial department and headed by its holder, the Chief Actuary. The Chief Actuary reports directly to the Chief Financial Officer. In order to avoid any conflicts of interest, employees who carry out actuarial work for the Underwriting department (so-called business actuaries) are not part of AGCS Actuarial.

AGCS Actuarial is divided into the following teams:

- Reserving and Analysis
- Actuarial Function Team, which consists of the following sub-functions:
 - Actuarial Diagnostics
 - Actuarial Risk Modelling
 - Pricing Oversight
 - Reserve Validation

The Reserving & Analysis activities of the Actuarial function include chairing the meetings of the Loss Reserve Committee that are held at the end of each quarter. The basis for these meetings is the AGCS SE Loss Reserve Committee Charter. The Actuarial function ensures that the insurance reserves recommended to the Loss Reserve Committee are appropriate, and that the calculation processes are adequate and stable, and integrated into an effective control system. The details and results of the analyses that led to the insurance reserves written are summarized annually in the AGCS Reserve Report. In addition to the appropriate amount of the insurance reserves, the Actuarial function analyses their uncertainty. These analyses are included in the risk capital calculation. In this manner, consistency is ensured between the reserving and the risk capital calculation with respect to the methods, data and assumptions used. The results of the analyses are summarized annually in the AGCS Reserve Uncertainty Report.

The Actuarial Function Team was established in 2018 in order to bundle the tasks of the Actuarial function. To this end, the newly established functions "Pricing Oversight" and "Reserve Validation" were consolidated with the already existing functions "Actuarial Diagnostic" and "Actuarial Risk Modeling".

Within the scope of its Diagnostic and Pricing Oversight activities, the Actuarial function analyzes the portfolio development in order to be able to formulate an opinion on the underwriting and acceptance policy.

Diagnostics and Risk Modelling investigate the appropriateness of all essential placements of obligatory reinsurance and its structure. To this end, the underwriting risk is modeled with various parameters. The models resulting therefrom are used to assess the influence of the reinsurance on the underwriting result as well as on its fluctuation.

The same parameters are used for the modeling of the underwriting risk which is taken into account in the Internal Model of AGCS SE.

The Reserve Validation function is responsible for all validations in relation to the insurance reserves. This includes the categorization of the reserving models (standard and non-standard model), the classification of the reserving models in respect of their influence on the amount of the insurance reserves and review of the segmentation. The

validation is conducted at various levels, such as via the expert assessment of already existing validations (peer review) or as management evaluation (management review) and documented accordingly.

The Actuarial function performs its tasks, in particular the modelling, in accordance with the AGCS Actuarial Policy and the following two functional guidelines:

- AGCS Reserving Guideline
- AGCS P&C Risk Modeling Guideline

The guidelines were issued by Actuarial function and provide orientation for all the activities in the departments "Reserving & Analysis" and "Actuarial Risk Modelling". Parts of the activities of Actuarial Diagnostics are subject to the AGCS P&C Risk Modelling Guideline. The AGCS Actuarial Policy is based on the provisions of the Allianz SE Group Actuarial Policy. Every year, Actuarial function compiles the Actuarial Function Report, which is submitted to the AGCS SE Board of Management and contains a detailed account of all activities of the Actuarial function.

The resources of the Actuarial function are planned and deployed in such a manner that the tasks may be performed in an appropriate and risk-oriented manner.

B.7 OUTSOURCING

Since 2012, AGCS SE has had its own AGCS Procurement & Outsourcing Policy to account for the growing importance of outsourcing. In this conjunction, all requirements of the Allianz Group Outsourcing Policy are also taken into account. Changes in the Group Outsourcing Policy are reflected on an annual basis via corresponding amendments to the AGCS Procurement & Outsourcing Policy.

The AGCS Procurement & Outsourcing Policy was revised once again in 2019, and adopted in its currently applicable version by the AGCS SE Board of Management in December 2019. The amendments to the policy include, in particular, the separation of Procurement and Outsourcing. The exclusive policy adopted in December 2019 is now the AGCS Outsourcing Policy. The earlier part pertaining to Procurement will, in the future, be set forth in a standard. This division of the policy reflects an internal restructuring measure and ensures the clear separation tasks of the responsible departments. The AGCS Outsourcing Policy was also expanded to include the IT Outsourcing.

In order to increase the effectiveness of service-provider supervision and to expand the cooperation, the Protection and Resilience Team - headed by Allianz SE - was established at AGCS SE in 2019. This team strengthens the exchange of thoughts and ideas as well as the standardization of various functions, and reflects the expansion of the policy to include the protection and resilience of service providers of AGCS SE in the area of outsourcing, including IT.

In line with the revision of the AGCS Outsourcing Policy, a new Outsourcing Functional Rule was drawn up and is expected to be adopted during the first quarter of 2020.

B.7.1 Scope of application and area of responsibility

The scope of application of the AGCS Outsourcing Policy covers AGCS SE, including all operating units as well as all legally independent enterprises under the management of AGCS SE.

Legally independent enterprises must ratify the AGCS Outsourcing Policy and integrate it in their respective internal governance system.

The AGCS Outsourcing Policy defines outsourcing, provides criteria for the selection, commissioning and steering of suppliers. It defines roles, responsibilities and approval requirements, as well as controls along the outsourcing process (including termination).

The Outsourcing function has a particularly important role which ensures that the processes necessary for the monitoring of the outsourced functions and services are defined, implemented and reported. This takes place in coordination with the locally involved functions (for example the Legal department, Compliance, Risk Management, Business Continuity Management, Information Security), the Allianz Group functions and the individuals responsible for the outsourcing agreement.

The Outsourcing function is specifically responsible for the following:

- training the organizations on how to meet requirements from an outsourcing point of view,
- supporting the responsible parties with their outsourcing activities and ensuring adherence to the AGCS Outsourcing Policy,
- maintenance of the central archiving of all outsourcing contracts (inventory), including the corresponding documentation and proof (for example risk assessment, business plan, due diligence),
- reporting, on request, AGCS outsourcing contracts to the Allianz Group.

The integration of service providers into the internal control system shall be maintained through cooperation with risk management in the ERIC system and shall be further supported by a control strategy for significant service providers.

B.7.2 Important outsourcing agreements of AGCS SE

AGCS SE evaluates the materiality of the outsourcing agreements on an annual basis in consultation with the risk management, the Legal department and the responsible operative functions. In 2019, the service level agreement "Investment and asset management" concluded with AIM SE retained its classification as an important outsourcing agreement. The services rendered by AIM SE are of particular significance as it disposes of special know-how which AGCS SE draws upon.

An analysis and revision of the underwriting agreements resulted in the downgrading of Pantaenius GmbH to simple outsourcing as the service provider continues to be deemed non-critical for AGCS SE in the area of partial outsourcing.

B.8 ANY OTHER INFORMATION

All material information on the governance system has already been described in [Chapters B.1](#) through [B.Z](#).

During the reporting period, there were no material changes to the governance system. There were also no material transactions with shareholders, persons having a decisive influence on the company or members of the Board of Management or of the Supervisory Board.

RISK PROFILE



C.1 UNDERWRITING RISK

C.1.1 Risk exposure

Underwriting risks refer to risks that are inherent in insurance techniques, i.e. risks related to the development of insurance premiums, claims expenses and administrative expenses.

The most important insurance-related risk is the underwriting risk, which primarily refers to claims development. A distinction is made between the premium risk, i.e. the risk that the insurance premiums will not be sufficient to cover future claims, and the reserve risk, i.e. the risk that existing claims will lead to run-off losses vis-à-vis the booked claims reserves.

The Internal Model of AGCS SE maps both reserve and premium risks.

At 31 December 2019, the undiversified risk capital for the sum of the premium and reserve risks amounted to € 1 627 831 thou. The main drivers were the reserve risk and the premium risk for non-catastrophe business. After diversification, the corresponding total risk capital for these risks amounted to € 1 120 105 thou.

Table 8: Underwriting risk

€ thou

	2019	2018
Underwriting risk (diversified)	1 120 105	1 024 630
Non-catastrophe risk	599 891	607 706
NatCat risk	329 320	279 195
Terror risk	45 078	36 788
Reserve risk	653 542	543 686
Longevity risk	18 497	13 550
Business risk (diversified)	88 447	81 837
Lapse risk	34 787	28 677
Cost risk	63 718	63 997

As business risk, the lapse risk and the cost risk are modeled. The undiversified risk capital for the sum of these business risks amounted to € 98 505 thou at the end of the reporting year. After diversification, the corresponding total risk capital for these risks amounted to € 88 447 thou.

For all underwriting risks, AGCS uses models provided by the respective central functions of the Allianz Group.

The modeling of underwriting risks is based on information from a number of internal and external sources, among them the Accounting, Actuarial, Risk Management, Planning and Controlling, Claims, Reinsurance and Underwriting departments.

The most important information includes:

- financial data, such as written premium income;
- loss data in the form of run-off triangles for modeling the reserve risk or individual losses for the modeling of future major losses;
- business planning, for example with respect to planned premium income or costs;
- information on the contract portfolio;
- existing reinsurance program.

For the NatCat risk, detailed inventory data, for example on the type and use of insured objects, is used and a large number of possible events - some of which have not yet occurred - is simulated. For this type of risk, detailed modeling on the basis of inventory data is more reliable than modeling on the basis of losses observed because the historical data here does not cover the full potential of possible future losses. In respect of the completeness of the inventory data for the modeling of NatCat risks, said completeness was improved via the portfolio update in April 2019, and is now above the threshold specified by the Allianz Group. This has, however, not resulted in any substantial changes to modeled NatCat risk of AGCS SE.

No material underwriting risk is transferred to special-purpose entities, and there is no material exposure from off-balance sheet positions.

C.1.1.1 RISK CONCENTRATION

Concentration risks for AGCS SE result from the accumulation of loss events from individual events. On the one hand, this may be driven by man-made catastrophes,

or, on the other, natural catastrophes, of which storm and earthquake risks in particular influence the overall risk of AGCS SE.

The loss potential from diverse man-made scenarios and their probability of occurrence is analyzed and defined in a dedicated working group (Realistic Disaster Scenario Working Group) headed by the Risk Management function. The assessment of return frequencies for special extreme events remains a challenge, and the continuous improvement of the frequency evaluations forms one of the working group's focal areas.

Concentration risks from natural catastrophes are identified and analyzed with the aid of special, internally developed software, using which all exposures from ongoing insurance policies are recorded geographically.

The insights gleaned from the work results form part of the AGCS SE risk capital calculation.

We cover the risk of natural catastrophes and man-made catastrophes with appropriate reinsurance contracts.

C.1.1.2 RISK SENSITIVITY

On the basis of sensitivity analyses, AGCS SE determines the dependency of the solvency ratio on defined stress scenarios. The essential stress scenario defined for underwriting risks takes into account a combined loss of premium, reserve, business and operational risks with a return frequency of 1 in 5 years. If such stress had occurred at the end of 2019, this would have resulted in a decrease in AGCS SE's solvency ratio from 157% to 134%.

Table 9: Risk sensitivity

€ thou			
Scenario	Own funds	Risk capital	Solvency ratio %
Basis	3 116 044	1 980 722	157
Stress	2 523 800	1 882 274	134

C.1.1.3 PREMIUM RISK

Premium risk is subdivided into NatCat risk, terror risk and non-catastrophe risk, whereby the latter presents the greatest premium risk by far.

The sum of the premium risks of AGCS SE at 31 December 2019, amounted to € 974 289 thou before diversification. Compared to the prior year, this was an increase of € 50 599 thou (5%). This change is due to the update of the underlying portfolio and of the corresponding reinsurance in connection with the updated model parameters. The increase can be primarily attributed to catastrophe risk.

Premium risk is calculated on the basis of actuarial models that are used to derive loss distributions. Premium risk is actively managed by AGCS SE by means of risk assessments and underwriting limits that are part of the underwriting process and through reinsurance coverage that is commensurate with our risk tolerance. Risk assessment as part of the underwriting process is a key element of our risk management.

C.1.1.4 RESERVE RISK

The total reserve risk of AGCS SE at 31 December 2019 amounted to € 653 542 thou. Compared to 2018, this corresponds to an increase of € 109 855 thou (20%). The main reasons for this result were a gain in net loss provisions, a shift in the provision volume between the LOBs, as well as higher estimated volatilities following the annual model update.

Reserve risk is related to the degree of uncertainty in the existing claims reserves. The existing provisions refer to the expected best estimate of the expenses for claims already incurred, but whose actual amount has not yet been determined. The reserve risk is estimated on the basis of the observed claims handling with mathematical methods consistent with those for determining best-estimate reserving and refers to losses that may occur within the coming 12 months.

Our operating entities constantly monitor the development of provisions for insured events on a line-of-business level. In addition, the reserve uncertainty is analyzed on an annual basis. This analysis serves as the basis for the reserve-risk calculation. The Allianz Group performs regular independent reviews of these analyses and Group representatives participate in the meetings of the local reserve committees.

C.1.1.5 BUSINESS RISK

The undiversified sum of business risks of AGCS SE amounted to € 98 505 thou at the end of the reporting year, an increase of € 5 830 thou (6%) on a year earlier, mainly due to a higher lapse risk.

For the business risk, lapse and cost risks are modeled. The lapse risk refers to the possibility of unexpectedly high cancellations in the existing business and the resulting loss of future profits. The cost risk reflects losses from continued overhead in case of a decline of new business. Business risks are calculated in a simple model that directly takes into account assumptions concerning lapse behavior, new business and cost development.

C.1.1.6 LONGEVITY RISK

At 31 December 2019, the longevity risk of AGCS SE amounted to € 18 497 thou. Compared to the prior year, this represents an increase of € 4 947 thou (36.5%).

The longevity risk results exclusively from the modeling of the pension liabilities risk.

C.1.2 Management of underwriting risk and risk mitigation

Natural disasters such as earthquakes, storms, and floods represent a significant challenge for risk management due to their accumulation potential and occurrence volatility. In order to measure such risks and better estimate the potential effects of natural disasters, AGCS SE uses special modeling techniques in which AGCS SE combines 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. Where such stochastic models do not exist, or where existing models are not suitable for our specific business, we continue to monitor the risk exposure and cover them appropriately with external reinsurance protection and in the Internal Risk Capital Model.

An important role in steering premium risk is played by reinsurance. In accordance with existing underwriting ceilings, limits and retention management principles – which reflect the risk tolerance of AGCS SE and are regularly reviewed –, peak risks are ceded through facultative and contract reinsurance.

AGCS SE also reinsures the entire German direct and indirect business via a quotashare reinsurance contract with Allianz SE.

C.2 MARKET RISK

C.2.1 Risk exposure

AGCS SE defines market risk as the risk of loss due to changes in market prices or parameters, resulting in changes to the market prices of financial assets and liabilities. This also includes the change in market prices due to a deterioration of market liquidity.

An inherent part of the insurance business is the investment of insurance premiums.

These investments back our customers' future claims and benefits. In addition, our equity covers the capital requirements resulting from the insurance business.

Market risks are quantified by means of the Internal Model that is centrally developed by Allianz Group Risk and parameterized in coordination and agreement with Allianz Group Risk.

The following types of risk are taken into account when calculating market risk:

- **Equity risk / equity volatility risk** is the possible change of the portfolio value due to changes in the stock markets (price and volatility)
- **Interest rate risk** is the possible change of the portfolio value due to changes in interest rates or (more precisely: in the yield curves).
- **Real estate risk** is the possible change of the portfolio value due to changes in real estate market values
- **Currency risk** is the possible change in the value of financial assets or liabilities due to exchange rate fluctuations
- **(Credit) spread risk** is the possible change in the portfolio value due to changes in the credit spreads.
- **Inflation risk** is the possible change of the portfolio value due to changes in inflation rates

The risk capital for the sum of all undiversified market risks at the end of the reporting year amounted to € 2 276 904 (1 882 297) thou. The main drivers of the overall market risk at the end of 2019 were the equity risk, the currency risk and the credit spread risk. After diversification, the total risk capital for market risks amounted to € 1 286 551 (954 746) thou.

Table 10: Market risk

€ thou	2019	2018
Market risk (diversified)	1 286 551	954 746
Interest-rate risk	115 369	144 191
Inflation risk	148 292	130 422
Equity risk	1 061 902	707 365
Share-volatility risk	853	3 076
Currency risk	624 678	585 628
Real-estate risk	142 522	120 764
Credit spread risk	183 287	190 851

The undiversified risk capital for the sum of all market risks at the end of the reporting year amounted to € 2 276 904 (1 882 297) thou. The

main drivers of the overall market risk at the end of 2019 were the equity risk, the currency risk and the credit spread risk. After diversification, the total risk capital for market risks amounted to € 1 286 551 (954 746) thou.

C.2.1.1 EQUITY RISK

AGCS SE invests in shares, participations and alternative investments that contribute to the equity risk. The entire investment portfolio is broadly diversified; this leads to a reduction of risks and permits investments in asset classes with higher profitability in the long term.

The risk capital for the equity risk of AGCS SE at 31 December 2019 amounted to € 1 061 902 (707 365) thou, an increase of € 354 537 thou (50%) compared to 2018. This is primarily attributable to two factors: Firstly, the applicable capital requirements for strategic participations were significantly increased in the course of a model change agreed upon between the Allianz Group and the regulator. Since strategic participations account for the greater part of the equity risk, this leads to a considerable increase in the equity risk. Secondly, the gain in the market value of our equity investment thanks to very good stock-market performance in 2019 also contributed to the increase in the equity risk.

RISK CONCENTRATION

The strategic participations in ART AG and AGR US contributed 66% of the equity risk of AGCS SE.

In addition to strategic participations, other shares form part of a broadly diversified investment portfolio. The Credit Risk Platform (CRiSP) and limits ensure that excessive concentration risks in shares are avoided.

RISK SENSITIVITY

At 31 December 2019, sensitivity analyses indicated that a 30% decline in share prices (not taking into account of strategic participations) would result in a decrease in the solvency ratio from 157% to 145%.

Table 11: Sensitivity of the equity risk

€ thou	Own funds	Risk capital	Solvency ratio %
Basis	3 116 044	1 980 722	157
Stress	2 735 297	1 891 592	145

C.2.1.2 INTEREST-RATE RISK

At the end of the reporting year, the risk capital for the interest rate risk of AGCS SE amounted to € 115 369 (144 191) thou, a decline of € 28 822 (20%) compared to 2018. Compared to the previous year, the interest rate risk fell even further from the low level it had already reached. Given a comparable duration gap (in Dollar duration), this is attributable to a lower capital requirement.

AGCS SE controls interest rate risk in the framework of comprehensive asset liability management. Payment obligations in the property-casualty business are typically shorter in duration than the investments backing them. AGCS SE derives the target duration on the assumption that business operations will continue in the long term ("going concern"). This results in a longer duration on the asset side than on the liability side. This duration overhang implies interest rate risk from rising interest rates; this is reflected in the risk profile and steered, amongst others, by sensitivity limits.

RISK CONCENTRATION

The primary contributing factors to the interest rate of AGCS SE were the Singapore Dollar yield curve, which contributed 26%, followed by the euro yield curve with 19%. The risk stemming from the US Dollar yield curve amounted to 18%.

RISK SENSITIVITY

At 31 December 2019, sensitivity analyses indicated that an increase of the interest rate by 100 basis points would result in a slight decrease in the solvency quota from 157% to 156%. On the other hand, a decrease in the interest rate by 100 basis points would not change the solvency ratio.

Table 12: Sensitivity of the interest rate risk

€ thou	Own funds	Risk capital	Solvency ratio %
Basis	3 116 044	1 980 722	157
Stress +100bp	3 063 764	1 927 087	156
Stress -100bp	3 166 320	2 030 072	157

C.2.1.3 CREDIT SPREAD RISK

At the end of 2019, the risk capital for the credit spread risk of AGCS SE amounted to € 183 287 (190 851) thou. Compared to the prior year, this represents a decrease of € 7 564 (4%). On the whole, the credit spread risk hence remained relatively stable in comparison to the previous year.

Credit spread risk describes the risk of falling market values due to increasing interest rate premiums with respect to the risk-free yield curve. Growing premiums reflect an increasing risk aversion on the part of the market participants. The change in the credit quality of the issuers is, on the other hand, covered by the credit risk, which does not form part of the market risks.

Credit spread risk is modeled in full by the Internal Model. Changes in market value related to spread changes generally do not result in long-term negative economic effects because, as a long-term investor, AGCS SE can hold investments to maturity and thus fully realize the spread. This aspect is accounted for in the Internal Model via the application of dynamic volatility adjustments.

RISK CONCENTRATION

The credit quality of the AGCS SE portfolio is high. [Chapter C.3](#) contains an overview of the fixed-income investments by rating class as per 31 December 2019. The following table provides an overview of the risk contributions to the credit spread risk according to rating classes.

Table 13: Credit spread risk by rating class

%	2019
AAA	7%
AA	13%
A	19%
BBB	42%
BB	10%
B	8%
CCC	0%
NR	1%

RISK SENSITIVITY

At the end of the reporting year, sensitivity analyses indicate that a rating-dependent stress scenario (rating-dependent increase of spreads by up to 150 basis points) would result in a decrease of the solvency ratio from 157% to 151%.

Table 14: Sensitivity of the credit spread risk

€ thou	Own funds	Risk capital	Solvency ratio %
Basis	3 116 044	1 980 722	157
Stress	2 979 295	1 951 564	151

C.2.1.4 INFLATION RISK

Compared to the prior year, the risk capital for the inflation risk of AGCS SE climbed by € 17 870 (14%) and amounted to € 148 292 (130 422) thou at 31 December 2019. This gain is attributable to a higher average duration of the insurance reserves.

As an insurer, AGCS SE is exposed to changes in inflation rates. Since inflation influences future claims expenses, an increase in the inflation rates results in an increase of liabilities.

This is primarily driven by insurance reserves and, to a lesser extent, by pension liabilities. Inflation assumptions are taken into account in product development, in calculations and in the Internal Model.

RISK CONCENTRATION

The largest share of the inflation risk came from inflation risks in the euro zone at 49% and the US dollar area at 26%.

RISK SENSITIVITY

At the end of the reporting year, sensitivity analyses showed that an increase in inflation by 100 basis points would result in a reduction in the solvency ratio from 157% to 152%.

Table 15: Sensitivity of the inflation risk

€ thou	Own funds	Risk capital	Solvency ratio %
Basis	3 116 044	1 980 722	157
Stress	3 029 402	1 992 228	152

C.2.1.5 CURRENCY RISK

At the end of 2019, the risk capital for the currency risk of AGCS SE amounted to € 624 678 (585 628) thou, an increase of € 39 050 thou

(7%) on a year earlier. The main drivers of currency risk are the strategic participations, in particular the strategic participation in AGR US. In addition, the global equity portfolio - which is not hedged against currency risks -, global real estate portfolio and alternative investments contribute to the currency risk. As an insurance company with global activities, AGCS has assets and liabilities in many different currencies. AGCS SE has implemented a comprehensive process to identify and control foreign currency risks. Foreign currency risks from bonds and insurance reserves are essentially hedged against currency risks. The local own funds of AGCS SE's subsidiaries in Singapore and Hong Kong are invested in the local functional currencies, Singapore dollar (SGD) and Hong Kong dollar (HKD).

RISK CONCENTRATION

The main contributor to the currency risk was the US dollar with a share of 74%.

RISK SENSITIVITY

If the euro is revalued, this will result in a loss of value of non-euro denominated assets. At the same time, this also reduces the corresponding capital requirements from a euro point of view, which reduces the impact on capitalization.

Sensitivity analyses at 31 December 2019 confirm that a 10% devaluation of foreign currencies with respect to the euro would result in a decrease in the solvency ratio from 157% to 150%.

Table 16: Sensitivity of the currency risk

€ thou			
	Own funds	Risk capital	Solvency ratio %
Basis	3 116 044	1 980 722	157
Stress	2 798 188	1 861 857	150

C.2.1.6 REAL-ESTATE RISK

The risk capital for the real estate risk of AGCS SE at 31 December 2019 amounted to € 142 522 (120 764) thou – an increase of € 21 758 thou (18%) over 2018, which is attributable to a new investments and higher valuations.

AGCS considers real estate to be a valuable addition to the investment portfolio because it offers long-term stable and predictable cash flows. This and the good diversification characteristics outweigh the risks from a decline in the real estate market.

RISK CONCENTRATION

In real estate as well, AGCS SE pursues an investment strategy focused on broad diversification. Therefore, there is no material concentration with respect to the real estate risk.

RISK SENSITIVITY

At 31 December 2019, sensitivity analyses showed that a decline in market prices by 20% would result in a reduction in the solvency ratio from 157% to 154%.

Table 17: Sensitivity of the real-estate risk

€ thou			
	Own funds	Risk capital	Solvency ratio %
Basis	3 116 044	1 980 722	157
Stress	3 009 944	1 956 290	154

C.2.2 Market risk management

The Risk Management function of AGCS SE defines the framework conditions for the management of market risk. These comprise, in particular, the internal guidelines for managing the portfolio as well as the preservation and continued development of market risk methods and models, the limit systems and the corresponding reporting system. In addition, the responsibilities for market risk management are defined in detail in the Allianz standards. The corresponding reporting system is designed to provide internal decision makers (Board members or other executive management levels within AGCS SE) and external interested parties with relevant information on the current risk situation.

AGCS SE regularly establishes reports on the development of market risk and related key indicators.

The Prudent Person Principle is - in line with §124 of the German Insurance Supervision Act (VAG) - the guiding principle for the management of the investment risk of AGCS SE:

- In accordance with supervisory law, the Prudent Person Principle comprises requirements at the portfolio level as well as the level of individual investments: Investments are to be made in such a manner that compliance with basic investment principles – i.e. the desired degree of quality, security, liquidity, yield and availability of the investment portfolio – is ensured in all respects. This also includes the necessity to structure the portfolio according to the type and maturity of the liabilities that are covered by these investments. Based on the assumption of business continuity, a longer duration is implemented for the portfolio within the scope of maturity steering in comparison to the liabilities;
- Investments are only permissible if their risks can be identified, measured, monitored, managed, controlled, reported and appropriately integrated into the solvency assessment;
- In addition, the Prudent Person Principle defines criteria for the investment management function with regard to process quality and employee qualifications.

Strategic Asset Allocation (SAA) defines the long-term investment strategy of AGCS SE and the framework for the investments actually acquired. For this reason, SAA is an important and supplementary instrument for controlling market risk.

SAA is based on a detailed analysis of assets and obligations and takes into account in the risk-bearing capacity of AGCS SE.

In the construction of the SAA, great care is taken to ensure an adequate target level for the quality and security of investments. This includes, for example, the analysis of ratings and additional guarantees as well as the preservation of a sustainable return. Adequate liquidity and availability of the complete investment portfolio must also be ensured at all times.

The risk management of AGCS SE sets balanced investment-risk and volume limits; these serve the monitoring of the portfolio and of the sensitivity of market fluctuations from external shocks.

C.2.3 Risk mitigation

AGCS SE has implemented various measures to limit the impact of changes in the financial markets and to ensure that assets adequately back liabilities with respect to policyholders.

The asset liability management takes into account the risks from the Internal Model. In addition to the corresponding Allianz Group limits, AGCS SE has implemented a comprehensive risk limit framework in order to implement the requirements of the Prudent Person Principle.

AGCS SE uses derivatives to hedge the portfolio against adverse market movement (for example, a put hedge on the share portfolio), to reduce the currency risk (for example, with FX forwards), or to execute transactions more efficiently.

Our processes provide for the comprehensive monitoring of investments. For derivatives, in particular, an independent risk management function - supported by the investment management function - monitors all open positions on a regular basis (this includes open positions and limits). In addition, it monitors the derivative strategies. In the event of a limit breach, the responsible investment management function immediately informs the key AGCS SE stakeholders. If required, counter-measures have to be implemented, and these may, as the case may be, include the closure of open positions.

C.3 CREDIT RISK

C.3.1 Risk exposure

AGCS SE defines credit risk as the potential loss in portfolio value over a given time horizon due to changes of the credit quality (credit rating) of debtors in the portfolio, including default on or non-fulfillment of financial obligations. Default can be the result of either the deterioration of a debtor's creditworthiness (migration risk) or the debtor's inability or unwillingness to fulfill their contractual obligations.

The main credit risk drivers for each instrument are the ratings, guarantees and maturities.

Credit risk consists of the following partial risks:

- counter-party risk, which consists of default and migration risks. These risks arise, in particular, from loans and structured products such as asset-backed securities (ABS), over the counter (OTC) derivatives, as well as from reinsurance, financial guarantees and receivables from brokers/agents or other debtors;
- concentration risk, which arises from the accumulation of credit risks vis-à-vis a business partner; corresponding accumulations result in a higher amount of risk capital being carried - contrary to the case if the same items were to be spread over different counter-parties;
- country risk, which consists of the transfer and foreign exchange risk; transfer risk refers to the risk that a counter-party will not be able to meet its cross-border payment obligations because capital transfer is prohibited or restricted by currency moratoria; foreign exchange risk refers to the risk that a counter-party will not be able to meet its payment obligations in the currency agreed upon because currency conversion is prohibited or restricted.

The two following risks types are not subsumed under credit risk at AGCS SE:

- spread risk – which is caused by changes to the credit spreads while the credit quality remains unchanged – is separately covered in market risk;
- settlement risk, which occurs when payments are exchanged and one party makes an advance payment without being certain at the time of the payment that the counter-party will render the corresponding counter-payment.

The risk capital for the total credit risk before diversification with other risk categories amounted to € 141 233 (182 721) thou at 31 December 2019. The main drivers for total undiversified credit risk were the credit risk from reinsurance and fixed-income investments. Compared to 2018, this meant a decline of € 41 488 thou (23%). The decrease is attributable to both a lower volume and parameter updates.

CREDIT RISK FROM INVESTMENTS

Premium income and equity capital which are required to cover the risks are, to the greatest extent, invested in fixed-income securities. Typical investments are government bonds, corporate bonds, bearer bonds, promissory notes, mortgage loans, loans as well as - to a minor

extent - derivative financial instruments. Due to the nature of the business activities, fixed-income securities are predominantly short- to medium-term.

The issuers of fixed-income investments held by AGCS SE are primarily companies, governments and banks. Overall, fixed-income securities are, for the greater part, bonds from developed countries and with an investment grade rating.

Table 18: Fixed-income investments by rating class as of 31 December 2019, including fund holdings at fair value

	2019
€ thou	
AAA	980 438
AA	1 023 399
A	1 084 983
BBB	1 437 225
Non-investment grade (incl. not rated)	433 346
Total	4 959 391

CREDIT RISK FROM REINSURANCE

Credit risk vis-à-vis external reinsurers arises from insurance risks which are transferred by AGCS SE to external reinsurance undertakings in order to mitigate its own insurance risk. Potential losses can arise either from the non-recoverability of receivables already due from the reinsurance business, or from losses from receivables which have newly arisen from reinsurance contracts during the period under review.

The credit rating of the reinsurance partners is checked by the Security-Vetting-Team (SVT). The team's activities include the examination of all cession made by AGCS SE and the provision of advice with regard to the posting of required guarantees. In this manner, it is ensured that companies with strong credit rating are predominantly selected. To further mitigate the credit risk, AGCS SE may also request letters of credit, cash deposits or other financial guarantees.

The reinsurers' credit ratings are monitored on a continuous basis. The reinsurance exposure is reviewed twice annually (based on the exposures as per the end of June and end of December respectively), most recently in September 2019 based on the exposure data as per 30 June 2019: It showed that 80% of the reserves were ceded to reinsurers that had been granted at least an "A" rating by Standard & Poor's. Setting aside captives and pools, which, for some or the most part, have no ratings of their own, the share of the reserves with at least an "A" rating ceded to the reinsurers amounts to 92%.

The total of third-party receivables on 31 December 2019 – with a due date of more than 90 days – amounted to € 208 903 thou (without explicit write-offs of receivables). The average default rate for the past three years was 0.4%.

RISK CONCENTRATION

The following table shows the distribution of the credit risk at year end 2018 and 2019.

Table 19: Credit risk distribution

	2019	2018
% share of credit risk capital from	%	%
Investments	56	43
Reinsurance	41	43
Receivables	3	14

Compared to the fourth quarter of 2018, the percentage of the credit risk from receivables fell due to improvements in the quality of data used for the analysis of receivables. In addition, the percentage of the credit risk from the reinsurance experienced a decline due to improvements in the data quality in respect of incurred but not reported claims (IBNR) and due to parameter changes. The sum of the ten largest items (measured in terms of their contribution to the credit risk) with respect to the credit risk from investments and reinsurance amounts to €58 634 thou. This corresponds to 42% of the entire credit risk. The biggest counter-party is Allianz Re due to the internal reinsurance structure within the Group.

RISK SENSITIVITY

The following table shows the sensitivity of the credit risk on the assumption that the rating is downgraded by two classes, and LGD (Loss Given Default) increased by 10%. The effects on further market risks (e.g. credit spread risk) have not been taken into account.

Table 20: Sensitivity of the credit risk

€ thou	Own funds	Risk capital	Solvency ratio %
Basis	3 116 044	1 980 722	157
Stress	2 940 739	2 010 925	146

The following table shows the sensitivities of the credit risk before diversification.

The sensitivity analysis as per 31 December 2019 shows that downgrading of the credit rating by one rating class (i.e. a deterioration of the credit quality) would result in an increase in the credit risk of 24%. A downgrading in the credit rating by two rating classes and a relative rise in the LGD by 10% leads to an increase in the credit risk of 62%. A relative gain the LGD by 10% (i.e. a reduction to the usage rate in the event of default) would result in an 8%-increase in the credit risk.

Table 21: Risk sensitivity before diversification

€ thou	2019
Devaluation by one rating class ¹	33 499
Downgrading by two rating classes	87 751
LGD ² increase of 10%	11 656

1_ Rating class refers to the rating sub-categories, for example "AA+", "AA-", "AA-" at Standard & Poor's or "Aa1", "Aa2", "Aa3" at Moody's.
2_ Loss given default (LGD) refers to the loss in case of a default on the claim.

C.3.2 Credit risk management

The framework for credit risk management has two essential objectives:

- review and control of amounts receivables from individual parties; in this manner, the company wants to reduce the risk of default of individual counter-parties while, at the same time, ensuring adequate diversification across the entire portfolio.
- the guarantee that AGCS SE disposes of sufficient capital at any time to reliably bear the credit risk assumed.

These objectives are achieved by means of the following measures:

- regular reporting on the transparency and management of the risks assumed;
- setting of limits;
- integration of the credit risk into business planning and capital management;
- taking into account credit risks in the price calculation of insurance contracts.

AGCS SE monitors and manages credit risk exposures and concentrations and thus ensures that the company is able to meet its obligations vis-à-vis the policyholders at all times. The internal credit risk model and the CRiSP limit system also serve this purpose.

Due to the fact that credit risk is actively managed based on credit limits and credit risk modeling, the company has a well-diversified credit portfolio. The long-term investment strategy – holding until final maturity – ensures the stability of our portfolio even under unfavorable market conditions and enables us to generate planned excess yields throughout the entire holding period of the investments.

C.3.3 Risk mitigation

AGCS SE predominantly uses the risk mitigation techniques listed in the table to mitigate counter-party risk arising from the instruments listed in the table:

Table 22: Credit risk mitigation techniques

Instrument	Risk mitigation
Derivatives	Requirement that all derivative exposures (after netting) be collateralized.
Securities lending and repo transactions	Requirement of effective netting mechanisms and full collateralization
Reinsurance	All reinsurance partners are checked by the Security Vetting Team (SVT). Depending on this assessment, a form of collateralization may be required, for example, via bank guarantees, cash deposits or other appropriate financial measures, in order to further mitigate the credit risk.
Fixed-income securities	Requirement that investments be made predominantly in high quality securities, and concentrations in counter-parties be limited in the portfolio; to the extent required, collateralized investments will be selected. Good portfolio diversification is mandatory.

For the use of derivatives, the internal guidelines specify comprehensive requirements with regard to the type, volume and management of the guarantees to be posted.

To a limited extent, AGCS SE conducts securities lending and repo operations in the special funds. These do not constitute derivative business. Nonetheless, detailed requirements with respect to the volume and quality of guarantees to be posted as well as safety mechanisms have also been defined. These risk mitigation measures are taken into account in the calculation of the credit risk. AGCS SE and its service providers regularly review the utilization of the risk mitigation techniques described above, as well as the observation of the corresponding limits (for example, counter-party concentration limits for investments).

C.4 LIQUIDITY RISK

C.4.1 Risk exposure

Liquidity risk is defined as the risk that requirements from current or future payment obligations cannot be met or can only be met under adversely altered conditions. Liquidity risk can arise in particular if there are significant deviations in the timing of incoming and outgoing payments.

Liquidity risks with respect to unexpected liquidity requirements result from the default of reinsurers as well as claims payments that exceed the planned amounts.

The main goal of planning and managing the liquidity position of AGCS SE is to ensure that the company is always able to meet its payment obligations, without having to dispose of a considerable share of its investments. To comply with this objective, the liquidity position of AGCS SE is monitored and forecast on an on-going basis. Strategic liquidity planning over the entire fiscal year is also regularly reported to all essential decision makers and the Board of Management.

As part of our strategic planning, contingent liquidity requirements and sources are taken into account to ensure that AGCS SE is able to meet any future payment obligations even under adverse conditions such as combined market and catastrophe risk scenarios as well as lower-than-expected profits and dividends from subsidiaries.

RISK CONCENTRATION

There are no significant risk concentrations in respect of liquidity risk as the AGCS SE investment portfolio is well-diversified.

Essential components of the investment strategy of AGCS SE are liquid securities, a broad diversification of the portfolio and a limitation of the individual portfolio positions. This ensures the constant availability of liquidity

RISK SENSITIVITY

The liquidity risk is reported on in a comprehensive framework to the Allianz Group report. The objective is a review of the liquidity position of AGCS SE and Allianz and to ensure adequate liquidity, even in stress scenarios.

As part of this framework, every insurance operating entity in scope is required to submit a quarterly liquidity risk report to the Group. Key features comprise a forecast of cash inflows and outflows with different time horizons, an assessment of available countermeasures including the sale of liquid assets, the application of various stress scenarios and an aggregation using KPIs such as the Liquidity Intensity Ratio (LIR). Thresholds for warning levels and limit breaches ensure that the management is able to quickly access the liquidity situation under current and hypothetical aggravated market conditions.

Compared to the prior year, the Liquidity Intensity Ratio (LIR) remained nearly unchanged. At 31 December 2019, AGCS SE had very good liquidity in all scenarios considered. The following table lists the LIR values for the one-year time horizon.

Table 23: LIR Values

€ thou	2019			2018
	Sources	Requirements	LIR ¹	LIR ¹
Base scenario	8 902 061	3 805 476	43%	45%
Premium stress	7 447 228	3 805 476	51%	55%
Stress from claims payments	8 071 228	4 547 859	56%	61%
Derivative stress	7 793 228	3 933 861	51%	54%
Combined stress	7 002 777	3 805 476	54%	60%
Individual stress	7 531 228	3 745 573	50%	53%

1_LIR = Liquidity Intensity Ratio

C.4.2 Liquidity-risk management and risk mitigation

AGCS SE manages its liquidity risk, and thus ensures that available and required liquidity are adequately matched. The investment strategy ensures the adequate quality and liquidity of the investment portfolio, for example, by investing in liquid securities such as highly rated government bonds. This also allows increased liquidity requirements to be met, even in the case of unlikely events, without incurring significant economic losses. We employ actuarial methods for estimating our liabilities arising from insurance contracts. Standard liquidity planning ensures that the cash flows from our portfolio are in line with the estimated liability cash flows for these liabilities.

Depending on the LIR value, there are different escalation levels, which require the participation of the AGCS Risk Committee.

The total amount of the profit calculated for future premiums amounts to € 253 218 (47 892) thou before reinsurance. This year, the profit calculated for future premiums is considerably higher than in the previous year. The main reason for this is that, due to the reclassification of receivables due and liabilities as insurance reserves, the volume of future premiums has experienced a significant gain and the profit taken into account is now calculated based on this new volume.

C.5 OPERATIONAL RISK

C.5.1 Risk exposure

The Allianz Group, including AGCS SE, defines operational risk as unexpected losses resulting from inadequate or failed internal operating processes or systems, or which arise due to human misconduct, human error, or through external events. This definition covers legal risks, compliance risks and financial reporting risks. It does not, however, include strategic risks, reputational risks and risks stemming from inadequate project decisions.

Operational risks are inherent in all types of products, activities, processes and systems and cannot be fully avoided. They can have significant impact on the balance sheet, profits, business objectives, business activities or the reputation of AGCS SE.

In accordance with customary market practice, operational risks are divided into the following categories, the so-called "Basel II Categories":

- wilful misconduct
- inadmissible actions by external persons
- employment practices and workplace safety
- business practices and product characteristics
- damage to operating and office equipment
- business interruption and system failures
- business process risks

The Internal Model of AGCS SE determines the risk capital for operational risks. This capital functions as a buffer for the company in the event of extreme financial losses from unexpected operational-risk events such as the failure of key controls.

The risk capital model for operational risks is a highly automated, integrated stochastic simulation model. In a structured process, the parameters of the model are set in collaboration with experts under the lead of the Risk Management function. Modeling is conducted on the basis of the Basel-II Categories for operational risk which are relevant for AGCS SE.

Concretely, the corresponding risk frequencies and amounts for each category are determined. To arrive at a meaningful assessment, the experts take into account the following factors: further assessments within the management of operational risks, operational losses that have already occurred within AGCS SE and the Allianz Group, and external operational losses.

At the end of the reporting year, the risk capital for operational risk amounted to € 176 105 thou. The decline in comparison to the previous year in the amount of € 13 471 thou was caused by changes to parameters defined throughout the Allianz Group. The allocation factors for the distribution of the globally calculated risk capital to AGCS companies have been adjusted to the insurance reserves for the various business portfolios within the scope of the annual update. Furthermore, a few scenario parameters were adjusted in order to, for example, take into account the increasing overall threat posed by cyber-crime or the improvement potential identified for processes in connection with facultative reinsurance business.

Operational risks are not transferred to special purpose entities, and no operational risks from off-balance sheet obligations were identified.

C.5.2 Risk concentration

All relevant AGCS SE functions are regularly involved in both the assessment of operational risks and the analysis of operational risk events. As such, potential structural weaknesses which affect the company as a whole and may, under certain circumstances, indicate a concentration of operational risks are identified in a timely manner. Depending on the necessity, pertinent counter-measures are taken within the scope of the risk management system so that AGCS SE is not exposed to substantial concentrations of operational risks.

C.5.3 Risk mitigation

The risk management system for operational risks is based on the Three-Lines-of-Defense model of the Allianz Group. The employees of AGCS SE are, as a basic principle, aware of potential operational risks, and they support the control and management of these risks by taking them into account in their daily business. In view of the positive risk and control culture in the company, AGCS SE assumes that the decision-makers in particular are able to make transparent all identified weaknesses and risks so that the required counter-measures can be taken in good time.

Operational risks are primarily managed on a cost-benefit basis, whereby the expected loss reduction should exceed the costs associated with strengthening the controls. However, there may be exceptions to this cost-benefit approach, for example, when it comes to observing laws and regulations to protect the reputation of AGCS SE or in consideration of other strategic objectives.

For important risks, indicators and limits have been developed to determine the risk tolerance of AGCS.

The AGCS SE risk management system for operational risks was specifically developed to learn from past risk event and to avoid future surprises from operational risks, i.e. to prevent the occurrence of operational risks outside of the risk tolerance of AGCS SE.

First of all, one needs to gain an understanding of what could possibly go wrong. This is done in two respects:

- In retrospective, operational risk events are continually analyzed and their causes are determined. This also takes into account external operational loss data made available by Allianz SE.
- Looking forward, concrete scenarios with potentially negative effects are analyzed and assessed in expert working groups on an annual basis.

With this structural approach, AGCS SE identifies, assesses and manages operational risks. Both above-mentioned views help to prioritize and focus resources for effective operational risk management in order to make processes, systems, governance structures and procedures more robust and to proactively respond to anticipated internal or external changes. The objective is to prevent operational risk events and to reduce their negative impacts on AGCS SE.

Even though operational risk events per definition often occur due to errors, the risk management system for operational risks of AGCS SE does not focus on errors. Rather, it fosters a culture of risk transparency and considers errors to be opportunities for improvement. AGCS SE strives to learn from adverse experiences and to identify potential weaknesses early on so as to avoid similar potential losses in the future. This mindset is a prerequisite for the effective management of operational risks.

Operational risks are reduced via a series of appropriate and effective permanent counter-measures, i.e. via controls for the respective risks. Important controls are defined as "key controls" if the actual risk were significantly higher in the absence of the key control.

Due to the importance of key controls, their quality is assessed in a structured manner, i.e. key controls are regularly tested in order to ensure that (1) they are properly designed to mitigate the pertinent risks as intended, and (2) they are effectively implemented. This is done through AGCS SE's internal audit system.

Important activities supplement and support the risk management system of AGCS SE for operational risks. These are controlled by functions outside of risk management and include:

- compliance initiatives covering anti-fraud, anti-corruption, anti-trust, economic sanctions, regulations for (non-permissible) cross-border business, capital-market compliance, money laundering and terrorism financing, sales compliance and data protection;
- emergency management;
- information security initiatives.

C.5.4 Risk sensitivity

In respect of important risks such as a possible breach of economic sanctions, payments of premiums for facultative reinsurance which may not be rendered in good time, or potential cyber-attacks which entail the loss of confidential data, the individual scenarios will, within the scope of the annual scenario analysis, be subjected to a 20-year stress test. To this end, experts determine an individual loss in each case which occurs once in 20 years on average. Together with the respective experts of a particular insurance line, these values are additionally analyzed within the scope of the risk-capital calculation as being representative for various Basel II Categories; the experts define the parameters for the severity of a risk. In this manner, it is ensured that AGCS SE has a sufficient buffer in respect of these risks for the protection of the company, even in particularly adverse cases of extreme financial loss.

In respect of each Basel II Category, parameter stress tests are also carried out within the scope of the parameterization of the Internal Risk Capital Model for operational risks, and the results are discussed in order to ensure that the experts are familiar with the model's

specific features and that the model performs in line with the AGCS SE risk profile.

However, these analyses failed to provide any indications of possible operational risks, which are, on the whole, deemed to be potentially material for AGCS SE.

C.6 OTHER MATERIAL RISKS

C.6.1 Strategic risk

Strategic risk is the risk of an unexpected decrease in the company's value resulting from the adverse effect of management decisions on the business strategy and its implementation.

In the Top Risk Scoping process, this risk was estimated at over € 60 million with a probability of occurrence of less than 1 in 2 years. The analysis is based on the fiscal year results of the previous years in which the target expectations were, in part, not achieved. As such, the risk assessment lies outside of the risk appetite of AGCS SE.

In the light of the continuing challenges impeding the generation of sufficient business profit from insurance operations, AGCS introduced the company-wide program "Path to Profitability" in the year 2019. This program provides for a multi-step action plan which is aimed at restoring the company's profitability as market leader.

The seven elements of the program include, amongst others, portfolio reviews, the revision of the reinsurance structure and the targeted optimization of the cost structure.

As early as in 2019, the combination of internal measures and the more favorable market environment started to bear fruit, such as the generation of higher premiums for newly concluded policies. This trend has to be maintained in the following years in order to achieve the objectives being pursued. In addition, strategic decisions are discussed in various committees at Board of Management level (for example, AGCS Risk Committee, Underwriting Committee, Reinsurance Committee). The Chief Risk Officer is represented in all strategically relevant committees. The assessment of the risks in question forms a core element of these discussions.

The individual management decisions related to reputational risk are integrated in the risk management system. Moreover, reputational risks are addressed in the AGCS SE and the Allianz Group. Here, a clearly defined reporting process on a case-by-case basis is used.

C.6.2 Reputational risk

The perception of AGCS SE as a well-respected and conscientious provider of insurance services is influenced by a series of criteria: product quality, corporate governance, financial strength, customer service, innovative strength, employee management, intellectual property and corporate responsibility. Reputational risk is the risk of a possible decline of the reputation of AGCS SE, which could lead to an unexpected drop in the value of the Allianz SE share price or a decline in future business volume.

In the annual Top Risk Scoping process, this risk was estimated at up to € 4.4 million in operating losses with a probability of occurrence of once in 2 to 5 years. In the previous year, the maximum financial impact to be expected was stable.

Within the scope of the analysis, the exposed premium from relationships with major customers is compared to the average profit margin per scenario. In this conjunction, the Allianz ESG criteria constitute the possible underlying triggers of the scenarios. They define the requirements for environmentally aware and socially just business conduct. The risk is actively managed via existing processes in which various departments are involved. The maximum financial impact to be expected in case of a reputation crisis lies within the risk appetite of AGCS SE.

C.7 ANY OTHER INFORMATION

All relevant information regarding the risk profile of AGCS SE has been addressed in the previous sections.

VALUATION FOR SOLVENCY PURPOSES

D

In this chapter, the evaluation of assets, insurance reserves and other liabilities for solvency purposes is presented; it also describes the relevant bases, methods and main assumptions, and explains the material differences with respect to the evaluation in the commercial balance sheet pursuant to the German Commercial Code (HGB).

Table 24: Assets

€ thou	Solvency II	HGB	Difference
ASSETS			
Intangible assets	-	247 832	-247 832
Deferred tax assets	69 224	-	69 224
Pension benefit surplus	-	3 088	-3 088
Property, plant and equipment held for own use	22 585	16 345	6 240
Investments (other than assets held for index-linked and unit-linked contracts)	8 697 377	7 292 695	1 404 682
Real estate (except for own use)	140 775	74 407	66 368
Holdings in affiliated enterprises, incl. participations	2 900 222	4 525 194	-1 624 972
Equity	6 663	5 890	773
Equities - unlisted	6 663	5 890	773
Bonds	2 571 222	2 433 407	137 815
Sovereign bonds	1 119 644	1 047 048	72 596
Corporate bonds	1 369 808	1 308 859	60 949
Collateralized securities	81 770	77 500	4 270
Collective Investment Undertakings	3 006 328	198 142	2 808 186
Derivatives	38 888	22 375	16 513
Deposits other than cash equivalents	33 280	33 280	-
Loans and mortgages	309 853	299 237	10 615
Other loans and mortgages	309 853	299 237	10 615
Reinsurance recoverables from:	5 678 963	6 782 810	-1 103 847
Non-life and health similar to non-life	5 678 963	6 782 810	-1 103 847
Non-life excluding health	5 670 505	6 773 195	-1 102 690
Health similar to non-life	8 458	9 614	-1 156
Deposit receivables	75 525	75 525	-
Insurance and intermediaries receivables	351 865	1 346 823	-994 958
Reinsurance receivables	145 152	220 771	-75 619
Receivables (trade, not insurance)	343 867	249 303	94 564
Cash and cash equivalents	176 622	176 622	-
Any other assets, not elsewhere shown	11 254	11 237	17
Total assets	15 882 286	16 722 288	-840 002

Table 25: Liabilities

€ thou	Solvency II	HGB	Difference
LIABILITIES			
Insurance reserves – non-life insurance	9 056 355	11 111 953	-2 055 598
Insurance reserves – non-life (excluding health)	9 034 986	11 088 738	-2 053 752
Best estimate	8 864 587	-	8 864 587
Risk margin	170 399	-	170 399
Insurance reserves – health (similar to non-life)	21 369	23 215	-1 846
Best estimate	20 832	-	20 832
Risk margin	537	-	537
Other insurance reserves	-	593 049	-593 049
Provisions other than insurance reserves	221 622	220 961	661
Pension benefit obligations	146 436	4 967	141 469
Deposits retained on ceded business	2 804 771	2 779 840	24 931
Deferred tax liabilities	10 147	-	10 147
Derivatives	11 466	-	11 466
Financial liabilities other than debts owed to credit institutions	6 612	-	6 612
Insurance and intermediaries payables	76 641	109 734	-33 093
Reinsurance payables	138 417	461 970	-323 553
Payables (trade, not insurance)	67 517	67 502	15
Any other liabilities, not elsewhere shown	226 259	228 077	-1 818
Total liabilities	12 766 242	15 578 051	-2 811 809
Excess of assets over liabilities	3 116 044	1 144 237	1 971 807

Unless indicated otherwise, the Solvency Overview was drawn up in € thou. Due to rounding, there may be minor differences when computing totals and percentages.

[Chapter D.1](#) covers the asset side, and [Chapters D.2 and D.3](#) the liability side of the Solvency Overview. If alternative valuation methods are used by AGCS SE for certain assets in the Solvency Overview, these are described in [Chapter D.4](#) "Alternative Valuation Methods".

The International Financial Reporting Standards (IFRS) form the framework for the recognition and valuation of assets and liabilities. As a basic rule, IFRS regulations are considered to be a sufficiently close approximation of the valuation according to Solvency II; however, the specific Solvency II regulations pursuant to the Omnibus II Directive (Directive 2014/51/EU) and Solvency II CDR shall take precedence.

D.1 ASSETS

Pursuant to Article 75.1 letter a of the Solvency II Directive¹, assets in the Solvency Overview are, as a basic rule, valued at the amount for which they may be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

For the valuation of assets, the valuation hierarchy according to Article 10 Solvency II CDR is used:

- AGCS SE basically values assets on the basis of market prices quoted in active markets for identical assets and liabilities.
- If this is not possible, AGCS SE values the assets on the basis of market prices quoted in active markets for similar assets and liabilities.
- If no quoted market prices in active markets are available, AGCS SE uses alternative valuation methods. These are described in detail in [Chapter D.4](#).

A market with trading transactions which occur at a sufficient frequency and volume such that price information is available at all times is deemed active. In this conjunction, the following pre-requisites have to be cumulatively met:

- the products traded in the market are homogeneous,
- willing buyers and sellers may, as a general rule, be found at any time, and
- the prices are available to the general public.

A financial instrument is considered to be quoted in an active market when quoted prices are easily and regularly made available – by a stock exchange, a trader or a broker, an industry group, a price service agency or a supervisory authority; in addition, these prices must represent actual and regularly occurring market transactions as among independent third parties (arm's length principle).

An active market no longer exists if, due to the complete, long-term withdrawal of buyers and/or sellers from this market, market liquidity can no longer be established. In this case, no firm price quotes are provided over a longer period and no market transactions can be observed. If transactions demonstrably result exclusively from forced trades, involuntary liquidation or distress sales, this is also an indication of a no longer active market.

For assets that are valued at amortized cost under IFRS and for which the difference between market value and amortized cost is immaterial, the IFRS approach was taken for the valuation in the Solvency Overview.

D.1.1 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. If intangible assets can be sold separately and the insurance undertaking can prove that a fair value exists for these or comparable assets, they can be recognized at fair value in the Solvency II

Overview. Otherwise, intangible assets must be valued at 0 under Solvency II valuation principles according to Article 12 no. 2 Solvency II CDR.

Under HGB, intangible assets are valued at the cost of acquisition or production, less write-downs permitted by commercial law.

At AGCS SE, the balance sheet item essentially comprises the capitalized expenses for the system integration of third-party and internally generated software (€ 181 343 thou) as well as capitalized expenses related to the long-term distribution agreement with Standard Chartered Bank PLC (€ 66 489 thou).

Their market value cannot be determined because no transactions involving comparable assets are observable in the market, and they cannot be sold separately. In accordance with Article 12 of Solvency II CDR, they are therefore not recognized under Solvency II.

D.1.2 Deferred tax assets

Deferred tax assets are assets that can be used to reduce income tax expense in future periods. Deferred taxes are not discounted.

They result from deductible temporary differences between Solvency II and the tax balance sheet, the carry-forward of unused tax losses and unused tax credits (Article 15 Solvency II CDR). Deferred tax assets – except deferred tax assets arising from the carry-forward of unused tax losses or unused tax credits – are valued on the basis of the temporary differences between the Solvency II Solvency Overview and the tax balance sheet. The temporary differences between the Solvency II value of the assets and liabilities as well as the corresponding tax values are determined according to IAS 12 on a single-asset or liability basis. In the calculation of deferred tax assets, the respectively applicable national tax rates for certain assets and liabilities are taken into account. Deferred tax assets are valued using the tax rates and tax laws that are applicable at the balance sheet date or will be applicable shortly thereafter. The most substantial differences, in terms of amount, between the market value balance sheet and the tax-based valuations result from the balance sheet items Shares in Special Funds and Bonds as well as Claims Reserves (insurance reserves), each of which results in deferred tax assets. In addition, deferred tax assets for tax loss carry-forwards in the amount of € 152 878 (98 997) thou were constituted in the branches in Denmark, France, Italy, Great Britain, Hong Kong, Austria, Sweden and Singapore. The planning for the coming four years for these branch offices projects profits, which will be able to absorb the losses carried forward. In Germany, the deferred tax receivables were written off. In Germany, deferred taxes are valued at a tax rate of 31% and in other countries according to the respective local tax rates. The capitalization option according to § 274.1 HGB was not used.

According to IAS 12.72, deferred tax assets and tax liabilities are netted before they are reported to the respective tax authorities. The foreign branches of AGCS SE reported both deferred tax assets as well as deferred tax liabilities.

¹ Directive 2009/138/EC of the European Parliament and Council dated 25 November 2009, in respect of the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) in the version from 28 April 2015.

Tax rate changes already adopted by 31 December 2019 are taken into account. There were changes at the branch offices in India, Italy, the Netherlands and Sweden.

The following table shows the origin of the recognition of deferred tax assets:

Table 26: Deferred tax assets

€ thou	2019
Financial assets carried at fair value in the income statement	3 554
Long-term financial assets	162 839
Deferred acquisition costs	25 766
Other assets	352 099
Intangible assets	62 548
Tax losses carried forward	32 742
Insurance reserves	312 766
Provisions for pensions and similar obligations	67 733
Other liabilities	97 830
Netting	-1 048 654
Total after netting	69 224

No deferred taxes are constituted for the valuation differences in participations and shares in affiliated enterprises.

The AGCS SE closing process for deferred tax assets according to Solvency II is integrated, consistent and in line with the IFRS closing process. Deferred taxes on temporary differences in the market value balance sheet result from the sum of the deferred taxes recognized under IFRS and the deferred taxes on valuation differences of the individual balance sheet items between IFRS and Solvency II. The difference of deferred tax assets with respect to IFRS result from temporary differences due to the re-evaluation of assets and liabilities for the market value balance sheet. The differences are essentially due to the different valuation of insurance reserves and intangible assets.

In accordance with § 274.1 HGB, the company does not use its capitalization option to constitute a deferred tax asset on the temporary difference between the accounting valuation of assets, liabilities and deferred income and their tax-based valuation, if these differences result in tax relief in the following years.

D.1.3 Pension benefit surplus

The pension benefit surplus is the net surplus related to the employee pension scheme, if there are offsettable plan assets that exceed the pension obligations for this plan. If that is not the case, one talks about pension provisions if the obligation exceeds the offsettable plan asset (see "Pension benefit obligations" in [Chapter D.3](#) of this report). Under Solvency II, this item is valued in line with IAS 19. The excess of the plan assets over the present value of the obligations is recognized at fair value. Securities to meet liabilities resulting from retirement provision commitments are valued at fair value in accordance with § 253.1 HGB and offset against the liabilities in conjunction with § 246.2 HGB. An asset overhang resulting under HGB does not exist in the valuation of this item under Solvency II.

For further explanations about the bases, methods and assumptions for the valuation of gross pension obligations according to super-

visory law and HGB, as well as an explanation of the valuation differences, we refer to "Pension benefit obligations" in [Chapter D.3](#) of this report.

D.1.4 Property, plant and equipment held for own use

Under supervisory law, property, plant and equipment held for own use are valued at market value in accordance with the re-valuation method. The value in the Solvency Overview is identical to the IFRS fair value pursuant to IAS 16. An alternative valuation method (income approach) is applied for the calculation of the market values. Alternative valuation methods are described in [Chapter D.4](#).

Under commercial law, property, plant and equipment are carried at the costs of acquisition or manufacture less scheduled and unscheduled write-downs.

In the commercial balance sheet, lease payments are exclusively reported in the income statement, while, under Solvency II (pursuant to IFRS 16), the fair value of the contractually agreed future payment obligations are posted in the balance sheet under "Financial liabilities other than debts owed to credit institutions" and the benefit derived therefrom under "Property, plant and equipment held for own use".

D.1.5 Appendices

D.1.5.1 REAL ESTATE (EXCEPT FOR OWN USE)

This balance sheet item (valuation difference € 66 368 thou) contains direct investments in six German buildings. The fair value of real estate assets was determined at 31 December of the fiscal year according to IAS 40 and/or Art. 16 Solvency II CDR (fair value model / discounted-cash flow method). This alternative valuation method is explained in detail in [Chapter D.4](#).

Under HGB, real estate used by third parties is carried at cost of acquisition or manufacture less accumulated scheduled and unscheduled write-downs.

The difference between supervisory law and commercial law results from the differing valuation techniques since the market values are currently much higher than the acquisition or manufacturing costs less write-downs/write-offs.

The Solvency II value takes into account the valuation reserves that, for the most part, concern real estate in Berlin and Munich.

D.1.5.2 SHARES IN AFFILIATED ENTERPRISES, INCLUDING PARTICIPATIONS

Shares in affiliated enterprises are valued based on the parent company's pro-rated share of the excess of assets over liabilities from its Solvency Overview (adjusted equity method).

Participations, i.e. pursuant to Article 13.20 of the Solvency II Directive, the direct holding or holding by way of control of at least 20% of the voting rights or capital of an undertaking, are valued under supervisory law based on market prices quoted in active markets (for example, stock market prices). Should valuation at quoted market prices not be possible due to the absence of stock-market listing, the participations are also to be recorded based on the parent company's pro-rated share of the excess of assets over liabilities from its Solvency

Overview (adjusted equity method Article 13.1b Solvency II CDR). This alternative valuation method is explained in detail in [Chapter D.4](#). If a valuation according to quoted market prices or by means of the adjusted equity method is not possible, the IFRS equity method (Article 13.5 Solvency II CDR) is used. In this approach, the pro-rated IFRS equity, reduced by possible goodwill as well as intangible assets, is used as value. AGCS SE uses the equity method for non-insurance subsidiaries as these do not compile a market value balance sheet. Enterprises, which, according to Article 214.2a of the Solvency II Directive, are excluded from group supervision or which, according to Article 229 of the Solvency II Directive, are deducted from own funds, are valued at 0.

Shares in affiliated enterprises and other participations are, pursuant to commercial law, valued according to the moderate lower-value principle and carried at amortized costs or the lower long-term fair value. Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value. In addition, this item also includes Special Funds in the amount of € 2 175 564 thou under HGB, which, according to Solvency II, are reported under the item "Collective Investment Undertakings". Generally, Special Funds refer to investment funds which are not structured for the open capital market in general, but for special institutional investors or investor groups. Often, only one single investor participates in a Special Fund, resulting in the investor's interests being given full consideration.

The difference between supervisory law and commercial law is the result of differing valuation techniques. The market prices of affiliated enterprises and/or participations are currently higher than the corresponding amortized costs, which, pursuant to commercial law, constitute the upper valuation limit.

The following overview shows essential shares in affiliated enterprises, including participations, and their valuation differences at 31 December 2019:

Table 27: Essential shares in affiliated enterprises and participations

	Solvency II	HGB	Difference
AGCS International Holding B.V., Amsterdam	1 995 961	1 653 446	342 515
Allianz Risk Transfer AG, Schaan	183 625	74 497	109 128
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	0	31 238	-31 238
Allianz Finance VIII S.A., Luxembourg	248 192	196 428	51 765
Other	472 444	2 569 585	-2 097 140
Total	2 900 222	4 525 194	-1 624 972

D.1.5.3 EQUITIES

This category comprises non-listed equity. Participations are excluded herefrom. Under Solvency II, non-listed equity is recognized with price valuations provided by fund and portfolio managers; this alternative valuation method is described in [Chapter D.4](#). Under commercial law, equities are – depending on their nature and the investment strategy (holding period) – valued either in accordance with the strict (current assets) lower-value principle or the moderate (fixed assets) lower-value principle and carried at the average acquisitions costs or a lower market value or a lower long-term fair value.

The difference between Solvency II and commercial law amounts to € 773 thou and is based on the currently tendentially higher market values compared to amortized costs, which constitute the upper valuation limit under commercial law.

D.1.5.4 BONDS

This category includes government and corporate bonds as well as collateralized securities.

Government bonds are bonds issued by public authorities, for example, 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. Collateralized securities include securities whose value and amounts receivable can be derived from a portfolio of underlying assets. They include securities such as asset backed securities, mortgage backed securities as well as collateralized mortgage obligations.

In the market value balance sheet, the valuation of government and corporate bonds as well as of collateralized securities is performed at fair value in accordance with IAS 39. The fair value is determined using alternative valuation methods, which are described in detail in [Chapter D.4](#).

Under commercial law (§253 in conjunction with §341b and c HGB), bonds are – depending on their nature and the investment strategy (holding period) – valued either in accordance with the strict lower-value principle or the moderate lower-value principle and carried at amortized cost or a lower market value or long-term fair value.

The different valuation principles result in different valuations under Solvency II and HGB. The difference in amounts between the market value balance sheet and the HGB balance sheet amounts to € 137 815 thou as per the cut-off date.

The main driver for the market prices is the currently low interest level that is driving up the market value of the individual bonds. Accordingly, market values are higher than the corresponding amortized costs, which constitute the upper valuation limit under HGB.

D.1.5.5 COLLECTIVE INVESTMENT UNDERTAKINGS

Under Solvency II, the value of investment funds is identical to the IFRS fair value according to IAS 39. The value communicated by the investment company is used. Under HGB, investment funds are valued according to the moderate lower-value principle and carried at average amortized cost or a lower fair value. This corresponds to the value reported to us by the investment companies, wherein the acquisition costs form the upper limit. The valuation difference results from the currently low interest rate which is driving up the market value. As such, the market values of the funds are generally higher than the corresponding amortized costs, which constitute the upper limit under commercial law.

In addition, this item also includes Special Funds (€ 2 768 268 thou), which, under HGB, are reported under the item Participations. Their valuation is based on the parent company's pro-rated share of the excess of assets over liabilities from its Solvency Overview (adjusted equity method). This alternative valuation method is explained in detail in [Chapter D.4](#). Under commercial law, Special Funds are valued according to the moderate lower-value principle. As such, the market values of the funds are generally higher than the corresponding amortized costs, which constitute the upper limit under commercial law.

D.1.5.6 DERIVATIVES

This balance sheet item includes options on Allianz SE shares to eliminate market risks when hedging equity-based remuneration schemes.

Under Solvency II, these are valued at market value according to IAS 39 while under commercial law, their book value according to § 253.3 HGB is carried as their acquisition costs or the lower fair value.

Due to the positive development of the capital markets, the fair value of the derivatives exceeds their cost of purchase according to HGB by € 16 513 thou.

D.1.5.7 DEPOSITS OTHER THAN CASH EQUIVALENTS

Deposits other than cash equivalents include deposits other than transferable deposits, i.e., they cannot be used to make payments at any time and they are not exchangeable for currency or transferable deposits without any kind of significant restriction or penalty. Those short-term investments are 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 pursuant to IAS 39 are valued at fair value in the market value balance sheet. The fair value for short-term deposits other than cash equivalents is determined using the nominal value; otherwise, the fair value is determined using the income approach. There is no difference between the values under commercial law and the values in market value balance sheet.

D.1.5.8 LOANS AND MORTGAGES

This balance sheet item (valuation difference € 10 615 thou) contains investments that arise when a lender makes (secured or unsecured) funds available to a borrower.

Under Solvency II, they are carried at fair value on the basis of valuations by independent data suppliers or determined according to the discounted cash flow method. The effective interest rate of similar debt instruments is thereby used. This alternative valuation method is explained in detail in [Chapter D.4](#).

Under HGB (§253.3 sentence 3 and §341c HGB), the recognition takes place at amortized costs, and the difference between the costs of purchase and redemption amount is amortized over the remaining period based on the effective interest method. Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

There is no active market for loans and mortgages on which they are traded. The valuation in the Solvency Overview differs from the commercial balance sheet, which is due to the low-interest phase and the related higher market values. Accordingly, the market values are generally higher than the corresponding amortized costs, which constitute the upper valuation limit under HGB.

D.1.5.9 REINSURANCE RECOVERABLES

For comments concerning this balance sheet item, we refer to [Chapter D.2](#).

D.1.5.10 DEPOSIT RECEIVABLES

Deposit receivables stem from monetary guarantees that AGCS SE as reinsurer has made available to a cedant.

In application of the principle of materiality, these are carried at face value under Solvency II because the expected future interest payments essentially correspond to the market interest rate.

The valuation at face value corresponds to the valuation under commercial law according to § 341c HGB.

D.1.5.11 INSURANCE AND INTERMEDIARIES RECEIVABLES

This item includes receivables from insurers, brokers and cedants - essentially from unpaid premiums - which are past due.

Under Solvency II, these are valued at face value less repayments. In concrete cases with probable default risks, individual value adjustments are made. For receivables from the direct business, additional lump-sum value adjustments are made to account for the general credit risk. This corresponds to the valuation in the commercial balance sheet.

While provisions for reinstatement premiums under Solvency II are recognized as future cash inflows in the insurance reserves, they are shown as part of "Insurance and intermediaries receivables" under HGB. This results in a difference of € 52 960 thou.

The difference to the commercial balance sheet amounting to € 941 998 thou results from the reclassification of the receivables due as premium provisions.

D.1.5.12 REINSURANCE RECEIVABLES

This balance sheet item includes receivables past due from reinsurance ceded.

Under Solvency II and HGB, these receivables are valued at face value less repayments. In case of disputes concerning the amount of the reinsurance coverage or probable payment difficulties of the reinsurer, individual value adjustments are made.

The difference to the commercial balance sheet amounting to € 75 619 thou results from the reclassification of the receivables due as claims reserves.

D.1.5.13 RECEIVABLES (TRADE, NOT INSURANCE)

Under Solvency II, these items (valuation difference € 94 564 thou) are valued at face value less repayments, adjusted for the counter-party default probability.

Under HGB, these are carried at face value less repayments.

Under Solvency II, this balance sheet item contains, among others, the decentral recognition of plan assets of pension provisions (€ 90 914 thou) as a claim against Allianz SE. Under HGB, pensions are centrally recognized at Allianz SE.

D.1.5.14 CASH AND CASH EQUIVALENTS

These are carried at face value. There are no valuation differences between Solvency II and HGB.

D.1.5.15 ANY OTHER ASSETS, NOT ELSEWHERE SHOWN

Any other assets, not elsewhere shown include any assets that are not included in the other balance sheet items. It includes mainly deferred income but also other assets. Under Solvency II and HGB, they are generally measured at fair value or at face value, adjusted for the probability of counter-party default. Within the principles of materiality and proportionality, the face value constitutes a good approximation of the fair value (Article 9.4 Solvency II CDR).

D.1.6 Material changes with respect to the prior reporting period

Compared to the prior reporting period, liabilities due in respect of insurance and intermediaries receivables and reinsurance receivables were reclassified as insurance reserves.

D.2 INSURANCE RESERVES

Under Solvency II, the insurance reserves are made up of three components: premium provision, claims provision and risk margin.

The premium provision is the discounted best estimate of the future cash flows (claim payments, expenses, premiums) which are related to obligations from future claims arising from policies in force at the evaluation date. The claims provision is the discounted best estimate of the future cash flows (claim payments, expenses, premiums) related to claim events prior to the valuation date. The risk margin is the amount that a third party who assumes the liabilities at the valuation date would require above and beyond the best estimate to settle the transaction.

At AGSC SE, the valuation of premium and claims provisions is first made on an undiscounted basis. In a second step, an adjustment for the current monetary value of the cash flow is calculated (discounting), based on the future cash flows – separately for premium and claims provisions as well as for gross provisions and recoverables from reinsurance contracts in each case. The risk margin is calculated as a lump sum, including discounting, by means of the cost-of-capital approach.

We did not make use of the “Transitional Measure on Risk-Free Interest Rates” according to Article 308c of the Solvency II Directive or § 351 VAG (Transitional Interest Measure) as well as the “Transitional Measure on Insurance Reserves” according to Article 308d of the Solvency II Directive or § 352 VAG (Transitional Provisions Measure).

In the following chapters, the calculation of the individual components is described. The amount calculated in each case is the undiscounted best estimate for the gross premium and claims provisions and, after reinsurance, the corresponding discount and risk margin. The resulting insurance reserves according to Solvency II at 31 December 2019 are then presented and the methods for calculating the reserve uncertainty are described. Finally, a comparison is made between the insurance reserves pursuant to Solvency II and the corresponding provisions pursuant to HGB. The material differences in the valuation are described, and quantified and presented as per 31 December 2019.

D.2.1 Premium provisions

The premium provision includes all claims payments expected on the basis of existing contracts, to the extent that they cover loss events which have occurred only after the balance sheet date. In addition, it also takes into account premiums and provisions which fall due on or after the balance sheet date for the contracts already existing as per the balance sheet date, which we have yet to receive. Furthermore, the provision also includes the expected future costs of contract administration, claims settlement and capital management arising from these contracts. All payments for premiums and commissions past due at the balance sheet date are, in accordance with the Technical Implementation Standard, Annex II, S02.01, recognized in the balance sheet under receivables and payables and not as part of the incoming and outgoing cash flows of the premium provision.

As a first step for the calculation of gross premium provisions, the exposure is measured by determining all unearned premium components for all active policies at the balance sheet date, independent of whether the premiums were already due before the balance sheet

date (and thus have already been recognized as premiums under HGB) or whether they fall due after the balance sheet date. The correspondingly deferred premium components are hereafter called Solvency II unearned premiums.

The undiscounted best estimates of the single components of the premium provision are calculated separately in each case on this basis.

In order to determine the expenses for future claims, the expected loss ratio (excl. internal and external claims management expenses) is applied to the Solvency II unearned premiums. In addition, future expenses are calculated from the following components:

- shares of intermediary and broker commissions and lead fees from existing contracts not yet due;
- internal and external claims settlement expenses; in order to determine the expected costs, the expected claims settlement expense ratio is applied to Solvency II unearned premiums in a manner analogous to the approach for the compensation amounts;
- administrative costs; here, too, the expected administrative cost ratio is applied to Solvency II unearned premiums in order to determine the expected future administrative costs for contracts already existing as at the balance sheet date;
- premium refunds and profit commissions not yet due.

In addition to these expected cash outflows, premiums from existing contracts that fall due after the balance sheet date are taken into account as expected cash inflows. Exceptions are active reinsurance which is retroceded to the greatest extent possible, and certain smaller portfolios from legacy systems, particularly in Aviation, for which the premiums not yet due cannot simply be analyzed on system-related grounds. Assuming a combined ratio of nearly 100% on future premiums, the effect on insurance reserves as the sum of the shares of intermediary and broker commissions and lead fees from existing contracts not yet due is negligible.

As the case may be, the premium provision also includes other expected cash inflows, particularly from recourse, claim recoveries and distribution agreements.

The calculation of the undiscounted premium provisions for reinsurance ceded is made analogous to the calculation of gross provisions.

D.2.2 Claims provisions

The undiscounted best estimates of the single components of the claims reserves are calculated separately.

In this conjunction, the undiscounted best estimates for the future cash outflows for future payments in conjunction with claims already incurred at the balance sheet date result, in each case, from the sums of the individual-case and IBNR provisions determined based on IFRS principles.

In accordance with the reporting requirements under Solvency II, the claims provision for indemnity payments is determined separately from that for internal and external claims settlement expenses, and

separately from the claims provision for future receivables from recourse, claim recoveries and distribution agreements.

In addition, claims provision is formed for future premiums relating to loss events before the balance sheet date, in particular, contractually agreed reinstatement premiums for outstanding losses as at the balance sheet date.

- claims incurred: correspond to the sum of individual-case and IBNR provisions (both excluding claims settlement expenses);
- future costs and other cash outflows: the sum of individual-case and IBNR provisions for external claims settlement expenses and the provisions for internal claims settlement expenses;
- future premiums: contractually agreed reinstatement premiums for reserved claims;
- future receivables from recourse, claim recoveries and distribution agreements for claims already incurred at the balance sheet date.

The calculation of the undiscounted premium and claims reserves for reinsurance ceded is made analogous to the calculation of gross provisions.

D.2.3 Discounting

Premium and claims reserves are discounted per claims year, insurance line, region and currency – separately for the cash flows described above.

The present value is calculated on the basis of the following parameters:

- undiscounted premium and claims provisions per claims year, insurance line, region and currency;
- expected payment pattern per provision type, insurance line and region;
- risk-free yield curve per currency plus volatility adjustment per currency and duration.

The following principles are applied:

- The interest rate structures for the various currencies are provided by EIOPA and made available by Allianz Group to the Group company.
- The discount is separately calculated for premium and claims provisions as well as per claims year, reserving segment and main currency (Euro, US dollar, British Pound, Australian dollar, Canadian dollar, South African Rand, others). Provisions in currencies which are grouped under the main currency “others” are discounted at the EIOPA yield curve for the euro;
- The cash flow forecast is based on payment patterns that have been determined in the course of the annual reserve analysis per reserving segment;
- As a simplification, it is assumed that the payments from claims and premium provisions is made on average in midyear;
- The calculation of recoverables from reinsurance contracts is made analogous to the calculation of gross provisions. In addition, this balance sheet item of recoverables under Solvency II contains an adjustment for the counter-party default risk;

- For insurance reserves and the adjustment for possible defaults on recoverables, the same duration is used.

For discounting purposes, AGCS SE, with the approval of the BaFin supervisory authority, uses a volatility adjustment pursuant to § 82 VAG. Compared to the use of yield curves without volatility adjustment, this reduces the amount of insurance reserves in the reporting year by € 33 374 thou. As such, the basic own funds increased by € 11 890 thou; this amount is fully eligible for meeting the Solvency Capital Requirement. The Solvency Capital Requirement itself is decreased by the use of the volatility adjustment by € 49 752 thou.

In parallel, eligible own funds to meet the Minimum Capital Requirement increased by € 11 890 thou, and the minimum capital requirement declined by € 1 659 thou.

D.2.4 Risk margin

There is no observable market value for insurance reserves. Instead, an amount is estimated that would have to be paid to sell the liabilities to an independent “reference undertaking”. To this end, a risk or market value margin (MVM) is used over and above the best estimate as expected discounted payment flow. The MVM represents the cost of the capital the acquiring company would have to provide during run-off.

The starting point for the cost of capital used is the Solvency Capital Requirement (SCR) under Solvency II; however, this amount only covers the capital requirement in each case for a period of one year. Therefore, a time series of future SCRs must be estimated for the MVM. The cost-of-capital rate to be used is set at 6% pursuant to Article 39, Solvency II CDR, estimated as the cost-of-capital rate of the reference undertaking. The Allianz Group has adopted the approach recommended by the CRO Forum, but adapted it to the specifics and model environment of the company. The approach was subsequently made available to its subsidiaries in the form of a directive and a calculation tool.

To the extent possible, AGCS SE follows this recommendation, but, in deviation therefrom, updates risks for each quarterly accounting period to account for the current development of all risks.

The MVM is first of all calculated for AGCS SE as a whole, and then allocated to the insurance lines under Solvency II. In this conjunction, the respective sums of the discounted insurance risk time series are used as weights, and the insurance reserves as well for smaller segments. Within the insurance lines, allocations are made to claims and premium provisions, using the corresponding undiscounted provisions as weights. In the last step, both parts are further allocated to reporting segments and regions, wherein the corresponding IFRS provisions serve as weights.

D.2.5 Overview of insurance reserves

Since the internal calculations are made at the level of reserving segments, which are different from Solvency II segments, the latter are based on appropriate allocations. The table on page 96 shows the insurance reserves for the non-life segment under Solvency II as per 31 December 2019, in accordance with the Solvency II segmentation:

D.2.6 Risk of change in insurance reserves

AGCS SE performs an annual review of the risk of change to which the insurance claims reserves are subject. In this conjunction, it is ensured that same basis is used for the calculation of the claims reserves and the analysis of the risk of change: In 2019, the run-off triangles as per the second quarter were used for the analysis of the reserves.

The following approaches were applied for 2019 to ensure that the analysis of the risk of change and the calculation of the claims reserves use the same basis of calculation: Run-off triangles as per the second quarter were used for the analysis of the reserves. The same data basis as per the third or fourth quarter was used for the analysis of the risk of change. In order to ensure that there are no data discrepancies between the analysis of the reserves and that of the risk of change, the respective triangles were compared. The run-off patterns were also selected using the same basis: In both cases, the gross figure or the gross figure after facultative reinsurance.

In the context of insurance reserves, the designation "risk of change" describes possible deviations of actual future expenses from those forecast today. In the area of claims reserves, the main drivers of negative deviations are late-reported claims and the retroactive increase in claims expenses for already known losses, particularly in long-tail insurance lines, beyond the expected scope accounted for in the actuarial projection. These effects are modeled as reserve risk in the risk capital calculation. For example, the amount of the actual payments after settlement of claims will, with a 90% probability, not exceed the value of the provision posted (i.e. the current forecast) by more than 12.8% net.

For premium provisions, deviations arise from the so-called premium risk, i.e. the risk that premiums already agreed upon will not suffice in the future to cover the expenses associated therewith. For example, a major flood or an unexpected increase in internal company costs could result in a deviation from the currently forecast expenses that are included in the agreed premiums. These effects are also quantified within the scope of the risk capital calculation. For example, the actual future expenses linked to the agreed premiums will, with a 90% probability, not exceed the current forecast by more than 18% net. The expected profit included in future premiums (EPIFP) results from the future premiums less the related expected costs and claims expenses. The latter is also subject to the premium risk. In order to describe the degree of uncertainty, sensitivity analyses are also performed. One sensitivity analysis has shown that a 10% increase in future claims expenses for business yet unearned compared to current expectations would, with otherwise unchanged premiums, result in an increase of 49.1% in undiscounted gross premium provisions of AGCS SE. This relative increase is more significant than in respect of the future claims expenses themselves, primarily due to the fact that the basis is lower due to the future premiums. At the same time, EPIFP would decline by 32.9%. Lapse rates have no material effect on the premium provisions of AGCS SE. There is also the possibility that deviations from the forecast expenses arise from the delayed payment of claims and the corresponding interest on investments from provision items. For example, internal calculations show that a decrease of market interest rates by 1 percentage point would result in an increase in currently stated insurance reserves by approximately 3.3%. Another reason for deviations from currently forecast expenses may result from future management decisions, for example with respect to reinsurance.

D.2.7 Discussion of material differences between Solvency II and HGB in terms of the valuation of insurance reserves and amounts recoverable from reinsurance contracts

While Solvency II and IFRS are based on the best-estimate principle, they are subject to the principle of prudence under HGB. To determine a market value, future cash flows are discounted under Solvency II. The material differences between the valuation of insurance reserves under Solvency II and HGB are described in the following chapter.

D.2.7.1 PREMIUM PROVISIONS

In the determination of premium provisions, there are – other than the fact that these provisions are only discounted under Solvency II – two main differences between Solvency II and HGB: the different treatment of future claims payments not yet due and the different determination of provisions for future claims and costs. In both cases under HGB, the expected share of profit from the insurance contract that refers to the contractual term after the balance sheet date is not realized but reported as part of premium provisions. Under Solvency II, only the effectively expected future cash flows are taken into account for the premium provisions within the scope of a market-value assessment.

Under HGB, a premium provision is constituted only for the part of expected future claims and costs from existing insurance contracts for which premiums are already due at the balance sheet date. Therefore, expected future but not-yet-due premium income

(for example installments) is also not yet reported in the HGB balance sheet. Under Solvency II, on the other hand, all future claims and costs that are part of AGCS SE's contractual payment obligations at the balance sheet date are taken into account. In keeping with this valuation approach, expected, contractually agreed future premiums payments less expected, not-yet-due acquisition costs are deducted from the premium provision.

The provisions for expected future claims and costs (excl. acquisition costs) under Solvency II and HGB are based on unearned premiums, i.e. the share of the premiums relating to insurance coverage after the balance sheet date. In general, premiums are spread out pro rata temporis over the corresponding coverage period.

Under Solvency II, the Solvency II unearned premiums are multiplied by the expected loss ratio, the expected expense ratios for claims settlement, administrative expenses and cost of capital in order to determine the undiscounted expected future claims and costs.

Under HGB, on the other hand, premium provisions are based directly on the transferable premiums deferred over the policy term. In comparison to IFRS, however, a large part of the commissions paid is deducted from the premiums since, pursuant to HGB, these

are non-transferable premium components for which the associated expenses have already been incurred upon payment of the commission and may also not be extended over the duration (cost deduction of 85% of the commissions for direct business and 92.5% for business assumed).

D.2.7.2 CLAIMS PROVISION

There are basically no differences between individual-case provisions under IFRS/Solvency II and HGB. However, under Solvency II, reinstatement premium provisions for outstanding claims under excess loss contracts are carried as negative individual-case provisions, while under HGB, they are recognized as reinsurance receivables or, in the case of reinsurance ceded, as reinsurance payables.

Due to the prudence principle, late-claims reserves are generally higher under HGB than under Solvency II. In particular, no negative late-claims reserves are calculated. For the relevant segments, late-claims reserves are calculated under HGB using reporting year data in order to separate a claim year's newly reported claims from the development of already known claims. Depending on the insurance line, the methods used are slightly different. Segments for which, for example, no separate late-claims reserves under HGB (which are independent of the IFRS late-claims reserves) are calculated due to their small size, or, if the calculated HGB values are lower than the corresponding IFRS amounts, the maximum amount from the respective IFRS value and 0 is adopted. For this reason, the HGB provisions per segment and year are always at least as high as the corresponding IFRS amounts.

While HGB requires no discounting except for annuity provisions, the present-value principle applies under Solvency II, i.e. all future cash flows are discounted with the discount curves (including volatility adjustments) specified by EIOPA.

This reduces the insurance reserves under Solvency II, when compared to HGB, by a further € 77 683 thou.

D.2.7.3 COUNTER-PARTY DEFAULT RISK

Under HGB, the claims reserves contain an adjustment for possible defaults on reinsurance receivables from already known events (for example in case of a dispute about the extent of coverage).

Under Solvency II - in addition to this provision for events already known -, the adjustment for counter-party default risk for events that are not yet known is calculated using the simplified approach in Article 61 Solvency II CDR. In 2019, this adjustment amounts to € 2 436 thou.

D.2.7.4 RISK MARGIN

Under Solvency II, the risk margin reflects the cost of capital that result as part of the fair value in a theoretical transfer of obligations to a third party due to the uncertainty relating to the run-off of the insurance reserves. In this conjunction, Solvency II assumes cost of capital amounting to 6%.

HGB requires no risk margin beyond the safety margins implicitly contained in the insurance reserves. A comparable role is assigned to the claims equalization reserve.

D.2.7.5 SPECIAL REQUIREMENTS UNDER COMMERCIAL LAW

The following HGB reserves are not provided for under Solvency II as they are not compatible with a market value balance sheet:

- The equalization reserve pursuant to § 29 of the German Accounting Regulations for Insurance Companies (RechVersV): This reserve is used to equalize fluctuations in claims expenses over the years. In good years, provisions are made for above-average claims expenses in later years.
- Reserves similar to the claims equalization reserve pursuant to § 30 RechVersV: These reserves are used to cover potential future losses from certain major risks (for example, nuclear power plants).

The equalization reserves that must be constituted under HGB make the greatest contribution to the difference in amount between the insurance reserves under HGB and Solvency II at 31 December 2019. This does not concern all lines of business because equalization reserves for each of the HGB insurance lines have to be constituted only under certain conditions.

The reconciliation of HGB to Solvency II of the insurance reserves is presented on page 98.

D.2.7.6 MATERIAL CHANGES WITH RESPECT TO THE PRIOR REPORTING PERIOD

The actuarial methods used for the calculation of the insurance reserves have essentially remained unchanged from the prior reporting period. However, the results of the external analyses, in particular in the area of liability, were also included in the calculation of the best estimate for the claims reserves - in addition to the results of the own analyses. The AGCS SE Loss Reserve Committee also decided, due to the volatile claims situation, in particular in the second half of 2019, to recognize a negative management provision in such a manner that the booked incurred but not reported reserves, including the management provision, corresponded to the lower limit of a plausible range in respect of the best estimate as calculated by the Actuarial function.

D.3 OTHER LIABILITIES

Liabilities are valued at the amount for which they could be exchanged or settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. In the following, the bases, methods and main assumptions used for the valuation for solvency purposes are described separately for each essential group of other liabilities and the essential differences to HGB are explained:

D.3.1 Provisions other than insurance reserves

These provisions are uncertain with respect to their duration and their amount. In particular, they include provisions for jubilees, phased-in early retirement, time value accounts, provisions for equity-based remuneration plans (AEI) and provisions for commissions yet to be settled, bonuses and profit participations, cost provisions for the reorganization of the corporate structure as well as provisions for the long-term distribution agreement with Standard Chartered Bank.

Under supervisory law, they are measured in analogy to IFRS according to IAS 37 at the amount that an entity would rationally pay to settle the obligation at the balance sheet date (best estimate). For provisions with a duration of longer than one year, a present-value approach is advisable if discounting significantly affects the amount stated. Under supervisory law pursuant to IAS 37, these provisions are discounted using a market interest rate which reflects the current market conditions.

As a general rule, provisions are valued according to commercial law at the settlement amount required on the basis of reasonable commercial assessment. Provisions with a residual duration of more than one year must be discounted under commercial law according to § 253.2 HGB with the average market interest rate of the previous seven fiscal years that corresponds to their residual duration.

The different types of provisions are described in greater detail below:

Table 28: Provisions other than insurance reserves

€ thou	Solvency II	HGB	Difference
Long-term distribution agreement with Standard Chartered Bank	81 627	81 627	-
Reorganization of the corporate structure	17 960	15 341	2 619
Salary claims not yet definitively established	34 089	34 185	-96
Invoices not yet received	33 747	33 747	-
Allianz Equity Incentives	26 983	17 333	9 650
Holidays and flexible working hours	12 962	12 962	-
Employee jubilees	4 973	4 731	242
Premium deficiency reserve	-	11 466	-11 466
Other	9 281	9 570	-289
Total	221 622	220 961	661

AGCS SE has obligations resulting from jubilee payments, time value accounts and agreements on phased-in early retirement and early retirement. Provisions are formed for these obligations, i.e. the obligation is offset against any existing offsettable plan assets for the respective commitments.

As a general rule, the amounts shown in the Solvency Overview are those according to IFRS. The valuation of the gross obligations mentioned above essentially follows that of the pension obligations on the basis of the same assumptions. The only difference is the actuarial interest rate of 0.90% due to the shorter duration; it is otherwise determined in a manner similar to that for pension commitments.

For the valuation of gross obligations under commercial law, essentially the same bases, methods and assumptions are used as under Solvency II. The only exception is the discount rate of 1.97% to be applied under commercial law. Under commercial law provisions, it is determined as a 7-year average for a flat residual term of 15 years.

For further explanations about the bases, methods and assumptions for the valuation of pension obligations according to supervisory law and HGB we refer to item "Pension benefit obligations".

The valuation differences between commercial law and supervisory law are the result of the different discount rates.

D.3.1.1 Provisions for share-based compensation

The valuation difference of € 9 650 thousand results from the different valuation approaches. Measurement at fair value in accordance with Solvency II is in contrast to the commercial-law approach based on the required settlement amount at the time of issue.

D.3.1.2 PENSION BENEFIT OBLIGATIONS

Pension benefit obligations, hereafter called pension provisions, include the net obligations related to the employee pension scheme, i.e. the pension benefit obligations is offset against the offsettable plan assets if such assets exist. To the extent that the offsettable plan assets exceed the pension obligations, this does not result in a pension provision, but in an excess of pension benefits.

AGCS SE has made pension commitments for which pension provisions are constituted. A part of these pension commitments is secured by a Contractual Trust Arrangement (Methusalem Trust e.V.) and distinctions are made between different pension plans. For some of them, there are offsettable plan assets in each case in the form of reinsurance or a capitalization product with Allianz Lebensversicherungs-AG.

In the Solvency Overview, the amounts according to IFRS are shown, whereby all existing pension benefit obligations are to be classified as Defined Benefit Plans within the meaning of IAS 19.

Pension benefit obligations under supervisory law are valued according to IAS 19 and, among others, based on the following actuarial parameters:

Table 29: Calculation assumptions for the valuation of pension obligations

%	
Pension trend	1.50%
Assumed salary increase (incl. average career trend)	3.25%

The actuarial interest rate under supervisory law is, in analogy to IFRS, the market rate for high quality corporate bonds (i.e. AA minimum rating) at the balance sheet date, and amounts to 1.10% for pension ob-

ligations. In derogation of the above assumptions, a part of the pension commitments are based on a guaranteed rate of pension increase of 1.00% per year. The biometric base for calculations are the current 2005G mortality tables of Klaus Heubeck, which have been adjusted to reflect company-specific circumstances. The retirement age applied is the contractual age or the legal age pursuant to the German Pension Insurance Retirement Age Adjustment Act (*RV-Altersgrenzenanpassungsgesetz*) 2007.

The trust assets, which constitute offsettable plan assets, are carried at the asset value/market value.

For the valuation of gross obligations under commercial law, essentially the same bases, methods and assumptions are used as under supervisory law. The only difference is the actuarial interest rate to be applied. For the discount rate under HGB, the simplification provision set out in § 253.2 sentence 2 HGB (residual duration of 15 years) is used.

Accordingly, due to a change in legislation in 2016, the actuarial interest rate for pension obligations has since been calculated on the basis of a 10-year average, instead of the 7-year average used previously.

This change only applies to the valuation of pension obligations. At the balance sheet date, a flat interest rate of 2.71% was taken as the basis.

The valuation differences between commercial law and supervisory law are the result of the different discount rates.

For a pension plan, which, under commercial law and in the IFRS balance sheet, is recognized centrally at Allianz SE, the Solvency Overview only shows a pension provision for AGCS SE in the amount of the IFRS-DBO (Defined Benefit Obligation) and a claim against Allianz SE in the same amount.

However, for other pension plans, no pension provisions are constituted under HGB because these are indirect obligations and the company on principle uses its option according to section 28.1 sentence 2 EGHGB to constitute no provision for uncertain liabilities, even though the plan assets may be less than the pension obligation. In the Solvency Overview, however, the existing insufficient coverage resulting from the adjustment of pensions to the consumer price index as required by law pursuant to § 16 of the German Company Pension Act is shown in accordance with IAS 19.

The alternative method for the valuation of the pension benefit obligations is explained in greater detail in [Chapter D.4](#).

D.3.2 Deposits retained on ceded business

Deposits retained on ceded business result from guarantees for reinsurance coverage, which AGCS SE retains or which a reinsurer cedes to AGCS SE. Under Solvency II, deposits retained on ceded business are valued at the sum of discounted future interest payments and – depending on the terms of the contract, spread out over contractual term – the nominal value of the guarantee.

99.9% of deposits from reinsurers held by AGSC result from a cash deposit under the terms of a quotashare reinsurance contract with Allianz SE, for which an annual adjustment of the interest rate to the market interest rate has been agreed upon. Due to the negative interest rate development, the deposit retained on ceded business under Solvency II had to be compounded by € 24 932 thou.

Under HGB, deposits retained on ceded business are, in principle, to be valued at their nominal amount.

D.3.3 Deferred tax liabilities

Deferred tax liabilities constitute future tax burdens resulting from temporary differences between the valuation approaches in the commercial balance sheet and the tax balance sheet. Deferred tax liabilities under Solvency II in the amount of € 10 147 (18 226) thou essentially result from the deferred tax liabilities from the special funds in the amount of € 202 755 (93 831) thou transferred to the Solvency II balance sheet, as well as capitalized valuation reserves from loans and real estate and adjustments to the insurance reserves. In the commercial balance sheet, there are no temporary differences that would justify future tax liabilities (§ 274.1 HGB).

The following table shows the origin of the recognition of deferred tax liabilities:

Table 30: Deferred tax liabilities

€ thou	2019
Financial assets carried at fair value in the income statement	5 119
Long-term financial assets	269 721
Deferred acquisition costs	5 134
Other assets	247 831
Intangible assets	0.00
Insurance reserves	472 684
Provisions for pensions and similar obligations	35 664
Other liabilities	22 648
Netting	-1 048 654
Total after netting	10 147

D.3.4 Derivatives

You can find further information on the definition and valuation of the derivative financial instruments in the section "[D.1.5.6 Derivatives](#)".

AGCS SE reduces the volatility of its annual results with the aid of currency derivatives. These undergo individual valuation. Pursuant to HGB, the cost of purchase forms the upper valuation limits. In the case of negative market values, premium deficiency reserves will be formed under HGB.

The different valuation approaches pursuant to Solvency II and HGB lead to a differential amount of € 11 466 thou.

D.3.5 Financial liabilities other than debts owed to credit institutions

In the commercial balance sheet, lease payments are exclusively reported in the income statement, while, under Solvency II (pursuant to IFRS 16), the fair value of the contractually agreed future payment obligations are carried in the balance sheet under "Financial liabilities other than debts owed to credit institutions" and the benefit derived therefrom under "Property, plant and equipment held for own use".

D.3.6 Insurance and intermediaries payables

Under Solvency II, insurance and intermediaries payables are valued at fair value pursuant to IAS 39 and Article 14 Solvency II CDR without taking into account changes in the own default risk. Receivables and payables are netted where permitted by contract. Due to the short-term nature of the liabilities, discounting is generally not required; as such, insurance and intermediaries payables are recognized at their settlement amount – as under HGB.

Under Solvency II, the liabilities due are reclassified as insurance reserves; this results in a difference to the commercial balance sheet in the amount of € 33 092 thou.

D.3.7 Reinsurance payables

Under Solvency II, reinsurance payables are also generally valued at fair value pursuant to IAS 39 and Article 14 Solvency II CDR, without taking into account changes in own default risk. Receivables and payables are netted where permitted by contract. Due to the short-term nature of the liabilities, discounting is generally not required, so that reinsurance payables are generally recognized at their settlement amount – as under HGB.

While provisions for reinstatement premiums under Solvency II are recognized as future payables in the insurance reserves, they are shown as part of reinsurance payables under HGB. This results in a difference of € 43 812 thou.

Under Solvency II, the liabilities due are reclassified as insurance reserves; this results in a difference to the commercial balance sheet in the amount of € 279 741 thou.

D.3.8 Payables (trade, not insurance)

Under Solvency II, these are valued at fair value pursuant to IAS 39 and Article 14 Solvency II CDR, without taking into account changes in own default risk. Receivables and payables are netted where permitted by contract.

Under HGB, they are carried at settlement amount.

D.3.9 Any other liabilities, not elsewhere shown

Other liabilities include all liabilities not shown elsewhere and not covered by other balance sheet items, particularly liabilities from profit transfers and tax apportionments.

Under Solvency II, they are generally measured at fair value or at nominal value, adjusted for the probability of counter-party default, not taking into account the adjustment of the own default risk.

Under commercial law, other liabilities are recognized at their settlement amount.

Under Solvency II, dividend payments from trading partnerships during the year are recognised as income and shown as liabilities under HGB.

D.3.10 Material changes with respect to the prior reporting period

Compared to the prior reporting period, liabilities due in respect of insurance and intermediaries payables and reinsurance payables and were reclassified as insurance reserves.

D.4 ALTERNATIVE METHODS FOR VALUATION

The fair value of an asset or liability is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. The degree of judgment used in measuring the fair value of financial instruments closely correlates with the level of non-market observable inputs. AGCS SE aims to maximize the use of observable input factors and minimize the use of unobservable input factors when measuring fair value. Observability of input parameters is influenced by various factors such as the type of the financial instrument, whether a market is established for the particular instrument, specific transaction characteristics, liquidity as well as general market conditions.

Estimates and assumptions are particularly significant when determining the fair value of financial assets and liabilities for which at least one significant input factor is not based on observable market data. The availability of market information is determined by the relative trading levels of identical or similar instruments in the market, with emphasis placed on information that represents actual market transactions or binding quotations from brokers or dealers. If no sufficient market information is available, management's best estimate of a particular input factor is used to determine the value. For its assets and liabilities valued at fair value which are not quoted in active markets, AGCS SE uses standard valuation methods, which correspond to the three methods listed in Solvency II CDR:

market approach: Valuation with the aid of prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

income approach: Conversion of future amounts such as cash flows or expenses and income into a single equivalent monetary amount at the balance sheet date. The fair value reflects current market expectations. The income approach includes, for example, the cash value method and option price models.

cost approach (or approach based on current replacement costs): Amount that would currently be required for the reinstatement of the asset (replacement costs).

The appropriateness of the alternative valuation methods is reviewed on a regular basis. In this conjunction, the parameters on which the valuation model is based is subject to a regular review. The frequency of updating differs depending on the type of assets. For example, the parameters in real estate are, as a rule, reviewed on an annual basis and adjusted as required; in alternative investments, this takes generally place on a quarterly basis. The yield curves used are updated daily. The parameters are updated in cooperation with our investment partners, experts and auditors. In addition, every relevant enterprise within the Allianz Group issues, on a quarterly basis, a confirmation regarding the accuracy of the procedure used to the parent company.

The fair values of the following AGCS SE balance sheet items are determined by means of valuation models:

The fair value of real estate used by third parties is determined by means of the income approach as experience has shown that this is the most suitable method. The valuation is based on the discounted cash flow model.

The material influencing factors are the leasing situation, contractual rent levels, operating costs as well as the applicable property interest rate. Valuation uncertainties are related to the determination of

future cash flows, which are based on estimates of certain parameters such as the leasing situation and rent price changes due to local conditions.

In general, affiliated enterprises are to be valued at market prices for identical assets in active markets. Since there are no available market price quotes for the shares in affiliated enterprises including participations of AGCS SE, these were valued using the adjusted equity method, the equity method or the book value deduction method in accordance with Article 13 Solvency II CDR.

In the adjusted equity method, the market value results from the company's share of the excess of assets over liabilities within the affiliated enterprise. For fully consolidated entities for which a corresponding balance sheet is available, this is a highly precise method that is well established on the market.

For affiliated enterprises that are not insurance or reinsurance undertakings, the equity method may also be used if the adjusted equity method is not feasible. In this case, the intangible assets as well as the goodwill must be deducted from the value of the affiliated enterprise.

For participations or not fully consolidated entities for which a valuation with quoted market prices or by means of the adjusted equity method is not possible, one of the above-mentioned alternative valuation methods is used. In general, this is the income approach. Accordingly, the value of the participation is based on the two main assumptions for the expected excess cash flows as well as the discount rate.

If, when using the adjusted equity method, book values within the participations are in turn valued by means of models, there are uncertainties that are generally present in valuation models. If the participation is valued by means of the income approach, there are uncertainties in determining excess cash flows as well as the discount rate.

For the valuation of non-listed equity, price valuations provided by fund and portfolio managers are used. There are valuation uncertainties due to inactive markets.

For the valuation of exchange-traded government bonds, corporate bonds and collateralized securities, price quotes provided by independent merchants banks are used. There may be valuation uncertainties due to inactive markets.

For non-listed bonds, the income approach is used because experience has shown that this is the most suitable method. The essential inputs for this method are assumptions regarding yield curves, issuer-specific spreads and cash flows. There are valuation uncertainties due to the self-assessment of issuer-specific spreads because of credit risks as well as the self-assessment of liquidity risks.

For the real estate funds included in Collective Investment Undertakings, market prices are determined by means of the income approach because experience has shown that this is the most suitable method.

The material influencing factors are the leasing situation, contractual rent levels, operating costs as well as the applicable property interest rate.

There are valuation uncertainties in the determination of future cash flows, which are based on estimates of certain parameters such as the leasing situation and rent price changes due to local conditions.

For the special funds included in Collective Investment Undertakings, the adjusted equity method is applied. This means that the market value results from the pro-rated share of the excess of assets over

liabilities within the special fund. If, when using the adjusted equity method, assets within the special funds are, in turn, value by means of models, there are uncertainties that are generally present in valuation models.

The fair value of derivatives is determined by means of the income approach, using cash value methods and the Black-Scholes-Merton model. The most important input factors for the valuation are volatilities generally observable in the market, yield curves generally observable in the market and risk premiums observable in the market.

There are valuation uncertainties in the determination of future cash flows. In addition, the use of yield curves has an impact on the calculation of the market value.

For the valuation of loans and mortgages, the income approach is used because experience has shown that this is the most suitable method. Therefore, the market value is based on the following assumptions for yield curves, issuer-specific spreads and cash flows. There are valuation uncertainties due to inactive markets.

The calculation parameters determined for the balance sheet value of pension benefit obligations are essentially the actuarial interest rate, the pension trend, the salary trend and biometric actuarial principles as long-term assumptions, the validity of which is to be regularly reviewed. The calculation assumptions are documented by the Global Actuary at Allianz SE, who also sets these parameters. Financial assets are carried at the fair value of plan assets at the balance sheet date.

The values according to IAS 19 shown in the Solvency Overview are expected values in the sense of best estimates, i.e. they contain no guarantees.

These values are determined by means of a model valuation using a deterministic model on the basis of annual valuation assumptions and a calculation method defined in the standard: the projected unit credit method.

Since there is no active market for receivables from insurance companies and intermediaries and for receivables from reinsurers, they are determined by means of the income approach. As these items essentially contain only short-term receivables, they are not discounted and, as such, the value to be used generally corresponds to the nominal value. As such, the only uncertainties are those related to the counter-party default probability.

D.5 ANY OTHER INFORMATION

Chapters D.1 through D.4 already contain all the material information on valuation for solvency purposes.

CAPITAL MANAGEMENT

E

E.1 OWN FUNDS

E.1.1 Objectives, policies and processes

The capital base of AGCS SE constitutes a central pre-requisite for sustainable business activity and corporate governance. For this reason and in view of statutory requirements, AGCS SE has set itself the objective of ensuring, at all times, an adequate capital base - both in term of quantity and quality - for the company and its branch offices. At the same time, the company aims for an optimally efficient capital base in order to optimize profit in relation to the capital employed.

To reach these objectives, the company manages its capital by means of the risk appetite defined in the risk strategy and the objectives, management principles and processes defined in the AGCS Global Capital Management Policy. The risk strategy forms part of the risk management system and defines the risk appetite of AGCS SE (see [Chapter B.3](#)). The AGCS Global Capital Management Policy describes the tasks, responsibilities and processes which serve to ensure an adequate capitalization of the company at all times. The capital management processes are, in turn, an integral component of the ORSA process (see [Chapter B.3.6](#)).

For the implementation of the risk strategy, AGCS SE defines its risk appetite with respect to its capital base in terms of, amongst others, a target capitalization and minimum capitalization. Each of these internal steering parameters contain a buffer above statutory minimum coverage ratio of 100% in order to be able to compensate for negative capital market developments and other non-financial risks such as significant losses from the insurance business. In this manner, an adequate capital base is to be ensured - even in the event of defined stress scenarios. At the same, strategic priorities such as growth markets or orientation to customer expectations are taken into consideration when determining the target capitalization.

The capital base is regularly monitored and valued during the year - at least once a quarter. In respect of the valuation, the drivers which may have led to a deviation of the capital base from the target capitalization are identified. The valuation also takes into account the expected impact of developments and measures that might influence the future capitalization. All results, valuations and capital control measures are first reported to the Chief Financial Officer of AGCS SE within the scope of the Top Risk Assessment process (see [Chapter B.3.6](#)). Thereafter, the Board of Management is regularly informed and, if necessary, capital control measures are submitted to the Board for a decision. If the capital base falls below the minimum capitalization, this leads to a review of measures in order to return the capital base to the level of the target capitalization.

As component of the capital and dividend plan, both target and minimum capitalization are reviewed, redefined as required and approved by the management as a component of the risk strategy within the scope of the annual planning process. The business plan is established in particular by taking into account its impact on the capital base; the aim in this conjunction is to adhere to the target capitalization over the planning horizon of 3 years.

The integrated capital management approach of the parent company Allianz SE provides for the transfer of excess capital - which exceeds the target capitalization - to Allianz SE, which then manages

the own funds centrally to maximize their utilization and fungibility. In this conjunction, Allianz SE reserves a liquidity buffer which is available for any necessary capital increases.

During the reporting period, there were no changes in the methods or objectives of the capital management of AGCS SE.

E.1.2 Reconciliation of equity under commercial law to the excess of assets over liabilities in the market value balance sheet

The excess of assets over liabilities in the market value balance sheet totaled € 3 116 044 thou, while the excess of assets over liabilities in the HGB balance sheet (shareholders' equity) amounted to € 1 144 237 thou. The differences between the excess of assets over liabilities under Solvency II (basic own funds) compared to equity under commercial law are due to the differing recognition and valuation requirements under the two approaches. Detailed explanations of the main differences in valuations of individual balance sheet items can be found in [Chapter D](#) of this report. The following overview shows the main items for which the valuation requirements differ under commercial-law accounting and Solvency II. The table reconciles equity under commercial law to basic own funds under Solvency II.

Table 31: Reconciliation of equity under commercial law to the excess of assets over liabilities in the market value balance sheet:

€ thou	
HGB equity	1 144 237
Investments	3 018 188
Participations	-1 624 972
Adjustments for insurance reserves (net)	1 122 687
Risk margin	-170 936
Elimination of equalization reserves or similar reserves	593 049
Elimination of intangible assets	-247 832
Revaluation of other asset and liability items	-777 454
Change in deferred taxes	59 077
Solvency II revaluation total	1 971 807
Solvency II basic own funds	3 116 044

E.1.3 Basic own funds and available own funds

Own funds in the amount of € 3 116 044 thou were exclusively composed of basic own funds. The basic own funds were identical with the excess of assets over liabilities from the market value balance sheet. There were no supplementary own funds and no deductions that reduced the available own funds.

The own funds consisted of € 3 046 820 thou of Tier 1 own funds and € 69 224 thou Tier 3 own funds. Own funds satisfying the Tier 1 requirements consisted of € 36 741 thou of paid-in capital, a share premium account related to ordinary share capital of € 537 434 thou, and a reconciliation reserve of € 2 472 646 thou. The reconciliation reserve comprised the retained earnings amounting to € 8 355 thou, the capital reserve amounting to € 561 707 thou, as well as valuation differences between commercial and supervisory law. The own funds were unrestricted and could be used without limitations to cover losses. The amount of own funds that met Tier 3 requirements was identical to the amount of deferred tax assets. The following table shows the basic own fund items and their allocation to the various tiers ("quality classes") in detail.

Table 32: Composition of basic own funds

€ thou			
	Total	Tier 1 unrestricted	Tier 3
Ordinary share capital	36 741	36 741	
Share premium account related to ordinary share capital	537 434	537 434	
Reconciliation reserve	2 472 646	2 472 646	
Amount equal to the value of net deferred tax assets	69 224		69 224
Basic own funds	3 116 044	3 046 821	69 224

A control and profit transfer agreement is in place with Allianz SE. This resulted in receivables for cost absorption which were taken into account in the AGCS SE balance sheet. No deduction for foreseeable dividends was made.

E.1.4 Eligible own funds

The items are classified into tiers in accordance with the criteria described in Articles 93 to 96 of the Solvency II Directive and Articles 69 to 78 of Solvency II CDR. The share capital, the share premium account related to ordinary share capital and the reconciliation reserve are classified as Tier 1. The amount equal to the value of deferred tax assets is classified as Tier 3 own funds.

Eligible own funds are calculated by applying the maximum quantitative tier limits to available own funds. At 31 December 2019, application of the maximum tier limits had no effect on the amount or structure of eligible own funds.

Total basic own funds of € 3 116 044 thou were available to meet the Solvency Capital Requirement (SCR). The own funds available to meet the Minimum Capital Requirement (MCR) consisted of the Tier 1 basic own funds and amounted to € 3 046 820 thou.

Table 33: Composition of eligible own funds

€ thou				
	Total	Tier 1 unrestricted	Tier 2	Tier 3
Eligible own funds to meet the SCR	3 116 044	3 046 820		69 224
Eligible own funds to meet the MCR	3 046 820	3 046 820		

E.1.5 Development of own funds

Eligible own funds increased from € 2 812 081 thou at the end of fiscal 2018 by € 303 963 thou (11%) to € 3 116 044 thou at the end of the reporting year. The main reason for this is the gain in the reconciliation reserve amounting to € 365 642 thou, while deferred tax assets fell by € 61 679 thou. The composition of eligible own funds therefore continued to consist for the greatest part of Tier 1 own funds.

Table 34: Development of own funds

€ thou			
		2019	2018
Tier 1	Ordinary share capital	36 741	36 741
	Share premium account related to ordinary share capital	537 434	537 434
	Reconciliation reserve	2 472 646	2 107 004
Tier 3	Amount equal to the value of net deferred tax assets	69 224	130 903
Total	Own funds	3 116 044	2 812 082

The most important reasons for the increase in the reconciliation reserve were the gain in the market value of participations in special funds due to the underlying market development and the retained profits under IFRS. The negative business performance under HGB was compensated for via the control and profit transfer agreement in place with Allianz SE. The fall in deferred tax assets was, on the one hand, the result of lower deferred tax receivables on insurance reserves, and, on the other, the valuation allowance on the deferred tax assets in Germany.

The asset liability management of AGCS SE enables a largely matching coverage of all underwriting liabilities with assets with regard to their maturity and currency structure; this reduces possible fluctuations in the reconciliation reserve. Detailed explanations about the

management of market risks are provided in [Chapter C.2](#) of this report. The potential volatility, which can impact the reconciliation reserve, stems for the most part from exchange rate fluctuations in the strategic participations of the company, and market risks which, from a returns point of view, are consciously entered into to a limited extent.

AGCS SE does not plan any material changes to the composition of the own-funds components.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 Solvency Capital Requirement as at year-end 2019

For the calculation of the Solvency Capital Requirement, AGCS SE uses the Internal Model of the Allianz Group, which was unconditionally authorized by the BaFin supervisory authority in November 2015.

The diversified risk capital after taxes amounted to € 1 980 722 thou at 31 December 2019. The material risk contributions stemmed from market and underwriting risks. Through the major model change in relation to strategic participations, the market risk experienced a significant surge in line with expectations. The underwriting risks increased due to the reserve strengthening efforts recognized during the fourth quarter for liability and professional liability risks for prior years. In addition, the modeled premium risk for natural catastrophes increased due to changes to the reinsurance. Compared to the prior year, the entire diversified risk capital surged by 19%, thereby resulting in a solvency ratio of 157% at the end of the reporting period.

Table 35: Solvency Capital Requirements

€ thou

	2019	2018
Market risk	2 276 904	1 882 297
Credit risk	141 233	182 721
Longevity	18 497	13 550
Underwriting risk (non-life insurance)	1 627 831	1 467 376
Business risk	98 505	92 674
Operational risk	176 105	189 575
Capital requirements before diversification	4 339 074	3 828 194
Diversification	-2 331 219	-2 137 240
Diversified capital requirements before taxes	2 007 855	1 690 954
Tax impact	-27 133	-26 052
Diversified capital requirements, incl. taxes	1 980 722	1 664 902

The Minimum Capital Requirement is calculated in accordance with the regulatory requirements and dependent on the Solvency Capital Requirement; it amounted to € 522 502 thou at the end of the reporting period. This resulted in a ratio of 583%.

Apart from the major model changes in relation to the strategic participations described above, there were no material changes in the calculation of the Solvency Capital Requirement and the minimal capital requirement of AGCS SE during the reporting period. The company's risk-bearing capacity was ensured at all times.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

In transposing the Solvency II Directive into national law, Germany did not make use of the option to allow a duration-based equity risk sub-module. For this reason, the Internal Model of the Allianz Group, which AGCS SE uses for the calculation of the Solvency Capital Requirement, contains no duration-based equity risk sub-module.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODELS USED

The Internal Model is used for various purposes, in particular for the quantification and comparison of different risk categories and segments. It is a fundamental element of risk-based, forward-looking control. In addition, the risk capital calculated on the basis of the Internal Model reflects more precisely the underlying business in comparison to the standard formula under Solvency II.

This chapter first describes the scope of application of the Internal Model and the underlying methodology, followed by the methods used for the aggregation of risk categories, as well as an overview of the differences between the Internal Model and the standard formula.

The model of the Allianz Group and AGCS SE is based on a Value-at-Risk approach (VaR) that uses the Monte-Carlo simulation. Risk calculation begins with the market value balance sheet (Solvency Overview), allocating each item to the relevant risk categories. A bond, for example, is included in the respective market risk categories such as interest rate risk, credit spread risk and currency risk, as well as in the credit risk category.

Risk capital is defined as the change in economic value occurring with a 0.5% probability over the coming 12 months, based on the underlying distribution assumptions for each risk factor. Whenever possible, the distributions are calibrated on the basis of market data or our own internal historical data in order to, for example, set 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 within the scope of the model within a specified timeframe (holding period) and probability of occurrence (confidence level). Risk capital is calculated as the 99.5% Value-at-Risk from the profit and loss distribution for a holding period of one year, where, in each scenario, the change in economic value is derived from the simultaneous realization of all risk factors. This so-called 200-year event is modeled as immediate loss shock for all balance sheet items.

The Internal Model contains a range of risk categories, which, in turn, can be subdivided into various risk types. For each of those levels, the Internal Model provides risk indicators on a stand-alone basis – i.e. before diversification to other risk types or categories –, but also at an aggregated level, taking into account said diversification (see [Chapter C](#) on aggregation). A more detailed description of each risk category can be found in [Chapter C. Risk Profile](#).

A simplified figure of the structure of the Internal Model used by AGCS SE and of the standard model is appended to this report.

A standard approach in the industry, the Gaussian copula, is used for the aggregation of risks. A correlation matrix defines the interdependencies between the risks of the copula. Wherever possible, correlation parameters for each pair of market risks are derived through statistical evaluation of historical market data based on quarterly observations over several years. To the extent that historical market data or other portfolio-specific observations are insufficient or not available, correlations are set according to a clearly defined Group-wide process. This is performed by the Correlation Settings Committee, which

combines the expertise of risk and business experts. As a rule, this committee defines the correlation parameters with the aim of presenting the joint movement of risks under adverse conditions.

To determine the diversified risk capital, the change in economic value is calculated for the 200-year event - based on the simultaneous realization of risks.

A key difference between the standard formula and the Internal Model lies in the fact that the standard formula makes use of factor-based shocks, while the Internal Model derives the risk capital by simulating each risk carrier (and its corresponding economic P&L impact), based on its assumed distribution and dependence on other risk drivers.

The table presented in the annex "Differences between the standard formula and the Internal Model by risk module" provides an overview of the differences between the standard formula and the Internal Model by risk category/type.

With regard to market risk - apart from the differences listed in the table -, there is a structural difference between the Internal Model and the standard formula with regard to the consideration of volatility risk. While the Internal Model explicitly takes into account interest rate volatility risk and equity volatility risk, the standard formula included these types of risks only implicitly in the calibration of the shock. However, these risk categories exert negligible influence on the risk capital of AGCS SE.

Unlike the standard formula, the Internal Model also takes the inflation into account; this risk may result from the potential effects of the volatility in the consumer price index on the underwriting risks.

For non-life underwriting risk, the difference between the Internal Model and the standard formula is very limited. The main categories are reflected in both models and there is no material risk that is covered by the standard formula but not by the Internal Model. The decisive difference lies in the modeling approach. In addition, the underwriting risk, the longevity risk for pension obligations for employees and the business risk are covered by the Internal Model but not by the standard formula. All other Internal Model risk categories are at least implicitly covered by the standard formula.

The credit risk module of the Internal Model, contrary to the counter-party default risk of the standard formula, covers the entire bond and loan portfolio as well as credit insurance exposures. This approach allows us to model diversification and concentration effects across all credit-risk-bearing investments.

The operational risk capital for the standard formula is calculated with a factor-based approach, which only partially takes into account the underlying economic risk profile. In the Internal Model, the calculation of the operational risk capital is based on a stochastic simulation model which calculates unexpected losses arising from the scenarios parameterized with experts (described in [Chapter C.5](#)); this leads to adequate risk coverage.

Various data sources are used for the entry data for the Internal Model and for the calibration of parameters (see also previous chapters, in particular [Chapter B](#)). If appropriate, the input data is identical

with the data used for other purposes, for example, for the local or IFRS accounting. The suitability of this data is regularly reviewed internally.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

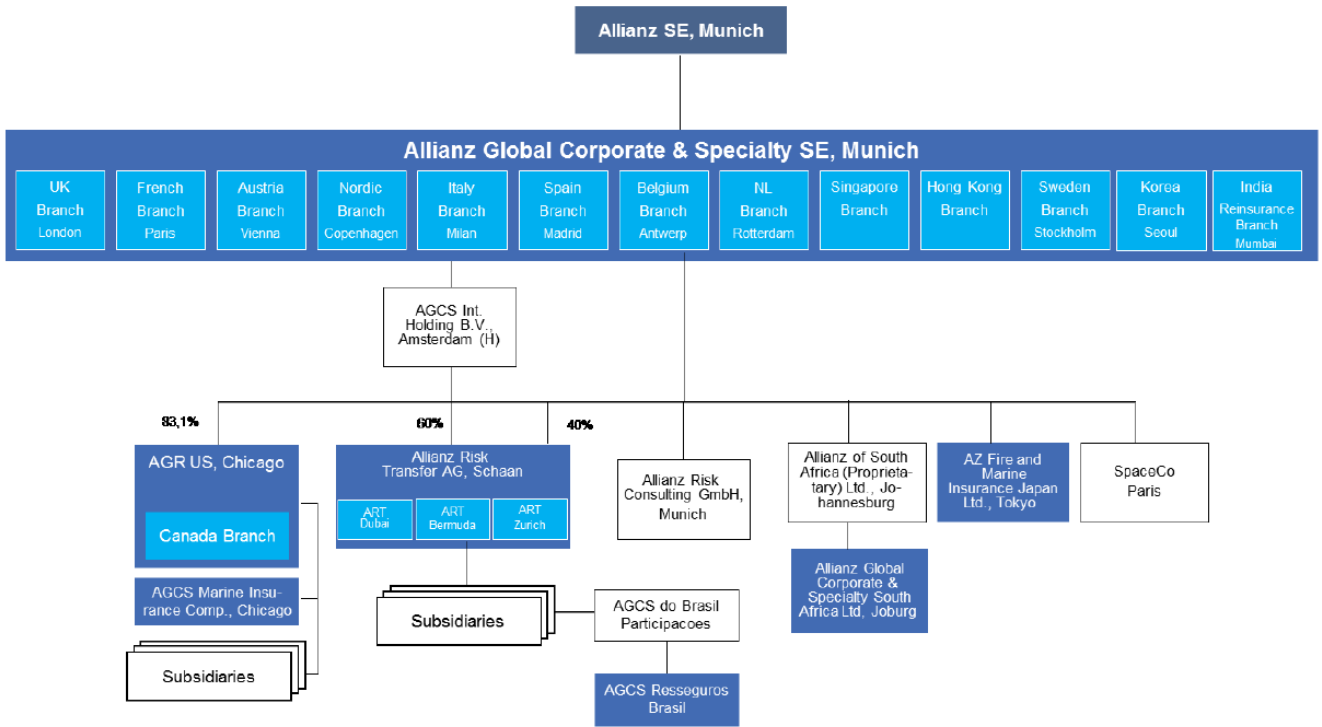
Monitoring of the compliance of AGCS SE with the Minimum Capital Requirement and the Solvency Capital Requirement is an integral part of our capital management. Compliance is monitored regularly and reported as part of the regular quarterly reporting or on an ad-hoc basis to the Board of Management as required. AGCS SE complied with the Minimum Capital Requirement and the Solvency Capital Requirement during the entire reporting period.

E.6 ANY OTHER INFORMATION

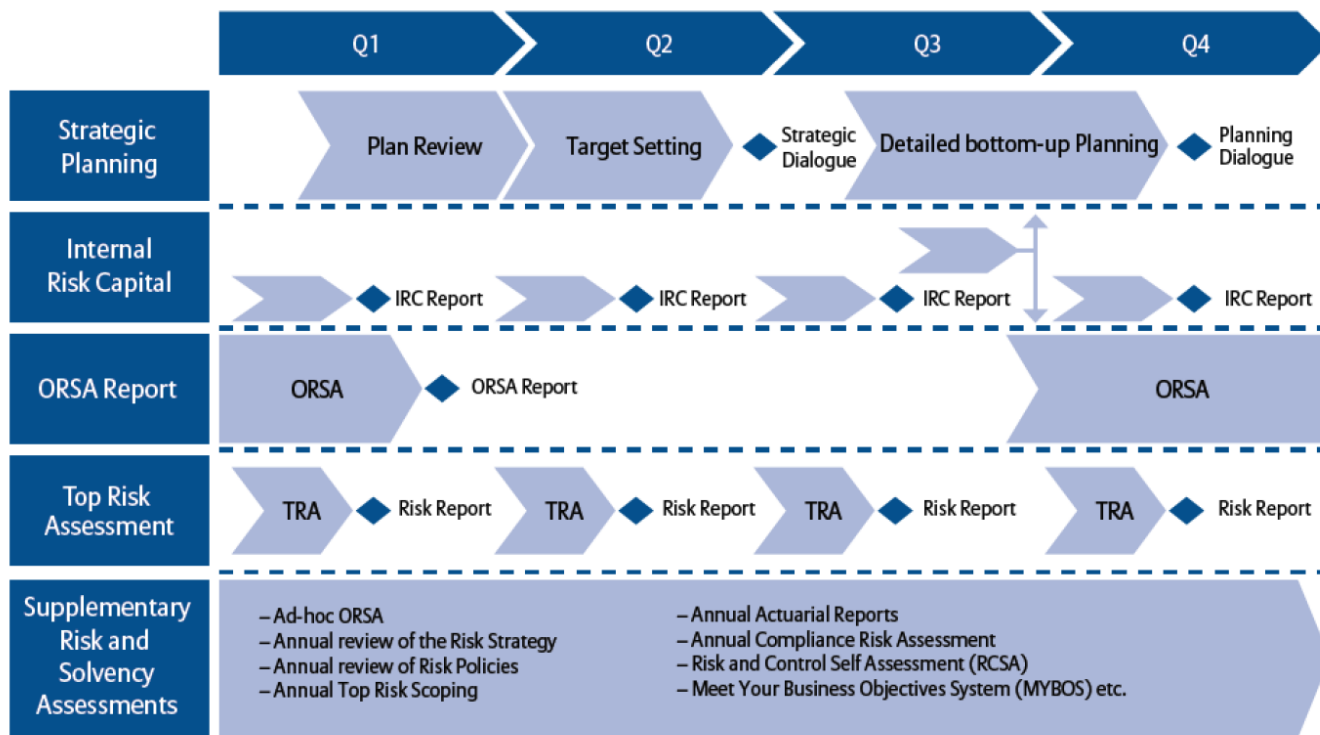
All relevant information regarding the capital management of AGCS SE has been addressed in the previous sections.

ANNEX

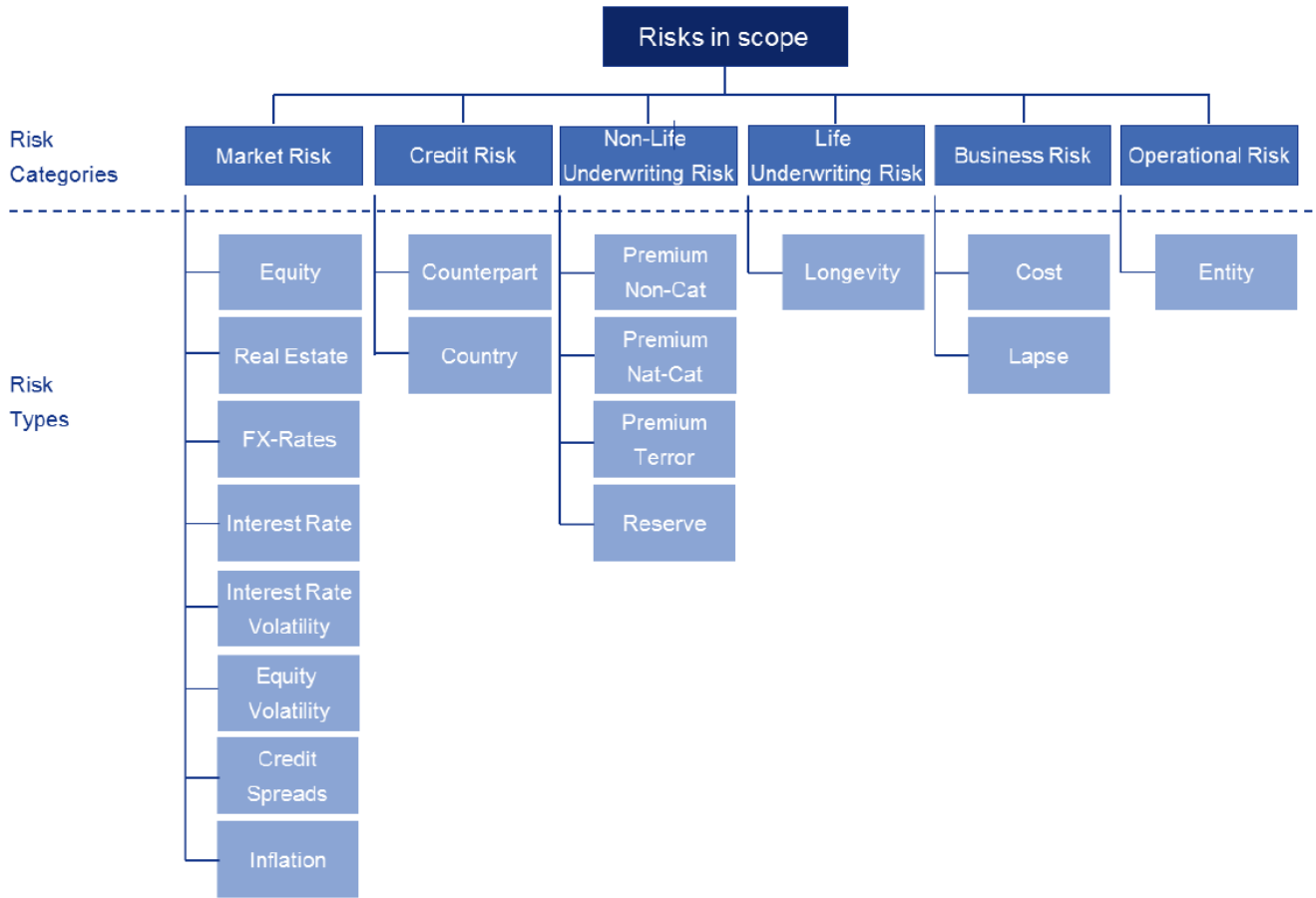
Graphic 1: Simplified overview of the AGCS SE structure



Graphic 2: ORSA process



Graphic 3: The structure of the Internal Model



Graphic 4: The structure of the standard model

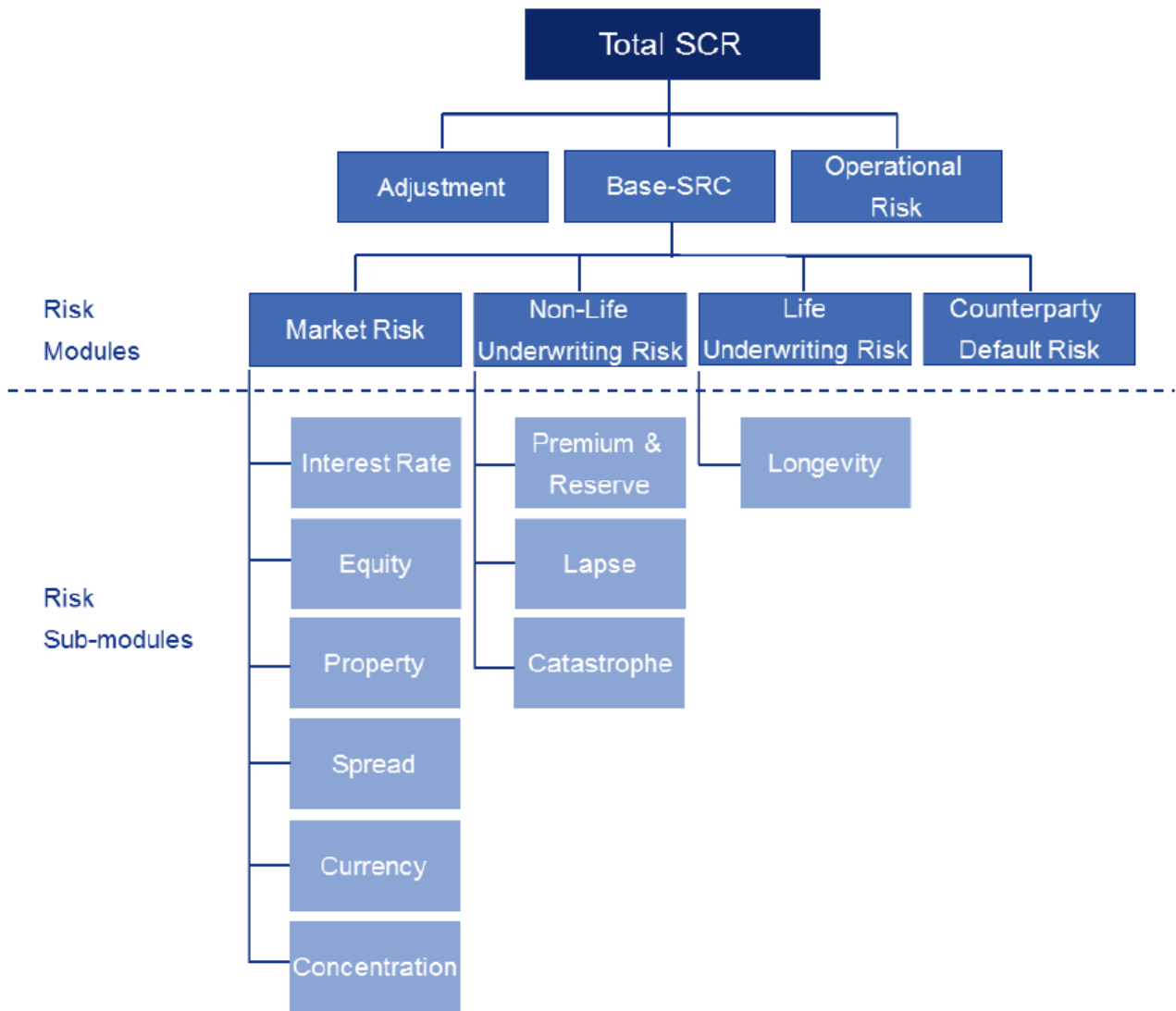


Table 37: Differences between the standard formula and the Internal Model by risk module

Risk category/type	Standard formula ¹	Internal Model ¹
Equity	<ul style="list-style-type: none"> – 39% for type 1 equity (liquid equities) – 49% for type 2 equity (illiquid items, for example, private equity and non-strategic interests) – No volatility shock – 22% for strategic interests 	<ul style="list-style-type: none"> – 30% - 60% for indices – 15% - 80% for private equity, depending on risk classification – Volatility shock – 35% for strategic interests
Interest rate	<ul style="list-style-type: none"> – Up / down shock as percentage change of the yield curve depending on terms to maturity, min. up shock of 100bp (1bp = 0.01%) – No volatility shock 	<ul style="list-style-type: none"> – Changes of the yield curve taken into account as Twist, long-term shock of 65 bps – Volatility shock
Real estate	<ul style="list-style-type: none"> – 25% for all real estate 	<ul style="list-style-type: none"> – 15% - 35% for country-specific real estate indices
Credit spread	<ul style="list-style-type: none"> – Changes in the net asset value due to an asset shock, which follows the prescribed method – Bonds, loans and securitizations: shocks depend on the respective modified duration and credit rating – Credit derivatives: shocks depending on the credit rating and application to the underlying financial instrument 	<ul style="list-style-type: none"> – EU government bonds, AAA and AA rated non-EU government bonds, supranational bonds, and mortgage loans on residential property are not exempt from the spread risk module – Shocks which, under the Internal Model, are calibrated for securitization are lower than those in the standard formula which can amount to 100%
Currency	<ul style="list-style-type: none"> – +/- 25% for each currency, except for currencies pegged to the EUR – Worst-case scenario is selected for each currency – No diversification / netting of between individual currencies 	<ul style="list-style-type: none"> – 10% - 35% for different currencies vs. EUR – Diversification/netting between individual currencies
Inflation	<ul style="list-style-type: none"> – Pursuant to the EIOPA directive, not modelled in the standard formula 	<ul style="list-style-type: none"> – Parallel shock to the inflation curve in the amount of 100bps-200bps for main currencies
Concentration	<ul style="list-style-type: none"> – Formula based on volume, rating, and total assets held 	<ul style="list-style-type: none"> – Implicitly covered in the credit risk models
Credit risk/counter party default risk	<ul style="list-style-type: none"> – Parameter and formula prescribed in level 2 guidance – For type 1 positions, the standard formula is based on loss given default, variance of loss distribution and probability of default based on credit quality – For type 2 positions, the standard formula is based on pre-defined assumptions for the value loss of the positions – Delimitation of credit risk positions: Equity and real estate are part of the concentration risk sub-module, and the counter-party default risk module does not contain the bond portfolio 	<ul style="list-style-type: none"> – The results of the group credit risk of the Internal Model are based on current credit risk model parameters and current market and position data – Credit risk capital is calculated for the 99.5% loss quantile – Delimitation of credit risk positions: investment portfolio (without equity and real estate), reinsurance exposures, credit insurance exposures. – Under consideration of the differences of the positions, a comparison between the capital requirements of the Internal Model and the standard formula does not make sense
Underwriting risk Life and Health	<p>[not relevant to AGCS SE]</p> <ul style="list-style-type: none"> – Mortality risk: 15% increase in mortality rates, 0.15% mortality calamity – Longevity risk: 20% decrease in mortality rate – Morbidity risk: 35% increase in the first year, 25% thereafter – Lapse risk: 50% up and down shock and 70% / 40% mass lapse shock, depending on business type (retail / non-retail) – Cost risk: 10% increase in expenses + 1% increase in expense inflation 	<p>[only the longevity risk is relevant to AGCS SE in respect of the modeling of pension commitments]</p> <ul style="list-style-type: none"> – Mortality risk: based on company experience, 0.15% mortality calamity – Longevity risk: modified Lee-Carter model – Morbidity risk: based on company experience – Lapse risk: Shocks are calibrated on the basis of historical data. Standard mass lapse shock corresponds to the maximum of twice the annual lapse rate or 20%; country-specific calibration is possible – Cost risk: as in the standard formula but company-specific calibration possible. In addition, the Internal Model allows for new-business risk, which is not modeled under the standard formula
Underwriting risk non-life	<ul style="list-style-type: none"> – Factors are applied to volume – Separate volatility factors defined for premiums and reserves and for different lines of business – Correlation between lines of business defined by EIOPA – Specification of geographical diversification based on 18 regions – Lapse shock – 40% lapse quota of contracts which are exposed to a lapse risk – Catastrophe risk – factor-based, is split in four modules: natural catastrophes, non-proportional property reinsurance, man-made, other – Separate approach for health catastrophe risk (mass accident, accident concentration and pandemic modules) 	<ul style="list-style-type: none"> – Premium and reserve risk is calculated on the basis of actuarial models and clearly better reflects the company-specific situation – Reinsurance mapping for catastrophe and non-catastrophe risk is significantly more advanced in the Internal Model – Different aggregation method: Gaussian copula approach for aggregation of the different distributions – Catastrophe risk is calculated using probabilistic models based on scientific approaches – The lapse risk is focused on covering the costs – Cost risk is the risk of not underwriting sufficient business to cover acquisition costs
Loss-absorbing capacity of tax	<ul style="list-style-type: none"> – The adjustment is equal to the change in value of deferred taxes that would result from an immediate loss of an amount equal to the Basic Solvency Capital Requirement + operational risk + adjustment for the loss-absorbing capacity of insurance reserves. 	<ul style="list-style-type: none"> – The adjustment is calculated with the same approach as in the standard formula, but with a different immediate shock
Loss-absorbing capacity of insurance reserves	<p>[not relevant to AGCS SE]</p> <ul style="list-style-type: none"> – Ensures that, for participating businesses, there is no multiple usage of the future discretionary buffers – BSCR (Basic Solvency Capital Requirement) is calculated with and without allowance for FDB (Future Discretionary Benefits) and the difference is limited to the current value of FDB 	<ul style="list-style-type: none"> – Since SCR figures are calculated directly on a net basis, no adjustment is made
Intangible asset risk	<ul style="list-style-type: none"> – 80% of intangible assets recognized 	<ul style="list-style-type: none"> – Intangible asset risk is not covered by the Internal Model
Operational risk	<ul style="list-style-type: none"> – Factor-based approach based on earned premium amount and insurance reserves 	<ul style="list-style-type: none"> – Scenario-based risk model – Risk identification in each operating entity – Model is based on the aggregation of loss frequency and loss severity distributions
Aggregation	<ul style="list-style-type: none"> – Simple correlation-based approach 	<ul style="list-style-type: none"> – Central setting of parameters – (correlations/geographic hierarchy, risk capital supplements, risk measurement and aggregation key) – Correlation matrix algorithm (Copula approach) – Aggregation hierarchy

Table 38: Insurance reserves

	Best estimate		
	Premium reserves		
	Gross	Reinsurance recoverables	Net
Direct insurance business			
General Liability Insurance	107 294	84 506	22 787
Fire and Other Property Insurance	134 449	30 143	104 306
Marine, Aviation and Transport Insurance	-45 176	6 739	-51 915
Miscellaneous Financial Loss	54 428	49 436	4 992
Other insurances	11 638	9 196	2 442
Sub-total	262 632	180 020	82 612
Proportional reinsurance accepted			
General Liability Insurance	22 465	24 551	-2 087
Fire and Other Property Insurance	16 055	74 235	-58 180
Marine, Aviation and Transport Insurance	-5 989	16 037	-22 027
Miscellaneous Financial Loss	11 988	13 091	-1 104
Other insurances	3 903	440	3 463
Sub-total	48 421	128 355	-79 934
Non-proportional reinsurance accepted			
Non-proportional health reinsurance	0	0	0
Non-proportional property reinsurance	-41 876	-4 573	-37 303
Non-proportional liability reinsurance	2 996	11 786	-8 791
Non-proportional marine, aviation and transport reinsurance	-9 262	8 956	-18 218
Sub-total	-48 142	16 170	-64 312
Total	262 910	324 545	-61 634

			Best estimate			
		Claims reserves				
Gross	Reinsurance recoverables	Net	Gross total	Net total	Risk margin	Net insurance reserves
3 475 035	1 837 340	1 637 695	3 582 329	1 660 483	65 196	1 725 679
703 645	356 440	347 204	838 093	451 510	26 295	477 805
828 529	536 184	292 345	783 353	240 429	15 305	255 734
103 868	78 615	25 252	158 295	30 244	138	30 382
40 385	33 317	7 068	52 022	9 510	454	9 964
5 151 461	2 841 897	2 309 565	5 414 093	2 392 176	107 388	2 499 564
1 334 954	951 643	383 311	1 357 419	381 225	29 400	410 624
833 297	644 161	189 136	849 353	130 956	19 864	150 820
577 993	414 122	163 871	572 003	141 844	1 645	143 489
98 662	60 571	38 091	110 650	36 988	2 315	39 303
6 039	3 593	2 446	9 942	5 909	221	6 130
2 850 945	2 074 090	776 855	2 899 366	696 922	53 444	750 366
23	23	0	23	0	0	0
312 911	222 329	90 583	271 035	53 279	6 039	59 319
254 026	177 860	76 166	257 022	67 376	3 286	70 662
53 142	38 221	14 921	43 881	-3 297	778	-2 519
620 103	438 432	181 670	571 960	117 358	10 103	127 461
8 622 509	5 354 419	3 268 090	8 885 419	3 206 456	170 936	3 377 392

Table 39: Insurance reserves - reconciliation from HGB to Solvency II

€ thou	Insurance reserves pursuant to HGB	Reclassifications	Revaluation of the premium provision (undiscounted)
Direct insurance business			
Medical expenses insurance	5 794	0	-507
Workers' compensation	0	0	0
Income protection reinsurance	1 726	0	-384
Motor vehicle liability insurance	122	0	-252
Other Motor Insurance	5 865	0	-863
General Liability Insurance	440 506	3 455	-82 858
Fire and Other Property Insurance	659 621	5 184	-102 969
Marine, Aviation and Transport Insurance	1 971 456	1 094	-185 527
Legal Expenses Insurance	0	0	0
Assistance Insurance	72	0	-43
Credit and Suretyship Insurance	10	0	-10
Miscellaneous Financial Loss	71 630	190	-38 515
Sub-total	3 156 801	9 923	-411 929
Proportional reinsurance accepted			
Medical expenses insurance	6 018	0	149
Workers' compensation	44	0	-32
Income protection reinsurance	41	9	-132
Motor vehicle liability insurance	0	0	0
Other Motor Insurance	0	0	0
Marine, Aviation and Transport Insurance	286 383	2 376	-30 254
Fire and Other Property Insurance	437 417	2 207	-174 113
General Liability Insurance	747 296	0	-59 469
Assistance Insurance	0	0	0
Miscellaneous Financial Loss	67 097	-5 182	-17 660
Sub-total	1 544 297	-589	-281 512
Non-proportional reinsurance accepted			
Non-proportional health reinsurance	-23	0	23
Non-proportional liability reinsurance	97 889	289	-15 634
Non-proportional marine, aviation and transport reinsurance	6 715	-1 163	-8 339
Non-proportional property reinsurance	116 914	-17 707	-38 498
Sub-total	221 495	-18 581	-62 546
Total	4 922 593	-9 247	-755 987

Revaluation of claims reserves (undiscounted)	Discounting of future cash flows	Adjustment for counterparty default risk	Risk margin pursuant to Solvency II	Equalization reserves and reserves similar thereto under HGB	Net insurance reserves pursuant to Solvency II	Lower reserves under Solvency II compared to HGB
-138	-15	1	244	0	5 378	415
0	0	0	0	0	0	0
-15	3	0	71	0	1 402	325
-639	-5	5	5	0	-762	885
-1 243	17	8	132	0	3 915	1 950
-40 178	-5 918	557	15 305	-75 134	255 734	184 771
-39 123	-3 826	257	26 295	-67 633	477 806	181 815
-75 683	-36 379	579	65 195	-15 057	1 725 678	245 779
0	0	0	0	0	0	0
0	0	1	1	0	31	41
0	0	0	0	0	0	9
-2 099	-593	47	138	-415	30 382	41 248
-159 118	-46 716	1 455	107 387	-158 240	2 499 563	657 238
153	-342	0	203	0	6 181	-162
0	0	0	0	0	12	32
0	1	0	17	0	-63	104
0	0	0	0	0	0	0
0	0	0	0	0	0	0
-25 400	-3 644	289	1 645	-87 906	143 489	142 894
-36 925	-3 964	423	19 864	-94 089	150 820	286 597
-39 130	-14 774	115	29 400	-252 814	410 624	336 672
0	0	0	0	0	0	0
-5 543	-1 789	65	2 315	0	39 303	27 794
-106 845	-24 512	892	53 444	-434 809	750 366	793 931
0	0	0	0	0	0	-23
-11 286	-3 899	17	3 286	0	70 662	27 227
-283	-230	3	778	0	-2 519	9 234
-5 174	-2 326	70	6 040	0	59 319	57 694
-16 743	-6 455	90	10 104	0	127 363	94 132
-282 706	-77 683	2 436	170 935	-593 049	3 377 392	1 545 301

APPENDICES

REPORTING TEMPLATE S.02.01.02

Balance sheet

€ thou		Solvency II Value
		C0010
ASSETS		
Intangible assets	R0030	0
Deferred tax assets	R0040	69 224
Pension benefit surplus	R0050	0
Property, plant and equipment for own use	R0060	22 585
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	8 697 378
Property (other than for own use)	R0080	140 775
Holdings in related undertakings, including participations	R0090	2 900 222
Equities	R0100	6 663
Equities – listed	R0110	0
Equities – unlisted	R0120	6 663
Bonds	R0130	2 571 222
Government bonds	R0140	1 119 644
Corporate bonds	R0150	1 369 808
Structured notes	R0160	0
Collateralised securities	R0170	81 770
Collective Investment Undertakings	R0180	3 006 328
Derivatives	R0190	38 888
Deposits other than cash equivalents	R0200	33 280
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	309 853
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	309 853
Reinsurance recoverables from:	R0270	5 678 963
Non-life and health similar to non-life	R0280	5 678 963
Non-life excluding health	R0290	5 670 505
Health similar to non-life	R0300	8 458
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked insurances and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	75 525
Insurance and intermediaries receivables	R0360	351 865
Reinsurance receivables	R0370	145 152
Receivables (trade, not insurance)	R0380	343 867
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	176 622
Any other assets, not elsewhere shown	R0420	11 254
Total assets	R0500	15 882 286

€ thou		Solvency II Value
		C0010
LIABILITIES		
Technical provisions – non-life	R0510	9 056 355
Technical provisions – non-life (excluding health)	R0520	9 034 986
TP calculated as a whole	R0530	0
Best Estimate	R0540	8 864 587
Risk Margin	R0550	170 399
Technical provisions – health (similar to non-life)	R0560	21 369
TP calculated as a whole	R0570	0
Best Estimate	R0580	20 832
Risk Margin	R0590	537
Technical provisions - life (excluding index-linked and unit-linked)	R0600	0
Technical provisions - health (similar to life)	R0610	0
TP calculated as a whole	R0620	0
Best Estimate	R0630	0
Risk Margin	R0640	0
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	0
TP calculated as a whole	R0660	0
Best Estimate	R0670	0
Risk Margin	R0680	0
Technical provisions - index-linked and unit-linked	R0690	0
TP calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk Margin	R0720	0
Sonstige versicherungstechnische Rückstellungen	R0730	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	221 622
Pension benefit obligations	R0760	146 436
Deposits from reinsurers	R0770	2 804 771
Deferred tax liabilities	R0780	10 147
Derivatives	R0790	11 466
Debts owed to credit institutions	R0800	0
Debts owed to credit institutions	R0810	6 612
Insurance & intermediaries payables	R0820	76 641
Reinsurance payables	R0830	138 417
Payables (trade, not insurance)	R0840	67 517
Subordinated liabilities	R0850	0
Subordinated liabilities not in BOF	R0860	0
Subordinated liabilities in BOF	R0870	0
Any other liabilities, not elsewhere shown	R0880	226 259
Total liabilities	R0900	12 766 242
Excess of assets over liabilities	R1000	3 116 044

REPORTING TEMPLATE S.05.01.02

Premiums, claims and expenses by line of business

€ thou

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Medical expense	Income protection insurance	Workers' compensation insurance
		C0010	C0020	C0030
Premiums written				
Gross – Direct Business	R0110	5 805	3 297	0
Gross – Proportional reinsurance accepted	R0120	4 572	2 072	-5
Gross – Non-proportional reinsurance accepted	R0130			
Reinsurers' share	R0140	4 185	4 278	-5
Net	R0200	6 192	1 090	0
Premiums earned				
Gross – Direct Business	R0210	6 848	3 847	0
Gross – Proportional reinsurance accepted	R0220	5 057	2 060	-168
Gross – Non-proportional reinsurance accepted	R0230			
Reinsurers' share	R0240	4 574	4 622	-2
Net	R0300	7 332	1 285	-167
Claims incurred				
Gross – Direct Business	R0310	1 370	1 249	0
Gross – Proportional reinsurance accepted	R0320	-3 125	1 118	1
Gross – Non-proportional reinsurance accepted	R0330			
Reinsurers' share	R0340	2 057	2 294	1
Net	R0400	-3 811	73	0
Changes in other technical provisions				
Gross – Direct Business	R0410	-17	0	0
Gross – Proportional reinsurance accepted	R0420	0	0	0
Gross – Non-proportional reinsurance accepted	R0430			
Reinsurers' share	R0440	-8	3	0
Net	R0500	-10	-3	0
Expenses incurred	R0550	2 712	1 211	8
Other expenses	R1200			
Total expenses	R1300			

Correction: In this reporting template, the amount of the value in C0040/R0120 has been corrected, since it was not displayed in € thou in the original version.

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)

Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
C0040	C0050	C0060	C0070	C0080	C0090
5 080	17 066	536 109	703 945	950 668	48
2	0	298 273	776 034	491 393	0
5 081	17 111	537 903	1 086 536	842 703	36
1	-45	296 480	393 443	599 358	12
5 766	15 732	543 041	676 003	927 844	12
14	0	308 034	783 672	528 838	0
5 319	15 351	551 461	1 081 981	872 442	10
462	380	299 614	377 694	584 240	2
2 998	15 850	416 470	412 803	889 749	0
-5	-4	282 486	415 452	484 574	0
3 102	15 787	479 992	599 149	914 825	0
-109	59	218 964	229 105	459 497	0
-33	11	701	1 362	253	0
0	0	0	0	0	0
-33	12	435	1 131	-76	0
0	0	266	231	329	0
256	-1 152	119 241	160 789	207 994	-10

€ thou

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0100	C0110	C0120
Premiums written				
Gross – Direct Business	R0110	-18	2 279	191 549
Gross – Proportional reinsurance accepted	R0120	0	0	154 878
Gross – Non-proportional reinsurance accepted	R0130			
Reinsurers' share	R0140	0	2 265	224 434
Net	R0200	-18	14	121 993
Premiums earned				
Gross – Direct Business	R0210	-18	2 242	170 578
Gross – Proportional reinsurance accepted	R0220	0	0	167 643
Gross – Non-proportional reinsurance accepted	R0230			
Reinsurers' share	R0240	0	2 250	227 275
Net	R0300	-18	-8	110 945
Claims incurred				
Gross – Direct Business	R0310	0	2 023	94 889
Gross – Proportional reinsurance accepted	R0320	0	0	45 967
Gross – Non-proportional reinsurance accepted	R0330			
Reinsurers' share	R0340	0	2 023	91 041
Net	R0400	0	0	49 816
Changes in other technical provisions				
Gross – Direct Business	R0410	0	12	77
Gross – Proportional reinsurance accepted	R0420	0	0	0
Gross – Non-proportional reinsurance accepted	R0430			
Reinsurers' share	R0440	0	12	83
Net	R0500	0	0	-6
Expenses incurred	R0550	0	2 060	30 932
Other expenses	R1200			
Total expenses	R1300			

Line of business for: accepted non-proportional reinsurance					Total
Health	Casualty	Marine, aviation, transport	Property		
C0130	C0140	C0150	C0160		C020
					2 415 828
					1 727 219
196	76 592	45 845	254 820		377 452
196	60 724	44 028	157 254		2 986 730
0	15 867	1 817	97 566		1 533 769
					2 351 895
					1 795 150
196	76 434	48 096	256 954		381 679
173	61 268	45 971	158 344		3 031 039
23	15 166	2 124	98 610		1 497 684
					1 837 400
					1 226 464
24	158 398	7 738	75 895		242 056
24	118 285	9 389	12 880		2 250 849
0	40 113	-1 651	63 015		1 055 071
					2 366
					0
0	0	0	0		0
0	0	0	0		1 559
0	0	0	0		807
-143	-1 989	-835	5 540		526 613
					0
					526 613

		Line of Business for: life obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance
		C0210	C0220	C0230
Premiums written				
Gross	R1410	0	0	0
Reinsurers' share	R1420	0	0	0
Net	R1500	0	0	0
Premiums earned				
Gross	R1510	0	0	0
Reinsurers' share	R1520	0	0	0
Net	R1600	0	0	0
Claims incurred				
Gross	R1610	0	0	0
Reinsurers' share	R1620	0	0	0
Net	R1700	0	0	0
Changes in other technical provisions				
Gross	R1710	0	0	0
Reinsurers' share	R1720	0	0	0
Net	R1800	0	0	0
Expenses incurred	R1900	0	0	0
Other expenses	R2500			
Total expenses	R2600			

Line of Business for: life obligations			Life reinsurance obligations		Total
Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
C0240	C0250	C0260	C0270	C0280	C0300
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
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0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0

REPORTING TEMPLATE S.05.02.01

Premiums, claims and expenses by country

€ thou

		Home country	Top 5 countries (by amount of gross premiums written) - non-life obligations	
	R0010	C0080	United States C0090	United Kingdom C0100
Premiums written				
Gross – Direct Business	R0110	769 863	37 651	667 042
Gross – Proportional reinsurance accepted	R0120	152 185	464 840	62 092
Gross – Non-proportional reinsurance accepted	R0130	-6 425	206 886	49 891
Reinsurers' share	R0140	867 060	596 743	338 004
Net	R0200	48 564	112 635	441 021
Premiums earned				
Gross – Direct Business	R0210	773 382	33 735	626 906
Gross – Proportional reinsurance accepted	R0220	155 762	500 470	63 590
Gross – Non-proportional reinsurance accepted	R0230	-5 924	210 830	47 522
Reinsurers' share	R0240	871 828	634 757	338 008
Net	R0300	51 392	110 279	400 010
Claims incurred				
Gross – Direct Business	R0310	859 524	2 617	454 598
Gross – Proportional reinsurance accepted	R0320	98 851	401 242	121 215
Gross – Non-proportional reinsurance accepted	R0330	43 014	110 359	30 906
Reinsurers' share	R0340	958 084	428 990	166 414
Net	R0400	43 305	85 229	440 305
Changes in other technical provisions				
Gross – Direct Business	R0410	330	161	1 109
Gross – Proportional reinsurance accepted	R0420	0	0	0
Gross – Non-proportional reinsurance accepted	R0430	0	0	0
Reinsurers' share	R0440	282	13	781
Net	R0500	48	148	328
Expenses incurred	R0550	-25 469	90 973	141 832
Other expenses	R1200			
Total expenses	R1300			

Top 5 countries (by amount of gross premiums written) - non-life obligations		
France	China	Italy
C0110	C0120	C0130
379 988	90 908	88 815
30 873	90 979	32 193
3 744	5 614	0
190 328	120 199	56 603
224 277	67 302	64 406
381 016	89 381	84 994
32 138	94 624	30 194
4 051	5 382	0
188 992	123 115	48 444
228 214	66 273	66 744
249 284	43 362	2 255
-35 678	21 332	-12 100
23 194	-1 729	0
54 497	42 236	5 915
182 304	20 729	-15 759
230	74	47
0	0	0
0	0	0
195	15	7
35	59	40
74 891	23 170	20 308

		Home country	Top 5 countries (by amount of gross premiums written) - non-life obligations	
		C0150	C0160	C0170
	R1410	XXXX	United States	United Kingdom
		C0220	C0230	C0240
Premiums written				
Gross – Direct Business	R1410	0	0	0
Gross – Proportional reinsurance accepted	R1420	0	0	0
Gross – Non-proportional reinsurance accepted	R1500	0	0	0
Premiums earned				
Gross – Direct Business	R1510	0	0	0
Gross – Proportional reinsurance accepted	R1520	0	0	0
Gross – Non-proportional reinsurance accepted	R1600	0	0	0
Claims incurred				
Gross – Direct Business	R1610	0	0	0
Gross – Proportional reinsurance accepted	R1620	0	0	0
Gross – Non-proportional reinsurance accepted	R1700	0	0	0
Changes in other technical provisions				
Gross – Direct Business	R1710	0	0	0
Gross – Proportional reinsurance accepted	R1720	0	0	0
Gross – Non-proportional reinsurance accepted	R1800	0	0	0
Expenses incurred	R1900	0	0	0
Other expenses	R2500	XXXX	XXXX	XXXX
Total expenses	R2600	XXXX	XXXX	XXXX

REPORTING TEMPLATE S.12.01.12**Life and Health SLT Technical Provisions**

This reporting template is not relevant for AGCS SE.

REPORTING TEMPLATE S.17.01.02

Non-life Technical Provisions

€ thou

		Direct business and accepted proportional reinsurance			
		Medical expenses insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance
		C0020	C0030	C0040	C0050
Technical provisions calculated as a whole	R0010	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050	0	0	0	0
Technical provisions calculated as a sum of BE and RM					
Best estimate					
Premium provisions					
Gross	R0060	7 070	492	107	1 652
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0140	2 005	300	96	1 512
Net Best Estimate of Premium Provisions	R0150	5 066	191	12	140
Claims provisions					
Gross	R0160	7 388	5 752	0	13 654
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0240	1 342	4 693	0	14 561
Net Best Estimate of Claims Provisions	R0250	6 046	1 059	0	-908
Total Best Estimate - gross	R0260	14 458	6 244	107	15 306
Total Best Estimate - net	R0270	11 111	1 250	12	-768
Risk margin	R0280	448	88	0	5
Amount of the transitional on Technical Provisions					
Technical Provisions as a whole	R0290	0	0	0	0
Best Estimate	R0300	0	0	0	0
Risk Margin	R0310	0	0	0	0
Technical provisions - total					
Technical provisions - total	R0320	14 906	6 332	108	15 311
Recoverable from reinsurance contract/SPV and Finite Re before the adjustment for expected losses due to counterparty default - total	R0330	3 347	4 993	96	16 074
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	11 559	1 339	12	-762

Correction: In this reporting template, the amounts in line R0340 have been corrected, as this was missing in the original version. In addition, all values in columns C0110 to C0180 (pages 116 to 117) have been corrected, as they were not displayed in € thou.

Direct business and accepted proportional reinsurance				
Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
C0060	C0070	C0080	C0090	C0100
0	0	0	0	0
0	0	0	0	0
5 923	-51 167	153 791	129 456	24
5 428	31 465	104 830	109 058	24
495	-82 632	48 961	20 398	0
18 214	1 406 522	1 536 943	4 809 988	0
14 926	950 306	999 030	2 788 982	0
3 288	456 216	537 913	2 021 006	0
24 137	1 355 354	1 690 735	4 939 444	24
3 783	373 583	586 874	2 041 404	0
132	16 950	45 946	94 573	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
24 269	1 372 304	1 736 681	5 034 017	24
20 354	981 771	1 103 860	2 898 040	24
3 915	390 533	632 821	2 135 977	0

		Direct business and accepted proportional reinsurance		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0110	C0120	C0130
Technical provisions calculated as a whole	R0010	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050	0	0	0
Technical provisions calculated as a sum of BE and RM				
Best estimate				
Premium provisions				
Gross	R0060	0	272	66 415
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0140	0	271	62 527
Net Best Estimate of Premium Provisions	R0150	0	1	3 888
Claims provisions				
Gross	R0160	0	1 416	202 530
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0240	0	1 387	139 186
Net Best Estimate of Claims Provisions	R0250	0	29	63 344
Total Best Estimate - gross	R0260	0	1 688	268 945
Total Best Estimate - net	R0270	0	30	67 232
Risk margin	R0280	0	1	2 453
Amount of the transitional on Technical Provisions				
Technical Provisions as a whole	R0290	0	0	0
Best Estimate	R0300	0	0	0
Risk Margin	R0310	0	0	0
Technical provisions - total				
Technical provisions - total	R0320	0	1 689	271 398
Recoverable from reinsurance contract/SPV and Finite Re before the adjustment for expected losses due to counterparty default - total	R0330	0	1 658	201 713
Technical provisions minus recoverables from reinsurance/SVP and Finite Re - total	R0340	0	31	69 685

Non-proportional health insurance	Non-proportional casualty insurance	Non-proportional marine, aviation and transport reinsurance	Accepted non-proportional reinsurance		Total Non-life obligation
			Non-proportional property reinsurance		
C0140	C0150	C0160	C0170		C0180
0	0	0	0		0
0	3 298	-9 260	-45 164		262 910
0	11 786	268	-5 024		324 545
0	-8 488	-9 528	-40 139		-61 634
23	254 026	53 142	312 911		8 622 509
23	177 860	38 221	223 901		5 354 419
0	76 166	14 921	89 011		3 268 090
23	257 324	43 882	267 748		8 885 419
0	67 678	5 393	48 872		3 206 456
0	3 308	778	6 253		170 936
0	0	0	0		0
0	0	0	0		0
0	0	0	0		0
23	260 633	44 660	274 001		9 056 355
23	189 646	38 489	218 876		5 678 963
0	70 987	6 171	55 125		3 377 392

REPORTING TEMPLATE S.19.01.21

Non-life insurance claims

Total Non-life business

Accident year/Underwriting year	Z0020	Accident year

Gross claims paid (non-cumulative) - (absolute amount)

€ thou

	Year	Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											63 210
N-9	R0160	299 553	674 300	271 157	111 959	198 007	34 761	32 925	70 086	18 197	27 408	
N-8	R0170	442 476	791 511	330 158	228 884	113 134	104 100	53 903	44 363	27 819		
N-7	R0180	308 633	728 398	303 909	165 596	110 586	83 671	32 009	19 922			
N-6	R0190	266 462	492 417	297 877	129 487	122 908	42 943	51 657				
N-5	R0200	320 391	743 333	576 361	118 355	94 131	88 778					
N-4	R0210	419 195	603 967	379 205	253 362	170 140						
N-3	R0220	293 230	1 000 996	333 062	238 865							
N-2	R0230	356 695	1 219 624	556 012								
N-1	R0240	328 157	864 667									
N	R0250	390 138										

€ thou

		In current year	Sum of years (cumulative)
		C0170	C0180
	R0100	63 210	63 210
	R0160	27 408	1 738 354
	R0170	27 819	2 136 347
	R0180	19 922	1 752 725
	R0190	51 657	1 403 751
	R0200	88 778	1 941 349
	R0210	170 140	1 825 869
	R0220	238 865	1 866 153
	R0230	556 012	2 132 331
	R0240	864 667	1 192 824
	R0250	390 138	390 138
Total	R0260	2 498 616	16 443 053

Gross undiscounted Best Estimate for claims provisions- (absolute amount)

€ thou

	Year	Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100	2 048 990	1 293 565	965 983	718 055	423 712	317 067	260 467	160 497	117 364	95 529	467 797
N-9	R0160	2 048 990	1 293 565	965 983	718 055	423 712	317 067	260 467	160 497	117 364	95 529	
N-8	R0170	2 111 238	1 457 529	955 500	676 107	478 284	323 185	247 220	156 844	119 648		
N-7	R0180	2 203 773	1 381 746	977 191	700 216	488 762	338 733	256 385	228 596			
N-6	R0190	1 731 246	1 323 285	942 764	661 299	427 742	278 371	256 714				
N-5	R0200	2 255 122	1 730 650	904 957	602 996	411 864	335 522					
N-4	R0210	2 295 642	1 687 327	1 118 636	803 410	667 942						
N-3	R0220	2 393 913	1 674 636	1 184 031	930 868							
N-2	R0230	2 913 861	2 075 760	1 359 441								
N-1	R0240	2 328 539	1 683 973									
N	R0250	2 523 110										

€ thou

	Year-end (discounted data)
	C0360
	R0100
	R0160
	R0170
	R0180
	R0190
	R0200
	R0210
	R0220
	R0230
	R0240
	R0250
Total	R0260
	8 622 509

REPORTING TEMPLATE S.22.01.21

Impact of long term guarantees and transitional measures

€ thou

		Amount with Long Term Guarantees measures and transitional	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of transitional on interest rate	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical Provisions	R0010	9 056 355	0	0	33 374	0
Basic Own Funds	R0020	3 116 044	0	0	-11 890	0
Eligible own funds to meet Solvency Capital Requirement	R0050	3 116 044	0	0	-11 890	0
Solvency Capital Requirement	R0090	1 980 722	0	0	49 752	0
Eligible own funds to meet MinimumCapital Requirement	R0100	3 046 820	0	0	-11 890	0
Minimum Capital Requirement	R0110	522 502	0	0	1 659	0

Correction: In this reporting template all values of column C0070 were added, because they were missing in the original version

REPORTING TEMPLATE S.23.01.01

Own funds

€ thou

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sectors as foreseen in article 68 of the Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	36 741	36 741		0	
Share premium account related to ordinary share capital	R0030	537 434	537 434		0	
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	2 472 646	2 472 646			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	69 224				69 224
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Own funds from the financial statements that shall 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 shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	0
Total basic own funds after deductions	R0290	3 116 044	3 046 820	0	0	69 224
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0

€ thou

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	3 116 044	3 046 820	0	0	69 224
Total available own funds to meet the MCR	R0510	3 046 820	3 046 820	0	0	
Total eligible own funds to meet the SCR	R0540	3 116 044	3 046 820	0	0	69 224
Total eligible own funds to meet the MCR	R0550	3 046 820	3 046 820	0	0	
SCR	R0580	1 980 722				
MCR	R0600	522 502				
Ratio of Eligible own funds to SCR	R0620	157,32%				
Ratio of Eligible own funds to MCR	R0640	583,12%				

€ thou

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	3 116 044	
Own shares (held directly and indirectly)	R0710	0	
Foreseeable dividends, distributions and fees	R0720	0	
Other basic own funds components	R0730	643 398	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0	
Reconciliation reserve	R0760	2 472 646	
Expected profits			
Expected profits included in future premiums (EPIFP) - life business	R0770	0	
Expected profits included in future premiums (EPIFP) - non-life business	R0780	253 218	
Total EPIFP	R0790	253 218	

REPORTING TEMPLATE S.25.03.21**Solvency Capital Requirement – for undertakings on Full Internal Models**

€ thou

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10	IM – Market risk	1 286 551
11	IM – Underwriting risk	1 119 731
12	IM – Business risk	88 447
13	IM – Credit risk	141 233
14	IM – Operational risk	176 105
15	IM – LAC DT (negative amount)	-27 133
16	IM – Capital buffer	0
17	IM – Adjustment due to RFF/MAP nSCR aggregation	0

€ thou

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	2 784 935
Diversification	R0060	-804 213
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	0
Solvency Capital Requirement excluding capital add-on	R0200	1 980 722
Capital add-ons already set	R0210	0
Solvency Capital Requirement	R0220	1 980 722
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	27 133
Total amount of notional Solvency Capital Requirements for the remaining part	R0410	0
Total amount of the notional Solvency Capital Requirements for ring-fenced funds	R0420	0
Total amount of the notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

REPORTING TEMPLATE S.28.01.01

Minimum capital requirement – Only life or only non-life insurance or reinsurance activity

€ thou

		C0010
MCR(NL)-result	R0010	522 502

€ thou

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expenses insurance and proportional reinsurance	R0020	11 111	6 162
Income protection insurance and proportional reinsurance	R0030	1 250	1 086
Workers' compensation insurance and proportional reinsurance	R0040	12	0
Motor vehicle liability insurance and proportional reinsurance	R0050	0	3
Other motor insurance and proportional reinsurance	R0060	3 783	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	373 583	295 685
Fire and other damage to property insurance and proportional reinsurance	R0080	586 874	385 900
General liability insurance and proportional reinsurance	R0090	2 041 404	603 765
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	30	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	67 232	121 792
Non-proportional health insurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	67 678	12 108
Non-proportional marine, aviation and transport reinsurance	R0160	5 393	1 788
Non-proportional property reinsurance	R0170	48 872	97 783

Linear formula component for life insurance and reinsurance obligations

€ thou

		C0040
MCR(L)-result	R0200	0

€ thou

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

Overall MCR calculation

€ thou

		C0070
Linear MCR	R0300	522 502
SCR	R0310	1 980 722
MCR cap	R0320	891 325
MCR floor	R0330	495 180
Combined MCR	R0340	522 502
Absolute floor of the MCR	R0350	3 700
Minimum capital requirement	R0400	522 502

