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2020

SOLVENCY AND FINANCIAL CONDITION REPORT 2020

ALLIANZ GLOBAL CORPORATE & SPECIALTY SE

Allianz

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Allianz at a glance

Table 1: Key figures of AGCS SE

€ thou

	Capital	2020	2019	Difference
Gross premiums written	A.2	4,537,852	4,520,499	17,353
Net underwriting performance before equalization reserve	A.2	-589,342	-93,799	-495,542
Investment performance	A.3	-73,547	249,259	-322,806
Profit (+) / loss (-) before transfer	A.5	-518,155	-11,870	-506,285
Eligible capital	E.1	2,956,976	3,116,044	-159,068
Solvency capital requirement	E.2	1,841,451	1,980,722	-139,271
Solvency ratio	C	161%	157%	4%

SUMMARY

SUMMARY

The monetary amounts in this report are presented in thousands of euros (€ thou) in accordance with the Technical Implementing Standard (EU) 2015/2452. Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

The report on the solvency and financial condition of the company (e Solvency and Financial Condition Report, SFCR) covers five subject areas in total, all of which relate to the reporting period from 1 January to 31 December 2020. The preceding summary provides an overview of the key contents of the report, which are presented in detail below. In addition, any material changes in these subject areas in particular are stated.

A. BUSINESS ACTIVITY AND BUSINESS PERFORMANCE

Section A provides information on the business activities and the position of AGCS SE within the legal structure of the Allianz Group. Detailed information on the results for the fiscal year is also provided.

AGCS SE is a European joint-stock company (Societas Europaea) and a subsidiary of Allianz SE, Munich, with its registered office in Munich.

As a global risk carrier for industrial and specialty insurance, AGCS SE is mainly active in the fire and other property insurance, general liability insurance, and marine, aviation and transport insurance business segments.

In 2020, AGCS SE conducted its business from Munich, as well as from the branch offices in London (UK), Paris (France), Vienna (Austria), Copenhagen (Denmark), Milan (Italy), Antwerp (Belgium), Madrid (Spain), Rotterdam (Netherlands), Stockholm (Sweden), Singapore, Hong Kong (China), Seoul (South Korea) and Mumbai (India).

With regard to the countries of origin, AGCS SE generates a large part of its gross premiums in Germany, USA, UK and France.

The underwriting result was affected by a higher net claims burden, which was mainly due to claims in the fiscal year as a result of the Covid-19 pandemic. Excluding Covid-19 pandemic losses, the net loss ratio would have been 95.7%.

In fiscal year 2020, the investment result amounted to € -73,549 thou, which is mainly due to a lower contribution to earnings from debt instruments and a write-down on Allianz International Holding B.V.

This development resulted in a loss of € 518,155 thou, which was offset by Allianz SE under the terms of the transfer agreement.

B. GOVERNANCE SYSTEM

Section B describes the corporate governance structure at AGCS SE. This includes information on the organizational and operational structure, and on the design and integration of the key functions, the responsibilities of the bodies of AGCS SE – the Board of Management and the Supervisory Board – and their key functions and function holders, including the control functions. The following key functions have been established at AGCS SE in accordance with Solvency II requirements: Compliance, Internal Audit, Risk Management and Actuarial. Over and above the regulatory requirements, two other key functions are implemented at AGCS SE: Legal and Accounting.

Further reporting elements are the requirements of professional qualification and personal reliability of the company management These are defined in the Fit and Proper policy and apply to the members of the Supervisory Board, senior management and the holders of key functions and duties.

Furthermore, information is presented about the risk management system, including the company's own risk and solvency assessment (ORSA), and the internal control system. Our risk management system covers all of AGCS SE's business segments and business units in relation to their risk exposure. Our risk management system includes the necessary strategies, processes and reports to identify, assess, monitor and manage risks. The Board of Management of AGCS SE has overall responsibility for the implementation of a functioning risk management system. Our risk profile is measured and managed on the basis of our internal model, which is approved by the Federal Financial Supervisory Authority (BaFin). Other regular processes for assessing the risk situation, such as the top risk assessment, monitoring compliance with limits and assurance of solvency over the planning period, are documented once a year in summary form in the ORSA report. The most recent ORSA report did not contain any objections or significant recommendations to the Board of Management.

As a conceptual core element of the internal control framework, AGCS SE applies a three lines of defence concept, which provides for different and clearly defined levels of control with graded control responsibilities.

Since 1 January 2020, the Group-wide AZpire X plan governs the performance-based remuneration of the members of the Board of Management. This consists of a performance-related annual bonus and performance-related equity compensation.

AGCS SE's governance system was reviewed in 2020 and found to be appropriate and effective by the Board of Management of AGCS SE.

C. RISK PROFILE

Section C deals with the risk profile of the company. We measure and manage AGCS SE's risk on the basis of an approved internal model that measures potential adverse developments in own funds. The results provide an overview as to how our risk is distributed across different risk categories and determine the regulatory capital requirements under Solvency II.

AGCS SE's overall risk is dominated by underwriting risks, as well as equity and foreign currency risks from the investment in our subsidiary in North America. In 2020, there were no model changes that significantly impacted the risk capital.

D. VALUATION FOR SOLVENCY PURPOSES

The subject of section D is the recognition and principles used in the preparation of the market value balance sheet under supervisory law, including an analysis of the differences in values compared with financial reporting in accordance with the German Commercial Code (HGB). The differences in value result primarily from the fact that the

economic valuation in the market value balance sheet contrasts with prudent valuation principles in HGB.

Our assets are characterised in particular by investments. Within investments, undertakings for collective investment represent the largest difference in value between the market value balance sheet and the commercial balance sheet.

On the liabilities side, financial liabilities and technical provisions are the largest balance sheet items.

There have been no significant changes to the valuation principles since the previous reporting period.

E. VALUATION FOR SOLVENCY PURPOSES

Section E initially entails a reconciliation of equity under commercial law to the excess of assets over the liabilities under Solvency II and to the eligible own funds to cover the regulatory Solvency Capital Requirement.

Our eligible own funds have declined compared to the previous year and amount to € 2,956,976 thou as at 31 December 2020. The main reason for the decline is a € 200,671 thou reduction in the equalisation reserve, which is essentially due to lower investment values in undertakings for collective investment and a lower investment value in AGCS International Holding B.V. Additional information is presented in section E.1.

AGCS SE uses the Allianz Group's internal model to determine the Solvency Capital Requirement. A fundamental difference between the standard formula and the internal model is that the standard formula uses factor-based shock scenarios, whereas the internal model determines the risk capital by simulating the individual risk factors.

As at the reporting date of 31 December 2020, eligible own funds are matched by a Solvency Capital Requirement of € 1,841,451 thou and a Minimum Capital Requirement of € 542,028 thou. This results in a Solvency II capital ratio of 161%. It would be 156%, without taking the volatility adjustment into account. AGCS SE met the Minimum Capital Requirement and the Solvency Capital Requirement at all times during the reporting year.

BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 General information on business activities

AGCS SE is a European joint-stock company (Societas Europaea) and a wholly owned subsidiary of Allianz SE, Munich, with its registered office in Munich. It was founded in 2006 as Allianz's global risk carrier for industrial and specialty insurance. AGCS SE offers corporate clients a wide range of insurance products and services, particularly in the fire and other property insurance, general liability insurance and marine, aviation and transport insurance business segments. AGCS SE differentiates itself in the market through excellent claims handling, cross-border solutions within the framework of international insurance programs, captive and fronting services, and risk consulting and structured risk transfer solutions. For this purpose, AGCS SE has teams in 34 countries worldwide. The network comprising Allianz subsidiaries in over 70 countries and network partners at other locations allows us to serve clients around the globe.

During the period under review, AGCS SE operated through its existing branch offices in London (UK), Paris (France), Vienna (Austria), Copenhagen (Denmark), Milan (Italy), Antwerp (Belgium), Madrid (Spain), Rotterdam (Netherlands), Stockholm (Sweden), Singapore, Hong Kong (China), Seoul (South Korea) and through its reinsurance branch office in Mumbai (India).

With regard to the countries of origin, AGCS SE generates the majority of its gross premiums in Germany, UK, USA and France.

A.1.2 Information on the Group structure and affiliated companies

AGCS SE is a member of the Allianz Group headed by Allianz SE, Munich. The Solvency II consolidated financial statements of Allianz SE are published on its website. They can be viewed there or can be requested from our company. AGCS SE is included in the solvency overview of Allianz SE at Group level.

A simplified structure of AGCS SE, which includes our affiliated enterprises as of 31 December 2020, can be found in the annex to this report.

Table 2: Key affiliated enterprises

%

Name, legal form	Country	Participation ratio (corresponds to voting-right ratio)
AGCS International Holding B.V., Amsterdam	Netherlands	100.0%
AGCS Marine Insurance Company, Chicago	USA	83.0%
AGR US, Chicago	USA	83.0%
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	Japan	100.0%
Allianz Global Corporate & Specialty Resseguros Brasil S.A., Sao Paulo	Brazil	100.0%
Allianz Risk Consulting GmbH, Munich	Germany	100.0%
Allianz Risk Transfer AG, Schaan	Liechtenstein	100.0%
SpaceCo S.A., Paris	France	100.0%

Statutory obligations to assume any losses result from control and profit transfer agreements with the following companies:

- AGCS-Argos 76 Vermögensverwaltungsgesellschaft mbH, Munich,
- AGCS-Argos 86 Vermögensverwaltungsgesellschaft mbH, Munich,
- AGCS Infrastrukturfonds GmbH, Munich.

A.1.3 Additional information

Name and contact details of the competent financial supervisory authority

Address of the Federal Financial Supervisory Authority:
Graurheindorfer Straße 108
53117 Bonn

alternatively:
PO Box 1253
53002 Bonn
Contact details of the Federal Financial Supervisory Authority:
Tel.: 0228 / 4108 – 0
Fax: 0228 / 4105 – 1550
Email: poststelle@bafin.de
or De-mail: poststelle@bafin.de-mail.de

Name and contact details of the external auditor

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft with its head office in Frankfurt am Main

PwC Munich branch office
Bernhard-Wicki-Strasse 8
80636 Munich

Tel.: 089/5790-50
Email: info@pwc.com

A.2 UNDERWRITING PERFORMANCE

A.2.1 Overall underwriting performance

AGCS SE prepares and publishes its annual financial statements in accordance with German accounting principles (HGB). The following comments on the underwriting result before the equalization reserve are therefore based on the items in the income statement in accordance with the Government Order on the External Accounting Requirements of Insurance Enterprises (RechVersV).

The underwriting performance for the fiscal year was defined by a higher net claims burden, which led to an increase in the loss ratio. This was mainly due to claims in the fiscal year totaling € 249, 753 thou arising from the Covid-19 pandemic. Excluding Covid-19 pandemic losses, the net loss ratio would have been 95.7%.

Despite lower net earned premiums, the company achieved an improvement in the net cost ratio, which could however not compensate for the increase in the net loss ratio. This resulted in an increase in the combined ratio.

The "Underwriting performance" table compares the key figures for 2020 with those for the previous year.

Table 3: Underwriting performance

€ thou

	2020	2020	2020	2020	2019
	Position according to reporting template S.05.01.b	Reclassification of expenses for claims settlement and investment management[1]	Items not included in the reporting template	HGB	HGB
Gross premiums written	4,537,852	-	-	4,537,852	4,520,499
Net premiums earned	1,424,887	-	-	1,424,887	1,497,684
Other net underwriting profit	-	-	-	-	-
Net incurred claims	-1,494,567	-119,286	-	-1,613,853	-1,139,399
Change in other technical provisions – net	-724	-	-	-724	-807
Net expenses for premium refunds	-	-	-38,981	-38,981	-13,856
Net underwriting expenses	-484,176	128,631	-	-355,545	-433,507
Other net underwriting expenses	-	-	-5,125	-5,125	-3,915
Net underwriting result before equalization reserve	-	-	-	-589,342	-93,800
Net loss ratio				113.3%	76.1%
Net cost ratio				25.0%	28.9%
Net combined ratio				138.2%	105.0%
Investment management expenses reclassified to the non-technical income statement according to HGB		-9,345			

1_In accordance with the requirements of annex I of the Implementing Regulation 2015/2450, annex II, S.05.01, both the expenses for claims settlement and investment management expenses are reported as part of net operating expenses in the reporting template. In contrast, in accordance with the Insurance Accounts Directive Article 38 (1) sentence 2 and Article 42 (1) and their implementation in §41 (2) and §46 (2) RechVersV, claims settlement expenses must be shown as part of the net incurred claims and the expenses for the management of investments within the non-technical account for the financial statements under HGB.

The company recorded a slight increase of 0.4% in gross premiums written. Lower premium income, particularly in marine, aviation and transport insurance, was offset by an increase in gross premiums written, primarily in fire and other property insurance, as well as general liability insurance. In contrast to gross premiums written, net earned premiums showed a downward trend. A significant factor here was the new quota share reinsurance treaties introduced in the fiscal year in direct business and the general liability business assumed in reinsurance.

The underwriting performance in the reporting year was burdened above all by an increase in net claims and insurance benefits incurred, which was mainly attributable to higher claims in the fiscal year of € 1,422,888 (1,084,157) thou. These were largely attributable to the **miscellaneous financial losses** business segment, which was heavily affected by the losses from the Covid-19 pandemic. The pandemic losses primarily affected insured risks in the events and film industry. The share of catastrophe losses relative to claims in the fiscal year remained at a low level this year too.

A higher net run-off loss of € 190,965 thou (loss of € 55,242 thou) was incurred mainly in general liability insurance.

Net expenses for premium refunds increased in particular in fire and other property insurance in our UK branch office within the framework of alternative risk transfer solutions. The change in other net technical provisions was roughly on a par with the previous year.

Net underwriting expenses of € 204,232 (275,126) thou were lower than in the previous year, especially in the area of acquisition costs.

Overall, the company reported a higher net underwriting loss before equalisation reserve.

A.2.2 Underwriting performance by business segment

Table 4: Underwriting performance by business segment[1]

€ thou

	Gross premiums written		Net underwriting result before equalization reserve	
	2020	2019	2020	2019
DIRECT BUSINESS AND PROPORTIONAL REINSURANCE BUSINESS ASSUMED				
Fire and other property insurance	1,574,317	1,479,979	-106,760	-23,150
General liability insurance	1,489,784	1,442,061	-249,819	-78,814
Marine, aviation and transport insurance	726,677	834,382	-25,339	-38,199
Miscellaneous financial losses	328,944	346,427	-222,551	29,809
Other insurances	44,948	40,197	6,728	7,954
Subtotal 1	4,164,670	4,143,047	-597,741	-102,400
NON-PROPORTIONAL REINSURANCE BUSINESS ASSUMED				
Non-proportional property reinsurance	251,350	254,820	-680	30,440
Non-proportional liability reinsurance	82,869	76,592	1,226	-26,616
Non-proportional marine, aviation and marine reinsurance	38,963	45,845	7,875	4,610
Non-proportional health reinsurance	0	196	-23	166
Subtotal 2	373,182	377,452	8,399	8,600
Total	4,537,852	4,520,499	-589,342	-93,800

1_Business segments with insignificant premium income are excluded from the comments.

In the following section, revenue and earnings figures, in particular gross premiums written and the net underwriting performance before equalization reserve, are commented on for the individual business segments in a year-on-year comparison.

A.2.2.1 DIRECT AND PROPORTIONAL REINSURANCE BUSINESS ASSUMED

The growth in gross premiums written in the fire and other property insurance business segment was primarily achieved through higher premiums in the UK branch office and by increasing the share of international program business in the branch office in Spain. A higher net underwriting loss in the reporting year was attributable to the increase in claims in the fiscal year.

The general liability insurance business segment also recorded premium growth in the reporting year. This was mainly due to higher gross premiums written at the UK branch office, which were also influenced by new business. The net underwriting loss increased as a result of higher claims and insurance benefits in the previous year.

In marine, aviation and transport insurance, gross premiums written declined in equal measures. In addition, no new business was written in active aviation reinsurance. A lower net charge from claims in the fiscal year meant that the net underwriting loss remained below that of the previous year.

The developments in the miscellaneous financial losses business segment were particularly affected by the Covid-19 pandemic. The volume of gross premiums written fell. A lower premium volume from previous years, as well as lower gross premiums in the events and film sector at the UK branch office were responsible for this decline. The increase in the net underwriting loss was due to the higher burden from claims in the fiscal year.

The business segments of medical expenses insurance, occupational disability insurance, workers' compensation insurance, motor vehicle liability insurance, other motor vehicle insurance, credit and surety insurance, legal expenses insurance and assistance insurance were combined under other insurances. Gross premiums written increased in the reporting year, mainly due to an expansion of the fronting business in medical expenses insurance. Due to lower net earned premiums in workers' compensation insurance, the net underwriting profit was lower than in the previous year.

A.2.2.2 NON-PROPORTIONAL REINSURANCE BUSINESS ASSUMED

Gross premiums written in the non-proportional property reinsurance business segment fell in the reporting year. This was due to lower gross premiums from previous years at the branch office in France. Lower net premiums earned and higher net expenses for premium refunds in the UK branch office in the area of alternative risk transfer solutions led to a net underwriting loss in the fiscal year.

Gross premiums written in non-proportional liability reinsurance grew in the reporting year. The decisive factor here was higher gross premiums from previous years at the UK branch office. In addition, the net expense for prior year losses declined, resulting in an overall net underwriting profit for the division after a negative result in 2019 for the year.

Gross premiums written declined for non-proportional marine, aviation and transport insurance. This was mainly due to lower supplementary and reinstatement premiums for reinsured business at our US subsidiary. The reporting year concluded with a net underwriting profit, supported by a higher run-off gain from prior-year losses.

A.2.3 Underwriting performance by country

The illustration of business performance by country is most meaningful on the basis of the gross figures of the financial statements prepared

in accordance with commercial law as outwards non-proportional reinsurance in particular can only be allocated to the individual countries using codes.

Table 5: Underwriting performance by country[1]

€ thou

	Gross premiums written	Underwriting gross performance
2020		
Germany	900,324	128,506
United States of America	749,936	-55,181
United Kingdom	659,583	-383,563
France	427,462	-204,508
China	184,213	24,450
Liechtenstein[2]	144,574	-31,959
Total top 6	**3,066,093**	**-522,255**
Other countries	1,471,758	-358,442
Total	**4,537,852**	**-880,697**
2019		
Germany	915,624	-318,923
United States of America	709,378	32,914
United Kingdom	779,025	-59,609
France	414,605	81,662
China	187,501	63,545
Liechtenstein[2]	103,284	63,926
Total top 6	**3,109,416**	**-136,485**
Other countries	1,411,083	158,985
Total	**4,520,499**	**22,501**

1_The allocation to countries is carried out here according to the requirements of Implementing Regulation 2015/2450 annex II, S 05.02. Appropriate codes have been used for items that cannot be directly allocated (for example, internal costs).
2_With gross premiums written of € 121,008 thou, Italy was still ahead of Liechtenstein in 2019.

AGCS SE's core market is Germany. Gross premiums written in this country of origin fell year on year, largely to the decline in premiums in marine, aviation and transport insurance. A lower claims burden from prior-year losses improved the performance and led to the recognition of a gross profit this year. Most of the premiums and expenses for insurance claims in the country of origin Germany were accounted for by the branch office in Germany, where 100% of the business was ceded to Allianz SE, following deduction of facultative and other obligatory reinsurances (quota share reinsurance treaty with Allianz SE).

Gross written premiums for the country of origin United States of America increased in the reporting year. This was primarily due to the increased premium volume in fire and other property insurance. However, higher gross claims and insurance benefits, which for the most part involved claims and insurance benefits for prior-year losses, resulted in a gross underwriting loss.

Premiums written in the country of origin UK declined significantly in the business segments of fire and other property insurance and miscellaneous financial losses. Gross claims and insurance benefits increased, above all in the miscellaneous financial losses business segment, whose claims and insurance benefits for the fiscal year were significantly impacted by claims arising from the Covid-19 pandemic. As a result, the country of origin UK reported a higher gross underwriting loss for the fiscal year.

The country of origin France recorded a slight increase in premium volume. An increase in gross claims and insurance benefits, which was largely attributable to the higher claims and insurance benefits incurred for prior-year losses, resulted in the reporting of a gross underwriting loss this year.

The gross premium volume in the country of origin China fell compared to 2019. The gross underwriting profit declined, taking into account the increase in gross claims and insurance benefits, which was mainly due to the claims development in the fiscal year.

Gross premiums written in the country of origin Liechtenstein were higher than in the previous year, mainly due to fire and other property insurance as well as general liability insurance. A higher gross claims burden, largely driven by claims expenses from previous years, resulted in a gross underwriting loss. This compares with the positive result posted by the country of origin in 2019.

The gross premium volume increased in the Other countries. Following higher gross claims and insurance benefits, especially due to higher IBNR reserves, the reporting year posted a gross underwriting loss.

A.3 INVESTMENT PERFORMANCE

Table 6: Investment performance

€ thou

	Current income/expenses (-)	Profit	Loss	Write-ups	Depreciation	Investment result
2020						
Participations and other interests						
Shares in affiliated enterprises and participations	12,168	40	-	-	-96,733	-84,525
Real estate (other than for own use)	5,593	-	-	-	-1,654	3,939
Debt instruments						
Government bonds	28,923	10,669	-5,813	320	-18,637	15,462
Corporate bonds	32,987	8,627	-5,936	769	-19,423	17,023
Collateralized securities	2,348	588	-1,873	2	-2,054	-989
Other loans and mortgages	5,426	-	-	1	-1,610	3,817
Current and other investments						
Collective investment undertakings	23,422	51,510	18	-	-8 550	66 400
Deposit receivables	-	-	-	-	-	-
Current investments (incl. derivatives)	4 389	-	-89 948	-	-	-85 559
Current expenses for the management of investments	-9 115	-	-	-	-	-9 115
Total	**106 141**	**71 434**	**-103 552**	**1 091**	**-148 661**	**-73 547**
2019						
Participations and other interests						
Shares in affiliated enterprises and participations	76 382	-	-	255	-138	76,499
Real estate (other than for own use)	5 440	-	-	2	-1 644	3 798
Debt instruments						
Government 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	-172	3 923
Other loans and mortgages	6 557	-	-13	-	-	6 544
Current and other investments						
Collective investment undertakings	6 181	56,786	-37	3	-	62 933
Deposit receivables	-	-	-	-	-	-
Current investments (incl. derivatives)	986	-	-	-	-	986
Current expenses for the management of investments	-17,590	-	-	-	-12	-17,602
Total	**146 604**	**79 796**	**-655**	**29 012**	**-5 498**	**249 260**

In 2020, the overall investment result amounted to € -73,547 (249,259) thou. The decrease was mainly due to a lower contribution to earnings from debt instruments and a write-down on Allianz International Holding B.V. AGCS SE uses directly held currency derivatives to hedge the HGB result. This resulted in a loss in 2020. This offsets corresponding gains in the underwriting and other non-underwriting result.

The investment result from participations and other interests fell significantly compared to 2019. This is due, on the one hand, to a write-down on Allianz International Holding B.V. in the amount of € 93,090 thou and, on the other hand, to lower current income from Allianz Risk Transfer AG and Allianz International Holding B.V. distributions. Starting in 2020, gains from profit transfer agreements and expenses from loss transfers will be shown in net investment income from participations and other interests.

The investment result from debt instruments fell to € 35,3126 (122,646) thou. The lower result was mainly due to higher write-downs and lower write-ups on government and corporate bonds. In addition, net realised gains and current income on debt instruments decreased.

The investment result from short-term and other investments fell significantly compared with the previous year. The decline was mainly due to losses realized from the directly held currency derivatives in the amount of € 89,948 thou. The total contribution of collective investment undertakings has increased slightly compared to the previous year due to higher realized gains. Current investment management expenses generated a loss of € 9,115 (17,602) thou. The decline is due to lower expenses for directly held currency derivatives in the amount of € 2 618 (11 466) thou.

The valuation reserves of the investments of AGCS SE fell by a total of € 938,138 (1,343 326) thou and comprise hidden reserves of € 942,107 (1,347,008) thou and hidden charges of € 2,968 (3,682) thou. The valuation reserves for collective investment undertakings fell to € 373,200 (637, 483) thou, largely because of the adverse development of the equity markets in the first quarter of 2020 and the same of fund unit certificates. The valuation reserves for investments in affiliated enterprises and participations increased to € 362,862 (501,368) thou. For bearer bonds, the valuation reserves fell to € 116,880 (123,182) thou. Directly held real estate contributed € 71,328 (66,364) thou to the valuation reserves. The valuation reserves

amounted to € 12,104 (12,224) thou for other loans and increase slightly to € 2,765 (2,701) thou for mortgage bonds.

A.3.1 Information on gains and losses recognized directly in equity

There were no gains or losses recognized directly in equity.

A.3.2 Information on investments in securitizations

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

As of 31 December 2020, exposure to directly held collateralized securities totaled € 62,941 (80,234) thou, all of which have an investment grade rating.

A.4 PERFORMANCE OF OTHER ACTIVITIES

In the 2020 financial year, foreign exchange gains of € 196,118 thou (loss of € 102,021 thou) were incurred, which were largely offset by other expenses. There were no other significant income and expenses in the reporting period. AGCS SE has not entered into any material leases either as a lessee or lessor.

A.5 ANY OTHER INFORMATION

After a withdrawal from the equalization reserve and similar reserves of € 80,114 (11,733) thou, the underwriting loss for own account amounted to € 509,228 (82,066) € thou. The loss in the investment result of € 73,549 thou (profit of € 249,259 thou) is offset by other income and expenses of € 93,401 thou (loss of € 131,576 thou), with the latter mainly influenced by the currency development of the US dollar and the pound sterling against the euro. After deduction of income taxes and other taxes totaling € 28,780 (47,487) thou, the loss stands at € 518,155 (profit 11,870) thou. The loss was offset by Allianz SE under the terms of the transfer agreement.

All relevant information on AGCS SE's business activities and business performance is included in the preceding notes.

SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON SYSTEM OF GOVERNANCE

B.1.1 AGCS Global governance principles

B.1.1.1 DEFINITIONS

The Board of AGCS SE has management responsibility for AGCS Global ("AGCS"), which consists of AGCS SE and its direct and indirect subsidiaries. The organizational and operational structure that the Board of Management of AGCS SE has established for this purpose takes into account both the interests of AGCS as a whole, as well as the interests 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 structure with steering units at global, regional and local level. The regional level, for its part, regularly comprise different countries too. The local level is responsible for local units and/or branch offices of a legal entity.

MANAGEMENT OF AGCS AT GLOBAL LEVEL

Full responsibility for global management lies with the Board of Management of AGCS SE. This includes in particular the definition of the business strategy including the risk and investment strategy as well as the organizational structure.

Global functions are responsible for all subject-specific matters relevant to the entire AGCS. Some customer-related functions are managed at regional level by regional managers.

The AGCS business comprises various divisions. Both regions and individual divisions are managed by an integrated management and control process.

AGCS SE's business strategy is developed through an institutionalized management process together with the parent company – Allianz SE – which produces a three-year business plan and ultimately AGCS SE's financial plans. The three-year plan forms the basis for the management of the divisions and for the investment management of AGCS SE, as well as for the incentivization of the employees and the Board of Management via variable salary components.

The performance of the divisions is monitored by means of a monthly analysis of the key financial and operational indicators. In addition, special risk management processes have been implemented.

Decisions concerning the development of new business areas are made through an institutionalized process. This takes into account changes in key indicators, such as the expected claims cost ratio or the return on risk capital (RoRC).

Local, regulatory and solvency requirements, including rating agency requirements, are material and binding in the decision-making process. The responsible global or regional level of the AGCS is tasked with ensuring that all external requirements are implemented promptly and in a binding manner.

STRUCTURE OF THE BOARD OF MANAGEMENT OF AGCS SE

The Board of Management of AGCS SE is structured into departments, which assume either functional responsibility or business area responsibility.

The Board of Management of AGCS SE consisted of eight members as of 31 December 2020. Notwithstanding the overall responsibility of all members of the Board of Management, the business segments are allocated among the individual members of the Board of Management as follows:

Joachim Müller, Chief Executive Officer
Responsible for: Audit, Communications, Legal and Compliance

Sinéad Browne, Chief Regions & Markets Officer Region 3
until 30 June 2020
Responsible for: Asia Pacific, Regional Unit London, South America, Willis Towers Watson and Jardine Lloyd Thompson Global Broker Coordination

Tony Buckle, Chief Underwriting Officer Corporate
as of 1 July 2020
Responsible for: Underwriting Corporate Lines (Alternative Risk Transfer, Energy and Construction, Financial Lines, Liability, Property), Allianz Risk Consulting, Portfolio Management

Claire-Marie Coste-Lepoutre, Chief Financial Officer
Responsible for: Accounting, Actuarial, Catastrophe Risk Management, Finance Solutions, Planning and Performance Management, Reinsurance, Risk Management

Bettina Dietsche, Chief Operating Officer
Responsible for: Allianz Multinational, Business Transformation, Global Process Management, Global Data, Global Business Operations, Human Resources, IT, Protection and Resilience, Strategic Sourcing and Procurement

Henning Haagen, Chief Underwriting Officer Specialty
from 1 March 2020 until 30 September 2020
Responsible for: Underwriting Specialty Lines (Aviation, Entertainment, Marine), MidCorporate, Underwriting Integrity & Solutions, Underwriting Academy

from 1 July 2020: Chief Regions & Markets Officer Region 1
Responsible for: Central and Eastern Europe, Mediterranean and Africa, Ibero/LatAm, Asia Pacific, Regional Unit London, Global Distribution, Global Broker Coordination, Capital Solutions, Global Planning and Reporting

Hartmut Mai, Chief Regions & Markets Officer Region 1
until 30 June 2020
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 Scaldaferri, Chief Regions & Markets Officer Region 2
Responsible for: North America, Marsh Global Broker Coordination

Dr. Thomas Sepp, Chief Underwriting Officer Corporate
until 30 June 2020
Responsible for: Underwriting Corporate Lines (Energy and Construction, Property), Alternative Risk Transfer, Engineering, Financial Lines, Liability, Allianz Risk Consulting, Global Portfolio Management

from 1 July 2020: Chief Claims Officer
Responsible for: Claims

Dr. Renate Strasser, Chief Underwriting Officer Specialty
as of 01 October 2020
Responsible for: Underwriting Specialty Lines (Aviation, Entertainment, Marine, MidCorp), Underwriting Academy, Underwriting Integrity & Solutions

Functional board departments – the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer – have responsibility for all specialist matters of AGCS SE.

Board departments with divisional responsibility – the Chief Regions & Markets Officers (CRMO), the Chief Claims Officer (CCO) and the Chief Underwriting Officers (CUO) – are responsible for managing the business segments of AGCS SE.

Responsibilities are assigned to individual members of the Board of Management in accordance with the rules of procedure of the Board of Management of AGCS SE, including the allocation of responsibilities and the schedule of responsibilities. The structure and internal assignments of responsibilities are reviewed regularly.

The rules of procedure 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.

Board of Management meetings are usually held monthly. The agenda and the relevant documents are distributed no later than three days before the respective Board meeting. Each member of the Board of Management may request a meeting to subject to the communication of the subject matter in question; likewise, every member of the Board may request for an item to be put on the agenda.

Decisions by the full Board of Management are taken by a simple majority of the participating members, unless there are other mandatory statutory requirements to the contrary. In the event of a tie, the Chair has the casting vote. If a member of the Board of Management – in the case of issues of material importance – cannot reconcile his or her decision of the majority of his colleagues on the Board of Management with his or her departmental responsibility, he or she is entitled and obliged to submit the matter – after first informing the Chairman of the Board of Management – to the Chairman of the Supervisory Board.

MANAGEMENT STRUCTURE OF SUBSIDIARIES

Subsidiaries are each managed by a local management team with corresponding responsibilities and reporting lines to the Board of Management of AGCS SE.

B.1.1.2 BOARD OF MANAGEMENT AND SUPERVISORY BOARD

A good organizational and operational structure is essential for sustainable corporate governance. It is therefore important to the Board of Management and the Supervisory Board of AGCS SE to comply with the recommendations of the German Corporate Governance Code. As is the case with the parent company Allianz SE, AGCS SE complies with the current recommendations of 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 provisions of the German Stock Corporation Act. A two-tier management system with a Board of Management and a Supervisory Board is therefore essential component of the management of the company.

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 of the Board of Management require the approval of the Supervisory Board – in accordance with statutory requirements or the provisions of the statutes of the company. These include consent in respect of certain transactions, amongst other things.

B.1.1.3 PRINCIPLES AND FUNCTION OF THE SUPERVISORY BOARD

The Supervisory Board consists of six members who are appointed by the Annual General Meeting. Two of these members are appointed upon the proposal of the employees and the Annual General Meeting is bound to adopt these two proposals. The employee representatives come from countries with the highest numbers of AGCS SE employees. Members of 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 on the management of the company: For example, it examines the annual financial statement documents and deals with the risk strategy, the risk situation and the main areas of activity of the Internal Audit and Compliance departments.

In addition, the Supervisory Board is also responsible for:

- Appointing and dismissing members of the Board of Management
- Determining the remuneration of the members of the Board of Management

– Appointing the auditor of the annual financial statements

The Supervisory Board meets once every calendar half-year. Further meetings are convened if consultation or decision-making so requires. The Supervisory Board takes all decisions based on a simple majority.

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

B.1.2 Organizational and operational structure

B.1.2.1 COMMITTEES

Certain matters of AGCS SE are assigned to special bodies ("Committees") for decision-making, deriving a resolution or preparing resolutions.

The task of the committees is to manage the business of AGCS SE and to exercise the supervisory function over the company. Therefore, they need a clearly defined mandate, must have appropriate decision-making powers and autonomy, and represent different functions.

There are three different types of committees within AGCS SE:

– Board Committee
– Functional Committee
– Advisory Committee

The responsibility of committees with decision-making authority is limited to decisions that – in accordance with statutory requirements or the provisions in the statutes of the company – do not require the involvement of the full Board of Management of AGCS SE.

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 guest with no voting rights, but who has veto and escalation rights, is the Chief Risk Officer. In addition, the Chief Actuary and the Head of the Business Division - Anglo Market & Global Lines, Allianz SE, are permanent – non-voting – guests of the Reinsurance Committee.

The Reinsurance Committee meets quarterly and a quorum requires five voting members. Resolutions are adopted by a simple majority of votes.

The essential tasks of the Reinsurance Committee are

– definition of a company-wide reinsurance strategy;
– development of a specific reinsurance strategy for certain business segments, depending on the nature and size of the segment;
– decisions about the purchase of treaty reinsurance / retrocession;
– monitoring the (capital) efficiency of treaty reinsurance / retrocession;
– decisions with regard to intra-group reinsurance.

RISK COMMITTEE

The voting members of the AGCS Risk Committee are the Chief Financial Officer (Chair), Chief Executive Officer, Chief Operating Officer, Chief Underwriting Officer Corporate and 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, a representative of Allianz Group Risk, as well as the Head of Business Division - Anglo Markets & Global Lines, Allianz SE and the Senior Country Manager AGCS - Anglo Markets & Global Lines, Allianz SE.

The AGCS Risk Committee meets quarterly and a quorum requires at least five voting members. If consensus cannot be reached, a decision is taken on the basis of a simple majority, provided that a quorum is present.

The essential tasks of the AGCS Risk Committee are

– decisions with regard to the structure and environment of risk management and the internal control framework;
– regular conducting of the Own Risk and Solvency Assessment (ORSA), including monitoring of the processes for identifying, assessing, reporting and managing risks;
– drawing up the risk strategy and recommending it to the 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 is 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 1 and the Chief Regions & Markets Officer Region 2.

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

The Underwriting Committee meets quarterly and a quorum requires at least five voting members. Resolutions are adopted by a simple majority of votes.

The essential tasks of the Underwriting Committee are

– decisions on the introduction of new products;
– preparation of the documents for Board of Management decisions with regard to entering new markets;
– decisions on deviations from AGCS Underwriting Standards that influence the net exposure of AGCS SE and AGCS Global beyond reinsurance retention;
– annual confirmation of the business plans of the Chief Underwriting Officer;
– performing a quarterly review of rate changes;
– performing a quarterly review of product developments;
– identification and migration of all material risks arising in relation to strategic business developments.

PORTFOLIO BOARD

The voting members of the AGCS Portfolio Board are all members of the Board of Management of AGCS SE, with the Chief Operating Officer as Chair.

The non-voting secretary of the AGCS Portfolio Board is the Head of Central Portfolio Office. Other non-voting guests include the Global Head of Product Portfolio Management and the Global Head of Planning and Performance Management.

The AGCS Portfolio Board meets quarterly and a quorum requires at least five voting members.

The essential tasks of the Portfolio Board are

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

In addition, the company has 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, 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 at least three times a year and is quorate when at least three voting members are present.

The essential tasks of the Local Investment Management Committee are

- monitoring and reviewing the investment portfolios of AGCS SE and AGCS companies within the applicable risk management framework;
- monitoring the planning and development of the asset allocation and investment returns for AGCS SE;
- Approving new asset management mandates and material changes to existing mandates for AGCS SE;
- monitoring and reviewing activities and transactions of AGCS entities that require approval or confirmation by the LIMCo of the relevant AGCS entity;
- reviewing and approving the investment-related corporate rules for AGCS SE;
- Approving investment programmes to delegate investment decisions to the regional CIO of AIM Munich and the Chief Investment Manager responsible for Allianz Germany Property & Casualty, AIM SE;
- preparing decision papers for the AGCS SE Board of Management in respect of strategic asset allocation;
- determining a derivatives strategy;
- Approving specific 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 and the Chief Risk Officer.

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 Chief Risk Officer AGCS SE, Head of Global Actuarial Closing, AGCS SE, Head of Global Actuarial Analysis, AGCS SE, Chief Actuary AGCS North America, Chief Actuary ART, a representative of 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

- The determination, justification and communication of the reserves to be formed under IFRS and Solvency II at the end of each quarter;
- Reviewing 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 establish local committees only if these are necessary to fulfill local, statutory or regulatory requirements. In addition, committees can be formed at the regional or local level, if this is required in the interests of good organizational and operational structure. Their establishment is coordinated in advance with the corresponding global committee 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 committee. In addition, there is 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.

This set of rules encompasses four levels:

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

B.1.2.4 THREE LINES OF DEFENSE MODEL

The three lines of defense model is an elementary component of our control framework.

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 are:
  - 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;
  - participating in business decisions.
- The second line of defense ensures independent monitoring and reviews the daily risk assumption and control by the first line of defense. Its key activities are:
  - defining an overarching control framework within which the operating business units can act;
  - monitoring compliance with the control framework, reviewing business decisions and similar activities;
  - evaluating 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 aspects:

- 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 of Management 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 comprises the independent controls of the two first lines of defense. Internal Audit carries out this role. The activities include in particular:
  - independently assessing the effectiveness and efficiency of internal controls and the activities of the first line of defense and second line of defense;
  - reporting to the responsible departmental board.

The third line of defense has the same powers as the second line of defense, with the exception of the right to veto business decisions

B.1.2.5 RECIPROCAL SUPERVISORY ACTIVITIES

To ensure an effective internal control system, all control functions are required to cooperate and exchange relevant information. As control activities are carried out in different organizational units, appropriate mechanisms have been established between the control functions to enable informed and sound decision-making.

- In cases where second line of defense control activities 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 Internal Audit functions are separate; they have no reciprocal right of instruction and no reporting line from one function to the other. The Actuarial, Legal, Compliance and Risk Management functions form part of the Internal Audit program; the adequacy and effectiveness of these functions are regularly assessed. The Head of Internal Audit notifies the Heads of Actuarial, Legal, Compliance and Risk Management of any findings made during an audit related to their areas of responsibility.
- The Actuarial, Legal, Compliance and Risk Management and Internal Audit functions jointly assess responsibilities and processes at least once a year to ensure that the responsibilities and processes, which are defined in the control framework, are clearly and consistently implemented across the functions. 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 role 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 performs tasks based on regulatory and business requirements.

It heads the Loss Reserve Committee, which makes decisions on the amount of technical provisions, and issues a recommendation to this committee on the appropriate level of reserves. The Actuarial function is represented and entitled to vote via its holder.

The Actuarial function also issues an opinion on the underwriting and assumption policy for underwriting risks and on the appropriateness of the reinsurance structure.

The Actuarial function interfaces and works closely 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 a second line of defense, the Compliance function supports and monitors compliance with applicable legal and administrative regulations, and advises the Board of Management and other stakeholders on 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 regularly assesses the compliance risk for assigned risk areas on an annual basis, and monitors the implementation of corresponding risk-minimizing measures.

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

B.1.2.8 RISK MANAGEMENT FUNCTION

Risk Management is headed by the Chief Risk Officer, who reports to the Chief Financial Officer. Risk Management supports the aforementioned bodies responsible for risk control through the analysis and communication of information relating to risk management.

Among other things, the Risk Management function is responsible for monitoring limits and accumulations for certain types of risk, such as natural catastrophes and exposures to financial markets.

Furthermore, the Risk Management function provides independent support to the operating units, for example by developing a common risk management framework and monitoring compliance with requirements for methods and processes.

The Risk Management function strengthens and maintains the risk network through regular, close exchanges with the management of the legal entities and key local functions, including local risk management, the local Actuarial function and local investment departments. A strong risk network, which also extends to the Allianz Group, ensures that risks are identified at an early stage and brought to the attention of management.

B.1.2.9 INTERNAL AUDIT

Internal Audit 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, compliance with business standards, including the internal control framework, is tested by Internal Audit on a cyclical basis.

Internal Audit evaluates and issues recommendations for improving the effectiveness of the internal control system by applying systematic audit approaches. The audit scope is defined and reviewed annually using risk-based approaches. This scope is used to control and prioritize internal audit activities. The entire audit scope must be adequately covered within a five-year period.

For every audit performed, Internal Audit prepares an audit report including recommendations based on facts and professional judgment, a summary of key findings and an overall assessment. Implementation measures to remedy deficiencies identified in the audit report are prepared in consultation with the entity audited. Internal Audit then systematically checks if the identified deficiencies have been remedied or, in individual cases, whether risk acceptance has been determined by the responsible management.

B.1.2.10 GENERAL

AGCS SE equips the key functions in view of personnel resources, employee qualifications and organizational infrastructure in such a manner that they can fulfil their task in an orderly and proper manner.

Quantitative information on staffing of key functions

The actuarial team – CFO-Actuarial – has a total of 34 employees, 14 of whom are explicitly assigned to the Actuarial function. The Compliance function has a total of 26 employees, of whom 15 employees are assigned exclusively to the Compliance function. The other 11 employees perform additional tasks for the Legal Department. The Risk Management function has 15 employees. Internal Audit has a total of 20 employees at global level, covering AGCS SE as well as its majority-owned subsidiaries.

It also ensures that the key functions have comprehensive access to all information relevant to their areas of work and are not subject to any operational influences that would interfere with the orderly performance of their tasks. The heads of the respective departments report regularly on their activities – and immediately in the event of critical developments – to the Board of Management of AGCS SE.

B.1.3 Remuneration

The remuneration policy of AGCS SE is aligned with its business and risk strategy, and is thus so designed to take into account the internal organization as well as the inherent risks inherent, depending on the nature, scale and complexity of the business activities. It aims to attract highly qualified managers and employees, and to retain them 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, while considering the market environment. At the same time, it comprises a sufficiently high proportion of total remuneration, so that employees are not dependent of the variable compensation. The variable remuneration share of the total remuneration increases with growing responsibility and ranges from 8 to 70% of the total remuneration. Variable compensation components are designed to incentivize performance without at the same time encouraging risk-taking that may not be compatible with the company's risk profile. The amount of the performance-related variable components results from the evaluation of the individual performance and of the business segment concerned, and the overall result of the company.

B.1.3.2 REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board of AGCS SE is approved by the Annual General Meeting in accordance with our statutes and in compliance with the German Stock Corporation Act. The members of the Supervisory Board receive an annual fixed remuneration and a flat-rate attendance fee.

Supervisory Board members who at the same time hold a Board mandate or comparable position in an Allianz Group company generally waive their Supervisory Board remuneration by means of a written declaration to the Board of Management.

B.1.3.3 REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT

The remuneration of the Board of Management consists of non-performance-related and performance-related components. The non-performance-related remuneration comprises fixed remuneration and additional benefits (essentially company cars and insurance via certain Group insurance policies). The various components of the performance-related remuneration are described in a Group-wide AZpire x plan. Since 1 January 2020, AZpire x comprises the following two components:

- annual bonus: a performance-related cash payment that depends on the achievement of targets in the respective fiscal year;
- equity-based compensation: a performance-based compensation in the form of virtual shares, known as "restricted stock units". Achieving the annual targets is the starting point for the allocation. Following expiry of the four-year holding period, participants in AZpire x receive the equivalent of one Allianz SE share per restricted stock unit. Members thus participate in the long-term performance of the Allianz Group over a four-year period, which is reflected in the performance of the Allianz share price.

The annual target achievement is decisive in determining the amount of the annual bonus. It also forms the basis for the annual allocation of restricted stock units. The actual payouts of the three-year bonus (in 2022 for MTB 2019) and the share-based remuneration are dependent on sustainable development over a longer performance period

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

B.1.3.4 REMUNERATION OF DIRECTORS

The remuneration system and the remuneration of directors are determined – above a certain hierarchical level – by the Remuneration Committee of AGCS SE. AZpire + also governs the terms of their variable remuneration. It consists of two components: an annual bonus and a share-based payment.

B.1.3.5 REMUNERATION OF ALL OTHER SENIOR EXECUTIVES

The remuneration system for other senior executives is generally determined by the Remuneration Committee of AGCS SE. The annual bonus in this category generally constitutes the only variable remuneration component. In justified exceptional cases, a share-based compensation component may be granted in the form of restricted stock units.

B.1.3.6 REMUNERATION OF NON-EXECUTIVE EMPLOYEES

The fixed remuneration of non-executive employees is based on the collective wage agreements for the private insurance industry as well as supplementary employment contract agreements. The corporate targets relevant for 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 result in a factor which, when multiplied by the agreed target bonus – a product of the annual salary and the target bonus percentage – yields the individual variable remuneration.

B.1.3.7 COMPANY PENSION SCHEME AND COMPARABLE BENEFITS FOR MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

Members of the Board of Management

The aim is at granting competitive and cost-efficient pension benefits (retirement pension, occupational and disability pension, and survivors' benefits) through appropriate pension commitments. To this end, the members of the Board of Member participate in defined contribution pension systems. Allianz Versorgungskasse VVaG and Allianz Pensionsverein e. V. constitute the basic pension plan for members of the Board of Management who joined Allianz before 31 December 2014. These defined contribution commitments cover the company pension benefits for basic salaries up to the contribution assessment ceiling of the statutory pension insurance. Since 1 January 2015, the company has endowed a pension plan, "My Allianz Pension", which guarantees paid-in contributions. The Supervisory Board decides each year whether and to what extent a budget for allocating contributions is to be made available, taking into account the targeted benefit level. The budget includes an additional risk premium to cover the risk of death, occupational disability or disability. Upon retirement, the accumulated capital is paid out or converted into a lifelong pension benefit. The retirement benefit is payable at the earliest upon reaching the age of 62.

Members of the Supervisory Board

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

B.1.4 Assessment of the adequacy of the governance system

As a general rule, the governance system is reviewed once a year for effectiveness and appropriateness, and additionally on specific occasions. The review was conducted in 2020 under the leadership of AGCS SE's Global Governance Function, which is based in the Legal department. The results of the review and the measures derived therefrom to further strengthen the governance system were presented to the Board of AGCS SE for final assessment. The Board of Management has assessed the governance system as effective and appropriate overall.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 Requirements of skills, 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 skills, knowledge and expertise of persons who manage the company or hold other key positions as follows:

Members of the Board of Management

The Board of Management as a body must at all times possess the knowledge required to manage 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 for the company's business activities.

Every individual Board of Management member must have the qualifications, knowledge and experience necessary for their specific 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. This is generally the case if the Board of Management member has held a senior executive position for at least three years in an insurance undertaking of comparable nature and size.

Members of the Supervisory Board

The Supervisory Board as a body must at all times have the knowledge and experience required to perform its duties diligently and independently, in particular the supervision and counseling of the Board of Management.

Persons holding other key functions

These individuals must have the knowledge required for their respective activities and – insofar as the specific activity involves management tasks – sufficient management experience.

B.2.2 Procedure for assessing the professional qualifications and personal reliability of the persons who run the company in effect or hold other key functions

The necessary professional qualifications and reliability are ensured by the following processes:

- As part of the selection procedure, candidates must submit various documents enabling their qualifications and reliability to be assessed (for example, curriculum vitae, certificate of good conduct, an extract from the central business register, and information on criminal and investigation proceedings). In addition, at least two personal interviews must be conducted with potential board members and key function holders, at least one of which must involve a human resources expert. The employee representatives on the Supervisory Board are elected by the Annual General Meeting on the basis of a binding proposal by the employees. Following their election, they too must submit the above-mentioned documents.
- The appointment of new members of the Board of Management and Supervisory Board, and of persons in key positions, must also be reported to the German Federal Financial Supervisory Authority (BaFin). This disclosure requirement applies both to the Supervisory Board members appointed by the Annual General Meeting and to the employee representatives on the Supervisory Board, who are elected by the workforce in accordance with the statutory provisions. The appointment of new members of the Board of Management and of persons in key functions also requires the express approval of BaFin in order to be effective. BaFin checks on the basis of the documents to be submitted whether the new mandate holders meet all regulatory requirements in terms of qualification and reliability. In the event of doubt as to qualification, the Federal Financial Supervisory Authority is entitled to require attendance at training events. In extreme cases, it may also require the dismissal of persons who are not sufficiently qualified or reliable.
- During the mandate or employment relationship, regular checks must be carried out to ensure that the requirements for professional qualifications and reliability are met. In addition to general measures for all employees (for example, target agreement meetings and regular discussions with superiors), special processes are in place for members of the Board of Management and Supervisory Board. For example, the Supervisory Board reviews the professional qualifications and reliability of the individual members of the Board of Management and the Board of Management as a whole on an annual basis. For this purpose, the members of the Board of Management submit relevant documents (for example, declaration of reliability). The Supervisory Board also subjects itself to an annual self-evaluation with regard to its own qualifications and reliability. It is based,

among other things, on self-assessments by the members of the Supervisory Board of their knowledge in the areas of investment, underwriting and accounting. Based on this, a development plan for the Supervisory Board is drawn up and adopted by the Supervisory Board. The self-assessments of the members of the Supervisory Board as well as the adopted development plan must be submitted to the Federal Financial Supervisory Authority.

- If there are indications that a member of the Board of Management or Supervisory Board or a person holding another key function no longer meets the requirements regarding professional qualifications and reliability, an extraordinary review of this individual case must take place.
- Finally, all individuals covered by our Fit and Proper Policy are required to keep their knowledge up to date at all times, for example through appropriate training and development measures. With regard to reliability, the responsible compliance departments offer regular training and continuing education measures for the honest and rule-abiding conduct of business. These concern, for example, the areas of anti-corruption and anti-trust. For the members of the Supervisory Board, the company offers special training events in which topics relevant to the work of the Supervisory Board are discussed in depth. In addition, the members of the Supervisory Board have a budget for external training measures.

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

B.3.1 Risk management system

The organizational and operational structure of risk management at AGCS SE makes it possible to manage local and global risks in an integrated manner. At the same time, it ensures that the risks taken on are compatible with the company's risk-bearing capacity and, more specifically, the risk appetite defined in the risk strategy. The organizational and operational structure of our Risk Management function follows a top-down approach: The highest control function is exercised by the Supervisory Board, which, together with the Board of Management, takes on responsibility for the risk profile of the company and the bodies involved.

SUPERVISORY BOARD OF AGCS SE

The Supervisory Board oversees the management of the company by the Board of Management and advises it on the management of the company: This task also includes monitoring the adequacy and effectiveness of the risk management system. The Supervisory Board is regularly informed about the risk strategy, the current solvency, financial position and profitability, as well as about the results of relevant internal and external audits. In order to adequately perform its monitoring and control function, the Supervisory Board is also entitled to request information from Internal Audit.

BOARD OF MANAGEMENT OF AGCS SE

The Board of Management bears overall responsibility for the company's business as well as its organizational and operational structure. Its responsibilities include:

- implementing the AGCS Risk Policy in the organizational structure and operational processes as well as in the corporate guidelines, insofar as these are relevant to the business of AGCS SE and the associated risks;
- developing and implementing AGCS SE's risk strategy, the risk tolerance (limits) defined therein and alignment of AGCS SE's business strategy with the risk strategy of both AGCS SE and the Allianz Group;
- establishing a Risk Management function responsible for independently monitoring risks under the responsibility of the AGCS SE Chief Financial Officer;
- defining and implementing processes for risk management as well as processes for assessing the solvency of the company;
- using the Allianz Group internal model adapted to the AGCS SE business.

If any of the above responsibilities are delegated to a committee, it must be ensured that all Board of Management members

- are informed about risk management issues and are aware of upcoming decisions;
- have the right to attend the committees in person in order to express their opinions or concerns;
- are fully and promptly informed of the committee's decisions.

The implemented guidelines and standards on organizational structure, risk strategy, limit system and documentation and reporting requirements define an overarching risk governance system. These guidelines ensure that information on risk-relevant developments in the company and decisions is passed on promptly and in full, while also making sure that a process for decision-making and implementation is implemented.

B.3.1.1 RISK MANAGEMENT APPROACH

As an internationally active insurance company in the industrial and corporate client sector, risk management represents a core competence of AGCS SE and is therefore an essential component of its business processes.

AGCS SE's risk management aims to sustainably increase the value of the company by balancing risk and return in the best possible way. The risk capital framework is applied with the aim of protecting the capital base of AGCS SE, strengthening its financial power and fulfilling the tasks arising from the insurance business. Risk management can contribute to this by protecting the financial strength in the interests of the shareholder Allianz SE, while also safeguarding the claims of policyholders. Our RISK MANAGEMENT includes the necessary strategies, processes and reports to identify, assess, monitor and manage actual and potential risks. The core task of Risk Management is also to translate risk drivers, dependencies and capital requirements for risks into decision-making templates for management by allocating risks and their capital requirements to segments and regions. AGCS SE supports the risk culture in the company by means of a comprehensive and consistently implemented organizational and operational structure of the Risk Management function.

B.3.1.2 BASIC PRINCIPLES OF RISK MANAGEMENT

AGCS SE's risk management assesses the company's risk-bearing capacity. It is based on a uniform understanding of the risks entered into and risk management processes as well as associated control mechanisms. Risk management follows the following principles:

Basic principle 1: Responsibility of the Board of Management for the risk strategy
The Board of Management of AGCS SE establishes and follows the risk strategy, and ensures compliance with the associated risk tolerance, which is regularly aligned with the business strategy. The risk strategy represents the general approach to managing all material risks that arise in the course of business activities and the pursuit of business objectives. The risk tolerance for all material quantifiable and non-quantifiable risks takes into account the expectations of the shareholder Allianz SE, regulatory requirements and requirements of rating agencies. Both the risk strategy and the risk tolerance are reviewed at least once a year and, if necessary, adjusted and communicated to all affected functions.

Basic principle 2: Risk capital is a key management parameter
Risk capital is the key parameter for defining risk tolerance as part of the solvency assessment. It serves as a key indicator in decision-making and risk management processes relating to capital allocation and limits. In this context, capital is considered to be an available financial resource. Where significant business decisions are involved, the impact on risk capital is also taken into account.

Calculation and aggregation is performed consistently across all business segments in order to set a standard for measurement and to be able to compare risks.

In addition, stress scenarios are run as part of the solvency assessment to ensure that sufficient capital is available to protect the company against unexpected and extreme economic scenarios.

Basic principle 3: Organizational structure and risk management processes are clearly defined
At AGCS SE, an organizational structure has been established that is clearly defined and ensures the monitoring of all risk categories. The roles and responsibilities of all functions involved are also defined via this organizational structure. This structure is clearly and completely communicated to all relevant functions

Basic principle 4: Risk assessments are carried out consistently
Relevant risks, both individual and accumulation risks, are assessed across all risk categories using consistent quantitative and qualitative methods. Quantitative risks are assessed using the internal model for the purpose of calculating risk capital. Risk assessments and calculations are clearly defined in AGCS SE's risk capital framework and ensure a consistent approach across the Allianz Group. The results are analyzed and evaluated using statistical methods and qualitative expert assessments.

Individual risks that cannot be estimated using the risk capital model and complex risk structures that combine several individual risks or risk categories are assessed using quantitative criteria and, in some cases, simplified quantitative methods (for example, scenario analysis).

If it is not possible to estimate the risk, an assessment is made on the basis of qualitative criteria.

Basic principle 5: Limit system is (continually) developed and integrated
AGCS SE has a uniform limit system that ensures compliance with risk tolerance, regulates the handling of concentration risks and, where appropriate, supports capital allocation. It comprises all relevant risk measures and drivers of risk capital and is supplemented by more extensive operational limits. The limit system is regularly reviewed and approved by the Board of Management via the risk strategy and the associated internal guidelines.

Basic principle 6: Risks that exceed risk tolerance are mitigated
If individual risks exceed their limit or the sum of the risks exceeds the risk tolerance, the risk exposures are reduced appropriately. Measures are defined to keep risks within limits while serving the planned risk tolerance, for example by adjusting reinsurance solutions, strengthening the control environment, reducing or hedging the risk position or adjusting the risk tolerance.

Risk limitation only takes place within the economic and legal framework.

Basic principle 7: Monitoring is carried out consistently and effectively
Risk tolerance and risk handling have been integrated into a standardized limit definition process that includes all quantifiable risks of AGCS SE and takes into account risk diversification and concentration. Clearly defined reporting obligations and escalation processes, which must be strictly adhered to, ensure that in the event of limits being exceeded, the risk tolerance is again adhered to and, if necessary, the necessary risk mitigation measures are initiated immediately.

In addition, a risk early warning system, a reporting system for material risks, the assessment of novel risks and a new product process have been established to identify new or novel risks. Identified risks are regularly reported and reviewed.

Basic principle 8: Risk reporting and risk communication are carried out consistently
The Risk Management Function of AGCS SE prepares a risk report on a regular basis and, if required, also on an ad hoc basis, which makes risk-relevant issues transparent and is presented to the AGCS Risk Committee. This is supplemented by risk assessments that are particularly relevant for external stakeholders (supervisory authorities, rating agencies, etc.). The results of the company's own risk and solvency assessment (ORSA) are documented in the annual ORSA report. The data and assumptions underlying the information are embedded in a comprehensive control environment. This ensures adequate data quality for complete, consistent and timely reporting to management.

Ad hoc reporting covers events that are unexpected in terms of loss amount or size, or that may have an unexpectedly strong impact on the risk profile of AGCS SE. This impact relates to the income statement, the company's equity base, reputation, going concern or non-compliance with regulatory or legal requirements.

Ad hoc and regular reporting are subject to consistent materiality limits. Reporting to the Allianz Group Risk Management function takes place on a regular basis through emails and regular or ad hoc meetings.

Basic principle 9: Risk management is integrated into business processes
So far as possible, risk management processes are directly integrated into business processes. This also includes strategic and tactical

corporate decisions as well as decisions affecting day-to-day business insofar as these may influence the risk profile. This comprehensive inclusion is intended to ensure that the Risk Management function primarily helps to determine future risk exposures and only secondarily assesses and manages existing risks in a reactive manner.

The risk culture cultivated by the AGCS SE Board of Management is essential to the success of this integration. By exemplifying a strong risk culture, the Board demonstrates that managing risk is an important factor in achieving business objectives.

Basic principle 10: Document is comprehensive and produced in a timely manner

All business decisions that could potentially have a material impact on the risk profile of AGCS SE must be documented in a timely manner. The documentation must be such that the consideration of significant risk implications can be understood.

B.3.1.3 REQUIREMENTS FOR PERSONAL RELIABILITY AND PROFESSIONAL QUALIFICATION

Adequate staffing of key functions is essential to ensure that processes can be implemented in the best possible way. Therefore, when appointing or dismissing the Chief Risk Officer of AGCS SE, the Chief Financial Officer consults with the Group Chief Risk Officer of Allianz SE and ensures that the Chief Risk Officer's professional and personal qualifications fully meet the requirements of the AGCS Fit and Proper Policy.

The Chief Risk Officer must be suitably qualified, experienced and knowledgeable to discharge his or her responsibilities. He or she must perform his or her duties in a manner that is proportionate to the complexity of the business and the nature and size of the company. In addition, he or she must distinguish himself through honesty, integrity and a high reputation, as well as possess appropriate skills 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 as well as the business model of AGCS SE;
- Knowledge of the organizational and operational structure.

B.3.1.4 RESOURCES

The Risk Management function of AGCS SE has sufficient resources to carry out its responsibilities in an appropriate and risk-oriented manner. Once a year, the tasks of the Risk Management function for the coming year are discussed and defined. This also involves matching the priorities and tasks set with the skills and numbers of staff to ensure that priorities and tasks can be met. This takes into account not only the resources available at AGCS SE, but also those of the regional Risk Management functions in our subsidiaries.

In addition, in accordance with regulatory requirements, a "reciprocal oversight" is carried out between the key functions. This mutual oversight takes place between the internal audit, compliance, legal, actuarial, accounting and risk management functions.

B.3.1.5 RISK STRATEGY

AGCS SE's risk strategy is the core element of the risk management framework. It defines the general risk appetite on the basis of specifications for the minimum capitalization of the company or for branches and holdings of AGCS SE. In addition, the risk strategy refers to separate standards that define the risk tolerance for individual risks. Risk tolerance is defined taking into account all material, qualitative and quantitative risks of the company. The rules are designed to ensure that all obligations to our customers are met, while at the same time creating sustainable added value for our shareholder.

Our business strategy is defined by the AGCS SE Board of Management, discussed with the Supervisory Board and coordinated with the Allianz Group. Business and risk strategy are coordinated within the framework of the Strategic Dialogue and the Planning Dialogue.

B.3.2 Rules for the organizational and operational structure of risk management

AGCS SE has established an effective governance system to drive the implementation of its business strategy, ensure appropriate monitoring and management of business risks, and ensure compliance with legal requirements. Part of this system is guidelines on risk assessment methodologies, risk management structures and risk governance processes.

Additional guidelines address capital market risks, credit risks, underwriting risks, business risks and operational risks; they define the risks taken on and determine the risk tolerance in these risk categories. This risk tolerance is the basis for the risk-based management of the business. In addition, responsibilities and competencies are defined and measures for risk minimization and escalation are determined if limits are exceeded. The guidelines supplement the requirements and provisions in the overarching Standard on ORSA, the Top Risk Assessment Guideline and the Standard on Model Governance for each risk category.

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

B.3.3.1 FRAMEWORK OF THE TOP RISK IDENTIFICATION PROCESS

The top risk identification process is a regular analysis of all material, quantifiable and non-quantifiable risks in order to identify threats to financial performance and to ensure continuity and compliance with strategic objectives. The requirements for a consistent and transparent top risk identification process are documented in the AGCS Top Risk Scoping and Assessment Guideline.

AGCS SE conducts a regular top risk identification process, in order to identify and assess all material risks arising from the business model. The results of the ongoing risk monitoring processes are used for top risk identification, involving all key stakeholders, especially top management and key function holders. Specific rules for defining risks are not prescribed; rather, this depends on expert knowledge and assessments and – if appropriate – on the results of the internal model.

In order to evaluate each individual risk, the expected loss amount and frequency are estimated.

The selection of the top risks is discussed and decided in the AGCS Risk Committee. Measures are defined for the selected material risks. The members of the Board of Management are responsible for making the risk profile transparent and defining measures to limit the risk if the risk tolerance defined by the Board of Management is exceeded. The results of this risk assessment are reviewed by the Risk Management function on a quarterly basis or on an ad hoc basis as necessary and reported to the AGCS Risk Committee and the Board of Management. In addition to the quarterly review, all quantifiable risks are presented in the internal model.

The top risk identification process for AGCS Global and AGCS SE is further validated through risk and control assessments. It actively manages quantifiable and non-quantifiable risks of AGCS on a global level and for the legal entity AGCS SE and is thus a key tool for the Board of Management to take responsibility for these risks.

The TRSA process is divided into four phases:

- identification (annual);
- analysis & evaluation (quarterly);
- management (quarterly);
- monitoring (quarterly).

B.3.4 Governance of the Internal Risk Capital Model

Allianz's internal model used by AGCS SE comprises all material quantifiable risks and takes into account market risks, credit risks, underwriting risks, business risks and operational risks.

Our internal risk capital model is based on a Value-at-Risk (VaR) approach using a Monte Carlo simulation. Following this approach, we determine the maximum loss in the portfolio value within a specified timeframe ("holding period") and based on a probability of occurrence ("confidence level"). We take a confidence level of 99.5% as a basis and apply a holding period of one year. In the risk simulation, risk events of all modeled risk categories ("risk sources") are considered. The resulting portfolio value is determined from the fair value of the assets less the fair value of the liabilities.

The internal risk capital is defined as the difference between the current portfolio value and the portfolio value under adverse conditions dependent on the 99.5 % confidence level. Because the company considers the impact of a negative or positive event on all sources of risks and covered businesses at the same time, diversification effects across all products and regions are taken into account. With the results of the Monte Carlo simulation, AGCS SE is able to analyze the risk associated with each risk source both separately and in conjunction with other risk sources. With regard to market risks in particular, various predefined stress scenarios based on either historical or hypothetical market movements are also analyzed. This modeling approach, therefore, also enables us to identify scenarios that have a positive impact on solvency.

Material risks that are not fully captured in the calculation of the Solvency Capital Requirement are exclusively the non-quantifiable risks, i.e. reputational risk, liquidity risk and strategic risk. These fall conceptually outside the scope of the internal model and are managed through other risk management processes.

No material changes were made to the governance of the internal model during the 2020 reporting year.

B.3.4.1 DESCRIPTION OF THE RISK CATEGORIES

The following overview describes the risk categories relevant for AGCS SE:

Table 7: Relevant risk categories for AGCS SE

Risk category	Definition
Market risk	Unexpected losses due to market price changes or changes in parameters affecting market prices, as well as the risk from options and guarantees included in contracts or changes in the value of assets or liabilities in investments resulting from corresponding parameter changes. This includes, in particular, changes in equity prices, interest rates, real estate prices, exchange rates, credit spreads and implied volatilities. Market price risk therefore 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 a deterioration in the creditworthiness of counterparties, including the non-fulfilment of payment obligations or non-performing instruments.
Underwriting risk	Losses due to unexpectedly high future losses, including those from natural or man-made catastrophes, and run-off losses on existing claims reserves.
Business risk	Losses due to unexpectedly high lapse rates in the portfolio and the resulting loss of profits, as well as losses due to higher absolute costs or higher expense ratios due to reduced business volumes.
Operational risk	Unexpected losses due to inadequate or defective internal operating processes or systems, human error, or failures or external events.
Reputational risk	Unexpected fall in Allianz share price, loss of value of existing business or future business caused by loss of reputation of the Allianz Group or a specific business unit from the shareholder's perspective.
Liquidity risk	Unexpected financial losses due to the non-fulfilment of current short-term or future payment obligations, or if fulfilment is based on adversely changed conditions, as well as the risk of refinancing at higher interest rates or by selling assets at a discount in the wake of a liquidity crisis.
Strategic risk	Unexpected negative change in the value of a business unit due to incorrect management decisions regarding the business strategy and its implementation.

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

The internal model requires the approval of the senior management of AGCS SE before it can be applied. The respective operating business unit requires initial model approval and ongoing confirmation of the appropriateness of the internal model. In line with Solvency II requirements, a number of mandatory model governance and control principles are applied throughout the lifecycle of the internal model, covering for example the model change process.

The internal model is designed to reflect the risk profile of AGCS SE and is based on state-of-the-art risk modelling methods. With this goal in mind, all stakeholders are invited to submit proposals for model changes and improvements, which are then considered according to the model governance processes.

The regulatory framework on the internal model includes governance rules and principles to ensure the initial and ongoing adequacy of the internal model.

The regulatory framework covers the entire life cycle of the internal model, from development to model implementation and use. Key topics include: Model changes, model updates, validation, approval, implementation and operational deployment, and monitoring of ongoing adequacy in the field. The following standards and documents make up the key elements of the model governance framework.

AGCS STANDARD ON MODEL GOVERNANCE

The AGCS Standard on Model Governance sets out the rules and principles for ensuring the adequacy of the internal model:

- All elements of the internal model must go through a structured validation and approval process before the model can be used.
- Validation takes into account all relevant qualitative and quantitative aspects and shows that the internal model adequately reflects the company's risk profile and can be reliably used as a basis for risk decisions.
- Controls must be in place to prevent or detect errors during the operational application of the internal model.
- The quantitative and qualitative components of the internal model required to demonstrate the suitability of the model must be documented.

In respect of model validation, the following approach is used:

- The persons responsible for the model assess whether the results of the model are appropriate and whether the available documentation is sufficient.
- Independent validation considers model-specific validation issues: Coverage, methodology, calibration, data, computational procedures, results and documentation, as well as qualitative aspects such as model governance, expert judgement, data quality and use testing.
- At local level, it is necessary to assess whether key model components are appropriate, taking into account local features.
- Overarching models are used to validate the entire model, taking into account the results in all validation domains and their interrelationships.

ANNUAL VALIDATION REPORT

The annual validation report is used to document the results of the regular validation assessment, to demonstrate the ongoing adequacy

of the internal model and to meet 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 to ensure the appropriateness of changes to the internal model:

- If events require a model change (for example, changes in the risk profile, business model or operating environment), the internal model must also be re-validated and re-approved to ensure that it remains appropriate following events that require a model change.
- All model changes must go through a structured model change and approval process before they can be applied.
- Which committee decides on a model change depends on the materiality and proportionality of the model component.
- The quantitative impact of individual changes as well as the combined impact of multiple changes are analyzed as an integral part of the model change process.
- In the case of model changes, a distinction is made – in accordance with model governance – between major, minor and immaterial model changes, whereby several minor and immaterial model changes can correspond in total to one major model change.

Within the framework of the governance of the internal model, the respective model managers and the governance and coordination function of the internal model have a special role to play.

Model owners are the specialist functions for the respective risk categories. They also develop their own model components where necessary, assess key model components for their suitability for AGCS, and are responsible for the ongoing suitability of the model for the risks involved.

The governance and coordination function of the internal model is responsible for overarching validations and coordinates major model changes, the annual validation report and the approval process with the Board of Management. The latter may delegate approvals under the Framework to the AGCS Risk Committee.

B.3.5 Own risk and solvency assessment

The Own Risk and Solvency Assessment (ORSA) is the comprehensive term for a number of interrelated activities that take place over the entire annual period and with which AGCS ensures an adequate and balanced ratio of own funds to risks assumed on an ongoing basis.

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

- Ensuring consistency between business strategy and risk strategy: The budgeted operating result derived from the business strategy is reviewed in terms of the company's risk-bearing capacity as part of risk planning. In addition, risk tolerances over the planning period are determined from the planned results. The future tolerances and the corresponding concepts are defined in the risk strategy or guidelines related to the risk strategy. This process ensures consistency between business and risk strategy.
- Risk capital calculation: Risk capital is determined in relation 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, less diversification effects and deferred taxes.
- Stress scenarios: The sensitivity of the solvency ratio is tested using various stress scenarios, in order to identify and manage significant risk drivers at an early stage.
- Maintenance of the limit system: The results of the planning process are analyzed with regard to their impact on capital resources and limits are adjusted for the next fiscal year if necessary. Compliance with the limits is monitored continuously throughout the year. If necessary, measures are taken to ensure the risk exposure within the specified framework. Quantitative limits exist for market, credit and underwriting risks.
- Overall solvency requirements: The risk capital determined from the internal model is critically reviewed on a regular basis. If risks are identified that have not been taken into account or have not been taken into account adequately, an adjustment is made to the overall solvency requirement.
- Top risk assessment (TRA): AGCS SE regularly assesses the risk situation and identifies the material risks for further management or monitoring (see also section B.3.4.).
- Capital management: It is essential for AGCS SE that sufficient capitalization is ensured at all times with regard to regulatory requirements, rating capital requirements and market-specific requirements.
- Review the appropriateness of the internal model: The internal model for determining internal risk capital is validated on a regular basis. This ensures that the model accurately reflects the company's risk profile. Similarly, model changes are reviewed for appropriateness for AGCS SE.
- Determining the effectiveness of the internal control system: The process of determining the effectiveness of the internal control system includes the current results of control tests, audit reports and third-party audits and assessments. For the discussions around the assessment of the effectiveness of internal controls and thus of the overall system of governance, the ERIC Advisory Group has been established, consisting mainly of representatives from the four key functions (Risk Management, Actuarial, Compliance and Audit).
- Non-regular ORSA reports: The regular ORSA processes described above are supplemented by non-scheduled assessments of the risk profile as required. If AGCS SE's risk profile changes significant or such changes are expected, a non-scheduled ORSA report is prepared.

When and how an ORSA process is performed is determined by business requirements. Some ORSA processes are carried out on a quarterly basis, for example risk reporting, while other processes relating to strategic decisions are carried out annually, but also on an ad hoc basis if required.

The results from the ORSA processes are used as a basis for taking business decisions. For example, the proposed resolution for changes to the reinsurance structure includes the significant associated impact on financial ratios, limit utilization and risk capital.

The timing and interlinking of the most important steps in the process are shown in the "ORSA process" diagram in the annex. The appropriateness of the ORSA processes is reviewed annually.

The findings and resolved measures 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 relevant to the outcome of the ORSA assessment.

The ORSA report is normally finalized and approved by the Board of Management in the second quarter of the fiscal year.

The annual report also takes into account feedback from recent reviews of previous years' ORSA reports (for example, by Group Audit) or changes in external requirements. The key stakeholders from the areas of capital management, underwriting, investment management, reinsurance and accounting, as well as changes from a regulatory perspective, are also included.

The final draft of the ORSA report is submitted to the Chief Risk Officer for review. The AGCS Risk Committee discusses the outcome of the ORSA report and decides whether to recommend approval of the ORSA assessment and the corresponding ORSA report to the entire Board of Management.

If recommended, the ORSA report is submitted to the Board of Management for approval. As a final step, the ORSA report is made available to BaFin and to all those persons who have a key role in the decision-making processes related to corporate and risk strategy as well as risk and capital management (e.g. the key function holders of AGCS SE).

The ORSA report for fiscal year 2019 did not contain any objections or significant recommendations to the Board of Management. The overall solvency requirement is adequately reflected in the Solvency II ratio. The ORSA report for fiscal year 2020 had not been completed as of the editorial deadline for this report.

AGCS SE was capitalized at 161% as of 31 December 2020, well above the target ratio (management ratio) of 140%. This is an increase of 4 percentage points over the previous year. The negative effects from the insurance business, particularly in connection with Covid-19, did not have a negative impact on the ratio, as the negative business result was offset via the profit and loss transfer agreement with Allianz SE. On this basis, AGCS SE expects to be capitalized in line with the defined risk appetite at all times, also over the planning period.

B.4 INTERNAL CONTROL SYSTEM

With the ERIC system („Enterprise-wide Risk-based Integrated Control System") AGCS has implemented a formalized internal control system. This means that significant operational risks for the company are continuously monitored and managed through control activities. One major focus of this system is to ensure the effectiveness of key controls. This system was documented in writing in an internal guideline. In line with legal and supervisory regulations as well as Allianz Group rules, the objectives of the ERIC system are as follows:

- Provide effective support in achieving strategic business goals and ensure the business viability of AGCS SE.
- Ensure governance elements and business processes are effective.
- Ensure applicable laws and supervisory regulations as well as internal guidelines are complied with.
- The processes provide complete and high-quality information for internal and external reporting, especially financial and regulatory reporting.

As part of the ERIC system, those key controls are formalized that are required to avoid or reduce significant operational risks for AGCS SE. The ERIC system provides a holistic view of these risks and controls and provides the Board of Management with a reasonable assurance of achieving the above objectives. The ERIC system uses a consistent approach to conduct operational risk and control assessments with various functional areas. In doing so, it also supports the cooperation and the exchange of information between the key functions under Solvency II. The results of the activities under the ERIC system must be stored in a dedicated database, for example, to allow consistent reporting.

Overall, the ERIC system promotes risk and control awareness within the organization and creates transparency with regard to responsibilities for risks and controls. The quality of key controls is assessed in a structured and efficient manner. With the additional support of an effective risk management system for operational risks, potentially significant operational risks are detected at an early stage and the necessary measures are taken to avoid or mitigate these risks.

B.4.1 Essential elements of the ERIC system

The internal control system deals with operational risks. However, the term "operational" is omitted below for ease of reading.

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 in the internal control system;
- control strategies such as the segregation of duties or dual controls.

Risk and control assessment programs are the essential procedures for determining which operational risks are covered by the internal control system; they focus on significant risks in relation to the objectives defined above. All programs provide a unique perspective on the AGCS SE risk and control landscape and complement each other. By applying a consistent methodology, available results can be used more than once and overlapping assessments can be avoided as far as possible. A balanced combination of these programs ensures completeness while also safeguarding the efficiency and feasibility of the ERIC system.

Significant risks and key controls are identified and assessed at four levels:

- Management level (e.g. entity-level controls, global operational risk assessment program)
- IT level (for example, general IT controls and IT application controls)
- Process level (e.g. key business processes, financial and regulatory reporting)
- Complementary level (for example, programs with a local or functional focus)

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

- Determination of the scope of risk
- Assessment of risks and review of the control design, as well as documentation/adaptation of controls and identification, remediation and retesting of control weaknesses as appropriate
- Testing of controls (for example, testing for operating effectiveness) and identification, remediation, and retesting of control weaknesses as appropriate
- Monitoring and reporting

In particular, the testing of controls is important both to demonstrate to external stakeholders that internal controls are operating effectively and to build and maintain the confidence of those stakeholders in the reliability of the internal control system. Clear and up-to-date documentation of key controls is critical to efficient control testing.

Lack of key controls or key controls that are not adequately established or effectively implemented is considered a control weakness that must be addressed. With the involvement of the risk management function, the materiality of the control weakness is assessed and a realistic and detailed remediation plan with responsibilities and deadlines is drawn up. Once this plan has been worked through, the control is reviewed one more time.

The process is tracked by the AGCS SE ERIC Advisory Group, an advisory committee of AGCS SE. The following functions are represented as voting members on this committee:

- Risk Management,
- Legal Department,
- Compliance,

- Actuarial,
- Accounting,
- IT Governance and
- Corporate protection and resilience including information security.

In addition, Internal Audit and the Global Governance function are involved in the work of the AGCS SE ERIC Advisory Group as permanent guests. This composition also supports the reciprocal oversight between the key functions and thus the compliance with the corresponding regulatory requirements. The AGCS SE ERIC Advisory Group regularly forms an opinion on:

- The completeness and consistency of the ERIC system,
- The operational implementation of the processes under the ERIC system,
- The appropriateness and completeness of the scope for 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 monitors all activities required for the ERIC system, in particular the remediation of control weaknesses. It provides regular updates to the AGCS SE ERIC Advisory Group and the AGCS Risk Committee.

The Risk Management function also prepares an ERIC report at least once a year. This is first submitted to the AGCS SE ERIC Advisory Group for review and then to the AGCS Risk Committee for approval, on the basis of which the overall effectiveness of the ERIC system is decided. Finally, the report is distributed to the Board of Management of AGCS SE and to the Supervisory Board of AGCS SE for their information.

B.4.2 Compliance function

The Compliance function monitors the adherence by AGCS SE to regulatory and legal requirements in a risk-oriented manner and sees itself as an active advisor on all compliance issues.

B.4.2.1 TASKS OF THE COMPLIANCE FUNCTION

The compliance function has the following main responsibilities:

- Advising senior management and supervisory bodies on compliance with laws, regulations and administrative provisions applicable to AGCS SE (external requirements) and the impact of material changes in the legal environment; so that appropriate measures can be planned and implemented.
- Identifying and assessing compliance risks (risks of legal or regulatory sanctions, material financial losses and reputational damage suffered by AGCS SE as a result of non-compliance with external requirements). Compliance risk assessments are coordinated with the Risk Management function with regard to methodology, timing and procedures, and are conducted with the business functions, taking into account internal and external developments.
- Monitoring compliance with external requirements applicable to AGCS SE. This also includes the compliance function ensuring, on a risk basis, that the underlying processes for complying with external requirements are appropriate and effective.
- Assessing the potential impact of changes in the legal environment on the operations of AGCS SE. This includes constant monitoring and analysis of the legal environment, as well as ensuring that relevant and material changes are communicated to the Board of Management of AGCS SE at an early stage, allowing it sufficient time to implement any necessary measures. In addition, the Compliance function informs Allianz Group Compliance of significant legislative changes with a potential impact on the Allianz Group.
- Drawing up and implementing the Compliance Plan to be reviewed annually, which covers all compliance relevant activities of AGCS SE and is aligned with the Compliance Plan of Allianz Group Compliance. The Compliance Plan is reviewed and approved by the Board of Management of AGCS SE.
- In order to perform its duties, the compliance function must have the unrestricted right of access to any information, document or data.

Furthermore, the compliance function has established a compliance management system in line with the risk content and proportionality principle, which it operates in order to fulfil its duties. The compliance management system consists of the main tasks described above and the following additional elements: Compliance culture and integrity, compliance training and communication, compliance principles and processes, investigations and whistleblowing system, as well as regular reporting to the AGCS SE Board of Management and other committees as appropriate.

B.4.2.2 COMPLIANCE ORGANIZATION

The compliance function consists of the compliance department and other functions and departments with a compliance mandate. Responsibilities are defined in the AGCS Compliance Policy.

These guidelines also include the respective organizational set-up and functioning at global, regional and local level. Detailed guidelines and work instructions supplement the framework for a functioning compliance organization. In addition, the Allianz Code of Conduct is a central building block for creating a uniform understanding of compliance within AGCS SE.

The Board of Management of AGCS SE is responsible for the organizational and operational structures and procedures that ensure compliance with the AGCS Compliance Policy and the allocation of the appropriate compliance risk areas. It establishes and maintains a compliance function that is adequate and effective in relation to its risk exposure. The Board of Management also appoints the compliance key function holder.

The holder of the key Compliance function at AGCS SE is the AGCS Global Compliance Officer. This person also heads the Compliance Department.

The AGCS Global Compliance Officer reports directly to the AGCS SE Board of Management; the AGCS Global Compliance Officer is accountable to the Supervisory Board as well as to the Group Chief Compliance Officer of the Allianz Group.

Reporting at least semi-annually includes the results of the previous compliance risk assessment, potential changes in the

compliance risk profile, significant changes in the legal environment and related activities, results from monitoring activities, overviews of other current compliance activities, status of compliance reviews/audits, a summary of reported relevant violations and/or deficiencies, and recommended corrective actions for the relevant compliance risk areas.

In organizational terms, the Compliance function is assigned to the AGCS SE Compliance department.

B.4.2.3 REQUIREMENTS FOR PERSONAL RELIABILITY AND PROFESSIONAL QUALIFICATION

The AGCS Global Compliance Officer must be sufficiently qualified and have the necessary practical experience to perform the duties of the Compliance function, taking into account the complexity of AGCS SE and the principle of proportionality.

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

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

B.4.2.4 RESOURCES OF THE COMPLIANCE FUNCTION

The resources of the AGCS SE Compliance function are planned and deployed in such a way that it can carry out its tasks properly and risk-related. Planning is carried out as part of the annual risk-based compliance plan.

In addition, in line with regulatory requirements, reciprocal oversight is performed between key functions; this also includes the provision of resources for a function in the overall assessment.

B.4.2.5 MATERIAL CHANGES

While the company's Target Operating Model (TOM) changed as part of its transformation initiative, there were no material changes of an organizational nature for the Compliance function during the reporting year.

The Global Compliance Officer remains a voting member of the ERIC Advisory Group and is part of the integrated iRALC reporting framework together with Risk Management, Audit and Legal. Regular reporting and updates on issues are provided to the Board of Management and the Supervisory Board of AGCS SE.

B.5 INTERNAL AUDIT FUNCTION

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

Internal Audit is an independent and objective auditing and advisory function designed to add value and improve the organization's business processes. It supports the organization in achieving its objectives by using a systematic and focused approach to evaluate and help improve the effectiveness of risk management, controls and governance processes.

To this end, Internal Audit provides analyses, assessments, recommendations and information as part of its auditing activities.

Within the Allianz Group, Internal Audit has auditing responsibility for AGCS SE and all other insurance companies in the AGCS Group. At the same time, it is part of the Allianz Group's global audit function, whose functional management is the responsibility of the Group Audit Division at Allianz SE. Group Audit, as the overarching corporate audit function, performs a specialist monitoring and supervisory function.

Internal Audit works on behalf of the Board of Management and is directly accountable to it. In disciplinary terms, Internal Audit reports to the Chairperson of the Board of Management of AGCS SE and also reports to the Supervisory Board of AGCS SE. The Head of Internal Audit or his or her deputy has direct and unrestricted access to the Chair of the Board of Management and the Supervisory Board (in particular to the Chairperson of the Supervisory Board) and may also be included in the meetings of the Supervisory Board. The Chairperson of the Supervisory Board may also obtain information directly from the Head of Internal Audit.

The Chairperson of the Board of Management of AGCS SE is regularly informed about audit activities, audit results and significant developments from the perspective of Internal Audit. Furthermore, each member of the Board of Management receives the final audit report.

In the first half of every fiscal year, the Board of Management receives an activity report for the past reporting year, which covers the entire AGCS Group. In addition, the Head of Internal Audit confirms the organizational independence of Internal Audit as part of his or her annual reporting to the Board of Management and the Supervisory Board.

The activities of Internal Audit are based on a comprehensive and annually updated audit plan, which covers all significant activities and business areas (audit objects) of AGCS SE and the AGCS Group. As part of the annual planning process, Internal Audit evaluates the audit matters based on risk aspects. Operational planning is derived from the annual planning; on this basis, each audit passes through the phases of audit preparation, audit execution, reporting and follow-up.

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

The audit execution phase includes the following activities: Opening discussion, audit activity (fieldwork), documentation of audit activities, determination of audit results, and debriefing/closing discussion. The activities required for this are defined and documented in an Internal Audit document – the audit program. Most of audit reviews in 2020 were conducted without the auditors being physically present on site. The auditors instead used digital technologies to carry out the audits.

For each audit, Internal Audit immediately prepares an audit report as part of the reporting system. It is used to inform the Board of Management, the responsible senior management level and the audited units in a targeted and efficient manner about the subject matter and results of the audit.

After the audit report has been distributed, Internal Audit monitors whether the agreed measures relating to the findings made have been implemented on schedule by the responsible units specified in the audit report (follow-up). In monitoring the progress of implementation, Internal Audit tracks all findings, regardless of risk level.

As part of its business organization, the Board of Management of AGCS SE has issued several mandatory guidelines, including the AGCS Audit Policy.

The AGCS Audit Policy is an internal guideline for Internal Audit; it is generally reviewed annually and on specific occasions. A centralized process has been established for this purpose, which is coordinated by the Legal function. In the process, the unit responsible for the matter first reviews the guideline to determine whether it needs to be amended. The revised version is then coordinated with the Legal Department and submitted to the AGCS Risk Committee for approval. Significant changes are also submitted to the Board of Management for approval and subsequently announced within the company.

The design and proper establishment of Internal Audit as a key function is specified in the AGCS Audit Policy adopted by the Board of Management; this also takes into account the regulatory requirements of the VAG and the requirements of Group Audit. In addition to the organizational structure and position of the Audit Department within the company, this guideline describes the principles of the audit activity, tasks, responsibilities and key processes, as well as the reporting lines and information rights. The AGCS Audit Policy builds on the requirements of the Group Audit Policy.

The AGCS Audit Manual supplements and clarifies the AGCS Audit Policy and is reviewed and communicated by the Head of Internal Audit annually, and on specific occasions.

Internal Audit is required to report significant findings from its area of responsibility to Group Audit without delay.

Internal Audit performs its duties independently and autonomously. The Board of Management ensures – within the framework of the AGCS Audit Policy it has approved – their professional independence in order to safeguard the functioning of the company's business organization (including information and audit rights). This independence continues to be ensured by the position of Internal Audit within the organizational structure; it is independent of the first and second line of defense functions.

Internal Audit is not subject to any instructions or other influences in carrying out and reporting on audits or in evaluating the results of audits. The Board of Management may order additional audits within the scope of its right of direction, without this being contrary to the autonomy and independence of Internal Audit.

Internal auditors assess all relevant circumstances with balance and are not influenced in their judgment by their own interests or by others. As a general rule, Internal Audit employees must not perform any duties that are, or appear to be, inconsistent with the audit work.

Internal Audit conducts its audits with the necessary expertise and due professional care. Internal Audit employees apply the highest level of professional objectivity when collating, evaluating and communicating information about audited activities or business processes. Revision findings must be based on facts and be supportable by sufficient evidence.

Internal Audit may be asked to provide its opinion on matters relating to the internal control system. In doing so, Internal Audit must maintain its necessary independence and must not be significantly involved in the development, implementation or execution of processes and work instructions. Furthermore, these advisory activities must not be designed in such a way as to jeopardize the fulfilment of the core tasks of internal auditing and the audit plan.

The resources of the Internal Audit function of AGCS SE are planned and deployed in such a way that the tasks can be carried out appropriately and in a risk-oriented manner. Planning is carried out within the framework of the annually prepared audit plan.

In addition, in line with regulatory requirements, a reciprocal oversight is carried out between the key functions in the ERIC Advisory Group, which also includes the resource allocation of a function in the overall assessment.

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

B.6 ACTUARIAL FUNCTION

The Actuarial function is part of the AGCS Actuarial department; the function is held by the head of that department, the Chief Actuary, as owner. The Chief Actuary reports directly to the Chief Financial Officer. To avoid potential conflicts of interest, employees who perform underwriting actuarial activities (known as 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 Actuarial function's analysis activities include chairing the Loss Reserve Committee meetings held at the close of each quarter. The scope and format of the meetings is determined by the AGCS SE Loss Reserve Committee Charter. Actuarial ensures that the technical provisions recommended to the Loss Reserve Committee are adequate and that the calculation processes are adequate, stable and integrated into an effective control system. The details and results of the analyses that led to the booked technical provisions are summarized annually in the AGCS reserve report. In addition to the appropriate level, Actuarial also analyzed the uncertainty of the technical provisions. These analyses were incorporated into the calculation of the risk capital. This ensured consistency between the reserves and the risk capital calculation in terms of 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 formed in 2018 to consolidate the functions. To this end, the newly established pricing oversight and reserve validation functions were combined with the existing actuarial diagnostic and actuarial risk modelling functions.

As part of its Diagnostics and Pricing Oversight activities, VMF analyses portfolio performance in order to be able to formulate an opinion on the underwriting and assumption policy.

Diagnostics and Risk Modeling examine the adequacy of all major placements of obligatory reinsurance and their structure. For this purpose, the underwriting risk is modeled using various parameters. The resulting models are used to assess the influence of reinsurance on the underwriting result and its fluctuation.

The same parameters are used to model the underwriting risk that is included in the AGCS SE internal model.

The reserve validation function is responsible for all validations relating to technical provisions. This includes the categorization of the reserving models (standard or non-standard model), the classification of the reserving models with regard to their influence on the amount of technical provisions and the review of the segmentation. Validation is carried out at different levels, for example by reviewing existing validations (peer review) or as a management review and documented accordingly.

The Actuarial function performs its duties, particularly modeling 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 and serve as a guide for all activities in the areas of reserving & analysis and actuarial risk modeling. Portions of the activities performed in actuarial diagnostics are subject to the AGCS P&C Risk Modeling Guideline. The AGCS Actuarial Policy builds on the requirements of the Group Actuarial Policy of Allianz SE. Each year the Actuarial function prepares the Actuarial function report; this is presented to the Board of Management of AGCS SE and contains a detailed account of all Actuarial function activities.

Actuarial's resources are planned and deployed in such a way that the tasks can be carried out appropriately and in a risk-oriented manner.

B.7 OUTSOURCING

AGCS SE has had its own AGCS Procurement & Outsourcing Policy since 2012 in order to meet the growing importance of outsourcing. All requirements of the Allianz Group Outsourcing Policy have been taken into account. Changes to the Group Outsourcing Policy are reflected annually through amendments to the AGCS Procurement & Outsourcing Policy.

B.7.1 Material changes

The AGCS Outsourcing Policy was revised again in the second half of 2020 and adopted by the Board of Management of AGCS SE in December 2020. Changes in the policy include the expansion of IT to include updated references to outsourcing requirements, as well as new IT and security guidelines, in cloud services, among other things.

Other changes relate to:

- The integration of environmental, social and governance risks in the risk evaluation process, and
- The requirements of adequate staffing, to ensure monitoring of the outsourcing.

The Protection & Resilience team, to which the outsourcing function is connected, continues to strengthen the outsourcing process, communication and exchange of various key functions reporting directly to the Board of Management. Compliance processes were developed further and automated this year, so that increased assurance of the identification of external outsourcing can be captured and is not completed without required confirmations. In the application area, too, the technical implementation now automatically takes outsourcing into account.

The Outsourcing Functional Rule, new in 2020, covers the outsourcing process with expanded operational details and replaced the Outsourcing Manual. This takes into account all current requirements of the AGCS SE key functions.

B.7.2 Application and task area

The scope of application of the AGCS Outsourcing Policy covers AGCS SE including all operating sites as well as all legally independent companies that are under the management of AGCS SE.

Legally independent companies must ratify the AGCS Outsourcing Policy and incorporate it into their respective internal governance systems.

The AGCS Outsourcing Policy defines outsourcing and provides criteria for selecting, contracting and managing suppliers. It defines roles, responsibilities and approval obligations as well as controls along the outsourcing process (including termination).

The outsourcing function plays a special role in ensuring that the processes required to monitor outsourced functions and services are defined, implemented and reported. This is carried out in coordination with the locally involved functions (for example, Risk Management, Legal, Compliance, Business Continuity Management and Information Security), the Allianz Group functions and the persons responsible for the outsourcing contract.

The Outsourcing function is specifically responsible for

- guiding the organization on how to meet requirements from an outsourcing perspective,
- supporting all responsible parties in their outsourcing activities and ensuring compliance with the AGCS Outsourcing Policy,
- maintaining a central repository/archive of all outsourcing contracts (inventory) including associated documents and evidence (for example, risk assessment, business plan and due diligence),
- reporting upon request the relevant AGCS outsourcing contracts to the Allianz Group.

The integration of service providers into the internal control system is implemented through the cooperation with Risk Management, and reviewed and supported for significant service providers through annual controls.

B.7.3 Important outsourcing agreements of AGCS SE

AGCS SE evaluates the materiality of the outsourcing contracts annually in consultation with Risk Management, the Legal Department and the responsible operating functions. In 2020, the "Asset Investment and Management" service agreement with AIM SE continued to be classified as a major outsourcing agreement. The services of AIM SE are of particular importance as it has specialist knowledge which AGCS SE can draw on.

An analysis and revision of the underwriting contracts led to a downgrading of Pantaenius GmbH as a simple outsourcing as the service provider is still not considered critical for AGCS SE in the partial outsourcing area.

AGCS SE procures Microsoft Office 365 products through Allianz Technology SE. This service was identified in 2020 as an important service as well as a cloud service, as it is crucial for the operational activities within AGCS SE.

The analysis of the partial outsourcing of non-life and underwriting contracts did not result in any change in the risk profile in 2020. IT services are currently being reassessed within the scope of new policies and changes.

B.8 ANY OTHER INFORMATION

All key information on the governance system is described in section B.1 up to and including section B.7.

No significant changes were made to the governance system during this reporting period. Similarly, there were no material transactions with shareholders or persons exercising significant influence over the company, or members of the Board of Management or Supervisory Board.

RISK PROFILE

C.1 UNDERWRITING RISK

C.1.1 Risk exposure

Underwriting risks refer to risks within underwriting, i.e. changes in insurance premiums, the volumes of claims and underwriting costs.

The most important underwriting risk is the underwriting risk which primarily relates to changes in claims. A distinction is made between the **premium risk**, i.e. the risk that 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 compared with the claims reserves booked.

Both reserve and premium risk are mapped in AGCS SE's internal model.

As of 31 December 2020, the undiversified risk capital for the total of premium and reserve risks amounted to € 1,603,399 thou. The main drivers were reserve risk and non-catastrophe premium risk. After diversification, the corresponding total risk capital for these risks amounted to € 1,119,054 thou.

Table 8: Underwriting risk

€ thou

	2020	2019
Underwriting risk (diversified)	1,119,054	1,120,105
Non-catastrophe risk	474,706	599,891
Catastrophe risk	309,691	329,320
Terrorism risk	44,311	45,078
Reserve risk	774,691	653,542
Longevity risk	22,901	18,497
Business risk (diversified)	89,888	88,447
Lapse risk	38,191	34,787
Cost risk	62,574	63,718

Lapse risk and cost risk are modeled as business risk. The undiversified risk capital for the sum of these business risks amounted to € 100,765 thou at the end of the reporting year. After diversification, the total risk capital for these risks amounted to € 89,888 thou.

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

The modeling of underwriting risk is based on information from a range of internal and external sources, including the accounting, actuarial, risk management, planning and controlling, claims, reinsurance and underwriting departments.

The most important information is:

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

In the case of the natural catastrophe risk, detailed inventory data is used, for example on the type and use of insured items, and a large number of possible events, some of which have not yet occurred, are simulated. For this type of risk, detailed modelling based on inventory data is more reliable than modeling based on observed losses as the history here does not cover the full potential of possible future losses.

No material underwriting risk is transferred to special purpose vehicles (SPVs) and there is no material risk exposure from off-balance sheet items.

RISK CONCENTRATION

Concentration risks for AGCS SE arise from the accumulation of claims from individual events. These can be catastrophes caused by people (man-made) or natural catastrophes, where storm and earthquake risks in particular influence AGCS SE's overall risk.

The loss potential of various man-made scenarios and their probability of occurrence are analyzed and calculated in a specially established working group (Realistic Disaster Scenario Working Group) headed by the risk management function. Estimating return periods for particular extreme events remains a challenge and a focus of the working group is to continuously improve the frequency assessments.

In 2020, we also saw an accumulation of claims arising from the Covid-19 pandemic, particularly in the film and event insurance sectors. We responded to this by changing our underwriting guidelines and reducing our exposure in this area. Exposure to the risk of a new pandemic will also be regularly discussed and quantified in future as part of the work of the Realistic Disaster Scenario Working Group. Based on sensitivity analyses performed, we do not expect this to have any material impact on the SCR. We are also strengthening and intensifying accumulation control as part of the Risk Management function in cooperation with Underwriting and other functions.

Concentration risks from natural catastrophes are identified and analyzed using special software, on the basis of which all exposures from current insurance contracts are recorded geographically.

The findings from the work results form part of AGCS SE's risk capital calculation.

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

RISK SENSITIVITY

AGCS SE uses sensitivity analyses to determine the dependence of the solvency ratio on defined stress scenarios. The stress scenario defined for underwriting risks takes into account a combined loss from premium, reserve, business and operational risks with a return period of one in five years. If such a stress had occurred at year-end 2020, it would have resulted in a decline in AGCS SE's solvency ratio from 161% to 144%.

Table 9: Risk sensitivity

€ thou

Scenario	Own funds	Risk capital	Solvency ratio
Base	2,956,976	1,841,451	161%
Stress	2,647,125	1,841,451	144%

C.1.1.1 PREMIUM RISK

The premium risk is subdivided into natural catastrophe, terrorism and non-catastrophe risk, with the latter representing by far the largest premium risk.

AGCS SE's total premium exposure as of 31 December 2020, before diversification, amounted to € 828,708 thou. Compared to the previous year, this was an increase of € 145,581 thou or 15%. This change is due to the update of the underlying portfolio and the related reinsurance in conjunction with the updated model parameters. The decline was mainly due to the non-catastrophe risk.

The premium risk is calculated on the basis of actuarial models used to derive loss distributions. Premium risk is actively managed by AGCS SE, with risk assessments and underwriting limits incorporated into the underwriting process and reinsurance protection in line with our risk tolerance. Assessing risks as part of the underwriting process is a key element of our risk management.

C.1.1.2 RESERVE RISK

AGCS SE's total reserve risk as of 31 December 2020 was € 774,691 thou. This represents an increase of € 121,150 thou or 19% compared to 2019. The main reasons for this were an increase in net loss reserves and higher estimated volatilities following the annual model update.

The reserve risk is related to the uncertainty contained in the existing claims reserves. The existing reserves refer to the expected mean value (best estimate) of the expenses for losses already incurred, the actual amount of which has not yet been determined. Reserve risk is estimated on the basis of observed claims settlement using mathematical methods consistent with those used for best-estimate reserving, and relates to losses that could occur over the next 12 months.

Our operating units regularly monitor the changes in reserves for insurance claims at business level. In addition, the reserve uncertainty is analyzed annually. This analysis serves as the basis for the reserve risk calculations. The Allianz Group conducts regular independent reviews of these analyses and Group representatives attend meetings of the local reserve committees.

C.1.1.3 BUSINESS RISK

The undiversified total of AGCS SE's business risks amounted to € 100,765 thou as of the end of the reporting year, an increase of € 2,261 thou or 2% on the previous year; this was primarily due to a higher lapse risk.

Lapse and cost risks are modeled for business risk. Lapse risk relates to the possibility of unexpectedly high lapse rates in existing business and the resulting loss of future profits. The cost risk reflects losses due to continuing fixed costs in the event that new business collapses. The business risks are calculated in a simple model in which the assumptions on lapse behavior, new business and changes in costs are directly taken into account.

C.1.1.4 LONGEVITY RISK

As of 31 December 2020, AGCS SE's longevity risk amounted to € 22,091 thou. Compared to the previous year, this represents an increase of € 4,404 thou or 24%.

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

C.1.2 Management of underwriting risk and risk mitigation

Natural catastrophes such as earthquakes, storms and floods are a key challenge for risk management because of their accumulation potential and volatility. In order to measure such risks and better assess the potential impact of natural disasters, special modeling methods are used: AGCS SE combines inventory data (such as the geographic distribution and characteristics of insured items and their values) with simulated natural disaster scenarios to estimate the amount and frequency of potential losses. Where such stochastic models are not available or existing models are not suitable for our specific business, risk exposure continues to be monitored and adequately covered with external reinsurance protection as well as in the internal model.

Reinsurance plays an important role in the management of premium risk. In line 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 by way of facultative reinsurance and treaty reinsurance.

AGCS SE also reinsures the entire German direct and indirect business through a quota share reinsurance treaty with Allianz SE.

C.2 MARKET RISK

C.2.1 Risk exposure

AGCS SE defines market risk as the risk of loss resulting from changes in market prices or parameters that lead to valuation changes financial assets or liabilities. This includes the change in market prices due to lower market liquidity.

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

These investments secure existing and future receivables and claims of our customers. In addition, our shareholders' equity covers the capital requirements arising from the insurance business.

Market risks are estimated using the internal model, which was developed centrally by Allianz Group Risk and parameterized in coordination with Allianz Group Risk.

The following risk types are taken into account in the calculation of market risk:

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

The risk capital for the total undiversified market risk amounted to € 1 955,126 (2,276,904) thou at the end of the reporting year. The main drivers of total market risk as of year-end 2020 were equity and currency risk. After diversification, the total risk capital for market risks amounted to € 1,057,596 (1,286,551) thou. This is a decrease of € 228,955 thou or 18% compared to 2019. The main reason for this decrease is the sale of equity positions as well as a lower valuation of the strategic participation in AGR US (valued according to adjusted equity method, see D.1.4.2), which contributed more to equity and currency risk in 2019.

Table 10: Risk capital for market risks

€ thou

	2020	2019
Market risk (diversified)	1,057,596	1,286,551
Interest rate risk	81,179	115,369
Inflation risk	266,108	148,292
Equity risk	798,520	1,061,902
Currency risk	440,602	624,678
Real estate risk	147,156	142,522
Credit spread risk	221,461	183,287
Equity volatility risk	100	853

C.2.1.1 EQUITY RISK

AGCS SE invests in participations and alternative investments that contribute to equity risk. The entire investment portfolio is broadly diversified. This leads to a reduction of risks and allows investments in asset classes with higher long-term returns.

AGCS SE's equity risk capital as of 31 December 2020 amounted to € 798,5202 (1,061,902) thou, an increase of € 263,382 thou or 25% compared to 2019. The main drivers of this change are the sale of the equity portfolio in 2020 and a lower valuation of the strategic participation in AGR US.

C.2.1.1.1 RISK CONCENTRATION

The strategic participations in ART AG and AGR US accounted for 83% of AGCS SE's equity risk.

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

C.2.1.1.2 RISK SENSITIVITY

As of 31 December 2020, sensitivity analyses showed that a 30% loss in the market value of the investments with equity risk (excluding strategic participations) would result in a decrease in the solvency ratio from 161% to 157%.

Table 11: Sensitivity of equity risk

€ thou

	Own funds	Risk capital	Solvency ratio
Base	2,956,976	1,841,451	161%
Stress	2,858,732	1,815,696	157%

C.2.1.2 INTEREST RATE RISK

AGCS SE's risk capital for interest rate risk as of the end of the reporting year was € 81,179 (81,179) thou, a decrease of € 34,190 thou or 30% compared to 2019. Compared with the previous year, the interest rate risk decreased further from an already low level. This is due to a lower capital requirement for a comparable duration gap (in dollar duration).

AGCS SE manages interest rate risk as part of a comprehensive asset-liability management system. In the property/casualty segment, payment obligations are typically shorter in duration than investments. AGCS SE derives the duration target on the assumption that business operations will continue on a permanent basis ("going concern"). This leads to a longer duration of the asset side compared with the liability side. This duration surplus implies interest rate risks from rising interest rates and is managed by sensitivity limits, among other things.

C.2.1.2.1 RISK CONCENTRATION

The Danish krone yield curve – at 35% – and the Singapore dollar yield curve – at 30% – were the primary contributors to AGCS SE's interest rate risk.

C.2.1.2.2 RISK SENSITIVITY

As of 31 December 2020, sensitivity analyses indicated that a 100 basis point increase in interest rates would leave the solvency ratio more or less unchanged at 161%. A 100 basis point drop in interest rates, on the other hand, would lower the solvency ratio to 160%.

Table 12: Sensitivity of interest rate risk

€ thou

	Own funds	Risk capital	Solvency ratio
Base	2,956,976	1,841,451	161%
Stress +100bp	2,906,219	1,804,673	161%
Stress -100bp	2,993,782	1,874,546	160%

C.2.1.3 CREDIT SPREAD RISK

As of year-end 2020, AGCS SE's credit spread risk capital amounted to € 221,461 (183,287) thou. Compared to the previous year, this represents an increase of € 38,174 thou or 21%. The main drivers are new investments in spread products in the course of the sale of equity positions.

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 spreads reflect increased risk aversion on the part of market participants. Changes in the credit quality of issuers, on the other hand, are captured by credit risk, which is not part of market risk.

Credit spread risk is fully mapped in the internal model. The changes in market value associated with the spread changes do not generally lead to sustained negative economic effects, since AGCS SE, as a long-term investor, can hold the investments until maturity in order to collect the spread in full. This aspect is taken into account in the internal model by applying dynamic volatility adjustment.

C.2.1.3.1 RISK CONCENTRATION

The credit quality of the AGCS SE portfolio is high. Section C.3 provides a summary of the breakdown of fixed income investments by rating class as of 31 December 2020. The following table provides an overview of the risk contributions to credit spread risk by rating class.

Table 13: Credit spread risk by rating class

%

	2020
AAA	9%
AA	12%
A	16%
BBB	37%
BB	12%
B	9%
CCC	0%
NR	4%

C.2.1.3.2 RISK SENSITIVITY

At the end of the reporting year, sensitivity analyses show that a rating-dependent stress scenario (rating-dependent increase in spreads by up to 200 basis points) would lead to a decline in the solvency ratio from 161% to 156%.

Table 14: Sensitivity of credit spread risk

€ thou

	Own funds	Risk capital	Solvency ratio
Base	2,956,976	1,841,451	161%
Stress	2,828,130	1,818,547	156%

C.2.1.4 INFLATION RISK

AGCS SE's inflation risk capital increased by € 117,816 thou, or 79%, year on year and amounted to € 266,108 (148,292) thou as at 31 December 2020. This increase is due to a higher average dollar duration of the technical provisions and the first-time recognition of inflation risks from the technical provisions from some APV pension plans.

As an insurer, AGCS SE is exposed to changes in inflation rates. Since inflation affects future claims and insurance benefits and costs, an increase in inflation leads to higher liabilities.

The main drivers are technical provisions and – to a lesser extent – pension liabilities. Inflation assumptions are taken into account in product development, costing and the internal model.

C.2.1.4.1 RISK CONCENTRATION

Inflation risks from the euro area accounted for the largest share of inflation risk at 50% and the US dollar area at 29%.

C.2.1.4.2 RISK SENSITIVITY

As of the end of the reporting year, sensitivity analyses showed that a 100 basis point increase in the entire inflation curve would result in a decrease in the solvency ratio from 161% to 149%.

Table 15: Sensitivity of inflation risk

€ thou

	Own funds	Risk capital	Solvency ratio
Base	2,956,976	1,841,451	161%
Stress	2,775,110	1,865,549	149%

C.2.1.5 CURRENCY RISK

AGCS SE's risk capital for currency risk at year-end 2020 was € 440,602 (€ 624,678) thou, an increase of € 184,076 thou or 29% year on year. This decline is largely due to the sale of the non-currency hedged global equity portfolio and a lower value of the strategic participation in AGR US.

The main drivers of currency risk are strategic investments, in particular the strategic participation in AGR US. In addition, the partially non-currency hedged global equity portfolio and alternative investments contribute to currency risk.

As a globally active insurance company, AGCS SE holds assets and liabilities in many different currencies. A comprehensive process has been implemented to identify and manage foreign currency risks. Foreign currency risks from bonds and technical provisions are largely currency-hedged. The local own funds of AGCS SE Singapore, Hong Kong, Korea and India branch offices are invested in the local functional currencies.

C.2.1.5.1 RISK CONCENTRATION

The currency risk stemmed primarily from the US dollar, which accounted for 76% of the total, and is mainly attributable to the strategic participation in AGR US.

C.2.1.5.2 RISK SENSITIVITY

If the euro appreciates, assets not denominated in euros lose value. However, from a euro perspective the corresponding capital requirements are reduced at the same time, which mitigates the impact on capitalization.

Sensitivity analyses as of 31 December 2020 showed that a 10% depreciation in foreign currencies against the euro would lead to a decrease in the solvency ratio from 161% to 158%.

Table 16: Sensitivity of currency risk

€ thou

	Own funds	Risk capital	Solvency ratio
Base	2,956,976	1,841,451	161%
Stress	2,738,748	1,730,450	158%

C.2.1.6 REAL ESTATE RISK

The risk capital for AGCS SE's real estate risk amounted to € 147,156 (142 522) thou as of 31 December, which represents an increase of € 4,633 thou or 3% compared with 2019. This means that the real estate risk is essentially unchanged.

AGCS considers real estate to be a valuable addition to the investment portfolio as it provides investors with stable and predictable cash flows over the long term. This and the good diversification properties outweigh the risks from a downturn in the real estate market.

C.2.1.6.1 RISK CONCENTRATION

AGCS SE also pursues a capital investment strategy with a focus on broad diversification in real estate. There are therefore no significant concentrations for real estate risk.

C.2.1.6.2 RISK SENSITIVITY

As of 31 December 2020, sensitivity analyses indicated that a 20% decrease in market prices would reduce the solvency ratio from 161% to 156%.

Table 17: Sensitivity of real estate risk

€ thou

	Own funds	Risk capital	Solvency ratio
Base	2,956,976	1,841,451	161%
Stress	2,830,015	1,816,793	156%

C.2.2 Market risk management

AGCS SE's Risk Management function defines the framework for managing market risk. This includes, in particular, the internal guidelines for managing the portfolio as well as the maintenance and further development of methods and models for market risk, limit systems and the corresponding reporting system. The responsibilities within Allianz Standards for market risk management are also defined in detail. The associated reporting system is intended to provide internal decision-makers (members of the Board of Management or other senior management levels within AGCS SE) and external interested parties with relevant information on the current risk situation.

AGCS SE produces regular reports on the changes in market risk and related indicators.

The principle of entrepreneurial prudence is – in line with §124 of the German Insurance Supervision Act (VAG) – the guiding principle for the investment risk management of AGCS SE. In accordance with regulatory requirements, the Prudent Person Principle encompasses requirements at portfolio level and at the level of individual investments: Investments shall be made in such a way that compliance with the investment principles – i.e. the desired level of quality, security, liquidity, profitability and availability of the investment portfolio – is ensured in every respect. This includes the need to align the portfolio with 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 compared to the liabilities as part of the maturity management; Investments are only permitted if their risks can be identified, measured, monitored, controlled, reported and appropriately integrated into the assessment of solvency; In addition, the Prudent Person Principle for the investment management function lays down criteria for the process quality and employee qualifications.

The Strategic Asset Allocation (SAA) defines the long-term investment strategy of AGCS SE and the framework for the investments actually acquired. Therefore, SAA is an important and complementary tool to manage market risk.

The SAA is based on a detailed analysis of assets and liabilities and takes into account AGCS SE's risk-bearing capacity.

Great care is taken in the design of the SAA to ensure an appropriate target level of investment quality and security. This includes, for example, analyzing ratings and additional collateral as well as maintaining a sustainable return. It must also be ensured that

there is sufficient liquidity and availability of the entire investment portfolio at all times.

AGCS SE's risk management sets balanced investment risk and volume limits. These are used to monitor the portfolio or the sensitivity of market fluctuations from external shocks.

C.2.3 Risk mitigation

AGCS SE has implemented a wide range of measures to limit the impact of changes in financial markets and to ensure that liabilities to policyholders are covered.

Asset-liability management risks are assessed on the basis of the internal model. In addition to the relevant Allianz Group limits, AGCS SE has also implemented a comprehensive risk limit framework to implement the requirements of the prudent person principle.

AGCS SE uses derivatives to hedge the portfolio against undesirable market movements (for example, with put hedges on the equity portfolio until such time as the equity portfolio is sold), to reduce currency risk (for example, with FX forwards) or to implement transactions more efficiently.

Our processes provide for comprehensive monitoring of investments. For derivatives in particular, the independent Risk Management function, supported by the investment management function, regularly reviews all open positions (this includes open positions and limits). It also monitors derivatives strategies. In the event of a limit breach, the responsible investment management function immediately informs the key stakeholders of AGCS SE. If necessary, countermeasures must be implemented, which may 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 value of the portfolio within a certain time horizon caused by changes in the credit quality (credit rating) of debtors in the portfolio, including default or non-performance of financial obligations. The default of a loan receivable can result either from a deterioration in creditworthiness (migration risk) or from the inability or unwillingness of the debtor to meet its contractual obligations.

The main drivers of credit risk for each instrument are ratings, collateral and maturities.

The following sub-risks are part of the credit risk:

- The counterparty risk, which consists of default and migration risks. These risks are found in particular in loans and structured products such as asset-backed securities, derivative transactions (OTC), as well as reinsurance, financial guarantees and receivables from brokers/agents or other debtors;
- The concentration risk arising from the accumulation of credit risks vis-à-vis a business partner; such accumulations result in the reporting of higher risk capital – in contrast to the case in which the same positions were spread across different counterparties;
- The country risk, which comprises currency transfer and exchange risk; transfer risk is the risk that a counterparty is unable to meet its cross-border payment obligations because the transfer of capital is prohibited or restricted by currency moratoria; foreign exchange risk is the risk that a counterparty is unable to meet its payment obligations in the agreed currency because currency exchange is prohibited or restricted.

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

- The spread risk – caused by changes in credit spreads with an unchanged rating – is covered separately in the market risk;
- The settlement risk, which arises when, in an exchange of payments, one party makes an upfront payment without being certain at the time of payment that the counterparty will deliver the corresponding consideration.

Risk capital for total credit risk before diversification with other risk categories amounted to € 169,300 (141,233) thou as of 31 December 2020. The main drivers of overall credit risk were credit risk from reinsurance and from fixed-income investments. Compared with 2019, this represented an increase of € 28,067 thou or 20%, which was mainly due to exposure changes, model updates and model changes.

C.3.1.1 CREDIT RISK FROM INVESTMENTS

The premium income and equity required to cover the risks are largely invested in fixed-interest securities. Typical investments are government bonds, corporate bonds, registered bonds, promissory notes, mortgages and loans as well as – to a lesser extent – derivative financial instruments. Due to the nature of the business, the maturities of the fixed-income securities tend to be short to medium-term.

The issuers of AGCS SE's fixed-income investments are primarily corporations, sovereigns and banks. Overall, the fixed-income securities consist predominantly of securities from developed countries and with an investment grade rating.

Table 18: Fixed income investments by rating class as of 31 December 2020, including fund holdings at fair value

€ thou

	2020
AAA	1,179,532
AA	1,452,164
A	985,746
BBB	1,721,032
Non-investment grade (incl. not rated)	582,815
Total	**5,921,288**

C.3.1.2 CREDIT RISK FROM REINSURANCE BUSINESS

The credit risk to external reinsurers arises from insurance risks that are transferred by AGCS SE to external reinsurance companies in order to reduce its own insurance risk. Possible losses may arise either from defaults on existing accounts receivable from reinsurance business or from losses on new accounts receivable arising from reinsurance contracts during the period under review.

The Security Vetting Team (SVT) checks the creditworthiness of the reinsurance partners. Their activities include the examination of all AGCS SE assignments and the provision of advice regarding the necessary collateral. This ensures that priority is given to companies with a good credit rating. In order to further reduce credit risk, AGCS SE may additionally require letters of credit, cash deposits or other financial collateral.

The creditworthiness of the reinsurers is monitored on a continuous basis. Reinsurance exposures are reviewed twice a year (based on end-June and end-December exposures), most recently in September 2020 based on exposure data as of 30 June 2020: accordingly, 92% of exposures were ceded to reinsurers that had a rating of at least A.

As of 31 December 2020, total receivables from third parties – with a due date of more than 90 days – amounted to € 216,083 thou (excluding explicit write-offs of receivables). The average default rate for the past three years was 0.4%.

C.3.1.2.1 RISK CONCENTRATION

The following table shows the distribution of credit risk at each of year-end 2019 and 2020.

Table 19: Allocation of credit risk

%

	2020	2019
Share of credit risk capital from		
Investments	49%	56%
Reinsurance	48%	41%
Receivables	3%	3%

Compared to the fourth quarter of 2019, the percentage of credit risk from reinsurance has increased and the percentage rate of credit risk from investments has fallen, due to exposure changes, model updates and model changes. The sum of the ten largest positions (measured by contribution to credit risk) of the counterparty risk from investments and reinsurance amounted to € 84,096 thou. This corresponds to 50% of the total credit risk. The largest counterparty is Allianz Re due to the Group's internal reinsurance structure.

C.3.1.2.2 RISK SENSITIVITY

The following table shows the sensitivity of the credit risk under the assumption that the rating is lowered by two rating grades and the loss given default (LGD) is increased by 10%. Effects on market risks (for example, credit spread risk) are not taken into account.

Table 20: Sensitivity of credit risk

€ thou

	Own funds	Risk capital	Solvency ratio
Base	2,956,976	1,841,451	161%
Stress	2,733,155	1,906,250	143%

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

The sensitivity analysis as of 31 December 2020 shows that a credit rating downgrade of one notch (i.e. a deterioration in credit quality) would result in an increase in credit risk of 25%. A credit rating downgrade of two notches and a relative increase in loss-given-default (LGD) of 10% would result in a 69% increase in credit risk. A relative increase in the loss-given-default (LGD) by 10% (i.e. a reduction in the recovery rate in the event of default) would lead to an 8% increase in credit risk.

Table 21: Risk sensitivity before diversification

€ thou

	2020
Downgrading by one rating grade[1]	41,195
Downgrade by two rating grades and LGD increase of 10%	116,082
LGD[2] Increase by 10%	13,816

1_Rating level refers to the rating subcategories, 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 the event of default on the receivable.

C.3.2 Credit risk management

The credit risk management framework has two main objectives:

- Review and monitor accounts receivable from individual parties; in doing so, the company aims to reduce the risk arising from the default of individual counterparties, but also to ensure sufficient diversification across the entire portfolio.
- Ensure that AGCS SE has sufficient capital at all times to be able to reliably bear the credit risk incurred.

These objectives are served by the following measures:

- Regular reporting on the transparency and management of the risks taken;
- Limit setting;
- Integrating credit risk into business planning and capital management;
- Considering credit risks in the pricing of insurance contracts.

AGCS SE monitors and manages credit risk exposures and concentrations to ensure that the company is always able to meet its obligations to policyholders. The local internal credit risk model and the Group-wide CRisP limit system also serve this purpose.

By actively managing credit risk on the basis of credit limits and credit risk modeling, the company has a well-diversified credit portfolio. The long-term investment strategy – largely hold-to-maturity – gives our portfolio stability even in adverse market conditions and enables us to generate planned excess returns throughout the holding period of the investments.

C.3.3 Risk mitigation

In order to mitigate counterparty risk arising from the following instruments, AGCS SE predominantly uses the risk mitigation tools listed in the table.

Table 22: Credit risk mitigation tools

Instrument	Risk mitigation
Derivatives	Requirement that collateral is posted for all derivative exposures (after netting).
Securities lending and repo transactions	Requirement for effective netting mechanisms and full collateralization.
Reinsurance	All reinsurance partners are vetted by the Security Vetting Team. Depending on this assessment, collateral may be required, for example in the form of guarantees, cash or other suitable financial measures, in order to further mitigate the credit risk.
Fixed-income securities	Requirement to invest predominantly in high quality securities and to limit concentrations in counterparties in the portfolio; where necessary, collateralized investments are chosen. Strong portfolio diversification is mandatory.

For the use of derivatives, comprehensive requirements for the type, scope and management of the collateral to be deposited are laid down in internal guidelines.

AGCS SE engages in securities lending and repo transactions to a limited extent in the special funds. These do not constitute a derivatives transaction. Nevertheless, detailed requirements are also defined for the scope and quality of collateral as well as collateral mechanisms. These risk mitigation measures are taken into account in the calculation of credit risk. AGCS SE and its service providers regularly review the application of the risk mitigation techniques described above and compliance with limits (for example, counterparty concentration limits for investments).

C.4 LIQUIDITY RISK

C.4.1 Risk exposure

Liquidity risk is defined as the risk that claims arising from current or future payment obligations cannot be met or can only be met under adversely changed conditions. This risk can arise in particular if there are significant deviations in incoming and outgoing payments over time.

The liquidity risks with regard to unexpected liquidity requirements result from the default of reinsurers and from claims payments that exceed the planned scope.

The primary objective of planning and managing AGCS SE's liquidity position is to enable the company to meet its payment obligations at all times without having to dispose of a significant volume of investments. To this end, the liquidity position is monitored and forecast on an ongoing basis. Similarly, strategic liquidity planning is regularly reported to the key decision-makers throughout the fiscal year.

As part of our strategic planning, contingent liquidity requirements and sources are considered, to ensure that AGCS SE can meet future payment obligations even under adverse conditions. Such conditions may include combined market and catastrophe risk scenarios and lower than expected dividends and profits from subsidiaries.

C.4.1.1.1 RISK CONCENTRATION

There are no significant concentrations of liquidity risk as AGCS SE's investment portfolio is well diversified.

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

C.4.1.1.2 RISK SENSITIVITY

Liquidity risk is reported in a comprehensive Allianz Group framework. The aim is to review the liquidity position of AGCS SE and Allianz respectively and to ensure sufficient liquidity even in stress scenarios.

As part of this framework, each insurance company in scope is required to submit a quarterly liquidity risk report to the Group. The main features are a forecast for cash inflows and outflows over various time horizons, an assessment of the available countermeasures including the realization of liquid funds, the application of various stress scenarios and aggregation with KPIs (key performance indicators) to determine liquidity utilization (LIR = liquidity intensity ratio). Thresholds for warning levels and for limit overruns enable management to quickly assess the liquidity situation under current and hypothetical difficult market conditions.

Liquidity utilization was almost unchanged compared with the previous year. As of 31 December 2020, AGCS SE had very good liquidity in all scenarios considered. The following table contains the LIR values for the 1-year time horizon.

Table 23: LIR values

€ thou

	2020			2019
	Sources	Requirements	LIR	LIR
Base scenario	8,422	2,864	34%	43%
Premium Stress	7,478	2,864	38%	51%
Stress from claims payments	7,949	3,716	47%	56%
Derivative stress	7,752	2,944	38%	51%
Combined stress	7,430	2,864	39%	54%
Individual stress	7,489	2,802	37%	50%

1_LIR = liquidity intensity ratio (liquidity utilization)

C.4.2 Management of liquidity risk and risk mitigation

AGCS SE manages its liquidity risk and thereby ensures that the available and required liquidity are in an appropriate ratio. The investment strategy ensures the sufficient quality and liquidity of the investment portfolio, for example by investing in liquid securities such as highly rated government bonds. This means that even the increased liquidity requirements in the case of unlikely events can be met without significant economic losses. Actuarial methods are used to estimate our liabilities under insurance contracts. Standard liquidity planning ensures that the cash flows from our portfolio are in line with the estimated cash flows for these liabilities.

Depending on the LIR value, there are different escalation levels that require AGCS Risk Committee involvement.

The total contribution of the profit included in future premiums amounts to € 336,588 (253,218) thou before reinsurance. The calculated profit on future premiums was slightly higher in 2020 compared with the previous year. The main reasons are the higher volume of future premiums and a lower expected claims cost ratio.

C.5 OPERATIONAL RISK

C.5.1 Risk exposure

The Allianz Group, including AGCS SE, defines operational risks as unexpected losses resulting from inadequate or failed internal operating processes or systems, human errors and external events. This definition covers legal risks, compliance risks and financial reporting risks. However, it does not 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 may have a significant impact on the balance sheet, profit, corporate objectives, business activities or reputation of AGCS SE.

In line with standard market practice, operational risks can be divided into the following categories, the "Basel II categories":

- Willful misconduct
- Unauthorized actions by external parties
- Employment practices and job security
- Business practices and product characteristics
- Damage to operating and office equipment
- Business interruption and failure of technical systems
- Business process risks

AGCS SE's internal model determines risk capital for operational risks. It functions as a buffer for the company in the event of financial losses due to unexpected operational risk events such as the failure of controls.

The risk capital model for operational risk is an integrated stochastic simulation model. Following a structured process, the model is parameterized together with experts under the leadership of the Risk Management function. The modeling is based on the Basel II stated operational risk categories that are relevant for AGCS SE.

Specifically, corresponding risk frequencies and levels are determined for the individual relevant categories. In order to arrive at a meaningful assessment, experts consider the following factors: further assessments in the context of operational risk management, operational losses already incurred within AGCS SE and the Allianz Group, and external operational losses.

The risk capital for operational risk amounted to € 154,421 thou as of the end of the reporting year. In the overall context, operational risks thus represent only a small part of the total risk capital. Operational risks are mainly driven by the categories "violation of economic sanctions", "insufficient reinsurance protection" and "cyber risk." In this context, the operational risk profile corresponds to a typical insurer operating in the industrial insurance business.

A regular reassessment of certain risks will be relevant for the development of the risk capital for operational risks over the planning period from 2021 to 2023. The assessment will be conducted with experts in the respective field to ensure the market environment is updated and parameterization is transparent. The main exposures remain the same as the customer segment is materially the same and exposure is to the same sectors as before.

The AGCS Risk Committee regularly discusses the material operational risks to which AGCS SE is exposed as part of its intended risk appetite.

There was no transfer of operational risks to special purpose entities and no operational risks from off-balance sheet commitments were identified.

C.5.2 Risk concentration

All relevant functions of AGCS SE are regularly involved in both operational risk assessment and operational risk event analysis. For this reason, possible structural weaknesses that could affect the company as a whole and possibly indicate a concentration of operational risks are identified in good time. Depending on need, appropriate countermeasures are taken as part of the risk management system.
Over the forecast period from 2021 to 2023, no significant changes are expected with regard to the risk concentration.

C.5.3 Risk mitigation

The risk management system for operational risks is based on the comprehensive internal control system. AGCS SE employees support the control and management of these risks, by taking them into consideration in in day-to-day business. Based on the risk and control culture in the company, AGCS SE assumes that the risks are systematically identified and evaluated, and the necessary countermeasures can be taken in good time, if needed.

Operational risks are primarily managed on a cost-benefit basis. In doing so, the expected loss reduction should exceed the costs associated with control improvements. However, there may be exceptions to this cost-benefit approach, such as to comply with laws and regulations, to protect the reputation of AGCS SE, or because of other strategic objectives.

AGCS SE's operational risk management system has been specifically developed to learn from past risk events and to avoid operational risk surprises in the future, i.e. to prevent the occurrence of operational risks outside the risk tolerance of AGCS SE.

To manage operational risk, the first step is gaining an understanding of the operational risks to which AGCSE SE is exposed. This is done in two respects:

- Looking forward, the risks and specific scenarios with potentially negative consequences are systematically identified and evaluated one a year in risk control assessment workshops.
- In retrospect, operational risk events are continually analyzed and their causes determined. This also takes into account external operational loss data provided by Allianz SE.

AGCS SE uses this structured approach to identify, assess, and manage operational risks. Both of the above perspectives to help prioritize and target resources for the effective management of operational risk, in order to make processes, systems, governance structures and procedures more robust, and to respond proactively to anticipated internal or external changes. The aim is to avoid operational risk events or reduce their negative impact on AGCS SE.

Even though operational risk events per definition often occur due to errors, AGCS SE's risk management system for operational risks does not concentrate on errors alone. Instead, it promotes a culture of risk transparency and treats mistakes as opportunities for improvement. The company wants to learn from negative experiences and identify possible weaknesses early on in order to avoid potential similar losses in the future.

Operational risks are reduced through a series of appropriate and effective permanent countermeasures, i.e. via controls for the respective risks.

Controls are defined as key controls if the risk would be significantly higher without the key control.

Because of their importance, the quality of key controls is assessed in a structured manner, i.e., they are regularly reviewed to ensure they are, first, appropriately designed to mitigate the relevant risks as intended and, second, effectively implemented. This is done within the framework of the AGCS SE internal control system.

Important activities complement and support AGCS SE's risk management system for operational risk. These are managed by functions outside of the Risk Management function and include, among other things, compliance, emergency management and information security initiative.

C.5.4 Risk sensitivity

As part of the annual scenario analysis, the individual scenarios are subjected to a 20-year stress for important risks, in which the experts determine an individual loss in each case that occurs once in 20 years on average. These values are additionally analyzed within the framework of the risk capital calculation in a representative manner for the respective categories, together with the experts of the business segment in question; they determine the parameter for the severity of a risk. This ensures that AGCS SE has a sufficient buffer to protect the company against these risks, even in the particularly adverse event of extreme financial losses.

For each of the aforementioned operation risk categories, parameter stress tests are also performed and discussed as part of the parameterization of the internal risk capital model for operational risk, to ensure that the experts are familiar with the model's specific features and that the model behaves in line with the risk profile of AGCS SE.

C.6 OTHER MATERIAL RISKS

C.6.1 Strategic risk

Strategic risk is the risk of an unexpected negative change in the value of the company as a result of management decisions with a negative impact on business strategy and its implementation.

Given the ongoing challenges in generating sufficient business profits from insurance operations, AGCS introduced the company-wide "NEW AGCS" program in 2020. This program provides for a multi-stage action plan aimed at restoring the company to profitability as a market leader. The key elements of the programme are technical excellence in underwriting and claims handling, the targeted focus of the business on target segments and markets, the focus on globally regulated and uniform processes to meet the needs of our globally positioned clients, and a strong focus on digitalization.

Technical excellence aims to have leading approaches and systems to achieve state of the art pricing and claims handling throughout, as well as overarching portfolio and volatility management. The strategy focuses on the customers and is consistently geared to capital-based management.

Although 2020 has resulted in significant losses due to the Covid-19 pandemic, the underlying portfolio data is already showing the first signs of the strategy's success. In addition, there was a marked hardening of the markets.

The market environment supports the transformation of AGCS across the board. At the same time, the focus on technical excellence ensures that the company is prepared for softer markets.

Strategic decisions are discussed in various committees at Board of Management level (for example, AGCS Risk Committee, Underwriting Committee, Reinsurance Committee). The assessment of the risks concerned is a core element of these discussions.

C.6.2 Reputational risk

A number of criteria influence the perception of AGCS SE as a respected and responsible provider of insurance services: Product quality, corporate governance, financial strength, customer service, innovation, people management, intellectual property and corporate responsibility. Reputational risk refers to a possible loss of reputation of AGCS SE, as a result of which there could be an unexpected decline in the share price of Allianz SE or a decline in future business volume.

Reputational risks arise both as a result of adverse events that lead to a negative perception of the company, but also from the business strategy. The focus is currently on ESG criteria and risks in particular, and represent a central aspect in the assessment of risk. These include environmental criteria, social criteria and criteria relating to good governance.

Risk is actively managed through existing processes involving various departments.

The ESG criteria are applied at AGCS in accordance with the framework provided by Allianz SE.

C.7 ANY OTHER INFORMATION

All relevant disclosures on the risk profile of AGCS SE are included in the preceding notes.

VALUATION FOR SOLVENCY PURPOSES

This section presents the valuation of assets, technical provisions and other liabilities for solvency purposes, describes the essential principles, methods and main assumptions and explains material differences to the valuation in the commercial balance sheet according to the HGB.

Table 24: Assets

€ thou

	Solvency II	HGB	Difference
ASSETS			
1. Intangible assets	-	194,567	-194,567
2. Deferred tax assets	110,826	-	110,826
3. Pensions benefit surplus	-	211	-211
4. Property, plant and equipment held for own use	66,661	19,449	47,212
5. Investments (other than assets held for index-linked and unit-linked contracts)	8,153,778	7,177,602	976,176
5.1. Property (other than for own use)	144,576	73,248	71,328
5.2. Holdings in related undertakings, including participations	2,674,873	4,145,267	-1,470,394
5.3. Equities	3,907	3,629	278
5.3.1 Equities – unlisted	3,907	3,629	278
5.4. Bonds	2,683,398	2,549,586	133,812
5.4.1. Government bonds	1,273,738	1,202,678	71,060
5.4.2. Corporate bonds	1,344,789	1,283,486	61,303
5.4.3. Collateralised securities	64,871	63,422	1,449
5.5. Collective investment Undertakings	2,537,604	314,280	2,223,324
5.6. Derivatives	40,585	22,758	17,827
5.7. Deposits other than cash equivalents	68,836	68,836	-
6. Loans and mortgages	631,623	621,840	9,783
6.1. Other loans and mortgages	631,623	621,840	9,783
7. Reinsurancerecoverables from:	5,962,600	7,577,433	-1,614,833
7.1. Non-life insurance and health insurance conducted on a non-life basis	5,962,600	7,577,433	-1,614,833
7.1.1. Non-life excluding health	5,947,828	7,560,656	-1,612,828
7.1.2. Health similar to non-life	14,773	16,777	-2,004
8. Deposit to cedants	87,548	87,548	-
9. Insurance and intermediaries receivables	124,373	1,375,581	-1,251,208
10. Reinsunrance receivables	32,448	352,961	-320,513
11. Receivables (trade, not insurance)	908,950	815,376	93,574
12. Cash and cash equivalents	113,955	113,955	-
13. Any other assets, not elsewhereshown	1,456	1,418	38
Total assets	**16,194,218**	**18,337,942**	**-2,143,724**

Table 25: Liabilities

€ thou

	Solvency II	HGB	Difference
LIABILITIES			
14. Technical provisions – non-life	9,529,450	12,382675	-2,853,225
14.1. Technical provisions – non-life (excluding health)	9,512,022	12,356,080	-2,844,058
14.1.1. Best estimate	9,301,009	12,356,080	-3,055,071
14.1.2. Risk margin	211,013	-	211,013
14.2. Technical provisions – health (similar to non-life)	17,429	26,594	-9,165
14.2.1. Best estimate	16,966	26,594	-9,628
14.2.2. Risk margin	463	-	463
15. Other technical provisions	-	512,935	-512,935
16. Provisions other than technical provisions	211,552	207,496	4,056
17. Pension benefit obligations	150,552	6,584	143,968
18. Deposits from reinsurers	2,844,379	3,011,503	-167,124
19. Deferred tax liabilities	5,716	-	5,716
20. Derivatives	2,618	-	2,618
21. Financial liabilities other thandebts owed to credit institutions	48,193	-	48,193
22. Insurance & intermediaries payables	53,166	323,962	-270,796
23. Reinsurance payables	49,458	403,980	-354,522
24. Payables (trade, not insurance)	81,893	82,259	-366
25. Any other liabilities, not elsewhere shown	260,263	262,312	-2,049
Total liabilities	**13,237,242**	**17,193,705**	**-3,956,463**
Excess of assets over liabilities	**2,956,976**	**1,144,237**	**1,812,739**

The solvency overview has been prepared in € thou, unless otherwise stated. Due to rounding, there may be minor discrepancies in totals and the calculation of percentages.

Section D.1 deals with the assets side and sections D.2 and D.3 with the liabilities side of the solvency table. Where alternative valuation methods are used by AGCS SE for certain assets in the solvency table, these are explained in section D.4 "Alternative valuation methods".

International Financial Reporting Standards (IFRS) provide the framework for the recognition and measurement of assets and liabilities. The IFRS rules serve as a sufficient approximation for the valuation under Solvency II; however, the specific Solvency II rules under the Omnibus II Directive (Directive 2014/51/EU) and the Solvency II Regulation take precedence.

D.1 ASSETS

In accordance with Article 75(1)(a) of the Solvency II Regulation[1], assets must be valued in the solvency table in the amount at which they could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The valuation hierarchy pursuant to Article 10 of the Solvency II Regulation is used to value the assets:

- AGCS SE values assets using market prices quoted in active markets for identical assets and liabilities.
- If this is not possible, AGCS SE measures the assets using market prices quoted on 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 discussed in more detail in section D.4.

A market is considered active if transactions occur with sufficient frequency and volume for price information to be continuously available. The following cumulative conditions must be met:

- The products traded on the market are homogeneous,
- Willing buyers and sellers can usually be found at any time and
- The prices are available to the public.

A financial instrument is considered to be quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer or broker, industry group, price service agency or regulatory authority and those prices represent actual and regularly occurring market transactions as between independent third parties (arm's length principle).

An active market is no longer present if market liquidity can no longer be determined due to the complete and long-term withdrawal of buyers and/or sellers from the market. In this case, no binding prices are quoted for a longer period of time and market transactions cannot be observed. If transactions can be shown to result exclusively from forced transactions, forced liquidations or distress sales, this is also an indication of a market that is no longer active.

For assets measured at amortized cost under IFRS and for which the difference between market value and amortized cost is intangible, the IFRS value approach has been used for the valuation in the solvency statement.

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 demonstrate that a market value exists for these or comparable assets, recognition at market value is possible in the Solvency II solvency statement. Otherwise, intangible assets must be valued at zero under Solvency II valuation principles in accordance with Article 12(2) of the Solvency II Regulation.

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

At AGCS SE, the balance sheet item mainly comprises capitalized third-party expenses for the system adjustment of purchased and internally generated software (€ 181,138 thou) as well as the capitalized expenses related to a long-term distribution agreement with Standard Chartered Bank PLC (€ 13,429 thou). The long-term distribution agreement was written off at our Hong Kong branch (€ 25,921 thou) and sold in full at our Singapore branch (€ 18,088 thou).

Their fair values are not determinable because no transactions of comparable assets are observable in the market and they cannot be sold separately. Therefore, they are not taken into account in Solvency II in accordance with Article 12 of the Solvency II Regulation.

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 the Solvency II market value balance sheet and the tax balance sheet, as yet unused tax loss carryforwards and unused tax credits (Article 15 Solvency II Regulation). Deferred taxes, with the exception of unused tax losses or profits carried forward, are calculated on the temporary differences between the Solvency II solvency statement and the tax balance sheet. Temporary differences between the Solvency II values of assets and liabilities and their corresponding tax values are determined on a case-by-case basis in accordance with International Accounting Standard 12 (IAS 12). The calculation of deferred taxes takes into account the tax regulations for certain assets and liabilities in the respective jurisdictions. Deferred taxes are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The most significant differences in terms of amount between the market value balance sheet and the tax valuations result from the balance sheet items shares in special funds and bonds as well as claims reserves (technical provisions), which lead to deferred tax assets in each case. In addition, deferred taxes of € 374,781 (152,878) thou are recognized on tax loss carryforwards at the branch offices in France, the UK, Singapore, Denmark, Sweden, Italy, South Korea, Hong Kong and Austria. The planning foresees profits in these branches for the next four years, which can absorb the losses carried forward. In Germany, deferred tax assets were written off. Deferred taxes are measured in Germany at a tax rate of 31% and abroad at the respective local tax rate. According to HGB, the capitalization option pursuant to §274 (1) HGB was not exercized.

In accordance with IAS 12.72, deferred tax assets and liabilities are netted against the respective tax authority. The foreign branch offices of AGCS SE result in the recognition of both deferred tax assets and deferred tax liabilities.

Tax rate changes already adopted as of 31 December 2020 were recognized.

[1] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 relating to the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) as amended on 28 April 2015.

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

Table 26: Deferred tax assets

€ thou

	2020
Financial assets measured at fair value in the income statement	908
Financial investments	163,373
Deferred acquisition costs	22,736
Other assets	430,609
Intangible assets	58,614
Tax loss carryforwards	79,107
Technical provisions	378,926
Provisions for pensions and similar obligations	71,674
Other liabilities	100,297
Netting	-1,195,419
Total after netting	**110,826**

No deferred taxes are recognized on valuation differences of investments and shares in affiliated enterprises.

The AGCS SE deferred tax closing process under Solvency II is integrated, consistent and aligned with the IFRS closing process. Deferred taxes on temporary differences in the market value balance sheet result from the sum of the deferred taxes booked in IFRS and the deferred taxes on valuation differences of the individual balance sheet items between IFRS and Solvency II. The difference in deferred tax assets compared to IFRS results from temporary differences due to the revaluation of assets and liabilities for market value accounting. The difference is mainly due to the different valuation of technical provisions and intangible assets.

Pursuant to § 274 (1) HGB, the company does not exercise the option to recognize deferred tax assets on temporary differences between the carrying amounts of assets, liabilities and prepaid expenses in the financial statements and their tax bases, provided these differences will result in tax relief in the following years.

D.1.3 Property, plant and equipment held for own use

Property, plant and equipment held for own use are measured at their market value in accordance with the revaluation method under supervisory law. The value in the solvency overview is identical to the fair value to be recognized under IFRS in accordance with IAS 16. An alternative valuation method (income capitalization approach) is used to calculate the market values. Alternative valuation methods are described in section D.4.

Under commercial law, property, plant and equipment are stated at acquisition or production cost, less scheduled and non-scheduled depreciation.

In the commercial balance sheet, lease payments are recognized exclusively in profit or loss, whereas under Solvency II (in accordance with IFRS 16) the present value of the contractually agreed future payment obligations is recognized under liabilities and the benefit derived therefrom is recognized under other assets

D.1.4 Annexes

D.1.4.1 PROPERTY (OTHER THAN FOR OWN USE)

The balance sheet item (valuation difference € 71,328 thou) includes direct investments in six German properties. The fair value of the property assets was determined as of 31 December 2020 in accordance with IAS 40 and Article 16 of the Solvency II Regulation (fair value model / discounted cash flow method). This alternative valuation method is explained in more detail in section D.4.

Under HGB, real estate used by third parties is stated at cost less accumulated depreciation and impairment losses.

The difference between regulatory and commercial law arises from the different valuation methods, as currently the market values are significantly higher than the acquisition or production costs reduced by depreciation.

The Solvency II value takes into account valuation reserves, which are mainly attributable to real estate in Berlin and Munich.

D.1.4.2 HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

Holdings in related undertakings are valued at the proportionate excess of assets over liabilities from their solvency statement at the parent company (adjusted equity method).

Participations, i.e. under Article 13(20) of the Solvency II Regulation, the direct holding or holding by way of control of 20.0% or more of the voting rights or capital of an undertaking, are valued under supervisory law at market prices quoted on active markets (for example, stock exchange prices). If a valuation with quoted market prices is not possible due to the lack of a stock exchange listing, the participations must also be valued at the proportionate excess of assets over liabilities from their solvency overview at the parent company (adjusted equity method Article 13 (1b) Solvency II Regulation). This alternative valuation method is explained in more detail in section D.4. If a valuation using quoted market prices or the adjusted equity method is not possible, the IFRS equity method (Article 13(5) of the Solvency II Regulation) is used. In this case, the pro rata 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 prepare a market value balance sheet. Undertakings exempted from group supervision under Article 214(2a) of the Solvency II Regulation or deducted from own funds under Article 229 of the Solvency II Regulation must be valued at zero.

Under commercial law, shares in affiliated enterprises and other participations are valued according to the moderate lower-of-cost-or-market principle and carried at amortized cost or the lower fair value on a permanent basis. Write-downs are made if the amortized cost exceeds the market value and the long-term fair value on the balance sheet date. In addition, special funds amounting to € 1,819,356 thou are shown under this item in accordance with the HGB, which are shown under the item "Undertakings for collective investment" in accordance with Solvency II. In general, special funds are investment funds that are not designed for the capital market public but are launched for special institutional investors or investor groups. Often there is only one investor in a special fund, which means that the investor's interest is fully taken into account.

The difference between regulatory and commercial law arises from the different valuation methods. The market values of the

affiliated enterprises and participations are currently higher than the corresponding amortized cost, which is recognized as the upper value limit under commercial law.

The following overview shows the material shares in affiliated enterprises, including participations, as well as their valuation differences as of 31 December 2020:

Table 27: Significant shares in affiliated enterprises and participations

	Solvency II	HGB	Difference
AGCS International Holding B.V., Amsterdam	1,745,043	1,593,050	151,993
Allianz Finance VIII S.A., Luxembourg	248,651	196,428	52,223
Allianz Risk Transfer AG, Schaan	206,493	74,497	131,996
Allianz Fire and Marine Insurance Japan Ltd, Tokyo	-	31,238	-31,238
Other	474,685	2,250,054	-1,775,369
Total	**2,674,873**	**4,145,267**	**-1,470,394**

D.1.4.3 EQUITIES

This category includes unlisted shares. Participations are excluded from this. Under Solvency II, unlisted equities are valued using price valuations provided by fund and portfolio managers; this alternative valuation method is described in section D.4. Under commercial law, depending on their type and investment strategy (holding period), shares are valued either according to the strict (current assets) or the moderate (non-current assets) lower-of-cost-or-market principle and carried at the average acquisition cost or at the lower market value or a lower long-term fair value.

The difference between Solvency II and commercial law amounts to € 278 thou and is based on the current tendency for market values to be higher than amortized cost, which is used as the upper value limit under commercial law.

D.1.4.4 BONDS

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

Government bonds are bonds issued by public authorities, such as central governments, supranational government institutions, regional governments or local governments.

Corporate bonds include bonds issued by corporations and covered bonds backed by cash flows from mortgages or public sector bonds. Collateralized securities comprise securities whose value and payment entitlements are derived from a portfolio of underlying assets. They include asset-backed securities, mortgage-backed securities and collateralized mortgage obligations.

Government and corporate bonds as well as collateralized securities are measured at their fair value in the market value balance sheet in accordance with IAS 39. The fair value is determined using alternative valuation methods, which are explained in section D.4.

In accordance with commercial law (§253 in conjunction with §341b and c of the HGB), depending on their type and investment strategy (holding period) bonds are valued either according to the strict or the mitigated lower-of-cost-or-market principle and recognized at amortized cost or at the lower market value or a lower non-current fair value.

The different valuation bases result in different valuations for Solvency II and HGB. The difference between the market value balance sheet and the HGB balance sheet amounts to € 133,812 thou as of the reporting date.

The main driver of the market price is the current low level of interest rates, which has resulted in an increase in the market value of the individual securities. As a result, the market values are generally higher than the corresponding amortized cost, which is the upper limit for valuation under commercial law.

D.1.4.5 COLLECTIVE INVESTMENT UNDERTAKINGS

Under Solvency II, the value of investment funds is identical to the fair value to be recognized under IFRS in accordance with IAS 39. The value communicated by the investment company was used. Under HGB, investment funds are recognized at amortized cost or at a lower fair value in accordance with the moderate lower-of-cost-or-market principle. This corresponds to the value communicated to us by the investment companies, whereby the acquisition costs form the upper limit. The valuation difference arises from the current low interest rate level, which has the effect of increasing the market value. The market values of the funds are therefore generally higher than the corresponding amortized cost, which is recognized as the upper value limit under commercial law.

This item also includes special funds (€ 2,186,574 thou), which are reported under investments in accordance with HGB. These are valued at the proportionate excess of assets over liabilities from their solvency statement at the parent company (adjusted equity method). This alternative valuation method is explained in more detail in section D.4. Under commercial law, special funds are valued according to the moderate lower of cost or market principle. The market values of the funds are therefore generally higher than the corresponding amortized cost, which is recognized as the upper value limit under commercial law.

D.1.4.6 DERIVATIVES

The balance sheet item includes options on Allianz SE shares in order to eliminate market value risks in the context of hedging share-based compensation plans.

Under Solvency II, they are measured at their market value in accordance with IAS 39, whereas under commercial law the carrying amount is measured at the lower of cost or fair value in accordance with §253 (3) HGB.

Due to the positive capital market development, the fair value of the derivatives exceeds the acquisition costs under HGB by € 17,827 thou.

D.1.4.7 DEPOSITS OTHER THAN CASH EQUIVALENTS

Deposits other than cash equivalents comprise deposits other than transferable securities. In other words, they cannot be used as payment before a specified maturity date and cannot be converted into currency or readily convertible deposits without significant restriction or penalty. These short-term investments are valued at nominal value, as this is considered to be a good indicator of fair value, applying the principles of materiality and proportionality. All financial assets defined in accordance with IAS 39 are measured at fair value in the market value balance sheet. The fair value for short-term deposits other than cash equivalents is determined by the nominal value. Otherwise, the fair value is determined using the income capitalization approach. There is no difference between the values under commercial law and the values in the market value balance sheet.

D.1.5 Loans and mortgages

The balance sheet item (valuation difference € 9,783 thou) includes investments that arise when a lender provides financial resources (secured or unsecured) to a borrower.

Under Solvency II, they are recognized at fair value based on valuations by independent data providers or determined using the discounted cash flow method. The effective interest of comparable debt instruments is used for this. This alternative valuation method is explained in more detail in section D.4.

In accordance with HGB (§253 (3) sentence 3 and §341c HGB), the balance sheet is drawn up at amortized cost, and the difference between the acquisition cost and the repayment amount is distributed over the remaining term using the effective interest method. Write-downs are made if the amortized cost exceeds the market value and the long-term fair value on the balance sheet date.

There is no active market for loans and mortgages on which they are traded. The valuation in the solvency overview, which deviates from the commercial balance sheet, is due to the low interest rate phase and the associated higher market values. As a result, the market values are generally higher than the corresponding amortized cost, which is the upper limit under HGB.

D.1.6 Reinsurance recoverables

For information on this balance sheet item, refer to section D.2.

D.1.7 Deposit to cedants

Deposits to cedants derive from monetary collateral provided by AGCS SE as reinsurer to a ceding company.

Applying the materiality principle, these are recognized at nominal value under Solvency II, as the expected future interest payments essentially correspond to the market interest rate.

The valuation at nominal value corresponds to the valuation under commercial law in accordance with §341c HGB.

D.1.8 Insurance and intermediaries recceivables

This item includes overdue receivables from policyholders, insurance brokers and cedants, mainly for outstanding premium payments.

Under Solvency II, these receivables are valued at the nominal amount less repayments made. In specific cases with foreseeable default risks, individual value adjustments are made. In the case of receivables from direct insurance business, general allowances are also made to take account of the general credit risk. This corresponds to the valuation approach in the commercial balance sheet.

Whereas under Solvency II reserves for reinstatement premiums are included in technical provisions as future cash inflows, under HGB they are shown as part of receivables from policyholders and intermediaries. This results in a variance of € 35,189 thou.

The difference of € 1,251,208 thou compared with the commercial balance sheet was due to the reclassification of receivables due to premium reserves.

D.1.9 Reinsurance receivables

This balance sheet item includes overdue receivables from outwards reinsurance.

Under Solvency II and HGB, these receivables are valued at the nominal amount less repayments made. In the event of disputes regarding the scope of reinsurance cover or foreseeable payment difficulties on the part of the reinsurer, specific valuation allowances are made.

The difference of € 320,513 thou compared with the commercial balance sheet arose from the reclassification of receivables due to claims reserves.

D.1.10 Receivables (trade, not insurance)

Under Solvency II, these items (valuation difference € 93,574 thou) are valued at the nominal amount less repayments made, adjusted for the counterparty's probability of default.

Under HGB, these are valued at the nominal amount less repayments made.

Under Solvency II, this balance sheet item includes, among other things, the decentralized recognition of the plan assets of the pension provisions (€ 91,324 thou) as a receivable from Allianz SE. Under HGB, pensions are reported centrally at Allianz SE.

D.1.11 Cash and cash equivalents

These items are carried at face value. There are no valuation differences between Solvency II and commercial law.

D.1.12 Any other assets, not elsewhere shown

Any other assets, not elsewhere shown comprise assets that are not included in the other balance sheet items. These mainly include prepaid expenses, but also other assets. Under Solvency II and HGB, they are usually measured at fair value or at nominal value, adjusted for the counterparty's probability of default. The nominal value represents – applying the principles of materiality and proportionality – a good approximation of the fair value (Article 9 (4) Solvency II Regulation).

D.1.13 Material changes with respect to the prior reporting period

Compared with the previous reporting period, under the receivables from policyholders, intermediaries and reinsurers, maturing receivables were reclassified to the technical provisions.

D.2 TECHNICAL PROVISIONS

The technical provisions under Solvency II are made up of three components: Premium reserve, loss reserve and risk margin.

The premium reserve is defined as the discounted best estimate of those future cash flows (claims payments, costs, premiums) that relate to obligations from future loss events under contracts existing at the valuation date. Claims equalization reserves are defined as the discounted best estimate of future cash flows (claims payments, costs, and premiums) relating to loss events that occurred prior to the valuation date. The risk margin is defined as the amount that a third party acquiring the liabilities at the measurement date would require in excess of the best estimate to settle the transaction.

The valuation of premium and claims reserves at AGCS SE is initially undiscounted in each case. In a second step, an adjustment for the present monetary equivalent of the cash flow (discounting) is calculated from the future cash flows – in each case separately for premium and loss reserves as well as for the gross reserve and the amounts recoverable from reinsurance contracts. The risk margin is determined on a flat-rate basis using a cost of capital approach including discounting.

The use of the transitional measures "consideration of a temporary risk-free interest rate curve" pursuant to Article 308c Solvency II Regulation or §351 VAG (interest transitional measure) as well as "consideration of the temporary deduction" pursuant to Article 308d Solvency II Regulation or §352 VAG (provision transitional measure) is waived.

The following sections describe the calculation of the individual components: In each case, the undiscounted best estimate is calculated for the gross and after-reinsurance premium and loss reserves, the associated discounting and the risk margin. The resulting technical provisions under Solvency II as of 31 December 2020 are then presented, together with the approaches used to calculate the reserve uncertainty. Finally, the technical provisions according to Solvency II are compared with the corresponding reserves under HGB. The significant differences in valuation are described and estimate and presented as of 31 December 2020.

D.2.1 Premium reserve

The premium reserve includes all expected claims payments under the policies in force on the balance sheet date, insofar as they relate to loss events that did not occur until after the balance sheet date. In addition, it also takes into account premiums and commissions due on or after the balance sheet date for contracts already in existence on the balance sheet date that we have not yet received. The provision also includes the expected future costs for contract administration, claims settlement and investment management arising from these contracts. All overdue payments for premiums and commissions at the balance sheet date are shown in the balance sheet under receivables and payables in accordance with the technical implementation standards for regular Solvency II reporting, annex II, S02.01 and are not shown as part of the incoming and outgoing payment flows in the premium reserve.

As a first step in calculating the gross premium reserves, the unearned premium components are determined as an exposure measure for all policies that are active on the balance sheet date. This is irrespective of whether the premiums were already due before the balance sheet date (and are therefore already shown as premiums under HGB) or whether the premiums are not due until after the balance sheet date. The corresponding deferred premium components are referred to below as Solvency II unearned premiums.

The undiscounted best estimates for the individual components of the premium reserves are calculated separately on this basis.

The expected loss ratio (excluding internal and external claims settlement costs) is applied to the Solvency II unearned premiums to determine the expense for future claims. In addition, future costs are calculated from the following components:

- Shares of agent, broker and management commissions not yet due for existing contracts;
- Internal and external claims settlement costs; to determine the expected costs, the expected claims settlement cost ratio is applied to the Solvency II unearned premiums in a manner analogous to the approach used for the indemnification amounts;
- Administrative expenses; here, too, the expected administrative expense ratio is applied to the Solvency II unearned premiums in order to determine the expected future administrative expenses for contracts already in existence on the balance sheet date;
- Premium refunds and profit commissions not yet due.

In addition to these expected cash outflows, premiums from existing contracts that do not fall due until after the balance sheet date are also taken into account as expected cash inflows. Exceptions are active treaty reinsurance, which is retroceded as far as possible, and some smaller portfolios from legacy systems, especially in the aviation sector, where the calculation of premiums not yet due cannot be easily evaluated due to the system. Assuming a claims cost ratio of almost 100% on future premiums, the effect on technical provisions as the sum of the not yet due portions of agent, broker and management commissions for existing contracts and administrative costs is negligible.

Where applicable, the premium reserve also includes other expected incoming payment flows, in particular from recourse, salvage and sharing agreements.

The calculation of the undiscounted premium reserves for outwards reinsurance is analogous to the gross reserves.

D.2.2 Claims equalization reserve

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

The undiscounted best estimates of future cash outflows for future payments in connection with losses already incurred at the balance sheet date are derived from the totals of the reserves for individual cases and IBNR reserves determined in accordance with IFRS.

In accordance with the reporting requirements under Solvency II, the claims equalization reserve for indemnity payments is determined separately from that for internal and external claims settlement expenses and separately from the claims equalization reserve for future recoveries, salvages and sharing agreements.

In addition, a partial loss reserve is formed separately for future premiums relating to loss events prior to the balance sheet date, in particular contractually agreed reinstatement premiums for losses reserved at the balance sheet date.

- Incurred losses: Correspond to the sum of individual and IBNR reserves (both excluding claims settlement expenses);
- Future costs and other outgoing cash flows: Resulting as the sum of the individual case and IBNR reserves for external claims settlement costs and the reserves for internal claims settlement costs;
- Future premiums: Contractual recovery premiums for reserved claims;
- Future income from recourse, salvages and sharing agreements for losses that have already occurred as of the balance sheet date.

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

D.2.3 Discounting

Premium and claims reserves are discounted by loss year, line of business, region and currency, separately for the cash flows described above.

The following variables are used to calculate the present value:

- Undiscounted premium and claims equalization reserve per loss year, line of business, region and currency;
- Expected payment pattern per reserve type, division and region;
- Risk-free yield curve per currency plus volatility adjustment per currency and maturity.

The following principles are applied:

- The yield curves for the various currencies are prescribed by EIOPA and made available by the Allianz Group to all Group companies;
- Discounting is calculated separately for premium and claims equalization reserve and by loss year, reserving segment and main currency (euro, US dollar, British pound, Australian dollar, Canadian dollar, South African rand, other). Reserves in currencies grouped under the main currency "other" are discounted using the EIOPA yield curve for euros;
- The cash flow forecast is based on payment patterns determined for each reservation segment as part of the annual reserve analysis;
- For the sake of simplicity, it is assumed that disbursements from the claims equalization and premium reserves are made on average in the middle of the year;
- The amounts recoverable from reinsurance contracts are calculated in the same way as gross reserves. In addition, the balance sheet item of recoverable amounts under Solvency II includes an adjustment for counterparty default risk;
- The same duration is used for technical provisions and the adjustment for possible bad debts.

AGCS SE applies a volatility adjustment for discounting – with the approval of BaFin – in accordance with §82 VAG. Compared with the use of yield curves with no volatility adjustment, this reduced the amount of technical provisions by € 39,434 thou in the reporting year. As a result, basic own funds increased by € 15,227 thou, an amount that is fully eligible for the Solvency Capital Requirement The Solvency Capital Requirement itself decreased by € 47,719 thou due to the use of the volatility adjustment.

In parallel, the own funds eligible for the Minimum Capital Requirement increased by € 19,027 thou, while the Minimum Capital Requirement decreased by € 2,250 thou.

D.2.4 Risk margin

There is no observable market value for technical provisions. Instead, the amount that would have to be paid to sell the liabilities to an independent "reference company" is estimated. For this purpose, a risk or market value margin (MVM) is applied in addition to the best estimate as the expected discounted cash flow. The MVM represents the cost of the capital that the acquiring company would have to hold during the liquidation.

The starting point for the capital costs applied is the Solvency Capital Requirement (SCR) under Solvency II, which, however, only covers the respective capital requirement over a period of one year. A time series of future SCRs must therefore be estimated for the MVM. The cost of capital rate to be applied has been set at 6% in accordance with Article 39 of the Solvency II Regulation, estimated as the cost of capital of the reference undertaking. Although the Allianz Group has adopted the approach recommended by the CRO Forum, it has adapted it to the company's circumstances and model environment. The approach was then made available to the subsidiaries in the form of a guideline and a calculation tool.

AGCS SE largely follows this recommendation, deviating from it by updating the risks for each quarterly statement to reflect the current trend of all risks.

The MVM is first calculated for AGCS SE as a whole and then allocated to the lines of business prescribed under Solvency II. The respective totals of the discounted risk time series of the insurance risks and, for small segments, also the insurance line of business are used as weights. Within the business segments, a breakdown is made between the claims equalization and the premium reserve

using the respective undiscounted reserves as weights. In the final step, both parts are further allocated and assigned to reporting segments and regions, with the respective reserves under IFRS serving as weights.

D.2.5 Overview of technical provisions

As the internal calculations are performed at the level of reserving segments, which differ from Solvency II segments, the latter are based on an appropriate allocation. The table presented on page 84 shows the technical provisions – non-life as of 31 December 2020 in accordance with the Solvency II segmentation.

D.2.6 Risk of change in technical provisions

AGCS SE examines the risk of change to which the underwriting claims reserves are subject on an annual basis. This ensures that the calculation of claims reserves and the analysis of the risk of change are based on the same principles: In 2019, claims settlement triangles as of the second quarter were used to analyze reserves.

The following approaches were applied for 2019 to ensure that the analysis of risk of change and the calculation of claims reserves are subject to the same calculation bases: Claims settlement triangles as of the second quarter were used for the analysis of reserves. The same data basis as of the third and fourth quarters was used for the analysis of the risk of change. To ensure that there were no data inconsistencies between the analysis of reserves and risk of change, the triangles were reconciled. The settlement pattern is also selected on the same basis: In both cases gross or gross after optional reinsurance.

In the context of technical provisions, the term "risk of change" is used to describe possible deviations between actual future expenses and those forecast today. In the area of claims reserves, the main drivers for negative deviations are subsequent notifications of claims or subsequent increases in expenses for already known claims, especially in long-tail lines of business, beyond the expected scope taken into account in the actuarial projection. These effects are modeled as reserve risk in the risk capital calculation. For example, on a probability of 90%, the amount of actual payouts after settlement of all claims will not exceed the reported reserve value (i.e. the current forecast) by more than 14.7% net.

In the case of the premium reserves, deviations arise from the "premium risk", i.e. the risk that premiums already agreed will not be sufficient to cover the associated expenses in the future. For example, a major flood or an unforeseen increase in the company's internal costs could lead to a deviation from the expenses currently forecast and included in the agreed premiums. These effects are also estimated as part of the risk capital calculation. For example, on a probability of 90% the amount of actual future expenses associated with the agreed premiums will not exceed the current forecast net by more than 16.4%. Expected profits included in future premiums (EPIFP) are calculated as future premiums less related expected costs and claims and insurance benefits. The latter are also subject to premium risk. Sensitivity analyses are also carried out to describe the degree of uncertainty. A sensitivity analysis has shown that 10% higher future claims and insurance benefits for unearned business would increase AGCS SE's gross undiscounted premium reserves by 84.7%, assuming no change in premiums. This high percentage value is due to the low base value used as the denominator resulting from a high proportion of premiums due but not yet overdue, and not to a high absolute change in the undiscounted gross premium reserve. This is a more significant relative increase than with the future claims and insurance benefits themselves, especially because the base value is lower due to future premiums. At the same time, EPIFP would decrease by 22.4%. Lapse rates have no material impact on the premium reserve of AGCS SE. Across the board, deviations from the forecast expenses may arise due to the delayed payment of claims and the associated interest on investments from provision items. Thus, according to internal calculations, a decrease in market interest rates by 1 percentage point would result in an increase of the currently reported technical provisions by approximately 4.4%. Another reason for deviations from the currently forecast expenses may result from future management decisions, for example with regard to reinsurance.

D.2.7 Explanation of the main differences between Solvency II and the German Commercial Code (HGB) with regard to the valuation of technical provisions and reinsurance recoverabes

While Solvency II and IFRS are based on the principle of the best estimate, HGB is subject to the principle of prudence. To determine a market value, future cash flows are discounted under Solvency II. The following section describes the main differences in the measurement of technical provisions between Solvency II and HGB.

D.2.7.1 PREMIUM RESERVE

When calculating the premium reserve, there are two main differences between Solvency II and HGB – apart from the discounting that only takes place under Solvency II: Firstly, the different recognition of future premium payments not yet due and, secondly, the different determination of the provision for future claims and expenses. In both cases, under HGB the expected share of the profit from the insurance contract relating to the part of the contract term after the balance sheet date is not yet realized, but is shown as part of the premium reserve. Under Solvency II, on the other hand, only the actually expected future cash flows are taken into account for the premium reserve within the framework of a market value approach.

Under HGB, a premium reserve is only formed for the portion of unearned premiums from existing insurance contracts, for which the premium is already due on the balance sheet date. For example, expected future premium income that is not yet due (for example, installment payments) is not shown in the HGB balance sheet. Under Solvency II, on the other hand, all future claims and costs that AGCS SE is contractually obliged to pay at the balance sheet date are recognized. In line with this valuation, the expected future contractually agreed premium payments less the expected

acquisition costs not yet due are also taken into account to reduce the provision.

In Solvency II and HGB, the provision for expected future claims and expenses (other than acquisition costs) is based on unearned premiums, i.e. the portion of premiums that relates to insurance benefits after the balance sheet date. As a rule, the contributions are distributed pro rata temporis over the term of the corresponding cover.

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

Under HGB, on the other hand, the premium reserve is derived directly from the transferable premiums deferred over the term of the contract. In contrast to IFRS, however, the premiums are reduced by a large part of the commissions paid, since these are premium components that cannot be transferred under HGB, for which the associated expense has already been incurred when the commission is paid, and may also not be spread over the term (cost deduction of 85% of the commissions in direct business and 92.5% in assumed business).

D.2.7.2 CLAIMS EQUALIZATION RESERVE

There are effectively no differences between the individual case reserves under IFRS/Solvency II and HGB. However, reserves for reinstatement premiums for open claims under an excess of loss treaty are shown under Solvency II as negative individual case reserves, whereas under HGB they are shown as reinsurance recoverables or (in the case of outwards reinsurance) as reinsurance liabilities.

Due to the principle of prudence, IBNR reserves are generally higher under HGB than under Solvency II. In particular, no negative IBNR reserves are calculated under HGB. The IFRS IBNR reserves form the basis for calculating the IBNR reserves under HGB. In a first step, these are increased for the relevant segments with the 75% percentile of the reserve risk available from the internal risk capital model. To ensure that no negative values are set despite the increase, a second step involves maximizing to zero or the calculated value. The HGB reserves per segment are therefore always greater than the corresponding IFRS values.

Whereas under HGB no discounting is provided for except for pension provisions, under Solvency II the present value principle applies: i.e. all future cash flows are discounted using the discounting curves (including volatility adjustment) specified by EIOPA.

This reduces the technical provisions under Solvency II by a further € 11,413 thou compared with HGB.

D.2.7.3 COUNTERPARTY DEFAULT RISK

For events that are already known (for example, in the event of a dispute regarding the scope of cover), the claims reserves under HGB includes an adjustment for bad debts against reinsurers.

Under Solvency II, in addition to this provision for already known events the adjustment for counterparty default risk for events not yet known is calculated in accordance with the simplified approach set out in Article 61 of the Solvency II Regulation. In 2020, this adjustment amounted to € 2,792 thou.

D.2.7.4 RISK MARGIN

Under Solvency II, the risk margin reflects that cost of capital that arises as part of the time value of money in a theoretical transfer of liabilities to a third party from uncertainty in the run-off of technical provisions. Solvency II assumes a cost of capital of 6%.

Under HGB, there is no provision for a risk margin beyond the safety margins implicitly included in the technical provisions. The claims equalization reserve plays a comparable role.

D.2.7.5 SPECIAL HGB REQUIREMENTS

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

- Claims equalization reserve in accordance with §29 RechVersV: This reserve serves to compensate for fluctuations in claims volumes over time. In good years, reserves are made for a possible above-average claims volumes in subsequent years.
- Reserves similar to the claims equalization reserve pursuant to §30 RechVersV serve to cover potential future losses from certain major risks (for example, nuclear plants).

The equalization reserves, which have to be set up under HGB, contribute a considerable portion of the difference between the technical provisions under HGB and Solvency II as of 31 December 2020. This did not affect all lines of business since equalization reserves per HGB line of business may only be set up under certain conditions.

The reconciliation of technical provisions from HGB to Solvency II is shown on page 87.

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

The actuarial methods used to calculate the technical provisions are effectively unchanged since the previous reporting period. In the general liability and financial lines segments, in addition to the results of our own analysis, however, the results of external analyses were also included in the calculation of the best estimate for the IBNR reserves. For Covid-19 claims in the general liability and financial lines segments, the best estimate of IBNR reserves was calculated using an actuarial model, which was developed in collaboration with the responsible underwriting and claims departments. For all other lines, the best estimate of IBNR reserves for Covid-19 claims is based on analysis and expert judgment by the claims, underwriting and reinsurance departments.

The negative management reserve booked in 2019 was reversed at the end of 2020.

D.3 OTHER LIABILITIES

Liabilities are measured at the amount at which they could be transferred or settled between knowledgeable, willing parties in an arm's length transaction. Below, the principles, methods and main assumptions used for the valuation for solvency purposes are described separately for each material group of other liabilities, and the main differences to HGB are explained:

D.3.1 Provisions other than technical provisions

These provisions are uncertain in terms of their maturity or amount. These include, in particular, provisions for anniversaries, partial retirement and early retirement obligations, working time accounts, provisions for share-based payment plans (AEI), provisions for commissions, bonuses and profit-sharing yet to be invoiced, provisions for expenses for the reorganization of the corporate structure and provisions for a long-term distribution agreement with Standard Chartered Bank.

Under supervisory law, recognition is in line with IFRS in accordance with IAS 37 at the amount that is reasonably required to settle the obligation at the balance sheet date (best estimate). For provisions with a term of more than one year, a present value approach is required insofar as discounting has a material effect on the carrying amount. In accordance with IAS 37, the discounting of these provisions is based on a market interest rate that reflects current market conditions.

In accordance with commercial law, provisions are generally recognized at the settlement amount deemed necessary by prudent business judgment. In accordance with §253 (2) HGB, provisions with a remaining term of more than one year must be discounted at the average market interest rate of the past seven fiscal years corresponding to their remaining term.

The various types of provisions are discussed in more detail below.

Table 28: Provisions other than technical provisions

€ thou

	Solvency II	HGB	Difference
Long-term distribution agreement with Standard Chartered Bank	45,203	45,203	-
Restructuring	38,526	38,888	385
Remunerations not yet definitively determined	39,510	39,606	-96
Invoices not yet received	36,550	36,550	-
Allianz Equity Incentives	23,348	18,164	5,184
Holidays and flexible working hours	15,168	15,168	-
Employee anniversaries	4,949	4,713	236
Premium deficiency reserve	-	2,618	-2,618
Other	8,298	7,331	967
Total	**211,552**	**207,496**	**4,056**

AGCS SE has obligations arising from anniversary payments, working time accounts, and partial and early retirement agreements. Provisions are created for these obligations, i.e. the obligation is offset against any existing offsettable cover or plan assets for the respective commitments.

As a general rule, the amounts shown in the solvency overview are those under IFRS. The valuation of the gross obligations mentioned above essentially follows that of the pension commitments on the basis of the same accounting assumptions. Only the actuarial interest rate differs, due to the shorter duration of 0.50%; it is otherwise calculated in the same way as for pension commitments.

For the valuation of gross liabilities in the commercial balance sheet, essentially the same principles, methods and assumptions are used as under Solvency II. The only exception is the discount rate of 1.60% to be applied under commercial law. Under commercial law provisions, this is determined as a seven-year average for a flat-rate residual term of 15 years.

For further information on the principles, methods and assumptions under supervisory and commercial law, we also refer to the item "Pension payment obligations."

The valuation differences under commercial and supervisory law result from the different discount rates.

D.3.1.1 PROVISIONS FOR SHARE-BASED PAYMENTS

The valuation difference of € 5,184 thou results from the different valuation methods. Measurement at fair value in accordance with Solvency II compares with the valuation under commercial law at the necessary settlement amount at the time of issue.

D.3.2 Pension benefit obligations

The pension benefit obligations, hereinafter called pension provisions, contain the net obligations from the company pension plan, i.e. the pension obligation is offset against the cover or plan assets subject to offsetting, if such assets exist for the pension plan. If the cover or plan assets to be netted exceed the pension obligations, no pension provision is formed; a surplus from pension benefits is reported instead.

AGCS SE has made pension commitments for which pension provisions have been created. Part of these pension commitments is secured within the framework of a contractual trust arrangement (Methusalem Trust e.V.). For some of these, cover or plan assets to be netted exist in the form of reinsurance policies or in the form of a capitalization product, in each case with Allianz Lebensversicherungs-AG.

The amounts according to IFRS are included in the solvency overview, whereby all existing pension commitments must be classified as defined benefit plans within the meaning of IAS 19.

Pension obligations are measured for regulatory purposes in accordance with the requirements of IAS 19 and on the basis of the following accounting assumptions, among others:

Table 29: Accounting assumptions for the measurement of pension obligations

%

Pension trend	1.30%
Assumed salary increase (incl. average career trend)	3.25%

In line with IFRS, the actuarial interest rate under supervisory law is calculated as the market interest rate for high quality corporate bonds (i.e. minimum rating of AA) as of the balance sheet date and amounts to 0.80% for pension obligations. In derogation of the aforementioned assumptions, a part of the pension commitments is based on the guaranteed pension trend of 1.00% per annum. The biometric calculation bases are modified on a company-specific basis using the 2005G mortality tables of Klaus Heubeck. The retirement age is set according to the pension contract or according to the 2007 Pension Insurance Retirement Age Adjustment Act (RV-Altersgrenzenanpassungsgesetz).

Trust assets, which represent offsetable plan assets, are recognized at asset value or market value.

For the valuation of the gross liabilities 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 rule in §253 (2) sentence 2 HGB (residual term of 15 years) is used.

As a result of a change in the law in 2016, the actuarial interest rate for pension obligations has since been calculated as a ten-year average instead of the previous seven-year average.

This amendment only applies to the measurement of pension obligations. As of the balance sheet date, a flat interest rate of 2.30% was applied.

The valuation differences under commercial and supervisory law result from the different discount rates.

In addition, for a pension plan that is shown centrally at Allianz SE in the commercial law and IFRS balance sheet, only AGCS SE shows a pension provision in the amount of the IFRS DBO (defined benefit obligation) and a reimbursement claim against Allianz SE in the same amount in the solvency overview.

By contrast, no pension provisions have been formed under HGB for another pension plan, as this is an indirect obligation and the company generally makes use of the option under Article 28 (1) sentence 2 of the Introductory Act to the German Commercial Code (EGHGB) not to form a provision for uncertain liabilities, even though the plan assets may be lower than the pension obligation. In the solvency overview, however, the underfunding resulting from the statutory adjustment of pensions under §16 of the Company Pension Act (Betriebsrentengesetz) to the consumer price index in accordance with IAS 19 is shown.

The alternative valuation method for pension payment obligations is explained in more detail in section D.4.

D.3.3 Deposits from reinsurers

Deposits from reinsurers arise from collateral for reinsurance cover retained by AGCS SE or ceded to AGCS SE by a reinsurer. Deposits retained on ceded business are valued under Solvency II at the sum of the discounted future interest payments and the nominal value of the collateral – distributed over the term depending on the contractual agreement.

99.9% of AGCS SE's deposits retained on assumed reinsurance arise from a cash deposit under a quota share reinsurance treaty with Allianz SE, for which an annual adjustment of the interest rate to the market rate has been agreed. Due to negative interest rates, the deposit liability had to be compounded under Solvency II by € 31,282 thou. € 198,406 thou of deposits retained on ceded business were reclassified in liabilities due.

Under HGB, deposits retained on ceded business are generally valued at their nominal amount.

D.3.4 Deferred tax liabilities

Deferred tax liabilities represent future tax burdens resulting from temporary differences between commercial and tax balance sheet valuations. The deferred tax liabilities under Solvency II of € 5,716 (10,147) thou mainly resulted from deferred tax liabilities from the special funds of € 186,262 (202,755) thou transferred to the Solvency II balance sheet, capitalized valuation reserves from loans and real estate, and adjustments to technical provisions. There are no temporary differences in the commercial balance sheet that would give rise to future tax burdens overall (§274 (1) HGB).

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

Table 30: Deferred tax liabilities

€ thou

	2020
Financial assets measured at fair value in the income statement	5,526
Financial investments	268,340
Deferred acquisition costs	6,036
Other assets	336,407
Intangible assets	0
Technical provisions	531,949
Provisions for pensions and similar obligations	37,327
Other liabilities	15,549
Netting	-1,195,419
Total after netting	**5,716**

D.3.5 Derivatives

For further information on the definition and valuation of derivative financial instruments, please refer to section D.1.4.6 Derivatives.

AGCS SE reduces the volatility of its annual results with the aid of currency derivatives. These are individually valued. Under HGB, the cost of purchase forms the upper value limits. In the case of negative market values, premium deficiency reserves are formed under HGB.

The different valuation methods pursuant to Solvency II and HGB lead to a difference of € 2,618 thou.

D.3.6 Financial liabilities other than debts owed to credit institutions

In the commercial balance sheet, lease payments are recognized exclusively in profit or loss, whereas under Solvency II (in accordance with IFRS 16) the present value of the contractually agreed future payment obligations is recognized under liabilities and the benefit derived therefrom is recognized under other assets

D.3.7 Insurance & intermediaries payables

Insurance & intermediaries payables under Solvency II are measured at fair value in accordance with IAS39 and Article14 of the Solvency II Regulation, without taking into account changes in own default risk. Where contractually permitted, receivables and liabilities are netted. Due to the short-term nature of the outstanding liabilities, discounting is not applied within the scope of the authoritative principle; therefore, as under HGB, liabilities to policyholders and intermediaries are recognized at the settlement amount.

Under Solvency II, liabilities due are reclassified as technical provisions, resulting in a difference of € 270,796 thou compared with the commercial balance sheet.

D.3.8 Reinsurance payables

Under Solvency II, reinsurance payables are also generally measured at fair value in accordance with IAS39 and Article 14 of the Solvency II Regulation, without taking into account changes in the Group's own default risk. Where contractually permitted, receivables and liabilities are netted. Due to the short-term nature of the outstanding liabilities, they are not discounted, so that the liabilities to reinsurers are recognized at the settlement amount, as under HGB.
Whereas under Solvency II reserves for reinstatement premiums are included in technical provisions as future cash outflows, these are shown as part of the liabilities to reinsurers under HGB. This results in a variance of € 41,200 thou.

The difference of € 354,522 thou compared with the commercial balance sheet was due to the reclassification of receivables due to premium reserves.

D.3.9 Payables (trade, not insurance)

Under Solvency II, these are measured at fair value in accordance with IAS 39 and Article 14 of the Solvency II Regulation, without taking into account changes in own default risk. Where contractually permitted, receivables and liabilities are netted.

Under HGB, liabilities are stated at the amounts payable on maturity.

D.3.10 Any other liabilities, not elsewhere shown

Other liabilities comprise all other liabilities, not elsewhere shown that are not covered by the other balance sheet items, in particular liabilities from profit transfers and tax allocations.

Under Solvency II, they are generally measured at fair value or at nominal value adjusted for the counterparty's probability of default, not taking into account adjustments for own default risk.

In accordance with commercial law, other liabilities are carried at their settlement amount.

Dividend payments made by trading partnerships during the year are recognized under Solvency II and shown as liabilities under HGB.

D.3.11 Material changes with respect to the prior reporting period

Compared to the previous reporting period, there were no changes in the approach used or in the valuation bases or estimates in the area of other liabilities.

D.4 ALTERNATIVE METHODS FOR VALUATION

The fair value of an asset or liability is 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. When determining fair value, more or less extensive estimates may be required depending on the proportion of unobservable input factors. AGCS SE aims to rely on as many observable input factors as possible in determining fair value and to minimize the use of unobservable input factors. Whether or not the value of an input is observable is influenced by a number of factors, including the type of asset, the existence of a market for the instrument, specific transaction characteristics, liquidity and general market conditions.

Estimates and assumptions are particularly important when determining the fair value of assets and liabilities for which at least one significant input factor is not based on observable market data. The availability of market data is determined by the trading activity of identical or similar instruments in the market. The focus is on data from actual market transactions or binding price quotes from brokers or dealers. If sufficient market data is not available, management's best estimate of a particular input factor is used to determine the value. For assets and liabilities measured at fair value that are not quoted in active markets, AGCS SE uses standard valuation methods that are consistent with the three approaches set out in the Solvency II Regulation:

Market-based method: Valuation by means of prices and other relevant data arising from market transactions involving identical or comparable assets or liabilities.

Income-based approach: Conversion of future cash flows or expenses and income into a monetary equivalent on the balance sheet date. The fair value reflects current market expectations. The income-based approach includes, for example, the present value method and option pricing models.

Cost-based or current replacement cost-based approach: Amount that would currently be required to replace the performance capacity of an asset (replacement cost).

The appropriateness of the alternative valuation methods is reviewed regularly. In this context, the parameters on which the valuation model is based are subject to a regular review. The updating frequency depends on the type of asset. For example, the parameters in the real estate sector are usually reviewed annually and adjusted if necessary; in the case of alternative assets, this is usually done on a quarterly basis. The yield curves used are updated daily. The parameters are updated in cooperation with our investment partners, our appraisers and auditors. In addition, each relevant company within the Allianz Group confirms the correctness of the procedures used to the parent company on a quarterly basis.

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

The income approach (income-based approach) is used to determine the fair values of investment property, as experience has shown this to be the most appropriate method. The valuation approach is based on a deterministic model of discounted cash flows.

The main influencing factors are the letting situation, the contractual rental amount, the operating costs and the applicable property interest rate. Valuation uncertainties lie in the determination of future cash flows, which are based on estimates of individual parameters such as the letting situation and local changes in rents.

Affiliated enterprises must be valued at market prices for identical assets on active markets. As there are no market prices quoted 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 of the Solvency II Regulation.

Under the adjusted equity method, the market value results from the proportionate excess of assets over liabilities within the affiliated enterprise. In the case of fully consolidated entities for which a corresponding balance sheet is available, this method is very accurate and well established in the market.

For affiliated enterprises other than insurance or reinsurance enterprises, the equity method may also be used if the adjusted equity method is not practicable. In this case, intangible assets and goodwill must be deducted from the value of the affiliated company.

For participations or entities that are not fully consolidated, for which a valuation using quoted market prices or the adjusted equity method is not possible, one of the above-mentioned alternative valuation methods is used. In general, this is the income-based approach. The investment value is therefore based on the two main assumptions for the expected cash surpluses and the discount rate.

If, in the case of the adjusted equity method, assets within the investments are themselves valued using models, the uncertainties that generally arise with valuation models exist. If the income capitalization method is used to value the investment, there are uncertainties in determining the cash surpluses and in determining the discount rate.

For the valuation of unlisted shares, price valuations by fund and portfolio managers are used. Valuation uncertainties arise due to inactive markets.

Prices from price providers are used to value exchange-traded government bonds, corporate bonds and collateralized securities. There may be valuation uncertainties due to inactive markets.

For non-exchange-traded bonds, the income-based approach is used as experience has shown that this is the most appropriate method. The assumptions regarding yield curves, issuer-specific spreads and cash flows are essential when calculating market value here. Valuation uncertainties lie in the own assessment of issuer-specific spreads due to creditworthiness risks and the own assessment of liquidity risks.

For the real estate funds included in the collective investment undertakings, the income-based approach is used to calculate the market prices as experience has shown that this is the most appropriate method.

The main influencing factors are the letting situation, the contractual rental amount, the operating costs and the applicable property interest rate.

Valuation uncertainties lie in the determination of future cash flows, which are based on estimates of individual parameters such as the letting situation and local changes in rents.

For the special funds included in the undertakings for collective investment, the adjusted equity method is applied, which means that the market value results from the proportionate excess of assets over

liabilities within the special fund. If, in the case of the adjusted equity method, assets within the special funds are themselves valued using models, the uncertainties that generally arise with valuation models exist.

The fair value of derivatives is determined using the income-based approach based on present value methods and the Black-Scholes Merton model. In the valuation, the volatilities usually observable on the market, the yield curves usually observable on the market and risk premiums observable on the market represent the most important inputs

Valuation uncertainties lie in the determination of future cash flows. In addition, the use of yield curves affects the calculation of market value.

The income-based approach is used to value loans and mortgages as experience has shown this to be the most appropriate method. The market value is therefore based on the assumptions for yield curves, issuer-specific spreads and cash flows. Valuation uncertainties arise due to inactive markets.

The defined calculation parameters for the pension payment obligations included in the balance sheet value are essentially the actuarial interest rate, the pension trend, the salary trend and biometric calculation bases as long-term assumptions, the validity of which must be reviewed regularly. The Global Actuary at Allianz SE documents the accounting assumptions (and also determines them). The fair value of the plan assets at the balance sheet date must be recognized for the assets.

The figures included in the solvency overview in accordance with IAS 19 are expected values in the sense of a "best estimate", i.e. they do not include any safety margins.

This is a model valuation using a deterministic method based on annually defined valuation assumptions and a calculation method specified in the standard (projected unit credit method).

There is no active market for receivables from insurance companies and intermediaries and for receivables from reinsurers, which is why the calculation is made using the income-based approach. As these items essentially only include short-term receivables, no discounting is applied and therefore the value to be recognized generally corresponds to the nominal value. Valuation uncertainties therefore only exist with regard to the counterparty's probability of default.

D.5 ANY OTHER INFORMATION

All essential information on valuation for solvency purposes is already included in sections D.1 to D.4 inclusive.

CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 Objectives, policies and processes

An important prerequisite for sustainable business activity and corporate governance is the capital resources of AGCS SE. For this reason, AGCS SE pursues the goal of ensuring that the capital resources of the company and its branch offices are adequate at all times, both quantitatively and qualitatively, in view of the statutory requirements. At the same time, the objective is to achieve the most efficient capitalization possible in order to optimize profits in relation to the capital employed.

To achieve these objectives, the company manages its capital through the risk appetite defined in the risk strategy and the objectives, management principles and processes set out in the AGCS Global Capital Management Policy. The risk strategy is part of the risk management system and defines the risk appetite of AGCS SE (see section B.3). The AGCS Global Capital Management Policy describes the roles, responsibilities and processes designed to ensure that the company is adequately capitalized at all times. The capital management processes are in turn an integral part of the ORSA process (see section B.3).

For the implementation of the risk strategy, AGCS SE defines its risk appetite with regard to its capitalization by means of a target and a minimum capitalization, among other things. These internal control parameters each include a buffer above the 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. This is intended to ensure sufficient capital resources – even if defined stress scenarios occur. At the same time, strategic priorities such as growth markets or orientation towards customer expectations are taken into account when setting the target capitalization.

Capital resources are monitored and evaluated regularly during the year – at least once a quarter. The drivers that may have led to a deviation of the capitalization from the target capitalization are identified for the assessment. The expected impact of developments and measures that may influence future capitalization are also taken into account in the valuation. All results, assessments and capital management measures are initially reported to the Chief Financial Officer of AGCS SE as part of the top risk assessment process (see section B.3). The management is then regularly informed and, if necessary, capital management measures are submitted to it for a decision. If the capitalization is below the minimum capitalization, this will lead to measures being examined to bring the capitalization back to the target capitalization.

Target and minimum capitalization are reviewed annually as part of the capital and dividend plan within the scope of the planning process, redetermined as necessary and approved by management as part of the risk strategy. The business plan is drawn up with particular regard to its impact on capital resources; the aim is to maintain the target capitalization over the planning horizon of three years.

The integrated capital management approach of the parent company Allianz SE provides that surplus capital exceeding the target capitalization is transferred to Allianz SE. The latter then manages the own funds centrally in order to maximize their efficient use and fungibility. Allianz SE maintains a liquidity buffer that is available for potential capital increases.

In the capital management of AGCS SE, there were no changes to the objectives or the procedures applied in the reporting period.

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 amounted to € 2,956,976 thou; in contrast, the excess of assets over liabilities in the commercial balance sheet (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 HGB result from different recognition and measurement rules in the two regimes. Detailed explanations of the measurement differences of individual balance sheet items can be found in section D of this report. The following overview shows the main items in which the valuation rules of commercial law accounting differ from Solvency II. The table shows the reconciliation of 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	2,443,954
Participations	-1,470,394
Adjustments for technical provisions (net)	1,449,868
Risk margin	-211,476
Elimination of equalization reserves or similar reserves	512,935
Elimination of intangible assets	-194,567
Revaluation of other assets and liabilities	-822,688
Change in deferred taxes	105,110
Solvency II revaluation total	**1,812,739**
Solvency II basic own funds	**2,956,976**

E.1.3 Basic own funds and available own funds

Own funds amounting to € 2,956,976 thou consisted exclusively of basic own funds. These were identical to the excess of assets over liabilities from the market value balance sheet. There were no additional own funds and no deductions reducing the available own funds.

Own funds consisted of € 2,846,150 thou of own funds in quality class 1 (Tier 1) and € 110,826 thou of own funds in quality class 3 (Tier 3). Own funds that met the requirements of Tier 1 consisted of the following: € 36,741 thou from the paid-in share capital, € 537,434 thou from the issue premium attributable to the share capital and € 2,271,975 thou from an equalization reserve. The equalization reserve

consisted of the retained earnings in the amount of € 8,355 thou, the capital reserve in the amount of € 561,707 thou and valuation differences between commercial and supervisory law. The own funds were not restricted and could be used without restriction to cover losses. The following table shows in detail the components of the basic own funds and the corresponding classification into quality classes in detail:

Table 32: Composition of basic own funds

€ thou

	Total	Tier 1 not restricted	Tier 3
Paid-in share capital	36,741	36,741	
Issue premium due to share capital	537,434	537,434	
Equalization reserve	2,271,975	2,271,975	
Amount equal to the value of deferred tax assets	110,826		110,826
Basic own funds	**2,956,976**	**2,846,150**	**110,826**

A control and profit transfer agreement exists with Allianz SE. This resulted in claims for the assumption of losses, which were included in the balance sheet of AGCS SE. A deduction of foreseeable dividends was therefore not made.

E.1.4 Eligible own funds

The classification into quality classes follows the criteria described in Articles 93 to 96 and Articles 69 to 78 of the Solvency II Regulation. The following are classified as Tier 1: the share capital, the issue premium attributable to the share capital and the equalization reserve; the amount equal to the value of the deferred tax assets is classified as Tier 3 own funds.

The eligible own funds are obtained by applying the quantitative tier limits to the available own funds. As of 31 December 2020, this had no impact on the amount or structure of eligible own funds.

Total basic own funds of € 2,956,976 thou were available to meet the Solvency Capital Requirement (SCR). Own funds used to meet the Minimum Capital Requirement (MCR) consisted of Tier 1 basic own funds and amounted to € 2,846,150 thou.

Table 33: Composition of eligible own funds

€ thou

	Total	Tier 1 not restricted	Tier 2	Tier 3
Eligible own funds to SCR	2,956,976	2,846,150		110,826
Eligible own funds to MCR	2,846,150	2,846,150		

E.1.5 Change in own funds

The eligible own funds fell by € 159,068 thou (5%) from € 3,116,044 thou at year-end 2019 to € 2,956,976 thou at the end of the reporting year. The main reason for this is a € 200,671 thou reduction in the equalization reserve, while deferred tax assets rose by € 11,602 thou. Eligible own funds continued to consist largely of quality class 1 own funds.

Table 34: Change in own funds

€ thou

		2020	2019
Tier 1	Paid-in share capital	36,741	36,741
	Issue premium due to share capital	537,434	537,434
	Equalization reserve	2,271,975	2,472,646
Tier 3	Amount equal to the value of deferred tax assets	110,826	69,224
Total	**Own funds**	**2,956,976**	**3,116,044**

One of the main reasons for the decline in the equalisation reserve was the lower values of investments in special funds due to the negative market development and the temporary disposal of the equity holdings in the first quarter. Another reason was the lower value of the investment in AGCS International Holding B.V. It was recognised in the amount of its Solvency II own funds, which in turn fell due to the lower investment value in AGR US. This was offset by a lower increase in the equalisation reserve resulting from the control and profit transfer agreement with Allianz SE (the negative corporate result according to IFRS was lower than the result according to HGB, which was offset by the loss transfer). The reasons for the increase in deferred tax assets are largely attributable to an increase in deferred tax assets on technical provisions.

AGCS SE's asset-liability management enables largely congruent coverage of all underwriting liabilities with assets with regard to their duration and currency structure, thus reducing the fluctuation of the equalization reserve. Detailed explanations on the management of market risks can be found in section C.2 of this report. The potential volatility that may be reflected in the balancing reserve stems primarily from exchange rate fluctuations from the company's strategic investments and market risks that are deliberately entered into to a limited extent for return considerations.

AGCS SE is not planning any fundamental changes in the composition of its own funds components.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 Solvency Capital Requirement as of the end of 2020

To calculate the Solvency Capital Requirement, AGCS SE uses the Allianz Group internal model, which was unconditionally approved by BaFin in November 2015.

As of 31 December 2020, the diversified risk capital after tax amounted to € 1,841,451 thou. The material risk contributions originated from market and from underwriting risks. The market risk fell in 2020 as a result of the sale of shares in the first quarter in response to the capital market fluctuations triggered by Covid-19. This significantly reduced the equity and foreign currency risk. The inflation risk for the APV pension funds, which was introduced as a result of a model change, had a risk-increasing effect. The underwriting risks declined only marginally compared to the previous year, as the increased reserve risk was compensated by a decline in the premium risks. The annual update of the parameters for the reserve risk showed higher volatilities, especially for liability risks. Volume effects from subsequent reserves for previous years and provisions for Covid-19 claims also contributed to the increase in the reserve risk a lesser extent. The modelled premium risk decreased above all due to the positive price development as well as higher proportional reinsurance. The entire diversified risk capital declined by -7% year-on-year, resulting in solvency ratio of 161% at the end of the reporting period.

Table 35: Solvency Capital Requirements

€ thou

	2020	2019
Market risk	1,955,126	2,276,904
Credit risk	169,300	141,233
Longevity	22,901	18,497
Underwriting risk (non-life insurance)	1,603,399	1,627,831
Business risk	100,765	98,505
Operational risk	154,421	176,105
Capital requirements before diversification	4,005,912	4,339,076
Diversification	-2,159,137	-2,331,219
Diversified capital requirement before taxes	1,846,775	2,007,857
Tax effect	-5,325	-27,133
Diversified capital requirements incl. taxes	**1,841,450**	**1,980,724**

The Minimum Capital Requirement is calculated in accordance with the regulatory requirements dependent on the Solvency Capital Requirement and amounted to € 542,028 thou at the end of the reporting period. This resulted in a ratio of 525%.

There were no material changes in the calculation of the Solvency Capital Requirement and the Minimum Capital Requirement at AGCS SE during the reporting period. 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 directive into national law, Germany did not make use of the option to allow the use of a duration-based sub-module for the equity risk.

Hence, the Allianz Group internal model used by AGCS SE to calculate the Solvency Capital Requirement does not include a duration-based sub-module for the equity risk. It is therefore not relevant for AGCS SE.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

The internal model is used for various purposes, in particular to estimate and compare different risk categories and segments. It is a fundamental component of risk-based and forward-looking management. In addition, the risk capital calculated on the basis of the internal model reflects more accurately the underlying business compared with the standard Solvency II formula.

This section first describes the scope of the internal model and the underlying methodology, followed by the methods for the aggregation of risk categories, as well as an overview of the differences between the internal model and the standard formula.

The internal risk capital model of the Allianz Group and AGCS SE is based on a Value-at-Risk (VaR) approach using Monte Carlo simulation. The starting point for determining risk is the market value balance sheet (solvency overview) and the allocation of individual items 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 the credit risk category.

Risk capital is defined as the change occurring in the economic value over the planned time period, based on the distribution assumptions for each risk factor. To the extent possible, the distributions are calibrated on the basis of market data or our own internal historical data, for example, in order to determine actuarial assumptions. In addition, recommendations are taken into account from the insurance industry, supervisory authorities and actuarial associations.

In line with this approach, the maximum loss of the portfolio value of the transactions is determined within the scope of the model within a specified timeframe (holding period) and probability of occurrence (confidence level). The risk capital is calculated as the 99.5 per cent value-at-risk from the profit and loss distribution for a holding period of one year, whereby in each scenario the change in economic value is derived from the joint realization of all risk factors. This 200-year event is modeled as an immediate loss shock for all balance sheet items.

The internal model contains various risk categories, which in turn can be subdivided into different risk types. For each level, the internal model provides the risk indicators on a stand-alone basis, i.e. before diversification to other risk types or categories, but also at an aggregated level taking the diversification into account (see section C on aggregation). A more detailed description of the individual risk categories can be found in section C. Risk profile.

A simplified illustration of the structure of the internal model used by AGCS SE and the standard model can be found in the annex to this report.

A standard industry approach, the Gaussian copula approach, is used for the aggregation of risks. The dependency structure between the risks of the copula is represented by a correlation matrix. Where possible, the correlation parameter for each pair of markets is determined by statistically evaluating historical market data based on quarterly observations over several years. To the extent that historical market data or other portfolio-specific observations are not available or are insufficient, correlations are determined according to a clearly defined, Group-wide process by the Correlation Settings Committee, which brings together the expertise of risk and business experts. This committee generally sets the correlation parameters with the aim of presenting the joint movement of risks under adverse conditions.

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

The key methodological difference between the standard formula and the internal model is that the standard formula uses factor-based shocks. In contrast, the internal model derives the risk capital by simulating each risk carrier (and its respective economic outcome impact) based on the assumed distribution of and dependence on other risk drivers.

The table "Differences between the standard formula and the internal model by risk module" presented in the annex provides an overview of the differences between the standard formula and the internal model per risk category/type.

For market risk, in addition to the differences mentioned in the table above, there is a structural difference between the internal model and the standard formula with regard to the consideration of volatility risk. Interest rate and equity volatility risk are explicitly taken into account in the internal model, while the standard formula includes these risk types only implicitly in the calibration of the shocks. However, these risk categories exert very little influence on the risk capital of AGCS SE.

In contrast to the standard formula, the internal model also takes into account the inflation risk that may result from the possible impact of the volatility of consumer price indices on the underwriting risks.

For non-life underwriting risk, the difference between the risks of the internal model and the standard formula is very limited. The main categories are reflected in both models; similarly, there is no material risk that is covered by the standard formula but not by the internal model. The crucial difference lies in the modeling.

The longevity risk for pension obligations (for AGCS as a property and casualty insurer, it is limited to the longevity risks of the pension liabilities built up for the employees) and the business risk are covered exclusively by the internal model, but not by the standard formula. All other risk categories of the internal model are at least implicitly covered by the standard formula.

Contrary to the counterparty default risk module of the standard formula, the credit risk module of the internal model covers the entire bond and loan portfolio, as well as credit insurance risks. This approach allows diversification and concentration effects to be modeled across all credit-risk-related investments.

The operational risk capital for the standard formula is calculated using a factor-based approach and in the internal model is based on Group-wide operational risk management (described in section C.5); this leads to adequate risk coverage.

Different data sources are used for the input data of the internal model and for the calibration of parameters (see also previous sections, in particular section B). Where appropriate, the input data is identical to the data used for other purposes, for example, for local or IFRS and MVBS accounting? The adequacy of this data is reviewed internally on a regular basis.

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 the capital management. Compliance is monitored regularly and reported once every quarter or on an ad-hoc basis to the Board of Management as required. AGCS SE's Minimum Capital Requirement and Solvency Capital Requirement were met during the entire reporting period.

E.6 ANY OTHER INFORMATION

All relevant disclosures on the capital management of AGCS SE are included in the preceding notes.

ANNEX

Figure 1: Simplified overview of the AGCS SE structure

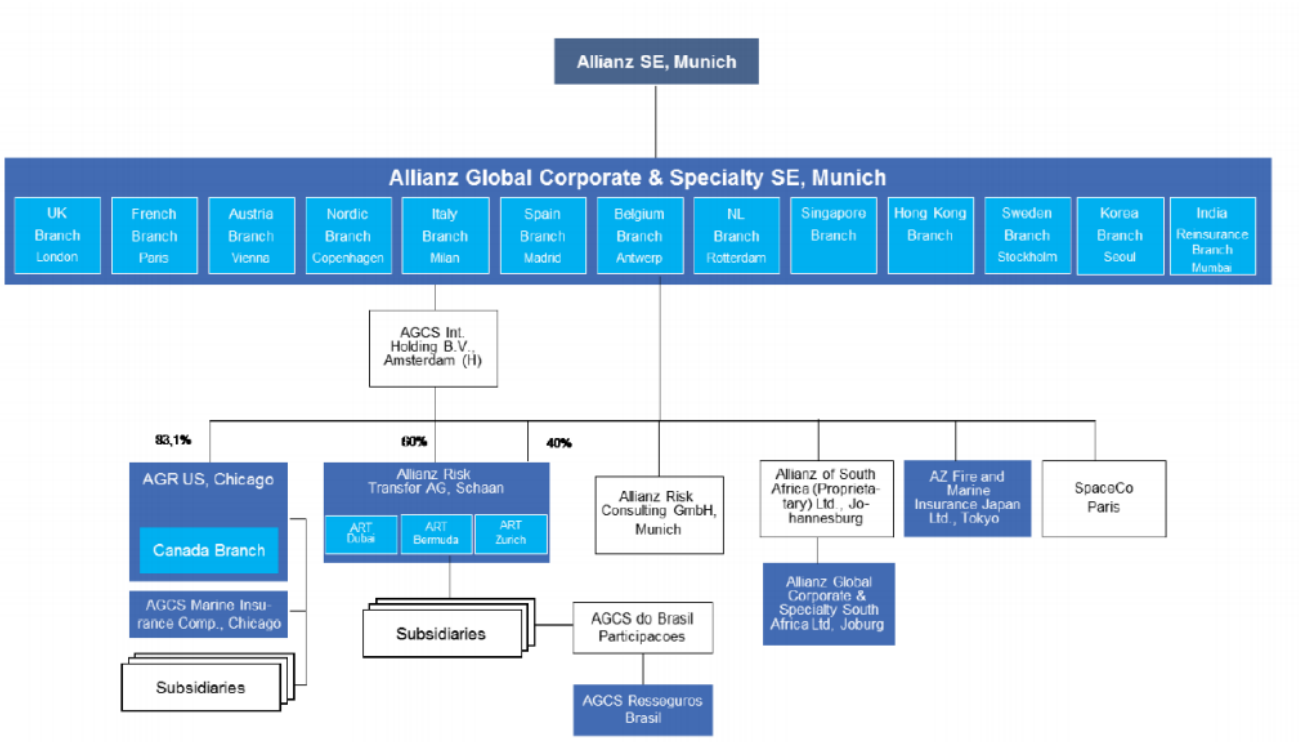


Figure 2: ORSA process

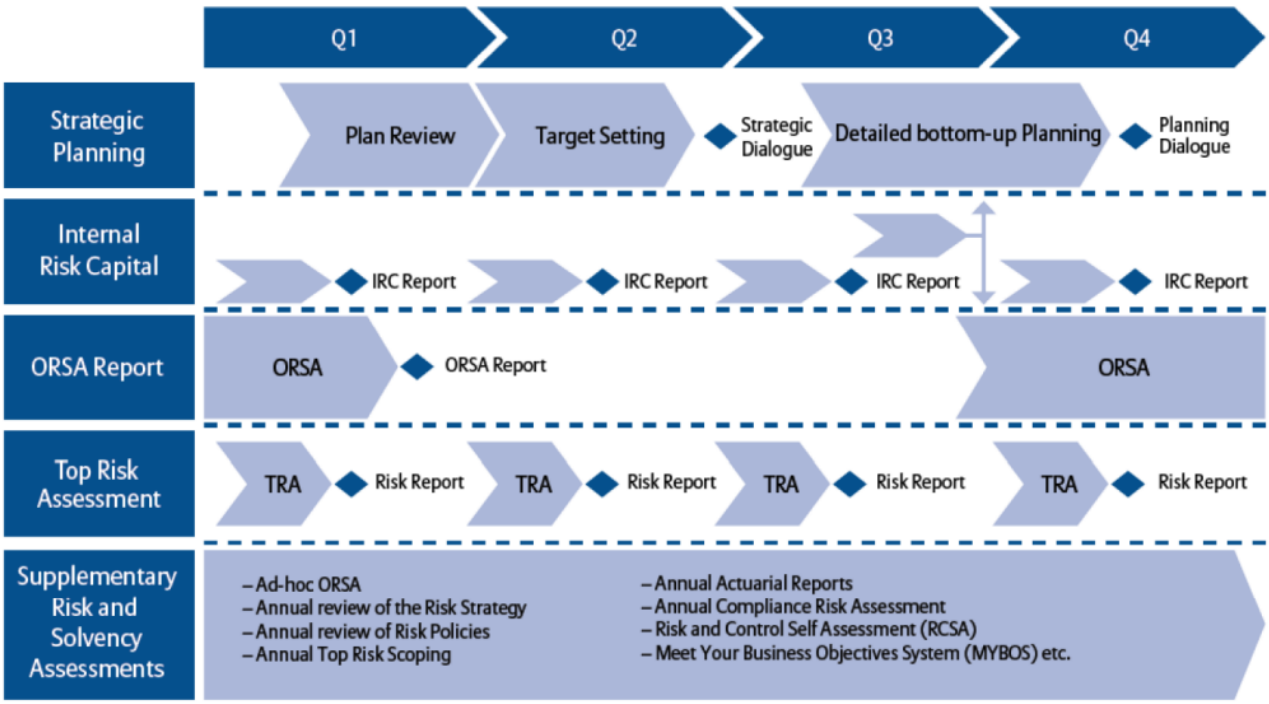


Table 36: Technical Provisions

	Best estimate		
		Premium reserves	
	Gross	Gross	Gross
Direct insurance business			
General Liability Insurance	50 560	217 325	-166 764
Fire and Other Property Insurance	63 045	134 010	-70 965
Marine, Aviation and Transport Insurance	-72 471	20 689	-93 161
Miscellaneous Financial Loss	45 189	-154 906	200 095
Other insurances	3 925	8 250	-4 325
Sub-total	90 248	225 368	-135 120
Proportional reinsurance accepted			
General Liability Insurance	64 329	78 994	-14 665
Fire and Other Property Insurance	9 322	21 300	-11 978
Marine, Aviation and Transport Insurance	-21 155	9 588	-30 743
Miscellaneous Financial Loss	7 625	-63 367	70 991
Other insurances	3 180	548	2 632
Sub-total	63 301	47 063	16 237
Non-proportional reinsurance accepted			
Non-proportional health reinsurance	-	-	-
Non-proportional property reinsurance	-45 041	-3 761	-41 279
Non-proportional liability reinsurance	3 355	14 536	-11 181
Non-proportional marine, aviation and transport reinsurance	-617	8 010	-8 627
Sub-total	-42 303	18 785	-61 087
Total	**111 246**	**291 216**	**-179 970**

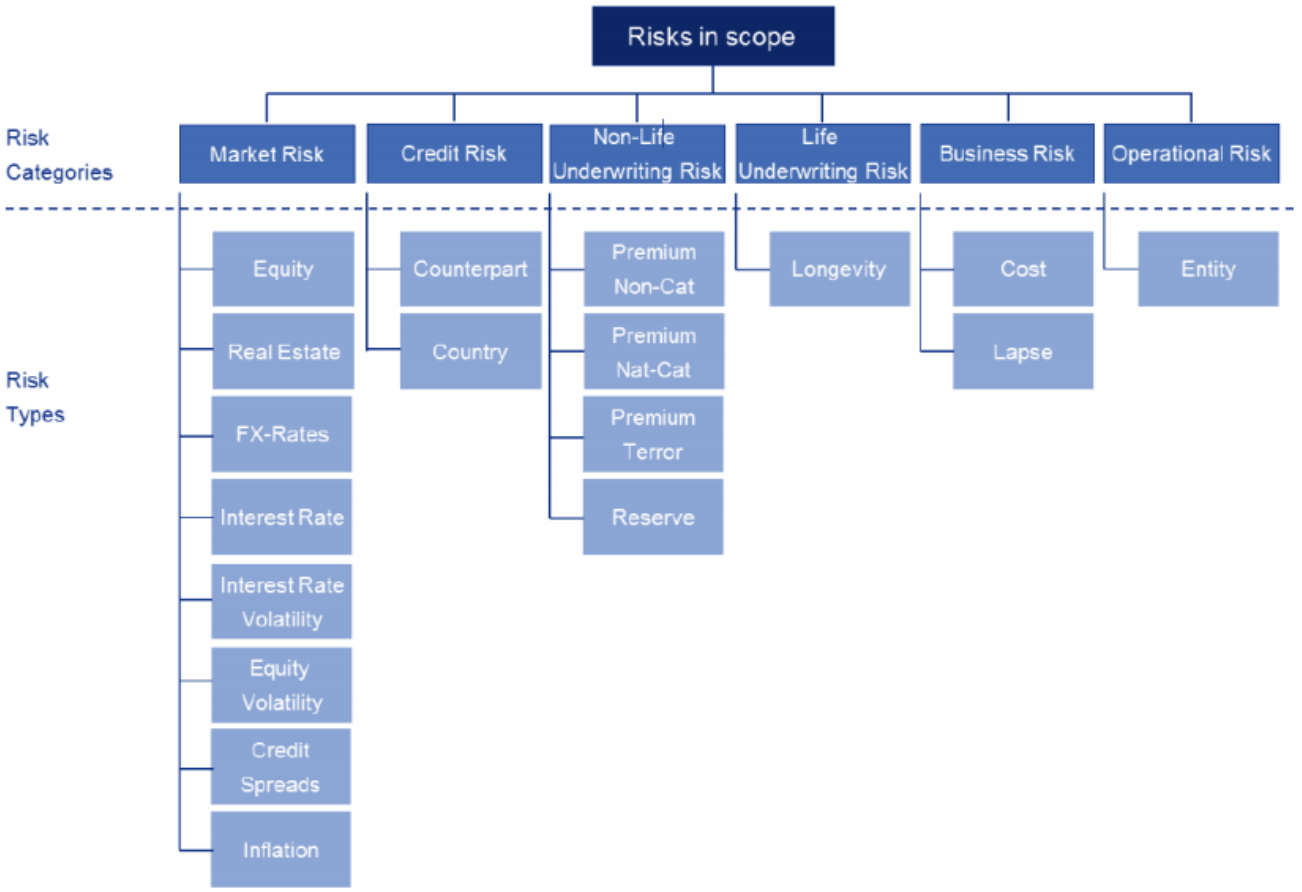
			Best estimate			
	Claims reserves					
Gross	Reinsurance recoverables	Net	Gross total	Net total	Risk margin	Net Technical Provisions
3 591 018	1 880 397	1 710 620	3 641 578	1 543 856	99 510	1 643 366
854 179	452 287	401 891	917 224	330 926	22 738	353 664
726 089	459 513	266 576	653 618	173 415	7 646	181 061
245 646	143 685	101 962	290 835	302 057	2 247	304 304
29 177	25 515	3 662	33 102	-663	428	-235
5 446 109	2 961 397	2 484 711	5 536 357	2 349 591	132 569	2 482 160
1 561 399	1 145 073	416 326	1 625 728	401 661	44 241	445 902
899 196	616 668	282 527	908 517	270 549	17 304	287 853
513 696	386 840	126 856	492 541	96 113	4 360	100 473
206 098	125 085	81 013	213 723	152 004	1 557	153 562
9 025	7 414	1 611	12 204	4 242	173	4 416
3 189 414	2 281 080	908 333	3 252 713	924 569	67 635	992 206
21	21	-	21	-	-	-
302 521	237 063	65 458	257 480	24 178	6 935	31 113
239 989	162 071	77 918	243 344	66 737	4 153	70 890
28 676	29 751	-1 076	28 059	-9 702	184	-9 519
571 207	428 906	142 300	528 904	81 213	11 272	92 484
9 206 730	**5 671 383**	**3 535 347**	**9 317 976**	**3 355 377**	**211 476**	**3 566 853**

Table 37: Technical provisions - reconciliation from HGB to Solvency II

	Insurance reserves pursuant to HGB	Reclassifications	Revaluation of the premium provision (undiscounted)
Direct insurance business			
Medical expenses insurance	3 771	-	-428
Workers' compensation	-	-	-
Income protection reinsurance	1 667	-	-6 628
Motor vehicle liability insurance	-1 048	-	-196
Other Motor Insurance	3 734	-	-495
General Liability Insurance	415 327	3 550	-36 768
Fire and Other Property Insurance	727 596	7 210	-61 474
Marine, Aviation and Transport Insurance	2 132 012	786	-141 235
Legal Expenses Insurance	-	-	-
Assistance Insurance	76	-	-15
Credit and Suretyship Insurance	-	-	-
Miscellaneous Financial Loss	182 925	461	-3 241
Sub-total	3 466 060	12 007	-250 480
Proportional reinsurance accepted			
Medical expenses insurance	4 333	-	414
Workers' compensation	5	-	-4
Income protection reinsurance	41	9	-73
Motor vehicle liability insurance	-	-	-
Other Motor Insurance	-	-	-
Marine, Aviation and Transport Insurance	254 600	3 838	-17 410
Fire and Other Property Insurance	504 260	2 507	-163 120
General Liability Insurance	735 280	-	1 400
Assistance Insurance	-	-	-
Miscellaneous Financial Loss	114 929	1 067	-3 769
Sub-total	1 613 448	7 421	-182 562
Non-proportional reinsurance accepted			
Non-proportional health reinsurance	-	-	-
Non-proportional liability reinsurance	107 967	334	4 738
Non-proportional marine, aviation and transport reinsurance	-1 515	170	-4 831
Non-proportional property reinsurance	137 975	-13 501	-41 319
Sub-total	244 427	-12 997	-41 412
Total	**5 323 935**	**6 431**	**-474 454**

Revaluation of claims reserves (undiscounted)	Discounting of future cash flows	Adjustment for counter-party 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
-317	41	4	168	-	3 239	532
-	-	-	-	-	-	-
-81	9	-	122	-	-4 910	6 577
45	-8	4	9	-	-1 193	146
-132	18	6	127	-659	2 600	1 134
-60 681	-455	473	7 646	-88 981	240 110	175 217
-152 773	9 451	146	22 738	-53 028	499 864	227 732
-375 973	-8 594	1 238	99 509	-20 246	1 687 498	444 515
-	-	-	-	-	-	-
-	-	-	3	-	64	12
-	1	-	-	-	1	-1
-84 845	173	73	2 247	-288	97 505	85 420
-674 757	636	1 944	132 569	-163 202	2 524 778	941 284
-388	-36	-	189	-	4 511	-178
-	-	-	-	-	1	4
-3	-	-	-16	-	-42	83
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-40 655	-710	127	4 360	-91 770	112 381	142 219
-41 349	203	239	17 304	-74 973	245 072	259 189
-159 708	-9 553	321	44 241	-182 989	428 992	306 288
-	-	-	-	-	-	-
-13 484	-375	96	1 557	-	100 023	14 907
-255 587	-10 471	783	67 635	-349 732	890 938	722 512
-	-	-	-	-	-	-
-22 999	-1 446	18	4 153	-	92 766	15 202
3 578	-62	25	184	-	-2 452	937
-29 221	-69	21	6 936	-	60 823	77 152
-48 642	-1 577	64	11 273	-	151 137	93 291
-978 986	**-11 412**	**2 791**	**211 477**	**-512 934**	**3 566 853**	**1 757 087**

Figure 3: The structure of the internal model



The structure of the standard model

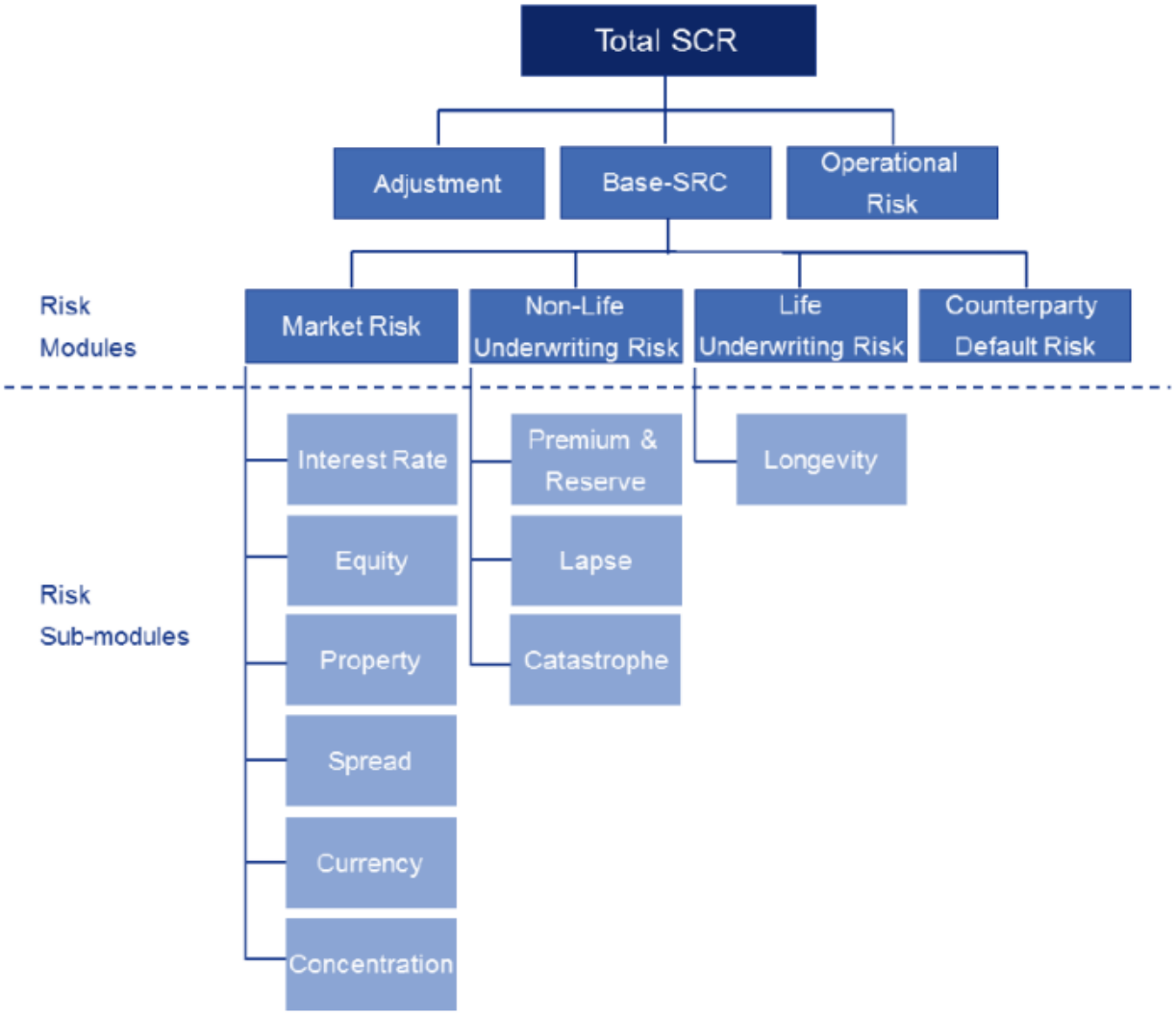

Total SCR
Adjustment
Base-SRC
Operational Risk
Risk Modules
Market Risk
Non-Life Underwriting Risk
Life Underwriting Risk
Counterparty Default Risk
Risk Sub-modules
Interest Rate
Equity
Property
Spread
Currency
Concentration
Premium & Reserve
Lapse
Catastrophe
Longevity

Table 38: Differences between the standard formula and the Internal Model by risk module

Risk category/type	Standard formula [1]	Internal Model [1]
Equity	– 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	– 30% - 60% for indices – 15% - 80% for private equity, depending on risk classification – Volatility shock – 35% for strategic interests
Interest rate	– Up / down shock as percentage change of the yield curve depending on terms to maturity, min. up shock of 100 bp (1 bp = 0.01%) – No volatility shock	– Changes of the yield curve taken into account as Twist, long-term shock of 65 bps – Volatility shock
Real estate	– 25% for all real estate	– 15% - 35% for country-specific real estate indices
Credit spread	– 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	– 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	– +/- 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	– 10% - 35% for different currencies vs. EUR – Diversification/netting between individual currencies
Inflation	– Pursuant to the EIOPA directive, not modelled in the standard formula	– Parallel shock to the inflation curve in the amount of 100 bps-200 bps for main currencies
Concentration	– Formula based on volume, rating, and total assets held	– Implicitly covered in the credit risk models
Credit risk/counter party default risk	– 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	– 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	[not relevant to AGCS SE] – 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	[only the longevity risk is relevant to AGCS SE in respect of the modeling of pension commitments] – 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	– 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)	– 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	– 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.	– 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	[not relevant to AGCS SE] – 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	– Since SCR figures are calculated directly on a net basis, no adjustment is made
Intangible asset risk	– 80% of intangible assets recognized	– Intangible asset risk is not covered by the Internal Model
Operational risk	– Factor-based approach based on earned premium amount and insurance reserves	– Scenario-based risk model – Risk identification in each operating entity – Model is based on the aggregation of loss frequency and loss severity distributions
Aggregation	– Simple correlation-based approach	– Central setting of parameters – (correlations/geographic hierarchy, risk capital supplements, risk measurement and aggregation key) – Correlation matrix algorithm (Copula approach) – Aggregation hierarchy

		Solvency II Value
		C0010
ASSETS		
Intangible assets	R0030	-
Deferred tax assets	R0040	110 826
Pension benefit surplus	R0050	-
Property, plant and equipment for own use	R0060	66 661
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	8 153 778
Property (other than for own use)	R0080	144 576
Holdings in related undertakings, including participations	R0090	2 674 873
Equities	R0100	3 907
Equities – listed	R0110	-
Equities – unlisted	R0120	3 907
Bonds	R0130	2 683 398
Government bonds	R0140	1 273 738
Corporate bonds	R0150	1 344 789
Structured notes	R0160	-
Collateralised securities	R0170	64 871
Collective Investment Undertakings	R0180	2 537 604
Derivatives	R0190	40 585
Deposits other than cash equivalents	R0200	68 836
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	-
Loans and mortgages	R0230	631 623
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	631 623
Reinsurance recoverables from:	R0270	5 962 600
Non-life and health similar to non-life	R0280	5 962 600
Non-life excluding health	R0290	5 947 828
Health similar to non-life	R0300	14 773
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	-
Health similar to life	R0320	-
Life excluding health and index-linked insurances and unit-linked	R0330	-
Life index-linked and unit-linked	R0340	-
Deposits to cedants	R0350	87 548
Insurance and intermediaries receivables	R0360	124 373
Reinsurance receivables	R0370	32 448
Receivables (trade, not insurance)	R0380	908 950
Own shares (held directly)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	113 955
Any other assets, not elsewhere shown	R0420	1 456
Total assets	**R0500**	**16 194 218**

		Solvency II Value
		C0010
LIABILITIES		
Technical provisions – non-life	R0510	9 529 450
Technical provisions – non-life (excluding health)	R0520	9 512 022
TP calculated as a whole	R0530	-
Best Estimate	R0540	9 301 009
Risk Margin	R0550	211 013
Technical provisions – health (similar to non-life)	R0560	17 429
TP calculated as a whole	R0570	-
Best Estimate	R0580	16 966
Risk Margin	R0590	463
Technical provisions - life (excluding index-linked and unit-linked)	R0600	-
Technical provisions - health (similar to life)	R0610	-
TP calculated as a whole	R0620	-
Best Estimate	R0630	-
Risk Margin	R0640	-
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	-
TP calculated as a whole	R0660	-
Best Estimate	R0670	-
Risk Margin	R0680	-
Technical provisions - index-linked and unit-linked	R0690	-
TP calculated as a whole	R0700	-
Best Estimate	R0710	-
Risk Margin	R0720	-
Other technical provisions	R0730	-
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	211 552
Pension benefit obligations	R0760	150 552
Deposits from reinsurers	R0770	2 844 379
Deferred tax liabilities	R0780	5 716
Derivatives	R0790	2 618
Debts owed to credit institutions	R0800	-
Debts owed to credit institutions	R0810	48 193
Insurance & intermediaries payables	R0820	53 166
Reinsurance payables	R0830	49 458
Payables (trade, not insurance)	R0840	81 893
Subordinated liabilities	R0850	-
Subordinated liabilities not in BOF	R0860	-
Subordinated liabilities in BOF	R0870	-
Any other liabilities, not elsewhere shown	R0880	260 263
Total liabilities	R0900	13 237 242
Excess of assets over liabilities	**R1000**	**2 956 976**

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	12 109	4 297	-
Gross – Proportional reinsurance accepted	R0120	3 974	1 935	-
Gross – Non-proportional reinsurance accepted	R0130			
Reinsurers' share	R0140	11 838	4 677	-
Net	R0200	4 245	1 556	-
Premiums earned				
Gross – Direct Business	R0210	11 842	4 255	-
Gross – Proportional reinsurance accepted	R0220	4 642	1 901	141
Gross – Non-proportional reinsurance accepted	R0230			
Reinsurers' share	R0240	10 972	4 663	103
Net	R0300	5 512	1 494	38
Claims incurred				
Gross – Direct Business	R0310	5 517	417	-
Gross – Proportional reinsurance accepted	R0320	7 641	-573	93
Gross – Non-proportional reinsurance accepted	R0330			
Reinsurers' share	R0340	14 742	-273	93
Net	R0400	-1 585	117	-
Changes in other technical provisions				
Gross – Direct Business	R0410	61	10	-
Gross – Proportional reinsurance accepted	R0420	-	-	-
Gross – Non-proportional reinsurance accepted	R0430			
Reinsurers' share	R0440	63	6	-
Net	R0500	-2	4	-
Expenses incurred	**R0550**	**1 753**	**1 175**	**-**
Other expenses	**R1200**			
Total expenses	**R1300**			

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
6 686	14 944	495 680	812 850	1 029 785	-27
243	-	230 997	761 467	459 999	-
6 933	14 960	468 476	1 121 016	965 378	-27
-3	-16	258 202	453 301	524 405	-
5 946	15 042	491 135	806 361	1 000 360	6
243	-	234 897	750 013	468 765	-
6 204	14 713	473 650	1 111 502	929 296	-3
-14	329	252 382	444 873	539 829	9
-1 919	581	276 169	545 605	992 397	13
30	-3	372 033	459 594	611 796	-
-609	3 068	485 401	635 104	977 580	13
-1 280	-2 490	162 800	370 095	626 613	-
16	-18	-329	1 205	951	-
-	-	-	-	-	-
16	-19	-90	805	1 336	-
-	-	-239	401	-385	-
-178	**1 097**	**114 705**	**163 882**	**168 167**	**7**

€ 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	-	786	135 924
Gross – Proportional reinsurance accepted	R0120	-	-	193 020
Gross – Non-proportional reinsurance accepted	R0130			
Reinsurers' share	R0140	-	786	251 432
Net	R0200	-	-1	77 512
Premiums earned				
Gross – Direct Business	R0210	-	971	141 739
Gross – Proportional reinsurance accepted	R0220	-	-	170 620
Gross – Non-proportional reinsurance accepted	R0230			
Reinsurers' share	R0240	-	946	240 852
Net	R0300	-	25	71 507
Claims incurred				
Gross – Direct Business	R0310	-	-32	383 923
Gross – Proportional reinsurance accepted	R0320	-	-	212 814
Gross – Non-proportional reinsurance accepted	R0330			
Reinsurers' share	R0340	-	-32	332 196
Net	R0400	-	-	264 540
Changes in other technical provisions				
Gross – Direct Business	R0410	-	-14	-452
Gross – Proportional reinsurance accepted	R0420	-	-	-
Gross – Non-proportional reinsurance accepted	R0430			
Reinsurers' share	R0440	-	-14	-1 398
Net	R0500	-	-	945
Expenses incurred	**R0550**	**-**	**1 952**	**27 740**
Other expenses	**R1200**			
Total expenses	**R1300**			

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)				
Health	Casualty	Marine, aviation, transport	Property	
C0130	C0140	C0150	C0160	C020
				2 513 034
				1 651 636
-	82 869	38 963	251 350	373 182
-	61 202	37 789	164 182	3 108 642
-	21 668	1 174	87 168	1 429 210
				2 477 658
				1 631 222
-	79 578	36 935	241 403	357 915
23	57 676	36 159	155 154	3 041 909
-23	21 902	775	86 249	1 424 887
				2 202 670
				1 663 426
1	34 804	3 672	229 237	267 714
1	13 550	10 766	167 641	2 639 243
-	21 254	-7 094	61 596	1 494 567
				1 430
				-
-	-	-	-	-
-	-	-	-	706
-	-	-	-	724
-	**-3 840**	**-6**	**7 721**	**484 176**
				-
				484 176

		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	-	-	-
Reinsurers' share	R1420	-	-	-
Net	R1500	-	-	-
Premiums earned				
Gross	R1510	-	-	-
Reinsurers' share	R1520	-	-	-
Net	R1600	-	-	-
Claims incurred				
Gross	R1610	-	-	-
Reinsurers' share	R1620	-	-	-
Net	R1700	-	-	-
Changes in other technical provisions				
Gross	R1710	-	-	-
Reinsurers' share	R1720	-	-	-
Net	R1800	-	-	-
Expenses incurred	**R1900**	**-**	**-**	**-**
Other expenses	**R2500**			
Total expenses	**R2600**			

Line of Business for: life obligations			Life reinsurance obligations		
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
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Premiums, claims and expenses by country

€ thou

		Home country	Top 5 countries (by amount of gross premiums written) - non-life obligations	
			United States	United Kingdom
		C0080	C0090	C0100
Premiums written				
Gross – Direct Business	R0110	810 578	148 339	568 681
Gross – Proportional reinsurance accepted	R0120	78 063	404 511	63 710
Gross – Non-proportional reinsurance accepted	R0130	11 683	197 086	27 192
Reinsurers' share	R0140	889 885	624 664	272 096
Net	R0200	10 439	125 272	387 488
Premiums earned				
Gross – Direct Business	R0210	801 392	151 555	543 724
Gross – Proportional reinsurance accepted	R0220	82 627	408 108	62 318
Gross – Non-proportional reinsurance accepted	R0230	11 988	181 887	29 198
Reinsurers' share	R0240	886 039	603 621	259 102
Net	R0300	9 968	137 930	376 138
Claims incurred				
Gross – Direct Business	R0310	589 861	2 757	636 910
Gross – Proportional reinsurance accepted	R0320	-75 756	492 891	186 956
Gross – Non-proportional reinsurance accepted	R0330	22 107	124 364	8 804
Reinsurers' share	R0340	546 406	509 142	227 898
Net	R0400	-10 194	110 871	604 772
Changes in other technical provisions				
Gross – Direct Business	R0410	384	1 026	-730
Gross – Proportional reinsurance accepted	R0420	-	-	-
Gross – Non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	-944	1 160	-433
Net	R0500	1 329	-133	-298
Expenses incurred	**R0550**	**-29 869**	**72 477**	**125 649**
Other expenses	**R1200**			
Total expenses	**R1300**			

	Top 5 countries (by amount of gross premiums written) - non-life obligations			Total – Top 5 countries
France	China			
C0110	C0120	C0130		C0140
414 088	101 885	9		2 043 579
13 665	79 263	117 368		756 581
-291	3 066	27 198		265 933
214 518	115 652	114 787		2 231 601
212 944	68 562	29 788		834 492
410 346	94 789	9		2 001 813
13 847	82 938	103 669		753 508
18	3 137	27 168		253 396
216 664	112 363	104 314		2 182 102
207 546	68 502	26 532		826 615
469 595	53 618	-70		1 752 671
46 966	34 494	76 934		762 485
-236	531	52 676		208 246
214 652	50 854	120 785		1 669 737
301 673	37 789	8 755		1 053 666
373	112	-20		1 145
-	-	-		-
-	-	-		-
325	105	-		213
48	7	-20		932
78 500	**28 520**	**9 686**		**284 964**
				-
				284 964

€ thou

		Home country	Top 5 countries (by amount of gross premiums written) - non-life obligations	
	R1410		United States	United Kingdom
		C0220	C0230	C0240
Premiums written				
Gross – Direct Business	R1410	-	-	-
Gross – Proportional reinsurance accepted	R1420	-	-	-
Gross – Non-proportional reinsurance accepted	R1500	-	-	-
Premiums earned				
Gross – Direct Business	R1510	-	-	-
Gross – Proportional reinsurance accepted	R1520	-	-	-
Gross – Non-proportional reinsurance accepted	R1600	-	-	-
Claims incurred				
Gross – Direct Business	R1610	-	-	-
Gross – Proportional reinsurance accepted	R1620	-	-	-
Gross – Non-proportional reinsurance accepted	R1700	-	-	-
Changes in other technical provisions				
Gross – Direct Business	R1710	-	-	-
Gross – Proportional reinsurance accepted	R1720	-	-	-
Gross – Non-proportional reinsurance accepted	R1800	-	-	-
Expenses incurred	**R1900**	**-**	**-**	**-**
Other expenses	**R2500**			
Total expenses	**R2600**			

Top 5 countries (by amount of gross premiums written) - non-life obligations			Total – Top 5 countries
C0180	C0190	C0200	C0210
C0250	C0260	C0270	C0280
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	**-**	**-**	**-**
			-
			-

Life and Health SLT Technical Provisions

This reporting template is not relevant for AGCS SE.

Non-life Technical Provisions

		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**	**-**	**-**	**-**	**-**
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	-	-	-	-
Technical provisions calculated as a sum of BE and RM					
Best estimate					
Premium provisions					
Gross	R0060	6 517	-5 936	15	1 817
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	2 626	280	14	1 640
Net Best Estimate of Premium Provisions	R0150	3 891	-6 216	1	177
Claims provisions					
Gross	R0160	12 227	4 037	84	7 698
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	8 662	3 085	84	9 100
Net Best Estimate of Claims Provisions	R0250	3 565	952	-	-1 402
Total Best Estimate - gross	**R0260**	**18 744**	**-1 899**	**99**	**9 515**
Total Best Estimate - net	**R0270**	**7 456**	**-5 264**	**1**	**-1 225**
Risk margin	**R0280**	**357**	**106**	**-**	**9**
Amount of the transitional on Technical Provisions					
Technical Provisions as a whole	R0290	-	-	-	-
Best Estimate	R0300	-	-	-	-
Risk Margin	R0310	-	-	-	-
Technical provisions - total					
Technical provisions - total					
Recoverable from reinsurance contract/SPV and Finite Re before the adjustment for	R0320	19 101	-1 792	99	9 524
expected losses due to counterparty default - total	R0330	11 288	3 365	98	10 740
Technical provisions minus recoverables from reinsurance/SVP abd Finite Re - total	R0340	7 813	-5 157	1	-1 216

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
-	**-**	**-**	**-**	**-**
-	-	-	-	-
4 668	-93 628	75 530	114 592	-
4 215	38 966	155 732	296 319	-
453	-132 594	-80 202	-181 727	-
13 910	1 239 786	1 753 375	5 152 415	5
11 813	846 353	1 068 956	3 025 470	5
2 097	393 433	684 419	2 126 945	-
18 578	**1 146 158**	**1 828 906**	**5 267 007**	**5**
2 549	**260 838**	**604 218**	**1 945 218**	**-**
127	**12 007**	**39 294**	**143 774**	**-**
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
18 705	1 158 164	1 868 200	5 410 781	5
16 028	885 319	1 224 688	3 321 789	5
2 677	272 845	643 512	2 088 992	-

		Direct business and accepted proportional reinsurance		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0110	C0120	C0130
Technical provisions calculated as a whole	**R0010**	**-**	**-**	**-**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050			
Technical provisions calculated as a sum of BE and RM				
Best estimate				
Premium provisions				
Gross	R0060	-	24	52 814
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	-	24	-218 273
Net Best Estimate of Premium Provisions	R0150	-	-	271 087
Claims provisions				
Gross	R0160	-	241	451 745
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	-	179	268 770
Net Best Estimate of Claims Provisions	R0250	-	61	182 974
Total Best Estimate - gross	**R0260**	**-**	**264**	**504 558**
Total Best Estimate - net	**R0270**	**-**	**61**	**454 061**
Risk margin	**R0280**	**-**	**3**	**3 804**
Amount of the transitional on Technical Provisions				
Technical Provisions as a whole	R0290	-	-	-
Best Estimate	R0300	-	-	-
Risk Margin	R0310	-	-	-
Technical provisions - total				
Technical provisions - total				
Recoverable from reinsurance contract/SPV and Finite Re before the adjustment for	R0320	-	267	508 363
expected losses due to counterparty default - total	R0330	-	203	50 497
Technical provisions minus recoverables from reinsurance/SVP abd Finite Re - total	R0340	-	64	457 866

Direct business and accepted proportional reinsurance				Total Non-life obligation
Non-proportional health insurance	Non-proportional casualty insurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
C0140	**C0150**	**C0160**	**C0170**	**C0180**
-	-	-	-	-
-	3 652	-616	-48 204	111 245
-	14 536	-679	-4 184	291 216
-	**-10 884**	**63**	**-44 020**	**-179 971**
21	239 989	28 676	302 521	9 206 729
21	162 071	29 751	237 063	5 671 385
-	**77 918**	**-1 076**	**65 458**	**3 535 345**
21	**243 641**	**28 060**	**254 317**	**9 317 974**
-	**67 034**	**-1 012**	**21 437**	**3 355 374**
-	**4 129**	**183**	**7 683**	**211 476**
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
21	247 770	28 243	262 000	9 529 450
21	176 607	29 072	232 879	5 962 600

Non-life insurance claims

Total Non-life business

Accident year/Underwriting year

Gross claims paid (non-cumulative) - (absolute amount)

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
	R0100											67 266
N-9	R0160	442 476	791 511	330 158	228 884	113 134	104 100	53 903	44 363	27 819	14 158	
N-8	R0170	308 633	728 398	303 909	165 596	110 586	83 671	32 009	19 922	60 978		
N-7	R0180	266 462	492 417	297 877	129 487	122 908	42 943	51 657	15 907			
N-6	R0190	320 391	743 333	576 361	118 355	94 131	88 778	80 953				
N-5	R0200	419 195	603 967	379 205	253 362	170 140	130 729					
N-4	R0210	293 230	1 000 996	333 062	238 865	206 966						
N-3	R0220	356 695	1 219 624	556 012	297 973							
N-2	R0230	328 157	864 667	477 201								
N-1	R0240	390 138	766 625									
N	R0250	449 943										

		In current year	Sum of years (cumulative)
		C0170	C0180
	R0100	67 266	67 266
	R0160	14 158	2 150 505
	R0170	60 978	1 813 703
	R0180	15 907	1 419 659
	R0190	80 953	2 022 303
	R0200	130 729	1 956 598
	R0210	206 966	2 073 119
	R0220	297 973	2 430 304
	R0230	477 201	1 670 026
	R0240	766 625	1 156 764
	R0250	449 943	449 943
	R0260	**2 568 699**	**17 210 190**

Gross undiscounted Best Estimate for claims provisions- (absolute amount)

											Development year
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
	R0100											446 340
	R0160	2 111 238	1 457 529	955 500	676 107	478 284	323 185	247 220	156 844	119 648	81 951	
	R0170	2 203 773	1 381 746	977 191	700 216	488 762	338 733	256 385	228 596	132 147		
	R0180	1 731 246	1 323 285	942 764	661 299	427 742	278 371	256 714	191 671			
	R0190	2 255 122	1 730 650	904 957	602 996	411 864	335 522	232 337				
	R0200	2 295 642	1 687 327	1 118 636	803 410	667 942	491 147					
	R0210	2 393 913	1 674 636	1 184 031	930 868	748 185						
	R0220	2 913 861	2 075 760	1 359 441	980 035							
	R0230	2 328 539	1 683 973	1 286 176								
	R0240	2 523 110	1 927 086									
	R0250	2 656 983										

		Year-end (discounted data)
		C0360
	R0100	449 815
	R0160	82 681
	R0170	132 614
	R0180	192 567
	R0190	233 504
	R0200	492 586
	R0210	729 795
	R0220	977 468
	R0230	1 250 929
	R0240	1 922 513
	R0250	2 742 258
	R0260	**9 206 730**

Impact of long term guarantees and transitional measures

		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	9 529 450	-	-	39 434	-
Basic Own Funds	R0020	2 956 976	-	-	-15 227	-
Eligible own funds to meet Solvency Capital Requirement	R0050	2 956 976	-	-	-15 227	-
Solvency Capital Requirement	R0090	1 841 451	-	-	47 719	-
Eligible own funds to meet Minimum Capital Requirement	R0100	2 846 150	-	-	-19 027	-
Minimum Capital Requirement	R0110	542 028	-	-	2 250	-

		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	R0010	36 741	36 741		-	
Ordinary share capital (gross of own shares)	R0030	537 434	537 434		-	
Share premium account related to ordinary share capital	R0040	-	-		-	
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0050	-		-	-	-
Subordinated mutual member accounts	R0070	-	-			
Surplus funds	R0090	-		-	-	-
Preference shares	R0110	-		-	-	-
Share premium account related to preference shares	R0130	2 271 975	2 271 975			
Reconciliation reserve	R0140	-		-	-	-
Subordinated liabilities	R0160	110 826				110 826
An amount equal to the value of net deferred tax assets	R0180	-	-	-	-	-
Other own fund items approved by the supervisory authority as basic own funds not specified above						
Own funds from the financial statements that shall not be represented by	R0220	-				
the reconciliation reserve and do not meet the criteria to be classified as						
Solvency II own funds	R0230	-	-	-	-	
Own funds from the financial statements that shall not be represented by the	**R0290**	**2 956 976**	**2 846 150**	**-**	**-**	**110 826**
reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Deductions	R0300	-			-	
Deductions for participations in financial and credit institutions	R0310	-			-	
Total basic own funds after deductions	R0320	-			-	-
Ancillary own funds	R0330	-			-	-
Unpaid and uncalled ordinary share capital callable on demand	R0340	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own	R0350	-			-	-
fund item for mutual and mutual - type undertakings, callable on demand	R0360	-			-	
Unpaid and uncalled preference shares callable on demand	R0370	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0390	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0400**	**-**	**-**	**-**	**-**	**-**

		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	2 956 976	2 846 150	-	-	110 826
Total available own funds to meet the MCR	R0510	2 846 150	2 846 150	-	-	
Total eligible own funds to meet the SCR	R0540	2 956 976	2 846 150	-	-	110 826
Total eligible own funds to meet the SCR	R0550	2 846 150	2 846 150	-	-	
SCR	**R0580**	**1 841 451**				
MCR	**R0600**	**542 028**				
Ratio of Eligible own funds to SCR	**R0620**	**161%**				
Ratio of Eligible own funds to MCR	**R0640**	**525%**				

Reconciliation reserve		
Excess of assets over liabilities	R0700	2 956 976
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividends, distributions and fees	R0720	-
Other basic own funds components	R0730	685 001
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	-
Reconciliation reserve	**R0760**	**2 271 975**
Expected profits		
Expected profits included in future premiums (EPIFP) - life business	R0770	-
Expected profits included in future premiums (EPIFP) - non-life business	R0780	336 588
Total EPIFP	**R0790**	**336 588**

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10	IM – Market risk	1 057 596
11	IM – Underwriting risk	1 119 158
12	IM – Business risk	89 888
13	IM – Credit risk	169 300
14	IM – Operational risk	154 421
15	IM – LAC DT (negative amount)	-5 325
16	IM – Capital buffer	-
17	IM – Adjustment due to RFF/MAP nSCR aggregation	-

Calculation of Solvency Capital Requirement		
Total undiversified components		2 585 038
Diversification		-743 587
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)		-
Solvency Capital Requirement excluding capital add-on		**1 841 451**
Capital add-ons already set		-
Solvency Capital Requirement		**1 841 451**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions		-
Amount/estimate of the overall loss-absorbing capacity of deferred taxes		-5 325
Total amount of notional Solvency Capital Requirements for the remaining part		-
Total amount of the notional Solvency Capital Requirements for ring-fenced funds		-
Total amount of the notional Solvency Capital Requirement for matching adjustment portfolios		-
Diversification effects due to RFF nSCR aggregation for article 304		-

Minimum capital requirement – Only life or only non-life insurance or reinsurance activity

		C0010
	R0010	542 028

		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	7 456	4 076
Income protection insurance and proportional reinsurance	R0030	-	1 495
Workers' compensation insurance and proportional reinsurance	R0040	1	-
Motor vehicle liability insurance and proportional reinsurance	R0050	-	-
Other motor insurance and proportional reinsurance	R0060	2 549	-
Marine, aviation and transport insurance and proportional reinsurance	R0070	260 838	246 709
Fire and other damage to property insurance and proportional reinsurance	R0080	604 218	427 149
General liability insurance and proportional reinsurance	R0090	1 945 218	511 903
Credit and suretyship insurance and proportional reinsurance	R0100	-	-
Legal expenses insurance and proportional reinsurance	R0110	-	-
Assistance and proportional reinsurance	R0120	61	-
Miscellaneous financial loss insurance and proportional reinsurance	R0130	454 061	73 962
Non-proportional health insurance	R0140	-	-
Non-proportional casualty reinsurance	R0150	67 034	17 338
Non-proportional marine, aviation and transport reinsurance	R0160	-	1 052
Non-proportional property reinsurance	R0170	21 437	66 937

Linear formula component for life insurance and reinsurance obligations

		C0040
	R0200	-

		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	-	
Obligations with profit participation – future profit shares	R0220	-	
Index-linked and unit-linked insurance obligations	R0230	-	
Other life (re)insurance and health (re)insurance obligations	R0240	-	
Total risk capital for all life (re-)insurance obligations	R0250		-

Overall MCR calculation

		C0070
Linear MCR	R0300	542 028
SCR	R0310	1 841 451
MCR cap	R0320	828 653
MCR floor	R0330	460 363
Combined MCR	R0340	542 028
Absolute floor of the MCR	R0350	3 700
Minimum capital requirement	**R0400**	**542 028**