



**DARTA SAVING LIFE ASSURANCE dac**  
**SOLVENCY AND FINANCIAL CONDITION**  
**REPORT 2019**

COVERING THE PERIOD 1 JANUARY 2019 TO 31 DECEMBER 2019

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## Overview

This report has been prepared in accordance with the requirements set out in Regulations 34,52, 55 to 57, 255 and 258 of Statutory Instrument 485 of 2015, the European Union (Insurance and Reinsurance) Regulations 2015<sup>1</sup> (“The 2015 Regulations”)<sup>2</sup> and Articles 290 to 298, 305 to 311, 359 and 365 of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (“Solvency II Delegated Acts”).

This report also seeks to fulfil the requirements included in the European Insurance and Occupational Pensions Authority (“EIOPA”) Guidelines on reporting and public disclosure (“The EIOPA Reporting Guidelines”) and Guidelines as issued by the Central Bank of Ireland (“Central Bank”).

## Reporting period

This report covers the period 1 January 2019 to 31 December 2019, inclusive. Comparative information is provided where applicable.

## Approval

This report was approved by Darta’s Board of Directors on 3 April 2020.

## Summary

### Overview of the Company

Darta Saving Life Assurance dac (“Darta” or the “Company”) is authorised in Ireland to transact life assurance business in the European Union (“EU”) under the 2015 Regulations.

We operate on a Freedom of Services basis through the application of an outsourcing business model. This allows us to manufacture and distribute our products in a low-cost and flexible manner.

We mainly distribute unit-linked products through Allianz Bank in Italy and we have also entered into a number of agreements with non-Allianz distributors. We are also exposed to mortality risk through the features of certain of our products.

We also distribute unit-linked products, on a limited scale, through brokers in Lithuania on a Freedom of Services basis.

Detailed information on our business profile is set out in Section A.1 below

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<sup>1</sup> The 2015 Regulations have the effect of transposing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (“Solvency II Directive”) into Irish Law effective 1 January 2016.

<sup>2</sup> These requirements are practically identical to those requirements of Articles 35, 51, 53 to 55, Paragraph 2 of Article 254 and 256 of Directive 2009/138/EC.

## Performance

Over recent years, we have enjoyed success selling unit-linked insurance products in Italy, through Allianz Bank. In addition, we are considering ways in which our products range, distribution channels, and geographical footprint could be diversified.

The table below shows premiums, claims, expenses and change in technical provisions combined with the investment returns for our lines of business.

|  | Index linked and unit linked insurance |               |
|--|--|---------------|
|  | 2019<br>€'000                          | 2018<br>€'000 |
| Premiums earned (net of reinsurance)                 | 2,979,551                              | 2,303,027     |
| Claims incurred (net of reinsurance)                 | (1,558,947)                            | (1,376,357)   |
| Changes in technical provisions (net of reinsurance) | (2,932,701)                            | 378,659       |
| Expenses   | (237,159)                              | (228,271)     |
| Investment Income                                    | 1,815,731                              | (1,014,582)   |
| <b>Underwriting performance</b>                      | <b>66,475</b>                          | <b>62,476</b> |

Although we sell business outside of Italy, the current volume sold is equal to less than 1% (2018: less than 1%) of the total business sold during the year. Therefore, we have determined that information pertaining to non-Italian business is not material. Likewise, the amount of other life insurance sold during the reporting period, as relates to the Long Term Care product, of less than 1% (2018: less than 1%) is also not material. Approximately 3% (2018: 7%) of our premium revenue is sourced from non-Allianz affiliated brokers in Italy.

The following table sets out our profit after tax from all lines of business and geographies where business is carried out over the reporting period, as reported in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS").

|  | Profit after tax | Profit after tax |
|--|------------------|------------------|
|  | 2019<br>€'000    | 2018<br>€'000    |
| Index linked and unit linked insurance | 68,036           | 66,723           |

Differences between underwriting performance set out above and IFRS profit after tax relate to income and expense items relating directly to our Shareholders and the effect of taxation.

Detailed information on our performance during the reporting period is set out in Sections A.2, A.3 and A.4 below.

## Significant events - COVID-19

The recent outbreak of the COVID-19 virus has had a particularly hard impact in Italy, our key geographical market. As well as significant falls in world stock markets, economic activity has been significantly affected following the implementation of a countrywide quarantine. Whilst, this is anticipated to have a negative impact on our short-term financial performance, the long-term implications are unclear. It is expected in the short-term that we may experience a significant reduction in sales activities and policyholder assets. A reduction in our capital ("Own Funds") is anticipated in line with the reduction in policyholder assets. This reduction in Own Funds reflects the potential reduction in the present value of our future profits, of which the size of assets under management is a key driver. Nevertheless, our Solvency Coverage Ratio is expected to remain within an acceptable range, as outlined in our Risk Appetite Statement (please refer to section B.3 for a description of our Risk Appetite).

In our 2019 Own Risk and Solvency Assessment ("ORSA"), completed in December 2019, we ran a recessionary scenario under which approximately €2.6 billion of assets under management are written off immediately. Whilst this scenario does not specifically refer to a pandemic, the stresses involved are in line with what we are now observing. Whilst, our Solvency Coverage ratio is observed to reduce under this scenario, it is not projected to fall below a level that would breach any of the limits set out in our Risk Appetite.

The COVID-19 pandemic is currently affecting all aspects of our personal and professional lives, the health of the world's population, global economic performance and the financial markets. Despite all these uncertainties, we are well prepared for the situation. This applies both to keeping operations going and maintaining a robust capital position in times of crisis. Since 18 March 2020, our operations have switched to home working. By doing so, we have ensured our employees are safe and that we are able to continue to work even if the restrictions on public life are further tightened.

## System of Governance

We have maintained an effective System of Governance, which provides for prudent and sound management of the business.

The ultimate responsibility for the business rests with the Board of Directors ("the Board"). The Board delegates certain responsibilities to its Committees and senior management, while retaining responsibility for overall control and strategic decisions. We place a high value on appointing fit and proper individuals and seek to ensure that each individual is suitably qualified to perform the role for which they have been recruited and that they are honest and trustworthy.

We have implemented a comprehensive risk management system, consistent with Allianz Group standards and industry best practice, referred to as the Risk Management Framework. The Chief Risk Officer ("CRO") and the Risk Management Function are responsible for setting an auditable framework for all risk-related activities undertaken. The Framework is achieved via the development, maintenance and monitoring of risk policies, limits and guidelines as well as the risk measurement methodology, and is compliant with all applicable regulatory requirements.

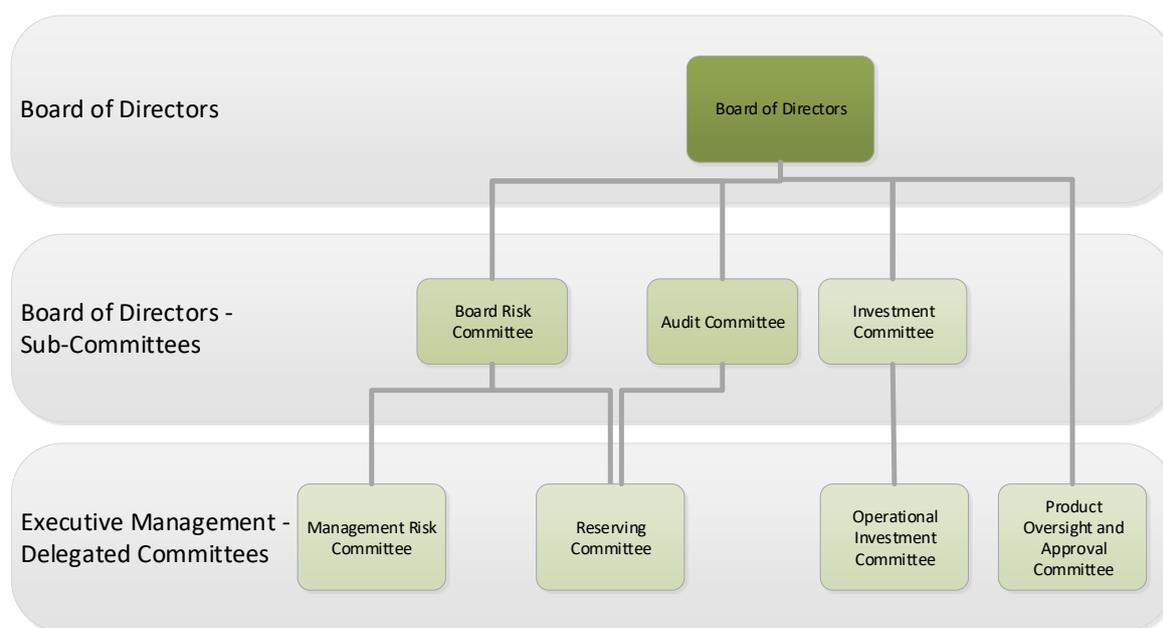
We have put a comprehensive suite of internal controls in place, based on a three lines of defence model with graduated control responsibilities.

We perform a regular assessment of our Own Risk and Solvency needs (“the ORSA”), as directed by the Board. The ORSA is a collection of interlinked processes that have been implemented to identify, assess, monitor, manage and report on the short and long term risks that we face and to determine the amount of Own Funds necessary to ensure that overall solvency needs are met at all times.

Our annual review was last undertaken during December 2019 by the Management Risk Committee, acting as the Governance and Control Committee, as supported by the Compliance, Risk, Finance, Internal Audit and Actuarial Functions. This review covered both the design effectiveness and operating effectiveness of the Internal Control framework.

Based on the outcomes of our review, we have concluded that our System of Governance is adequate to the nature, scale and complexity of the risks inherent in the business. In general, external events have no impact on our System of Governance. Despite the unusual global events arising due to COVID-19, our normal governance structure remains operational at this time and all personnel, including non-executive and independent non-executive directors have the ability to work remotely.

The following diagram sets out a summary of the governance structures we have put in place.



There have been a number of material changes in the System of Governance during the reporting period.

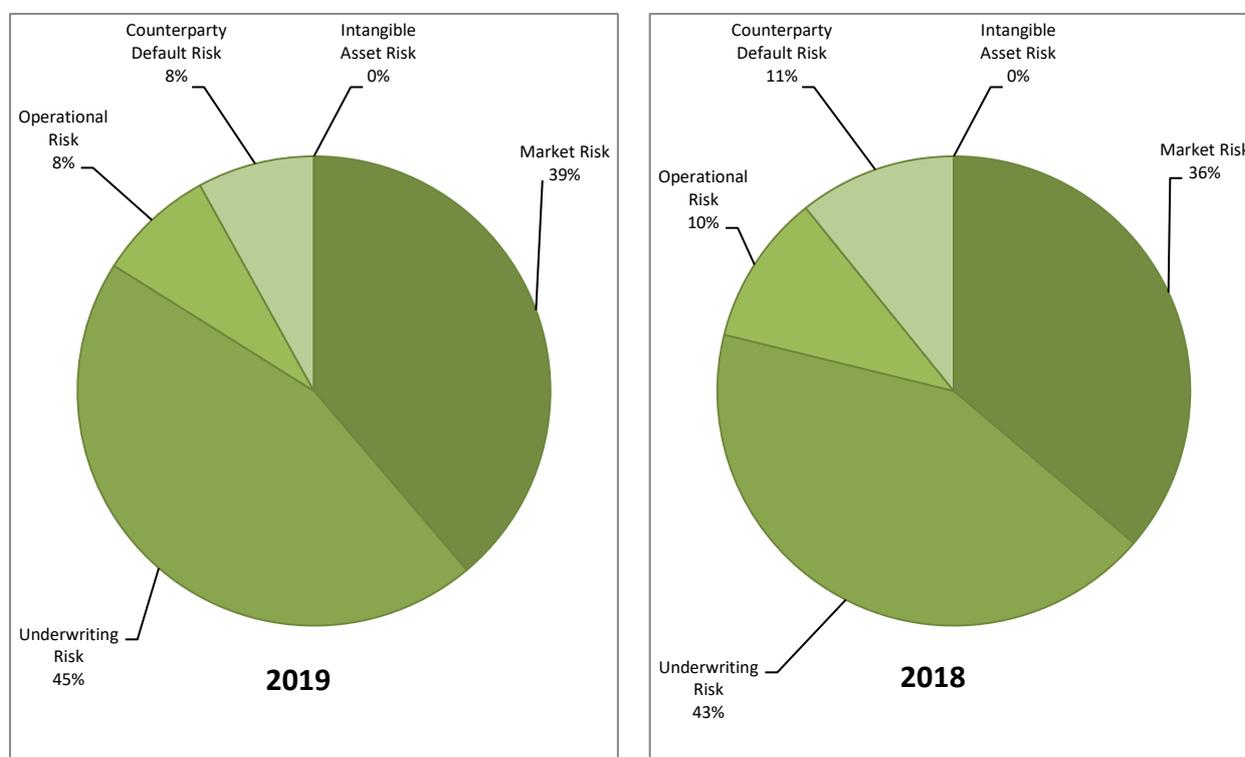
The following appointments and resignations took place during the year:

- J. Bolger resigned as our Head of Actuarial Function (PCF-48) effective from 18 April 2019.
- N. Lynch was appointed as our Head of Actuarial Function (PCF-48) effective from 18 April 2019.
- D. Sutherland resigned as our Head of Compliance (PCF-15) effective from 25 July 2019.
- S. Cummins was appointed as our Head of Compliance (PCF-15) effective from 26 August 2019.

Detailed information on the System of Governance and related topics is set out in Section B below.

## Risk profile

Risk is measured and managed based on the calculations derived using the Standard Formula, as set out in Solvency II. The resulting risk profile, set out in the chart below, indicates how risks are distributed over different risk categories and determines the regulatory capital requirements in accordance with Solvency II.



We do not expect significant changes to the other risk categories due to COVID-19. Note the statements on the risks associated with the COVID-19 pandemic are subject to the proviso that risk identification and assessment are of a provisional nature at the time of reporting (end of March 2020).

Section C provides a detailed description of our risk exposure by category of Solvency II risk.

## Valuation for solvency purposes

The recognition and measurement of assets and liabilities under Solvency II is the same as IFRS, with exceptions relating to the following balances summarised in the table below:

|   | 2019<br>€'000  | 2018<br>€'000  |
|---|----------------|----------------|
| <b>Equity per Financial Statements</b>                            | 384,961        | 355,419        |
| Adjusted for:   |                |                |
| Deferred Acquisition Costs  | (71,375)       | (69,237)       |
| Deferred income   | 24,452         | 26,439         |
| Solvency II Technical provisions movement                         | 483,739        | 398,852        |
| Solvency II deferred tax liability                                | (54,526)       | (44,219)       |
| Remove IFRS deferred tax asset                                    | (76)           | (291)          |
| Other   | (4)            | 69             |
| <b>Excess of assets over liabilities for Solvency II purposes</b> | <b>767,171</b> | <b>667,032</b> |

Further detail on the valuation of assets, technical provisions and liabilities under Solvency II is provided in Section D below.

## Capital Management

We operate a defined Capital Management Framework. The primary objective of this Framework is to ensure adequate capital is available to fulfil regulatory requirements and specifically to cover the SCR and Minimum Capital Requirements (“MCR”) at all times. The Framework consists of a target capital level, which is set based on an assessment of risk exposures, and our ability to withstand potential stresses as determined through the operation of the ORSA. Secondary objectives include adding economic value over the cost of capital and having shareholders participate in the economic development through, for example, dividend payments.

SCR, as derived using the Solvency II Standard Formula, amounted to €464.9 million (2018: €338.2 million). Our SCR coverage ratio at 31 December 2019 was 165% (2018: 197%), as covered by eligible Tier 1 Own Funds of €767 million (2018: €667 million).

SCR increased from €338 million at 31 December 2018 to €465 million at 31 December 2019. The main drivers of this increase were growth in the size of the Policyholder’s assets in line with positive new business flows and positive market returns experienced during the year and the impacts arising from methodology refinements and updates to our technical assumptions, as approved by the Board, during the year.

Our Minimum Capital Requirement (“MCR”) as at 31 December 2019 amounted to €123.9 million (2018: €104.2 million).

The MCR has increased compared to 2018 due to increased technical provisions.

More detail on our Capital Management approach is provided in Section E below.

## A. Business and Performance

### A.1 Business

#### A.1.1 Standing data

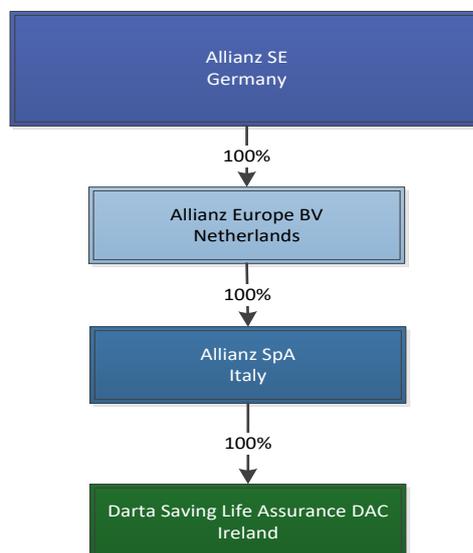
|   |  |   |
|---|--|---|
| Name of Entity                          | Darta Saving Life Assurance dac                      | We are a Designated Activity Company incorporated in Ireland under the Companies Act, 2014.   |
| Auditors                                | PwC  | Signing Partner: Paraic Joyce<br>PwC's address is:<br>PricewaterhouseCoopers<br>One Spencer Dock, North Wall Quay, Dublin 1   |
| Holders of qualifying holdings in Darta | Allianz SpA (Parent)<br>Allianz SE (Ultimate Parent) | Allianz SpA, incorporated in Italy, hold all of the issued share capital and voting rights.<br><br>Allianz SpA is ultimately held by Allianz SE, which is the ultimate parent. Allianz SpA's address is:<br>Largo Ugo Inneri 1<br>Trieste<br>Italy.<br><br>Refer to the simplified group structure, as set out in Section A1.3 below, for details of our position within the Group. |

#### A.1.2 Supervision

| Level                        | National Competent Authority                             | Contact details  |
|------------------------------|--|--|
| Allianz SE (Ultimate parent) | German Federal Financial Supervisory Authority ("BaFin") | The German Federal Financial Supervisory Authority ("Bundesanstalt für Finanzdienstleistungsaufsicht" – BaFin)<br>Graurheindorfer Str. 108<br>53117 Bonn<br>Postfach 1253<br>Germany |
| Darta (local level)          | Central Bank of Ireland                                  | Central Bank of Ireland,<br>North Wall Quay<br>Spencer Dock<br>PO Box 11517<br>Dublin 1<br>Republic of Ireland   |

### A.1.3 Simplified group structure

The following diagram sets out a simplified group structure, displaying the Company's parent and ultimate parent and their voting rights:



### A1.4 Related undertakings

We do not hold any subsidiaries as at 31 December 2019, nor did we hold any subsidiaries during 2018.

### A.1.5 Material lines of business

Our material lines of products are grouped in product families. Each product within a family offers similar features and benefits.

| Product                                    | Type   | Country sold       | Distributor                         |
|--|--|--------------------|-------------------------------------|
| Bonus Builder                              | Unit Linked without guarantees               | Italy              | Allianz Bank                        |
| Challenge Family (excluding Challenge Pro) | Unit Linked without guarantees               | Italy<br>Lithuania | Non-Allianz Brokers                 |
| Challenge Pro (formerly Challenge Plus)    | Unit Linked without guarantees               | Italy              | Allianz Bank                        |
| Challenge Private                          | Unit Linked without guarantees               | Italy              | Allianz Bank                        |
| Philosophy (closed to new business)        | Unit Linked without guarantees               | Italy              | Allianz Bank                        |
| Personal Target                            | Unit Linked without guarantees               | Italy              | Allianz Bank<br>Non-Allianz Brokers |
| Progetto Reddito Family                    | Unit Linked without guarantees               | Italy              | Allianz Bank<br>Non-Allianz Brokers |
| Blazar Family                              | Unit Linked without guarantees               | Italy              | Allianz Bank<br>Non-Allianz Brokers |
| Private Bond Portfolio                     | Unit Linked without guarantees               | Italy              | Non-Allianz Brokers<br>Allianz Bank |
| Darta New Trend (closed to new business)   | Tranche based unit Linked without guarantees | Italy              | Allianz Bank                        |

## A.1.6 Material changes in business

### COVID-19

The recent outbreak of the COVID-19 virus has had a particularly hard impact in Italy, our key geographical market. As well as significant falls in world stock markets, economic activity has been significantly affected following the implementation of a countrywide quarantine. Whilst, this is anticipated to have a negative impact on our short-term financial performance, the long-term implications are unclear. It is expected in the short-term that we may experience a significant reduction in sales activities and policyholder assets. A reduction in our capital (“Own Funds”) is anticipated in line with the reduction in policyholder assets. This reduction in Own Funds reflects the potential reduction in the present value of our future profits, of which the size of assets under management is a key driver. Nevertheless, our Solvency Coverage Ratio is expected to remain within an acceptable range, as outlined in our Risk Appetite Statement (please refer to section B.3 for a description of our Risk Appetite).

In our 2019 Own Risk and Solvency Assessment (“ORSA”), completed in December 2019, we ran a recessionary scenario under which approximately €2.6 billion of assets under management are written off immediately. Whilst this scenario does not specifically refer to a pandemic, the stresses involved are in line with what we are now observing. Although our Solvency Coverage ratio is observed to reduce under this scenario, it is not projected to fall below a level that would breach any of the limits set out in our Risk Appetite.

The COVID-19 pandemic is currently affecting all aspects of our personal and professional lives, the health of the world’s population, global economic performance and the financial markets. Despite all these uncertainties, we are well prepared for the situation. Since 18 March 2020, our operations have switched to home working. By doing so, we have ensured our employees are safe and that we are able to continue to work even if the restrictions on public life are further tightened.

### Products

The Darta New Trend product was launched in Q1 2019. This is a unit-linked product with a limited death benefit. The product is sold on a tranche basis and is invested directly into a SICAV, which offers exposure to high-yield bonds and emerging markets. There was one tranche of this product sold during 2019 and this is now closed to new business.

We launched Blazar 3X in Q2 2019, in addition to the existing Blazar product, with an initial over-allocation of 3% of the invested premium as opposed to 5%.

During Q2 2019, a review of the funds offered in respect of the Challenge products was conducted which resulted in our passing on lower charges from our fund managers and removing funds that are consistently underperforming. This revision resulted in the merging of pre-existing funds and the introduction of new investment options. These changes applied to both in-force and new business.

During Q3 2019, the Target Solution product was modified to allow the related upfront commission to be shared between the distributor and the policyholder, rather than being paid to the distributor in its entirety.

## A.2 Underwriting performance

The table below shows premiums, claims, expenses and change in technical provisions combined with the investment returns for our material lines of business.

|  | Index linked and unit linked insurance |               |
|--|--|---------------|
|  | 2019<br>€'000                          | 2018<br>€'000 |
| Premiums earned (net of reinsurance)                 | 2,979,551                              | 2,303,027     |
| Claims incurred (net of reinsurance)                 | (1,558,947)                            | (1,376,357)   |
| Changes in technical provisions (net of reinsurance) | (2,932,701)                            | 378,659       |
| Expenses   | (237,159)                              | (228,271)     |
| Investment Income                                    | 1,815,731                              | (1,014,582)   |
| <b>Underwriting performance</b>                      | <b>66,475</b>                          | <b>62,476</b> |

Source: Quantitative Reporting Template ("QRT") S.05.01.02

Although we sell business outside of Italy, the current volume sold is equal to less than 1% (2018: less than 1%) of the total business sold during the year. Therefore, we have determined that information pertaining to non-Italian business is not material. Likewise, the amount of other life insurance sold during the reporting period, as relates to the Long Term Care product, of less than 1% (2018: less than 1%) is also not material. Approximately 3% (2018: 7%) of our premium revenue is sourced from non-Allianz affiliated brokers in Italy.

The following table sets out our IFRS profits for our lines of business and geographies where business is carried out over the reporting period.

|  | Profit after tax | Profit after tax |
|--|------------------|------------------|
|  | 2019<br>€'000    | 2018<br>€'000    |
| Index linked and unit linked insurance | 68,036           | 66,723           |

Differences between our underwriting performance set out above and IFRS profit after tax relate to income and expense items relating directly to our Shareholders and the effect of taxation.

## A.3 Investment performance

### A3.1 Investment performance

The following table provides an overview of the performance of investments held on behalf of our Policyholders and on behalf of our Shareholders over the reporting period together with a comparison with the previous reporting period, as shown in our IFRS financial statements:

|   | 2019             | 2018               |
|---|------------------|--------------------|
|   | €'000            | €'000              |
| <b>Policyholder investment return :</b>                     |                  |                    |
| <b>Index-linked and unit-linked business</b>                |                  |                    |
| Investment Income from equities                             | 1,141            | 1,170              |
| Interest income from fixed interest securities              | 8,651            | 7,097              |
| Investment Income from Collective Investment funds          | 6,603            | 13,562             |
| Income from other financial assets                          | 10,535           | 8,704              |
| Net realised gains on financial assets                      | 372,684          | 147,451            |
| Net unrealised gains/(losses) on financial assets           | 1,416,117        | (1,192,566)        |
| <b>Total policyholder Investment income/(loss)</b>          | <b>1,815,731</b> | <b>(1,014,582)</b> |
|   |                  |                    |
| <b>Shareholder investment return</b>                        |                  |                    |
| Interest income from financial assets                       | 513              | 1,009              |
| Interest expense from cash                                  | (128)            | (287)              |
| Net realised losses on financial assets                     | (2,169)          | (1,237)            |
| Net unrealised gains on financial assets available for sale | -                | 6                  |
| <b>Total Shareholder Investment income</b>                  | <b>(1,784)</b>   | <b>(509)</b>       |
|   |                  |                    |
| <b>Investment Management Expense</b>                        | <b>6,932</b>     | <b>7,489</b>       |

The overall increase in investment income year on year reflects a combination of an increase in the overall size of our underlying book and the strong market performance experienced during 2019.

### A3.2 Gains/losses recognised directly in equity

The following table sets out the composition of our other comprehensive income, as shown in our IFRS financial statements:

|  | 2019         | 2018      |
|--|--------------|-----------|
|  | €'000        | €'000     |
| Movements in financial assets available for sale:    |              |           |
| Fair value movement                                  | 1,721        | 63        |
| Deferred tax effect of fair value movement           | (215)        | (8)       |
| <b>Net gain/(loss) recognised directly in equity</b> | <b>1,506</b> | <b>55</b> |

### A3.3. Investment in securitisation

At the time of this report, we do not hold any assets in securitisation vehicles.

**A.4 Performance of other activities**

We lease our business premises subject to an operating lease. Property, plant and equipment comprise a right-of-use asset recognised in respect of our premises, which was previously classified as an operating lease under IAS 17 Leases. With effect from January 2019, IFRS 16 Leases has replaced IAS 17 requiring us to recognise a right-of-use asset for the first time.

We have applied this new standard using the modified retrospective approach. Therefore, we have not restated the comparative information. We carry the right-of-use asset in the Statement of Financial Position at cost less depreciation.

Cost is determined with reference to the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any restoration cost due in respect of the asset at the end of the lease term and any lease payments made in advance of the lease commencement date (net of any incentives received).

We calculate Depreciation using the straight-line basis from commencement of the lease until the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The right-of-use asset is subject to impairment assessments. This arrangement is not considered material to our overall performance.

We do not have any material finance leasing arrangements in place at this time; therefore, we do not have anything further to report in this regard.

We do not participate in other activities.

**A.5 Any other information**

All material information regarding the business and performance has been set out above.

## B. System of Governance

### B.1 General information

#### B.1.1 Overview of governance arrangements

This Section provides a detailed overview of the governance arrangements we have in place.

##### B.1.1.1 Board of Directors

| Members as at 31 December 2019   | Responsibilities   |
|--|--|
| J. Ruane (INED) (Chair)<br>T.D. Kingston (INED)<br>J. Lyons (NED)<br>P. Colton (INED)<br>G. Viseri (Group Director)<br>F. Rossaro (Group Director)<br>G. Fassina (Group Director)<br>A. Agnelli (Group Director)<br>J. Finnegan (Executive Director and Chief Executive Officer (“CEO”)) | The role of the Board is to organise and direct the affairs of the Company, acting on a fully informed basis, in good faith, with due diligence and care in a manner designed to protect the interests of the shareholder and other stakeholders such as policyholders, regulatory bodies and staff. |

##### B.1.1.2 Board of Directors – Sub-Committees

These Sub-Committees represent the Board sitting as sub-committees of the full Board.

| Members as at 31 December 2019  | Summary of responsibilities  |
|---|--|
| <b>Board Risk Committee</b><br>J. Lyons (NED) (Chair)<br>T. D. Kingston (INED)<br>P. Colton (INED)<br>J Finnegan (Executive Director and CEO) | The Board Risk Committee is established separately from the Audit Committee and is responsible for providing oversight and advice to the Board on the risk exposures of the Company and future risk strategy.<br><br>The Board Risk Committee works closely with the Audit Committee to ensure the successful operation of the Risk Management Framework and Internal Control Systems.<br><br>The Board Risk Committee provides direction and oversight in relation to regulatory policies and procedures, including those relating to risk identification, assessment, management and monitoring and oversees the Risk Management Function. |
| <b>Audit Committee</b><br>T. D. Kingston (INED) (Chair)<br>P. Colton (INED)<br>A. Agnelli (Group Director)                                    | The Audit Committee supports the Board in considering activities that expose or may expose the Company to material audit or financial risk. The Audit Committee works closely with the Board Risk Committee to ensure the successful operation of the Risk Management Framework and Internal Control Systems.  |

| Members as at 31 December 2019   | Summary of responsibilities   |
|--|---|
| <p><b>Investment Committee</b></p> <p>CEO (Chair)</p> <p>F. Rossaro (Group Director)</p> | <p>The Investment Committee is responsible for:</p> <ul style="list-style-type: none"> <li>• Ensuring that the Company’s investment portfolios, which include Policyholder assets and Shareholder assets, are managed and invested in accordance with the Company’s Investment Policy, Investment Mandates and Investment Guidelines.</li> <li>• Assessing and approving the investment transactions on behalf of the Shareholder’s portfolio in accordance with set transaction limits and thresholds.</li> <li>• Formulating, assessing and approving Investment management mandates and changes to them.</li> <li>• Recommending to the Board the appointment or removal of fund managers and the mandate to be given to them.</li> <li>• Overseeing the performance of Investment Managers.</li> <li>• Monitoring the performance of Policyholder investments and Shareholder investments.</li> <li>• Recommending the closure or merging of non-performing funds, subject to pre-approved criteria.</li> <li>• Recommending to the Board the appointment and the removal of investment administration providers and custodians.</li> </ul> |

**B.1.1.3 Executive Management – Delegated Committees**

| Members as at 31 December 2019   | Reporting line       | Summary of responsibilities  |
|--|----------------------|--|
| <p><b>Management Risk Committee (“MRC”)</b></p> <p>CRO (Chair)<br/> CEO<br/> Head of Compliance<br/> HOAF<br/> HOF<br/> Chief Operating Officer (“COO”)</p>                      | Board Risk Committee | <p>The MRC is responsible for:</p> <ul style="list-style-type: none"> <li>• Identifying, assessing, monitoring, managing and reporting on the key and material risk exposures.</li> <li>• Helping the Board Risk Committee to define and monitor adherence to the Company’s Risk Appetite.</li> <li>• Escalating unacceptable risks and exposures identified to the Board Risk Committee and Allianz SpA’s Chief Risk Officer, as appropriate.</li> <li>• Recommending mitigating activities or remediation actions to address risk and compliance events or exposures identified.</li> <li>• Reviewing the adequacy of risk management policies and assessing whether they have been appropriately implemented.</li> <li>• Acting as the Governance Control Committee.</li> </ul> |
| <p><b>Product Approval and Oversight Committee (“PAOC”)</b></p> <p>HOAF (Chair)<br/> CEO<br/> Head of Product Development<br/> CRO<br/> Head of Compliance<br/> COO<br/> HOF</p> | Board                | <p>The PAOC is responsible for:</p> <ul style="list-style-type: none"> <li>• Co-ordinating the process for the design and review of: <ul style="list-style-type: none"> <li>○ new products</li> <li>○ modifications to existing products</li> <li>○ continued appropriateness of existing products.</li> </ul> </li> <li>• Co-ordinating the review of current products to ensure that the risk of detriment to customers arising in respect of those products is monitored closely.</li> <li>• Facilitating communication between relevant departments within the Company, relevant to the product approval and oversight process.</li> <li>• Co-ordinating projects to ensure that the product complies with all relevant legislation</li> </ul>                                 |

| Members as at 31 December 2019   | Reporting line                                   | Summary of responsibilities  |
|--|--|--|
|  |  | <p>and does not expose the Company to litigation or Regulatory sanction.</p> <ul style="list-style-type: none"> <li>• Informing the Board of all product developments in the quarterly report to the Board, through the Head of Product Development.</li> <li>• Assessing the profitability and sustainability of our products.</li> </ul>   |
| <p><b>Reserving Committee</b><br/>HOAF (Chair)<br/>CEO<br/>CRO<br/>HOF</p> | <p>Board Risk Committee/<br/>Audit Committee</p> | <p>The Reserving Committee is responsible for:</p> <ul style="list-style-type: none"> <li>• Ensuring all model parts are sufficiently documented.</li> <li>• Monitoring and reviewing models, assumptions and parameters.</li> <li>• Overseeing project management of model changes and related projects.</li> <li>• Ensuring model change controls are in place and are applied.</li> <li>• Ensuring an appropriate IT system is in place for modelling and reporting tasks.</li> <li>• Reviewing, challenging and recommending assumption updates for approval by the Board Risk Committee and Audit Committee, as appropriate.</li> <li>• Ensuring that the models and reserves comply with all relevant guidelines, policies and regulations.</li> <li>• Reviewing the Actuarial Report on Technical Provisions.</li> <li>• Monitoring the status of and tracking the recommendations arising from the Actuarial Report on Technical Provisions.</li> <li>• Reviewing, challenging and recommending the Technical Provisions for approval by the Audit Committee.</li> </ul> |

| Members as at 31 December 2019  | Reporting line       | Summary of responsibilities  |
|---|----------------------|--|
| <b>Operational Investment Committee</b><br>HOF (Chair)<br>CEO<br>CRO<br>Head of Product Development | Investment Committee | The Operational Investment Committee is responsible for the oversight of operational matters as relate to our investment management processes. |

In addition, all of the members of our management team across the organisation attend a monthly meeting and provide status updates on each of their areas for the information of the other managers.

## B.1.2 Overview of the Solvency II Functions

### B.1.2.1 Actuarial Function

The Actuarial Function, as led by the HOAF (PCF-48), has been outsourced to Allianz Global Life dac (“AGL”), in line with our outsourcing policy.

The HoAF is supported by a team of actuaries and trainee actuaries of varying levels of experience (two of whom are dedicated exclusively to Darta and five are shared between AGL and Darta). In addition, we have a service level agreement (“SLA”) in place with Allianz Global Life’s Risk and Actuarial departments to help support us with the calculation of the Technical Provisions and Market Value Balance Sheet (“MVBS” or “Solvency II Balance Sheet”) for the purposes of Solvency II. These calculations are subject to review by the HOAF.

The HOAF has a direct reporting line to the Board. The HOAF is independent of all other functions and departments within Darta.

Refer to Section B.6 for more detail on the Actuarial Function.

### B.1.2.2 Compliance Function

Our Compliance Function is led by the Head of Compliance (PCF-15). The Head of Compliance is an employee of Darta and is supported by a team of 11.

The Compliance Function is responsible for oversight, risk detection, prevention and advice with respect to the Compliance Risk areas of the Company. The Compliance Function is designed to supplement, not supplant, the responsibility of the Board and of senior management to ensure compliance with legislation and applicable guidelines.

The Head of Compliance reports directly to the CEO and has direct access to the Chairman of the Board Risk Committee and the Board, if required. In line with all Allianz Group entities, there is a reporting line through to Group Compliance to ensure regulatory oversight from a Group perspective. This does not imply the transfer of responsibility or decision making outside of the Company and the Board remains responsible for Compliance issues.

The Compliance Function is also responsible for oversight of the Data Protection Framework. The Head of Compliance is appointed as Darta's Data Protection Officer.

Refer to Section B.4.2 for more detail on the Compliance Function.

### **B.1.2.3 Internal Audit**

We have an Internal Audit Function in place. The Board, in line with a Group-wide initiative, has, outsourced the Internal Audit Function to Allianz Ireland. This outsourcing relationship is conducted in accordance with our Outsourcing Policy. The Head of Internal Audit (PCF-13) is supported by 1.75 FTE<sup>3</sup> auditors.

The Head of Internal Audit reports directly to the Chairman of the Audit Committee and has access to the Board, as required. The Internal Audit Function has a functional reporting line to the Audit Functions at both our parent and ultimate parent levels and is subject to oversight by same. Steps are in place to ensure that the Internal Audit Function remains independent of all other functions at all times.

Refer to Section B.5 for more detail on the Internal Audit Function.

### **B.1.2.4 Risk Function**

The Risk Function is headed by the CRO (PCF-14). The role of the Risk Function, as carried out by the CRO, encompasses the measuring, mitigating, controlling and monitoring of all risks to the Company, having regard to the risk appetite and any regulatory requirements. The CRO is supported by one additional team member in Ireland and by the Allianz Global Life dac Risk Function.

The CRO reports directly to the CEO and has direct access to the Chair of the Board Risk Committee and the Board, if required. In line with all Allianz Group entities, he also has a functional reporting line to the Allianz SpA CRO and Allianz Group CRO. This does not imply the transfer of responsibility or decision making outside of the Company and the Board remains responsible for risk issues.

Refer to Section B.3.1.2 for more detail on the implementation of Risk Function.

## **B.1.3 Material changes to the System of Governance**

The following appointments and resignations took place during the year:

- J. Bolger resigned as our Head of Actuarial Function (PCF-48) effective from 18 April 2019.
- N. Lynch was appointed as our Head of Actuarial Function (PCF-48) effective from 18 April 2019.
- D. Sutherland resigned as our Head of Compliance (PCF-15) effective from 25 July 2019.
- S. Cummins was appointed as our Head of Compliance (PCF-15) effective from 26 August 2019.

No other material changes have occurred.

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<sup>3</sup> Full time equivalent

## **B.1.4 Remuneration**

### **B.1.4.1 Policy and principles**

The Board of Directors have approved a Remuneration Policy. The aim of this policy is to ensure that risk-taking incentives provided by our remuneration practices are consistent with our risk appetite and do not encourage unauthorised or unwanted risk-taking that would otherwise breach our appetite.

Each Employee's total annual remuneration comprises an annual fixed component and an annual variable component. The fixed component represents a sufficiently high proportion of the total remuneration. We operate a fully flexible bonus policy, such that there is no obligation to pay bonuses if it is not appropriate to pay a bonus in the circumstances.

The variable component of an individual's salary is based on a combination of the performance of the employee in relation to established goals and targets and our overall results. Targets are agreed in the first quarter of each year. The measurement of the employee's performance in relation to established goals and targets takes into account factors other than financial performance and includes the ability for senior management to exercise judgement in deciding whether to pay out the bonus. Factors considered include acquired skills, personal development, compliance with our internal rules and procedures, compliance with the standards governing the relationship with policyholders and contribution to the performance of the Company as a whole. The measurement of the overall results includes an assessment of whether these results are sustainable in the long-term. From 2019, the financial performance target component as agreed with the Head of Compliance and the CRO is not linked to the performance of the Company in order to remove any potential conflicts of interests. The financial performance targets for the Head of Compliance and CRO is linked to the performance of the Allianz Group.

The variable component of remuneration for any employee is limited to a maximum percentage of the employee's total remuneration.

### **B.1.4.2 Remuneration factors**

Additional factors that are taken into account when determining whether employees are entitled to receive bonus payment are:

- Executive risk takers: The measurement of performance as a basis for variable remuneration includes an adjustment for current and future risks and the potential impact of these risks for the Company.
- Employees are not remunerated according to assumptions that incentivise an excessive risk-taking or an underestimation of the existing risks.

### **B.1.4.3 Pension arrangements**

We operate a defined contribution pension scheme for all employees. There were no supplementary pension payments made during the reporting period, nor were there any early retirement schemes in operation in respect of any member of staff during the reporting period.

## **B.1.5 Transactions with shareholders, directors and persons who exercise significant influence**

Our shareholder, Allianz SpA, provides fiscal and legal support services.

During December 2019, we paid a dividend of €40 million (2018: €15 million) to Allianz SpA.

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

We are subject to the Fit and Proper Requirements established under the Fitness and Probity Standards, as issued under Section 50 of the Central Bank Reform Act, 2010, the Central Bank Reform Act 2010 (Sections 20 and 22) Regulations, 2011 (S.I. No. 437 of 2011) and Regulation 45 of the 2015 Regulations.

To ensure that all persons who effectively run the Company or have other key functions are and remain fit to provide sound and prudent management through their professional qualifications, knowledge and experience and remain proper by being of good repute and integrity we have put a Fitness and Probity Policy place.

### **B.2.1 Fit and proper – general requirements**

The specific standard of fitness required for each position in scope of the Fitness and Probity Policy is set out in order to ensure that individuals occupying or proposed for such roles are competent and capable. For each position the minimum level of previous experience, technical knowledge and qualifications in a particular area are set out.

The standard of probity required for the performance of positions within scope of the Fitness and Probity Policy shall always be at the same level. Therefore, each person holding a position in scope of the Fitness and Probity Policy must be honest, ethical, act with integrity and be financially sound.

### **B.2.2 Fit and proper – monitoring process**

#### **Initial due diligence**

The assessment of the individual's fitness for a role includes a review of previous experience, knowledge and professional qualifications, and demonstration of due skill, care, diligence and compliance with the relevant standards of the sector the person has worked in. The assessment is based on the review of the individual's curriculum vitae, in-depth interview process, obtaining references and carrying out due diligence checks.

The assessment of an individual's probity is based on their reputation reflecting any past conduct, criminal record, financial record and supervisory authority record. The assessment is based on due diligence checks verified by the Compliance Function and senior management.

Each proposed individual is required to certify that they are aware of the Fitness and Probity Standards, the administrative provisions to protect the Company against compliance risks and agree to abide by those Standards. They are also required to certify that they are not aware of any issue that may put their fitness or probity in doubt.

All reasonable steps are undertaken to ensure that sufficient information is obtained to enable us to make properly informed decisions as to the fitness and probity of our employees.

Approval from the Central Bank is required prior to appointment by the Board for certain positions (“PCF positions”) within scope of the Fitness and Probity Policy.

## Regular Reviews

The Fitness and Probity of an individual Pre-approval Controlled Functions (“PCFs”) or Controlled Function holders (“CFs”) is reviewed annually and confirmed through annual performance reviews. As part of this, the following are assessed:

- Their integrity and trustworthiness, which form an integral part of our mandatory behavioural targets. Hence, annual performance reviews include an assessment of the proper behaviour of PCFs and CFs within their roles.
- The leadership and management skills, as applicable, and of the relevant knowledge and technical skills for the specific role.

The PCF is required to confirm their agreement to continue to abide by the Fitness & Probity Standards by signing an Annual Agreement, which includes a confirmation and evidence of having met all applicable Continuing Professional Development (“CPD”) requirements and the completion of a Concurrent Responsibilities table, in relation to any directorships and the completion of a Probity Questionnaire.

Fitness requirements are deemed to be met if the position holder’s sustained performance is rated as being “at target or above target” in our annual performance process or at least as being a “solid performer” in our performance potential matrix.

We investigate any concerns noted from the review (i.e. a “does not meet” or “partially meets” rating within the annual performance assessment or any other concern). We reassess the Fitness and Probity of the person concerned, where applicable, and follow predefined procedures, as set out in our Fitness and Probity policy, to evaluate what actions should be taken, if any. We would notify the Central Bank of any action taken in respect of the person performing a PCF or CF role immediately.

Where a PCF or CF function is outsourced, we obtain a written confirmation that the Provider’s employees working within the outsourced function continue to meet Fitness and Probity Standards. Outsourced service providers, that are not regulated entities, are required to put in place processes that are equivalent to ours for their employees.

## B.3 Risk Management System, including the Own Risk and Solvency Assessment

### B.3.1 Risk Management System

#### B.3.1.1 Risk Management System

We have a Risk Management System in place with a primary objective of ensuring that all material quantifiable and non-quantifiable risks we face are adequately identified, assessed, monitored, mitigated and reported on in a timely manner.

We have implemented a comprehensive risk management process (referred to as the Risk Management Framework) that is consistent with Allianz Group standards and industry best practices. The Risk Management Framework covers all material quantitative and qualitative risks to which we are exposed. Components of this Risk Management Framework include:

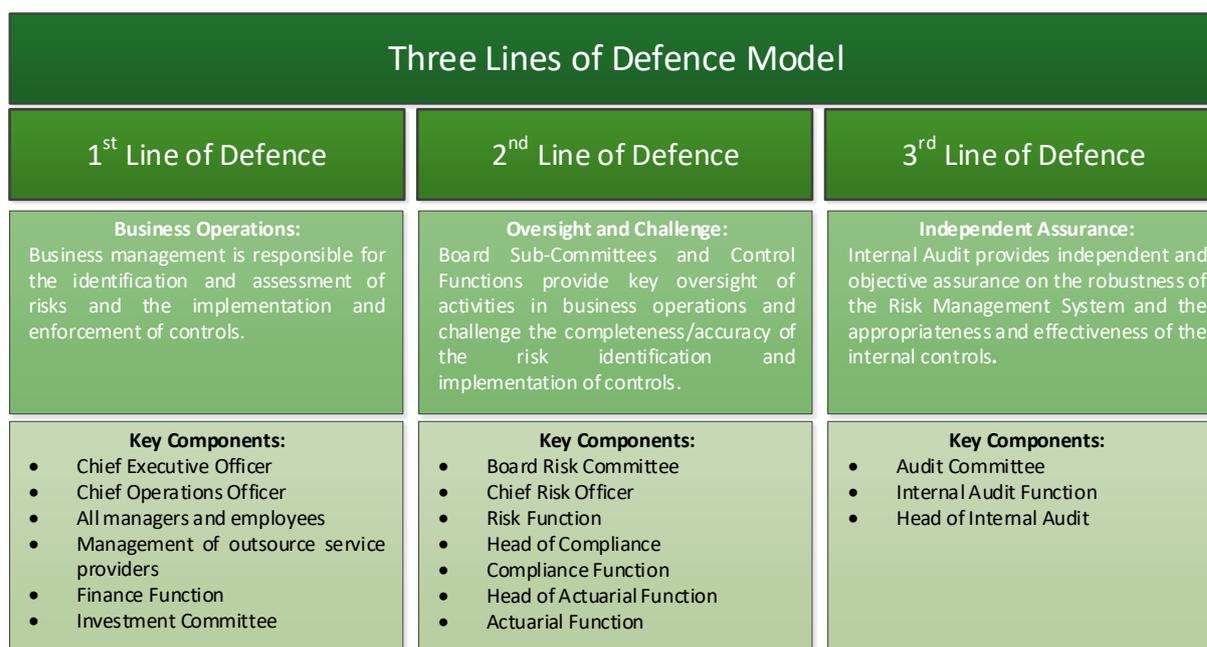
- i) **Risk identification and assessment** – Risk identification and assessment forms the foundation for risk management. The Risk Management Framework sets out processes for the identification of risk at the business operation level and company level (through the Top Risk Assessment process). In addition, emerging risks are identified and discussed on at least a quarterly basis as part of our risk horizon scanning process.
- ii) **Risk Appetite, Risk Strategy and policies** – The Risk Appetite Statement sets out the aggregate level and types of risk we are willing to assume within our risk capacity to achieve our strategic objectives and business plan.

Our Risk Strategy defines our risk appetite in a manner that is consistent with our business strategy. It ensures that rewards are appropriately based on the risks taken and that the level of capital required, and the commensurate delegated authorities, is in line with our overall risk capacity and strategy.

Our policies define our approach to risk management and define how the controls, procedures, limits and escalation procedures are implemented to ensure that risks are managed in line with our Risk Appetite. The Board has approved a wide range of policies covering operational aspects and risk aspects of our business. Our policies are subject to regular review.

- iii) **Risk reporting and monitoring** – We have implemented a comprehensive qualitative and quantitative risk-reporting framework, in line with Allianz Group requirements. The reporting framework provides senior management and the Directors with transparent risk indicators to help them to understand our risk profile and our standing in relation to our stated risk appetite. Examples include Key Risk Indicator dashboards, emerging risk radars, ORSA reports and Top Risk Assessments. Each of these documents are reviewed and discussed at the MRC and Board Risk Committee, where action plans are agreed to address such risks identified.
- iv) **Communication and transparency** – Transparent risk disclosure provides the basis for communicating our strategy and performance to internal and external stakeholders, ensuring a sustainable positive impact on risk awareness and risk culture.

In implementing the Risk Management Framework, we have established a “Three Lines of Defence” model for the management of risks, as outlined below:



### B.3.1.2 Implementation of the Risk Function

The main objectives of the Risk Management Function are:

- Supporting the first line-of-defence by helping ensure employees at all levels of the Company are aware of the risks related to their business activities and the appropriate response thereto.
- Supporting the Directors with development of a Risk Strategy and Risk Appetite.
- Monitoring of our risk profile to ensure it remains within our approved risk appetite and following up on instances of any breaches (i.e. via resolution directly with the first line-of-defence and other stakeholders or escalation to Management or the Directors).

We have implemented a Risk Management Policy, which sets out the roles, responsibilities, tasks and reporting requirements in respect of all risk matters.

The Risk Function is responsible for:

- The oversight, review and supervision of the identification, measurement, management, reporting and monitoring of risks.
- Monitoring our compliance with capital requirements.
- Developing and maintaining the Risk Management Framework and associated policies.
- Providing independent oversight of all risk management activities.
- Providing independent reporting to the Board Risk Committee and MRC on risk issues, including changes in our risk profile.
- Providing independent assurance to the CEO and the Board Risk Committee that key risks are identified and managed.
- Monitoring and reporting on our compliance with our Risk Appetite Statement on a monthly basis to the MRC and quarterly to the Board Risk Committee.

- Developing an annual Risk Management Plan for performing the risk management cycle, which includes the completion of the Top Risk Assessment.
- Compiling and maintaining the Corporate Risk Register based on the Top Risk Assessment results.
- Facilitating the production of the ORSA and reporting thereon.
- Providing reports on the above to the Board Risk Committee and the Board.

## **B.3.2 Own Risk and Solvency Assessment (“ORSA”)**

### **B.3.2.1 Overview**

The ORSA is a comprehensive assessment of all risks in the business to determine whether current and future capital will be sufficient to ensure sustained adequacy of solvency coverage in the face of these risks. The ORSA is an integral part of our business strategy and takes the nature, scale and complexity of the risks inherent in the business into consideration. We assess our overall solvency needs using the Solvency II Standard Formula.

### **B.3.2.2 The ORSA process**

The ORSA is the collection of interlinked processes and sub-processes implemented to identify, assess, monitor, manage and report on the short term, medium term and long term risks that we face and to determine the Own Funds necessary to ensure that overall solvency needs are met at all times. The ORSA is not a single report prepared once each year. Instead, it is the culmination of an iterative process on a continuous basis carried out throughout the year.

We perform a regular formal assessment (at least annually) of our solvency needs in respect of our own risk profile, approved risk appetite, risk tolerances and strategy of the business.

The performance of the ORSA is coordinated by the Risk Management Function and incorporates the input from different areas of the business (including the key control functions). The Board of Directors play a key role in steering the ORSA process and challenging the results. The ORSA comprises three stages:

- **Current state** – we determine our current risk profile. The assessment of current solvency needs determines whether we are adequately capitalised based on an identification and assessment of all material risks to which we are currently exposed. This assessment takes risk capital, available capital and stress scenario impacts to the solvency position, as well as the effectiveness of the internal control system into consideration. Risk capital under the ORSA reflects our own view of the risks we are exposed to and therefore, may be adjusted due to other risks that are not currently quantified by the Standard Formula.
- **Future state** – wherein we determine possible future solvency needs based on stress and scenario testing, including reverse stress testing. As part of the ORSA, our potential own funds and liquidity needs are assessed against our planning forecasts and under a range of forward-looking stress tests or stressed scenarios. The impact of each of these is assessed in order to ascertain its impact on our capital/solvency position and liquidity position. Projections are aligned with our regular planning horizon of three years.

- **Reporting** – The outcome of the formal ORSA is documented in an ORSA report that contains all information relevant to the overall ORSA conclusion, the results of the ORSA and an assessment of what actions should be taken.

Certain events or conditions could trigger performance of an additional ORSA outside of the regular annual process. The decision to perform an ad-hoc ORSA is ultimately coordinated by the CRO. The ad-hoc ORSA is designed such that the potential impact on solvency can be understood. Whether the ad-hoc ORSA is extended to consider other risks is at the discretion of the CRO, in consultation with the Board.

### **B.3.2.3 Review and approval of the ORSA**

Each ORSA is subject to review by the MRC and Board Risk Committee, before being reviewed, discussed and approved by the Board. Once approved by the Board, the ORSA is distributed to all relevant staff and to the Central Bank. The HOAF is required to issue an opinion over the formal ORSA that comprises a critical assessment of the stresses selected for the cash flow models and the content of the overall ORSA report.

### **B.3.2.4 Determination of Own Solvency Needs**

Our Own Solvency Needs are determined based on the:

- Outcomes of the Top Risk Assessment process
- Observation arising from the Business planning process,
- Assessment of the effectiveness of the Internal Control system
- Analysis of the impacts of the stress scenarios
- Testing performed over the continued appropriateness of the Standard Formula.

## **B.4 Internal Controls**

### **B.4.1 Internal Control System**

Our Internal Control System comprises a series of entity-level and process-level controls that have been embedded directly into our organisational and operational set-up.

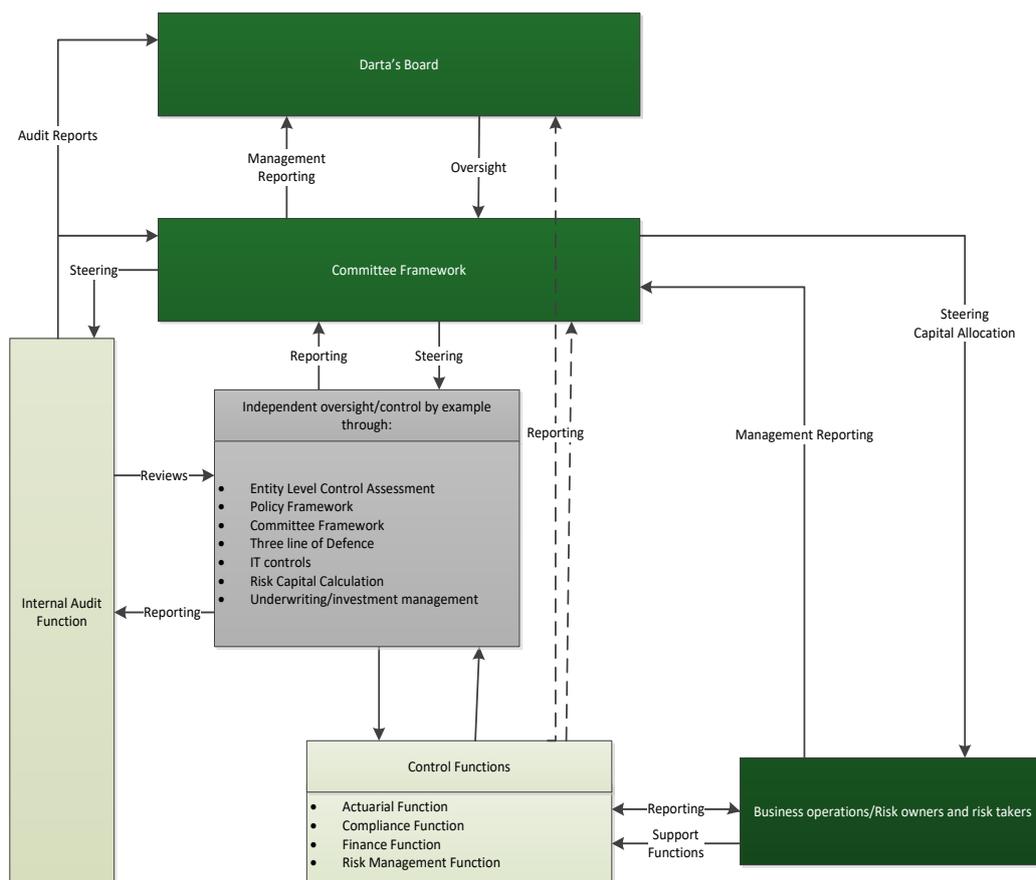
Our control objectives include:

- Safeguarding the Company's existence and business continuity.
- Creating a strong control environment.
- Conducting control activities.
- Providing the various committees with the relevant information for their decision-making.
- Efficient and effective processes.
- Ensuring compliance with applicable laws and regulations.

In order to achieve these objectives, we have put a comprehensive suite of internal controls in place. The general principles upon which the design of the suite of internal controls is designed are:

- Safeguarding and segregation of duties to avoid potential conflict of interests (for example approval of payments, or the authorisations of transactions).
- Material decisions are taken by at least two representatives of the Company (“four-eyes-principle”). Decision making processes at all management levels incorporate relevant unbiased information that facilitates sound business judgement.
- For the financial reporting process, we apply a control framework that aligns with the Allianz Group.
- Roles and responsibilities for the operation of internal controls are clearly defined and communicated. Responsible individuals are trained in the operation of the processes and controls.
- Effective fully documented processes are required, as supported by appropriately designed and effective key controls.

The following diagram summarises our Internal Control Framework:



## B.4.2 Implementation of the Compliance Function

The Compliance Function is responsible for:

- Supporting and monitoring compliance with applicable laws and regulations and administrative provisions to protect the Company against compliance risks. This includes the identification, assessment and mitigation of compliance risk arising.
- Advising senior management and the Board of Directors on compliance with laws and regulations adopted and assessing the possible impact of any changes in the legal environment on our operations.

We have implemented a Compliance Policy, which sets out the roles, responsibilities, tasks and reporting requirements in respect of compliance matters. The policy is reviewed regularly to ensure continued alignment with the appropriate requirements, both from an Allianz and from a Solvency II perspective and continues to be relevant to current and planned operations. Our Compliance Policy was last reviewed during January 2020.

### Compliance general activities and processes

As part of the Internal Control System, the Compliance Function completes a set of activities to achieve its objectives mainly by establishing and maintaining an adequate and effective Compliance Management System. This Compliance Management System comprises of the following elements:

- Promote a culture of integrity and compliance.
- Provide compliance training and communication.
- Provide advice on compliance matters.
- Establish and maintain compliance principles and procedures.
- Investigations, incidents and employee reporting.
- Interaction with regulatory authorities.
- Monitoring, control assessments and reporting.
- Identification of new regulations.

### Compliance risk assessment

The Compliance Function identifies, documents and assesses the compliance risk associated with our business activities on a regular basis. This helps to ensure that the overall compliance framework reflects the risk exposure. The Compliance Function and the Risk Function cooperate closely to manage these risks. Compliance contributes to data collection and risk assessments performed by the Risk Function. Each Compliance Risk assessment is aligned with the Risk Function in terms of methodology, timing and procedure.

## **B.5 Internal Audit**

### **B.5.1 Implementation of the Internal Audit Function**

The Internal Audit Function independently:

- Reviews risk governance implementation, performs quality reviews of risk processes and tests adherence to business standards including the Internal Control System.
- Evaluates and makes recommendations for improvements in the effectiveness of the system of internal controls and governance through the application of a systematic, disciplined auditing approach.
- Develops an audit universe covering all risks, including those arising from outsourced and co-sourced functions, which is defined and revised annually using a risk-based approach and subsequently used to steer and prioritise internal audit activities in the context of an overall objective to obtain adequate coverage of the entire universe within a 5-year audit plan.
- Issues an audit report including recommendations based on facts and professional judgment and a summary of the most important results, including an overall assessment for each audit performed.
- Performs follow-up monitoring to ensure that any deficiencies identified are resolved.

We have put an Internal Audit policy in place that sets out the roles, responsibilities, tasks and reporting requirements in respect of the Internal Audit Function.

Compliance with the Internal Audit Policy is mandatory. The purpose of the Internal Audit Policy is to ensure that the organisation and work of the Internal Audit Function adheres to a consistent set of minimum rules and operating procedures, such that the effectiveness of the controls necessary to achieve the Group's goals is ensured. The policy is supplemented by the local Standard Audit Manual, which is derived from the Allianz Group Standard Audit Manual.

### **B.5.2 Maintenance of independence of the Internal Audit Function**

Internal Audit's standing within the organisational structure ensures that independence is maintained at all times. Maintaining independence ensures that no undue influence is exercised over the Internal Audit Function, for instance in terms of reporting, objectives, target setting, and compensation or by any other means.

The Internal Audit Function has the authority to express its own assessment and recommendations but cannot give orders (except in cases of suspicion of illegal activities/fraud).

Independence is achieved by ensuring that Internal Audit is positioned outside of functional roles and responsibilities, that there are no obvious conflicts of interests in assignments and that auditors have not been engaged in drafting procedures, designing, installing or operating systems, or implementing recommendations. They may not carry out operational roles.

The Head of the Internal Audit department reports directly to the CEO and also has a reporting line to the Chairman of the Audit Committee and the Board, if required. The Internal Audit function reports to Allianz Group Audit and are subject to oversight from Group Audit.

The Internal Audit Function has the right to communicate with any employee and obtain access to any information, records or data necessary to carry out its responsibilities, to the extent legally permitted. It has the responsibility and the right to review activities, procedures and processes in all areas of the Company, without limitation. Internal Audit has the unlimited right to obtain information and management must inform Internal Audit of serious deficiencies and major changes in internal control systems. This information is handled with discretion and confidentiality.

In addition to auditing activities, management may seek the advice of Internal Audit on internal control related topics, which Internal Audit may provide. However, Internal Audit cannot compromise its independence and cannot implement working procedures. The advisory function of Internal Audit may not jeopardise its core audit activities and the fulfilment of its audit plan. The Head of Internal Audit must confirm the independence of the Internal Audit activity to the CEO (and Audit Committee), at least annually.

The Actuarial, Compliance and Risk Management Functions are separate from the Internal Audit Function with no instruction or reporting of one function into the other.

## **B.6 The Actuarial Function**

The Head of Actuarial Function is part of the second line of defence in relation to reporting, oversight and controlling activities.

The core tasks performed by the Actuarial Function in 2019, as defined by the “Domestic Actuarial Regime and Related Governance” and the “Guidance for (Re)Insurance Undertakings on the Head of Actuarial Function Role”, include but are not limited to:

- The coordination and calculation of Technical Provisions for accounting and regulatory reporting purposes.
- Ensuring the appropriateness of the assumptions and valuation methodologies used in the calculation of the Technical Provisions.
- Expressing an opinion on the adequacy of the Technical Provisions.
- Expressing an opinion on the overall underwriting policy and on the adequacy of the reinsurance arrangements.
- Expressing an opinion on the ORSA.
- Contributing to the effective implementation of the Risk Management System.

The Head of Actuarial Function produces all of the above on an annual basis. In relation to Technical Provisions requirements, the Head of Actuarial Function provides an Actuarial Opinion on Technical Provisions (“AOTP”) for the CBI and an Actuarial Report on Technical Provisions (“ARTP”) supporting the AOTP for the Board. The regime also requires an independent peer review of the Technical Provisions and the associated AOTP and ARTP, thereby providing an “independent view of the company’s reserving” every three years. Our last peer review was carried out in relation to the year ended December 2018.

The Actuarial Function cooperates closely with the Risk Management Function by:

- Contributing to methodologies, models and assumptions used for the assessment of risk.
- Contributing to the overall risk management process, through acting as Chairperson of both the Reserve Committee and the PAOC, and through their voting membership of the MRC and Investment Committee.
- Maintaining constant communication with members of the Risk Function.
- Supporting the ORSA process through calculation of the Technical Provision projections underlying the ORSA and the critical assessment of the stresses selected for the cash flow models and the content of the overall ORSA report.
- Expressing written annual opinions on key aspects of the business and its operation as outlined above.

Our Actuarial Policy sets out the roles, responsibilities, tasks and reporting requirements in respect of the Actuarial Function.

## **B.7 Outsourcing**

### **B.7.1 Overview**

We currently outsource a number of key services to third parties, both within and outside of the Allianz Group. All important and critical outsourcing relationships require approval by the Board prior to being implemented.

Outsourcing of certain functions or services essential to the operation of the Company directly affects our policyholder's interests. In order to appropriately safeguard these interests, we have put certain policies and processes in place to adequately assess, mitigate and control the risks associated with outsourcing and to ensure business continuity in case of adverse events arising or the termination of a relationship with an outsource provider.

### **B.7.2 Outsourcing policy**

We have put a formal Outsourcing Policy in place, as approved by the Board, which is subject to review on at least an annual basis.

In summary, our Outsourcing Policy sets out:

- The roles and responsibilities of all key stakeholders involved in the outsourcing of functions and activities, including, but not limited to, the Board, Board Risk Committee, Risk Function, Compliance Function, Business Managers, Relationship Managers and Service Providers.
- Processes and procedures for the completion of due diligence to be carried out prior to electing to place business with a particular outsource service provider.
- The processes and procedures for obtaining appropriate approval for new or amended outsourcing relationships.
- The processes and procedures for the on-going monitoring of the activities and performance of outsource service providers.

1 January 2019 to 31 December 2019

- The requirement to develop and maintain contingency plans and exit strategies in respect of all important and critical outsourcing relationships.
- The reporting requirements, including escalation protocols, both within the Company, the Allianz Group and externally to the Central Bank.
- The steps required to be taken in the event of a major deviation by the Service Provider being identified.

### B.7.3 Listing of critical and important outsourcing relationships

We act as an outsource provider in respect of the following services:

| Provided to             | Activities covered   | Location of services |
|-------------------------|--|----------------------|
| <b>Allianz Group</b>    |  |                      |
| Allianz Global Life dac | We provide compliance services, office space and other infrastructural support to AGL. | Ireland              |

The critical or important operational functions outsourced are as follows:

| Provided by  | Activities covered   | Location of provider    |
|--|--|-------------------------|
| <b>Allianz Group</b>   |  |                         |
| Allianz Global Life dac                                      | Actuarial Function and Regulatory Risk<br>Capital calculations support | Ireland                 |
| Allianz Ireland plc  | Internal Audit   | Ireland                 |
| Allianz Technology SE  | Information Technology support   | Ireland/Germany         |
| Allianz SpA  | Legal and fiscal services  | Italy                   |
| Allianz Global Investors GmbH                                | Asset Management services  | Germany                 |
| PIMCO Europe Ltd   | Asset Management services  | United Kingdom          |
| Investitori SGR S.p.A.                                       | Asset Management services  | Italy                   |
| <b>External Providers</b>                                    |  |                         |
| Irish Progressive Services<br>International Limited ("IPSI") | Third Party Administrator  | Ireland                 |
| Asset Managers (21)  | Asset Management   | Various European states |
| External document archiving<br>firms (4)                     | Document archiving   | Ireland/Italy           |
| F O'Hara   | Company secretarial services   | Ireland                 |

## **B.8 Other material information**

### **B.8.1 Assessment of System of Governance**

Our Internal Control Policy requires that we undertake a review of the System of Governance on an annual basis or ad-hoc, if extraordinary circumstances occur (such as in case of larger organisational or regulatory changes).

We have established a structured process to review our System of Governance, which is followed by a formal resolution of the Board, including the definition of mitigating activities. The coordination of the regular review process is assigned to the MRC.

For the purpose of this governance review, a catalogue of single elements were identified which, in total, form the entire regulatory “System of Governance” of the Company and of the Allianz Group. The objective of the regular review is to come to an assessment of the adequacy of single elements, as well as, the entire System of Governance in accordance with our risk profile.

The use of the term “adequacy assessment” in this regard refers to the use of professional judgement as to whether the single governance element in question is adequately described, designed and implemented in relation to the respective risk profile in order to achieve the related objectives.

The overall System of Governance is designed and aligned appropriately and proportionately to support our business model and its underlying risk strategy and risk profile. Our operational and organisational setup has been designed to enable risk management structures and embed effective internal controls within the Company.

We continuously aim to improve the compliance and governance systems that we have put in place by ensuring that they are reviewed and evaluated. Where applicable recommendations are made to the Board regarding the enhancement and development of the system. These recommendations include observations on the outcomes from controls monitoring, root cause analysis of complaints, breaches and risk events.

Our annual review was last undertaken during December 2019 by the Management Risk Committee, acting as the Governance and Control Committee, as supported by the Compliance, Risk, Finance, Internal Audit and Actuarial Functions. This review covered both the design effectiveness and operating effectiveness of the Internal Control framework.

Based on the outcomes of our review, we have concluded that our System of Governance is adequate to the nature, scale and complexity of the risks inherent in the business.

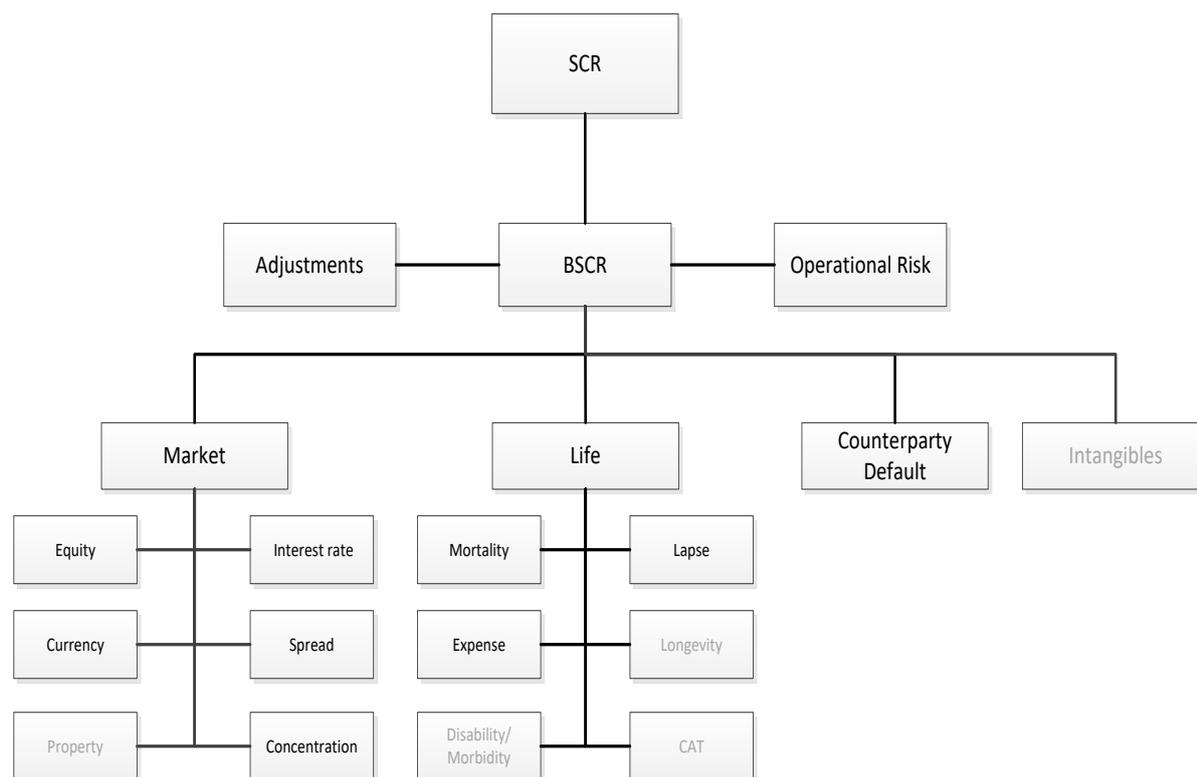
### **B.8.2 Other material information**

In general, external events have no impact on our System of Governance. Despite the unusual global events arising due to COVID-19, our normal governance structure remains operational at this time and all personnel, including non-executive and independent non-executive directors have the ability to work remotely.

All other material information regarding the System of Governance has been set out above.

## C. Risk Profile

Risk is measured and managed based on the calculations derived using the Standard Formula, as set out in Solvency II. The Standard Formula comprises a set of individual risk modules each of which cover a certain type of risk to which we may be exposed. The risk modules are then aggregated in a defined way ultimately to calculate our SCR. The following graphic represents a summarised version of the Standard Formula including the items that are most relevant to us.

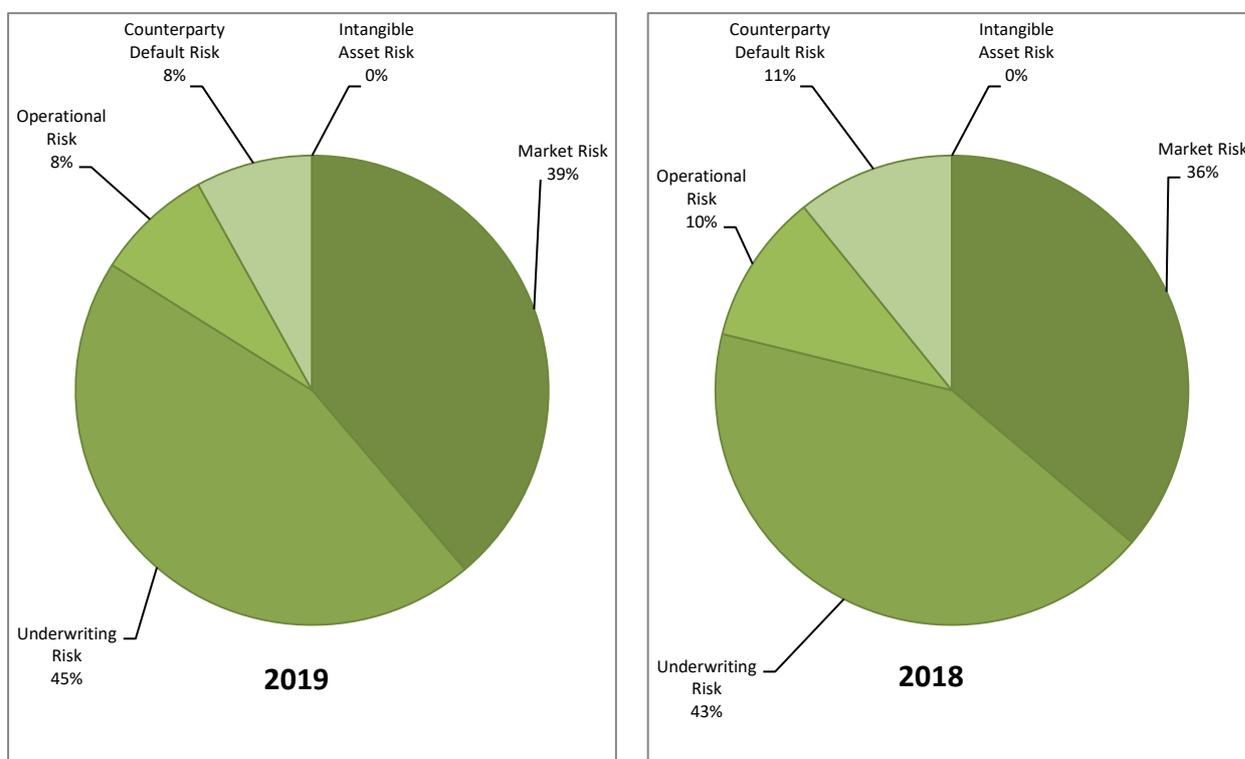


The resulting risk profile indicates how risks are distributed over different risk categories and determines the regulatory capital requirements in accordance with Solvency II.

This Section provides a detailed description of our risk exposure by category of Solvency II risk, followed by detailed descriptions of each corresponding risk category in the different subsections. Definitions of each of these risk types are included in the glossary set out in Appendix 1.

Whilst the quantum of our SCR has increased due to increases in the underlying size of our book, there have been no material changes in any of our risk exposures over the reporting period. We do not expect significant changes to the other risk categories due to COVID-19. Note the statements on the risks associated with the COVID-19 pandemic are subject to the proviso that risk identification and assessment are of a provisional nature at the time of reporting (end of March 2020).

The charts below set out the resulting basic Solvency Capital Requirement as at 31 December 2019 and 31 December 2018:



## C.1 Underwriting risk

Underwriting risks have been split into mortality risk, expense risk and lapse risk.

### C.1.1 Risk exposure

The Standard Formula indicates that as at 31 December 2019 45% (2018: 43%) of our SCR is held in respect of underwriting risk. Key underwriting risks we are exposed to include:

| Material risks   | Risk assessment measures   |
|--|--|
| <p><b>Expense risk</b></p> <p>The risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance contracts.</p> <p>An increase in the level of expenses, whether due to estimation error, inflation being higher than expected or policy volumes being lower than expected, results in a reduction in future profitability and an increase in the provisions required for future expenses.</p> | <p>Actual expenses incurred are monitored against budgeted expenses for the month and year to date. Significant deviations are investigated.</p> |

| Material risks  | Risk assessment measures  |
|---|---|
| <p><b>Lapse risk</b></p> <p>The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.</p> <p>The potential impact on Own Funds of the occurrence of a mass lapse event is projected for the purposes of calculating our capital requirements under Solvency II. Under the Solvency II Standard Formula, a mass lapse event is calculated by modelling the impact of the instantaneous discontinuance of 40% of the insurance policies on the Company's Own Funds.</p> <p>The occurrence of a mass lapse event results in a reduction in future profitability.</p> | <p>Product profitability and lapse experience are monitored on a regular basis so that any significant deviation from expected patterns is detected and addressed in a timely manner.</p> |
| <p><b>Mortality risk</b></p> <p>The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.</p> <p><b>Morbidity risk</b></p> <p>The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates.</p>   | <p>Actual claims experience is closely monitored as compared to forecasts and assumptions.</p>  |
| <p><b>Life Catastrophe</b></p> <p>A Life-catastrophe event is defined for the purposes of Solvency II as an instantaneous increase in mortality rates of 15bps over the mortality rates used in the calculation of the technical provisions to reflect mortality experience in the following 12 months</p>  | <p>The likely impact of a catastrophic event occurring is measured as part of the ORSA and capital setting processes.</p>   |

Exposure to mortality risk, lapse risk and expense revision risk has increased year on year in line with the overall growth in our underlying book of policies. No material changes in the measures have been applied during the period in respect of these risks.

### C.1.2 Risk concentration

Our book is predominantly based in Italy with a small exposure to Lithuania. Therefore, there is a concentration risk to the exposure to a single market.

Lapse risk can increase in times of economic uncertainty. Therefore, there is a concentrated risk exposure to Italy and its economy.

### C1.3 Risk mitigation techniques

| Material risks                    | Risk mitigation techniques   |
|-----------------------------------|--|
| Expense risk                      | <p>Where possible, contracts are put in place with service providers to ensure clarity over pricing of services.</p> <p>Expense risk is also factored in the pricing of our products through a best estimate allowance for expenses.</p> <p>Expenses are monitored continually and any identified deviations from expected norms are addressed.</p>  |
| Lapse risk                        | <p>We price our products based on best estimate assumptions, including surrender rates.</p> <p>We carry out reviews of the on-going appropriateness of our products.</p> <p>Lapse experience is monitored against budgetary expectations on a continual basis and any identified deviations from expected norms are investigated.</p> <p>Best-estimate lapse assumptions are reviewed on at least an annual basis.</p> |
| Mortality risk and morbidity risk | <p>A significant proportion of the mortality and morbidity risk attributable to these products is reinsured.</p>   |
| Life Catastrophe event            | <p>Due to the nature of the products written, there is limited exposure to this class of risk.</p> <p>A significant proportion of the likely impact of life catastrophe risk attributable to these products is reinsured.</p>  |

### C.1.4 Risk sensitivity

We carry out stress and scenario testing as part of the ORSA, which includes stress testing in respect of lapse risks and expense risks. As part of the ORSA, the SCR is recalculated following scenarios which subject it to significant increases in expenses and sharp increases in lapses, including the consideration of the impact of a potential higher mass lapse event occurring. The testing shows that we are resilient to such stresses.

## C.2 Market risk

### C.2.1 Risk exposure

#### C.2.1.1 Exposure

The Standard Formula indicates that as at 31 December 2019 39% (2018: 36%) of our SCR is held in respect of Market Risk.

Market risk results from unexpected losses arising due to changes in market prices or parameters influencing market prices. These include changes driven by equity prices (“equity risks”), interest rates (“interest rate risk”), real estate prices, exchange rates (“currency risk”), credit spreads (“spread risk”) and implied volatilities or due to changes in market prices due to a worsening of market liquidity.

As an inherent part of our operations, we collect premiums from our policyholders and invest them in a wide variety of assets. The resulting investments back the unit-linked policy liabilities held on behalf of the policyholders (“unit-linked assets”). In addition, we hold investments backing the technical provisions that are required to be held in respect of non-unit-linked aspects of certain policies (being the mortality riders and long term care policies) (“non-linked assets”) and investments on behalf of the shareholders (“shareholder investments”) including:

- Short and medium term EU government and government agency bonds.
- Corporate bonds.
- Cash deposits.

Finally, we use derivatives to hedge our portfolios against adverse market movements (for example, protective puts) or to reduce our investment risk (for example, by using forwards, swaps or swaptions).

Thus, we are exposed to market risk in the form of equity risk, spread risk, currency risk and to a lesser extent interest rate risk. We do not currently expose our policyholders or shareholders to significant real estate pricing risk.

Poor performance in the unit-linked funds affects the value of fees earned as a second order risk. Adverse fluctuations in equity prices, interest rates and foreign currencies will result in a reduction in fee income earned.

Concentration risk is also included in the calculation of market risk. However, this risk does not have a material impact on SCR.

#### C2.1.2 Risk assessment measures

Our Investment Policy Statement details the approach to the management of risks arising in respect of unit-linked assets, non-linked assets and shareholder investments.

The performance of policyholders’ funds and compliance with investment mandates is monitored on a regular basis by the Finance Team and Investment Committee, both of whom report to the Board on a quarterly basis.

Likewise, the performance of the non-linked assets and the shareholder investments is monitored in line with the limits set out in the Investment Policy.

## C2.1.3 Application of the Prudent Person Principle

We apply the Prudent Person Principle to our entire investment portfolio through the application of the following principles:

- All assets need to be invested in such a way as to ensure the quality, security, liquidity, profitability and availability of the investment portfolio as a whole. This also includes the need to structure the investment portfolio such that it is appropriate to the nature and duration of insurance liabilities covered by these assets.
- Assets are only admissible if we can properly identify, measure, monitor, manage, control, report and appropriately integrate their risks as part of the ORSA.
- Asset Managers are subject to rigorous due diligence procedures prior to business being placed with them.
- Review meetings are held with the Asset Managers during which fund performance, investment strategies and risk management are discussed.
- All Asset Managers are provided with clear investment mandates and guidelines, which set out the upper and lower volatility limits, geographical exposure limitations, and concentration risk limits as set for individual policyholders funds and shareholder investments alike. The Finance Team monitors compliance with these limits.

## C.2.2 Risk concentration

Market concentration risk is a standalone sub-module that feeds into the overall Market Risk SCR calculation.

Under the Solvency II Delegated Regulations, assets held in respect of life insurance contracts where the investment risk is fully borne by the policyholders are not included in the calculation of concentration risk sub-module of the Market Risk SCR.

Therefore, only the shareholder assets are assessed for concentration and a specific capital requirement is calculated and held as part of the overall Market Risk SCR in this regard.

Shareholder investments are invested in securities from a broad range of issuers, with limits in place to reduce concentration exposure. As a consequence of the nature of the investments held and the application of the approved investment limits, no significant concentrations of market risk have been identified as at 31 December 2019 (December 2018: None).

## C.2.3 Risk mitigation techniques applied

Market risk exposures are mitigated through the following techniques:

- The performance of policyholders' funds and compliance with investment mandates are monitored and reported on an exceptions basis. Exceptions identified are followed up in a timely manner.
- The Finance Function monitors compliance with volatility limits. Exceptions are reported to the Investment Committee on a regular basis. If volatility limits are breached, the Asset

Manager so affected is requested to undertake corrective actions within a reasonable timeframe.

There has been no material change in the measures applied during the period in respect of these risks.

## **C.2.5 Risk sensitivity**

As part of our ORSA process, we subject the investments underlying our policyholders and our shareholder to the equivalent of recessionary market conditions. Both the Solvency Coverage and liquidity needs were recalculated as part of the analysis of this scenario and it was determined that the Company is resilient to such stresses.

## **C.3 Credit risk**

### **C.3.1 Risk exposure**

#### **C.3.1.1 Exposure**

The Standard Formula indicates that as at 31 December 2019 8% (2018: 11%) of our SCR is held in respect of Counterparty risk or credit risk.

Credit risk is the unexpected loss in the market value of the portfolio due to deterioration in the credit quality of counterparties including their failure to meet payment obligations or due to non-performance of instruments (i.e. payment overdue). Our exposure to credit risk, which includes counterparty risks, primarily occurs with respect to the following assets:

- Amounts due in respect of unit-linked assets, non-linked assets and shareholder investments.
- Italian Withholding Tax ("IWT"), arising because of participating in the "sostituto d' imposta" tax regime.
- Cash balances and deposits held with credit institutions.
- Receivables due from debtors.
- Reinsurance recoverable.

#### **C.3.1.2 Risk assessment measures**

The credit quality of counterparties is monitored closely by the Finance and Risk Functions. A significant deterioration in the credit quality of a counterparty (for example, a downgrade of more than two credit rating categories in respect of a rated counterparty) acts as an early warning. The recoverability of debts is also closely monitored.

#### **C.3.1.3 Application of the Prudent Person Principle**

In line with the Prudent Person Principle, we have implemented an Investment Policy. This policy sets limits over the extent of permissible credit exposure by type of issuer in order to mitigate credit risk.

We have also set limits on the maximum amount of cash balances that can be deposited with individual financial institutions. As an overarching principle, we can only place investments, including cash balances, with counterparties approved by Allianz Group.

As mentioned above, all holdings are subject to Group defined limits as set out in the Credit Limit and Risk Management System (“CRISP”), which is an Allianz Risk Management System used to ensure that counterparty concentration risk does not exceed the Group’s risk-bearing capacity .

We aim to invest our shareholder investments and non-linked assets in liquid assets in order to ensure that Technical Provisions are adequately backed and commitments can be met as required. We may not invest in assets that are not included in the Allianz permissible asset database. Apart from limited exceptions, as approved by our Board, shareholder investments are limited to securities rated as being at least equivalent to Standard and Poor’s BBB- rating at worst (“investment grade”).

We may only enter into reinsurance contracts with counterparties approved by Allianz Group. As per Allianz Group’s criteria only reinsurance counterparties with a minimum S&P credit rating of “A” are acceptable.

### **C.3.2 Risk concentration**

As at 31 December 2019, Darta holds a receivable to the value of €315m (2018: €292m) that is recoverable against future payments to the Italian Tax Authority.

### **C.3.3 Risk mitigation techniques applied**

As part of the Allianz Group, we are covered by the CRISP system. The CRISP system also includes “watch list” reports and “blacklisted” counterparties. The CRISP system assists us in keeping concentration and counterparty risks within Group and local Risk Appetite. Exposure to or concentrations in respect of specific assets may not exceed those limits set out in the CRISP database, except where an explicit derogation has been provided by the Board or Allianz Group, as applicable.

Compliance with these limits is monitored by the Finance Function and is reported on by the Risk Management Function to the Investment Committee.

We have a letter of “parental support” in place, whereby we are able to assign any unrecovered Italian tax asset, which arises from the payment of the IWT each year, at face value to our Shareholder (irrespective of whether or not they have a sufficient tax liability to get immediate value for the credit).

Outstanding debtor balances are followed up on a regular basis by our Finance Team.

### **C.3.4 Risk sensitivity**

Specific stress scenarios relating to the default of material receivables were analysed as part of the ORSA. Both the Solvency and liquidity needs were recalculated as part of the analysis of these scenarios and it was determined that the Company is resilient to such stresses.

## **C.4 Liquidity risk**

### **C.4.1 Risk exposure**

#### **C.4.1.1 Exposure**

Liquidity risk is the risk that current or future payment obligations cannot be met or can only be met based on adversely altered conditions. Liquidity risk can arise primarily if there are mismatches in the timing of cash flows.

Liabilities to policyholders are matched by unit-linked assets such that there are units created for each fund equal to the number of units allocated to policyholders. This is designed to ensure that sufficient assets of appropriate nature, term and liquidity are held to enable us to meet the liabilities to policyholders as they become due. Our policyholder's main exposure to liquidity risks arises through the investments backing their policy liabilities, although the effect of this risk is reduced by the nature of the investments held.

In general, our products are well matched in terms of timing of cash flows, which reduces the extent of liquidity risk that may arise. However, some product offerings include an upfront allocation, which may result in our experiencing liquidity strains in high sales volume periods.

Our main exposure to liquidity risk relates to shareholder investments. Our Shareholder's main exposure to liquidity risks arises in respect of the unrecovered portion of the Italian Tax Asset and the requirement to pay expenses of the business as they arise from time to time.

There have been no material changes in our liquidity risk exposures over the reporting period.

#### **C.4.1.2 Risk Assessment measures**

The Policyholder's exposure to liquidity risk (arising in respect of the internal funds) is managed through compliance with the respective investment policies of each fund, as detailed in the Investment Mandates and Investment Guidelines.

Liquidity is monitored on a daily and monthly basis by the Finance Function.

A forward-looking cash flow projection over a 36-month period is performed based on the most up-to-date forecasts available. These cash flow projections, which form a part of the regular risk reporting process, are subjected to stress events that are introduced at the discretion of the Risk Management Function. This enables us to understand our potential future liquidity needs better. The outcomes of the projections are discussed at the MRC on a monthly basis and are reported to the Board on a quarterly basis.

#### **C.4.1.3 Application of the Prudent Person Principle**

Cash resources are held across a number of banks throughout Europe and are subject to upper limits on the amount of cash that may be held within any one institution at any one time. The banks that we use are approved counterparties as prescribed by the Allianz Group.

## **C.4.2 Risk concentration**

The main driver of liquidity stresses relates to the payment of IWT in June of each year. In addition to an analysis of the liquidity implications arising from our planning forecast, a number of the stress scenarios were analysed allowing us to determine that the amount due for payment is expected to reduce over time as we approach the legislative cap. For this reason, it is anticipated that concentration of risk in respect of liquidity risks ought to reduce during 2020.

## **C.4.3 Risk mitigation techniques applied**

Liquidity risk is managed in line with the Risk Management Framework, which includes an Investment Policy and a Liquidity Risk Management Policy. These policies set out a number of measures that we actively use to ensure that we are able to pay our debts as they become due.

We have set strict limits over the volume of products with additional allocations that may be sold.

## **C.4.4 Risk sensitivity**

As part of the ORSA, consideration is given to the impacts in the central planning forecast and each of the stress scenarios on our liquid assets and our ability to continue to meet obligations as they become due. We are sensitive to extreme liquidity stresses as demonstrated through the testing performed. However, in most scenarios we are projected to maintain a reasonable liquidity buffer throughout the period 2019-2022.

## **C.4.5 Expected profits included in future premiums**

The expected profit included in future premiums amounts to circa €1.56m (2018: €1.49m). The expected profit included in future premiums is the difference between the Best Estimate Liabilities and the Best Estimate Liabilities assuming no future premiums are received relating to existing business.

## C.5 Operational risk

### C.5.1 Risk exposure

#### C.5.1.1 Exposure

Operational risks represent the losses resulting from inadequate or failed internal processes and can stem from a wide variety of sources, as summarised in the table below.

| Sources of material exposures                                   |   |
|---|---|
| Categories  | Definitions   |
| External fraud (including cyber risks)                          | The external theft and fraud sub-category covers events arising from acts intended to defraud, misappropriate property or circumvent the law by a third party without the assistance of an internal party.  |
| Internal Fraud (including cyber risks)                          | Where one or more current employees are knowingly involved in a theft or fraud, including unauthorized activity where there is no legal recourse, the event should be classified as internal fraud.   |
| Employment practices and workplace safety                       | This category covers operational risk events resulting from incidents connected to employment agreements, human resource processes and health and safety laws.  |
| Clients/Third party, Products and Business practices            | An operational risk event may arise due to an unintentional or negligent failure to meet a professional obligation (including fiduciary and suitability requirements), or from the nature or design of a product.   |
| Damage to physical assets                                       | The damage to physical assets category is used to cover events arising due to natural / industrial disasters and malicious damage of company property.  |
| Business disruption and system failures (including cyber risks) | This category covers operational risk events arising due to disruption of business operations or system failures.   |
| Execution, delivery and process management                      | An operational risk event may arise due to failed transaction processes or process management failures in general. Operational risk events arising in back office areas fall within this category. These events will often be unintentional and could involve failure to properly document and/or complete business transactions.   |
| Conduct Risk  | <p>The risk to the delivery of fair customer outcomes, or to market integrity.</p> <p>We are exposed to conduct risk through the failure of brokers to act in an ethical manner when distributing our products. This could arise through inappropriate sales activities or the brokers trying to increase their own fee income by coercing policyholders to surrender and reinvest their funds in a manner that is detrimental to the policyholder.</p> |

The Standard Formula indicates that as at 31 December 2019 8% (2018: 10%) of Darta's basic capital requirement is held in respect of operational risk.

## **C.5.1.2 Risk assessment measures**

Operational risk is monitored through the analysis of the number and nature of errors reported by the outsource service providers and throughout the wider organisation. The level and nature of complaints as logged by the Operations team are also analysed as part of this exercise.

The impact of these incidents on operational risk is measured using a "Rating Impact Scale" whereby operational incidents, breaches, losses and near misses are rated and classified.

Compliance with legal and regulatory requirements is monitored by the Compliance Function.

Complaints and instances of litigation are closely monitored by our Compliance Function and Operations team and are reported on through the Key Risk Indicators by the Risk Function.

We have developed a series of metrics to aid us in identifying whether our customers understand the products they hold or whether there are potential areas for concern in our selling process.

## **C.5.2 Risk concentration**

We are not exposed to any significant concentrations of risk in respect of operational risks as at 31 December 2019.

## **C.5.3 Risk mitigation techniques applied**

Exposure to operational risk is typically managed by our business managers as part of their first line of defence responsibilities.

We also have a comprehensive set of policy statements in place, which are designed to control and mitigate our main sources of operational risk. Each policy sets out procedures to manage, mitigate and report operational risk. These include the:

- Outsourcing policy.
- Operational, Reputational and Strategic policy.
- Anti-Fraud policy.
- Errors handling policy.
- Internal Control policy.
- Unit Pricing and Asset Valuation Policy.
- Underwriting, Reserving and Product Development policy.
- Complaints handling policy.
- Risk Management policy.

One of the sources of operational risk is the outsourcing arrangements that have been put in place. To mitigate these risks we have put an Outsourcing Governance Framework in place, which includes an Outsourcing Policy. Section B.7 provides more detail on how we manage outsourcing arrangements.

We have a detailed Business Continuity Plan in place, which covers major risk scenarios. This plan is tested at least annually. We seek information on key outsource service providers' Business Continuity Plans and the results of their testing as part of the on-going outsourcing due diligence process.

We have put a detailed Information Security policy in place that describes our Information Security Framework. This Framework is derived from Allianz's Group Information Security Framework, as adapted to meet local operational needs and regulatory requirements. As part of this Framework, we have put a series of key controls and reporting measures in place, such as continuing user education and awareness campaigns, regular access reviews, network security and malware protection.

Our Compliance Function and Operations Function closely monitor complaints and instances of litigation, which are in turn reported on through the Key Risk Indicators prepared by the Risk Function. We have developed a series of metrics to aid us in identifying whether our customers understand the products they hold or whether there are potential areas for concern in our selling process.

Our existing products are subject to regular review based on pre-defined metrics.

We conduct comprehensive due diligence procedures over prospective brokers before on boarding them. The distribution agreements put in place with our brokers include clauses that have been designed to prohibit undesirable sales practices. Our Brokers are provided with training in respect of any new products introduced and new brokers are provided with training as part of the on-boarding process.

### **C.5.4 Risk sensitivity**

We carry out stress and scenario testing as part of the ORSA, which includes stress testing in respect of operational risks. Our SCR was recalculated following scenarios, which subjected the Company to significant operational incidents. The testing showed that we are resilient to such stresses.

## C.6 Other material risks

There are certain risks that are not adequately addressed or mitigated by additional capital and are therefore not considered in the Standard Formula. For identification, analysis, assessment and management of these risks, we use a systemic approach in which risk assessments are generally based on quantitative criteria or scenario analysis.

### C.6.1 Risk exposure

#### C.6.1.1 Exposure

| Material risk   | Sources of material exposures   |
|---|---|
| <b>Reputational risk</b><br>Unexpected drop in the value of in-force business or value of future business caused by a decline in our reputation or in the reputation of the Allianz Group from the perspective of its stakeholders. | Events that negatively affect our reputation are likely to result in an increase in lapses and a decrease in new business.<br>Non-compliance with laws and regulations.<br>Impact of reputational issues within other companies in the Allianz Group.<br>Distributors selling products on our behalf. |
| <b>Strategic risk</b><br>Unexpected negative changes in the Company's value arising from the adverse effect of management decisions regarding business strategies and their implementation.   | Our current strategy of mainly selling unit linked products into the Italian market exposes us to significant concentration and strategic risk.<br>Potentially disruptive new market entrants.  |

There have been no material changes in other risk exposures over the reporting period.

#### C.6.1.2 Risk assessment measures

| Material risk     | Risk assessment measures   |
|-------------------|--|
| Reputational risk | We measure reputational risk using a "Rating Impact Scale" whereby incidents, breaches, losses and near misses that may affect our reputation are rated and classified.                                    |
| Strategic risk    | The profitability of the Company, new business volumes, finance reports, compliance reports and risk management reports are all taken into account when the Board assesses our exposure to strategic risk. |

### C.6.2 Risk concentration

| Risk              | Risk concentrations   |
|-------------------|---|
| Reputational risk | We have significant exposure to Allianz Bank in Italy. Reputational damage to this distributor may have a deleterious effect on the Company.  |
| Strategic risk    | Despite the recent initiatives to access new distribution channels and markets, it is acknowledged that in the short to medium term that we continue to be exposed to significant strategic risk. |

### C.6.3 Risk mitigation techniques applied

| Material risks    | Risk mitigation techniques  |
|-------------------|---|
| Reputational risk | <p>Threats to our reputation and that of the wider Allianz Group are closely managed.</p> <p>In line with Allianz Group guidance, we have a Risk Management Framework in place to identify and mitigate potential sources of reputational risk.</p> <p>This Framework includes the completion of the annual TRA, an annual risk assessment of our anti-fraud and anti-corruption practices and constant Anti-Money Laundering (“AML”) monitoring.</p> <p>In addition, we have implemented a set of policies, including a reputational risk policy, anti-corruption policy and anti-fraud policy, with the aim of mitigating potential sources of reputational risk.</p> |
| Strategic risk    | <p>As part of the strategic and planning process, we continually consider options to diversify our product portfolio and distribution channels.</p> <p>The implications of various strategies that may result in volatility in sales volumes (both positive and negative), policyholders switching to lower margin products or mass lapses are assessed as part of our stress and scenario testing as set out in the ORSA.</p> <p>New trends observed in the market are closely monitored.</p>  |

### C.6.4 Risk sensitivity

We carry out stress and scenario testing as part of the ORSA, which includes stress testing in respect of other material risks. The testing showed that the Company is resilient to such stresses.

## C.7 Any other information

All material information regarding our risk profile has been set out above.

## D. Valuation for solvency purposes

### D.1. Assets

The following table lists our material assets and provides an overview as to the valuation approach applied in respect of these assets. The asset classes described are the same as those used for the Solvency II Market Value Balance Sheet (“MVBS”).

| 2019  | Note  | IFRS              | Reclassification adjustments | Valuation adjustments | Solvency II       |
|---|-------|-------------------|------------------------------|-----------------------|-------------------|
| Assets  |       | €'000             | €'000                        | €'000                 | €'000             |
| Cash and cash equivalents   |       | 113,354           | -                            | -                     | 113,354           |
| Other receivables   | D.1.1 | 36,171            | 285,556                      | -                     | 321,727           |
| Insurance and intermediaries receivables  |       | -                 | (8,484)                      | -                     | (8,484)           |
| Deferred tax asset  | D.1.2 | 76                | -                            | (76)                  | -                 |
| Shareholder financial assets  |       |                   |                              |                       |                   |
| Investments at fair value through other comprehensive income  | D.1.3 | 10,396            | 117                          | -                     | 10,513            |
| Advance payment of Italian Policyholders' Tax   | D.1.1 | 314,976           | (314,976)                    | -                     | -                 |
| Deferred acquisition costs  | D.1.4 | 71,375            | -                            | (71,375)              | -                 |
| Property, plant and equipment   |       | 7,757             | -                            | -                     | 7,757             |
| Policyholder financial assets   |       |                   |                              |                       |                   |
| Investments at fair value through profit or loss/assets held for index-linked and unit-linked funds | D.1.5 | 18,254,147        | 91,091                       | -                     | 18,345,238        |
| <b>Total assets</b>   |       | <b>18,808,252</b> | <b>53,304</b>                | <b>(71,451)</b>       | <b>18,790,105</b> |

| 2018  | Note  | IFRS              | Reclassification adjustments | Valuation adjustments | Solvency II       |
|---|-------|-------------------|------------------------------|-----------------------|-------------------|
| Assets  |       | €'000             | €'000                        | €'000                 | €'000             |
| Cash and cash equivalents   |       | 134,088           | -                            | -                     | 134,088           |
| Other receivables   | D.1.1 | 28,807            | 265,042                      | -                     | 293,849           |
| Insurance and intermediaries receivables  |       | -                 | 3,207                        | -                     | 3,207             |
| Deferred tax asset  | D.1.2 | 291               | -                            | (291)                 | -                 |
| Shareholder financial assets  |       |                   |                              |                       |                   |
| Investments at fair value through profit or loss  | D.1.3 | 1,610             | -                            | -                     | 1,610             |
| Investments at fair value through other comprehensive income  | D.1.3 | 41,435            | 453                          | -                     | 41,888            |
| Advance payment of Italian Policyholders' Tax   | D.1.1 | 291,961           | (291,961)                    | -                     | -                 |
| Deferred acquisition costs  | D.1.4 | 69,237            | -                            | (69,237)              | -                 |
| Property, plant and equipment   | D.1.5 | -                 | -                            | -                     | -                 |
| Policyholder financial assets   |       |                   |                              |                       |                   |
| Investments at fair value through profit or loss/assets held for index-linked and unit-linked funds | D.1.6 | 15,321,471        | 66,386                       | -                     | 15,387,857        |
| <b>Total assets</b>   |       | <b>15,888,900</b> | <b>43,127</b>                | <b>(69,528)</b>       | <b>15,862,499</b> |

We prepare our financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The following Sections contain qualitative and quantitative information on the differences arising in respect of the asset classes reported under Solvency II and the asset classes reported in the Financial Statements.

**D.1.1 Other Receivables**

Receivables (trade not insurance) include an advance payment of policyholder tax to the Italian Authorities (“Italian Withholding Tax Asset”) and other pre-payments.

| Solvency II reporting  | IFRS reporting   |
|--|--|
| <p>Receivables are reported at their fair value, net of any amounts deemed doubtful debts.</p> <p>Due to the prevailing negative market rates, we did not apply any discounting to the Italian Withholding Tax asset for the purposes of Solvency II reporting, as the adjustment would most likely lead to an increase in the amounts outstanding.</p> <p>In the prior year, the Italian Withholding Tax Asset was carried at a discounted value, which is intended to reflect the reduction in value between the time the asset is first recognised and time when the asset is mostly likely to be recovered.</p> <p>For Solvency II reporting purposes, the Italian Withholding Tax asset has been reclassified to the Receivables (trade, not insurance) line item in the Solvency II Balance Sheet.</p> | <p>For IFRS purposes, we carry receivables at their nominal amounts (no discounting is applied).</p> <p>Payments are made to the Italian authorities because we are a withholding tax agent. These payments are recognised as assets, which are presented within the Statement of Financial Position at their nominal amounts (no discounting is applied). The payments are recoverable from deductions made from capital gains made by policyholders, by offset against taxes payable to Italian revenue within a period of five years or they may be transferred to a company in the same group after five years have elapsed.</p> <p>In line with Group Accounting policy, we do not apply any discounting to the Italian Withholding Tax asset for the purposes of IFRS reporting.</p> |

**D.1.2 Deferred Tax Asset**

| Solvency II reporting  | IFRS reporting  |
|--|---|
| <p>Deferred tax is recognised in line with the principles set out in Article 15 of the Solvency II Delegated Acts. We are required to:</p> <ul style="list-style-type: none"> <li>• Recognise and value deferred taxes in relation to all assets and liabilities, including Technical Provisions.</li> <li>• Value deferred taxes, other than those arising from carrying forward unused tax losses, and Technical Provisions on the difference</li> </ul> | <p>The deferred tax asset recognised in the Financial Statements relates to the timing of the recognition of the unrealised losses in respect of the Shareholder Assets. Unutilised tax losses are not subject to any expiry dates.</p> <p>Corporate tax rates remain unchanged during the reporting period. No tax losses have been incurred in the current or preceding reporting period.</p> <p>The approach to calculation of Deferred Tax for Solvency II purposes is consistent with the approach under IFRS. Differences in value, if any, may arise due to differences in</p> |

| Solvency II reporting   | IFRS reporting  |
|---|---|
| <p>between the values ascribed under Article 82 of the 2015 Regulations and the values ascribed to those assets and liabilities as recognised and valued for tax purposes</p> <ul style="list-style-type: none"> <li>• Ascribe a value in accordance with Articles 83 to 98 of the 2015 Regulations to the Technical Provisions.</li> <li>• Recognise a deferred tax asset only where it is probable that future taxable profits will be available, against which the deferred tax asset can be utilised.</li> </ul> <p>We have not recognised any deferred tax assets for the purposes of reporting under Solvency II as at 31 December 2019 (2018: Nil)</p> | <p>values derived due to variations in treatment or valuation for calculating tax under the two reporting bases.</p> <p>As at 31 December 2019, we do not have any unrecognised tax credits or tax losses for which deferred tax has not been recognised in our Statement of Financial Position (December 2018: Nil).</p> |

### D.1.3 Investments (other than assets held for index-linked and unit-linked contracts) (“Shareholder financial assets”)

The Shareholder financial assets comprise investments in Government Bonds and other debt securities.

| Solvency II reporting   | IFRS reporting  |
|---|---|
| <p>These investments are measured at fair value for Solvency II purposes. Each instrument in this class was individually valued through the application of quoted prices (unadjusted) obtained from an active market (recognised and active exchange) for identical assets.</p> <p>Such investments are reported inclusive of interest for Solvency II reporting purposes. Therefore, accrued interest attributable to these bonds has been reclassified from receivables to the Shareholder financial asset line item.</p> | <p>For IFRS purposes, these assets have been categorised as “Investments at fair value through profit or loss” or “Investments at fair value through other comprehensive income” and are measured at fair value in the Statement of Financial Position in line with the requirements of IFRS9 Financial Instruments (“IFRS 9”).</p> <p>These investments are reported exclusive of interest for IFRS reporting purposes. Accrued interest attributable to the Shareholder financial assets is classified as a receivable.</p> |

**D.1.4 Deferred Acquisition Costs (“DAC”)**

| Solvency II reporting   | IFRS reporting  |
|---|---|
| <p>DAC is not recognised in accordance with Article 12 of the Solvency II Delegated Acts.</p> | <p>Under IFRS, acquisition costs are deferred as an explicit deferred acquisition cost asset, gross of tax, to the extent that they are recoverable out of future revenue margins to which they relate. Such costs are amortised through the Statement of Profit and Loss over the period in which the future revenue margins on the related contracts are expected to be earned.</p> <p>The rate of amortisation is based on a prudent assessment of the expected pattern of receipt of future revenue margins, taking account of persistency, from the related contracts. All other costs are recognised as expenses when incurred.</p> |

**D.1.5 Property, plant and equipment**

| Solvency II reporting  | IFRS reporting   |
|--|--|
| <p>Property, plant and equipment is treated in a manner consistent with that under IFRS.</p> <p>For Solvency II reporting purposes the lease recognised under IFRS 16 has been classified as property, plant and equipment held for own use.</p> | <p>Property, plant and equipment comprise a right-of-use asset recognised in respect of our premises, which was previously classified as an operating lease under IAS 17 Leases. With effect from January 2019, IFRS 16 Leases has replaced IAS 17 requiring us to recognise a right-of-use asset for the first time.</p> <p>We have applied this new standard using the modified retrospective approach. Therefore, we have not restated the comparative information. We carry the right-of-use asset in the Statement of Financial Position at cost less depreciation.</p> <p>Cost is determined with reference to the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any restoration cost due in respect of the asset at the end of the lease term and any lease payments made in advance of the lease commencement date (net of any incentives received).</p> <p>We calculate Depreciation using the straight-line basis from commencement of the lease until the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.</p> <p>The right-of-use asset is subject to impairment assessments.</p> |

## D.1.6 Assets held for index-linked and unit-linked funds (“Policyholders’ Funds”)

We hold unit linked assets for the benefit of our policyholders.

| Solvency II reporting  | IFRS reporting   |
|--|--|
| The Policyholders’ Funds are measured at fair value for Solvency II purposes | For IFRS purposes, these assets have been categorised as “Investments at fair value through profit or loss” and are measured at fair value in the Statement of Financial Position in line with the requirements of IFRS 9. |

Approximately 97% (2018: 96%) of the Policyholders’ Funds have been individually valued through the application of quoted prices (unadjusted) obtained from an active market (recognised and active exchange) for identical assets.

The remaining assets are valued using valuation techniques based on observable inputs. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of the valuation techniques applied is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

No Policyholders’ Funds are valued using significant unobservable inputs.

## D.2 Technical provisions

### D.2.1 Technical provisions by material lines of business

The value of the Solvency II Technical Provisions is the sum of the Best Estimate Liability (“BEL”) plus a Risk Margin. As at 31 December 2019, the Technical Provisions were:

|   | Unit linked<br>Contracts without options and guarantees |                   |
|---|---|-------------------|
|   | 2019<br>€’000   | 2018<br>€’000     |
| Best Estimate Liabilities                     | 17,614,704  | 14,818,324        |
| Risk Margin                                   | 148,982   | 105,373           |
| Reinsurance Recoverable                       | (8,635)   | -                 |
| <b>Technical provisions less recoverables</b> | <b>17,772,321</b>                                       | <b>14,923,697</b> |

The Technical Provision calculations were performed in accordance with Article 75 to 86 of the Directive 2009/138/EC.

The BEL corresponds to the probability weighted average of future cash flows, taking account of the time value of money (expected present value of future cash-flows) using the relevant risk free interest rate term structure. The unit liability is included in the BEL. The calculation of the BEL is based on up-to-date, credible information and best estimate assumptions. From 2019 onwards, the BEL is calculated gross, with the deduction of amounts recoverable from reinsurance contracts are presented separately. The reinsurance recoverable is a liability that slightly increases the technical provisions.

The Risk Margin is an addition to the BEL to ensure that the Technical Provisions are equivalent to the amount that insurance undertakings would be expected to require in taking over and meeting the insurance obligations. It reflects the cost of setting aside the shareholder funds needed to cover the unhedgeable part of SCR over the lifetime of the business at the prescribed cost of capital rate of 6% per annum.

### **D.2.2 Actuarial methodologies and assumptions**

#### **Methodology**

The Technical Provisions have been calculated using deterministic cash flow projection methods.

#### **Assumptions**

##### *Surrender rates*

Surrender assumptions are based on our experience data, where appropriate. Where our surrender experience data for a given product is deemed statistically unreliable, the experience data on similar products within the Darta or the Allianz Group are considered in the assumption setting exercise. Surrender rates cannot be predicted with certainty and actual future surrender experience will deviate from that assumed.

A review of surrender experience was conducted during 2019. The surrender assumptions were updated accordingly, leading to a decrease in Technical Provisions at year-end 2019.

##### *Expenses*

The expense assumptions are based on our 2019 plan, which includes a detailed bottom-up assessment of the expenses over the next three years. This takes into account past experience, expected portfolio development based on actuarial projections, expected future sales, new product initiatives, projects and staffing needs. The expense assumption setting exercise takes the expenses from the corporate plan into account, together with the terms and conditions of contractual arrangements relating to outsourced services, distribution channels and asset managers. There is uncertainty relating to future expenses.

The expense assumptions were updated in accordance with the most up to date contractual arrangements and the 2019 corporate plan, leading to an increase in Technical Provisions at year-end 2019.

##### *Mortality/morbidity*

Mortality assumptions are based on our experience data, where appropriate. Where our mortality experience data is deemed statistically unreliable, the experience data on similar products within Darta or the Allianz Group are considered in the assumption setting exercise. Mortality rates cannot be predicted with certainty and actual future mortality experience will deviate from that assumed.

Given the low levels of death benefits offered (net of reinsurance), mortality assumptions are not material.

Morbidity assumptions are immaterial as only one minor product is exposed to morbidity risk.

*Economic assumptions*

Projected investment returns, interest rates and discount rates are based on the prescribed risk free curve issued by EIOPA.

**D.2.3. Uncertainty associated with the value of technical provisions**

There is uncertainty as to the extent to which actual future experience will deviate from the assumptions used to calculate the technical provisions. In particular, we are exposed to deviations of actual experience from any of the assumptions discussed in the previous section. Sensitivity to key assumptions is tested in the ORSA, the Actuarial Function Report and in determining capital requirements.

These sensitivity tests show we are most exposed to market and surrender stresses that reduce projected future fund related revenues and to expense stresses that increase future expected costs. We are exposed to expense inflation and mortality/morbidity risks to a lesser extent.

**D.2.4 Valuation differences between IFRS and Solvency II**

The table below reconciles the Technical Provisions reported in the financial statements to those reported for Solvency II. The key differences in valuation methodology and assumptions are as follows:

- Solvency II includes the present value of future fee income net of expense outgo on the underlying unit-linked funds, reducing the level of Technical Provisions required. These projected cash flows are excluded under IFRS.
- The Solvency II Technical Provisions include a Risk Margin to allow for the cost of capital in respect of risks that cannot be hedged away. IFRS has no such risk margin.
- Under IFRS there is a life assurance provision relating to the additional death benefit riders that apply to certain unit-linked contracts. This provision is excluded from Solvency II because the allowance for these benefits is already captured in the present value of future profits.

|   | 2019              | 2018              |
|---|-------------------|-------------------|
|   | €'000             | €'000             |
| <b>IFRS Technical Provisions</b>  | 18,254,297        | 15,321,571        |
| Take credit for present value of future profits (incl. reinsurance)       | (630,808)         | (503,148)         |
| Recognition of the risk margin  | 148,982           | 105,373           |
| Exclude the Life Assurance Provision                                      | (150)             | (100)             |
| <b>Solvency II Technical Provisions (net of reinsurance recoverables)</b> | <b>17,772,321</b> | <b>14,923,696</b> |

### D.2.5 Application of the matching adjustment, the volatility adjustment and the transitional deduction

The matching adjustment referred to in Article 77b of the Solvency II Directive is not applied.

The volatility adjustment referred to in Article 77d of the Solvency II Directive is not applied.

The transitional deduction referred to in Article 208d of the Solvency II Directive is not applied.

### D.2.6 Application of the transitional risk-free interest rate structure

The transitional measure on the risk-free interest rates referred to in Article 208c of the Solvency II Directive is not applied.

### D.2.7 Recoverables from reinsurance contracts

The reinsurance recoverable is the present value of future expected cash flows associated with the reinsurance coverage, as calculated using the BEL model.

The reinsurance recoverable increases the BEL, and is immaterial.

We do not have any risk transfer arrangements with special purpose vehicles.

### D.2.8 Use of simplified methods to calculate technical provisions

We do not make use of any material simplifications to calculate our technical provisions.

## D.3 Other liabilities

| 2019                                 | Note  | IFRS           | Reclassification adjustments | Valuation adjustments | Solvency II    |
|--------------------------------------|-------|----------------|------------------------------|-----------------------|----------------|
| Other Liabilities                    |       | €'000          | €'000                        | €'000                 | €'000          |
| Deferred income                      | D.3.1 | 24,452         | -                            | (24,452)              | -              |
| Creditors and other payables         | D.3.2 | 136,572        | (79,490)                     | (1,762)               | 55,320         |
| Insurance and intermediaries payable | D.3.3 | -              | 149,252                      | -                     | 149,252        |
| Corporation tax payable              | D.3.2 | 58             | (58)                         | -                     | -              |
| Reinsurance payable                  |       | -              | 150                          | -                     | 150            |
| Deferred tax liability               | D.3.4 | -              |                              | 54,526                | 54,526         |
| <b>Lease liability – current</b>     | D.3.5 | 294            | (294)                        | -                     | -              |
| <b>Lease liability – non-current</b> | D.3.5 | 7,618          | (7,618)                      | -                     | -              |
| <b>Total other liabilities</b>       |       | <b>168,994</b> | <b>61,942</b>                | <b>28,312</b>         | <b>259,248</b> |

| 2018                                 | Note  | IFRS           | Reclassification adjustments | Valuation adjustments | Solvency II    |
|--------------------------------------|-------|----------------|------------------------------|-----------------------|----------------|
| Other Liabilities                    |       | €'000          | €'000                        | €'000                 | €'000          |
| Deferred income                      | D.3.1 | 26,439         |                              | (26,439)              | -              |
| Creditors and other payables         | D.3.2 | 184,266        | (130,860)                    | (1,045)               | 52,361         |
| Insurance and intermediaries payable | D.3.3 | -              | 175,066                      | -                     | 175,066        |
| Corporation tax payable              | D.3.2 | 1,205          | (1,205)                      | -                     | -              |
| Reinsurance payable                  |       | -              | 125                          | -                     | 125            |
| Deferred tax liability               | D.3.4 | -              |                              | 44,219                | 44,219         |
| <b>Total other liabilities</b>       |       | <b>211,910</b> | <b>43,126</b>                | <b>16,736</b>         | <b>271,771</b> |

No changes have been made to the valuation base used or to the estimation methods used during the reporting period.

The following Sections contain qualitative and quantitative information on the differences arising in respect of the other liability classes reported under Solvency II and the other liability classes reported in the Financial Statements.

### D.3.1 Deferred income

| Solvency II reporting  | IFRS reporting   |
|--|--|
| Deferred income is not recognised for the purposes of Solvency II reporting. | Deferred income relates to front-end fees received at the inception of a contract that are deferred and amortised over the anticipated period for which the services will be provided, over the expected term of the contract. |

### D.3.2 Creditors and other payables

| Solvency II reporting   | IFRS reporting   |
|---|--|
| Creditors and other payables include taxes payable and other non-insurance related payables. The amount of any loyalty bonuses due in respect of the Bonus Builder product are calculated as an integral part of the calculation of technical provisions for the purposes of Solvency II. Therefore, in order to avoid double counting of this liability a revaluation adjustment is completed. Creditors and other payables are labelled "Payables (trade, not insurance)" for Solvency II reporting purposes. | Creditors and other payables include amounts accrued in respect of Bonus Builder product, which is designed to pay a loyalty bonus to the policyholder through the allocation of additional units, at the end of a specific reference period rather than providing an upfront bonus.<br><br>There are no other valuation differences between Solvency II reporting and IFRS reporting. |

**D.3.3 Insurance and intermediaries payable**

| Solvency II reporting  | IFRS reporting   |
|--|--|
| Insurance and intermediaries payable include outstanding claims payable and premiums received but not invested as at year-end. | There are no valuation differences between Solvency II reporting and IFRS reporting. |

**D.3.4 Deferred tax liability**

| Solvency II reporting | IFRS reporting   |
|-----------------------|--|
| Refer to D.1.2 above  | <p>The deferred tax calculation takes into account the tax regulations specific to particular assets and liabilities under the Irish tax regime.</p> <p>The approach to calculation of Deferred Tax for Solvency II purposes is consistent with the approach under IFRS. Differences in value, if any, may arise due to differences in values derived due to variations in treatment or valuation for the purposes of calculating tax under the two reporting bases.</p> |

**D3.5 Lease liability**

| Solvency II reporting  | IFRS reporting   |
|--|--|
| <p>Lease liabilities are treated in a manner consistent with that under IFRS.</p> <p>For presentation purposes, lease liabilities are not disclosed as a separate line item. Instead, the lease liabilities are reclassified to Creditor and other payables/Payables (trade, not insurance) line item.</p> | <p>We recognised a lease liability corresponding to the right-of-use asset discussed above (refer to D1.6 above) on adoption of IFRS 16.</p> <p>On initial recognition the lease liability is made up of all fixed lease payments (include in substance fixed), variable payments based on an index or defined rate, amounts expected to be payable under any residual value guarantee and payments arising in respect of options that are reasonably certain to be exercised.</p> <p>Subsequently, the lease liability is reduced for payments made and increased for interest accrued. It is re-measured to reflect any reassessment or modification or if there are any changes to the in-substance fixed payments.</p> |

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

The same basis of valuation as used in the Financial Statements is used unless another valuation basis is required under Solvency II. Differences between the IFRS and Solvency II basis for preparing the MVBS are set out above.

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

All material information regarding valuation for Solvency II purposes has been set out above.

## E. Capital Management

### E.1 Own Funds

#### E.1.1 Policies and processes

We have put a formal capital management policy in place that has been approved by the Board. The objectives set out in our capital management policy are:

- We shall protect our capital base and steps shall be taken to support effective capital management.
- We undertake to comply with regulatory minimum capital requirements.
- Our capital is managed using an adequate capital buffer above the minimum regulatory requirement.
- Capital management seeks to add economic value over the cost of capital.
- Management is committed to the economic development of the Allianz Group through dividend payments or other forms of repayment of capital contributed from time to time.
- The capital allocated for steering the business is based on the calculations performed according to the Solvency II Standard Formula, taking into account other constraints (such as liquidity) and the outcome of our ORSA. In line with Allianz Group requirements, we apply a three-year planning horizon.

No material changes have been introduced in respect of our capital management policies or accompanying processes during the reporting period.

#### E.1.2 Analysis of Own Funds

The following table sets out the components of our Own Funds.

| 2019  | Total          | Tier 1 -<br>unrestricted | Tier 1 -<br>restricted | Status    |
|---|----------------|--------------------------|------------------------|-----------|
|   | €'000          | €'000                    | €'000                  |           |
| Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35 | -              | -                        | -                      |           |
| Ordinary share capital (gross of own shares)  | 5,000          | 5,000                    |                        | Available |
| Reconciliation reserve  | 711,171        | 711,171                  |                        | Available |
| Other own fund items approved by the supervisory authority as basic own funds not specified above                                       | 51,000         | 51,000                   | -                      | Available |
| <b>Available and eligible own funds</b>   | <b>767,171</b> | <b>767,171</b>           | -                      |           |
| Total eligible own funds to meet the SCR  | 767,171        | 767,171                  | -                      |           |
| Total eligible own funds to meet the MCR  | 767,171        | 767,171                  | -                      |           |

| 2018  | Total          | Tier 1 -<br>unrestricted | Tier 1 -<br>restricted | Status    |
|---|----------------|--------------------------|------------------------|-----------|
|   | €'000          | €'000                    | €'000                  |           |
| Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35 | -              | -                        | -                      |           |
| Ordinary share capital (gross of own shares)  | 5,000          | 5,000                    |                        | Available |
| Reconciliation reserve  | 611,032        | 611,032                  |                        | Available |
| Other own fund items approved by the supervisory authority as basic own funds not specified above                                       | 51,000         | 51,000                   | -                      | Available |
| <b>Available and eligible own funds</b>   | <b>667,032</b> | <b>667,032</b>           | -                      |           |
| Total eligible own funds to meet the SCR  | 667,032        | 667,032                  | -                      |           |
| Total eligible own funds to meet the MCR  | 667,032        | 667,032                  | -                      |           |

The classification of Own Funds into tiers follows the criteria set out in Regulations 107 to 111 of the 2015 Regulations<sup>4</sup>, as well as in Articles 69 to 78 of the Solvency II Delegated Regulation.

Capital contributions have been included in “other items approved by supervisory authority as basic own funds not specified above”. We obtained permission from the Central Bank to apply contributed capital as Tier 1 Basic Own Funds on 21 December 2015.

We do not hold any Tier 2 or Tier 3 type Own Funds.

The table below provides a breakdown of the reconciliation reserve, including explanations of the key components of the reserve:

| Reconciliation reserve  | 2019<br>€'000  | 2018<br>€'000  | Comments  |
|---|----------------|----------------|---|
| Excess of assets over liabilities   | 767,171        | 667,032        |   |
| Own shares (held directly and indirectly)   | -              | -              |   |
| Foreseeable dividends, distributions and charges  | -              | -              |   |
| Other basic own fund items  | (56,000)       | (56,000)       | Represented by ordinary share capital and capital contributions |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | -              | -              |   |
| <b>Total reconciliation reserve</b>   | <b>711,171</b> | <b>611,032</b> |   |

<sup>4</sup> Articles 93 to 96 of the Solvency II Directive

### E.1.3 Reconciliation to equity in the Financial Statements

The following table reconciles our Own Funds under Solvency II to our Shareholder Equity as reported in our Financial Statements.

|   | 2019<br>€'000  | 2018<br>€'000  | Explanation   |
|---|----------------|----------------|---|
| <b>Equity per Financial Statements</b>                            | 384,961        | 355,419        |   |
| Adjusted for:   |                |                |   |
| Deferred Acquisition Costs  | (71,375)       | (69,237)       | DAC is included as part of the BEL for Solvency II reporting purposes.  |
| Deferred income   | 24,452         | 26,439         | Deferred income is included as part of the BEL for Solvency II reporting purposes.  |
| Solvency II Technical provisions movement                         | 483,739        | 398,852        | Effect of adjustment from IFRS reserves to Solvency II Technical Provisions.  |
| Solvency II deferred tax liability                                | (54,526)       | (44,219)       | Refer to explanation provided in Section D.3.1 above.   |
| Remove IFRS deferred tax asset                                    | (76)           | (291)          | Assets designated as Fair Value through Other Comprehensive Income are treated as equivalent to Fair Value through Profit or Loss for Solvency II purposes, which removes the timing difference that gives rise to the deferred tax asset under IFRS. |
| Adjustment to Italian Withholding Tax Asset                       | -              | -              | Adjustment to recognise the impact of discounting the Italian Withholding Tax Asset. Refer to D.1.1 above.  |
| Other   | (4)            | 69             |   |
| <b>Excess of assets over liabilities for Solvency II purposes</b> | <b>767,171</b> | <b>667,032</b> |   |

### E.1.4 Movement in Own Funds

The following table contains an analysis of the significant changes in Own Funds during the year.

|                                     | 2019<br>€'000  | 2018<br>€'000  | Explanation  |
|-------------------------------------|----------------|----------------|--|
| <b>Opening Own Funds</b>            | 667,032        | 671,419        |  |
| Contributions of Own Funds received | -              | -              | No capital contributions were received at any time during the reporting period |
| Own Funds redeemed                  | -              | -              | No capital was redeemed at any time during the reporting period                |
| Dividends paid to shareholders      | (40,000)       | (15,000)       |  |
| Movement in reconciliation reserve  | 140,139        | 10,613         | Solvency II profits earned during the year.                                    |
| <b>Closing Own Funds</b>            | <b>767,171</b> | <b>667,032</b> |  |

### E.1.5 Transitional arrangements

We have not made use of any transitional arrangements during the reporting period.

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

### E.2.1 Solvency Capital Requirement and Minimum Capital Requirement

The following table contains an analysis of the components of our Solvency Capital Requirement.

| Risk module                                     | 2019<br>€'000  | 2018<br>€'000  |
|---|----------------|----------------|
| Market risk                                     | 260,251        | 181,148        |
| Counterparty default risk                       | 53,629         | 53,836         |
| Life underwriting risk                          | 302,707        | 213,171        |
| Diversification                                 | (151,051)      | (114,873)      |
| Intangible asset risk                           | -              | -              |
| <b>Basic Solvency Capital Requirement</b>       | <b>465,535</b> | <b>333,282</b> |
| Operational risk                                | 53,868         | 51,863         |
| Loss-absorbing capacity of technical provisions | -              | -              |
| Loss-absorbing capacity of deferred taxes       | (54,526)       | (46,928)       |
| <b>Solvency Capital Requirement</b>             | <b>464,877</b> | <b>338,217</b> |
|   |                |                |
| <b>Minimum Capital Requirement</b>              | <b>123,920</b> | <b>104,146</b> |

The final amount of the Solvency Capital Requirement is still subject to supervisory assessment. Darta uses EIOPA's Solvency II Standard Formula and has not made use of undertaking-specific parameters during the reporting period.

Despite the uncertainty relating to COVID-19, our Solvency Coverage Ratio is expected to remain within the acceptable ranges as outlined in our Risk Appetite Statement, although a reduction in own funds is anticipated in line with a reduction in policyholder assets. In our 2019 Own Risk and Solvency Assessment ("ORSA"), completed in December 2019, we ran a recessionary scenario under which approximately €2.6 billion of assets under management are written off immediately. Whilst this scenario does not specifically refer to a pandemic, the stresses involved are in line with what we are now observing. Whilst, our Solvency Coverage ratio is observed to reduce under this scenario, it is not projected to fall below a level that would breach any of the limits set out in our Risk Appetite.

### E.2.2 Use of simplifications

We have not applied any material simplifications when calculating our capital requirements during the reporting period.

### E.2.3 MCR – inputs

The following table contains the inputs used to determine the MCR.

| Component   | 2019<br>€'000  | 2018<br>€'000  |
|---|----------------|----------------|
| Index-linked and unit-linked insurance obligations            | 17,623,340     | 14,818,323     |
| Other life (re)insurance and health (re)insurance obligations | -              | -              |
| Total capital at risk for all life (re)insurance obligations  | 794,828        | 597,168        |
|   |                |                |
| <b>Overall MCR calculation</b>                                |                |                |
| Linear MCR  | 123,920        | 104,146        |
| SCR   | 464,877        | 338,217        |
| MCR cap   | 209,195        | 152,198        |
| MCR floor   | 116,219        | 84,554         |
| Combined MCR  | 123,920        | 104,146        |
| Absolute floor of the MCR                                     | 3,700          | 3,700          |
| <b>Minimum Capital Requirement</b>                            | <b>123,920</b> | <b>104,146</b> |

The Linear Minimum Capital Requirement is a calculation based on the value of technical provisions and capital at risk.

The Linear Minimum Capital Requirement is subject to a respective floor of 25%, a cap of 45% of the SCR and absolute Floor of €3.7m.

### E.2.4 Material changes in SCR and MCR

SCR increased from €338 million at 31 December 2018 to €465 million at 31 December 2019. The main drivers of this increase were growth in the size of the Policyholder's assets in line with positive new business flows and positive market returns experienced during the year and the impacts arising from methodology refinements and updates to our technical assumptions, as approved by the Board, during the year.

The MCR has increased compared to 2018 due to increased technical provisions.

## E.3 Use of duration-based equity risk sub-module in the calculation of the SCR

We do not make use of the duration-based equity risk sub-module in the calculation of SCR.

## E.4 Differences between the Standard Formula and any internal model used

We apply the Standard Formula to calculate our Solvency Capital Requirements. Therefore, this Section is not applicable.

## **E.5 Non-compliance with MCR and non-compliance with SCR**

There were no instances of non-compliance with MCR or non-compliance with SCR during the period.

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

All material information regarding our Own Funds has been set out above.

## Appendix 1 Definitions and terminology

| Term   | Definition   |
|--|--|
| <b>Board</b>                                       | The role of the Board is to organise and direct the affairs of the Company, acting on a fully informed basis, in good faith, with due diligence and care, in a manner designed to protect the interests of the shareholder and other stakeholders such as policyholders, regulatory bodies and staff. The Board may delegate authority to sub-committees or management to act on behalf of the Board in respect of certain matters but, where the Board does so, it shall have mechanisms in place for documenting the delegation and monitoring the exercise of delegated functions. The Board cannot abrogate its responsibility for functions it has delegated. |
| <b>Non-Executive Director (“NED”)</b>              | A director without executive management responsibilities for the insurance undertakings or, in the case of an insurance undertaking which is part of a group, who may have executive management responsibilities assigned to him or her within the group.  |
| <b>Independent Non-Executive Director (“INED”)</b> | A non-executive director who satisfies the criteria set out in the Central Bank’s Corporate Governance Code for Insurance Undertakings 2015 for director independence.   |
| <b>Group Director</b>                              | A group director may be an executive, an executive director, a non-executive director or an independent non-executive director of an entity within the group.  |
| <b>Business Manager</b>                            | The person responsible for the day-to-day management of a particular function at Darta.  |
| <b>Corporate Risk Register</b>                     | Darta’s Register of Top Risks  |
| <b>Management Risk Committee (“MRC”)</b>           | The MRC is an oversight committee comprising executive management that is tasked with ensuring that the Risk Management Framework is consistently applied. The MRC assists the Board Risk Committee in fulfilling its oversight responsibilities with regard to risk monitoring and risk management.   |
| <b>Board Risk Committee</b>                        | The Board Risk Committee is responsible for providing oversight and advice to the Board on the risk exposures of the Company and future risk strategy. The Committee shall also provide direction and oversight in relation to regulatory policies and procedures, including those relating to risk identification, assessment, management and monitoring and shall oversee the risk management function.  |
| <b>Audit Committee</b>                             | The Audit Committee supports the Board in considering activities that expose or may expose the Company to material audit or financial risk. The Audit Committee shall operate in a manner consistent with ensuring its independence and shall report its activities and decisions to the Board.  |

| Term   | Definition  |
|--|---|
|  | The Audit Committee shall work closely with the Company's Risk Committee to ensure the successful operation of the risk management and internal control systems.  |
| <b>Reserving Committee</b>                               | The Reserve Committee is established to preserve the transparency and the auditability of the models, assumptions and parameters used by ensuring appropriate governance and controls are in place. This includes the assessment of the technical provisions to ensure they have been calculated in accordance with the Solvency II requirements.   |
| <b>Product Approval and Oversight Committee ("PAOC")</b> | The PAOC assists the Board in fulfilling its product oversight responsibilities. The PAOC is tasked with ensuring appropriate product oversight and governance arrangements. These include measures and procedures aimed at designing, reviewing and distributing products for policyholders as well as directing corrective actions in respect of products that may lead to detriment to policyholders. The PAOC aims to prevent and mitigate policyholder detriment, support the management of conflicts of interest and ensure that the objects, interests and characteristics of policyholders are duly taken into account. |
| <b>Risk Owners</b>                                       | The Risk Owner is the functional manager or Head of Function at Darta who is responsible for managing the risk in that particular department or function.   |
| <b>Risk Appetite Terminology</b>                         |   |
| <b>Risk Capacity</b>                                     | Risk Capacity is the maximum amount of risk, which the organisation is technically able to assume before breaching one or more of its capital base, liquidity, borrowing capacity, reputational and regulatory constraints.   |
| <b>Risk Appetite</b>                                     | The aggregate level and types of risk an organisation is willing to assume within its risk capacity to achieve its strategic objectives and business plan.  |
| <b>Risk Tolerance</b>                                    | Risk tolerance refers to the acceptable variability around the risk limit.  |
| <b>Risk Limit</b>  | Risk limits set out the qualitative or quantitative parameters used in assessing a specific category of risk and a measurement of the aggregate amount of that risk. Limits are generally set and observed at a granular level within the Company.  |
| <b>Risk types</b>  |   |
| <b>Strategic Risks</b>                                   | Unexpected negative changes in Darta's value arising from the adverse effect of management decisions regarding business strategies and their implementation.  |
| <b>Operational Risks</b>                                 | Unexpected losses resulting from inadequate or failed internal processes and systems, from human misbehaviour or errors or from external events.  |

| Term   | Definition  |
|--|---|
| <b>Conduct Risk</b>  | Conduct risk is the risk to the delivery of fair customer outcomes, or to market integrity.   |
| <b>Reputational Risks</b>  | Unexpected drop in the value of Darta, value of in-force business or value of future business caused by a decline in the reputation of Darta or Allianz Group from the perspective of its stakeholders.   |
| <b>Financial risk<br/>(Financial risk)</b>                                     | Unexpected losses arising due to changes in market prices or parameters influencing market prices. In particular, these include changes driven by equity prices, interest rates, real estate prices, exchange rates, credit spreads and implied volatilities. It also includes changes in market prices due to a worsening of market liquidity. |
| <b>Credit risk<br/>(Financial risk)</b>  | Unexpected losses in the market value of the portfolio due to deterioration in the credit quality of counterparties including their failure to meet payment obligations or due to non-performance of instruments (i.e. payment overdue).  |
| <b>Liquidity risk<br/>(Financial risk)</b>                                     | Unexpected financial losses due to a failure to meet, or to meet based on unfavourable altered conditions, short-term, current or future payment obligations, as well as the risk that in the event of a liquidity crisis refinancing is only possible at higher interest rates or by liquidating assets at a substantial discount.             |
| <b>Mortality risk<br/>(Insurance risk)</b>                                     | The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.   |
| <b>Expense Revision Risk<br/>(Insurance Risk)</b>                              | Expense risk arises from the variation in the expenses incurred in servicing insurance or reinsurance contracts. It is likely to be applicable for all insurance obligations.   |
| <b>Terminology relating to the Actuarial Function and Technical Provisions</b> |   |
| <b>AFR</b>   | Actuarial Function Report - Annual report supplied to the Board by the Actuarial Function in accordance with Regulation 272(8) of the Solvency II Delegated Acts.   |
| <b>AOTP</b>  | Actuarial Opinion on Technical Provisions – Annual opinion prepared by the Head of Actuarial Function providing an opinion on the compliance of the technical provisions, as reported in the annual Qualitative Reporting Templates, with all Solvency II requirements. This opinion is required to be submitted to the Central Bank.           |
| <b>ARTP</b>  | Actuarial Report on Technical Provisions – Annual report prepared by the Head of Actuarial Function and presented to the Board of Directors. The required content of the ARTP is set out in the Central Bank’s Domestic Actuarial Regime and Related Governance Requirements under Solvency II, 2015. This report is incorporated in the AFR.   |

| Term   | Definition   |
|--|--|
| <b>Insurance Contract Liabilities</b>          | Insurance Contract Liabilities are calculated for the purposes of reporting in the IFRS financial statements. Refer to the accounting handbook and related process notes for the methods employed in calculating this balance.   |
| <b>QRT</b>                                     | Quantitative Reporting Templates   |
| <b>Risk Margin</b>                             | The risk margin is the cost of holding non-hedgeable risk capital.   |
| <b>Technical provisions</b>                    | Technical provisions refer to the gross technical provisions (comprising the BEL and Risk margin) and the recoverables from reinsurance contracts, as defined under Solvency II.   |
| <b>TP Guidelines</b>                           | Allianz Group Actuarial LH Technical Provisions Guidelines (Function Rule).  |
| <b>Legislation and guidelines</b>              |  |
| <b>Domestic Actuarial Regime/HOAF Guidance</b> | The Domestic Actuarial Regime and Related Governance Requirements under Solvency II (“Domestic Actuarial Regime”), as issued by the Central Bank of Ireland (“Central Bank”) in 2015 including the Guidance for Insurance undertakings on the Head of Actuarial Function Role. Guidance for Insurance undertakings on the Head of Actuarial Function Role – Guidance issued by the Central Bank which is intended to assist the HOAF in completing the tasks set out in Regulation 50 of the 2015 Regulations. |
| <b>Solvency II Delegated Acts</b>              | Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).   |
| <b>The 2015 Regulations</b>                    | Statutory Instrument 485 of 2015, the European Union (Insurance and Reinsurance) Regulations 2015 (“The 2015 Regulations”) The 2015 Regulations have the effect of transposing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (“the Solvency II Directive”) into Irish Law effective 1 January 2016.  |

## Appendix 2 Prescribed templates

The following required reporting templates are in scope for the purposes of this report.

Commission Implementing Regulation (EU) 2015/2542 of 2 December 2015

Article 4

|           |  |
|-----------|--|
| S02.01.02 | Balance sheet  |
| S05.01.02 | Premiums, claims and expenses - using FS methods   |
| S05.02.01 | Premiums, claims and expenses by country   |
| S12.01.02 | Technical provisions for life and health insurers  |
| S23.01.01 | Own Funds, including Basic Own Funds and Ancillary Own Funds   |
| S25.01.21 | Standard Capital Requirement using the Standard Formula  |
| S28.01.01 | Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance activity |

# Solvency and Financial Condition Report

1 January 2019 to 31 December 2019

darta saving

## S02.01.02

### Balance sheet

€'000

|               |  | Solvency II<br>value |
|---------------|--|----------------------|
|               |  | C0010                |
| <b>Assets</b> |  |                      |
| R0010         | Goodwill   |                      |
| R0020         | Deferred acquisition costs   |                      |
| R0030         | Intangible assets  | -                    |
| R0040         | Deferred tax assets  | -                    |
| R0050         | Pension benefit surplus  | -                    |
| R0060         | Property, plant & equipment held for own use   | 7,757                |
| R0070         | Investments (other than assets held for index-linked and unit-linked contracts)        | 10,513               |
| R0080         | <i>Property (other than for own use)</i>   | -                    |
| R0090         | <i>Holdings in related undertakings, including participations</i>                      | -                    |
| R0100         | <i>Equities</i>  | -                    |
| R0110         | <i>Equities - listed</i>   | -                    |
| R0120         | <i>Equities - unlisted</i>   | -                    |
| R0130         | <i>Bonds</i>   | 10,513               |
| R0140         | <i>Government Bonds</i>  | 787                  |
| R0150         | <i>Corporate Bonds</i>   | 9,726                |
| R0160         | <i>Structured notes</i>  | -                    |
| R0170         | <i>Collateralised securities</i>   | -                    |
| R0180         | <i>Collective Investments Undertakings</i>   | -                    |
| R0190         | <i>Derivatives</i>   | -                    |
| R0200         | <i>Deposits other than cash equivalents</i>  | -                    |
| R0210         | <i>Other investments</i>   | -                    |
| R0220         | Assets held for index-linked and unit-linked contracts                                 | 18,345,238           |
| R0230         | Loans and mortgages  | -                    |
| R0240         | <i>Loans on policies</i>   | -                    |
| R0250         | <i>Loans and mortgages to individuals</i>  | -                    |
| R0260         | <i>Other loans and mortgages</i>   | -                    |
| R0270         | Reinsurance recoverables from:   | (8,635)              |
| R0280         | <i>Non-life and health similar to non-life</i>   | -                    |
| R0290         | <i>Non-life excluding health</i>   | -                    |
| R0300         | <i>Health similar to non-life</i>  | -                    |
| R0310         | <i>Life and health similar to life, excluding index-linked and unit-linked</i>         | -                    |
| R0320         | <i>Health similar to life</i>  | -                    |
| R0330         | <i>Life excluding health and index-linked and unit-linked</i>                          | -                    |
| R0340         | <i>Life index-linked and unit-linked</i>   | (8,635)              |
| R0350         | Deposits to cedants  | -                    |
| R0360         | Insurance and intermediaries receivables   | -                    |
| R0370         | Reinsurance receivables  | 151                  |
| R0380         | Receivables (trade, not insurance)   | 321,727              |
| R0390         | Own shares (held directly)   | -                    |
| R0400         | Amounts due in respect of own fund items or initial fund called up but not yet paid in | -                    |
| R0410         | Cash and cash equivalents  | 113,354              |
| R0420         | Any other assets, not elsewhere shown  | -                    |
| R0500         | <b>Total assets</b>  | <b>18,790,105</b>    |

# Solvency and Financial Condition Report

1 January 2019 to 31 December 2019

darta saving

## S02.01.02

### Balance sheet (continued)

€'000

| Liabilities |  | C0010             |
|-------------|--|-------------------|
| R0510       | Technical provisions - non-life  | -                 |
| R0520       | <i>Technical provisions - non-life (excluding health)</i>                                  | -                 |
| R0530       | <i>TP calculated as a whole</i>  | -                 |
| R0540       | <i>Best Estimate</i>   | -                 |
| R0550       | <i>Risk margin</i>   | -                 |
| R0560       | <i>Technical provisions - health (similar to non-life)</i>                                 | -                 |
| R0570       | <i>TP calculated as a whole</i>  | -                 |
| R0580       | <i>Best Estimate</i>   | -                 |
| R0590       | <i>Risk margin</i>   | -                 |
| R0600       | Technical provisions - life (excluding index-linked and unit-linked)                       | -                 |
| R0610       | <i>Technical provisions - health (similar to life)</i>                                     | -                 |
| R0620       | <i>TP calculated as a whole</i>  | -                 |
| R0630       | <i>Best Estimate</i>   | -                 |
| R0640       | <i>Risk margin</i>   | -                 |
| R0650       | <i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>     | -                 |
| R0660       | <i>TP calculated as a whole</i>  | -                 |
| R0670       | <i>Best Estimate</i>   | -                 |
| R0680       | <i>Risk margin</i>   | -                 |
| R0690       | Technical provisions - index-linked and unit-linked  | 17,763,686        |
| R0700       | <i>TP calculated as a whole</i>  | -                 |
| R0710       | <i>Best Estimate</i>   | 17,614,704        |
| R0720       | <i>Risk margin</i>   | 148,982           |
| R0730       | Other technical provisions   | -                 |
| R0740       | Contingent liabilities   | -                 |
| R0750       | Provisions other than technical provisions   | -                 |
| R0760       | Pension benefit obligations  | -                 |
| R0770       | Deposits from reinsurers   | -                 |
| R0780       | Deferred tax liabilities   | 54,526            |
| R0790       | Derivatives  | -                 |
| R0800       | Debts owed to credit institutions  | -                 |
| ER0801      | <i>Debts owed to credit institutions resident domestically</i>                             | -                 |
| ER0803      | <i>Debts owed to credit institutions resident in rest of the world</i>                     | -                 |
| R0810       | Financial liabilities other than debts owed to credit institutions                         | -                 |
| ER0811      | <i>Debts owed to non-credit institutions</i>   | -                 |
| ER0812      | <i>Debts owed to non-credit institutions resident domestically</i>                         | -                 |
| ER0813      | <i>Debts owed to non-credit institutions resident in the euro area other than domestic</i> | -                 |
| ER0814      | <i>Debts owed to non-credit institutions resident in rest of the world</i>                 | -                 |
| ER0815      | <i>Other financial liabilities (debt securities issued)</i>                                | -                 |
| R0820       | Insurance & intermediaries payables  | 148,315           |
| R0830       | Reinsurance payables   | 151               |
| R0840       | Payables (trade, not insurance)  | 56,256            |
| R0850       | Subordinated liabilities   | -                 |
| R0860       | <i>Subordinated liabilities not in BOF</i>   | -                 |
| R0870       | <i>Subordinated liabilities in BOF</i>   | -                 |
| R0880       | Any other liabilities, not elsewhere shown   | -                 |
| R0900       | <b>Total liabilities</b>   | <b>18,022,934</b> |
| R1000       | <b>Excess of assets over liabilities</b>   | <b>767,171</b>    |

## S.05.01.02

## Premiums, claims and expenses by line of business

€'000

| Life   | Line of Business for: life insurance obligations | Life reinsurance obligations | Total       |
|--|--|------------------------------|-------------|
|  | Index-linked and unit-linked insurance           | Life reinsurance             |             |
|  | C0230  | C0280                        | C0300       |
| <b>Premiums written</b>                      |  |                              |             |
| R1410 <i>Gross</i>                           | 2,981,189  | -                            | 2,981,189   |
| R1420 <i>Reinsurers' share</i>               | 1,638  | -                            | 1,638       |
| R1500 <i>Net</i>                             | 2,979,551  | -                            | 2,979,551   |
| <b>Premiums earned</b>                       |  |                              |             |
| R1510 <i>Gross</i>                           | 2,981,189  | -                            | 2,981,189   |
| R1520 <i>Reinsurers' share</i>               | 1,638  | -                            | 1,638       |
| R1600 <i>Net</i>                             | 2,979,551  | -                            | 2,979,551   |
| <b>Claims incurred</b>                       |  |                              |             |
| R1610 <i>Gross</i>                           | 1,559,521  | -                            | 1,559,521   |
| R1620 <i>Reinsurers' share</i>               | 574  | -                            | 574         |
| R1700 <i>Net</i>                             | 1,558,947  | -                            | 1,558,947   |
| <b>Changes in other technical provisions</b> |  |                              |             |
| R1710 <i>Gross</i>                           | (2,932,701)                                      | -                            | (2,932,701) |
| R1720 <i>Reinsurers' share</i>               | -  | -                            | -           |
| R1800 <i>Net</i>                             | (2,932,701)                                      | -                            | (2,932,701) |
| R1900 <b>Expenses incurred</b>               | 237,159  | -                            | 237,159     |
| R2500 <b>Other expenses</b>                  |  |                              | -           |
| R2600 <b>Total expenses</b>                  |  |                              | 237,159     |
| R2700 <b>Total amount of surrenders</b>      | 1,559,521  | 0                            | 1,559,521   |

S.05.02.01

Premiums, claims and expenses by country

€'000

|  | C0150        | C0160  | C0170     | C0180 | C0190 | C0200 | C0210                        |
|--|--------------|--|-----------|-------|-------|-------|------------------------------|
|  | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations |           |       |       |       | Total Top 5 and home country |
| R1400  | C0220        | C0230  | C0240     | C0250 | C0260 | C0270 | C0280                        |
| <b>Life</b>                                  |              | Italy  | Lithuania |       |       |       |                              |
| <b>Premiums written</b>                      |              |  |           |       |       |       |                              |
| R1410 Gross                                  | -            | 2,981,063  | 126       |       |       |       | 2,981,189                    |
| R1420 Reinsurers' share                      | -            | 1,638  | -         |       |       |       | 1,638                        |
| R1500 Net                                    | -            | 2,979,425  | 126       |       |       |       | 2,979,551                    |
| <b>Premiums earned</b>                       |              |  |           |       |       |       |                              |
| R1510 Gross                                  | -            | 2,981,063  | 126       |       |       |       | 2,981,189                    |
| R1520 Reinsurers' share                      | -            | 1,638  | -         |       |       |       | 1,638                        |
| R1600 Net                                    | -            | 2,979,425  | 126       |       |       |       | 2,979,551                    |
| <b>Claims incurred</b>                       |              |  |           |       |       |       |                              |
| R1610 Gross                                  | -            | 1,559,515  | 7         |       |       |       | 1,559,521                    |
| R1620 Reinsurers' share                      | -            | 574  | -         |       |       |       | 574                          |
| R1700 Net                                    | -            | 1,558,941  | 7         |       |       |       | 1,558,947                    |
| <b>Changes in other technical provisions</b> |              |  |           |       |       |       |                              |
| R1710 Gross                                  | -            | (2,932,561)  | 140       |       |       |       | (2,932,701)                  |
| R1720 Reinsurers' share                      | -            | -  | -         |       |       |       | -                            |
| R1800 Net                                    | -            | (2,932,561)  | 140       |       |       |       | (2,932,701)                  |
| R1900 Expenses incurred                      | 17,956       | 219,067  | 136       |       |       |       | 237,159                      |
| R2500 Other expenses                         |              |  |           |       |       |       |                              |
| R2600 Total expenses                         |              |  |           |       |       |       | 237,159                      |

1 January 2019 to 31 December 2019

**S.12.01.02**  
**Life and Health SLT Technical Provisions**  
**€'000**

|  | Index-linked and unit-linked insurance   |                                      |       | Accepted reinsurance                |  |                      |  | Total<br>(Life other than health insurance, incl Unit-linked) |            |
|--|--|--------------------------------------|-------|-------------------------------------|--|----------------------|--|---|------------|
|  | Contracts without options and guarantees | Contracts with options or guarantees |       | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life accepted insurance contracts and relating to insurance obligation other than health insurance obligations |   |            |
|  | C0030                                    | C0040                                | C0050 | C0100                               | C0110                                  | C0120                | C0130  | C0140   | C0150      |
| <b>R0010</b> Technical provisions calculated as a whole  | -  |                                      |       | -                                   | -                                      | -                    | -  | -   | -          |
| <b>R0020</b> Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | -  |                                      |       | -                                   | -                                      | -                    | -  | -   | -          |
| <b>Technical provisions calculated as a sum of BE and RM</b>   |  |                                      |       |                                     |  |                      |  |   |            |
| <b>Best estimate</b>   |  |                                      |       |                                     |  |                      |  |   |            |
| <b>R0030</b> Gross Best Estimate   |  | 17,614,704                           | -     | -                                   | -                                      | -                    | -  | -   | 17,614,704 |
| <b>R0080</b> Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default  |  | (8,635)                              | -     | -                                   | -                                      | -                    | -  | -   | (8,635)    |
| <b>R0090</b> Best estimate minus recoverables from reinsurance/SPV and Finite Re   |  | 17,623,340                           | -     | -                                   |  |                      |  |   | 17,623,340 |
| <b>R0100</b> Risk margin   | 148,982                                  |                                      |       | -                                   | -                                      | -                    | -  | -   | 148,982    |
| <b>Amount of the transitional on Technical Provisions</b>  |  |                                      |       |                                     |  |                      |  |   |            |
| <b>R0110</b> Technical Provisions calculated as a whole  | -  |                                      |       | -                                   |  |                      |  |   | -          |
| <b>R0120</b> Best estimate   |  | -                                    | -     | -                                   |  |                      |  |   | -          |
| <b>R0130</b> Risk margin   |  |                                      |       | -                                   |  |                      |  |   | -          |
| <b>R0200</b> Technical provisions - total  | 17,763,686                               |                                      |       | -                                   |  |                      |  |   | 17,763,686 |

# Solvency and Financial Condition Report

1 January 2019 to 31 December 2019

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## S.23.01.01

### Own Funds

€'000

#### Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

|       |   |
|-------|---|
| R0010 | Ordinary share capital (gross of own shares)  |
| R0030 | 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 | Reconciliation reserve  |
| R0140 | Subordinated liabilities  |
| R0160 | 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                   |

| Total   | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---------|---------------------|-------------------|--------|--------|
| C0010   | C0020               | C0030             | C0040  | C0050  |
| 5,000   | 5,000               | -                 | -      | -      |
| -       | -                   | -                 | -      | -      |
| -       | -                   | -                 | -      | -      |
| -       | -                   | -                 | -      | -      |
| -       | -                   | -                 | -      | -      |
| -       | -                   | -                 | -      | -      |
| -       | -                   | -                 | -      | -      |
| 711,171 | 711,171             | -                 | -      | -      |
| -       | -                   | -                 | -      | -      |
| -       | -                   | -                 | -      | -      |
| 51,000  | 51,000              | -                 | -      | -      |

#### Own funds from the financial statements that should not be represented by the reconciliation reserve and do

|       |   |   |
|-------|---|---|
| R0220 | Own funds from the financial statements that should not be represented by the reconciliation reserve and do not | - |
|-------|---|---|

#### Deductions

|       |  |   |   |   |   |
|-------|--|---|---|---|---|
| R0230 | Deductions for participations in financial and credit institutions | - | - | - | - |
|-------|--|---|---|---|---|

#### R0290 Total basic own funds after deductions

|         |         |   |   |   |
|---------|---------|---|---|---|
| 767,171 | 767,171 | - | - | - |
|---------|---------|---|---|---|

#### Ancillary own funds

|       |   |
|-------|---|
| R0300 | Unpaid and uncalled ordinary share capital callable on demand   |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand |
| R0320 | Unpaid and uncalled preference shares callable on demand  |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand  |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC   |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC   |
| R0390 | Other ancillary own funds   |
| R0400 | <b>Total ancillary own funds</b>  |

|   |   |   |   |   |
|---|---|---|---|---|
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |

# Solvency and Financial Condition Report

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## S.23.01.01

### Own Funds (continued)

€'000

|   | Total   | Tier 1<br>unrestricted | Tier 1<br>restricted | Tier 2 | Tier 3 |
|---|---------|------------------------|----------------------|--------|--------|
|   | C0010   | C0020                  | C0030                | C0040  | C0050  |
| <b>Available and eligible own funds</b>   |         |                        |                      |        |        |
| R0500 Total available own funds to meet the SCR   | 767,171 | 767,171                | -                    | -      | -      |
| R0510 Total available own funds to meet the MCR   | 767,171 | 767,171                | -                    | -      | -      |
| R0540 Total eligible own funds to meet the SCR  | 767,171 | 767,171                | -                    | -      | -      |
| R0550 Total eligible own funds to meet the MCR  | 767,171 | 767,171                | -                    | -      | -      |
| <b>SCR</b>  |         |                        |                      |        |        |
| R0580 SCR   | 464,877 |                        |                      |        |        |
| <b>MCR</b>  |         |                        |                      |        |        |
| R0600 MCR   | 123,920 |                        |                      |        |        |
| R0620 Ratio of Eligible own funds to SCR  | 165.03% |                        |                      |        |        |
| R0640 Ratio of Eligible own funds to MCR  | 619.09% |                        |                      |        |        |
| <b>Reconciliation reserve</b>   |         |                        |                      |        |        |
| R0700 Excess of assets over liabilities   | 767,171 |                        |                      |        |        |
| R0710 Own shares (held directly and indirectly)   | -       |                        |                      |        |        |
| R0720 Foreseeable dividends, distributions and charges  |         |                        |                      |        |        |
| R0730 Other basic own fund items  | 56,000  |                        |                      |        |        |
| R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | -       |                        |                      |        |        |
| R0760 Reconciliation reserve  | 711,171 |                        |                      |        |        |
| <b>Expected profits</b>   |         |                        |                      |        |        |
| R0770 Expected profits included in future premiums (EPIFP) - Life business  | 1,563   |                        |                      |        |        |
| R0780 Expected profits included in future premiums (EPIFP) - Non- life business                                   | -       |                        |                      |        |        |
| R0790 Total Expected profits included in future premiums (EPIFP)  | 1,563   |                        |                      |        |        |

# Solvency and Financial Condition Report

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## S.25.01.21

### Solvency Capital Requirement - for undertakings on Standard Formula

€'000

Z0010

Article 112 Regular reporting

|       |   |
|-------|---|
| R0010 | Market risk   |
| R0020 | Counterparty default risk   |
| R0030 | Life underwriting risk  |
| R0040 | Health underwriting risk  |
| R0050 | Non-life underwriting risk  |
| R0060 | Diversification   |
| R0070 | Intangible asset risk   |
| R0100 | <b>Basic Solvency Capital Requirement</b>   |
|       | <b>Calculation of Solvency Capital Requirement</b>  |
| R0130 | Operational risk  |
| R0140 | Loss-absorbing capacity of technical provisions   |
| R0150 | Loss-absorbing capacity of deferred taxes   |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC |
| R0200 | <b>Solvency Capital Requirement excluding capital add-on</b>                                |
| R0210 | Capital add-ons already set   |
| R0220 | <b>Solvency capital requirement</b>   |
|       | <b>Other information on SCR</b>   |
| R0400 | <b>Capital requirement for duration-based equity risk sub-module</b>                        |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part                   |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds                |
| R0430 | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios   |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304                         |

| Gross solvency capital requirement | USP   | Simplifications |
|------------------------------------|-------|-----------------|
| C0030                              | C0080 | C0090           |
| 260,251                            |       |                 |
| 53,629                             |       |                 |
| 302,707                            |       |                 |
| -                                  |       |                 |
| -                                  |       |                 |
| (151,051)                          |       |                 |
|                                    |       |                 |
| 465,535                            |       |                 |
|                                    |       |                 |
|                                    | C0100 |                 |
| 53,868                             |       |                 |
| 0                                  |       |                 |
| (54,526)                           |       |                 |
| -                                  |       |                 |
| 464,877                            |       |                 |
| -                                  |       |                 |
| 464,877                            |       |                 |
|                                    |       |                 |
|                                    |       |                 |
|                                    |       |                 |
|                                    |       |                 |



# Solvency and Financial Condition Report

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## S.28.01.01

### Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (continued)

€'000

| <b>Linear formula component for life insurance and reinsurance obligations</b> |   | <b>C0040</b>   |   |
|--|---|--|---|
| <b>R0200</b>   | <b>MCR<sub>L</sub> Result</b>   | 123,920  |   |
|  |   | <b>Net (of reinsurance/SPV) best estimate and TP calculated as a whole</b> | <b>Net (of reinsurance/SPV) total capital at risk</b> |
|  |   | <b>C0050</b>   | <b>C0060</b>  |
| <b>R0210</b>   | Obligations with profit participation - guaranteed benefits           | -  |   |
| <b>R0220</b>   | Obligations with profit participation - future discretionary benefits | -  |   |
| <b>R0230</b>   | Index-linked and unit-linked insurance obligations                    | 17,623,340   |   |
| <b>R0240</b>   | Other life (re)insurance and health (re)insurance obligations         | -  |   |
| <b>R0250</b>   | Total capital at risk for all life (re)insurance obligations          |  | 794,828   |
|  | <b>Overall MCR calculation</b>  | <b>C0070</b>   |   |
| <b>R0300</b>   | Linear MCR  | 123,920  |   |
| <b>R0310</b>   | SCR   | 464,877  |   |
| <b>R0320</b>   | MCR cap   | 209,195  |   |
| <b>R0330</b>   | MCR floor   | 116,219  |   |
| <b>R0340</b>   | Combined MCR  | 123,920  |   |
| <b>R0350</b>   | Absolute floor of the MCR   | 3,700  |   |
| <b>R0400</b>   | <b>Minimum Capital Requirement</b>                                    | 123,920  |   |