# RISK AND OPPORTUNITY REPORT

## Target and strategy of risk and capital management

Allianz aims to ensure that the Group is adequately capitalized at all times and that Allianz SE and all other related undertakings meet or exceed their respective regulatory capital requirements for the benefit of both shareholders and policyholders.

In addition, we take the requirements of rating agencies into account. While capital requirements imposed by regulators constitute a binding constraint, meeting rating agencies' capital requirements and maintaining strong credit ratings are strategic business objectives.

We closely monitor the capital position and risk concentrations of the Group. Allianz SE and its other related undertakings, and apply regular stress tests (including standardized, historical, and reverse stress test scenarios as well as ad-hoc stress and scenario analyses focusing on current and possible future developments). These analyses allow us to take appropriate measures to preserve our continued capital and solvency strength. For example, the risk capital reflecting the risk profile and the cost of capital is an important aspect that is considered in business decisions. Furthermore, we ensure a close alignment of the risk and business strategy by the fact that business decisions to achieve our set targets are taken within the determined risk appetite and in line with the risk strategy. The implemented sound processes to steer the business and assess and manage associated risks ensure a continuous alignment of the risk and business strategy and enable us to detect and address any potential deviations.

In addition, our liquidity risk management framework ensures that all legal entities in scope are responsible for managing their liquidity risks and maintaining a sufficient liquidity position under both market and business conditions tested as well as stressed.

With Solvency II being the regulatory regime relevant for the Group, our risk profile is measured and steered based on our approved Solvency II internal model[1]. We have introduced a target solvency ratio range in accordance with Solvency II, based on predefined stress scenarios for both the Group and related undertakings, supplemented by ad-hoc scenarios, historical and reverse stress tests and sensitivity analyses.

Unlike the insurance business, which is balance-sheet sensitive, our Asset Management business is mainly a cash-flow business. Therefore, the risk of the Asset Management business segment is also analyzed through the impact of predefined material stress scenarios on the operating profit. These are one component in a system of key risk indicators for Asset Management and are regularly monitored. These risk limits are reviewed on a regular basis with First Line of Defense business owners, confirming the pre-assessments derived by the entity's Risk Management function. These risk limits are presented to the underlying Risk Committee and are ultimately ratified by the Allianz Committees and/or Executive Management Boards.

In addition, control elements of Allianz's dividend policy are linked to Solvency II capitalization based on the internal model. This helps us to ensure a consistent view on risk steering and capitalization in line with the Solvency II framework.

Allianz steers its business portfolio with the help of the internal model and, supported by sensitivity and scenario analyses. Risks and concentrations are actively restricted by limits based on our internal model.

Allianz applies a comprehensive capital management framework that fully embeds the risk appetite into the capital allocation process. The key performance indicators at the core of the framework are the core return on equity and the Solvency II operating capital generation[2]. In addition, considerations on new business, capital intensity, combined ratio, cash remittance and risk sensitivities provide further guidance for the capital allocation and decision-making processes. Our indicators, for example, allow us to identify profitable lines of business and products on a sustainable basis. The framework is a key element that supports management in decisions. Risk considerations, capital needs, as well as an appropriate stakeholder remuneration are carefully balanced with the purpose of economic value creation for all stakeholders.

Consistent with industry practices, the Asset Management business segment is measured on its efficiency based upon cost to income, i.e. the Cost Income Ratio (CIR).