

Transparency

Report

2019

This report is made in order to align PAID S.A. with the requirements of Regulation No. 9/2019 for the amendment and supplement of the Regulation of the Financial Supervisory Authority (FSA) No. 2/2016 on the implementation of corporate governance principles by the entities that are certified, regulated and supervised by the ASF.

Taking into account the requirements of the regulations mentioned above, PAID S.A. publishes and regularly updates the information subject to the publication requirements.

A. Organizational structure

The management and administration structure of the company is made up by: General Meeting of Shareholders, the Management Board, the General Manager and the Deputy General Manager.

Shareholders of the company:

- ✓ ABC Asigurări Reasigurări S.A.,
- ✓ Societatea de Asigurare-Reasigurare ASTRA S.A. - in bankruptcy,
- ✓ CARPATICA ASIG S.A. – in faliment,
- ✓ CERTASIG Societate de Asigurare și Reasigurare S.A. – operating permit withdrawn by ASF Decision no. 209 published in the Official Journal no. 156/26.02.2020,
- ✓ Societate de Asigurare și Reasigurare CITY INSURANCE S.A.,
- ✓ CREDIT EUROPE Asigurări Reasigurări S.A. - currently ERGO Asigurări S.A.,
- ✓ EUROINS ROMANIA Asigurare Reasigurare S.A.,
- ✓ GENERALI ROMANIA Asigurare Reasigurare S.A.,
- ✓ GRAWE ROMANIA Asigurare S.A.,
- ✓ GROUPAMA Asigurări S.A.,
- ✓ PLATINUM Asigurări S.A. - currently GOTHAER Asigurări Reasigurări S.A.,
- ✓ UNIQA Asigurări S.A..

The 5 members of the Management Board are:

- ✓ Dl. Coste Francois Benoit Jean-Baptiste Pierre - President;
- ✓ Dl. Gabriel Marcu - Vice-President;
- ✓ Dl. Paul Swoboda - Member;
- ✓ Dl. Paul Corneliu Cazacu - Member;
- ✓ Dl. James Julian Grindley - Member.

Executive Management:

- ✓ Dna. Nicoleta Radu – General Manager;
- ✓ Dna. Natalia Man – Deputy General Manager;

At the level of PAID S.A., there are 8 Committees established: Risk Management Committee, Audit Committee, Damages Committee, Complaints Analysis and Settlement Committee, Investment Committee, Reinsurance Committee, Business Continuity Committee (BCP) and Remuneration Committee.

The persons holding key positions are: Head of Risk Management Department, Compliance Officer, Head of Internal Audit Department and Head of Actuarial Department.

Structural organization:

- ✓ *General Secretariat:* Head of Department, Assistant Principal Registrar;
- ✓ *Actuarial, Risk and Economic Management Department:* Chief Financial Officer
- ✓ *Actuarial Department:* Head of department, Actuary
- ✓ *Risk Management Department:* Head of Department, Risk Inspector
- ✓ *Economic Department:* Chief Accountant, Economists
- ✓ *Internal Control and Quality Management Department:* Head of Department
- ✓ *Compliance Officer*
- ✓ *Internal Audit Department:* Head of department
- ✓ *Reinsurance Department:* Head of Department, Insurance Specialists (Reinsurance)
- ✓ *Legal Department:* Head of Department, Legal Advisers
- ✓ *Damages Department:* Head of Department, Damages Coordination/Damage Specialty Inspectors
- ✓ *Development Department:* Sales Manager
- ✓ *Distribution/Technical Support Department:* Head of Department, Underwriting Inspector
- ✓ *Marketing/Communication Department:* Head of Department /Marketing Referent
- ✓ *Subscription Department:* Head of Department, Insurance/Underwriting Inspectors
- ✓ *Information Technology Department:* Head of Department, Analyst, Network Administrator

B. The main features of the governance system

The governance system includes organizational structures designed to support meeting strategic objectives and company's activity. PAID S.A. is properly and efficiently organized, and all necessary procedures and operational controls are implemented. Responsibilities are also clearly divided between the different operational areas of the company.

The company operates several systems that have the role of ensuring corporate governance, namely:

- ✓ an efficient system for communicating and transmitting information to stakeholders;
- ✓ an efficient risk management system;
- ✓ an efficient internal control system;

Also, at the company level, a series of policies and procedures were adopted and implemented, among which: policies for the smooth running of the activity, adequacy policies; remuneration policies; information security policies; outsourcing policy; Solvency II policy; and so on. They are regularly subject to the review and approval process.

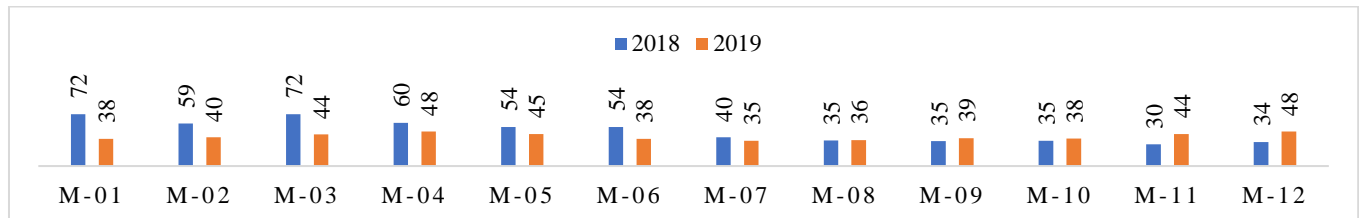
Further details on the corporate governance framework are available in the [Solvency and Financial Condition Report \(SFCR\) Chap. B.](#)

C. Conclusions of the assessment of the financial position

Main financial indicators of the company, according to the statutory accounting and financial reporting standards:

	2018	2019
Gross Premiums Earned (lei)	151.154.455	155.431.880
	% din Prime Brute Câștigate	
Damage rate	7,03 %	2,94 %
Reinsurance rate	47,60 %	43,69 %
Rate of other technical reserves (catastrophe reserve)	10,19 %	15,41 %
Expenditure rate (commissions, variation of acquisition expenses, administrative expenses, new project expenses, provisions)	18,31 %	19,79 %
The combined rate	83,13 %	81,83 %
Net result (lei)	25.833.026	31.243.490

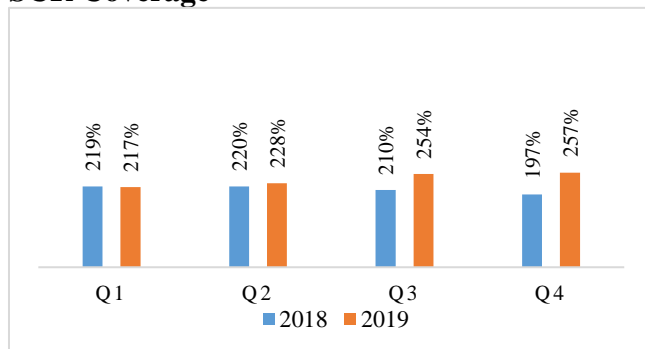
Evolution of the liquidity ratio:



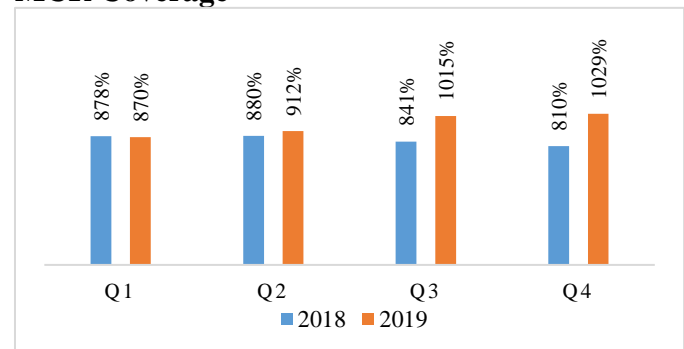
Main financial stability indicators of the company, in Solvency II reporting regime, calculated according to Standard Formula:

Evolution of the Solvency Margin

SCR Coverage



MCR Coverage



	31.12.2019	31.12.2018
Capital requirement for market risk	16.895.485	15.369.296
Capital requirement for counterparty risk	21.174.479	20.791.600
Capital requirement for underwriting risk	61.940.504	59.986.798
Diversification	-18.867.792	-17.822.112
Basic Solvency Capital Requirement (BSCR)	81.142.676	78.325.582
Capital requirement for operational risk	4.662.956	4.534.634
Solvency capital requirement before adjustment (1)	85.805.632	82.860.216
Loss Absorbing Capacity of Deferred Taxes - adjustment (2)	-8.721.974	-4.715.086
Total Solvency Capital Requirement-SCR (3) = (1) + (2)	77.083.658	78.145.130
Minimum capital requirement-MCR	19.270.914	19.536.283
Capital Requirement Coverage		
Own Funds	198.380.687	154.328.388
SCR coverage	257%	197%
MCR coverage	1029%	790%

To cover the risk of catastrophe, PAID S.A. had in force on December 31st, 2019 one of the largest reinsurance excess of loss type programs in Europe, in which 54 reinsurers participate. The program has a maximum capacity of 950,000,000 EURO for earthquake, landslide and flood risks, its own withholding being limited to 8 million EURO for earthquake risk and 4 million EURO for landslide and floods risks.

D. Main features of the formal framework for the implementation of financial reporting principles and practices

PAID S.A. draws up **statutory financial statements** in accordance with the Financial Supervisory Authority Rule No. 41/2015 for the approval of the Accounting Regulations on the individual annual financial statements and consolidated annual financial statements of entities carrying out insurance and/or reinsurance activities.

The annual financial statements are audited by an independent auditor. The financial statements package for the fiscal year 2019 was audited by KPMG Audit SRL.

In accordance with the provisions of ASF Rule No. 19/30.10.2015, the company draws up and publishes annual financial statements below **IFRS standard** since 2015 as parallel reporting.

Solvency Reports II (SII)

In accordance with the financial reporting requirements of Law No. 237/2015 on the certification and supervision of the insurance and reinsurance activity and of Regulation No. 21/2016 on reports on insurance and/or reinsurance activity, with subsequent amendments and supplements, PAID S.A. draws up and reports:

- Quarterly and Annual Quantitative Report Tools (**QRT**)
- Solvency and Financial Condition Report (**SFCR**);

- Regular Supervisory Report (**RSR**).

In addition, in accordance with the provisions of Solvency II, the Delegated Regulation and the Internal Policy, PAID S.A. draws up annually or whenever significant changes occur in the risk profile or appetite, a prospective own risk and solvency assessment report carried out at the level of the group (the **ORSA** report).

At the level of PAID S.A., the "Reporting Policy" has been developed and implemented, which aims to ensure the completion and timely transmission of all mandatory reports, as well as to ensure their accuracy and completeness.

The Audit Committee is the forum for approving statutory and Solvency II reports before they are submitted for approval to the Board of Directors and/or the General Meeting of Shareholders.

E. Main features of the risk management system

Management of the Risk Management System at the level of the Company is carried out through the planning, coordination and control of the Risk Management activity. It establishes specific strategies, develops policies and procedures for identifying, assessing, monitoring, managing/reducing and reporting risks in a timely manner, with the aim of optimizing them and creating a risk awareness culture.

The risk management system is subject to a continuous process of streamlining, with the aim of protecting the company by supporting its objectives, as follows:

- ✓ establishing an adequate organizational framework;
- ✓ optimising procedures for significant risks;
- ✓ establishing a system of limits on risk exposures and a way of monitoring those limits in accordance with the undertaken risk profile;
- ✓ improving the decision-making, planning and prioritization process;
- ✓ establishing a system for reporting risk exposures and other risk issues;
- ✓ efficient use/allocation of capital and resources within the company;
- ✓ protecting and consolidating the company's assets and image;
- ✓ establishing criteria for recruiting and remunerating employees;
- ✓ continuous professional development of employees;
- ✓ optimizing operational efficiency.

The specific risk management strategy is an integral part of PAID S.A.'s overall strategy, with the following as main objectives: compliance with the SCR and MCR capital requirements, ensuring an optimal reinsurance program, achieving an efficient management oriented towards increasing coverage, all with the aim of maintaining the financial stability of the PAID S.A., so that all financial obligations are respected.

Each year, PAID S.A. develops a Risk Plan presenting the objectives and measures adopted for each significant risk, which is subject to debate and approval by the Management Board.

The risk strategy of PAID S.A. is based on the following principles:

- ✓ Developing an adequate governance in relation to the Company's strategy;
- ✓ Development of an adequate reinsurance program;
- ✓ Using Risk Management as an integral part of the management system based on standards and rules;
- ✓ Including the risk strategy in PAID S.A.'s business strategy, taking it into account in the processes of compliance with risk appetite, own funds level and capital requirements (SCR);
- ✓ Using the principle "safety vs. profit" in the investment policy, with limitations on asset classes, so as to avoid excessive concentrations on one financial institution;
- ✓ Continuous improvement of performance indicators and their monitoring;
- ✓ Supporting the strategic and operational planning process through the results of the ORSA;
- ✓ Ensuring a strong capital base and prudent solvency rates;
- ✓ Use of operational risk mitigation techniques (internal control system, business continuity plans, IT security and disaster recovery plan, protection and security measures for persons and assets);
- ✓ Permanent process optimization.

The main strategic orientations that PAID S.A. has in mind refer to the 4 development pillars:

- 1. Governance:** ensuring a framework of operation fully consistent with legal requirements;
- 2. Financial sustainability:** ensuring an adequate solvency level and appropriate sizing of the structure and level of reinsurance protection;
- 3. Operational sustainability:** the ability to process a large number of operations in the event of a major event.
- 4. Development:** increase of the penetration rate and by default of the portfolio.

The activity of PAID S.A. is analysed in terms of exposure to the following risks: Underwriting Risk, Liquidity Risk, Credit Risk, Market Risk, Operational Risk, Reputation Risk and Strategic Risk. Risks are treated individually, but also collectively. PAID S.A. calculates the capital requirement using the Standard Formula. The results obtained provide an overview of how risks are distributed by different risk categories and determine capital and solvency requirements in accordance with Solvency II.

Based on the financial results of recent years, PAID is in the process of accumulating its own funds and optimising the capital requirement to ensure a more comfortable solvency rate.

Risk analyses are drawn up at company level in accordance with the specifications of risk policies and procedures.

The most important risks are:

- | | |
|-----------------------------|--|
| <i>Underwriting:</i> | ✓ The most important risk. Compared to last year, there were no significant changes. |
| <i>Counterpart:</i> | ✓ It represents a significant risk. Compared to 2018, there were slight increases due to the increase in type 1 exposures. |
| <i>Market</i> | ✓ Slightly higher than last year due to increased concentration risk and credit margin resulting from increased investment in Romanian government securities, denominated in Euro. |
| <i>operational</i> | ✓ It remains at a level comparable to the previous year. |

More details on the risk management system are presented in the [Solvency and Financial Condition Report \(SFCR\) Chapter B \(subchapter B.3\) and Chapter C.](#)

F. Conclusions of the assessment of the efficiency of the risk management system

Risk appetite and significance thresholds set within the management system are approved by the Management Board.

The Risk Management Function and, where appropriate, the Risk Management Committee reports the risk situation to the Management Board through a risk report.

Periodically (monthly, quarterly, annually, as appropriate), the Risk Management Department/Risk Management Committee presents to the Executive Management/Management Board the specific risk management indicators, their reporting to the benchmarks, proposes for analysis, debate and approval procedures specific to risk management, reports, Operational Risk Matrix, etc.

The risk management activity is also evaluated during the audit missions. In 2019, as a result of the internal audit mission carried out by the audit company Mazars, regarding the Evaluation of the activities carried out to maintain compliance at the PAID level, it was found that *“the governance, risk management and internal control environment is adequate”*.

The management of the company considers that the risk management system is adequate, complete and adequately covers all areas of activity.

