

# Transparency Report 2021

The following report is produced in accordance with the Regulation of the Financial Supervisory Authority (FSA) no. 2/2016 on the implementation of corporate governance principles by entities authorised, regulated and supervised by the FSA, with the subsequent amendments and completions.

In light of the requirements of the regulations set out above, PAID S.A. publishes and periodically updates the information subject to disclosure requirements.

### A. Organizational structure

**The management and administrative body of the company is carried out by:** General Shareholders Assembly, Board of Directors/Management Board, Director-General and Deputy-Director General.

#### **Shareholders:**

- ✓ ABC Insurance and Reinsurance S.A.,
- ✓ ASTRA S.A. Insurance and Reinsurance - declared insolvent,
- ✓ CARPATICA ASIG S.A. - declared insolvent,
- ✓ CERTASIG Insurance and Reinsurance company S.A. - declared insolvent,
- ✓ Insurance and Reinsurance company CITY INSURANCE S.A. - operating licence withdrawn by FSA,
- ✓ ERGO Insurance S.A,
- ✓ EUROINS ROMANIA Insurance and Reinsurance S.A ,
- ✓ GENERALI ROMANIA Insurance and Reinsurance S.A.,
- ✓ GRAWE ROMANIA Insurance S.A. ,
- ✓ GROUPAMA Insurance S.A. ,
- ✓ GOTHAER Insurance and Reinsurance S.A,
- ✓ UNIQA Insurance S.A.

#### **The appointed 5 members of the Management Board are:**

- ✓ Mr. Francois Coste - Chairman;
- ✓ Mr. Gabriel Marcu - Vice-Chairman;
- ✓ Mr. Paul Swoboda - Member;
- ✓ Mr. Paul Corneliu Cazacu - Member;
- ✓ Mr. Mesut Yetiskul - Member.

#### **Executive Management:**

- ✓ Ms. Nicoleta Radu - Director-General;
- ✓ Ms. Natalia Man - Deputy Director-General;

**At company level there are 8 Committees established:** Risk Management Committee, Audit Committee, Claims Committee, Complaints & Dispute Analysis and Settlement Committee, Investment Committee, Reinsurance Committee, Business Continuity Committee (BCP) and Remuneration Committee.

**The people holding key management positions are:** Head of Risk Management Department, Compliance Officer, Head of Internal Audit Department and Chief Actuary - Head of Actuarial Department.

**Organizational structure:**

- ✓ General Secretariat: Head of Department, Assistant Manager
- ✓ Actuarial, Risk and Economic Management Department: Chief Financial Officer
- ✓ Actuarial Department: Head of Department, Actuary
- ✓ Department of Risk Management: Head of Department, Actuary
- ✓ Department of Economic Development: Chief Accountant, Economists, Referent
- ✓ Internal Quality Control and Management Department: Head of Department
- ✓ Human Resources Department: Head of Department
- ✓ Internal Audit Department: Head of Department
- ✓ Reinsurance Department: Head of Department, Insurance and Reinsurance Specialists
- ✓ Legal and Compliance Department: Head of Department, Compliance Officer, Legal Advisors
- ✓ Insurance Claims Department: Head of Department, Claims Handlers/Claims Specialists
- ✓ Development Department: Sales Manager
- ✓ Distribution/Technical Support Department: Head of Department, Underwriting Inspector
- ✓ Marketing/Communication Department: Head of Department, Marketing Specialist/Referent
- ✓ Underwriting Department (Methodology, Analysis and Reporting): Head of Department, Analyst
- ✓ IT Department: Head of Department, Analyst, Network Administrator

**B. The main characteristics of the governance system**

The governance system includes organisational structures designed to help achieve strategic objectives and activity of the company. PAID S.A is properly and efficiently organized, and all necessary operational controls and procedures are put in place. The responsibilities are also clearly divided between the different operational areas of the company.

There are multiple systems in the company that have the role of ensuring corporate governance, such as:

- ✓ an effective system for communicating and transmitting information to stakeholders;

- ✓ an effective risk management system;
- ✓ an effective internal control system;

A series of policies and procedures have been also adopted and implemented at the company level, including: policy to keep the business activities running smoothly, adequacy policy; remuneration policy; information security policy; outsourcing policy; Solvency II policy; etc. These are subject to a regular review and approval process having regard to the nature, scale and complexity of the activities at both individual and corporate levels.

The Company's objectives regarding the corporate governance system are focused primarily on:

- ✓ adapting to the latest changes;
- ✓ building stakeholder confidence;
- ✓ clearly defined and communicated governance processes and capacities;
- ✓ continuous optimization of the risk management and internal control system;
- ✓ alignment with legal requirements.

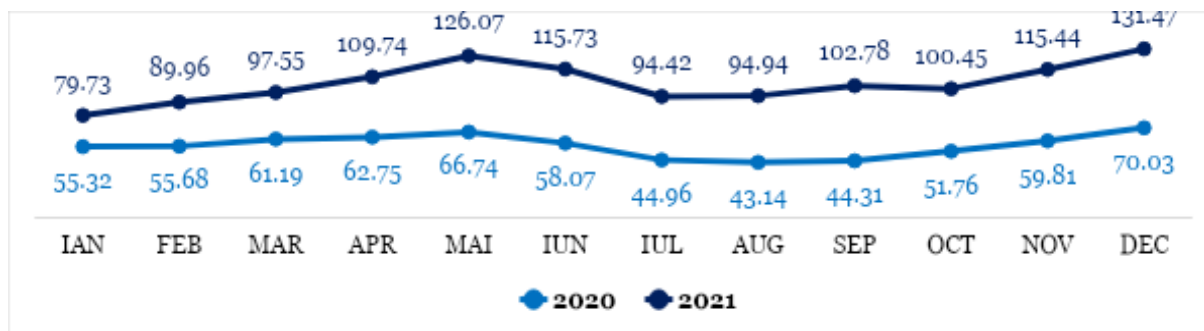
Further details on the corporate governance framework are available in the [Solvency and Financial Condition Report \(SFCR\) Chap. B.](#)

### C. Conclusions on the assesement of the financial position

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

	<b>2020</b>	<b>2021</b>
Gross Earned Premium (lei)	162.617.146	171.485.097
Damage ratio	2,15%	2,15%
Reinsurance ratio	42,04%	41,37%
Other technical reserve ratio (catastrophe reserve)	15,25%	15,31%
Expense ratio (comissions, variation of acquisition costs, administrative expenses, new project expenses, provisions)	21,42%	21,18%
Combined ratio	80,86%	80,01%
<b>Net result (lei)</b>	<b>35.152.323</b>	<b>39.386.341</b>

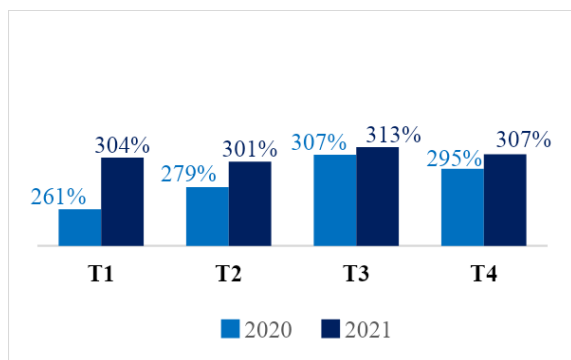
**Evolution of the liquidity ratio: -updated graph**



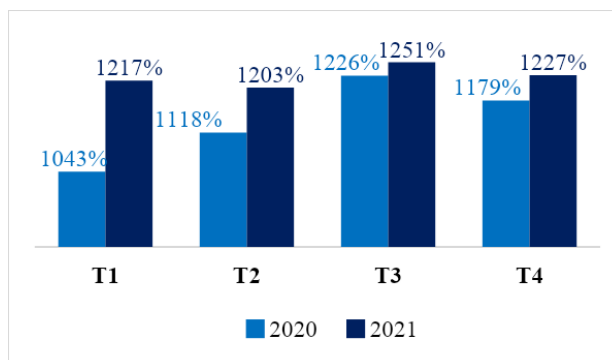
The main financial stability indicators of the company, in Solvency II reporting regime, calculated following the Standard Formula:

### Solvency:

#### SCR Coverage



#### MCR Coverage



The solvency ratio has increased from quarter to quarter, due to increase in own funds on an accruals basis of the disaster reserve funds, of profit and capital requirement optimization.

	31.12.2020	31.12.2021
<b>Own Funds</b>	<b>260.482.379</b>	<b>309.332.051</b>
<b>Capital requirement for market risk</b>	<b>25.389.737</b>	<b>45.636.567</b>
for interest rate risk	12.679.148	25.824.795
for equity risk	368.273	335.572
for risk of real estate depreciation	587.464	437.912
for credit spread risk	7.344.397	13.391.415
for concentration risk	19.592.284	25.197.671

for currency risk	2.780.849	16.238.856
<b>Capital requirement for counterparty risk</b>	<b>20.097.888</b>	<b>24.012.110</b>
for Type 1 exposures	19.188.904	23.113.209
for Type 2 exposures	1.191.372	1.181.573
<b>Capital requirement for underwriting risk</b>	<b>77.495.610</b>	<b>79.230.240</b>
for premium and reserve risk	19.617.227	20.929.344
for natural disaster risk	70.227.485	71.362.513
<b>Diversification</b>	<b>(23.733.207)</b>	<b>(34.009.395)</b>
<b>Basic Solvency Capital Requirement (BSCR)</b>	<b>99.250.028</b>	<b>114.869.523</b>
<b>Capital requirement for operational risk</b>	<b>4.878.514</b>	<b>5.144.553</b>
<b>Solvency capital requirement before adjustment</b>	<b>104.128.543</b>	<b>120.014.075</b>
<b>Adjustment of Loss-absorbing Capacity of Deferred Taxes</b>	<b>(15.730.017)</b>	<b>(19.202.252)</b>
<b>Total Solvency Capital Requirement SCR</b>	<b>88.398.526</b>	<b>100.811.823</b>
<b>SCR rate</b>	<b>295%</b>	<b>307%</b>
<b>MCR rate</b>	<b>1179%</b>	<b>1227%</b>

To cover catastrophe risk, PAID S.A. had one of the largest reinsurance programs in Central and Eastern Europe in force on December 31, 2021, in which 48 reinsurers participate, more than 50% of the capacity coming from reinsurers with “AA” rating granted by S&P or AM Best.

The programme is of the ‘excess of loss’ type and has a maximum capacity of 1.000.000.000 EURO for earthquake, landslide and flood risks, its own retention being limited to 8 milioan EURO for earthquake risk and 6 milioan EURO for landslides and floods.

Starting with June 1, 2021, the capacity of the reinsurance program was increased to 1,000,000,000 EURO.

#### [D.Main characteristics 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 annual individual and consolidated financial statements of entities carrying out insurance and/or reinsurance activities.

The annual financial statements are audited by an independent auditor. The financial statement package for the fiscal year of 2021 was audited by Mazars România SRL.

In accordance with the provisions of ASF Rule No. 19 / 30.10.2015, the company, starting with 2015, establishes and publishes annual financial statements for information purposes under the **IFRS Standards**.

### **Solvency II Reporting (SII)**

In accordance with the financial reporting requirements under Law No. 237/2015 relating to the authorisation and supervision of insurance and reinsurance activities and under Regulation No. 21/2016 on reports concerning insurance and/or reinsurance activities, with subsequent amendments and additions, PAID S.A. draws up and reports:

- ✓ Annual and Quarterly Quantitative Reporting Templates (**QRT**)
- ✓ Solvency and Financial Condition Reports (**SFCR**);
- ✓ Regular Supervisory Report (**RSR**).

In addition, in accordance with the provisions of Solvency II, the Delegated Regulation and Internal Policies, PAID S.A. draws up each year, or whenever significant changes occur in its risk profile or risk appetite, a prospective own-risk and solvency assesment report conducted at group level (the **ORSA** report).

At PAID S.A. level a „Reporting Policy” has been developed and applied, which aims to ensure in due course the achievement and transmission of all mandatory reports, as well as that the information provided is correct and complete.

The Audit Committee is the forum that delivers opinion on statutory and that of Solvency II reports, prior to these being submitted to the Management Board and/or General Assembly for approval.

### **E. Main characteristics of the risk management system**

The Risk Management System at Company level is carried out through the planning, coordinating and controlling of the Risk Management activities. Within this framework, specific strategies are established, policies and procedures are developed for the timely identification, assessment, monitoring, management / reduction and reporting of risks, with the aim of optimizing these and creating a “risk-aware” organisation culture.

The Risk Management System is subject to a continuous streamlining process, for the purposes of protecting the company, through supporting its objectives, as follows:

- ✓ establishing an appropriate organizational set-up/framework to optimize the decision-making, planning and prioritization process;
- ✓ efficient use/allocation of capital and resources within the company, with the aim of protecting and strengthening the company's assets and its corporate image;
- ✓ streamlining the procedure of significant risks;
- ✓ establishing a system of exposure limits and a way of monitoring such risk limits, in accordance with the risk profile;
- ✓ establishing a reporting system of exposure limits, as well as other aspects in regards to risks;
- ✓ establishing employee recruitment and compensation criteria as well as ensuring professional employee development support;
- ✓ increase of operational efficiency.

The specific risk management strategy is an integral part of the company's general strategy, having as main fundamental objectives: meeting SCR and MCR capital requirements and ensuring increased solvency ratio, achieving an optimum reinsurance programme and effective profitability- and capitalization-oriented management, with the unitary purpose of maintaining PAID S.A.'s financial stability. PAID S.A. establishes an annual risk plan in which objectives and measures are presented for each and every significant risk, submitted for debate and approval of the Management Board/Board of Directors.

*The PAID risk strategy is based on the following main principles:*

- ✓ The development of an adequate governance which is consistent with the PAID strategy;
- ✓ The risk management is an integral part of the management system based on standards and rules;
- ✓ Risk management is an integral part of PAID S.A.'s business strategy, supported by taking into account for the business strategy, processes of compliance with risk appetite, own funds and capital requirements (SCR);
- ✓ The management of the company will ensure a strong capital base and prudent solvency ratio;
- ✓ An adequate reinsurance programme;
- ✓ Investment policy based on the "safety vs. profit" principle, which both provides for asset class limits as well as avoids excessive concentration on a financial institution;
- ✓ Continuous improvement of performance indicators and their monitoring so that alarm signals can be identified in a timely manner;



- ✓ The strategic and operational planning process is supported by the results of the ORSA;
- ✓ Use of operational risk mitigation techniques (internal control system, business continuity plans, IT security and disaster recovery plan, protection and security measures for individuals and assets);
- ✓ Process optimisation.

The company's main strategic objectives remain linked to the 4 pillars of sustainable development of the company, namely:

1. **Governance:** ensuring an operational framework fully consistent with legal requirements and a risk management corresponding to the risk profile of the company;
2. **Financial sustainability:** reflected by the company's solvency level and the appropriate size of the structure and level of reinsurance protection;
3. **Operational sustainability:** reflected in the ability to cope at any time with a number of operations much higher than the usual average in the event of major events;
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 both on an individual and aggregated level. PAID S.A. calculates the capital requirement using the Standard Formula. The results obtained provide an overview of how risks are divided into various 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 own funds and optimising the capital requirement to ensure a more comfortable solvency ratio.

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

***The most important risks are:***

- ✓ **Underwriting:** It represents the company's most important risk. Compared to the same period last year, there was a slight increase in premiums and reserve SCR generated by a growth in net premiums and an increase in SCR Nat Cat, as a result of the exchange rate increase.

- ✓ **Market:** The second largest risk for PAID. Compared to the same period last year this has seen significant increase due to an increase in the interest rate risk (which, in particular, has increased amidst an increase in the yield curve and volume of government securities).
- ✓ **Counterpart:** It represents a very significant risk for the company as a result of the reinsurance programme, which has a significant reinsurance capacity provided by a large number of reinsurers. Compared to December 31, 2020 it experienced a rise, in particular as a result of the adjustment of the method for calculating Risk Mitigation, by implementing the recommendations from the BSR assessment report.
- ✓ **Operational:** It is slightly higher compared to the same period last year as a result of portfolio growth.

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 materiality 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, the Risk Management Department/Risk Management Committee presents to the Executive Management/Management Board the specific risk management indicators, their reporting to the reference thresholds, proposes for analysis, debate and approval procedures specific to risk management, reports, Operational Risk Matrix, etc.

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