



Allianz Global Life dac

Solvency and Financial Condition Report

31 December 2017

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Scope of the Report

Solvency II, an EU-wide regulatory regime for insurance companies, came into force in January 2016. Under Solvency II, the Solvency and Financial Condition Report ('SFCR') is an annual regulatory public disclosure requirement. This report is the SFCR for the year ended 31 December 2017 for Allianz Global Life dac (the 'Company' or 'AGL').

It informs AGL's stakeholders about the Company's:

- A. Business and Performance;
- B. System of Governance;
- C. Risk Profile;
- D. Valuation for Solvency Purposes; and
- E. Capital Management

It is prepared to satisfy the public disclosure requirements under the Commission Delegated Regulation (EU) 2015/35 of the European Parliament supplementing Directive 2009/138/EC ('SII Directive'), which was issued by the European Insurance and Occupational Pensions Authority ('EIOPA') and came into effect from 1 January 2016.

Approval

This report and supporting Qualitative Reporting Templates ('QRTs') have been approved by Allianz Global Life's Board of Directors on 3 May 2018 prior to submission to the Central Bank of Ireland ('Central Bank') and publication on the AGL public website.

Summary

Business and Performance

AGL is authorised in Ireland to transact life assurance business in the European Union. The Company is regulated by the Central Bank and underwrites insurance risks through its head office and local branches along three lines of business (variable annuity¹, unit-linked and protection). The Company is a wholly owned subsidiary of Allianz SE.

Significant events for the Company over the year include:

- A step-change in relation to top-line growth as the new Active4Life product, the Company's next generation of variable annuity products with a short-term investment guarantee, became the main production engine. The new business share of the classic variable annuity product, Invest4Life, has more than halved vis-a-vis 2016 even though it is still an important premium source. At the same time, unit-linked business continued to display a steep growth path over the year. The increase in protection business, whilst steady, is more modest by comparison. The launch of a new customer oriented PPI product into the Italian market ('CQP') and the enhancement of both the product and sales process of the existing Direct Term Assurance offering were key initiatives in the year to create the basis for further growth in the future. Overall, these developments highlight the continued diversification of the business away from a mono-line business focused on long term financial guarantees into a more varied product mix. At the same time, the underlying performance continues to rise as the new business pillars scale up.
- In parallel, the Company worked on further enlarging its geographical footprint by obtaining regulatory approval to open a branch in Greece (selling a clone of one of the Italian retail unit-linked products) and by extending its Group Life offering (which provides death and disability benefits for employees of corporate clients) into Lithuania. The commercial benefits of these initiatives will start materializing in 2018.

AGL's underwriting performance (including investment income) in 2017 represented a significant improvement compared to the 2016 result. This was driven by a combination of hedge profits on account of exceptionally low market volatilities and higher-than-expected base profitability. This higher than expected profitability was due to an outperformance of the sales plan and a strong financial market performance over the year. As a result the Variable Annuity and Unit-linked products generated higher-than-planned fee income from assets under management.

System of Governance

The governance structure of the company has not changed materially during 2017 and AGL continue to operate an effective System of Governance which provides for prudent and sound management of the business.

The ultimate responsibility for the Company's business rests with its Board of Directors (the 'Board'). The Board delegates certain responsibilities to its Committees and senior management, while retaining responsibility for overall control of the Company and strategic decisions. The Company places a high value on appointing fit and proper individuals and seeks to ensure that each individual is suitably qualified to perform the role for which he/she is being recruited and that he/she is honest and trustworthy.

AGL has implemented a comprehensive risk management system, consistent with Allianz Group standards and industry best practices, referred to as its risk management framework. The Chief Risk Officer and the Risk Management function are responsible for setting an auditable framework for all risk-related activities in the Company. 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.

The Company performs a regular assessment of its own risks and solvency needs (the 'ORSA'), directed by the Board. The ORSA is the collection of interlinked processes implemented by AGL to identify, assess, monitor,

¹ Variable annuities are unit-linked policies with guarantees in relation to one or more of a minimum withdrawal, death or accumulation benefit.

manage and report on the short and long term risks that the Company faces and to determine the amount of capital ('Own Funds') necessary to ensure that overall solvency needs are met at all times.

AGL has put a comprehensive suite of internal controls in place, based on a three lines of defence model with graduated control responsibilities. The Company's Compliance function monitors compliance with applicable laws, regulations and administrative provisions, as well as advising senior management and supervisory bodies on compliance with these.

The Company remains satisfied that the system of governance remains fit for purpose and appropriate for the nature, scale and complexity of the risks inherent in its business.

Risk Profile

The Company faces both risks that are external in nature (e.g. market risks and underwriting risks) and internal (e.g. risks to systems and processes).

The primary source of AGL's market risk is in relation to guarantee obligations to policyholders and the future profits of the Company. The Company employs a dynamic hedging program to mitigate the risk in relation to guarantees movements. The hedging program invests in financial derivatives which increase in value to offset increases in expected guaranteed pay-outs and vice versa, thus protecting Company profits.

The Company's main underwriting risk is increasing life expectancy whereby, if policyholders receiving guaranteed lifetime incomes live longer than expected the Company would suffer financial loss. The main business risks are surrender and expense risk. The Company's largest operational risk exposures are related to the operation of the hedging program.

Risk is controlled and managed with reference to the regulatory Solvency II principles. The Company uses an Internal Model to calculate its Solvency II Risk Capital Requirement ('SCR'). The SCR is set at a level to ensure that the Company can meet obligations to policyholders and beneficiaries over the following 12 months with a 99.5% probability, which limits the chance of falling into financial ruin to less than once in 200 years.

AGL's Internal Model reflects the risk profile and risk mitigation actions of the Company. In particular, it allows for the ongoing operation of the hedging program. The Internal Model is part of the Allianz Group Internal Model and was approved by the Central Bank as part of the wider Allianz Group approval by their supervisor, the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – 'BaFin'). The Internal Model governance structure is consistent with the system outlined in the previous section.

There was no material change to the risk profile of AGL during 2017.

Valuation for Solvency Purposes

AGL has valued its assets and liabilities on a market consistent basis i.e. using information which is market observable information where possible. The Company's assets are primarily those held to back the policyholder unit-linked liabilities with the surplus held as bonds, cash, cash equivalents or derivatives. During the reporting period AGL did not make any changes to the recognition, valuation bases or estimation techniques used for its asset valuation.

The Technical Provisions comprise the Best Estimate Liability and the Risk Margin. A number of assumptions feed into the calculation of the Technical Provisions. Over 2017, as part of the annual experience investigations the assumptions for future mortality, lapses and expenses were updated. There were no material changes to the calculation method of the Technical Provisions.

There were no material changes to the bases, methods, or main assumptions used for the valuation of the other liabilities over the reporting period.

For certain assets and liabilities, the valuation principles and methods used as part of the Solvency II regulatory regime differ from the corresponding principles and methods in the International Financial Reporting Standards as adopted by the European Union ('IFRS'). The table below shows the impact of these differences on the Company's balance sheet.

Table 1: Comparison of balance sheets as at 31 December 2017 (€m)

	Solvency II	IFRS	Deviation
Total assets	4,588.2	4,628.0	(39.8)
Total liabilities, including technical provisions	4,368.9	4,492.7	(123.8)
Own funds / Net asset value*	219.3	135.3	84.0

* Net asset value is excess of assets over liabilities under IFRS as shown in the Company's financial statements.

The main difference between available Own Funds (excess assets over liabilities) and IFRS Shareholder Equity is related to the valuation of technical provisions (as described in Section D.2.), and the removal of deferred assets and liabilities (as described in Section D.1.).

Capital Management

AGL operates within 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.

The Capital Management Policy defines a target level of capitalisation known as the 'management ratio'. This ratio is set at a level which ensures compliance with regulatory requirements over a three year planning horizon even after severe financial stresses or losses from the insurance portfolio. The Company aims to keep the capitalisation close to this ratio.

Secondary objectives include adding economic value over the cost of capital and having shareholders participate in the economic development through, for example, dividend payments.

All of the Company's Own Funds fall under Tier 1 capital, made up of high-quality and unrestricted Own Funds. At 31 December 2017, the Company's Own Funds of €219.3m exceeded the SCR of €102.6m. The main drivers of the SCR are market, underwriting and business risk, consistent with the key risks outlined above. The solvency coverage ratio at 31 December 2017 was 214%, an improvement from 183% at 31 December 2016.

There were no material changes to AGL's capital management framework during 2017.

A. Business and Performance

A.1. Business

A.1.1. Business operations

AGL, part of the Allianz Group, is authorised in Ireland to transact life assurance business in the European Union under the Third Life Directive as introduced into domestic Irish legislation by the European Union (Insurance and Reinsurance) Regulations 2015. It was incorporated on 11 June 2008 and received approval from the Central Bank on 14 August 2008 to carry out Classes I and III Life Assurance business. The Company's registered office is Maple House, Temple Road, Blackrock, Dublin, Ireland.

A.1.1.1. Supervisor

The Company is regulated by the Central Bank. The registered office of the Central Bank is North Wall Quay, Dublin 1, Ireland.

The parent holding company, Allianz SE, is regulated by the German Federal Financial Supervisory Authority, BaFin, Dreizehnmorgenweg 13-15, 53175 Bonn, Germany.

A.1.1.2. Auditor

The external auditors are KPMG, Chartered Accountants. The registered office of KPMG is 1 Stokes Place, St. Stephens Green, Dublin 2, Ireland. The auditor, KPMG, will be replaced in 2018 by PricewaterhouseCoopers in line with the legal requirements for mandatory auditor rotation under Statutory Instrument 312 of 2016. Accordingly, the 2017 financial statements will be the last in this engagement term upon which KPMG shall express an opinion as independent auditors.

A.1.1.3. Insurance operations

The Company operates predominantly on a Freedom-of-Establishment basis, underwriting insurance risks through local branches along three lines of business (variable annuity, unit-linked and protection). The Company focused initially on the sale of a variable annuity product with a guaranteed minimum withdrawal benefit ('GMWB') which is enhanced by a guaranteed minimum death benefit ('GMDB') for some product generations (Invest4Life). This product, also referred to as classic variable annuity business, is sold via a proprietary sales channel through the Company's French branch office since its set up in 2008, and its Italian branch office since its set up in 2009. The German branch, set up in 2009, ceased selling this product in 2012. Subsequently, the variable annuity business has expanded through two distinct developments. Firstly, at the beginning of 2016 the Company took over several reinsurance treaties from Allianz Re Dublin dac for variable annuity policies that were underwritten by Allianz Life Insurance Japan and Allianz Taiwan Life Insurance, reinsuring only the guaranteed component of the policies. Secondly, the Company successfully launched, in late 2016, a new variable annuity product with guaranteed minimum accumulation ('GMAB') and death benefits (Active4Life) via its Italian and French branch offices, availing in both markets of proprietary sales channels.

In the unit-linked area, the Company currently sells three different products (Target4Life, BigCityLife and Private Solutions), all underwritten through its Italian branch. Firstly, the Company offers an investment portfolio product with an age-dependent death benefit, targeting affluent clients. Secondly, for its retail clientele, the Company underwrites two products offering an active and dynamic life cycle investment concept, whereby the investments are managed by the investment manager over the life cycle and risk appetite as specified by the client, with an age-dependent death benefit. In late 2017, the Company obtained regulatory approval to launch its Greek branch, selling a clone of one of the Italian retail unit-linked products.

Group life business, offering death and disability benefits for employees of corporate clients, was introduced to the Company's product range in 2010. This business is sold via brokers through the Company's head office on a Freedom-of-Services basis and initially focused on the German market. In late 2017, the offering was extended to Lithuania. Protection business for retail clients was started through the Company's Italian branch office in late 2015, offering a term life product with various rider options (Genial Life). Work continued during 2017 to increase sales of this product through improved customer services and lead generation. In parallel, a decreasing term insurance product was added to the protection product range in early 2017 (Cessione del Quinto della Pensione). This product is sold via brokers into the Italian market. The Company aims to grow protection business further through an expansion of the distribution reach in Italy and potentially other markets, foremost leveraging on its established offerings and digital platforms.

In terms of market share, there are currently no other providers offering an Active4Life-type product in either Italy or France. Similarly, there are no providers offering an Invest4Life-type product in either Italy or France. Up until recently, two competitors offered Invest4Life-type products in France, but they have since closed to new business.

A.1.2. Company structure

The Company is a wholly owned subsidiary of Allianz SE, a company incorporated in Germany. Allianz SE is also the ultimate holding company of the Company, holding 100% voting rights. The following diagram sets out a simplified group structure, displaying AGL's parent and local branches.

Figure 1. Simplified Organisational Chart



A summary of the material geographical locations and material lines of business of the Company are outlined in the following table.

Table 2: Material branches

Material Branch	Material lines of business
AGL Head Office	Asian VA reinsurance Group Life protection
AGL French Branch	Variable annuity: <ul style="list-style-type: none">• Invest4Life• Active4Life
AGL Italian Branch	Variable annuity: <ul style="list-style-type: none">• Invest4Life• Active4Life Unit-linked <ul style="list-style-type: none">• Target4Life• BigCityLife• Private Solutions Protection: <ul style="list-style-type: none">• GenialLife• Cessione del Quinto della Pensione
AGL German Branch (closed to new business)	Variable annuity: <ul style="list-style-type: none">• Invest4Life
AGL Greek Branch (launched in 2017)	Unit Linked: <ul style="list-style-type: none">• Target4Life

A.1.2.1. Interests in the share capital exceeding 10% of the voting rights

Allianz SE, incorporated in Germany, holds all of the issued share capital and voting rights in AGL. There are no other interests in the share capital exceeding 10% of the voting rights.

A.1.3. Significant business and other events

No significant business and other events were noted outside of those outlined above in Section A.1.1. No external events had a significant impact on the business during the reporting period.

A.1.3.1. Significant changes in the scope of consolidation

A.1.3.1.1. Significant acquisitions

No significant acquisitions or divestments occurred and as a result, there were no significant changes in the Company.

A.1.4. Further information

All material information regarding the business of AGL has been set out above.

A.2. Underwriting Performance

A.2.1. Life

A.2.1.1. Underwriting performance by material line of business

As highlighted by the tables below, AGL's underwriting performance, including investment income, in 2017 represented a significant improvement compared to the 2016 result. This was largely driven by variable annuity and unit-linked insurance business returning higher than expected profits.

The other life insurance result, comprised of the Company's protection business, was slightly negative in both 2016 and 2017. This only contributed to a small proportion of the total result in both years.

Table 3: Life underwriting performance by material line of business (€m)

	Operating Profit 2017	Operating Profit 2016
Variable annuity and unit-linked insurance	21.5	16.4
Other life insurance	(0.1)	(0.1)
Life reinsurance	1.2	(3.3)
Other	0.7	0.8
Total Operating Profit	23.3	13.8
Taxation	(8.3)	(8.9)
Total Net Income	15.0	4.9

A.2.1.2. Income and expenses by material geographical area

The Company's performance continues to be dominated by business written in France, which is reflective of the significantly larger value of variable annuity assets under management in that region, combined with favourable market conditions generating gains from the hedging programme. Italy also generated gains from its variable annuities hedging programme although on a smaller portfolio, with improving results from its unit-linked portfolio arising from a growing asset base being offset to some degree by continued investment spend in new product developments. The Asian variable annuities portfolio delivered a profit during the year despite losses experienced in its hedging programme.

Table 4: Life underwriting performance by material geographical area (€m)

	Operating Profit 2017	Operating Profit 2016
France	21.5	19.5
Italy	1.0	(2.3)
Asia	1.2	(3.3)
Other	(0.3)	(0.1)
Total pre-tax income	23.4	13.8
Taxation	(8.3)	(8.9)
Total Net Income	15.0	4.9

A.3. Investment Performance

A.3.1. Investment result and its components

The financial assets held by the Company fall into the following categories:

Table 5: Financial assets at 31 December 2017 (€m)

	Total
Shareholder financial assets	158.8
Investments	103.2
Government bonds	16.9
Government agency bonds	12.6
Supranational bonds	20.2
Covered bonds	42.7
Corporate bonds	10.8
Cash and cash equivalents	40.4
Derivative assets	15.2
Policyholder financial assets	3,910.3
Equities	36.0
Fixed Income Securities	109.8
Collective Investment Schemes	3,697.3
Cash and cash equivalents	67.2

A.3.2. Overall investment performance

Income from investment assets consists of interest and dividend income, net gains/losses on financial assets classified as fair value through profit or loss, and realised gains/losses on financial assets. A breakdown of these by asset class are outlined below:

Table 6: Performance by asset class in 2017 (€m)

	Shareholder Investments*	Investments on behalf of policyholders	Total
Investment income	35.6	4.6	40.2
Equities	0.0	1.3	1.3
Fixed income securities	0.2	1.5	1.7
Collective Investment undertakings	0.0	1.9	1.9
Swaps	35.3	0.0	35.3
Loans and Mortgages	0.0	0.0	0.0
Net realised gains/(losses) on financial assets	(152.0)	5.4	(146.6)
Equities	0.0	0.2	0.2
Fixed income securities	0.6	(1.8)	(1.2)
Collective Investment undertakings	0.0	7.0	7.0
Futures	(138.8)	0.0	(138.8)
Forwards	(17.8)	0.0	(17.8)
Swaps	4.0	0.0	4.0
Unrealised gains/(losses) on financial assets	(71.3)	250.6	179.3
Equities	0.0	0.7	0.6
Fixed income securities	(0.7)	0.1	(0.5)
Collective Investment undertakings	0.0	249.8	249.8
Forwards	(2.1)	0.0	(2.1)
Swaps	(68.5)	0.0	(68.5)
Investment expenses	(0.1)	(3.1)	(3.3)

*Shareholder's investments includes gains/losses that are recognised through shareholder equity. These are presented separately under section A.3.3.

Investments on behalf of policyholders

European bonds recorded a flat performance for the year, whilst equity markets continued to rise during 2017 with stocks significantly outperforming fixed income instruments. As a result unit-linked assets recorded a positive performance with funds with higher equity exposure generally performing relatively better than funds with higher fixed income exposure.

Shareholder's Investments

Shareholder assets mainly comprise of derivative assets, fixed income securities and cash. The majority of the Company's investment income result relates to interest rate swaps ('IRS'). The result from valuation of IRS is shown under unrealised gains/losses. Total result from IRS is driven by fluctuations in interest rates which increased during the period resulting in a negative performance.

Futures were the main contributor to the Company's realised loss result in 2017. The majority of the futures portfolio is linked to equity movements which recorded substantial gains during the year. As a result the Company's short position in futures instruments recorded substantial losses.

Other shareholder assets including fixed income securities and cash returned a nil performance during 2017 due to low interest rates and the short duration of the bonds.

A.3.3. Gains/losses recognised directly in shareholder equity

The following table sets out the composition of AGL's other comprehensive income recognised directly in shareholder equity:

Table 7: Gains/Losses recognised in shareholder equity (€m)

	2017
Movements in financial assets:	
Fair value movement	(0.7)
Deferred tax effect of fair value movement	0.1
 Net income recognised in equity	 (0.6)

A.3.4. Information about investments in securitisation

At the end of the reporting period, the value of the Company's investments in securitised bonds was €0.

A.4. Performance of Other Activities

A.4.1. Asset management

AGL does not have any material income arising or expenses arising from asset management other than those already outlined.

A.4.2. Corporate and other

AGL does not have any material income or expenses arising from corporate or other sources excluding those already outlined.

A.4.3. Leasing arrangements

AGL does not have any material operating or finance lease arrangement in place at this time, therefore, does not have anything to report in this regard.

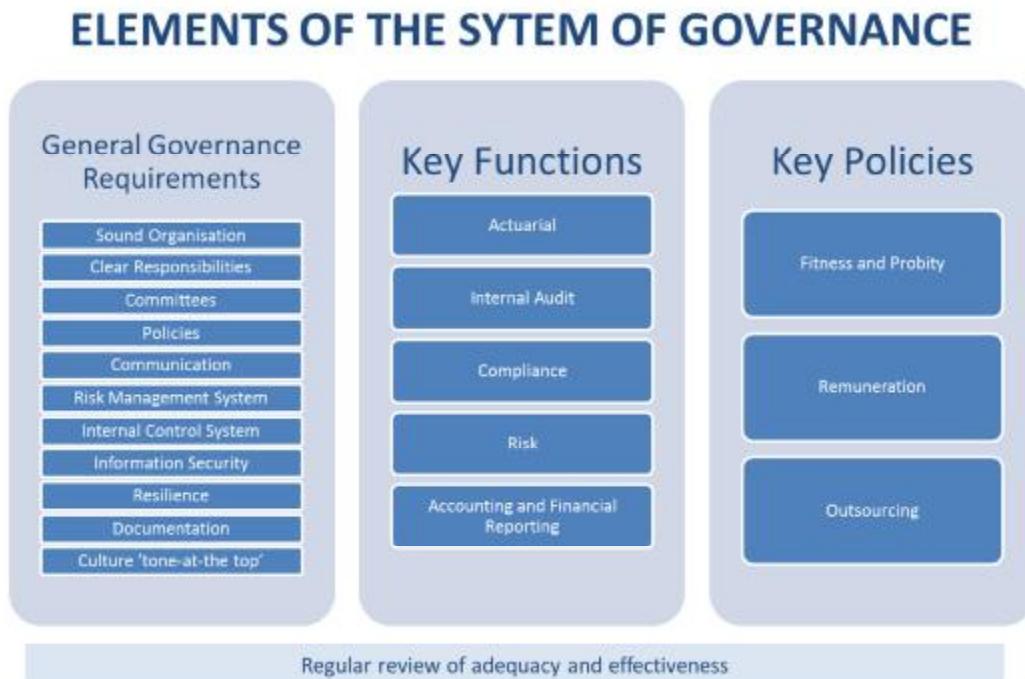
A.5. Any Other Information

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

B. System of Governance

B.1. General Information on the System of Governance

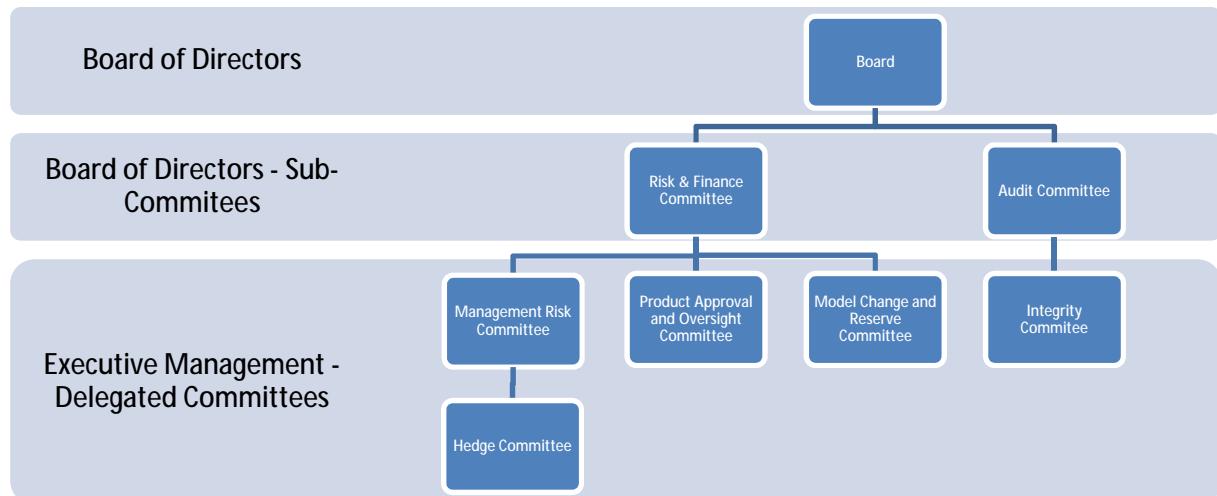
AGL's Board of Directors believe that an effective System of Governance is essential for prudent and sound management of the business. The key elements of the System of Governance are outlined below.



B.1.1. Overview

Good corporate governance is essential for sustainable business performance. Therefore the Board and senior management of AGL attach great importance to complying with the obligations of the European Union (Insurance and Reinsurance) Regulations 2015 and the Corporate Governance Requirements for Insurance Undertakings 2015 issued by the Central Bank.

The following diagram sets out a summary of the governance structures in place within AGL.



The ultimate responsibility for the Company's business rests with its Board of Directors at all times. The Board takes collective responsibility for establishing the Company's vision, values and standards, setting the appropriate strategy and structure, delegating to management and exercising accountability to its shareholder

and its Regulator(s). The Board delegates certain responsibilities to its Committees and senior management, while retaining responsibility for overall control of the Company and strategic decisions. Delegation does not relieve the Board of its duties and responsibilities.

The Board may delegate its authority to senior management and Committees with exceptions for each of the following:

- Proposals of matters requiring the approval of the General Meeting of shareholders
- Appointment and dismissal of directors, the Company Secretary, the Chief Executive Officer and senior management and the removal from office of the head of a Control Function
- Installation of a committee and the appointment and dismissal of its members
- The approval of dividend payments and capital contributions
- The approval of the annual report, accounts and annual regulatory returns
- Other matters as determined by the Company's Memorandum and Articles of the Association
- Other matters as stipulated in the law

At 31 December 2017 AGL Board comprised seven members:

- two Independent Non-Executive Directors (INEDs)
- two Non-Executive Directors (NEDs)
- two Group Non-Executive Directors (NEDs)
- one Executive Director

The Chairman of the Board is a Group NED.

The Board meets on a regular basis, at least once each quarter.

The Board and Board Committees regularly review the efficiency and effectiveness of their activities. On an annual basis, the performance of the Chairman is assessed by the INEDs, and the Chairman completes a review of the performance of the other Directors as appropriate. The results of these assessments are discussed by the Board. Where areas for improvement are identified from these reviews and discussions, the appropriate measures are implemented to rectify these.

B.1.2. Committee framework

Certain matters may be delegated to a dedicated decision making body (Committee). The Committees aim to facilitate business steering and to safeguard the Company's oversight function (hereby also supporting the internal control system). AGL Committees have clearly defined mandates, authority and appropriate independence. The composition of the Committees reflects their different functions.

AGL utilises a system of two types of Committees:

- Board of Directors Committee
- Management/Functional Committee

B.1.2.1. Board committees

Board Committees include the Audit Committee and the Risk and Finance Committee. Terms of Reference (including composition, objectives and responsibilities) of these committees are clearly defined and approved by the Board of Directors. The Committee's Terms of Reference are reviewed periodically, at least annually. These Committees represent the Board sitting as sub-committees of the full Board. The Board receives regular reports on the activities of its Committees.

Table 8: Summary of Board Committee responsibilities

Board Risk and Finance Committee	Board Audit Committee
<p>The Committee provides support to the Board in the following areas:</p> <ul style="list-style-type: none"> • Risk management framework, including Risk Strategy, Risk Policy and Risk Appetite Statement • Investment strategy (e.g. strategic asset allocation) and investment operations policies • Reinsurance Strategy • Capital & liquidity position, requirements, and outlook – including both working and solvency capital • Company's financial performance <p>The Committee provides oversight of the Risk Management, Actuarial and Accounting and Financial Reporting functions.</p>	<p>The Audit Committee provides support to the Board in following areas:</p> <ul style="list-style-type: none"> • The preparation, review and approval of the Company's annual statutory and regulatory accounts • Matters regarding external and internal audit operation and control • Other governance matters, including approval of specified transactions and review of Company's internal instructions <p>The Committee provides oversight of the Internal Audit and Compliance functions.</p>
<p>Members: two INEDs, two NEDs, CFO Committee is chaired by an NED</p>	<p>Members: two INEDs, one NED Committee is chaired by an INED</p>

B.1.2.2. Management committees

Management/Functional committees include the Management Risk Committee, the Hedge Committee, the Model Change & Reserve Committee, Product Approval & Oversight Committee and Integrity Committee. The composition, objectives and responsibilities of these committees are clearly defined and documented Terms of Reference are subject to approval by the relevant Board or Management Committee.

B.1.3. Remuneration policy and practices

B.1.3.1. Policy and principles

The Board of Directors has approved a Remuneration Policy which aims to ensure that risk-taking incentives provided by the Company's remuneration practices are consistent with its risk appetite and do not encourage unauthorised or unwanted risk-taking that exceeds the level of authorised risk of the Company while also ensuring that the Company is able to attract, develop and retain skilled individuals.

Employees' 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 so that the system does not give rise to negative effects. The Company operates a fully flexible bonus policy, which means that the Company is not obliged to pay bonuses when it would be inappropriate to do so.

The variable component of an employee's remuneration is based on a combination of the individual performance of the employee in relation to established goals and targets and the overall results of the parent company. The measurement of the employee's performance in relation to established goals and targets takes into account factors such as acquired skills, personal development, compliance with the Company's internal rules and procedures, compliance with the standards governing the relationship with policyholders and contribution to the performance of the Company as a whole.

B.1.3.2. Remuneration factors

The following table summarises additional factors that are taken into account when determining whether the following categories of employees are entitled to receive the bonus payment:

Table 9: Remuneration factors

Category	Executive risk takers	Key Function Holders and Staff
Additional considerations	The measurement of performance as a basis for variable remuneration shall include an adjustment for current and future risks and the potential impact of these risks for the Company.	The basis for bonus payable to employees who work in a review capacity, such as employees in compliance, risk management, internal audit and actuarial functions, shall be independent from the performance of the business areas they review and oversee. Employees shall not be remunerated according to assumptions that incentivise an excessive risk-taking or an underestimation of the existing risks.

B.1.3.3. Director's fees

To avoid conflict of interests, Non-Executive Directors only receive a fixed remuneration for their services plus the reimbursement of reasonable expenses. Services carried out by Executive Directors or any Directors who are employed by Group entities (i.e. Group Directors) are not compensated at all.

B.1.3.4. Pension arrangements

AGL operates 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 of AGL during the reporting period.

B.1.3.5. Material transactions with shareholders, directors and persons who exercise significant influence

There were no material transactions during 2017 with shareholders, directors or persons who exercise a significant influence on the Company.

B.1.3.5.1. Transactions with senior management

The Company has no agreements with the senior management of the Company other than the employment contract.

B.2. Fit and Proper Requirements

B.2.1. Policy and processes

The Company places a high value on appointing fit and proper individuals and seeks to ensure that each individual is suitably qualified to perform the role for which he/she is being recruited and that he/she is honest and trustworthy.

The Company has a Fitness and Probity Policy ('FPP') in place which sets out principles, criteria and processes to ensure that all persons who effectively run the Company or occupy other key roles within the Company are and remain fit and proper to provide sound and prudent management through their professional qualifications, knowledge and experience and remain proper by being of good repute and integrity.

The FPP contains a definition of fitness and probity and corresponding requirements for the various relevant positions and describes the processes necessary to ensure the fitness and probity of the persons holding, or proposed for, these positions. The FPP provides guidance on how fitness and probity are assessed depending on the findings and information gathered during recruiting, regular and ad-hoc reviews, and on the consequences of a negative assessment. The FPP is compliant with the Fitness and Probity Standards of the Central Bank and is reviewed annually.

B.2.2. Fit and proper requirements

The specific standard of fitness required for each position in scope of FPP is set out in AGL's FPP in order to ensure that individuals occupying or proposed for such roles are competent and capable. For each position minimum level of previous experience, technical knowledge and qualifications in particular areas are set out. It

is expected that all individuals proposed or holding such positions have clear and comprehensive understanding of the applicable regulatory and legal environment. The collective competencies, qualifications, and experience of the Board, management and other employees within the Company shall at a minimum include:

- Industry and market knowledge;
- Business strategy and business model
- System of governance
- Financial, actuarial and risk analysis
- Regulatory framework and requirements

The standard of probity required for the performance of positions in scope of the FPP shall always be on the same level irrespective of the nature, scale and complexity of the Company or the responsibilities of the particular position. Therefore, each person holding position in scope of FPP must be financially sound, honest, ethical and act with integrity.

B.2.3. Fit and proper assessment and monitoring process

B.2.3.1. 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 probity of an individual is based on their reputation reflecting 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 (Code and Guidelines issued by the Central Bank under Section 50 of the Central Bank Reform Act, 2010) and agree to abide by those Standards. They are also required to certify that they are not aware of any issues that may put their fitness or probity in doubt.

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

For certain positions within scope of the Company's FPP, approval from the Central Bank is required prior to appointment by the Company's Board.

B.2.3.2. Regular reviews

The fitness and probity of each individual subject to the Company's FPP is continually assessed. The assessment is performed as a part of the annual performance review process during which the person's continuing fitness for the role is assessed and any compliance infringements, which may possibly lead to the person not being considered proper, are taken into account. The Company investigates any concerns noted from the review and re-assesses the fitness and probity of the person concerned, where applicable. The process for the assessment of results of fitness and probity reviews is set out in the Company's FPP.

As part of this annual ongoing performance monitoring, individuals holding positions subject to the FPP are required to certify that they are aware of the Fitness and Probity Standards, confirm there is no change in circumstances that would result in non-compliance with the Standards and agree to continue to abide by those Standards.

B.3. Risk Management System, including the Own Risk and Solvency Assessment (ORSA)

B.3.1. Risk management system

AGL has implemented a comprehensive risk management system, consistent with Allianz Group standards and industry best practices, referred to as its risk management framework. Components of this framework include:

- i) Risk Appetite - AGL's Risk Appetite Statement (as captured in the Risk Strategy document) sets out the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

- ii) Risk Strategy, policies and standards – AGL's Risk strategy, policies and standards define the Company's risk appetite, approach to risk management and establish the controls, procedures, limits and escalation procedures to ensure that risks are managed in line with the Company's Risk Appetite. New policies and standards are developed in response to changes in the Company's risk profile over time.
- iii) Risk identification and assessment – The risk management framework sets out processes for the identification of existing and emerging risks at the business operation level and company level (through the Top Risk Assessment process).
- iv) Risk oversight - Risk control procedures and systems are established and designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss. Risk management frameworks and procedures focus on aligning the levels of risk-taking with the achievement of business objectives.
- v) Risk reporting and monitoring – AGL has implemented a comprehensive qualitative and quantitative risk reporting framework. The reporting framework provides senior management and the Directors with transparent risk indicators to help them to understand the Company's risk profile and where it stands in relation to its stated Risk Appetite. Examples include key risk indicator dashboards, ORSA reports, and Top Risk Assessment outputs. Each of these documents are reviewed and discussed at the Management Risk Committee and/or Board Risk and Finance Committee, where action plans are agreed to address such risks identified.

B.3.2. Risk governance structure

Ultimate responsibility for the Company's risk management rests with the Board of Directors. The Board is supported by the Risk Management function and the operation of a number of committees that meet on a regular basis to review and monitor the Company's risk exposures.

The responsibilities of the Board of Directors and Board Committees are set out in section B.1.2. The different roles and responsibilities as related to the risk management system are discussed below.

B.3.2.1. AGL Board of Directors

The AGL Board of Directors bears responsibility for the setting and approving of the Company business strategies and main policies, including the Risk Policy and the Risk Strategy which are oriented towards balancing risk and return. It ensures that an appropriate, adequate and effective system of risk management and internal control is established and maintained and ensures that the Company's executive management monitors the effectiveness of the risk management and control system. The coordination of risk management throughout the Company, which meets internal and external requirements, is delegated to the Risk Management function.

B.3.2.2. AGL Board Committees

B.3.2.2.1. AGL Board Risk and Finance Committee

The Committee's risk-related responsibilities include the following:

- Oversight of the risk management function of the Company
- Ensuring that risks are fully monitored, managed and reported on in accordance with Allianz Group risk management standards and procedures, and regulatory requirements
- Ensuring implementation of the risk management processes including solvency assessment

B.3.2.2.2. AGL Board Audit Committee

The AGL Board Audit Committee contributes to the effectiveness of the Company's risk management and control framework. It monitors the financial reporting process and submits recommendations or proposals to the Board of Directors as required to ensure the integrity of this process e.g. due to regulatory changes as well as changes in the market and business environment.

B.3.2.3. AGL Chief Risk Officer (CRO) and the Risk Management Function

The CRO heads the Risk Management function within the Company, directly reporting to the CFO and with a direct reporting line to the Board of Directors. A functional reporting line also exists up to the Group CRO.

The CRO and the Risk Management function are responsible for setting an auditable framework for all risk-related activities in the Company via the development, maintenance and monitoring of risk policies, limits and guidelines as well as the risk measurement methodology and tools consistent with the Group risk methodology and compliant with any applicable regulatory requirements. In particular they:

- Propose the Risk Strategy and Risk Appetite to the Board of Directors
- Oversee the execution of the risk management processes
- Monitor and report the Company's risk profile including the calculation and reporting of the risk capital
- Support the Company's Board of Directors and senior management through the analysis and communication of risk management related information and by facilitating the communication and implementation of its decisions
- Escalate to the Company's Board of Directors in case of material and unexpected increases of risk exposure
- Report the Own Risk and Solvency Assessment as well as any further material risk management related information to relevant stakeholders including Group Risk
- Develop and implement the Internal Model, in particular local components in cooperation with Group Risk and the local Actuarial Function, including ongoing validation of the model

The CRO has authority to veto or halt with immediate effect any transaction or activity.

The CRO is also part of the Product Approval & Oversight Committee, the Model Change & Reserve Committee, and the Hedge Committee and uses these bodies also as a means to exercise his risk oversight.

B.3.2.4. Management committees

B.3.2.4.1. Management Risk Committee

The Management Risk Committee is chaired by the CRO and provides an early warning function by monitoring the Company's risk profile and availability of capital which maintains an adequate relationship between return and risk.

B.3.2.4.2. Model Change & Reserve Committee

The Model Change & Reserve Committee ('MCRC') is the Company's governing body for models, reserves, assumptions and parameters and covers all models developed by the Company as defined in its Terms of Reference.

B.3.2.4.3. Hedge Committee

The Hedge Committee has oversight responsibility over the hedging program which is a key risk mitigation activity.

B.3.2.4.4. Product Approval & Oversight Committee

It is the responsibility of the Product Approval & Oversight Committee ('PAOC') to provide formal approval of new products and product amendments such as re-pricings.

It aims to ensure products approved are consistent with Allianz Group and AGL targets and strategic objectives and must monitor product performance and regularly review products to ensure they continue to meet their original goals.

B.3.3. Risk exposures and Solvency Capital Requirements

B.3.3.1. Risk exposures

The following table lays out the primary risk categories to which AGL is exposed.

Table 10: Risk category definitions

Risk Category	Definition
Market Risk	Unexpected losses due to changes in market prices, including changes in stock or bond markets, interest rates, real estate prices or exchange rates.
Credit Risk	Unexpected losses due to counterparties failure to meet payment obligations or due to overdue payments.
Underwriting Risk	Unexpected losses due to policyholders dying sooner, living longer or experiencing illness more frequently than expected.
Business Risk	Unexpected losses due to differences between actual experience and business assumptions, including higher expenses or different levels of surrenders than initially expected.
Operational Risk	Unexpected losses resulting from inadequate or failed internal processes and systems, from human misbehaviour or errors from external events.
Liquidity Risk	This is the risk that the Company does not have sufficient liquid assets to continue normal business. It includes the risk that refinancing is only possible at higher interest rates or that assets may have to be liquidated at a discount. A liquidity risk event would most likely stem from large collateral outflows for the hedging programme.
Strategic Risk	Strategic risk refers to unexpected negative changes in the Company value arising from the adverse effect of management decisions regarding business strategies and their implementation.
Reputational Risk	Unexpected drop in the value of the in-force business or the value of future business caused by a decline in the reputation of the Company or the Group from the perspective of its stakeholders – e.g. shareholders, customers, staff, business partners or the general public.

B.3.3.2. Solvency Capital Requirements

Insurance companies such as AGL are required to hold capital to ensure that they have sufficient financial resources available to honour obligations to policyholders even in stressed situations. The quantum of capital required is dependent on the nature of risks incurred and the loss that may occur in the event the Company misestimates its exposures to those risks. Under the Solvency II regulatory regime, companies have two options to calculate the amount of capital required, the EIOPA prescribed Standard Formula or subject to regulatory approval a Company specific ‘Internal Model’ approach. The Standard Formula approach uses a set of prescribed risk shocks to determine the capital the company needs to hold. The Internal Model must be tailored to the specifics of the company. It is required to calculate the required capital as the amount needed to ensure that the company can meet obligations to policyholders and beneficiaries over the following 12 months with a 99.5% probability, which limits the chance of falling into financial ruin to less than once in 200 years.

AGL has chosen to use an Internal Model approach as this better reflects the risk profile of the Company and the risk mitigation actions, in particular the hedging program employed to offset movements in variable annuity reserves being reflective of the guarantee promised to policyholders. The Company’s Internal Model is part of the Allianz Group Internal Model and was approved by the Central Bank as part of the wider Allianz Group approval by their supervisor, BaFin.

Chapter C includes greater detail on the risks to which the Company is exposed while information on how these risks are captured in the Internal Model is covered in section E.2.

B.3.3.3. Internal Model governance

The key purpose of the Internal Model governance structure and processes is to ensure the ongoing appropriateness of the design and operations of the Internal Model and that it continues to reflect the risk profile of the Company.

B.3.3.3.1. AGL Board of Directors

The use of the Internal Model is subject to internal approval by the Board of Directors. The Board applies to the supervisory authorities for regulatory approval of the model and are responsible for approval of all subsequent major model changes, as well as the annual revalidation. The Board also has responsibility for putting in place systems which ensure the on-going appropriateness of the design and operations of the Internal Model.

B.3.3.3.2. Allianz Group Standards

The Company has adopted relevant Allianz Group's standards around control of the Internal Model; in particular the Allianz Standard for Model Governance and Allianz Standard for Model Change.

Allianz Standard for Model Governance ('ASMG')

The ASMG sets the rules and principles for ensuring the appropriateness of the Internal Model:

- all elements of the Internal Model must go through a structured validation and approval process before it may be used
- a validation takes all relevant qualitative and quantitative aspects into account and demonstrates that the Internal Model adequately reflects the risk profile of the business and can be reliably used as input for risk decisions
- controls designed to prevent or detect errors during operative use of the Internal Model must be in place
- documentation of all quantitative and qualitative components of the Internal Model necessary for evidencing model appropriateness shall be maintained

Allianz Standard for Model Change ('ASMC')

The ASMC sets the rules and principles for ensuring the appropriateness of Internal Model changes:

- the Internal Model may need to be changed subsequent to initial validation and approval to ensure that it remains appropriate after events that may require a model change (e.g. changes in the risk profile, business model or operating environment)
- all model changes must go through a structured model change and approval process before they can be implemented
- the depth of the respective model governance (i.e. approval body) depends on the materiality and proportionality of the model component
- the quantitative impact of individual changes, as well as the combined impact of multiple changes, are analysed as an integral part of the model change process

The roles assigned through these standards are outlined in Table 11.

Table 11: Internal Model Governance Responsibilities

	ASMG	ASMC
Board	<ul style="list-style-type: none"> Implementation of ASMG Approval of the application to use the Internal Model Confirmation of the ongoing appropriateness of the Internal Model (at least annually) 	<ul style="list-style-type: none"> Implementation of ASMC Approval of any major local model change as well as the respective application to the Allianz group supervisor (BaFin) for external approval
Management Risk Committee	<ul style="list-style-type: none"> Recommendation for approval of initial application Recommendation for confirmation of ongoing appropriateness 	<ul style="list-style-type: none"> Decision on the classification of model changes based on recommendation of CRO Recommendation for approval of major central and local model changes Approval of minor model changes
CRO	<ul style="list-style-type: none"> Ensuring compliance with ASMG including: <ul style="list-style-type: none"> Ensuring model validation is performed and documented Ensuring that the persons providing expert judgment have adequate skills and experience Ensuring that all relevant documentation is kept complete and up-to-date 	<ul style="list-style-type: none"> Proposal for the classification of model changes Ensuring compliance with ASMC Approval of immaterial model changes (in case of stochastic cash flow model joint approval with Head of Actuarial Function)
Model Change & Reserve Committee	<ul style="list-style-type: none"> Initial approval of the model (component) Deciding on a remediation plan if necessary 	<ul style="list-style-type: none"> Initial approval of any model change Fulfils the role of the Independent Validation Unit
Model Owner	<ul style="list-style-type: none"> Ensuring the existence of adequate documentation Model development Overseeing the implementation of controls Assessing data quality and sign-off of expert judgment 	<ul style="list-style-type: none"> Identification of the need for a model change Implementation or oversight of the implementation of model changes Evaluating the impact of model changes Ensuring independent validation

There has been no material change to AGL's Internal Model governance process during 2017.

B.3.3.3.3. Internal Model validation

The ASMG sets out the rules and principles for ensuring the initial and ongoing appropriateness of the Internal Model. The performance and on-going appropriateness of the Internal Model is monitored through a validation process, which follows this approach:

- assessing whether the results produced by the model are appropriate and the existing documentation is sufficient
- performance of independent validations of the models by external consultants
- assessments as to whether the Allianz Group model components are appropriate taking into account AGL-specific concerns
- global model validation is employed to validate the entire model taking into consideration results across all validation areas and the interrelation between them

Annual validation report

The Internal Model annual validation report documents the results of ongoing validation assessments, provides a list of any recommendations and action plans and sets out the rationale for the assessment of ongoing appropriateness of the overall Internal Model. The report records the sign-off of the Internal Model by the Board of Directors and is a key source of information for regulatory oversight.

B.3.4. Own Risk and Solvency Assessment

In addition to the risk management processes already described, the Company performs a regular, at least annual, assessment of its risks and solvency needs (the 'ORSA').

B.3.4.1. ORSA Process

The ORSA is the collection of interlinked processes implemented by AGL to identify, assess, monitor, manage and report on the short and long-term risks that the Company faces 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 a continuous risk management process carried out throughout the year and is summarised in the ORSA report.

Compilation of the ORSA Report comprises three stages:

- Current state - AGL determines its risk profile at the time of the ORSA. The assessment of current solvency needs determines whether the Company is adequately capitalised based on an identification and assessment of all material risks it is currently exposed to. 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.
- Future state - AGL determines its future solvency needs based on stress and scenario testing. As part of the ORSA, AGL's Risk Capital position and liquidity needs are assessed under both the central scenario, which aligns with the Company's business planning forecasts, and under a range of forward-looking stress tests or stressed scenarios. The impact of each of these is assessed to ascertain its impact on the Company's capital/solvency position and liquidity position. Projections are aligned with AGL's regular planning horizon.
- Reporting - The Board of Directors assess the results of the ORSA process, assesses whether actions should be taken, and adjudicate on the sufficiency of the Company's available capital. The results of the ORSA process are finally approved by the Board, published in the ORSA Report along with the Board's assessments, and provided to the Central Bank.

B.3.4.2. Integration into organisational structure and decision-making process

The ORSA is an integral part of AGL's business strategy and takes the nature, scale and complexity of the risks inherent in the business into consideration. The ORSA process is coordinated by the Company's Risk Management function and incorporates the input from different areas of AGL including the key control functions.

The ORSA draws upon the entire risk management system to determine AGL's capital adequacy and ensure that consideration of risks and capital needs form an integral part of the business decision making processes of the Company. This incorporates the day-to-day execution of the risk management framework, as well as standard and ad-hoc reporting to Board, Board Committees and Management Committees. Decisions related to capital management, investment strategy and risk mitigation are made only after considering ORSA results.

B.3.4.3. Interaction of capital management and risk management system

The ORSA process includes Solvency II balance sheet projections on a number of alternative scenarios to investigate AGL's ability to withstand a variety of possible conditions in the future.

All material risks are translated into a risk capital amount which is compared to the available capital as part of a solvency analysis. The Solvency II Risk Capital Requirement is calculated using AGL's Internal Model.

A key output of the ORSA process is the assessment of the sufficiency of available capital given the risks the Company faces. The Company sets a target level of capitalisation, which incorporates a buffer, in order to ensure that the Company would remain solvent, even after the occurrence of financial stresses or losses. The

ORSA process examines the impact of various stresses and scenarios and the Board use this information together with the targets set out in the Capital Management Policy to adjudicate on the capital adequacy.

B.3.4.4. Board review and approval

The AGL Board of Directors takes an active part in directing the ORSA. This entails not only understanding and approving the outcome of the ORSA, but also steering how the assessment is to be performed, challenging the results, and instructing on management actions to be taken if significant risks materialise. Each ORSA is subject to review by the Board Risk and Finance Committee, before being reviewed and approved by the Board. Once approved by the Board, the ORSA is distributed to the Central Bank and all staff with a key role in the decision-making processes related to business strategy, risk strategy and risk and capital management.

B.4. Internal Control System

AGL's control objectives include:

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

B.4.1. General control elements

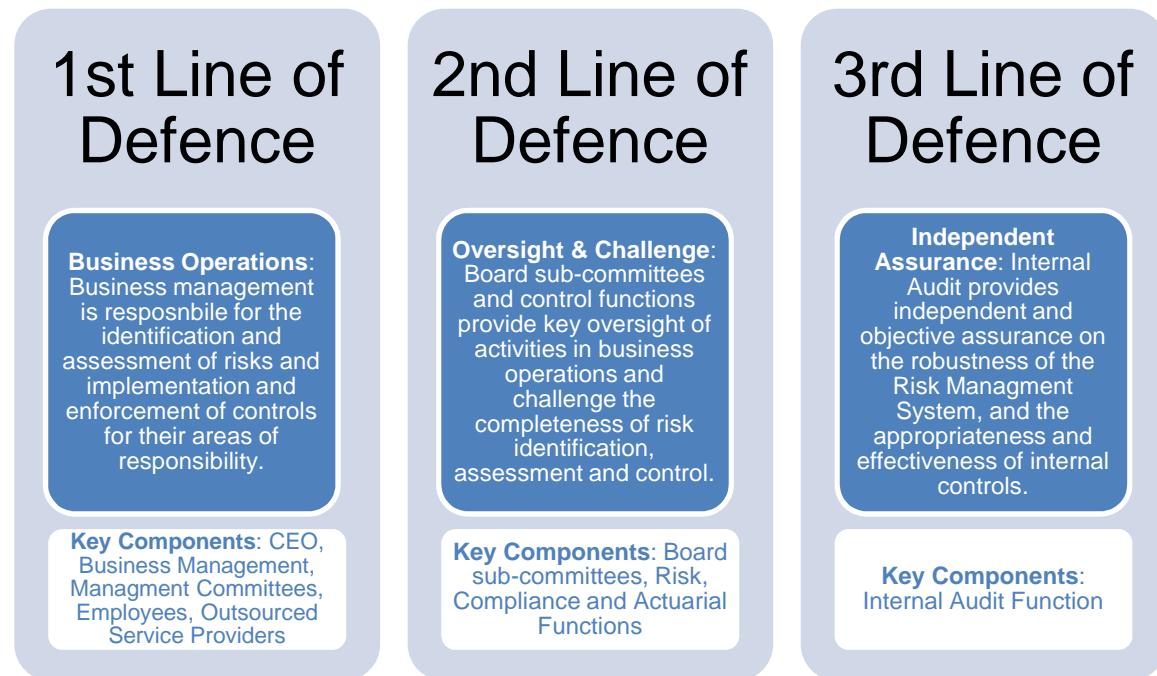
B.4.1.1. Principles

In order to achieve these objectives, AGL has 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 excessive risk taking and potential conflict of interests.
- 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, AGL applies 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.
- Processes are to be well structured and documented and key controls that are appropriately designed and operate effectively, are put in place.

B.4.1.2. 'Three lines of defence'-model

AGL's risk governance framework is based on a three lines of defence model with graduated control responsibilities. The distinction between the different lines of defence is principle based and determined by activities.



B.4.1.3. Policy framework

Steering and controlling the Company is further achieved by a set of internal policy documents. Internal instructions are AGL-specific rule setting documents issued by an authorised owner with the intention to establish binding rules or guidelines for relevant topics.

Each instruction is assigned to the document owner who ensures that:

- The policy is implemented and adhered to;
- The policy is kept up to date;
- The policy is distributed to the relevant audience (including AGL branches and other parties) and made available on the Company's public folder.

AGL instructions are reviewed regularly, but at least annually, to ensure their continuous appropriateness.

B.4.2. Specific control areas

B.4.2.1. Internal Controls over Financial Reporting

In order to identify and mitigate the risk of material errors in the Group's consolidated financial statements and the Group Management Report, Allianz Group has implemented internal controls around its financial reporting ('ICOFR'). AGL implements ICOFR appropriate for its business and operating structure to ensure that risk of material errors in the Company's financial statements are identified and mitigated.

The controls aim to cover all relevant components of financial reporting, in particular:

- processes related to financial reporting
- policies, procedures and controls necessary for reliable financial statements and financial reporting
- maintenance of records with reasonable level of detail that accurately and fairly reflect transactions and dispositions to prepare financial statements and ensure that receipts and expenditures are properly authorised
- assurance regarding prevention or timely detection of unauthorised transactions that could have a material effect on the financial statements
- the necessary management involvement in the ICOFR activities.

B.4.2.2. Controls around IT

Information and Cyber Security Framework for IT security

In order to ensure an appropriate level of preventive, detective and responsive information security and cyber controls, Allianz Group has developed and operates a Group Information Security Framework ('GISF') for IT security. This framework addresses general principles of information and cyber security (e.g. access, use, transfer and storage of information) and outlines most important information and cyber security processes (such as incident handling, governance and key controls). These are outlined in the Allianz Standard for Information Security ('ASIS') and Allianz Information Security Directives ('AISD').

B.4.2.3. Controls around the Solvency Capital Requirement

As part of the ICOFR framework Allianz Group has established controls related to the calculation and reporting of the SCR. These include:

- controls governing the accuracy, completeness and appropriateness of any data used in the calculation of the SCR
- controls designed to reduce the risk of errors within the risk capital computation and reporting processes.

Appropriateness of Internal Model

Controls in place to ensure the initial and ongoing appropriateness of the Internal Model used in determination of the SCR were discussed in Section B3.3.

B.4.2.4. Controls around underwriting and products

AGL operates a control framework around new product development process, sales practices and client on-boarding to ensure that appropriate processes are followed to reduce underwriting risk of the Company. The details of these processes are described in AGL's Standard for Underwriting.

When developing the above documents AGL ensure that principles outlined in the Allianz Group Framework for Underwriting are applied, where relevant.

B.4.2.5. Controls around investments

As part of the overall investment management approach, AGL applies a series of controls around the investment of its own financial assets:

- a) Investments are subject to the general risk management framework of the Company, including the risk strategy and its corresponding risk appetite (e.g. limits). The Board of AGL incorporates the investment boundaries established by the risk appetite and Group parameters into a formal investment strategy that includes a clearly defined Strategic Asset Allocation ('SAA'). Further details are laid down in AGL's Investment Policy.
- b) The investment management is complemented by investment strategy processes designed to ensure that adequate portfolio management and controls around mandating internal and external asset managers exist. Investments into hedge assets are governed by the Company's hedge strategy as laid down in the Company's Standard for Hedging.
- c) A financial control process governs the management and oversight of processes relevant for the planning, monitoring and controlling of investment results and risks. These processes are supported by investment reports for shareholder assets, hedge assets and policyholder funds. New financial instruments will be subject to the standardised process for review and monitoring established at Group level.

B.4.3. Compliance function

The Compliance function is responsible for oversight, detection, prevention and advice with respect to the Compliance Risk areas of the Company. The Compliance function is designed to supplement the responsibility of the Board and of senior management to ensure compliance with legislation and applicable guidelines.

The main objectives of the Compliance function are:

- a) Support and monitor compliance with applicable laws, regulations and administrative provisions to protect the Company against compliance risks. This includes the identification, assessment and mitigation of these risks.
- b) Advise senior management and supervisory bodies on compliance risks, including compliance with laws, regulations and administrative provisions and assess the possible impact of any changes in the legal environment on the Company's operations.

The Compliance Officer has a direct reporting line to the Company's CEO and to the Board Audit Committee. In line with all Allianz Group entities, there is a reporting line to Group Compliance to ensure regulatory oversight from a Group perspective. This does not imply the transfer of responsibility or decision making outside of AGL and the Board of AGL remains responsible for Compliance issues.

B.4.3.1. Compliance general activities and processes

As part of the Internal Control System of the Company, the Compliance function exercises 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 & communication
- Provide advice on compliance matters
- Establish and maintain compliance principles and procedures
- Investigations and employee reporting
- Interaction with regulatory authorities
- Compliance monitoring and reporting

B.4.3.2. Compliance risk assessment

On a regular basis, the Compliance function identifies, documents and assesses the compliance risk associated with AGL's business activities. This helps to ensure that the overall compliance framework reflects the risk exposure.

The Compliance function and the Risk Management function cooperate closely to manage these risks. Compliance contributes to data collection and risk assessments performed by Risk Management. Each Compliance risk assessment is aligned with the Risk function in terms of methodology, timing and procedure.

B.5. Internal Audit Function

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 framework.
- 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 judgement and a summary of the most important results, including an overall assessment for each audit performed.
- Performs follow-up monitoring to ensure the deficiencies are resolved.

B.5.2. Maintenance of independence of the Internal Audit function

Internal Audit's standing within AGL's organisational structure ensures that independence is maintained at all times. Maintaining independence means that no undue influence is exercised over the Internal Audit function, for instance in terms of reporting, objectives, target setting, 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 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 Company's CEO and also has a reporting line to the Chairman of the Audit Committee. The Head of Internal Audit must regularly have direct interaction with the CEO and the Chair of the Audit Committee. 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 Group, 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 must be 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. **Actuarial Function**

The Head of Actuarial Function ('HoAF') heads the Actuarial Function within the company, directly reporting to the CFO and with a direct reporting line to Board of Directors. A functional reporting line also exists to the Group Chief Actuary (Group Actuarial Function Holder).

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

Key responsibilities of the Actuarial Function include, but are not limited to, the following:

- 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 Actuarial Function and in particular the HoAF has additional responsibilities under the Central Bank's Domestic Actuarial Regime, including submitting a written report to the Board on at least an annual basis documenting all tasks undertaken by the Actuarial Function over the reporting period and their results, identifying any deficiencies and including recommendations as to how they should be remedied.

The Actuarial Function cooperates closely with the Risk Function by:

- Expressing opinions on key aspects of the business and its operation as outlined above
- Contributing to methodologies, models and assumptions used for the assessment of risk
- Monitoring the operation of the hedging program and explaining the movements and results therefrom

- Contributing to the overall risk management process

The HoAF supports the risk management framework through being a member of the following committees:

- Product Approval & Oversight Committee
- Model Change and Reserve Committee
- Management Risk Committee
- Hedge Committee

B.7. Outsourcing

B.7.1. Outsourcing Policy

AGL has put a formal Outsourcing Policy in place, as approved by the Board, which in line with all of AGL's other policies is subject to review on at least an annual basis.

In summary, AGL's Outsourcing Policy sets out:

- The roles and responsibilities of all key stakeholders involved in the outsourcing of functions and activities.
- Processes and procedures for the completion of due diligence to be carried out prior to electing to place business with a particular outsourced service provider.
- The processes and procedures for obtaining appropriate approval for new or amended outsourcing relationships.
- The processes and procedures for the ongoing monitoring of the activities and performance of outsourced service providers.
- 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 AGL, the Allianz Group and externally to the Central Bank.

AGL currently outsources a number of key services to third parties, both within and outside of the Allianz Group, which are subject to the Outsourcing Policy. All important and critical outsourcing relationships require to be approved by the Board prior to being implemented.

B.7.2. Outsourcing of critical or important operational functions

Table 12: Outsourcing details

Provider	Description of the outsourced Function or Service	Provider's Jurisdiction
Allianz Bank Financial Advisors S.p.A	Distribution of Company's variable annuity and unit-linked products in Italy.	Italy
Allianz Deutschland AG	Investment accounting and IT services	Germany
Allianz Global Investors GmbH	Fund management services	Germany
Allianz I A R D S.A.	Tax compliance services	France
Allianz Investment Management SE	Cash management and settlement services	Germany
Allianz Investment Management LLC	Hedging and related reporting services	USA
Allianz Lebensversicherungs-AG	Policy and branch administration for the Company's German branch	Germany
Allianz Life Insurance Japan	Provisioning of reinsurance services to Allianz Life Insurance Japan.	Japan
Allianz plc	Hr and Internal Audit services	Ireland
Allianz SE	Cash pooling, D&O and cyber insurance services, market management services, Solvency II model and related reporting services, digital and compliance project support services.	Germany
Allianz SE Reinsurance LH	Reinsurance services	Germany
AZ S.p.A. and its tied agents	Policy and branch administration for the Company's Italian branch and, with regards to tied agents, distribution of Company's variable annuity and unit-linked products in Italy.	Italy
Allianz Taiwan Life Insurance	Provisioning of reinsurance services for Allianz Taiwan Life Insurance	Taiwan
Allianz Technology SE	IT and actuarial support services	Germany
Allianz Vie S.A.	Distribution of variable annuity products and the policy and branch administration for the Company's French branch.	France
AWP Health & Life Services Ltd	Policy administration services in respect of the Company's group life business	Ireland
Darta Saving Life Assurance dac	Office space, compliance and other infrastructural	Ireland
Company Secretary - Francis O'Hara	Company Secretarial services	Ireland
IDS GmbH	Investment data and reporting services	Germany
Investitori SGR S.p.A	Fund management services	Italy
Irish Progressive Services		
International Limited	Policy administration services	Ireland
Metafinanz Informationssysteme GmbH	IT security services	Germany
PIMCO Europe Ltd.	Investment management services in relation to the Company's shareholder and non-linked assets.	Germany

B.8. Assessment of the Adequacy of the System of Governance

The System of Governance put in place by AGL, as outlined above, is reviewed on annual basis and is considered to be adequate given the nature, scale and complexity of the risk inherent in the Company's business.

B.8.1. Other material information

All material information has been provided in the previous sections.

C. Risk Profile

C.O. Introduction

The implementation of the risk management system and its integration into the Company processes has been outlined earlier in section B.3.

The purpose of this section is to discuss the key risks to which the Company is exposed, explain the risk mitigation and monitoring measures that are in place, and demonstrate that the Internal Model captures the sensitivities to these risks in deriving the standalone SCRs.

As outlined in chapter A, the primary business of the Company consists of variable annuity products sold directly into Europe and reinsurance of variable annuities sold by Allianz Japan and Allianz Taiwan. These products offer one or more financial guarantees in the form of guaranteed income for life (guaranteed minimum withdrawal benefit), guaranteed minimum fund performance (guaranteed minimum accumulation benefit) and guaranteed pay-outs on death (guaranteed minimum death benefits). In providing these guarantees the Company incurs significant risks, whereby the ultimate pay-out to policyholders may be greater than the funds available in the underlying policy investments, resulting in lower profits or indeed losses to the Company.

The Company's unit-linked products do not include market related guarantees and thus the exposure of the Company to market movements is significantly lower on these products. The future profits from these products are however dependent on the performance of the policyholder funds, expenses incurred, how long the policyholder keeps the policy and the level of claims incurred under protection riders.

The key risk under the Company's protection products is the level of protection claims incurred and to a lesser extent the level of expenses incurred and how long the policyholder keeps the policy.

The Company also incurs risks through the general conduct of insurance operations, including liquidity, operational and credit risk.

As outlined in section B.3.3.2 the Company uses an approved Internal Model to calculate its SCR. The SCR is set at a level to ensure that the Company can meet obligations to policyholders and beneficiaries over the following 12 months with a 99.5% probability, which limits the chance of falling into financial ruin to less than once in 200 years. The formula takes a modular approach, meaning that individual exposure to an extreme loss from each risk category and sub-category is assessed and then aggregated together. The final SCR is less than the sum of the individual risk capital requirements because it is not expected that all such extreme losses will occur simultaneously within the next 12 months, this reduction is referred to as diversification benefit.

The following table shows a breakdown of the SCR by individual risk categories and their sub-categories. These are explained further in this chapter. The standalone risk SCRs are shown before allowing for the diversification benefit, with this reduction applying after the individual SCRs are aggregated.

Table 13: AGL Internal Model SCR at 31 December 2017 by risk category (€m)

Risk Category	Sub-category	Standalone	Intra-category diversification	Total
Underwriting risk	Longevity	48.0		
	Mortality & Morbidity	2.5		
	Total	50.5	(3.0)	47.5
Business risk	Surrender	60.7		
	Expense	36.4		
	Total	97.1	(20.7)	76.4
Market risk	Guarantees and future profits	81.1		
	Shareholder assets	6.0		
	Total	87.1	(5.7)	81.4
Credit risk	Derivatives	6.8		
	Cash & receivables	2.3		
	Bonds & loans	0.5		
	Total	9.7	(1.1)	8.6
Operational risk	Execution delivery & process mgmt.	16.6		
	Clients products & business practices	4.3		
	Fraud	3.3		
	Business Disruption and System Failures	2.5		
	Total	26.8	(6.6)	20.1
Sum of risk categories				234.0
Diversification between risk categories				(102.7)
Cross-effects capital buffer				6.6
Total diversified SCR before tax				138.0
Loss-absorbing capacity of deferred taxes				(35.4)
Total diversified SCR after tax				102.6

The following sections give more details on the risk exposures, including how these give rise to the above capital requirements.

C.1. Underwriting Risk

C.1.1. Exposure

The Company's main underwriting risk is increasing life expectancy (longevity), whereby if policyholders receiving guaranteed lifetime incomes live longer than expected the Company would suffer financial loss.

AGL also has marginal exposure to mortality and morbidity risk in relation to its protection products. Mortality and morbidity refer to the risk of greater numbers of policyholders dying or becoming ill than expected respectively.

There has been an increase in AGL's underwriting risk exposure during 2017 due to sales of new business during the year.

C.1.2. Assessment and mitigation

Exposures to underwriting risks are monitored via reviews of actuarial assumptions against actual experience on a regular basis. Industry standard tables are used in pricing and, where relevant, reinsurer rates are also used.

There has been no material change in how AGL assesses underwriting risk exposure during 2017.

The strategy for managing longevity exposures includes:

- regular review of pricing assumptions;
- diversification of the product range towards shorter term variable annuity business with no longevity risk and non-guaranteed investment type products; and
- offering offsetting mortality and morbidity protection risks.

Diversifying the portfolio in this way, means that if in general policyholders live longer, losses that would occur on longevity business would be somewhat offset by increased profits from protection business and a longer duration of profits from investment products without protection benefits.

During 2017, the Company further expanded its product range in a consistent manner with the desire to mitigate its longevity risks, meanwhile, sales of the existing non-guaranteed investment business and protection products also increased.

The strategy for managing mortality/morbidity exposures includes:

- reinsurance arrangements to limit mortality and morbidity exposures to individual policyholders and to concentrations of policyholders where Groups are insured; and
- obtaining reinsurer advice on underwriting and pricing due to their larger pool of past experience.

C.1.3. Sensitivity

AGL's sensitivity to underwriting risk is captured in the results of the Internal Model, see section E.4. The Company's standalone underwriting risk SCR indicates the loss that would occur in the event of an extreme shock (1 in 200 year event²) to the relevant risk, increasing longevity (€48.0m) and increasing mortality and morbidity (€2.5m). However, as discussed earlier, longevity and mortality/morbidity are offsetting risks and not likely to occur at the same time.

C.2. Business Risk

C.2.1. Exposure

The Company's main business risks are surrender and expense risk.

The surrender risk from the variable annuity book is material for the Company. Surrender risk refers to the risk that more policyholders than planned exercise their surrender option when future cash-flows are expected to be positive for the Company or that fewer policyholders exercise the option when future cash-flows are

² See section B.3.3.2

expected to be negative for the Company. Misestimating the surrender assumption is particularly crucial when considered in conjunction with the hedging program. The hedging program is based on the current surrender assumptions and will not cover any increase in expected pay-outs due to a deviation from these assumptions.

The Company is also exposed to expense risks if expenses incurred are greater than expected. This can arise due to an increase in expense levels or due to an increase in expense inflation.

There has been an increase in AGL's business risk exposure during 2017 primarily due to increased sales volumes alongside an increase in provisions for future expenses during 2017 (see Section D.2. for further details).

C.2.2. Assessment and mitigation

Exposures to surrender and expense risks are monitored via reviews of assumptions against actual surrender rates and expenses on a regular basis. Expense and surrender experience studies form an important component of this exercise.

There has been no material change in how AGL assesses business risk exposure during 2017.

The key aim is that assumptions used in pricing and reserving are close to the ultimate experience for both surrender and expense risks, so that the Company can pay out benefits and also realise profits as expected.

The surrender assumptions used in the Company's models are 'dynamic' in that they vary to reflect the perceived value of the benefits to the policyholder, for example depending on market performance and the wider economic environment.

The risk of a material increase in internal expenses is not perceived to be significant given the Company's increasing assets under management. The Company currently operates within an optimal staffing structure, leases premises and operates within an IT infrastructure provided by Allianz Group. A number of services (e.g. hedging operations, Compliance function) are outsourced to other Allianz entities with appropriate cancellation clauses. The Company performs a full expense-budget annually and monitors the cost development regularly.

Results of experience studies are continuously fed back into the management and design process, for example assumptions used in pricing products and hedging guarantees are regularly reviewed and updated as required.

C.2.3. Sensitivity

AGL's sensitivity to a change in surrender rates and expenses is captured in the results of the Internal Model (see section E.4). The Company's standalone business risk SCR indicates the loss that would occur in the event of an extreme shock (1 in 200 year event³) to the relevant risk, increasing expenses (€36.4m) and surrenders differing from expected (€60.7m).

Surrender risk is a significant exposure at €60.7 million, the key exposure being fewer surrenders than expected combined with poor market performance resulting in the Company paying out significantly higher guaranteed pay-outs than expected. Expense risk of €36.4 million reflects the loss that would occur if the future expenses of the Company were to increase significantly.

C.3. Market Risk

C.3.1. Exposure

The primary source of AGL's market risk is in relation to contractual obligations to policyholders and profits expected to be generated from future fee income. The value of guarantees written and future profits expected from the Company's products can change significantly in different market environments.

Shareholder assets, primarily invested in bonds, are also exposed to market movements, specifically changes in interest rates and credit spreads. An increase in interest rates or credit spreads would result in a decrease in the value of these bonds.

There has been an increase in AGL's market risk exposure during 2017 due to sales of new business during the year.

³ See section B.3.3.2

C.3.2. Assessment and mitigation

The key risk mitigation employed in relation to guarantee related market risk exposures is a daily dynamic hedging program. In the paragraphs that follow, the key exposures and the operation of the hedging program are further discussed.

The hedging program mitigates risks from financial guarantees by hedging market movements which influence the value of those guarantees. Examples of market factors which can influence the value of guarantees include equity (shares), bond, and general interest rates levels. In general, a fall in any of the aforementioned increases the value of guarantee pay-outs the Company can expect to make. The effects of currency exchange rates are also managed depending on the directional exposure. The hedging program invests in financial derivatives which increase in value to offset increases in expected guaranteed pay-outs and vice-versa, thus protecting Company profits.

Hedging is unlikely to perfectly offset market movements. This is due to the complexity of the liability, its non-linear behaviour and the need to balance the cost of the approach taken and the ultimate benefits derived. Taking all factors into account, the Company has chosen to hedge key market factors covering the majority of its exposures and to monitor any residual unhedged risks on a regular basis. The hedging is updated on a daily basis to reflect changes in markets and also changes in the Company's inforce business, for example, due to new business sold.

AGL's Hedge Committee and Management Risk Committee each monitor the performance of the hedging program on a quarterly basis, and a separate Hedge Working Group which meets more regularly (and at least monthly) is used as a forum to discuss ongoing hedge performance. Daily results are provided to AGL from the hedge program and these are monitored by the Profitability Manager, CFO and CRO. AGL aim to maintain cumulative hedged profit/loss over a calendar year within predefined limits.

As well as managing the market risk exposures of business which has already been written, the Company also actively reprices its new product offerings in order to keep pace with the latest market environment, offer value to customers and protect the future financial position of the Company.

Shareholder assets are invested within limits in terms of market exposures. These limits are monitored on an ongoing basis.

There has been no material change in how AGL assesses market risk exposure during 2017.

C.3.3. Sensitivity

The Internal Model captures the market risk exposures of the Company including the risk mitigation effect of the hedging program, see section E.4.

The Company's standalone market risk SCR indicates the loss that would occur in the event of an extreme shock (1 in 200 year event⁴) to the relevant risk, in relation to guarantees and future profits (€81.1m) and in relation to shareholder investments (€6.0m).

C.3.4. Application of the Prudent Person Principle

AGL applies the Prudent Person Principle to its entire investment portfolio. In line with this principle:

- All assets are invested to ensure the quality, security, liquidity, profitability and availability of the entire investment portfolio. This includes structuring the portfolio such that it is appropriate to the nature and duration of insurance liabilities covered by these assets.
- Assets are admissible only if the Company can properly identify, measure, monitor, manage, control, report and appropriately integrate their risks as part of the ORSA.
- Fund managers are subject to rigorous due diligence procedures prior to placing business with them and continuous oversight throughout the lifetime of the business.

⁴ See section B.3.3.2

- Investment managers of policyholder funds and shareholder assets are provided with clear investment mandates and guidelines setting limits on volatility, geographical exposure and risk concentrations.

Specifically with regard to the Company's use of derivatives in the hedging program, the following principles apply:

- Derivative holdings must reduce the Company's risk exposure or facilitate efficient portfolio management.
- Derivative holdings must not create additional risks beyond those assessed previously.
- The Company must not hold derivatives for speculative purposes.
- The Company must document the rationale for holding derivatives and demonstrate the effective risk transfer obtained.

C.4. Credit Risk

C.4.1. Exposure

The key areas where the Company may be exposed to credit risk are in respect of:

- Amounts due from bond issuers on bonds held in the shareholder assets
- Collateral balances and margin accounts from derivative positions held as part of the hedging program
- Cash balances and deposits held with credit institutions
- Receivables due from debtors
- Policyholder financial assets
- Amounts due from reinsurers
- Italian Withholding Tax ('IWT'), as outlined in section D.1.9.1

Substantially all of the assets of the Company are held by counterparties. Bankruptcy or insolvency of these counterparties may cause the Company's rights with respect to the investments held by these counterparties to be delayed or limited.

There has been a decrease in AGL's credit risk exposure during 2017 due to a change in the underlying assets held as part of the hedging programme.

C.4.2. Assessment and mitigation

There has been no material change in how AGL assesses credit risk exposure during 2017.

The Company operates a credit risk monitoring system covering the credit quality of each counterparty. Exposure limits and minimum credit ratings for counterparties are defined. Breach alerts are triggered in the event of deviation from the desired exposure levels.

The key aim of this monitoring system is to control individual counterparty exposures to mitigate the risk of individual credit events. This also ensures diversification across the portfolio (in terms of industrial sectors, geographic, asset classes and credit quality) in order to mitigate concentration risks.

Bond issuer risk is reduced by investing in bonds of high rating or that are backed by an EU government. Where corporate bonds are held, these are limited to a specified exposure and are restricted to those of short term duration.

Credit risk associated with collateral balances arises from derivative positions with investment banks for directly traded (i.e. over-the-counter) instruments. The credit risk exposure is effectively reduced by trading relationships with several investment banks, daily collateral management and the use of central clearing in accordance with the requirements of European Market Infrastructure Regulation ('EMIR').

Amounts receivable from debtors are analysed for overdue balances on a quarterly basis and investigated where required. Payment may be sought directly from debtors if late settlement is identified as part of the credit control process.

With regards to policyholder financial assets, the Company has an exposure to credit risks related to the underlying investments through the guarantees written. This is managed through the hedging program as described under the market risk section. The exposure to reduced profits on future fee income from credit risks is not material to the Company.

There are no material credit risk concentrations to which the Company is exposed.

C.4.3. Sensitivity

The Internal Model captures the credit risk exposures of the Company including the risk mitigation effect of the central clearing and collateralisation arrangements, see section E.4.

The Company's standalone credit risk SCR indicates the loss that would occur in the event of an extreme shock (1 in 200 year event⁵) to the credit quality of the counterparties on derivative positions (€6.8m), cash (€2.3m) and loans (€0.5m).

C.4.4. Application of the Prudent Person Principle

In line with the Prudent Person Principle, the Company has implemented an investment policy which sets limits over the extent of credit exposure and criteria on exposures by type of issuer to keep a sustainable concentration of risks and also mitigate credit risk. AGL has also set limits on the maximum amount of cash balances that can be deposited with individual financial institutions. As an overarching principle, the Company can only place investments, including cash balances, with counterparties approved by Allianz Group. All holdings are subject to Group defined limits.

AGL may only enter into reinsurance contracts with counterparties approved by Allianz Group. Allianz Group companies have two primary criteria in selecting reinsurers. These are security and strategic partnership. The selection of reinsurance counterparties is strictly controlled by the Allianz Group. Reinsurers that meet the Allianz Group selection criteria and with which the Allianz Group has expressed an interest in doing business are contained in the Mandatory Security List ('MSL'). AGL only uses reinsurers which are on the MSL.

C.5. Operational Risk

C.5.1. Exposure

The Company's largest operational risk exposures are related to the operation of the hedging program. Losses can arise due to operational failures within the implementation of the daily hedging or as a result of operational failures in the provision of data to the hedging program from policyholder databases, fund managers or market sources. The magnitude of profits or losses can depend on the nature of the issue, how long it lasts and how markets move during the exposure period.

In addition to the hedging program, the Company is exposed to a range of other operational risks, the most prominent of which are incorrect financial reporting, improper business practice, product design failures, mis-selling and fraud.

In order to gain efficiency and to access expertise that would otherwise not be available to the Company, several activities within the business processes of the Company are outsourced, mostly to other entities of the Allianz Group. AGL has exposure to operational risk within these entities and remains ultimately responsible for the proper execution of the outsourced services.

There has been no material change in AGL's operational risk exposure during 2017.

C.5.2. Assessment and mitigation

The Company's operational risk framework requires all teams across the business to carry out an assessment which would highlight any material operational risks that need to be considered when assessing the risk profile of the business.

⁵ See section B.3.3.2

As detailed in section B.4, the Company has in place an Internal Control System across all departments. This framework requires all teams to have in place a set of controls to manage the risks to which they are exposed.

Operational risks are identified, assessed and monitored using centralised Allianz Group risk governance and control systems. Key Risk Indicators for the most significant operational risks are monitored at management level as part of the ongoing risk reporting process. Where any material risk exposure is deemed to exceed the Company's tolerance level, an action plan is prepared, detailing the mitigation steps to be taken.

In order to reduce the operational risks, outsourcing arrangements are governed by Service Level Agreements which are regularly monitored. The Board approved Outsourcing Policy governs the management of outsourced activities.

C.5.3. Sensitivity

The Internal Model uses the Allianz Group developed operational risk model with local calibration to capture the operational risk exposures and controls discussed above, see section E.4. Operational risk capital is determined with reference to actual exposures.

Due to the absence of a representative and long loss history, the identification and parameterisation of operational risk significantly depends on input from experienced staff members in all relevant business areas.

As the output of operational risk reporting is largely qualitative, sensitivity testing has not been carried out. However the operational risk capital process calculates the 1-in-200 operational risk capital amount and includes a full spectrum of plausible operational risk scenarios to produce the SCR.

The standalone operational risk SCR at 31 December 2017 is €26.8 million before allowance for diversification. This is calculated using a set of risk categories as they are defined in the Basel II regulations.

The key exposure is to 'Execution Delivery and Process Management' under which operational risks in relation to the hedging program are captured (€16.6m). Further detail of the exposures can be seen in Table 13 above.

C.6. Liquidity Risk

C.6.1. Exposure

In managing the Company's assets and liabilities, the Company seeks to ensure that cash is at all times available to settle liabilities as they fall due. Available funds are, as per the Company's current investment policy, only invested in short/medium Euro-denominated government, covered, corporate and asset-backed bonds. The Company's treasury position is reviewed on a regular basis and cash balances are maintained to meet due liabilities. The Company can avail of a line of credit arranged by Allianz Group for short term liquidity requirements that arise from timing factors.

For investment contract redemptions, cash paid out is mainly funded by the redemption of the linked assets supporting the contract liability.

The Company's main liquidity risk exposure is to the daily collateral in and outflows caused by changes in the value of the instruments used in the Company's hedging program. Due to market changes (movements in interest rates, bonds, equities and currency exchange rates), the Company may be required to make collateral payments to its counterparties. Although these changes should be offset by a corresponding fall in the value of guarantee pay-outs and thus not change the Company's solvency position, the collateral payments are required immediately while the guarantee pay-outs will be experienced at some future date. Market movements in the opposite direction will improve the Company's liquidity position for similar reasons.

Due to positive stock performance and rising yields leading to significant collateral out-flows, the Company's liquid assets have reduced materially over the year from €367.2m to €239.9m, giving risk to an increase in liquidity risk exposure. Despite the increase in exposure, the sensitivities below show that there is still a substantial liquid capital buffer.

C.6.2. Assessment and mitigation

The liquidity position of AGL is monitored on an ongoing basis. There is a liquidity risk management policy in place with Board-approved risk-based thresholds.

On a weekly basis, the Company's Accounting and Financial Reporting Function monitors available liquidity within defined thresholds.

On a quarterly basis, the Accounting and Financial Reporting function analyses the available liquidity in further detail. The results of the analysis are presented to the Management Risk Committee and Board Risk and Finance Committee.

This analysis includes sensitivity testing on the liquidity position that are consistent with those used to set the liquidity thresholds. The impacts of the shocks are based on the change in the guarantee reserves, allowing for projected net cash-flows over the next twelve months and haircuts on fixed-income holdings upon liquidation.

C.6.3. Sensitivity

The Company does not hold solvency risk capital for liquidity risk, as a capital requirement to cover liquidity risk is unlikely to be effective.

The Company had liquid assets of €239.9 million available to cover liquidity requirements at 31 December 2017. Collateral flows due to market movements can materially change this amount. The impact on the liquidity position of a set of market stresses is as follows:

- A 100bps upward movement in interest rates would result in a decrease in liquid assets of €113.6 million, i.e. a decrease in liquid assets from €239.9million to €126.3 million.
- A 30% upward movement in equity prices would result in a decrease in liquid assets of €81.5 million, i.e. a decrease in liquid assets from €239.3 million to €157.8 million.

While the effective impact on the liquidity position is driven by a combination of market factors, the above scenarios demonstrate the resilience of the Company's liquidity position.

C.6.4. 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 used by the Company are approved counterparties as prescribed by the Allianz Group.

C.6.5. Further information

The expected profit included in future premiums (EPIFP) is the expected present value of cash flows arising due to future premiums included in the technical provisions. The total amount of EPIFP at 31 December 2017 was €0.9m.

C.7. Any Other Information

The "cross effects capital buffer" is capital held to reflect the additional impact of multiple risks occurring simultaneously as opposed to individually. The combined impact of risks occurring together can be greater than the sum of the individual impacts depending on the nature of the risks. The market risk model captures the cross-effects between different market risk components (e.g. interest and equity). Other cross-effects such as longevity versus market risk or lapse risk versus market risk are allowed for in the "cross effects capital buffer".

All material information regarding AGL's risk profile has been set out above.

D. Valuation for Solvency Purposes

AGL prepares its financial statements in accordance with IFRS. 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.

Reconciliation of differences between IFRS and Solvency II

The table below shows the impact of these differences on the Company's balance sheet.

Table 14: Comparison of balance sheets as at 31 December 2017 (€m)

	Solvency II	IFRS**	Deviation
Total assets	4,588.2	4,628.0	(39.8)
Total liabilities, including technical provisions	4,368.9	4,492.7	(123.8)
Own Funds / Net asset value*	219.3	135.3	84.0

* Net asset value is excess of assets over liabilities under IFRS as shown in the Company's financial statements.

** IFRS data has been reclassified to align with the Solvency II balance sheet presentation, highlighting differences in valuation only. This presentation is different to that under QRT S.02.01.02, however, the excess of assets over liabilities under IFRS in both presentations agree.

D.1. Assets

Asset categories are based on the nature and function of assets and their materiality for Solvency purposes. Below are the assets under Solvency II and IFRS.

Table 15: Solvency II-IFRS differences at 31 December 2017 (€m)

	Solvency II	IFRS	Deviation
Deferred acquisition costs	0.0	35.8	(35.8)
Deferred tax assets	0.0	2.9	(2.9)
Investments (other than assets held for unit-linked funds)	327.6	327.6	0.0
Government bonds	50.2	50.2	0.0
Corporate bonds	53.7	53.7	0.0
Derivative assets	223.7	223.7	0.0
Assets held for unit-linked funds	3,910.3	3,910.3	0.0
Loans and mortgages	156.4	156.4	0.0
Reinsurance recoverables	8.5	8.2	0.2
Insurance and intermediaries receivables	45.7	45.7	0.0
Cash and cash equivalents	11.9	11.9	0.0
Reinsurance receivables	0.0	0.0	0.0
Receivables (trade, not insurance)	125.7	127.0	(1.3)
Any other assets, not elsewhere shown	2.1	2.1	0.0
Total Assets	4,588.2	4,628.0	(39.8)

D.1.1. Recognition and measurement basis

AGL's assets are valued in line with the following overarching valuation principles:

- assets shall be valued at their market value;
- assets and liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

The following paragraphs describe the specific valuation principles and methods used by AGL for Solvency II purposes and how these compare with the corresponding IFRS approach.

D.1.2. Deferred acquisition costs

Under IFRS deferred acquisition costs on investment contracts include sales commissions.

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 to which they relate. Such costs are amortised through the Income Statement in the IFRS financial statements over the period in which the revenues on the related contracts are expected to be earned. The rate of amortisation is based on an assessment of the expected pattern of receipt of future revenue margins, taking account of persistency, from the related contracts.

Under Solvency II deferred acquisition costs are not recognised as an asset on the balance sheet, as they are modelled as part of the Best Estimate Liability.

D.1.3. Deferred tax assets

The deferred tax asset is the amount of tax recoverable in future periods in respect of deductible temporary differences or the carried forward unused tax loss or tax credit. Except where otherwise required by accounting standards, full provision without discounting is made for all temporary differences which have arisen but not reversed at the balance sheet date. Deferred tax balances are provided at rates of taxation expected to prevail at the time of reversal. A deferred tax asset is recognised where it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Projected future taxable profits are assessed over a three year period in line with the approved business plan.

Under Solvency II the deferred tax asset is offset against the deferred tax liability.

D.1.4. Investments (other than assets held for index-linked and unit-linked funds)

The Company holds other financial assets that are not attributable to unit-linked contracts as backing for its general solvency requirements and to maintain an effective working capital level whilst complying with company law and regulations. These investments are valued the same under both the Solvency II and the IFRS balance sheet. An investment policy is adopted with regard to these assets and this is set out in policy statements which have been approved by the Board and are monitored by the Risk and Finance Committee.

In AGL, the financial assets held under this category of investments at 31 December 2017 are bonds and derivative assets.

For instruments in active markets with a quoted market price, the fair values of the financial instruments are based on quoted market prices or dealer prices quotations on the last exchange trading day prior to and at the reporting date. The quoted market price used for a financial asset held by the Company is the close price. Where there is no active market, fair value is determined by using valuation techniques. The valuation techniques are based on market observable inputs when available. Such market inputs include references to formerly quoted prices for identical instruments from an active market, quoted prices for identical instruments from an inactive market, quoted prices for similar instruments from active markets and quoted prices for similar instruments from inactive markets. Market observable inputs also include interest rate yield curves, option volatilities and foreign currency exchange rate. Where observable market inputs are not available, fair value is based on appropriate valuation techniques using non-market observable inputs. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which observable market prices exist and other valuation models. In the process, appropriate adjustments are made for credit risks. In particular when observable market inputs are not available, the use of estimates and assumptions may have a high impact on the valuation outcome. The fair value of collective investment schemes is based on the quoted price, where available, and where unquoted the fair value is estimated prudently and in good faith by the Directors on the advice of investment advisors.

Bonds

Bonds held include government and corporate bonds. Government bonds are bonds issued by public authorities, e.g. central governments, supranational government institutions, regional governments or municipal governments. Corporate bonds are bonds issued by corporations e.g. covered bonds and asset-backed securities. 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.

Derivatives

As detailed in section C.3, AGL runs a hedging program that invests in financial derivatives to mitigate the Company's market risk exposures. The Company employs equity index, bond and FX futures, interest rate swaps, total return swaps and foreign exchange forwards to manage the risk factors identified.

Derivatives are measured at market value under IFRS.

D.1.5. Assets held for unit-linked funds

Under IFRS, financial assets held to back unit-linked liabilities are designated upon initial recognition as at fair value through profit or loss and are measured at fair value. The basis of this designation is that the financial assets and liabilities are managed and evaluated together on a fair value basis. Under Solvency II, the valuation is the same as IFRS.

Fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Company determines fair values using valuation techniques.

Assumptions and 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
- expected price volatilities and correlations.

The objective of valuation techniques 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.

Observable prices and model inputs are usually available in the market for listed Equity and Fixed income securities, Collective Investment Schemes ('CIS') and exchange traded derivatives. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values.

D.1.6. Loans and mortgages

Loans and receivables includes collateral deposits with derivative counterparties and cash deposits held in a cashpool facility established by the parent company, Allianz SE. These are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market and which are not classified as available-for-sale investments or held-to-maturity investments, financial assets held for trading, or financial assets designated at fair value through profit or loss. This amount is initially recognised at fair value.

As both bases are valued exclusive of accrued interest due to daily settlements, there are no valuation differences between IFRS and Solvency II.

D.1.7. Reinsurance recoverables

Reinsurance recoverables valued at €8.5m exist in relation to mortality and morbidity benefits on some products. Different valuation methodology between IFRS and Solvency II is the key driver of the €0.24m difference shown above.

D.1.8. Insurance and intermediaries receivables

Amounts due to and from policyholders, agents and others in respect of insurance and investment contracts are included in insurance and intermediaries receivable and payable. Receivables from insurance and intermediaries are generally measured at their nominal amount with an adjustment for probability of default of counterparty.

D.1.9. Receivables (trade, not insurance)

D.1.9.1. Italian tax asset

Included in the Receivables (trade, not insurance) is the Italian tax asset of €13.2m. Payments to the Italian authorities as a result of the Company being a withholding tax agent are recognised as assets. The asset arising from the advance payment of Italian policyholder tax obligations is expected to be recoverable either by deduction from tax withheld on behalf of policyholders or by offset against taxes payable to Italian revenue or by surrender to group companies. This asset is carried at its full future recoverable value under IFRS but under Solvency II the asset is discounted.

D.1.10. Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and deposits with a maturity of less than 90 days. These assets are measured at amortised cost. Net bank overdrafts are included as a component of cash and cash equivalents. There are no differences in the valuation under Solvency II.

D.1.11. Reconciliation to financial reporting

Section D.1 above sets out the differences between valuation for financial reporting (IFRS) and valuation for Solvency II purposes of all assets held.

D.1.11.1. Explanation of material differences

The material differences in asset classes are explained under sections D.1.2, D.1.3 and D.1.9.1 for deferred acquisition costs, deferred tax assets and Italian tax asset respectively.

The following sections have no material differences noted:

- Investments (other than assets held for unit-linked funds)
- Assets held for unit-linked funds
- Insurance and Intermediaries receivables
- Cash and cash equivalents

D.1.12. Any other assets, not elsewhere shown

There are no other material assets noted.

D.2. Technical Provisions

D.2.1. Technical Provisions at 31 December 2017

The value of the Solvency II Technical Provisions is the sum of Best Estimate Liability ('BEL') plus a Risk Margin. At 31 December 2017 the Technical Provisions were:

Table 16: Solvency II Technical Provisions at 31 December 2017 (€m)

Technical Provisions	
Best Estimate Liability	3,902.6
Risk Margin	70.1
Total	3,972.7

The Technical Provision calculations were performed in accordance with Article 75 to 86 of the Solvency II Directive.

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 and credible information and realistic assumptions. It is calculated gross, without deduction of amounts recoverable from reinsurance contracts and special purpose vehicles.

The Risk Margin is an addition to the BEL to ensure that the Technical Provisions as a whole are equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations. The Risk Margin is calculated as the amount of shareholder funds needed to support a

100% Solvency Capital Ratio over the lifetime of the business at a prescribed cost of capital rate of 6% per annum.

D.2.2. 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:

- IFRS uses an unadjusted interest rate market curve in the valuation. Under Solvency II a number of prescribed adjustments are applied to the interest rate curve. These adjustments reduce the Technical Provisions in respect of unit-linked business with investment guarantees;
- Solvency II includes the present value of future fee income net of expense outgo on the underlying unit-linked funds, and this reduces the level of Technical Provisions. These projected surplus 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; and
- The IFRS Technical Provisions exclude unallocated premiums, which are included in alternative liability balances. These unallocated premiums are included in the Solvency II Technical Provisions due to contract initial recognition rules being different between Solvency II and IFRS.

Table 17: Reconciliation of Technical Provisions from IFRS to Solvency II at 31 December 2017 (€m)

Reconciliation	Protection	Unit-linked without O&G*	Unit-linked with O&G*	Reinsurance Accepted	Total
IFRS Technical Provisions	7.2	738.5	3,287.3	32.6	4,065.6
Use Solvency II curve	-	-	(27.4)	3.0	(24.4)
Surplus cash flows on unit-linked funds	-	(8.0)	(145.0)	0.0	(153.0)
Apply Risk Margin	0.1	0.7	67.0	2.2	70.1
Include unallocated premiums	-	1.7	9.0	-	10.6
Other	3.4	-	0.2	-	3.7
Solvency II Technical Provisions	10.8	733.0	3,191.0	37.9	3,972.7

D.2.3. Technical Provisions per Line of Business ('LoB') at 31 December 2017

The Solvency II Technical Provisions by LoB are outlined in the table below:

Table 18: Technical Provisions per LoB at 31 December 2017 (€m)

	Best Estimate Liability	Risk Margin	Total
Protection	10.7	0.1	10.8
Unit-linked without O&G*	732.2	0.7	733.0
Unit-linked with O&G*	3,124.0	67.0	3,191.0
Reinsurance accepted	35.7	2.2	37.9
Total	3,902.6	70.1	3,972.7

*Options and Guarantees

D.2.4. Actuarial methodologies and key assumptions

Methodology

Stochastic valuation techniques are used to calculate the Technical Provisions for products with investment guarantees. This involves generating thousands of economic scenarios with monthly returns over a projection period of up to 60 years. The generation of the economic scenarios is calibrated to be consistent with market conditions as at the valuation date. The Best Estimate Liability is the average across all the economic scenarios of the present value of net projected cash flows.

Deterministic cash flow projection methods are used to calculate the Technical Provisions for products that do not provide investment guarantees.

Surrenders

Surrender assumptions are based on AGL experience data where appropriate. Where the AGL surrender experience data for a given product is deemed statistically unreliable, the experience data on similar products within the Allianz Group is 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 2017. The surrender assumptions were updated accordingly leading to a small increase in Technical Provisions at year-end 2017.

Mortality

Mortality assumptions are set primarily by reference to industry mortality tables. These are adjusted as appropriate where the experience of the AGL portfolio is expected to be different. Mortality rates cannot be predicted with certainty and actual future mortality experience will deviate from that assumed.

A review of mortality experience was conducted during 2017. The mortality assumptions were updated accordingly leading to a small decrease in Technical Provisions at year-end 2017.

Mortality improvement rate assumptions are applied for products that provide a guaranteed income for the lifetime of the policyholder. The extent to which the assumed mortality improvement rates will materialise in future is uncertain.

Expenses

The expense assumptions are based on AGL's corporate 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.

A new accounting cost allocation methodology was introduced during 2017 to ensure ongoing compliance with transfer pricing regulation on account of the evolving business. This allocates more expenses to the more complex products, which have longer durations. This, together with other expense updates arising from the corporate plan, led to an increase in Technical Provisions at year-end 2017.

Other

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 measure on the risk-free interest rates referred to in Article 208c 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.2.5. Policyholder behaviour and management actions

Policyholder surrender behaviour is modelled dynamically for draw-down products with investment guarantees. In particular, it is assumed that surrender rates will reduce when the ratio of the guarantee level to the surrender value increases, and vice versa. The extent to which policyholders make their surrender decisions in this way is uncertain.

No management actions are assumed.

D.3. Other Liabilities

The following table sets out the values of each material class of other liabilities under Solvency II and IFRS, excluding Technical Provisions including:

1. Quantitative explanations of material differences in valuations between Solvency II and those used for the statutory financial statements; and
2. Valuation bases, methods and main assumptions used for Solvency II and any material differences with those used for the statutory financial statements for the financial year ended 31 December 2017.

The expected timing of any outflows of economic benefits is expected within the financial year unless otherwise disclosed below.

Table 19: Value of other liabilities at 31 December 2017 (€m)

	Solvency II	IFRS*	Deviation
Other technical provisions	0.0	56.4	(56.4)
Unallocated premiums	0.0	10.6	(10.6)
Provisions, other than technical provisions	13.4	13.4	0.0
Deposits from reinsurers	0.0	0.0	0.0
Deferred tax liability	36.3	0.1	36.2
Derivative liabilities	35.2	35.2	0.0
Debts owed to credit institutions	192.6	192.6	0.0
Insurance and intermediaries payables	7.8	7.8	0.0
Reinsurance payables	4.5	4.5	0.0
Payables (trade, not insurance)	8.0	8.0	0.0
Any other liabilities, not elsewhere shown	98.4	98.4	0.0
Total**	396.2	427.0	(30.8)

* IFRS data has been reclassified to align with the Solvency II balance sheet presentation, highlighting differences in valuation only. This presentation is different to that under QRT S.02.01.02, however, the excess of assets over liabilities under IFRS in both presentations agree.

** Technical provisions have been addressed in section D.2. Please refer to this section for further information.

D.3.1. Other Technical Provisions

Other Technical Provisions are predominantly deferred income arising from up-front premium charges and loadings on the commencement of a policy. This income is not recognised immediately on the Income Statement in the IFRS financial statements, but instead is amortised over the expected life of the policy, while any unamortised amount is recognised when the policy terminates.

While it is permissible to defer premium charges as a provision under IFRS, under Solvency II there is no equivalent concept of deferring income over the life of the contract. Therefore, in contrast to IFRS, Solvency II does not contain such a provision.

D.3.2. Unallocated premiums

Unallocated premiums are included in alternative liability balances under IFRS and in technical provisions under Solvency II, as stated in section D.2.2.

D.3.3. Deferred tax liabilities

Deferred tax liabilities are the amounts of taxes payable in future periods in respect of taxable temporary differences. Deferred taxes are calculated based on the difference between the values ascribed to assets and liabilities under Solvency II and the values ascribed to the same assets and liabilities for tax purposes as defined in IAS 12. The deferred tax asset under IFRS is offset against the deferred tax liability arising from Solvency II/IFRS differences in the total deferred tax liability under Solvency II of €36.3m. The timing of any outflows

relating to these valuation differences is expected to be more than twelve months after the financial position date.

D.3.4. Derivative liabilities

Derivative liabilities valuation approach has been addressed as part of section D.1.4. Please refer to this section for further details.

D.3.5. Debts owed to credit institutions

Debts owed to credit institutions includes debts, such as loans, bank overdrafts and collateral owed to credit institutions (banks, etc.). For IFRS purposes, these debts owed to credit institutions are recorded at fair value under IFRS. There is no difference in valuation for Solvency II purposes.

D.3.6. Any other liabilities, not elsewhere shown

Fees receivable and payable are recognised on an accruals basis. Expenses are recognised on an accruals basis. The recognition and valuation basis for Any Other Liabilities is consistent between Solvency II and IFRS.

D.3.7. Reconciliation to financial reporting

Section D.3 above sets out the differences between the valuation for financial reporting (IFRS) and valuation for Solvency II purposes of all liabilities held, excluding the Technical Provisions which are discussed in section D.2 above. The material difference in valuation is explained under section D.3.3 for the deferred tax liabilities.

The following sections have no differences noted between IFRS and Solvency II balance sheet values:

- Derivative liabilities;
- Insurance and intermediaries payables;
- Payables (trade, not insurance);
- Debts owed to credit institutions; and
- Any other liabilities, not elsewhere shown

D.4. Off-Balance Sheet Items

The Company does not have any off-balance sheet items.

D.5. Alternative Methods for Valuation

The Company does not use any alternative valuation methods for any asset class.

D.6. Any Other Information

All important information regarding the valuation for solvency purposes of the Company is addressed in the above sections.

E. Capital Management

E.1. Own Funds

E.1.1. Objectives, policies and processes

AGL has put a formal Capital Management Policy in place, which is approved by the Board and subject to review on at least an annual basis.

The main objective of this Policy is to provide the Company with adequate capital to fulfil regulatory requirements in an efficient manner, specifically to cover the SCR detailed above. Secondary objectives include adding economic value over the cost of capital and having shareholders participate in the economic development through, for example, dividend payments.

The Capital Management Policy defines a target level of capitalisation known as the 'management ratio'. This ratio is set at a level which ensures compliance with regulatory requirements over a three year planning horizon even after severe financial stresses or losses from the insurance portfolio. The Company aims to keep the capitalisation close to this ratio.

By way of its derivation, the management ratio represents a risk-based assessment of the desired level of capitalisation of the Company. In addition, it is set so as to maintain a coverage buffer over the SCR, thus allowing capacity for uncertainty and unquantifiable risks.

If the level of capital falls below the management ratio, alert and action levels exist in order to initiate actions before regulatory capital requirements are endangered. If the alert level is breached, contingency plans are drawn up and considered by the Board. If the action level is breached, the actions drawn from the contingency plans shall be implemented to improve the capital position. Similarly if the level of capital increases above an upper barrier level plans are drawn up and considered by the Board relating to the payment of capital upstream to the Group.

This framework enables the Company to meet the objectives listed above even after adverse developments. The capital position of the Company is monitored on an ongoing basis by management and Board committees, as described in section B.1.2.

No material changes have been introduced in respect of AGL's capital management policies or accompanying processes during 2017.

E.1.2. Analysis of Own Funds

Solvency II requires insurers to categorise Own Funds into the three tiers with differing qualifications as eligible available regulatory capital. All of the Company's Own Funds fall under Tier 1 capital, made up of high-quality and unrestricted Own Funds which consist of ordinary share capital, reconciliation reserve and capital contributions. AGL does not hold any Tier 2 or Tier 3 type Own Funds. The reconciliation reserve is equivalent to the portion of the excess of assets over liabilities which does not relate to other own fund items.

Solvency II rules impose limits on the amount of each tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that might arise. For the Company, all Own Funds are eligible to meet the capital requirements as outlined in this document.

The structure and quality of the Company's Own Funds has not changed during the year, and the value of ordinary share capital and other approved basic own fund items have remained constant. The reconciliation reserve is the only own fund category which has changed in value, increasing by €31.5m from the end of 2016 to the end of 2017.

The table below shows the Company's Own Funds position as at 31 December 2017 and 31 December 2016 :

Table 20: Own Funds at 31 December 2017 and 31 December 2016 (€m)

As at 31 December 2017	Total	Tier 1 - unrestricted	Tier 1 - restricted	Status
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)	45.1	45.1	-	Available
Reconciliation reserve	91.0	91.0	-	Available
Other own fund items approved by the supervisory authority as basic Own Funds not specified above	83.1	83.1	-	Available
Available and eligible Own Funds	219.3	219.3	-	
As at 31 December 2016	Total	Tier 1 - unrestricted	Tier 1 - restricted	Status
Ordinary share capital (gross of own shares)	45.1	45.1	-	Available
Reconciliation reserve	59.5	59.5	-	Available
Other own fund items approved by the supervisory authority as basic Own Funds not specified above	83.1	83.1	-	Available
Available and eligible Own Funds	187.7	187.7	-	

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

Table 21: Reconciliation Reserve breakdown (€m)

Components	31 December 2017	31 December 2016	Comments
Excess of assets over liabilities	219.3	187.7	A full split of assets and liabilities has been included in section D.1 and D.3 respectively. Please refer to the sections for further details of asset and liability categories.
Own shares (held directly and indirectly)	0.0	0.0	
Foreseeable dividend payments, distributions and charges	0.0	0.0	
Other basic own fund items	(128.2)	(128.2)	Represented by ordinary share capital and other own fund items approved by the supervisory authority as basic Own Funds not specified above.
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0.0	0.0	
Total reconciliation reserve	91.0	59.5	

E.1.3. Reconciliation between IFRS and Solvency II excess of assets over liabilities

The following table shows a high-level reconciliation between the Company's Own Funds under Solvency II and its shareholder equity as reported in the IFRS financial statements.

A quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by AGL for the valuation for solvency purposes and those used for its valuation in the financial statements for each material class of assets are outlined in section D.1 'Valuation of assets', D.2 'Technical provisions' and D.3 'Other liabilities'. A summary of the differences between IFRS shareholder's equity and Solvency II Own Funds is outlined below:

Table 22: Reconciliation of IFRS shareholder equity to Solvency II Own Funds (€m)

Reconciliation	
IFRS shareholder's equity*	135.3
Technical Provisions (net of reinsurance)	124.4
Deferred Tax	(39.2)
Italian Tax Asset (discounting)	(1.3)
Solvency II net asset value	219.3

* IFRS total equity as published in the financial statements for year ended 31 December 2017.

E.1.4. Basic Own Funds and available Own Funds

The Company's basic Own Funds as at 31 December 2017 amount to €219.3m. The structure of the Own Funds is outlined in section E.1.5. The Company has no ancillary Own Funds.

E.1.5. Structure, amount and quality of Basic Own Funds (after deductions)

As can be seen above, the totality of AGL's Basic Own Funds (BOFs) is made up of high quality and unrestricted items which substantially possess the characteristics of Tier 1 BOFs.

E.1.6. Nature of the restrictions to the availability and transferability of Own Funds within AGL

There are no material restrictions to the availability or transferability of Own Funds.

E.1.7. Own Funds movements over the reporting period

There were no significant transfers or changes in Tiers over the reporting period.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

Table 23 shows the Company's SCR split by risk category and the Minimum Capital Requirement (MCR) as at 31 December 2017.

Table 23: AGL SCR by risk category and MCR at 31 December 2017 and 31 December 2016 (€m)

Risk category	2017	2016
Underwriting Risk	47.5	43.4
Business Risk	76.4	72.1
Market Risk	81.4	76.2
Credit Risk	8.6	16.6
Operational Risk	20.1	20.8
Sum over risk categories	234.0	229.1
Diversification	(102.7)	(103.0)
Cross-effects capital buffer	6.6	
Total diversified SCR before tax	138.0	126.0
Loss absorbing capacity of deferred tax	(35.4)	(23.5)
SCR after tax	102.6	102.6
MCR	27.8	25.6

Overall, the SCR has remained stable over 2017. As expected the gross SCR has increased in line with increasing new business volumes. However, the changing profile of the Company's business to a more profitable product

mix has increased the loss absorbing capacity of deferred taxes leaving the Company in a broadly neutral Solvency position.

E.2.1. Available Own Funds and solvency requirements

The solvency ratio at 31 December 2017 was 214%, an improvement from 183% at 31 December 2016.

The entirety of AGL's available capital is classified as 'Tier 1 Own Funds' in the Solvency II balance sheet. Therefore, the Company is satisfied that the capital is of a high quality and can be fully relied upon. The Company monitors the solvency position on an ongoing basis, with formal reporting to the Central Bank at required quarterly and annual submission dates.

E.2.2. Inputs used for the MCR calculation

The calculation of the MCR is formula based as dictated by EIOPA Solvency II requirements. The inputs used to calculate the MCR are shown in the table below:

- The Linear MCR is a calculation based on the value of technical provisions and capital at risk.
- The Linear MCR is subject to a respective floor of 25% and a cap of 45% of the SCR.
- An absolute floor of €3.7m is prescribed by EIOPA and is shown in the table below.

Table 24: MCR at 31 December 2017 and 31 December 2016 (€m)

Component	2017	2016
Index-linked and unit-linked insurance obligations	3,891.9	2,771.2
Other life (re)insurance and health (re)insurance obligations	2.3	1.4
Total capital at risk for all life (re)insurance obligations	745.8	481.2
Linear MCR	27.8	19.8
SCR	102.6	102.6
MCR cap (45% of SCR)	46.2	46.2
MCR floor (25% of SCR)	25.7	25.6
Combined MCR	27.8	25.6
Absolute floor of the MCR	3.7	3.7
Minimum Capital Requirement	27.8	25.6

E.3. Use of the Duration-based Equity Risk Sub-module in the Calculation of the SCR

As outlined in section B.3.3.2, AGL does not take the Standard Formula approach to calculating the Company's SCR and so does not make use of the duration-based equity risk sub-module.

E.4. Internal Model Information

The Company uses the Internal Model for a number of different purposes. Most prominently, it is used to compute the Company's Solvency II Capital Requirement (SCR) which is typically done on a monthly basis and reported quarterly to AGL's Board of Directors and the Board Risk & Finance Committee. This includes the calculation of the solvency ratio (defined as Own Funds divided by SCR) and a breakdown of the SCR per risk category.

The model is used in both strategic and tactical decisions to ensure that a sufficient risk tolerance is respected. Specifically, the model is used to set the Company's business strategy, allocate capital to new projects, set the reinsurance strategy, set product prices to achieve profitability and review performance of the Company.

E.4.1. Scope of the Internal Model

The scope of the Internal Model covers all business underwritten and the Company's activities which take place in the normal course of business. Risk categories covered by the Internal Model are presented and explained in chapter C.

E.4.2. Methodology underlying the Internal Model

AGL's Internal Model was discussed in section B.3.3.2, with further detail provided in section C.0. The Company's Internal Model is part of the Allianz Group Internal Model, tailored to the specifics of AGL.

The Standard Formula approach uses factor based shocks to calculate the Solvency Capital Requirement. The Internal Model derives the risk capital on the basis of simulating each risk type and its corresponding impact on the Company's balance sheet based on its assumed range of possible outcomes and relationship to other risk types.

The range of possible outcomes for each risk type is based on an underlying distribution which is calibrated to market data or the Company's or Allianz Group's internal historical data. Recommendations from the insurance industry, supervisory authorities and actuarial associations are also considered.

E.4.3. Main differences per risk module between the Internal Model and the Standard Formula

The following table provides an overview of differences between the two approaches by risk module:

Table 25: Differences between Standard Formula and Allianz Group Internal Model

Internal Model Risk Category	Standard Formula (SF) (factor based approach)	Internal Model (stochastic simulation)
Underwriting Risk	Standardised mortality, longevity, morbidity shocks (combined with business risk in SF)	Shocks based on Company and Allianz Group experience.
Business Risk	Standardised lapse and expense shocks (combined with underwriting risk in SF)	Shocks based on Company and Allianz Group experience.
Market Risk	Pre-defined up/down shocks as percentage change to existing market values. Worst shock determines the capital requirement for each risk factor. No shock to certain bonds, e.g. EU government bonds. No explicit risk module for volatility risks. Instantaneous shock does not reflect the daily reaction to the market movements of the hedging programme Aggregation based on pre-defined correlation assumptions.	Underlying distribution for each modelled risk factor is calibrated to market data. Complex changes such as twists in interest rate curve are considered. All bonds subject to changes in value. Interest rate volatility risk and equity volatility risk explicitly considered. AGL-developed VA Market Risk Model allows for dynamic hedging program. Aggregation is based on relationships between different risk factors calibrated to market data & expert judgement.
Credit Risk	Factor based approach based on the Company's underlying credit risk exposures	Potential changes in credit risk exposures are based on an Allianz Group longer term "through the cycle" analysis of economic cycles. Internal Allianz rating system is used. Collateralisation of credit exposures more accurately allowed for. Spread risk is not fully captured and thus an additional spread risk component is allowed for in the market risk module.
Operational Risk	Factor-based approach based on earned premium amount and technical provisions.	Scenario-based risk modelling approach Risk identification within AGL. Aggregation of operational risks based on loss frequency and loss severity distributions.
Loss absorbing capacity of tax	Loss absorbing capacity allows companies to reflect that a future loss equal to the Standard Model SCR that would result in a reduction in deferred tax liabilities. AGL limit this loss absorbing capacity to a maximum amount of the currently recognised deferred tax liability.	Loss absorbing capacity allows companies to reflect that a future loss equal to the Internal Model SCR that would result in a reduction in deferred tax liabilities. AGL limit this loss absorbing capacity to a maximum amount of the currently recognised deferred tax liability.

E.4.4. Diversification benefit

In order to set an appropriate level of diversification benefit, it is necessary to determine the dependencies between the risks to which the Company is exposed. The Company relies on the industry-standard Gaussian copula approach, using a methodology developed by Allianz Group. This describes the correlations between the different risk types. These correlations, which define the relationship between different risks, are derived through statistical analysis of historical data, considering quarterly observations over several years. In case historical data or other business-specific observations are insufficient or not available, relationships are set according to a well-defined, Group-wide process which combines the expertise of risk and business experts. In general, relationships are set to represent how risk types will interact under conditions which deteriorate the Company's solvency position.

E.4.5. Appropriateness of Internal Model

Based on the differences highlighted above, the Company assess that use of the Internal Model more appropriately reflects the risk profile than the Standard Formula approach. The Solvency position is monitored under the Standard Formula basis but it is the Internal Model approach which is used for decision making.

E.4.6. Internal Model data

Various sources of data are used as input for the Internal Model and for the calibration of parameters. Model and scenario parameters are derived from historical data, where available, to characterise future possible risk events. If future market conditions differ substantially from the past, for example in an unprecedented crisis, this approach may be too conservative or too liberal in ways that are too difficult to predict. In order to mitigate reliance on historical data, the analysis is accompanied by stress testing. Where reasonable, the input data is identical to the data used for other purposes, e. g. for IFRS accounting. The appropriateness of this data is regularly verified internally and by external auditors.

E.4.7. Use of undertaking-specific parameters in the Standard Formula and capital add-ons

The Company is not using undertaking-specific parameters as the SCR is not based on the Standard Formula approach. There are no regulatory capital add-ons applied.

E.5. Non-compliance with the MCR and non-compliance with the SCR

Allianz Global Life complied with the MCR and the SCR at year-end 2017 and throughout 2017.

E.6. Any Other Information

As noted in Section C6 above the "cross effects capital buffer" is capital held to reflect the additional impact of multiple risks occurring simultaneously as opposed to individually. The combined impact of risks occurring together can be greater than the sum of the individual impacts depending on the nature of the risks. The market risk model captures the cross-effects between different market components (e.g. interest and equity). Other cross-effects such as longevity versus market risk or lapse risk versus market risk are allowed for in the "cross effects capital buffer".

F. Annex: Quantitative Reporting Templates ('QRTs')

S.02.01.02: Balance Sheet (€000)

S.02.01.02**Balance sheet**

	Solvency II value
Assets	C0010
Goodwill	R0010 -
Deferred acquisition costs	R0020 -
Intangible assets	R0030 -
Deferred tax assets	R0040 -
Pension benefit surplus	R0050 -
Property, plant & equipment held for own use	R0060 -
Investments (other than assets held for index-linked and unit-linked contracts)	R0070 327,597
Property (other than for own use)	R0080 -
Holdings in related undertakings, including participations	R0090 -
Equities	R0100 -
Equities - listed	R0110 -
Equities - unlisted	R0120 -
Bonds	R0130 103,899
Government Bonds	R0140 50,164
Corporate Bonds	R0150 53,734
Structured notes	R0160 -
Collateralised securities	R0170 -
Collective Investments Undertakings	R0180 -
Derivatives	R0190 223,699
Deposits other than cash equivalents	R0200 -
Other investments	R0210 -
Assets held for index-linked and unit-linked contracts	R0220 3,910,327
Loans and mortgages	R0230 156,429
Loans on policies	R0240 -
Loans and mortgages to individuals	R0250 -
Other loans and mortgages	R0260 156,429
Reinsurance recoverables from:	R0270 8,466
Non-life and health similar to non-life	R0280 -
Non-life excluding health	R0290 -
Health similar to non-life	R0300 -
Life and health similar to life, excluding health and index-linked and unit-linked	R0310 8,408
Health similar to life	R0320 -
Life excluding health and index-linked and unit-linked	R0330 8,408
Life index-linked and unit-linked	R0340 58
Deposits to cedants	R0350 -
Insurance and intermediaries receivables	R0360 45,703
Reinsurance receivables	R0370 -
Receivables (trade, not insurance)	R0380 125,668
Own shares (held directly)	R0390 -
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400 -
Cash and cash equivalents	R0410 11,910
Any other assets, not elsewhere shown	R0420 2,088
Total assets	R0500 4,588,187

Liabilities

Technical provisions – non-life
 Technical provisions – non-life (excluding health)
 Technical provisions calculated as a whole
 Best Estimate
 Risk margin
 Technical provisions - health (similar to non-life)
 Technical provisions calculated as a whole
 Best Estimate
 Risk margin
 Technical provisions - life (excluding index-linked and unit-linked)
 Technical provisions - health (similar to life)
 Technical provisions calculated as a whole
 Best Estimate
 Risk margin
 Technical provisions – life (excluding health and index-linked and unit-linked)
 Technical provisions calculated as a whole
 Best Estimate
 Risk margin
 Technical provisions – index-linked and unit-linked
 Technical provisions calculated as a whole
 Best Estimate
 Risk margin
 Other technical provisions
 Contingent liabilities
 Provisions other than technical provisions
 Pension benefit obligations
 Deposits from reinsurers
 Deferred tax liabilities
 Derivatives
 Debts owed to credit institutions
 Financial liabilities other than debts owed to credit institutions
 Insurance & intermediaries payables
 Reinsurance payables
 Payables (trade, not insurance)
 Subordinated liabilities
 Subordinated liabilities not in Basic Own Funds
 Subordinated liabilities in Basic Own Funds
 Any other liabilities, not elsewhere shown
Total liabilities
Excess of assets over liabilities

	C0010
R0510	-
R0520	-
R0530	-
R0540	-
R0550	-
R0560	-
R0570	-
R0580	-
R0590	-
R0600	10,813
R0610	-
R0620	-
R0630	-
R0640	-
R0650	10,813
R0660	-
R0670	10,675
R0680	138
R0690	3,961,915
R0700	-
R0710	3,891,938
R0720	69,977
R0730	-
R0740	-
R0750	13,375
R0760	-
R0770	-
R0780	36,312
R0790	35,157
R0800	192,627
R0810	-
R0820	7,820
R0830	4,472
R0840	8,011
R0850	-
R0860	-
R0870	-
R0880	98,415
R0900	4,368,917
R1000	219,270

S.05.01.02: Premiums/Claims/Expenses by Line of Business (€000)

Columns containing no data for AGL have been excluded.

Annex I

S.05.01.02

Premiums, claims and expenses by line of business

	Line of Business for: life insurance obligations		Life reinsurance obligations	Total	
	Index-linked and unit-linked insurance	Other life insurance	Life-reinsurance		
	C0230	C0240	C0280		
Premiums written					
Gross	R1410	1,314,676	10,492	34,062	1,359,230
Reinsurers' share	R1420	167	6,206	-	6,372
Net	R1500	1,314,509	4,287	34,062	1,352,858
Premiums earned					
Gross	R1510	1,314,676	8,897	38,730	1,362,303
Reinsurers' share	R1520	167	4,871	-	5,038
Net	R1600	1,314,509	4,026	38,730	1,357,266
Claims incurred					
Gross	R1610	185,322	4,711	539	190,572
Reinsurers' share	R1620	-	3,571	-	3,571
Net	R1700	185,322	1,140	539	187,002
Changes in other technical provisions					
Gross	R1710	966,208	4,594	-	916,939
Reinsurers' share	R1720	-	3,089	-	3,089
Net	R1800	966,208	1,505	-	913,851
Expenses incurred	R1900	32,702	1,392	2,896	36,990
Other expenses	R2500				-
Total expenses	R2600				36,990

S.05.02.02: Premiums/Claims/Expenses by Country (€000)

Premiums, claims and expenses by country

	Home Country	Total Top 5 and home country	Top 5 countries (by amount of gross premiums written) - life obligations				
R1400			Germany	France	Italy	Japan	Taiwan
	C0220	C0280	C0230	C0230	C0230	C0230	C0230
Premiums written							
Gross	R1410	1,359,230	8,698	459,697	856,773	33,630	432
Reinsurers' share	R1420	6,372	5,967		405		
Net	R1500	1,352,857	2,731	459,697	856,368	33,630	432
Premiums earned							
Gross	R1510	1,362,303	7,103	459,697	856,773	38,299	432
Reinsurers' share	R1520	5,038	4,632	-	405		
Net	R1600	1,357,265	2,470	459,697	856,368	38,299	432
Claims incurred							
Gross	R1610	190,572	6,560	100,782	82,692	530	8
Reinsurers' share	R1620	3,571	3,571				
Net	R1700	187,002	2,989	100,782	82,692	530	8
Changes in other technical provisions							
Gross	R1710	916,939	929	227,512	742,361	-	51,972
Reinsurers' share	R1720	3,089	3,089				
Net	R1800	913,850	-	2,160	227,512	742,361	-
Expenses incurred	R1900	36,390	1,548	14,626	17,320	2,850	46
Other expenses	R2500	-					
Total expenses	R2600	36,390					

S.12.01.02: Life Technical Provisions

Columns containing no data for AGL have been excluded.

Annex I

S.12.01.02

Life and Health SLT Technical Provisions

Technical provisions calculated as a whole
 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

Technical provisions calculated as a sum of BE and RM

Best Estimate

Gross Best Estimate

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance/SPV and Finite Re - total

Risk Margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - total

	Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	
		Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees				
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
R0010		-		-			-	-	-
R0020		-		-			-	-	-
R0030		732,222	3,124,026		10,675	-	-	35,689	3,902,612
R0080		58	-		8,408	-	-	-	8,466
R0090		732,164	3,124,026		2,267	-	-	35,689	3,894,146
R0100							-	2,241	70,115
R0110									
R0120			-	-	-	-	-	-	
R0130							-	-	
R0200		3,923,985		10,813			-	37,929	3,972,728

S.23.01.01: Own Funds (€000)

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35					
Ordinary share capital (gross of own shares)	R0010	45,100	45,100		
Share premium account related to ordinary share capital	R0030				
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040				
Subordinated mutual member accounts	R0050				
Surplus funds	R0070				
Preference shares	R0090				
Share premium account related to preference shares	R0110				
Reconciliation reserve	R0130	91,040	91,040		
Subordinated liabilities	R0140				
An amount equal to the value of net deferred tax assets	R0160				
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	83,130	83,130		
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220				
Deductions					
Deductions for participations in financial and credit institutions	R0230				
Total basic own funds after deductions	R0290	219,270	219,270		
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	R0300				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310				
Unpaid and uncalled preference shares callable on demand	R0320				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370				
Other ancillary own funds	R0390				
Total ancillary own funds	R0400				
Available and eligible own funds					
Total available own funds to meet the SCR	R0500	219,270	219,270		
Total available own funds to meet the MCR	R0510	219,270	219,270		
Total eligible own funds to meet the SCR	R0540	219,270	219,270		
Total eligible own funds to meet the MCR	R0550	219,270	219,270		
SCR	R0580	102,561			
MCR	R0600	27,813			
Ratio of Eligible own funds to SCR	R0620	213.79%			
Ratio of Eligible own funds to MCR	R0640	788.38%			
Reconciliation reserve					
Excess of assets over liabilities	R0700	219,270			
Own shares (held directly and indirectly)	R0710				
Forseeable dividends, distributions and charges	R0720				
Other basic own fund items	R0730	128,230			
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740				
Reconciliation reserve	R0760	91,040			
Expected profits					
Expected profits included in future premiums (EPIFP) - Life business	R0770	873			
Expected profits included in future premiums (EPIFP) - Non-life business	R0780				
Total EPIFP	R0790	873			
			C0060		

S.25.03.21: SCR – Internal Model (€000)

Annex I

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
		C0020
C0010		C0030
10	IM - Market risk	81,414
11	IM - Underwriting risk	47,486
12	IM - Business risk	76,363
13	IM - Credit risk	8,597
14	IM - Operational risk	20,148
15	IM - LAC DT (negative amount)	-35,395
16	IM - Capital Buffer	6,612
17	IM - Adjustment due to RFF/MAP nSCR aggregation	0

Calculation of Solvency Capital Requirement

Total undiversified components

R0110 205,224

Diversification

R0060 -102,663

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)

R0160 0

Solvency capital requirement excluding capital add-on

R0200 102,561

Capital add-ons already set

R0210 0

Solvency capital requirement

R0220 102,561

Other information on SCR

Amount/estimate of the overall loss-absorbing capacity of technical provisions

R0300 0

Amount/estimate of the overall loss-absorbing capacity of deferred taxes

R0310 35,395

Total amount of Notional Solvency Capital Requirements for remaining part

R0410

Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))

R0420

Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios

R0430

Diversification effects due to RFF nSCR aggregation for article 304

R0440 0

S.28.01.01: MCR – non-composite (€000)**Annex I****S.28.01.01****Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity****Linear formula component for life insurance and reinsurance obligations**

	C0040
MCR _L Result	R0200 27,812.83

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
C0050	C0060
R0210 0.00	
R0220 0.00	
R0230 3,891,879	
R0240 2,267	
R0250	745,812

Overall MCR calculation

	C0070
Linear MCR	R0300 27,813
SCR	R0310 102,561
MCR cap	R0320 46,152
MCR floor	R0330 25,640
Combined MCR	R0340 27,813
Absolute floor of the MCR	R0350 3,700
	C0070
Minimum Capital Requirement	R0400 27,813