



Solvency II Regular Supervisory Report

Allianz Life Luxembourg S.A.

5 October 2020

Strictly Confidential

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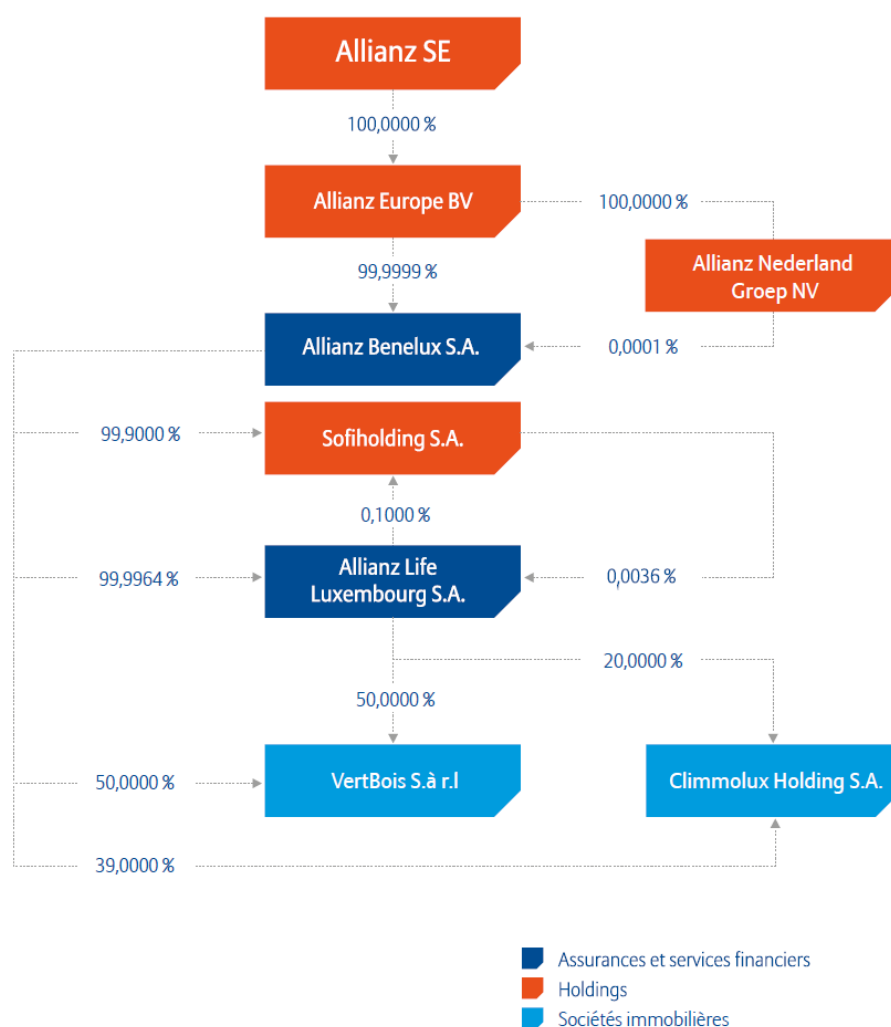
A. Business and Performance

A.1 Business

A.1.1 General information and intercompany structure

Allianz Life Luxembourg S.A. (further abbreviated as ALL) is a legal entity subject to Luxembourg law and regulations. ALL is supervised by the Commissariat aux Assurances (abbreviated as CAA)¹ and the external auditor is PwC².

ALL is a subsidiary of Allianz Benelux S.A.³ (abbreviated as ABX), which is further a subsidiary of Allianz Europe B.V.⁴ and further of Allianz S.E. Allianz S.E. is supervised by the Bundesanstalt für Finanzdienstleistungsaufsicht (abbreviated as BaFin)⁵.



¹ Contact: <http://www.commassu.lu>

² Contact: <https://www.pwc.lu/>

³ Note that Allianz Europe B.V. is a legal entity based in the Netherlands.

⁴ Contact: <http://www.allianz.be/fr>

⁵ Contact : <http://www.bafin.de>

For ALL, 62 employees are employed by the company and represent 58.23 FTE.

Note that Allianz Benelux S.A. is a Belgian based company active in non-life and life.

A.1.2 Business portfolio

ALL offers three types of products via its intermediary channel on the Luxembourg market and under freedom of services abroad:

- I. Fixed yield classical life products
- II. Unit linked products
- III. Employee benefit products

A.1.3 Market and business environment

The main challenges for life insurers continue to be the low interest rate environment as well as the changes in the regulation. New business opportunities have to be found in the unit linked market.

It is ALL's ambition to gradually increase its market share in these products, while also optimally servicing the earlier developed portfolios. In doing so, ALL uses its expertise to design products that are well-adapted to the clients that look for life insurance as a long term investment.

A.1.4 Strategic developments

A.1.4.1 Digitalization:

A first priority is given to projects whose objective is to reduce complexity and manual procedures. Digital by default is the guideline for all new services that could be offered. For the distribution channels the access to information will be shortened. The strategy is not to sell directly via a portal, but to use new technologies to get a better and quicker circulation of information and simplify the contacts with the distribution channel.

A.1.4.2 Partnerships:

To further extend the product distribution, ALL is engaging in strategic solid partnerships:

- In the existing markets a concentration on professional distributors is on the way;
- Entering new markets is done via first class professionals in order to get access to UHNWI.

A.1.4.3 Further Benelux integration

As to improve ALL's strategic position and importance, various types of synergies are currently being explored within the Benelux zone.

A.1.5 Customer segments and growth products

ALL provides insurance solutions targeted in priority to clients looking for investment solutions in life insurance with a focus on a secured transmission of the fortune to the next generation.

A.2 Underwriting Performance

The gross written premium totalled € 1.430 mn in 2018, in comparison to € 1.360 mn in 2017.

This performance is a result of the confidence of the distributors and clients in the company and the decision made by the company to develop as well the existing portfolio and new business by proposing a complete range of product solutions, from guaranteed capital to unit linked mainly through hybrid products.

On the local market the classical individual life business reached € 11.2 mn, a decrease of 9.2% due to the refusal of single premiums in fixed yield products and no willingness to actively develop this activity.

Corporate life business remains stable with € 8,6 mn gross written premium.

The International activity done with investment clients was positively driven by the appetite for unit linked products with a potential growth of the investment. Nevertheless the business written with hybrid products with a part of guaranteed capital is still an option for diversified investments and contributed to the success of the increase in written premiums.

The company has no branches; the business abroad is done under freedom of services. Within this market, 68% of the written premium comes from clients resident in France, 14% from clients from Luxembourg.

A.3 Investment Performance

A.3.1 Investment result and its components

Allianz Life Luxembourg assets held for investment are mainly driven by our insurance businesses, whereby the vast majority of our assets are invested in debt instruments.

In the following table we provide an overview of the asset allocation at Market Value within our investment portfolio.

ASSET ALLOCATION	in MEUR			in % of total	
<i>Type of investment</i>	<i>31.12.2018</i>	<i>31.12.2017</i>	<i>DELTA</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
Government Bonds	166	180	-14	33,5%	31,6%
Corporate Bonds	116	125	-9	23,4%	22,0%
Other	0	0	0	0,0%	0,0%
Holdings in related undertakings, including participations	36	34	2	7,3%	6,0%
Equities	0	0	0	0,0%	0,0%
Collective Investments Undertakings	71	55	16	14,3%	9,7%
Real Estate	29	27	2	5,9%	4,7%
Loans and mortgages	45	114	-69	9,1%	20,0%
Cash	32	34	-2	6,5%	6,0%
total	495	569	-74	100,0%	100,0%

The development of our investment result and its components is mainly driven by the asset allocation of our investments and the capital market developments within the respective asset classes.

In 2018, our investment income amounted to € 15,2 mn. The largest component of our total investment income is by far interest income from debt securities, providing long-term returns.

The main decisions in investments were:

- A de-risking by selling Italian and Belgian government bonds
- A use of cash positions for total repayment of the company's subordinated debts

A.3.2 Overall investment performance

Our interest and similar income translates into a current yield of 3,19 % (based on the average asset base and reflects the long portfolio duration).

A.3.3 Projections over the business planning time period

At Allianz the “financial frame” forms the basis for investment management: as a liability driven investor, we have to respect multiple targets and constraints.

On the basis of our liability characteristics, we derive a strategic asset allocation (SAA) and corresponding leeway, that together reflect the financial frame. The strategic asset allocation proves to be relatively stable over time: If markets remain stable, we invest according to our SAA. Only if significant market movements or any other event impact our investment portfolio in such a way that KPIs move out of the feasible financial frame, we adjust our SAA

to assure that once again the investment portfolio fulfills all required targets and constraints of our financial frame.

B. System of Governance

This section describes the overall setup of the company's governance and risk management framework

B.1 General information on the system of governance

B.1.1 Intercompany structure and organisational governance

At the highest level, ALL is governed by a two-tier board system consisting of an Executive Committee and a Board of Directors. This setup is described in the Articles of Association of ALL which thereby forms its key written policy. The details have been outlined in the respective charters for the Executive Committee and the Board of Directors, and the Charter for the Audit Committee. Below the main features of these two governance bodies are summarized:

B.1.1.1 Board of Directors (BoD)

Board of Directors is the main controlling structure of the company wherein any significant project or initiative is challenged, validated, followed and controlled.

This body is fed by an ongoing reporting coming from first its advisory committees and secondly, directly from Executive Committee members and independent control functions.

The Board of Directors has the broadest powers to accomplish all the useful or needed actions required to serve the company's social interest.

All what is not reserved to the general shareholder's assembly by the law or the articles of association is a matter for the Board of Directors.

The Board of Directors of ALL holds 7 members:

- Jean-Pascal VIALARON, Chairman;
- Alain SCHAEDEGEN, Managing Director;
- Claire-Marie COSTE-LEPOUTRE, Director,
- Kathleen Van den Eynde, Director
- Robert FRANSSEN, Director
- Philippe MORIN, Director,
- Benoît REDON, Director,
- Eric WINTER, Director (appointed in December 2018)

This satisfies the legal requirement that the Shareholder shall appoint at least three members. Only one of them is involved in an executive function into ALL (Managing

Director). The remuneration of Board members for his/her duties is not dependent on the performance of Allianz Life Luxembourg S.A.

The Board of Directors of ALL is scheduled to meet four times each year. It oversees the Executive Committee of ALL. It is also responsible for reviewing the annual financial statements of ALL.

B.1.1.2 Executive Committee

The Executive Committee assumes a role in decision-making and in the execution of Board of Directors guidelines, while respecting the powers delegated by the Board of Directors to the day-to-day management.

The Executive Committee consists of the Managing Director who shall act as Chairman and members of the management and a Secretary. The Head of Legal & Compliance is a permanent guest.

The Board of Directors approves the composition of the Executive Committee.

The Executive Committee operates in a collegial manner. In accordance with the role of the Executive Committee, the discussions are conducted in an open manner, with each member having the right and the duty to take a position on the subjects on the agenda.

The Executive Committee is scheduled to meet every two weeks

B.1.1.3 Annual General Meeting (AGM)

The Annual General Meeting takes place each year according to the Articles of Association. In that meeting, the Board of Directors gives account of the preceding financial year. The AGM determines the Annual Report and Accounts, the appropriation of distributable profits and the discharge of the Board of Directors.

B.1.1.4 Interaction between AGM and Board of Directors

The AGM appoints the members of the Board of Directors. The selection procedure for the members ensures that both individually and as a group, a wide range of experience, expertise and diversity is present among the members.

The Managing Director reports regularly and comprehensively to the Board of Directors on business developments, the financial position and earnings, budgeting and achievement of objectives, business strategy and risk exposure. Certain important decisions require approval

by the Board of Directors or by the General Meeting. These requirements are stipulated by law, by decisions of the General Meeting, or by the internal rules of the Board of Directors.

B.1.1.5 Role of Allianz Benelux

ALL is responsible for its own business strategy, including adherence to both external requirements and internal standards. At the same time, certain processes are managed on a more transversal manner within Allianz Benelux. However, in these cases, the Managing Director of ALL remains end-responsible regarding decisions that matter to ALL.

Also a policy framework has been defined at Group's level in the light of Solvency II containing specific policies for Governance & Control, Internal Audit, Risk, Compliance, Legal, Actuarial, Fitness and Propriety of Key Functions, Outsourcing, Capital Management and Accounting and Reporting. The statutory responsibilities on the level of ALL have been taken into account in the wording of these policies.

B.1.1.6 Allianz Life Luxemburg committee organization

The Board of Directors relies on several advisory committees with the duty to analyze specific matters and advise the Board on those matters. These advisory committees are: the Audit Committee and the Risk Committee (RiCo).

These different committees fulfil a triple objective:

- Sharing the best practices of the Group through the contribution of Group expertise;
- Supervising and monitoring activities by theme;
- Challenging the main independent controlling functions in terms of activities, resources, risk analysis and monitoring.

It is important to note that the recommendations proposed by these advisory committees are systematically considered through an oral report from their chairman and explained in the Board of Directors meeting for formal approval, if applicable.

a) Audit Committee

An Audit Committee has been established by the Board of Directors for the purpose of overseeing the accounting, financial, and compliance related matters of the Company and the outcome of internal and external audits.

b) Risk Committee (RiCo)

The ALL Risk Committee (Local RiCo) is responsible for supervising the local risk organization requirements, infrastructure, controls and processes. It ensures that the company acts within the policies, limits and guidelines set by the Allianz Group and builds a strong risk culture. ALL Rico also agrees on the definition and update of the local Risk Policy, ensures its effective implementation within the organization. Finally, ALL Rico is responsible of ORSA Process and Policy and coordinates the yearly update of the ORSA approach and ORSA result report.

B.1.2 Key functions

All key functions, as defined in the Solvency II regulation, are represented within the governance of ALL as 2nd or 3rd line functions. They are all involved in the ORSA process, in which the lead is taken by the independent Risk Function, under the direction of the CRO, and with the support of specialized Risk Committees.

Note that the description of the risk, compliance, audit and actuarial function can be found in the dedicated sections (respectively B3, B4, B5 and B6).

To ensure an effective Internal Control System, all Key functions have to cooperate and exchange necessary information and advice.

The second and third line functions closely cooperate, maintain reciprocal oversight and are aware of the concrete tasks and competencies of each sister function.

B.1.3 Remuneration

The remuneration policy of ALL shall be updated each year as required by the Solvency II rules.

Widely conceived by the group in its fundamentals, the regime is perfectly aligned with the European principles brought by the Solvency II.

The overall conception of this policy aims at aligning individual targets of ALL employees with the protection of company's interests on a long-term basis.

1) Governance principles

The remuneration awards must not threaten the adequacy of the ALL capital base.

The remuneration appropriateness is regularly benchmarked by the group to control pay levels, base salaries, benefits and variable components.

Remuneration packages are conceived to avoid some risks or key performance indicators, among them:

- excessive risk taking
- conflicts of interest
- risks which exceed the risk tolerance limits of the company
- appropriate reflection of the material risks and time horizon
- sound balance between fixed and variable remunerations
- evaluation of individual performance on financial and non-financial criteria

2) Board of Directors

BoD members are not remunerated as such (qualitate qua) when they get wages as Az Group entity or ALL employee. A specific remuneration is only reserved to non-executive directors who are external to the group or not working for Allianz as employee anymore.

This remuneration package is based on 2 principles:

- fixed wage for remunerating control risk and exposure to media and personal responsibility
- moderated attendance fees to encourage assiduity

3) Other functions

For people with a statute of Executive, the remuneration package is a sound mix of fixed and variable remunerations.

The level of variable remuneration depends on the level of seniority.

The variable compensation is designed to incentivize performance but also to avoid risks which might be incompatible with the risk profile of ALL and Group Risk limits.

4) Control process

An annual performance management process is organized to consider quantitative and qualitative aspects of individual performance including behavioral component.

B.1.4 Material transactions

Apart from the regular dividend, ALL has not carried out any material transactions with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.

B.2 Fit and proper requirements

B.2.1 Scope

Each candidate for a mandate or aimed by a renewal of existing mandate into the Board of Directors and each person eligible to become Head of an Independent Control Function have to be compliant with the F&P requirements as explained in the F&P policy adopted by ALL. This means that directors and Key Function Holders are subject to this regime.

A person is considered fit (Fitness) if his professional qualifications, knowledge and experience are adequate to enable sound and prudent fulfillment of his role. This includes leadership experience and management skills, as well as the relevant qualifications, knowledge and experience for the specific role.

A person is considered proper (Propriety) if he is of good repute and integrity, depending on his character, personal behavior and business conduct, including criminal, financial and supervisory aspects. A proper person is able to provide for the honesty and financial soundness required for him to fulfill his position in a sound and prudent manner.

B.2.2 F&P Criteria

The relevant control is based on the global concept of "Aptitude" or "Suitability" which summarized several basic parameters to be checked.

Some of those parameters are covered by the Expertise: knowledge, experience, skills and professional behavior. The other items belong to the Integrity background checks: criminal records and financial history.

B.2.3 Procedure

Each candidate accepted and able to go through the selection process successfully will be obliged to deliver several documents.

Among them, a written commitment signed by the candidate who undertakes to inform the Company immediately as soon as a significant parameter or fact could influence his Suitability status.

In this process, the company takes into consideration both individual competence and collective skills of directors to be sure that the body where the candidate shall play its role shall have the relevant competences to challenge the management.

The Head of Legal & Compliance has the role to collect candidate's documents, prepare the background checks review, carry-out and analyze Internet checks.

B.3 Risk management system including own risk and solvency assessment

The 2nd line Risk Function fulfils both a support role and an oversight role:

- The support role concentrates on triggering employees at all levels of the company to be aware of the risks related to their business activities and how to properly respond and/or mitigate them.
- The oversight role focuses on helping to make the overall risk profile transparent and to ensure that it remains within the defined risk appetite.

An important contribution to this dual objective consists in ensuring that an adequate Internal Control System (ICS) is put in place.

ALL must continually develop an approach to its activities that is simultaneously transparent, secure and optimal by merging its ability to meet the needs of its customers, professional brokers and its shareholders all while conducting an active risk management policy.

Therefore, ALL adheres to the key elements of the risk management framework defined by Allianz Group:

- Promotion of a strong risk management culture supported by a robust risk governance structure;
- Consistent application of an integrated risk capital framework to protect ALL capital base and to support effective capital management;
- Integration of risk considerations and capital needs into management and decision-making processes through the attribution of risk and allocation of capital to the

various segments.

An ORSA report ensures that all risks throughout the entire organization are properly identified, analyzed, assessed and steered, following a systematic process that is consistently implemented within ALL and at a broader level across Allianz Group.

B.3.1 Risk Management framework

Effective Risk management is based on a common understanding of Risks, clear organizational structures, and comprehensively defined Risk management processes. The following twelve principles shall serve as a basic foundation upon which ALL's Risk management approach shall be implemented and conducted.

1. Board of Management is responsible for the Risk strategy and appetite

The Board of Management establishes and adheres to a Risk strategy and associated Risk appetite for its business, which is derived from, and consistent with, the business strategy. The Risk strategy reflects the general approach towards the management of all material risks arising from the conduct of business and the pursuit of business objectives.

The Risk appetite elaborates on the Risk strategy through the establishment of the specific level of Risk tolerance for all material quantified and non-quantified Risks, and thereby the desired level of confidence, in relation to clearly defined Risk and performance criteria, taking into account shareholders' expectations and requirements imposed by regulators and rating agencies. The Risk strategy and appetite are reviewed at least once a year and, if deemed necessary, adjusted and communicated to all impacted parties.

2. Risk Capital as a key Risk indicator

Solvency II, Pillar I Risk Capital is the central parameter used to define Risk appetite as part of the Solvency Assessment. It serves as key indicator in the decision-making and Risk management process with respect to Capital allocation and limits. Capital is to be understood as Risk-bearing capacity or available financial resources. Where relevant, ALL considers their impact on Risk capital when taking material business decisions.

The calculation and aggregation approach shall be performed consistently across all business segments in order to provide a common standard for measuring and comparing Risks across the wide range of different activities undertaken throughout ALL.

Additional stress testing and scenario analyses are performed as part of the Solvency Assessment in order to ensure that adequate Capital exists to protect against unexpected, extreme economic losses.

3. Clear definition of the organizational structure and Risk process

An organizational structure is established in ALL, inclusive of the roles and responsibilities of all persons involved in the Risk process, which is clearly defined and which covers all Risk Categories.

4. Measurement and evaluation of Risks

All material Risks, including both single Risks and Risk Concentrations across one or more Risk Categories, are measured using consistent quantitative and qualitative methods. Quantified Risks are covered within the scope of the Risk Capital framework of Allianz, which applies consistent quantitative methods and which is based on ALL's Standard Model. Based on individual Risks, the necessary Risk Capital is calculated, taking into account the effects of diversification.

Strictly non-quantified Risks are analyzed based on qualitative criteria.

5. Development of limit systems

A consistent limit system is in place to support adherence to the Risk appetite and to manage concentration Risk exposure and, where appropriate, assist with Capital allocation. The limit system is based on relevant Risk measures where applicable and further complemented by steering limits based on accounting or position information, and is regularly reviewed by the Board of Management against the background of the defined Risk strategy.

6. Mitigation of risks exceeding the Risk appetite

Appropriate Risk mitigation techniques are employed to address instances where identified Risks exceed, or otherwise breach, the established Risk appetite (e.g. limit breaches). Where such cases occur, clear courses of action designed to resolve the breach are initiated, such as the adjustment of the Risk appetite following a business review, the purchase of (re-) insurance, the strengthening of the control environment, or a reduction in, or hedging against, the underlying asset or liability giving rise to the risk.

Risk mitigation techniques are only considered in the Risk capital calculation to the extent they lead to an economically and legally effective transfer of risks.

7. Consistent and efficient monitoring

The Risk strategy and corresponding Risk appetite are transferred into standardized limit management processes covering all quantified Risks and taking into account the effects of Risk diversification and Risk Concentration.

Early warning systems such as the monitoring of limits for high Risks, the consideration of Emerging Risks during performance of the TRA and new product approval processes are established to identify new and Emerging Risks. Risks identified through early warning systems are subject to continuous monitoring and regular reviews and, where appropriate, pre-emptive risk mitigation techniques.

8. Consistent Risk reporting and Risk communication

The Risk Management Function generates internal Risk reports at both predefined regular intervals and on an *ad hoc* basis that contain relevant, Risk-related information in a clear and concise form. Internal Information comprising Risk reports are primarily sourced by management information systems, which operate within internal control environments designed to ensure adequate data quality, in order to support complete, consistent and timely Risk reporting and Risk communication to all relevant levels of management.

Ad hoc reporting covers events which are - besides regular reporting – unexpected in terms of size and impact and either contain significant changes to known Risk issues or completely new or Emerging Risk issues that could lead to significant impacts. Impacts in this context includes material quantitative impacts to profit & loss or capitalization as well as material qualitative impacts to reputation, business continuity (operations) or non-compliance with laws and regulations.

Ad-hoc reporting is triggered consistent with materiality thresholds applied for quarterly risk reporting. Reporting to the Allianz Group Risk Management Function is by means of notification emails from, or ad-hoc or regularly scheduled meetings with, relevant parties such as ALL's CROs/Risk Management

B.3.2 Risk Management's Support Function

The support role focuses on helping ensure employees at all levels of the company are aware of the risks related to their business activities and how to properly respond to them.

This is primarily achieved by providing professional expertise and other tools to assist with the identification of risks, the assessment of risks and corresponding control effectiveness, and the establishment of strategies on how to best mitigate or otherwise respond to risks on an ongoing basis and in the event that they breach the defined risk appetite.

B.3.3 Link to the Group & Business Strategy

Consistent with the Group's business strategy, the ALL Risk Committee (RiCo)⁶ once per year approves the Risk Strategy. The risk strategy defines a risk appetite with respect to all material qualitative and quantitative risks. This includes setting target ratings for top risks ('Top Risk Assessments'), establishing minimum and target capital ratios and defining quantitative limits. Adherence to the risk appetite is enacted through dedicated risk management processes.

B.3.4 Independent Risk Oversight

The independent oversight role of the risk management function focuses on ensuring that the overall risk profile remains within the defined risk appetite. An important component of this objective is ensuring that an adequate internal control system, insofar as related to risk management, is in place.

B.4 Internal control system

The internal control system of ALL consists of general risk approach, specific risk controls and further control elements. Its objectives are:

- Safeguarding existence and business continuity
- Creating a strong control environment, ensuring that all personnel are aware of the importance of internal control and their role in the internal control system
- Conducting control activities commensurate to the risks arising from activities and processes
- Providing the management bodies with the relevant information for their decision-making processes
- Ensuring compliance with applicable laws and regulations.

This is perceived by the following key elements below mentioned.

B.4.1 Internal Control Framework

1) Definition of internal controls

⁶ Note that details about Committees are exposed in part B.1.1.6.

Controls are performed within ALL in terms of control areas, activities and reporting, taking into account independence requirements. The controls are embedded into the operational and organizational set-up and are subject to constant review. Where appropriate, internationally recognized control frameworks such as the COSO or the IT-related COBIT, are used.

Internal controls, therefore, describe the set of activities undertaken by and to achieve defined control objectives, such that controls are in place and applied across all segments and lines of business. These controls continuously review the effectiveness of the relevant processes and procedures (including operations and reporting), their coherence and potential actions to timely rectify deficiencies. The entirety of activities undertaken to perform controls in different areas establish the internal control system (ICS).

2) Areas of internal controls and control activities

The internal control system comprises various control concepts. Besides general elements related to any control activities and in addition to the Risk Management Framework, specific controls are utilized, in particular, around entity level controls, financial reporting, IT, risk capital calculation, underwriting (including products and distribution) and investments. They are supplemented by management reports.

The key responsibilities for the internal controls depend on the concrete control area and activity at the 1st level of defence.

3) Implementation of internal control

The internal control framework consists of the following key elements:

- Management of operational risks through application of a dedicated operational risk management framework
- *Management of financial misstatement risk through application of an Internal Control over Financial Reporting (ICOFR) framework*
- Management of model related risks through application of a specific model governance framework
- Overall monitoring of the system of internal controls and governance by the internal audit function.

B.4.2 Risk Governance Principles

The following principles and approach shall serve as guidance for the implementation of the Internal Control System:

- (1) Safeguarding a **segregation of duties** to avoid potential conflict of interests (for example distinguishing payments, settlement and bookings from trade takings; separation of limit setting and authorizations of transactions; separation of control performance and control testing).
- (2) **Material decisions** shall be taken by **at least two representatives** of the relevant entity, even if under local law the company can be represented by one individual (four-eyes-principle).
- (3) Ensuring decision making processes on all management levels that incorporate relevant information for a sound business judgment, particularly by **unbiased access to needed information**.
- (4) For the financial reporting process, ALL uses the COSO and, in parts, the COBIT model.
- (5) Except Official documents that must respect legal use of language locally, the common language is French and English, to facilitate group-wide communication. All significant written cross-border communication within the Group shall therefore be in English. Exceptions are possible if deemed appropriate by the persons involved in the relevant matter or depending on local requirements.
- (6) Raising awareness to perform internal controls by defining and communicating clear roles and responsibilities and implementing respective trainings.
- (7) Maintaining structured and documented processes for which key controls are in place and are working effectively.

B.4.3 Three lines of defence

Allianz risk governance framework is based on a three lines of defense system at Group as well as at ALL level.

- 1) **The first line of defense** rests with business managers from ALL, who are responsible in the first instance for both the risks and returns of their decisions.

The risk management activities in the first line of defense are targeted towards the management of operational risks and operational excellence.

- 2) **The second line of defense** is made up of dedicated and independent functions at Group and ALL level, including Risk, Legal and Compliance and Actuarial function.

Group Risk develops methods and processes for identifying, assessing and monitoring risks across the Allianz Group based on systematic qualitative and quantitative analysis. Group Risk develops the Allianz risk management framework and oversees the operating entities' adherence to the framework.

Within the decentralized organization of Allianz Group, ALL adheres to external requirements (e.g., requirements imposed by local regulators) as well as internal group wide standards (e.g. group wide underwriting standards). In particular, ALL assumes responsibility for its own risk management, with risk functions and committees that are consistent with the Group structure.

Independent risk oversight is a fundamental principle of ALL risk governance structure, with a clear separation between business functions that actively take decisions and assume risk responsibility on one hand, and independent risk oversight functions on the other hand. Risk oversight consists of independent risk identification, assessment, reporting and monitoring and also includes analyzing alternatives and proposing recommendations to the Risk Committees, local management or to the Executive Committee of ALL. The ALL risk department performing the oversight role is headed by a Chief Risk Officer and composed by ALL dedicated managers. Group Risk is represented in the local Risk Committee to enhance the risk dialogue between the Group and the ALL entity.

Legal and compliance is responsible for integrity management which aims to protect the Allianz Group, ALL and employees from regulatory and reputational risks.

Legal and compliance services seek to mitigate legal risks with support from other departments. Legal risks include legislative changes, major litigations and disputes, regulatory proceedings and contractual clauses that are unclear or construed differently by the Courts.

The Actuarial Function calculates technical provisions, ensures appropriateness of models and assumptions, expresses an opinion on the overall underwriting policy and adequacy of reinsurance arrangements and contributes to the effective implementation of the risk management system. The Actuarial Function is expected to provide a holistic actuarial oversight of the company.

- 3) **The third line of defense** is composed by ALL internal Audit. On a periodic basis, Audit independently reviews the risk governance implementation, performs quality reviews of risk processes and tests adherence to business standards.

B.4.4 Compliance Function

ALL has a compliance function headed by a Compliance Officer (CO).

1) Status and position of the CO within the management structure

The CO reports administratively and operationally to the Chairman of the Executive Committee.

2) Powers

The CO and, more generally, the Legal & Compliance Department that he heads up, is able to take action in many areas of mandatory compliance activity, plus compliance objectives relating to other themes, such as:

- Prevention of competing mechanisms;
- Compliance with circulars from the regulatory authority;
- Compliance with codes of soft law (e.g. advertising and information in personal insurance);
- Management of complaints (customer mediation);
- Business ethics (moonlighting; gifts and entertainment);
- Preventing conflicts of interests;
- Financial ethics (including prevention of insider trading);
- Combating all forms of corruption and fraud;
- Management of sub-contracting;
- Any compliance-related matter where the integrity or image of the company is threatened
- CRS-Fatca rules.

3) Missions

The duties of the CO are sevenfold:

- Analyze business risks according to areas of activity coming within the scope of compliance defined by the regulatory authority;
- Analyze prevention in connection with each area of activity and ensure the

application of the preventive measures decided;

- Inform, raise awareness and educate personnel about such prevention;
- Report to the company's management bodies on work carried out, difficulties encountered and the emergence of any new risks;
- Adapt or add to the integrity policy, procedures and instructions in accordance with changing risks and legislation;
- Prevent any compliance-related risk through correction of documents, adaptation of procedures or vetoing a project method.
- Draw up a realistic annual action plan incorporating monitoring and control via tests or interviews with a view to ensuring that statutory and regulatory provisions, sectorial codes and group and company rules are complied with or applied.

The CO and, more generally, all the legal experts are consulted to validate many *modus operandi* or situations which may present problems.

They act as a regulatory and ethical advice center to guide and advise management and players on the ground as well as, where necessary, to impose a solution or assert a negative opinion in relation to an initiative, project or conduct where they are not compatible with the applicable rules.

The CO submits an annual report to the Executive Committee and the Audit Committee.

4) Independence and access to information

The CO has the right to:

- Consult any corporate document which comes within the scope of the missions entrusted to him or her; Veto the carrying out of an operation, the realization of a project or the signing of an agreement irrespective of the level of the person supporting the project, with such person then being required, where necessary, to bring the matter before the Executive Committee;
- Have direct access to any member of the Board of Directors, the Audit Committee and the Executive Committee within the context of the function performed by any such member;

The CO is administratively but not operationally independent. The CO is part of a corporate framework which he must respect. However, he has a right of veto over anything that may

impact compliance with regulations. In this case, an escalation process is provided via Group compliance.

B.5 Internal audit function

1) Fundamental principles

The Internal Audit Function is a key function within the Internal Control System of ALL.

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps the organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Therefore, Internal Audit activities are geared towards helping the company to mitigate risks as well as further assist in strengthening the organization's governance processes and structures.

Based upon this definition, Internal Audit acts as a "last-line of defense" in a Three-Line of-Defense Framework, with the other two tiers being.

Further clarification of Internal Audit's role within a Three-Lines-of-Defense Framework is provided in the scheme hereafter.

Positioning of Internal Audit

Internal Audit's role within a three levels Internal Control Framework



2) Objectives

Internal Audit, due to its independent and objective role, supports the company's Management to mitigate risks as well as to assist in strengthening the organization's governance processes and structures by reviewing activities and procedures in all areas, without scope limitation, with the objectives of:

- Safeguarding of the company's assets;
- Strengthening effective Internal Control and Risk Management/Controlling Systems by assessing and evaluating their adequacy and effectiveness;
- Strengthening compliance with legal and supervisory regulations, as well as corporate principles and guidelines;
- Fostering the appropriate and efficient use of resources.

3) Tasks

Internal Audit serves the organization in the following manner:

- Internal Audit informs the Executive Committee and the Audit Committee of the adequacy, efficiency and effectiveness of the Internal Controls and Risk Management/Controlling Systems within the company. This includes monitoring the realization of agreed-upon measures for improvements as well as receiving, investigating and following up on possible occurrences of fraud and management override. Additional

committees who have governance oversight over these areas may be informed.

- Based on a comprehensive, risk-oriented audit plan, Internal Audit conducts audits of the Internal Control and the Risk Management/Controlling Systems which are integrated into business processes and structures of the company. Furthermore, unplanned audits, as per management's request or due to new risk developments, are also performed.
- Internal Audit evaluates the potential for the occurrence of fraud and assesses the effectiveness of design and operations of the controls within the organization intended to manage and mitigate fraud risks.
- In cases where the audited entity has engaged a third party (e.g. outsourcing), the audited entity typically has the responsibility to ensure that adequate controls are in place and can be reviewed by Internal Audit. The right to perform direct audits at the service provider must therefore be included in the respective Service Level Agreement and general standards regarding confidentiality and dissemination of audit reports would apply.

4) Organizational independence

The Internal Audit Function has a standing within the organizational structure that ensures to maintain the necessary independence from first-line and second-line functions.

B.6 Actuarial Function

The **Actuarial Function** (Solvency II) calculates technical provisions, ensures appropriateness of models and assumptions, expresses an opinion on the overall underwriting policy and adequacy of reinsurance arrangements and contributes to the effective implementation of the risk management system.

The Actuarial Function is expected to provide a holistic actuarial oversight of the company.

According to Allianz's vision, the Actuarial Function should be a business partner to add value to business decisions, to protect the business and to interact with other departments, taking efficiency into account. The Actuarial Function is expected to provide a holistic actuarial oversight of the company.

B.7 Outsourcing

ALL has developed an Outsourcing Policy. All principles and processes are described by this text which is mandatory for any outsourcing.

The legal department of the Allianz group is the owner of the drafting/review of the Group Outsourcing Policy from which the ALL Outsourcing policy is widely derived. ALL Head of legal is responsible for customizing it to local needs and constraints.

B.7.1 General outsourcing principles

6 main requirements must be respected:

- Integration of each outsourcing in the risk management and internal control system
- Contingency plan (how to avoid losses) and exit strategy have to be developed in case of CIFS
- Priority to Group Internal outsourcing if may be (limiting the risk, giving more flexibility)
- Principle of proportionality applicable (intensity without bypassing requirements is depending on the nature, scope, importance and complexity of the project)
- Ultimate responsibility of ALL anyway
- Outsourcing of key functions is prohibited.

B.7.2 Governance principles

A strict framework based on 6 governance rules has been put in place to mitigate risks:

- for CIFS, *approval by the ALL Executive Committee required* (exception: one approval is enough when the process is iterative and aims industrial outsourcing or a high number of small providers)
- *any sub-outsourcing requires the ALL approval* and when a CIFS is at stake the Executive Committee must validate it (the mirroring process for the sub-provider is demanded).
- for each outsourcing, *a business owner* must be identified.
- *adequate segregation of responsibilities* (no function elsewhere in the group, no relationship with the candidate provider, only for one business ownership of a key function)
- *exclusion of any detrimental project* which could (i) jeopardize the quality of the ALL governance system or the quality of the internal audit function, (ii) unduly increase the operational risk, (iii) endanger the regulator's capacity to verify that ALL respect the SII rules, impair the quality level of services for policyholders, insured and beneficiaries
- continuity protection rules applicable (protection of knowledge and documentation)

B.8 Any other information

All material information has been provided in the previous sections.

C. Risk profile

Allianz has set up a comprehensive risk management framework in order to maintain the risk profile within the risk appetite and promote a strong risk management culture. This framework is laid down in the Allianz Corporate Rules Book. Additionally, ALL defines the different types and categories of risks according to the Allianz Risk Taxonomy.

Allianz Life Luxembourg is active solely in Life products. This business strategy is subsequently reflected in the risk profile. The asset portfolio of ALL is built using restrictive acceptance rules. Note that the guiding principle for investment risk management is the Prudent Person Principle (Article 132 of the Solvency II EU Directive)⁷. The Strategic Asset Allocation (SAA) defines the long-term investment strategy for the overall investment portfolio.

Note that the risk profile described below is based on the situation at the end of 4Q2018.

C.1 Life underwriting risk⁸

Life underwriting risk is defined as the risk of unexpected financial losses due to the inadequacy of reserves or due to the unpredictability of mortality, longevity or lapses.

Subsequently, these risks can be defined as:

- Mortality risk is associated with the risk of losses due to temporary or permanent changes in mortality rates;
- Longevity risk is the risk of losses due to temporary or permanent changes in survival rates;
- Lapse risk is the risk of lapses of policyholders, related to all types of policyholder behavior.
- Expenses risk is the risk of losses due to an increase in the amount of expenses on insurance products and an increase in the inflation rate.

⁷ The Prudent Person Principle covers both a portfolio and a single-investment dimension:

- All assets need to be invested to ensure the quality, security, liquidity, profitability and availability of the investment portfolio as a whole. This also includes the need to structure the investment portfolio appropriate to the nature and duration of insurance liabilities covered with these assets.
- Assets are only admissible if the investors can properly identify, measure, monitor, manage, control, report and appropriately integrate their risks in their solvency assessment.

⁸ Note that underwriting risk in general can be subdivided in non-life and life underwriting risk. Clearly, non-life underwriting risk is not relevant for ALL as this entity is active in the Life market only

ALL is mainly exposed towards lapse risk. In recent years, ALL's new production has focused on reinsured Euro fund⁹ and Unit Linked contracts. Should the market interest rates increase strongly and quickly, mainly the Euro fund contracts would be vulnerable. It can be expected that many policyholders would want to switch to other kinds of investments within their contracts, should the profit participation rate fall below the market interest rates. Some could also lapse their contract, resulting in a loss of future fees for ALL. As a result of the sales of the Euro fund and Unit Linked policies, the trend of the life underwriting risk for ALL has generally been increasing in the last few years.

The exposure towards longevity and mortality risks is rather limited due to the ALL's product mix.

C.2 Market risk

As an inherent part of the insurance operations, ALL collects premiums from customers and invest them in a variety of assets with liquidity and duration features that match the liability profile. Thereby, ALL holds different financial instruments and non-financial instruments (such as real estate). The resulting investment portfolios back the future claims and benefits to the customers. As the market value of the investment portfolios depends on financial markets, which exhibits volatility, ALL is exposed to market risks. Market risk can therefore be defined as the risk that the net position of the assets and liabilities is adversely affected by changes in equity prices, risk free interest rates, credit spreads, foreign exchange rates or real estate prices. Note that market risk can also arise from reinvestment risk, this is however limited due to the strong ALM (asset-liability management) practice at ALL.

Market risk can be further subdivided according to the category of financial instrument or potential adverse change.

C.2.1 Equity risk

Equity risk is the risk that the net position of the assets and liabilities is adversely affected by changes in equity prices.

As noted before, a large part of ALLs business is unit-linked products. As a consequence, ALL holds a large amount of fund participations on the asset side. Although the funds serving as the Unit Linked contracts' underlying are invested in fixed income and equity (type 1¹⁰), only a partial look through is done so far on the assets invested since detailed information to do a full look through is lacking. As a consequence, ALL is forced to take the most prudential

⁹ Funds with guaranteed minimum rate

¹⁰ equities listed in regulated markets in EEA or OECD countries

point of view for the assets where no look through is applied, and treat these assets as type 2 equity¹¹. This approach results in an overestimation of the equity risk in the regulatory Solvency Capital Requirements. The amount of equity directly held on ALL balance sheet is very limited.

C.2.2 Interest rate risk

Given the long duration of some insurance obligations, ALL is exposed to interest rate risk, as maturing fixed income assets will need to be reinvested prior to the maturity of the liability claims they are backing.

Through ALM, the match between assets and liabilities is optimized. ALL aims at matching its liabilities in terms of cash flow and book yield as good as possible. This ALM perspective is thus aimed to mitigate interest rate risk.

Since a major part of ALL products consists of unit-linked business, the vulnerability of ALL to the current low interest rate curve is finally relatively low.

C.2.3 Currency risk

Currency risk relates to losses incurred due to fluctuations in foreign currency exchange rates. ALL is only exposed to these currencies within unit-linked policies, in order of importance: USD, GBP and CHF. The currency risk is the least significant market risk for ALL in 4Q2018.

C.2.4 Real estate risk

Real estate risk is the risk of changes in the market value of real estate property. ALL is materially exposed to the property risk to cover long-term guarantees on some insurance products. The property risk is therefore one of the most important market risks for ALL in 4Q2018.

C.2.5 Spread risk

Spread risk relates to the decrease in the market value of fixed income assets due to the widening of spreads at unchanged credit quality. In other words, spread risk arises from fluctuations of the market premium for liquidity and credit risk. ALL is materially exposed to this risk as bonds and loans form a significant part of the asset portfolio.

Note that in case of a stable and well-matched asset-liability portfolio, spread risk does not lead to actual losses because the bonds are held until maturity. Therefore, the ALM

¹¹ all not-listed equities, equities listed outside the EEA or OECD, hedge funds, commodities and other alternative instruments

methodology of ALL also plays an important role in preventing that spread risk leads to effective losses.

C.2.6 Concentration risk

Concentration risk relates to losses incurred due to inadequately diversified portfolios of assets and/or obligations. ALL is not materially exposed to this market risk.

C.3 Credit risk

The counterparty default risk module is designed to reflect the change in the value of assets and liabilities caused by unexpected default or deterioration in the credit standing of independent counterparties and debtors.

It applies to reinsurance arrangements, deposits with ceding and credit institutions, which are classified as type 1 exposures and are assumed not to be diversified but likely to be rated. Exposures to receivables from intermediaries and policyholder debtors are classified as type 2 exposures, which are assumed to be well diversified but unlikely to be rated. ALL is exposed to these two types of counterparty default exposure.

C.3.1 Type 1 exposure

Type 1 exposure for ALL includes cash at bank and reinsurance receivables. The counterparty for reinsurance receivables is Allianz SE whose rating is AA and Allianz France with a full collateral protection. The counterparty for cash at bank is BNP Paribas SA which has an A+ rating.

Type 1 exposure is the main counterparty default risk for ALL.

C.3.2 Type 2 exposure

Type 2 exposure for ALL includes loans, mortgages and receivables (from policyholders for example). This type of exposure is material for ALL but less significant than the type 1 exposure.

C.4 Liquidity risk

Liquidity risk is the risk that current or future payment obligations cannot be met by ALL due to the lack of available cash or lack of assets that can be quickly converted into cash. This risk arises from mismatches in timing between incoming and outgoing cash flows. Unlike banks, ALL is not exposed to sudden and unexpected liability runoff because of the stable nature of its insurance liabilities, as described in the preceding chapters. Besides a large majority of ALL's investments are high-quality liquid bonds, which provide a significant liquidity buffer.

C.5 Operational risk

Operational risk comprises the risks arising from human error, process or system failure and from external events. Please refer to Chapter B for more details regarding the setup of the operational risk management processes.

C.5.1 Reputational risk

Reputational risk is the risk of financial loss resulting from reputational damage. Given the potential business impact of reputational damage, reputational risk has become a standard agenda item at the Risk Committee meetings. ALL has a structured process in place to analyze and follow-up on reputational risk events. Furthermore ALL pro-actively defines risk tolerances with regard to sensitive areas. Reputational risk assessment is part of the top risk assessment process.

C.5.2 Legal and Compliance Risk

Legal risk relates to losses resulting from law suits, with as specific case compliance risk, defined as the risks of sanctions imposed by regulatory authorities as a result of not complying with applicable laws, regulations and administrative provisions. Next to direct financial loss this can also result in reputational damage.

Allianz differentiates between (i) local regulatory developments which have primarily an impact on individual companies such as ALL and (ii) regulatory risk affecting also the wider Allianz SE Group. Therefore, the management of Legal and Compliance risks is a shared responsibility of the Group's and the OEs' Legal and Compliance departments:

- Topics relevant to ALL are monitored by ALL Legal and Compliance functions.
- Changes in the regulatory environment that are of importance also for Allianz SE as a whole are monitored by relevant departments at Allianz SE level.

C.6 Any other information

C.6.1 Diversification of risks

Diversification is the key to our business model. Diversification helps us to manage our risks effectively by limiting the economic impact of any single event. The degree to which the diversification effect can be realized depends not only on the correlation between risks categories, but also on the relative concentration level of those risks. Therefore, ALL's aim is to maintain a balanced risk profile .

Within the individual risk categories, supplementary approaches are used to limit concentration risks:

- Bottom-up process for controlling the asset allocation including leeways. In this way, exposure to single market risk type is restricted.
- Allianz Group has designed a system to manage counterparty concentrations relating to credit and equity exposures on a group-consistent basis. Within this limit framework, limits for counterparty exposures are allocated to all operating entities. Limits allocated to an operating entity can be set lower by the local CRO. In this way, the limit allocation is such that the total exposure for the Allianz Group will stay within a predefined group limit, while also the risk appetite of the operating entity is acknowledged.

D. Valuation for Solvency purposes

D.1 Scope of consolidation

The Solvency II Directive is applicable to direct life and non-life insurance undertakings as well as reinsurance undertakings which are established in the European Economic Area (EEA)¹² or which wish to become established here.

Market Value Balance Sheet (MVBS) and Own Funds information have to be collected both for Solo and for Group regulatory reporting.

ALL is not considered as Group and therefore only a Solo reporting is required.

ALL SII reporting comprises Life activities only.

Reconciliation of differences between Local Gaap and MVBS

The following table provides an overview of the reconciliation from “Local Gaap re-mapped to MVBS line items”. The column “Adjustment for MVBS” provides the basis for the comparison of local accounting standards and MVBS figures in the subsequent sections.

In order to compare Local Gaap and MVBS figures, the original Local Gaap data needs to be remapped to the MVBS line-item structure.

¹² The EEA comprises the European Union plus Iceland, Norway and Liechtenstein. Switzerland is not part of the EEA.

	Amount in kEur		
	Solvency II value 31.12.2018	Statutory accounts value 31.12.2018	Adjustments for MVBS 31.12.2018
	C0010	C0020	
Assets			
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	24 332	21 858
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	393 432	39 222
Property (other than for own use)	R0080	5 044	2 708
Holdings in related undertakings, including participations	R0090	35 403	4 808
Equities	R0100		
Equities - listed	R0110		
Equities - unlisted	R0120		
Bonds	R0130	281 645	31 247
Government Bonds	R0140	165 634	24 976
Corporate Bonds	R0150	116 010	6 271
Structured notes	R0160		
Collateralised securities	R0170		
Collective Investments Undertakings	R0180	71 113	448
Derivatives	R0190	227	10
Deposits other than cash equivalents	R0200		
Other investments	R0210		
Assets held for index-linked and unit-linked contracts	R0220	3 617 449	112 520
Loans and mortgages	R0230	45 296	3 984
Loans on policies	R0240	2 251	0
Loans and mortgages to individuals	R0250		
Other loans and mortgages	R0260	43 045	3 984
Reinsurance recoverables from:	R0270	4 284 070	297 328
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	4 283 670	296 928
Health similar to life	R0320		
Life excluding health and index-linked and unit-linked	R0330	4 283 670	296 928
Life index-linked and unit-linked	R0340	400	0
Deposits to cedants	R0350		
Insurance and intermediaries receivables	R0360	1 653	121
Reinsurance receivables	R0370	21 769	0
Receivables (trade, not insurance)	R0380	7 447	-3 084
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	31 510	1 343
Any other assets, not elsewhere shown	R0420		
Total assets	R0500	8 426 958	473 292

Table 1: Reconciliation Assets between Local Gaap and Solvency II

The differences between the local values that are adjusted for the MVBS scope and the MVBS values are explained further in this report for each line item.

There were no changes made to the recognition and valuation bases used or on estimations during the reporting period.

Allianz considers the information on assumption about future management actions and relevant assumptions about policyholder behavior as not applicable for assets and other liabilities.

D.2 Valuation of assets

D.2.1 Goodwill

Goodwill is an intangible asset that arises as the result of a business combination and that represents the economic value of assets that cannot be individually identified or separately recognized in a business combination.

Under local Gaap, goodwill acquired in a business combination is recognized while no goodwill is recognized under MVBS.

AZ Luxembourg does not hold goodwill under local Gaap.

D.2.2 Deferred acquisition costs

Deferred acquisition costs are acquisition costs relating to contracts in force at the balance sheet date which are carried forward from one reporting period to subsequent reporting periods, relating to the unexpired periods of risk. In relation to life insurance business, acquisition costs are deferred when it is probable that they will be recovered.

Cash flows relating to deferred acquisition costs are included in the best estimate of the technical provisions in the MVBS and are not recognized separately on the asset side. Therefore, the MVBS does not contain an asset for deferred acquisition costs. For further details, please refer to the section on “technical provisions”.

No DAC are recognized under local GAAP or MVBS.

D.2.3 Intangible assets

This line item includes intangible assets other than goodwill. Intangible assets are non-monetary assets without physical substance. They are only recognized in the MVBS when they are separable and there is evidence of exchange transactions for the same or similar assets, indicating it is saleable in the market place. They are measured at fair value with their market price.

No intangible assets are recognized under local GAAP or MVBS.

D.2.4 Deferred tax assets

Deferred tax assets are the amounts of income tax recoverables in future periods with respect to deductible temporary differences, tax losses and tax credits.

ALL does not recognize DTA, neither under local GAAP, nor under MVBS.

D.2.5 Property, plant and equipment

Property, plant and equipment held for own use includes tangible assets which are intended for permanent use and property held by the group for own use. It also includes property for own use under construction. Property, plant and equipment are measured at fair value.

The fair values are derived from expert appraisals with internal controls in place to monitor these valuations.

The difference between Local Gaap and MVBS values is due to the different measurement basis. Property, plant and equipment are measured at amortized cost under Local Gaap while it is included at fair value in the MVBS.

D.2.6 Investments (other than assets held for index-linked and unit-linked funds)

Investments are measured at fair value for solvency II purposes. When quoted prices in active markets are available for the valuation of investments, those prices are used for the measurement under Solvency II. An active market thereby follows the definition of IFRS 13, Appendix A where an active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. An active market is a market where all of the following conditions exist:

- the items traded within the market are homogeneous;
- willing buyers and sellers can normally be found at any time; and
- prices are available to the public.

If quoted prices in active markets for the investments are not available, other valuation methods are used. These valuation techniques are consistent with the valuation techniques listed in IFRS 13 and in the Solvency II guidance and include

- Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach: Amount that would currently be required to replace the service capacity of an asset (replacement cost).
- Income approach: Conversion of future amounts such as cash flows or income to a single current amount (present value technique).

In each MVBS line for the investments, the valuation techniques used are described.

D.2.6.1 Property (other than for own use)

Property includes property other than for own use. Investment property is measured at fair value.

The fair values are from expert appraisals with internal controls in place to monitor these valuations.

The difference between local Gaap and MVBS values is due to the different measurement basis. Investment property is measured at amortized cost under Local Gaap while it is included at fair value in the MVBS.

D.2.6.2 Participations

The participation value is based on the undertaking's share of the excess of assets over liabilities of the related undertaking's MVBS (adjusted equity method).

When calculating the participation value for undertakings other than insurance or reinsurance, and where the use of quoted market prices or the adjusted equity method is not practicable, the equity method can be used instead, i.e. the participation value is based on the undertaking's share of the excess of assets over liabilities of the related undertaking's IFRS balance sheet (where goodwill and other intangible assets are valued at zero).

Private equity investments are measured at fair value in the MVBS according to the industry-specific valuation methods.

Participations also include investments in associated entities and joint ventures. Those investments are measured at quoted market prices in active markets, if available. If there is no quoted market price, the investments are included as follows:

- If the associate is an insurance company, the adjusted equity method is applied. If this is not possible, a mark-to-model approach is used.
- If the associate is not an insurance company, the adjusted equity method or equity method is applied. If this is not possible, a mark-to-model approach is used.

The mark-to-model approach is typically based on the market approach using market multiples derived from a set of comparable as the valuation technique and on an income approach using a discounted cash flow method or net asset values as provided by third-party vendors.

Under Local GAAP participations are valued at cost.

D.2.6.3 Equities

Equities include listed and unlisted equities, i.e., shares representing corporations' capital, e.g., representing ownership in a corporation, listed on a public stock exchange. It does not include participations. Under Local Gaap, financial assets are accounted at acquisition cost decreased when necessary by impairments. For MVBS purposes, all financial assets as defined in IAS 39 are valued at fair value.

The fair value of equities is mainly determined by market prices. If no quoted prices in active markets are available the fair value is in general determined using the market or the income approach. Primary inputs to the market approach are quoted prices for comparable assets in active markets. In cases where a fair value is not available for these assets and cannot be determined, the Local Gaap values are taken over in the MVBS.

D.2.6.4 Bonds

This category includes government and corporate bonds as well as collateralized securities. Government bonds are bonds issued by public authorities, e.g., central governments, supra-national government institutions, regional governments or municipal governments. Corporate bonds include bonds issued by corporations and covered bonds which are backed by cash flows from mortgages or public sector loans. Collateralized securities comprise securities whose value and payments are derived from a portfolio of underlying assets. They mainly include Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS). Under Local Gaap, bonds are accounted at acquisition cost decreased when necessary by impairments. For MVBS purposes, bonds as defined in IAS 39 are valued at fair value.

The fair value is mainly determined using the market and the income approach. Primary inputs to the market approach are quoted prices for identical or comparable assets in active markets. The income approach in most cases means a present value technique where either the cash flow or the discount curve is adjusted to reflect credit risk and liquidity risk.

D.2.6.5 Investment Funds

Investment funds are defined as undertakings whose sole purpose is the collective investment in transferrable securities and/or in other financial assets. Investment funds mainly include stock funds, debt funds, real estate funds and private equity funds. Under

Local Gaap, investments funds are accounted at acquisition cost decreased when necessary by impairments. For MVBS purposes, all financial assets as defined in IAS 39 are valued at fair value.

The fair value of Investment Funds is determined by market prices or mark-to-model depending on whether quoted prices in active markets are available. The fair value for collective investment undertakings is mainly determined by quoted market prices.

D.2.6.6 Derivatives

AZ Luxembourg holds derivatives in order to hedge a compensation plan.

D.2.6.7 Deposits other than cash equivalents

AZ Luxembourg does not hold deposits other than cash equivalents.

D.2.6.8 Other investments

Other investments include investments not covered by positions of investments indicated above.

There is no difference between Local Gaap and MVBS values.

D.2.7 Assets held for index-linked and unit-linked funds

Assets held for index-linked and unit-linked funds are defined as assets held for insurance products where the policyholder bears the risk. Index-linked and unit-linked assets are measured at fair value. The fair value for assets held for index-linked and unit-linked funds is mainly determined by market prices.

The difference between MVBS and statutory Gaap is due to different valuation of Unit-Linked funds. Due to timing constraint, intermediate valuations were used for MVBS, while definitive valuations have been used in statutory Gaap.

D.2.8 Loans and mortgages

Loans and mortgages include “loans and mortgages to individuals”, “other loans” and “mortgages and loans on policies”. Loans and mortgages are financial assets created when creditors lend funds to debtors, with or without collateral, including cash pools. Loans on

policies are loans made to policyholders that are collateralized by policies. The fair value of loans and mortgages is mainly derived based on the income approach using deterministic discounted cash flow models. The relevant discount rates are derived from observable market parameters and reflect the remaining life and credit risk of the instruments.

The difference between local Gaap and MVBS values results from the different measurement basis. Loans and mortgages to individuals, other loans and mortgages and loans on policies are mainly measured at amortized cost using the effective interest method under Local Gaap while they are measured at their fair value in the MVBS.

D.2.9 Reinsurance recoverables

ALL does not have any Special Purpose Vehicles (SPVs)

The reinsurance recoverables of AZ Luxembourg are in Life.

The amounts recoverable from reinsurance contracts are calculated consistently with the boundaries of the underlying insurance or reinsurance contracts to which they relate.

The calculation of reinsurance recoverables leads either to the recognition of reinsurance recoverables calculated as a whole or the best estimate for the reinsurance recoverable. No RM is reported in the section of the reinsurance recoverables as the RM recognized within the technical provisions is already net of reinsurance. In addition, a credit default adjustment (CDA) is calculated. The best estimate of technical provisions has to be calculated gross, i.e., amounts recoverable from reinsurance contracts are not deducted.

Cash in-flows include recoverables from reinsurance contracts for claims payments or benefits and recoverable related expenses.

Cash out-flows include future premiums for reinsurance contracts.

The result from the calculation of reinsurance recoverables is adjusted to take into account expected losses due to default of the counterparty. That adjustment is based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default).

The calculation of CDA involves three conceptual steps:

- local estimation of inputs (e.g., reinsurance recoverables, duration),
- gather centrally provided parameters (reinsurance rating and probability of default),
- and

- local calculation of CDA.

The CDA can be calculated based on the simplification of Article TP.2.183 of Technical Specification for the Preparatory Phase (Part I) (EIOPA-14/209 as of 30 April 2014).

$$Adj_{CD} = -\max\left(0.5 \cdot \frac{PD}{1-PD} \cdot Dur_{mod} \cdot BE_{rec}; 0\right)$$

where

- PD denotes the probability of default of that counterparty during the following 12 months,
- Dur_{mod} denotes the modified duration of the amounts recoverable from reinsurance contracts with that counterparty in relation to that homogeneous risk group, and
- BE_{rec} denotes the amounts recoverable from reinsurance contracts with that counterparty in relation to that homogeneous risk group.

As described above, the best estimate of technical provision is calculated on a gross basis of recoverable from reinsurance contracts and SPVs. The recoverable are to be captured separately.

ALL holds a large recoverable on Allianz France, reported under life excluding health and Unit-Linked. This is the value of a financial reinsurance agreement of euro fund business. Premiums are collected by AZ Luxembourg, but the guaranteed rate is guaranteed by Allianz France.

ALL holds a small recoverable on Unit-Linked business. This is due to the reinsurance of additional death coverage on some Unit-Linked policies.

In ALL, Counterparty Default Adjustment is totally negligible. The large recoverable on Allianz France is collateralized resulting in a null Counterparty Default Adjustment. Moreover, we have high quality re-insurers such as Swiss Re and Allianz, having very small default probabilities.

D.2.10 Deposits to cedants

Deposits to cedants include deposits relating to reinsurance accepted. Deposits to cedants are measured at amortized cost.

No differences between the Local Gaap and the MVBS valuation.

D.2.11 Insurance and intermediaries receivables

Insurance and intermediaries receivables include amounts past-due by policyholders, insurers, and others participating in the insurance business that are not included in cash inflows of technical provisions. Receivables from insurance and intermediaries are generally measured at their nominal amount with an adjustment for the probability of default of the counterparty. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

Therefore, insurance and intermediaries of receivables are measured at nominal value with an adjustment for probability default for counterparty in Local Gaap.

There is no significant difference between Local Gaap and MVBS values as the respective assets are measured at their nominal values. The small adjustment for MVBS of this asset is reflected on the “Insurance & intermediaries payables” account on the liability side.

D.2.12 Reinsurance receivables

Reinsurance receivables include amounts past-due by reinsurers that are linked to the reinsurance business but that are not reinsurance recoverables. They might include receivables from reinsurers that relate to settled claims of policyholders or beneficiaries, payments in relation to other than insurance events or settled insurance claims. Reinsurance receivables are generally measured at their nominal amount with an adjustment for the probability of default of the counterparty. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

Therefore, reinsurance of receivables are measured at nominal value with an adjustment for probability of default counterparty under under Local Gaap and MVBS.

There is no significant difference between Local Gaap and MVBS values as the respective assets are measured at their nominal values.

D.2.13 Receivables (trade, not insurance)

Receivables (trade, not insurance) include amounts receivable from employees or various business partners and are not insurance-related. They also include amounts receivable from public entities. Receivables (trade, not insurance) are generally measured at their nominal amount with an adjustment for probability of default of counterparty. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

Therefore, receivables (trade, not insurance) are measured at nominal value with an adjustment for probability of default for counterparty risk under Local Gaap and MVBS, unless the market value deviates materially from the adjusted nominal value.

D.2.14 Cash and cash equivalents

Cash and cash equivalents include notes and coins in circulation that are commonly used to make payments, and deposits exchangeable for currency on demand at par and which are directly usable for making payments without penalty or restriction. Cash and cash equivalents are measured at nominal amount with, if necessary, an adjustment for probability of default of counterparty. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

There is no difference between Local Gaap and MVBS values as the respective assets are measured at their nominal values.

D.2.15 Any other assets, not elsewhere shown

Any other assets, not elsewhere shown include any assets that are not included in the other balance sheet items. It includes mainly deferred charges but also assets. They are generally measured at fair value or at nominal amount with an adjustment for probability of default of the counterparty. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

There is no significant difference between Local Gaap and MVBS values as the respective assets are measured at their nominal values.

D.3 Valuation of technical provisions – Life

D.3.1 Technical provisions per Super-LoBs

The following table shows the consolidated MVBS technical provisions on Super-LoB basis as of 31. December 2018.

	Amounts in EUR		
	Solvency II value	Statutory accounts value	Adjustment for MVBS
	C0010	C0020	C0020
Liabilities			
Technical provisions – non-life	R0510		
Technical provisions – non-life (excluding health)	R0520		
Technical provisions calculated as a whole	R0530		
Best Estimate	R0540		
Risk margin	R0550		
Technical provisions - health (similar to non-life)	R0560		
Technical provisions calculated as a whole	R0570		
Best Estimate	R0580		
Risk margin	R0590		
Technical provisions - life (excluding index-linked and unit-linked)	R0600	4 608 496 700.00	4 308 527 952.00
Technical provisions - health (similar to life)	R0610		
Technical provisions calculated as a whole	R0620		
Best Estimate	R0630		
Risk margin	R0640		
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	4 608 496 700.00	4 308 527 952.00
Technical provisions calculated as a whole	R0660		
Best Estimate	R0670	4 570 423 090.00	
Risk margin	R0680	38 073 610.00	
Technical provisions – index-linked and unit-linked	R0690	3 550 202 320.00	3 504 928 958.00
Technical provisions calculated as a whole	R0700		
Best Estimate	R0710	3 529 877 900.00	
Risk margin	R0720	20 324 420.00	
Other technical provisions	R0730		

Table 2: Life –MVBS technical provisions on Super-LoB basis

D.3.1.1 Description of the basis for the valuation of Best Estimate Liabilities and Risk Margin

Allianz Group requires technical provisions to be calculated for its life companies according to Article 76 and 77 of the Solvency II Directive 2009/138/EC in order for technical provisions to be disclosed as part of a MVBS.

The technical provisions correspond to the current amount that Allianz would have to pay if it was to transfer its (re)insurance obligations immediately to another (re)insurance undertaking. The calculation of technical provisions equals the sum of Best Estimate Liabilities and a Risk Margin, which are calculated separately.

The Actuarial Function takes into account the following characteristics:

- the degree of homogeneity of the risks,
- the variety of different sub-risks or risk components of which the risk is comprised,
- the way in which these sub-risks are interrelated with one another,
- the level of uncertainty i.e. the extent to which future cash flows can be predicted,
- the nature of the occurrence or crystallization of the risk in terms of frequency and severity,
- the type of the development of claims payments over time,
- the extent of potential policyholder loss,

- the type of business from which the risks originate (e.g. direct business or reinsurance business),
- the degree of correlation between different risk types, and
- any risk mitigation instruments applied, and their impact on the underlying risk profile.

Group Actuarial provides guidance and criteria to judge if the chosen methodology is proportionate to the nature, scale and complexity of the risks. In addition, Group Actuarial reviews and challenges the technical provisions calculated by ALL in the quarterly closing process.

D.3.1.1.1 Best Estimate Liabilities (BEL)

The BEL is calculated for all in-force policies at the valuation date. The BEL represents the value of discounted cash flows that emerge over the term of the policy. The cash flow projection used in the calculation takes account of all the cash inflows and cash outflows required to settle the insurance and reinsurance obligations over the lifetime thereof, including:

- future benefits – maturity values, annuity payments, claims, surrender values,
- future expenses – maintenance, servicing, overhead, commission, investment management, and
- future premiums – contracted premiums.

All future amounts are discounted to the valuation date at the valuation discount rate.

Generally, simplifications or approximations must not result in an error of more than 5 % in the results of the calculation. Appropriate simplified methods could be IFRS reserve or local statutory reserve.

All options and guarantees (O&G) are evaluated and included in the BEL subject to a materiality assessment.

Best estimate assumptions regarding policyholder behavior on the take up of contractual options, as well as lapse or surrender, are based on current and credible information. The assumptions take account, either explicitly or implicitly, of the impact that future changes in financial and non-financial conditions may have on the exercise of those options.

D.3.1.1.2 Risk Margin (RM)

The market value of liabilities is defined as the discounted best estimate liabilities plus a Risk Margin (RM), representing the cost of capital to run-off the business until final settlement. Therefore, the RM is the cost of holding the necessary capital in excess of the BEL. In other

words, at the time the balance sheet is drawn up, all contractual obligations are carried at their expected value (discounted for time value) plus the RM.

In accordance with Solvency II, an allowance for the cost of holding non-hedgeable risk capital is required. No RM is required for hedgeable financial risks as these are transferred through the capital markets. RM is required for non-hedgeable risks – the financial risks other than interest rate risks as well as insurance and operational risks that cannot be transferred through the capital markets.

The cost of capital is the expected cost of transferring the non-hedgeable financial, insurance and operational risks to another insurer or reinsurer and other market participants.

The non-hedgeable SCR consists of the SCR for insurance and operational risks plus the SCR for non-hedgeable financial risks. It includes for example maintenance and inflation expenses.

At Allianz Group, credit risk with respect to reinsurers is assumed to be fully hedgeable and is, therefore, excluded from the calculation of the RM.

Appropriate diversification benefits between Lines of Business (LoB) are reflected in the calculation of RM at the reporting entity level.

For calculating the cost of holding the non-hedgeable SCR, it is necessary to project the non-hedgeable SCR over the whole projection period, apply diversification and then compute the present value of a cost of capital (CoC) charge on the projected capital. The following steps describe the calculation:

1. Obtain stand-alone life underwriting capital by risk type and by Homogeneous Risk Group (HRG). These stand-alone risk capitals by HRG are a pre-requisite of the SCR calculation and are therefore available.
2. Each capital amount obtained in (1.) above needs to be projected using an appropriate driver. Note that the driver does not have to be the same for each risk type or HRG, and each OE is responsible for determining appropriate drivers to use.
3. Use diversification matrix to compute total diversified future SCR's.
4. Multiply projected SCR by the CoC and calculate the present value to get the Risk Margin. Article 39 of Delegated Regulation (EU) 2015/35 prescribes the CoC to be 6 % – the additional rate, above the relevant risk-free interest rate, that an insurance or reinsurance undertaking would incur holding an amount of AFR equal to the SCR necessary to support insurance and re-insurance obligations over the lifetime of those obligations.

5. Allocate RM down to LoB. Allocation of RM down to LoB is done proportionally by capital contribution.

Article 58 of Delegated Regulation (EU) 2015/35 allows simplified methods to be used in calculating the RM. As an approximation non-hedgeable SCR can be projected in proportion to the best estimate of the deterministic risk-free scenario (or other reasonable drivers depending on the split in risk types).

When current quarter capital is not available on time, it is acceptable to use prior quarter capital and scale where necessary. Actuarial judgment is used when scaling.

D.3.1.1.3 Application of transitional measures

The matching adjustment and the transitional measures referred to in Articles 308 c and d of the Directive 2009/138/EC are not applied.

D.3.2 Reinsurance recoverables

D.3.2.1 Theoretical background

The amounts recoverable from reinsurance contracts are calculated consistently with the boundaries of the underlying insurance or reinsurance contracts to which they relate.

The calculation of reinsurance recoverables leads either to the recognition of reinsurance recoverables calculated as a whole or the best estimate for the reinsurance recoverable. No RM is reported in the section of the reinsurance recoverables as the RM recognized within the technical provisions is already net of reinsurance. The best estimate of technical provisions has to be calculated gross, i.e., amounts recoverable from reinsurance contracts and special purpose vehicles are not deducted.

The time difference between recoveries and direct payments should be taken into account when calculating the reinsurance recoverables. The amounts recoverable from finite reinsurance contracts and from other reinsurance contracts are calculated separately.

For the purpose of calculating the amounts recoverable from reinsurance contracts, the cash-flows shall only include payments in relation to compensation of insurance events and unsettled insurance claims. Payments in relation to other events or settled insurance claims shall be accounted for outside the amounts recoverable from reinsurance contracts and other elements of the technical provisions.

Cash in-flows include at least:

- recoverables from reinsurance contracts for claims payments or benefits and recoverable related expenses and
- reinsurance commission and profit participation as specified in individual reinsurance contracts.

Cash out-flows include at least:

- future premiums for reinsurance contracts and
- interest on reinsurance deposits (if applicable).

The result from the calculation of reinsurance recoverables is adjusted to take into account expected losses due to default of the counterparty. That adjustment shall be based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default).

D.3.3 Actuarial methodologies and assumptions

D.3.3.1 Non-economic assumptions

All non-economic assumptions (mortality/morbidity, lapses and paid-ups, annuity conversion rates, expenses) are sent from the OEs once a year to Group Actuarial to be reviewed. If necessity arises (e. g. in case of the introduction of new products or substantial changes to existing ones) the assumptions are reviewed and updated more frequently.

AZ Luxembourg sends a report on the assumptions which contains the period of investigation to determine them and a description of the methodology and processes they used to derive them. Both are then reviewed and possibly challenged by Group Actuarial.

D.3.3.1.1 Mortality

ALL uses the mortality tables established by the Belgian association of insurers "Assuralia". Due to the lack of local data, it is a common practice to use Belgian tables in Luxembourg.

ALL uses two experience tables: a death table, and a life table. The mortality coefficients of the death tables are higher than those of life table. The death table is used for products exposed to a mortality risk, while the life table is used for products exposed to a longevity risk. This distinction aims to capture anti-selection.

D.3.3.1.2 Lapse/surrender rates

Lapses are defined as partial withdrawal and total withdrawal. The derivation of lapses rates is product specific and generally based on our own company experience. For each product the vector of lapses rates depends on the policy age.

For each product, ALL derives two series of lapses rates based on the company experience from 1995 to 2017:

- One is calibrated with the amount of reserve withdrawn (partially or totally),
- One is calibrated with the number of contracts fully surrendered.

The first series is used to project the value of the reserve, and then all items depending on the reserve, such as recurring fees, commissions, etc.

The second series is only used to project the expenses.

The rationale for this use of two series is that partial surrenders shall not be taken into account to reduce the future expenses.

All the lapses rates are derived based on the company own experience, with the notable exception of the business financially reinsured with Allianz France. On this product, the short Luxembourg experience (6 years) is combined with the experience from Allianz France to derive the final lapses rates.

A moving average is applied to smooth our lapses rates, where relevant.

For high ages, only a few experience data are available. Therefore, for each product, the last ages are grouped into a single lapse rate, for which the quantity of data is judged sufficient to ensure a relevant last rate.

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D.3.3.1.3 Paid-up policies and paid-up rate

To model the paying-up rates, we use our own company experience. Statistics have been made on our portfolio behavior during the last seven years ending at the 31st of December 2018.

D.3.3.1.4 Expenses

The forecast of global amount of expenses for the current year is the starting point for the derivation of expenses assumptions. This amount includes maintenance expenses, acquisition expenses and the cost of the asset management. For 2018, we had no overrun and one-off expenses which could be excluded from the projected expenses.

This global expenses amount is then split between LoB and maintenance/acquisition. As repartition key between line-of-business and maintenance/acquisition, we use the time spend our contract managers

Our acquisition expenses are allocated to new business only. They are not shared with the in-force.

D.3.3.2 Economic assumptions

For projecting future cash flows for the technical provisions, assumptions have to be made on the asset performance of the company. This requires consideration of the development of the economic markets together with assumptions on the company's investment strategy as well as the current asset portfolio and allocation. Furthermore, the risk-free discount rates (RDR) for BEL have to be defined to discount the future best estimate cash flows.

To have consistency of market expectations some values are provided centrally and other assumptions needed should be derived by the ALL.

For market consistent projections, a set of market consistent economic scenarios is used (provided centrally by Group Risk), including the certainty equivalent scenario defining the central assumptions for the deterministic central best estimate. Market consistent scenarios are derived from reference rates which are observed on the financial markets. The reference rate is a proxy for a risk-free rate appropriate to the currency, term and liquidity of the liability cash flows.

The reference rate is the swap yield curve appropriate to the currency of the cash flows plus a Volatility Adjustment.

The parameters of the interest rate model are calibrated so that the model reproduces the initial market values of a certain class of assets. Basis are market values such as equity option implied volatilities, swaption implied volatilities and the initial swap rate curve for market-traded contracts that are as similar as possible in nature to the option and guarantees

contained within the liabilities. During the calibration process it is ensured that the model reproduces these values to a high degree of accuracy.

Volatility assumptions are, wherever possible, based on those implied from derivative prices rather than the historical observed volatilities of the underlying instruments. In the case that no appropriate market instruments are available, historic volatilities are used for calibration purpose.

To illustrate concretely the calibration process let us take the example of the Euro volatilities. In the model we assume the swap yield curve to be liquid till year 20. For the corresponding swaption volatilities we assume the market to be liquid till year 15. The long term target at year 60 is derived as mentioned above from historical data based on the underlying swap rates (with anchoring at 4.05 %) and the data from year 15 to year 60 are then extrapolated.

Certainty equivalent and stochastic scenarios are calibrated at market data for the risk-free yield curve as of the evaluation date.

Where for fixed income assets investment spreads above reference rate are included in the coupons of the current asset portfolio, the asset is expected to default according to the default probability to ensure consistent fair values. As defaults of corporate bonds happen stochastically, the fixed calibration spread is a shortcut, which reduces the volatility of investment return compared to any stochastic default modeling. This might have an impact on the evaluation of Options & Guarantees (O&G) and, therefore, it is considered whether this shortcut results in material distortions of the calculated O&G values. The contracts sold by Allianz entities contain options on the risk-free rate, but not on the credit spread, so we consider the effect for the technical provisions to be of second order.

D.3.3.2.1 Volatility adjustment

As one of the Long-term Guarantee Adjustment (LTGA) findings, EIOPA advises to introduce the Volatility adjustment, which deals with unintended consequences on undertakings' capital requirements of short-term volatility.

D.3.3.2.1.1 Allianz methodology

The Volatility adjustment is a function of the market yield spread from a weighted average portfolio of sovereign and corporate bonds over risk-free. It is based on a reference portfolio per currency and per country. The risk-adjusted currency spread is applied as an adjustment

to the discount rate. An additional adjustment is added to the discount rate, if the risk-adjusted country spread is significantly higher than the risk-adjusted currency spread.

The Volatility adjustment is applied to all lines of business, except unit-linked with guarantees (including Variable Annuities). The application ratio of the volatility adjustment is 65 %.

D.3.3.2.2 Yield curve extrapolation

In general, the nature of life insurance is such that their liabilities have longer durations than the available assets in the markets. For valuing liabilities, economic assumptions are needed for the full maturity of liabilities, and it is needed to extrapolate economic data beyond the horizon available for deep and liquid markets. Generally, this applies to rates and volatilities and is most significant for interest rates. The last liquid term varies significantly between markets. This topic is recognized in Solvency II which requires adequate extrapolation approaches for areas where no market reliable data are available.

For Allianz, yield curve extrapolation is done in line with the approach described in the Articles 46 and 47 of the Delegated Act (EU) 2015/35. Yields are taken from quoted market data till the starting point of the extrapolation.

D.3.3.3 Profit sharing assumptions

It is required to include all future payments and to project all future profit sharing or crediting on with-profit policies. The assumptions on future crediting rates reflect the management's crediting philosophy where profit sharing is discretionary. The projected profit sharing is consistent with the future assumptions set for investment returns and any distribution of unallocated accrued surplus. Furthermore the actuarial function provides a yearly opinion on the level of actual profit-sharing which should be credited according to the modelling approach retained. This ensures that reality and projection are aligned, or at least that differences are understood.

D.3.4 Material changes

There were no material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

D.4 Valuation of other liabilities

The classes of other liabilities described are the same as used in the Solvency II balance sheet (MVBS). The aggregation is based on the nature and the function of liabilities and their materiality for solvency purposes. The following table shows the amount of other liabilities according to MVBS as of 31 December 2018.

	Amount in kEur		
	Solvency II value 31.12.2018	Statutory accounts value 31.12.2018	Adjustments for MVBS 31.12.2018
	C0010	C0020	C0020
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			
R0510			
R0520			
R0530			
R0540			
R0550			
R0560			
R0570			
R0580			
R0590			
R0600	4 608 497	4 308 528	299 969
R0610			
R0620			
R0630			
R0640			
R0650	4 608 497	4 308 528	299 969
R0660			
R0670	4 570 423		
R0680	38 074		
R0690	3 550 202	3 504 929	45 273
R0700			
R0710	3 529 878		
R0720	20 324		
R0730			
R0740			
R0750	7 556	7 556	0
R0760	3 252	67	3 185
R0770			
R0780	31 494		
R0790			
R0800			
R0810			
R0820	26 090	26 950	-860
R0830	605	605	0
R0840	12 653	11 418	1 235
R0850	0		
R0860			
R0870			
R0880			
R0900	8 240 348	7 860 052	380 296
R1000	186 610	93 614	92 996

Table 2: Reconciliation Liabilities between Local Gaap and Solvency II

D.4.1 Contingent liabilities

Liabilities that are contingent and that are material have to be recognized in the MVBS. The contingent liabilities are measured at the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability using the basic risk-free interest rate term structure. Under Local Gaap, contingent liabilities are not recognized in the balance sheet.

No events were identified for the recognition as a contingent liability.

D.4.2 Provisions other than technical provisions

Provisions other than technical provisions refer to liabilities of uncertain timing and amount, excluding those reported under “Pension benefit obligations”. The provisions are recognized as liabilities (assuming a reliable estimate can be made) when they are present obligations resulting from past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. They include, e.g. staff-related provisions, provisions for stock-based compensation, restructuring provisions and provisions for legal expenses and deferred income reserves.

The provisions are valued according to IAS 37 and IFRS 2 which is in line with the valuation required under Solvency II. IAS 37 requires to use the best estimate for those kind of provisions. Therefore, there are no material differences between Local Gaap and MVBS values.

D.4.3 Pension benefit obligations

Pension benefit obligations include the total net obligations related to the employee pension scheme (where applicable in accordance with the national pension scheme). Post-employment benefits refer to employee benefits other than termination benefits payable after completion of employment. Post-employment benefits are classified as either defined contribution or defined benefit plans. Pension benefit obligations are measured in accordance with IAS 19 as Allianz Group considers the valuation method according to IAS 19 the most appropriate valuation under Solvency II.

Under Local Gaap rules, the stock of technical reserves of these defined contributions plans are classified under the technical reserves. An additional reserve is accounted based on the “old” IAS 19 rules (i.e. with the corridor approach). For the MVBS reporting, actuarial gains or losses are recognized on the balance sheet. In addition, the stock of the technical reserves is no longer classified as a technical reserve but as part of the pension benefit obligations. Those 2 elements explain the valuation/reclassification difference between Local Gaap and MVBS.

Typically associated with defined benefit plans are biometric risks like longevity, disability and death as well as economic risks like interest rates, inflation and compensation increases.

D.4.4 Deposits from reinsurers

Deposits from reinsurers include amounts (e.g. cash) received from a reinsurer or deducted by the reinsurer according to the reinsurance contract. Deposits from reinsurers are measured at fair value without taking account of subsequent changes to own credit standing. The fair value is determined by mainly using the income approach.

Deposits from reinsurers are measured at their repayment amount under Local Gaap and MVBS.

Deposits from reinsurers recorded under Local Gaap and MVBS are both null.

D.4.5 Deferred tax liabilities

Deferred tax liabilities are the amounts of income tax payable in future periods with respect to taxable temporary differences.

Deferred taxes – except deferred tax assets arising from the carry forward of unused tax losses or unused tax credits – are valued on the basis of the difference between:

- the values ascribed to assets and liabilities recognized and valued in accordance with the Solvency II Directive, and
- the values ascribed to assets and liabilities as recognized and valued for tax purposes.

Deferred taxes are recognized and valued in relation to all assets and liabilities that are recognized for Solvency II or for tax purposes.

Temporary differences between the Solvency II value of the assets and liabilities and their corresponding tax base as defined in IAS 12 are assessed consistently on a single asset or liability basis. The deferred tax calculation takes into account the tax regulations specific to particular assets and liabilities in the applicable tax regime.

The stock relates to deferred taxes liabilities on temporary differences resulting from revaluation adjustments concerning values of assets and liabilities under Local Gaap and MVBS. In Local Gaap, a DTL is recognized due to a postponed taxation for realized gains for real estate transactions.

The delta (after offsetting with DTA) comes mainly from the different valuation method between Local Gaap and MVBS.

D.4.6 Derivatives

Derivatives are financial instruments that have values based on the expected future price movements of the assets to which they are linked. Derivatives with negative values are reported on the liability side. Derivatives are measured at fair value according to IAS 39 without taking into account adjustments for own credit standing.

D.4.7 Debts owed to credit institutions

Debts owed to credit institutions are debt, such as mortgage and loans, toward credit institutions (banks etc.).

ALL does not have such debts.

D.4.8 Financial liabilities other than debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions include certificated liabilities and liabilities from cash pooling as well as other liabilities to customers. In Local Gaap and MVBS, financial liabilities other than debts owed to credit institutions are mainly measured at amortized cost using the effective interest method.

ALL does not have such financial liabilities.

D.4.9 Insurance and intermediaries payables

Insurance and intermediaries payables refer to amounts past-due to policyholders, insurers and others participating in the insurance business, but are not technical provisions. They include amounts past-due to (re)insurance intermediaries (e.g. commissions due to intermediaries but not yet paid by the group) and excludes loans and mortgages due to insurance companies, if they are not linked to insurance business but are only related to financing (and are, therefore, included in financial liabilities). They are generally measured at their nominal amount with an adjustment for the probability of default of the counterparty and without taking account of subsequent changes to own credit standing. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

Therefore, insurance and intermediaries payables are measured at nominal value with an adjustment for probability of default for counterparty risk under Local Gaap and MVBS.

There are no significant differences between Local Gaap and MVBS values. The small adjustment for MVBS of this liability is reflected on the "Insurance & intermediaries receivables" account on the asset side.

D.4.10 Reinsurance payables

Reinsurance payables are amounts payable, past-due to reinsurers (especially current accounts) other than deposits that are linked to the reinsurance business, but that are not included in reinsurance recoverables. They include payables to reinsurers that relate to ceded premiums. They are generally measured at their nominal amount with an adjustment for the probability of default of the counterparty and without taking account of subsequent changes to own credit standing. The nominal value is considered as a good proxy for the fair value within the materiality and proportionality principles.

Therefore, reinsurance payables are measured at nominal value with an adjustment for probability of default for counterparty risk under Local Gaap and MVBS.

There are no differences between Local Gaap and MVBS values.

D.4.11 Payables (trade, not insurance)

Payables (trade, not insurance) include the total amount of trade payables, including amounts due to employees, suppliers, etc. and are not insurance-related. They also include amounts owed to public entities. Payables are generally recognized with their settlement amount under Local Gaap which is considered to be the market value. However, if there are material differences between the Local Gaap value and the MVBS value, then revaluation adjustment is taken into account.

There is no difference between local Gaap and MVBS values.

D.4.12 Subordinated liabilities

ALL reimbursed end of 2018 the Subordinated liability that was a debt toward Allianz Benelux S.A., the parent company of ALL. There is no more subordinated liability in ALL's balance sheet.

D.4.13 Any other liabilities, not elsewhere shown

Any other liabilities, not elsewhere shown include any liabilities that are not included in the other balance sheet items.

ALL does not have liabilities classified under this category.

D.5 Any other information

All important information regarding the valuation of its assets, technical provisions and other liabilities for solvency purposes is addressed in the above sections.

E. Capital Management

E.1 Own Funds

Standard Model	Q4 2018
Required Capital (SCR)	128 m€
Own funds (OF) - after dividend	187 m€
Solvency Ratio (OF/SCR)	146%
Minimum Capital Requirement (MCR)	35 m€
Solvency Ratio (OF/MCR)	530%

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Own funds

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)

Share premium account related to ordinary share capital

Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings

Subordinated mutual member accounts

Surplus funds

Preference shares

Share premium account related to preference shares

Reconciliation reserve

Subordinated liabilities

An amount equal to the value of net deferred tax assets

Other own fund items approved by the supervisory authority as basic own funds not specified above

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

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand

A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

SCR

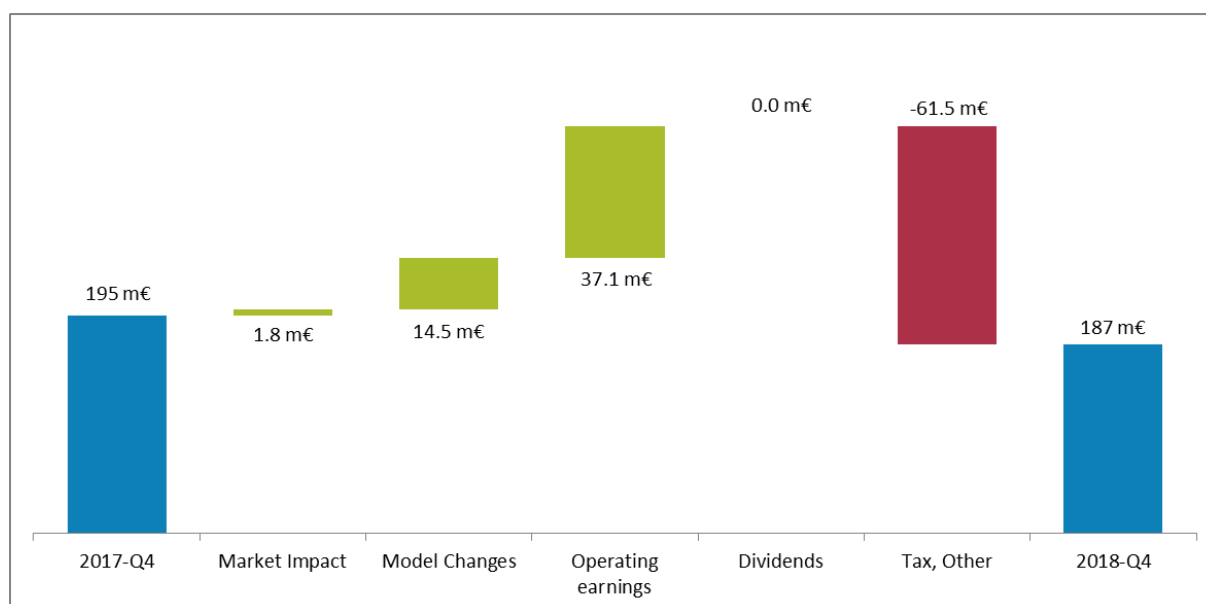
MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	30 000 000.00	30 000 000.00		0.00	
R0030	16 500 000.00	16 500 000.00		0.00	
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	140 109 940.00	140 109 940.00			
R0140	0.00		0.00	0.00	0.00
R0160					
R0180					
R0220					
R0230					
R0290	186 609 940.00	186 609 940.00	0.00	0.00	0.00
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	186 609 940.00	186 609 940.00	0.00	0.00	0.00
R0510	186 609 940.00	186 609 940.00	0.00	0.00	
R0540	186 609 940.00	186 609 940.00	0.00	0.00	0.00
R0550	186 609 940.00	186 609 940.00	0.00	0.00	
R0580	127 686 816.64				
R0600	35 216 946.15				
R0620	1.461466				
R0640	5.298867				

The waterfall below depicts the evolution from Q4 2017 to Q4 2018 of the own funds:



Own funds movement analysis – ultimo 2017 to ultimo 2018

E.1.1 Principles for Capital Management of Allianz Luxembourg

Capital poses the central resource for AZ Luxembourg to support its multiple activities. It ties to the AZ Luxembourg risk strategy which defines the relevant risk appetite with regard to the risk bearing capacity and solvency targets as well as risk limits (integrated capital framework), thus implementing AZ Luxembourg business strategy. Capital Management describes the set of activities undertaken by AZ Luxembourg to ensure its adequate capitalization. The following principles form the basis for the AZ Luxembourg capital management:

I. General Principles

- 1) Capital management shall protect ALL's capital base and supports effective capital management on ALL level in line with the ALL Risk Policy.
- 2) ALL ensures to comply with regulatory solvency requirements as described hereafter.
- 3) ALL manages its capital using adequate buffers above minimum regulatory requirements to take into account potential market volatility. Capital needs are projected over the three year plan horizon in a manner permitting integration of business development as well as other factors (i.e. financial markets, actuarial constraints, ...). The capital projections and current developments are discussed with key ALL stakeholders and supported by Risk Management, Actuarial Function, Business, and Technical Pricing areas, Investment, Board of

Management and Board of Directors. The capital planning is discussed during both Strategic Dialogue (SD- in June) and Planning Dialogue (PD-in November).

II. Governance Principles

- 1) The Solvency risk appetite of AZ Luxembourg is reviewed and approved at least once a year and includes an explicit discussion of capital targets and thresholds. The Solvency risk appetite is part of the risk appetite as approved by the Board of Directors and governed by the rules set in the local Risk Policy.
- 2) All departments (actuarial function, business, investment, controlling, accounting,) are involved in the discussions and support the Board of Directors in establishing proper capital framework.

E.1.2 Capital Management at ALL

One of the main targets of the ALL capital management is to fulfil the regulatory requirements. Capital levels include layers in excess of minimum regulatory requirements common in a local market environment. At the same time, Allianz SE targets to maintain any excess capital readily available at Allianz SE level in order to be able to respond quickly to any local capital needs arising.

Solvency Risk appetite

ALL strives to fulfil all regulatory solvency requirements at all times. Therefore, different capital thresholds have been put in place to ensure an adequate buffer above these requirements and appropriate and timely action in case of potential breaches. These layers are based on a thorough understanding of the risks involved and enterprise wide risk governance and management.

Risk Appetite Solvency Ratio

AZ Luxembourg sets a Risk Appetite Solvency Ratio. The objective is to keep the capitalization in line with the Risk Appetite Solvency Ratio in a business as usual situation. This ensures compliance with regulatory requirements even after moderately severe financial stresses or losses from the insurance portfolio.

Alert and Action Barriers

Barriers have been implemented in order to manage potential breaches of the minimum ratio at an earlier point in time.

The “Allianz Group Capital Management Policy” formulates the underlying principles for local capital management for operating entities. Concretely, the following capital ratios and thresholds are defined:

- Allianz sets the **Minimum Ratio** for a Standard Model OE at 100%. Note that this is above the MCR defined by Solvency II.
- The **Management Ratio** (MR) is determined by adding a resilience buffer on top of this 100%. The purpose of this resilience buffer is to keep the solvency capital ratio above 100% under certain adverse stress events, not occurring simultaneously. Hence, the extra buffer corresponds to the worst of all considered stress events.

The above mentioned Management Ratio and related thresholds are ***determined on an annual basis***, during the Planning Dialogue process and based on next year planning figures¹³, or more frequently in case of specific events. In this way, they *reflect the most actualized and forward-looking risk appetite*.

¹³ Note that this takes place in September and therefore the planning figures used here are based on Q2 projections.

Applying the above described methodology to ALL, results in the following:

AzLU - Management ratio for 2019

TARGET SOLVENCY = 100% + IMPACT OF WORST OF 4 STRESS SCENARIO + ROUNDING

Minimum SII ratio after stress		100%
2019 SII ratio (based on 2018 Q2 Plan, not adjusted)		144%
Plan 2019 SII ratio		
Scenarios	SII ratio after stress	Δ on SII ratio
S1 EQ -30% and IR -100bp	108%	-36%
S2 EQ -30% and IR +100bp	116%	-28%
S3 Spread up	129%	-15%
S4 Insurance loss	120%	-24%
Management SII		140%

Table 2: Management Ratio determination – 2019

The BoD of ALL has set the management ratio and barrier levels as shown in the table above. The management ratio serves as the basis for the 2019 *risk appetite* and as the *anchor level for the determination of action barriers*, which further play a key role in the setup of the management plan.

- Based on 2019 projection as of Q2-2018, the maximum Stress Impact = 36%, rounded up to 40%, resulting in Management Ratio = 140%.
- The alert and actions barriers are set respectively at 126% and 118%.

Depending on which barrier is breached, a different type of management action is required, according to Group principles:

- Downward breach of 'Alert' barrier: CRO of ALL shall inform the Risk Committee and submit a contingency plan aimed at bringing capitalization back in line with the management ratio.
 - Downward breach of 'Action' barrier: decide on capital measures and their timing
- Actions triggered by an action barrier must be assessed by the BoM/BoD against the risk strategy and overall business context.

Dividend Policy

Dividend approval is granted considering the capital requirements over the plan horizon and sensitivities to the capitalization based on the plan data and reflect a long-term sustainable pay-out ratio. These considerations form the basis for the yearly proposal for the dividend payment.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

This section gives a summary of the level and composition of the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) for ALL.

On the one hand, the SCR reflects the level of own funds the (re)insurance undertaking should hold in order to absorb extreme losses. On the other hand, the MCR reflect the level of own funds the (re)insurance undertaking must not fall below.

At 4Q2018, the SCR for ALL equals EUR 128 million while the MCR is EUR 35 million. The level of SCR in combination with the Own Funds detailed in the previous section leads to a Solvency Ratio (OF/SCR) of 146%.

The components of the SCR and the MCR are detailed in the paragraph below. Afterwards, an evolution of the MCR/SCR between 4Q 2017 and 4Q 2018 is provided.

Standard Model	Q4 2018
Required Capital (SCR)	128 m€
Own funds (OF) - after dividend	187 m€
Solvency Ratio (OF/SCR)	146%
Minimum Capital Requirement (MCR)	35 m€
Solvency Ratio (OF/MCR)	530%

Table 3: Overview of the SCR and MCR (4Q 2018, mil EUR)

E.2.1 SCR split by risk module



ALL uses the Standard formula to calculate its Solvency Capital Requirements. The SCR is the combination of the (net) Basic SCR, the loss-absorbing capacity of Deferred Taxes and the operational risk. The BSCR, in turn, is the combination of six risk modules¹⁴, corrected by the diversification effects between the risk modules and the loss absorbing capacity of technical provisions (LAC of TP). For more detail regarding the specific risks, please refer to chapter C concerning the risk profile. The standard formula is set-up in a way that each risk

¹⁴ Note that Az BNL does not use undertaking-specific parameters for any risk module. Simplified calculations are used for the assessment of reinsurance exposure in the counterparty default risk module (materiality of this exposure is limited).

module is calculated on a 99.5 percentile loss (i.e. resulting from a 1 in 200 year worst-case event). Table 4 provides an overview of these components for ALL in 4Q 2018.

The six risk modules are market risk, counterparty default risk, life underwriting risk, non-life underwriting risk, health risk and intangible risk. Note that the risk module regarding intangible risk is not relevant for ALL and thus is not used for calculating the SCR. Moreover, due to the nature of ALL's business, no Health and Non-Life Underwriting risk is present.


Table 4: Solvency Capital Requirement split by risk modules (4Q 2018, mil EUR)

Standard Model SCR		2018 Q4
SCR		128
	Operational risk	40
	Loss-absorbing capacity of Deferred taxes	-31
	Net Basic SCR (BSCR)	119
	TP Relief	-138
	Diversification effect, between:	-69
	Gross Market risk	139
	Gross Counterparty Default risk	5
	Gross Life Underwriting risk	183
	Gross Health Underwriting risk	0
	Gross Non-Life Underwriting risk	0

E.2.2 Determining the MCR

The MCR is calculated by a linear function of Technical Provisions and Net Written premiums during the last 12 months, capped by 45% and floored by 25% of the SCR. Moreover, an Absolute Minimum Capital Requirements (AMCR) is defined which imposes an absolute floor on the MCR. Table 5 shows the calculation for ALL's MCR.

Table 5: Minimum Capital Requirements Calculation (4Q 2018, mil EUR)

MCR Calculation		4Q 2018
	Non-life Insurance Obligations	0
	Life Insurance Obligations	35
Linear MCR		35
SCR		128
MCR cap	MCR € [57,32]	57
MCR floor		32
Absolute floor of the MCR		4
Combined MCR		35

E.2.3 Evolution of SCR and MCR

When looking at the evolution of the capital requirements from Q4 2017 to Q4 2018 (Table 6), the SCR has increased, while the MCR remains quite stable.

Table 6: Evolution of SCR and MCR (4Q 2017- 4Q 2018, mil EUR)

Standard Model	Q4 2017	Q4 2018	Δ
Required Capital (SCR)	135 m€	128 m€	-7 m€
Minimum Capital Requirement (MCR)	34 m€	35 m€	1 m€

The waterfall figures below depict the evolution from Q4 2017 to Q4 2018 of the SCR and the net Basic SCR in terms of the contribution¹⁵ of its major risk components. The CAA has requested a different presentation of the gross SCR figures, therefore, the overview of the Net BSCR is added to provide a basis of comparison for the underlying drivers.

Between Q4 2017 and Q4 2018, the SCR decreased from 135m€ to 128m€ (-7m€). The (net) market risk SCR charge has decreased mainly due to the implementation of the partial look through on the underlying assets of Unit Linked business¹⁶.

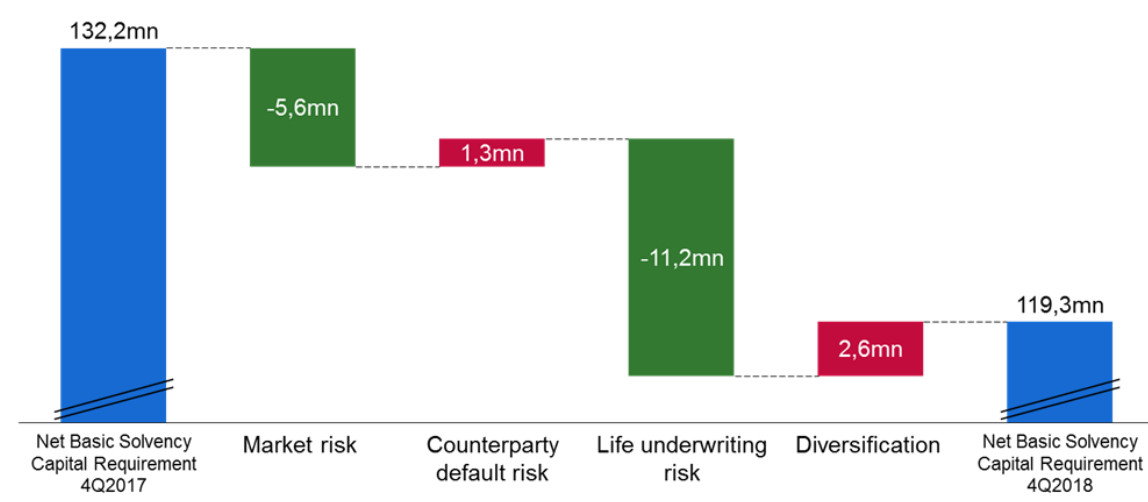
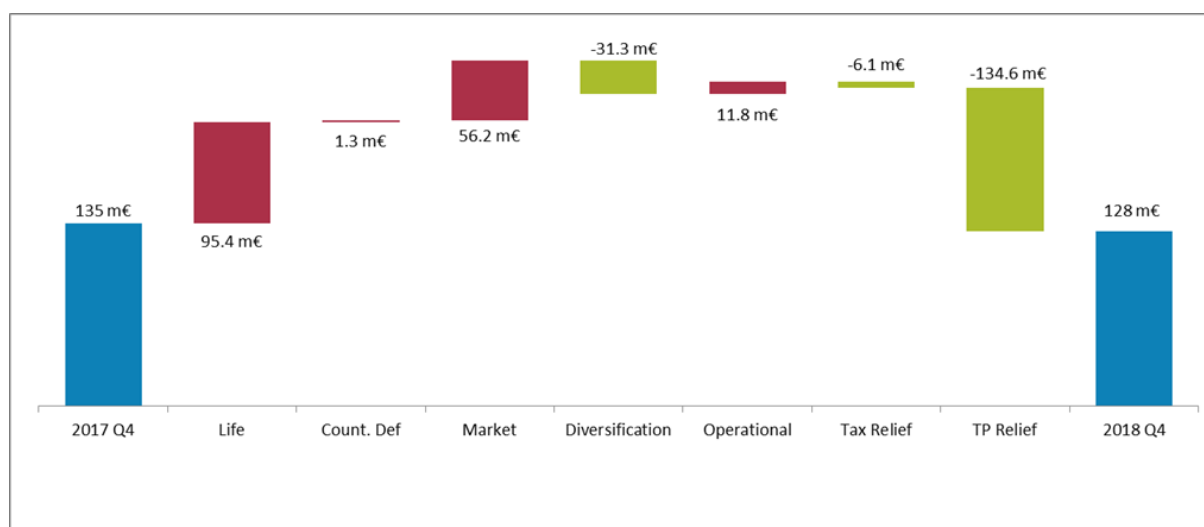
Although the reinsured Eurofund and Unit Linked production was strong over 2018 (which has an upward effect on the (net) Life Underwriting Risk), the lapse mass shock methodology has been revised. Due to this revised approach – which harmonizes the methodology across the Benelux region – the Life underwriting risk is reduced.

ALL's operational risk charge is not calculated based on the technical provisions but on the earned premium basis.

¹⁵ Hence, the figures represent the Contributory VaR.

¹⁶ Equity listed in OECD country could be identified, allowing mapping them to Type 1 Equity in the standard model instead of Type 2, resulting in a lower shock (39% vs 49%)

Table 7: Breakdown of the SCR evolution (4Q 2017 - 4Q 2018, mil EUR)



E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not relevant for ALL.

E.4 Differences between the standard formula and any internal model used

Not relevant for ALL.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Not relevant for ALL.

E.6 Any other information

2018 QRT in appendix

F. CONCLUSION

Even if the company remains active on the local market, the strategy is to focus on international life insurance business, looking for opportunities in wealth management abroad.

Under Freedom of Services, the activity in France was particularly intense while other markets were under development.

Even if the business mix (Eurofund/UL) is not achieving ALL targets, the strategy to produce more premiums in UL remains ALL priority.

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Premiums, claims and expenses by line of business

		Line of Business for: life obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410		737 389 942.00	692 460 238.00	452 340.00					1 430 302 520.00
Reinsurers' share	R1420		717 437 281.00							717 437 281.00
Net	R1500		19 952 661.00	692 460 238.00	452 340.00					712 865 239.00
Premiums earned										
Gross	R1510		737 389 942.00	692 460 218.00	452 340.00					1 430 302 500.00
Reinsurers' share	R1520		717 437 281.00							717 437 281.00
Net	R1600		19 952 661.00	692 460 218.00	452 340.00					712 865 219.00
Claims incurred										
Gross	R1610		103 514 142.00	199 829 272.00	1 218 840.00					304 562 254.00
Reinsurers' share	R1620		-68 323 655.00							-68 323 655.00
Net	R1700		171 837 797.00	199 829 272.00	1 218 840.00					372 885 909.00
Changes in other technical provisions										
Gross	R1710		686 459 409.00	247 548 422.00	-1 508 487.00					932 499 344.00
Reinsurers' share	R1720		699 913 157.00							699 913 157.00
Net	R1800		-13 453 748.00	247 548 422.00	-1 508 487.00					232 586 187.00
Expenses incurred	R1900		18 677 314.00	18 198 552.00	68 703.00					36 944 569.00

Administrative expenses

Gross	R1910	10 324 479.00	13 958 759.00	44 555.00				24 327 793.00
Reinsurers' share	R1920							
Net	R2000	10 324 479.00	13 958 759.00	44 555.00				24 327 793.00

Investment management expenses

Gross	R2010	978 240.00	841 968.00	4 240.00				1 824 448.00
Reinsurers' share	R2020							
Net	R2100	978 240.00	841 968.00	4 240.00				1 824 448.00

Claims management expenses

Gross	R2110	183 019.00	232 692.00	1 276.00				416 987.00
Reinsurers' share	R2120							
Net	R2200	183 019.00	232 692.00	1 276.00				416 987.00

Acquisition expenses

Gross	R2210	3 384 199.00	1 499 780.00	2 202.00				4 886 181.00
Reinsurers' share	R2220							
Net	R2300	3 384 199.00	1 499 780.00	2 202.00				4 886 181.00

Overhead expenses

Gross	R2310	3 807 377.00	1 665 353.00	16 430.00				5 489 160.00
Reinsurers' share	R2320							
Net	R2400	3 807 377.00	1 665 353.00	16 430.00				5 489 160.00

Other expenses

	R2500							
Total expenses	R2600							36 944 569.00
Total amount of surrenders	R2700							

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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			(FR) France	(CG) Congo	(IT) Italy	(AU) Australia	(PT) Portugal
		C0220	C0280	C0230	C0230	C0230	C0230	C0230
Premiums written								
Gross	R1410	219 423 129.00	1 346 978 542.00	965 775 967.00	75 181 601.00	49 265 518.00	20 423 000.00	16 909 327.00
Reinsurers' share	R1420	160 727 422.00	705 863 314.00	545 000 940.00			35 000.00	99 952.00
Net	R1500	58 695 707.00	641 115 228.00	420 775 027.00	75 181 601.00	49 265 518.00	20 388 000.00	16 809 375.00
Premiums earned								
Gross	R1510	219 423 129.00	1 346 978 542.00	965 775 967.00	75 181 601.00	49 265 518.00	20 423 000.00	16 909 327.00
Reinsurers' share	R1520	160 727 422.00	705 863 314.00	545 000 940.00			35 000.00	99 952.00
Net	R1600	58 695 707.00	641 115 228.00	420 775 027.00	75 181 601.00	49 265 518.00	20 388 000.00	16 809 375.00
Claims incurred								
Gross	R1610	40 678 344.00	197 017 864.00	153 958 558.00	274 652.00	1 186 310.00		920 000.00
Reinsurers' share	R1620	-104 012 877.00	-151 433 719.00	-70 099 819.00	14 346 375.00	1 018 276.00	7 588 820.00	-274 494.00
Net	R1700	144 691 221.00	348 451 583.00	224 058 377.00	-14 071 723.00	168 034.00	-7 588 820.00	1 194 494.00
Changes in other technical provisions								
Gross	R1710	185 798 171.00	989 269 067.00	650 894 128.00	74 805 456.00	48 977 493.00	21 330 472.00	7 463 347.00
Reinsurers' share	R1720	164 158 003.00	713 062 947.00	552 140 667.00		1 752 310.00	-4 880 945.00	-107 088.00
Net	R1800	21 640 168.00	276 206 120.00	98 753 461.00	74 805 456.00	47 225 183.00	26 211 417.00	7 570 435.00
Expenses incurred	R1900	4 201 286.00	30 651 941.00	25 358 347.00	178 156.00	356 609.00	75 746.00	481 797.00
Other expenses	R2500							
Total expenses	R2600		30 651 941.00					

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Life and Health SLT Technical Provisions

Insurance with profit participation	Index-linked and unit-linked insurance				Other life insurance		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	C0150
0.00	0.00			0.00			0.00

4 550 337 740.00		3 431 878 370.00	97 999 520.00		20 085 360.00		8 100 300 990.00
4 283 540 530.00		19 750.00	383 620.00		130 530.00		4 284 074 430.00
0.00		19 750.00	383 620.00		130 530.00		533 900.00
0.00		0.00	0.00		0.00		0.00
4 283 540 530.00		0.00	0.00		0.00		4 283 540 530.00
4 283 540 530.00		19 590.00	380 550.00		129 480.00		4 284 070 150.00
266 797 210.00		3 431 858 780.00	97 618 970.00		19 955 880.00		3 816 230 840.00
37 334 670.00	20 324 420.00			738 940.00			58 398 030.00

0.00	0.00			0.00			0.00
0.00							0.00
0.00	0.00			0.00			0.00
4 587 672 410.00	3 550 202 310.00			20 824 300.00			8 158 699 020.00
304 131 880.00	3 549 802 170.00			20 694 820.00			3 874 628 870.00
245 080 040.00	3 529 877 910.00			849 190.00			3 775 807 140.00

Gross BE for Cash flow**Cash out-flows**

Future guaranteed and discretionary benefits

R0230		3 409 251 630.00		17 257 260.00		3 426 508 890.00
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Future guaranteed benefits

R0240	4 147 743 570.00					4 147 743 570.00
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Future discretionary benefits

R0250	309 294 780.00					309 294 780.00
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Future expenses and other cash out-flows

R0260	186 180 610.00	149 023 630.00		3 490 010.00		338 694 250.00
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Cash in-flows

Future premiums

R0270	92 881 240.00	28 397 360.00		661 900.00		121 940 500.00
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Other cash in-flows

R0280	0.00	0.00		0.00		0.00
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Percentage of gross Best Estimate calculated using approximations

R0290	0.0112	0.0058		0.0739		
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Surrender Value

R0300	4 273 081 910.00	3 614 614 260.00		1 112 510.00		7 888 808 680.00
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Best estimate subject to transitional of the interest rate

R0310	0.00	0.00		0.00		0.00
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Technical provisions without transitional on interest rate

R0320	0.00	0.00		0.00		0.00
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Best estimate subject to volatility adjustment

R0330	4 550 337 730.00	3 529 877 890.00		20 085 360.00		8 100 300 980.00
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Technical provisions without volatility adjustment and without others transitional measures

R0340	4 620 909 470.00	3 550 933 550.00		21 176 350.00		8 193 019 370.00
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Best estimate subject to matching adjustment

R0350	0.00	0.00		0.00		0.00
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Technical provisions without matching adjustment and without all the others

R0360	4 620 909 470.00	3 550 933 550.00		21 176 350.00		8 193 019 370.00
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Own funds

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)

Share premium account related to ordinary share capital

Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings

Subordinated mutual member accounts

Surplus funds

Preference shares

Share premium account related to preference shares

Reconciliation reserve

Subordinated liabilities

An amount equal to the value of net deferred tax assets

Other own fund items approved by the supervisory authority as basic own funds not specified above

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

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	30 000 000.00	30 000 000.00		0.00	
R0030	16 500 000.00	16 500 000.00		0.00	
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	140 109 940.00	140 109 940.00			
R0140	0.00		0.00	0.00	0.00
R0160					
R0180					
R0220					
R0230					
R0290	186 609 940.00	186 609 940.00	0.00	0.00	0.00

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand

A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

Total ancillary own funds**Available and eligible own funds**

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

SCR**MCR****Ratio of Eligible own funds to SCR****Ratio of Eligible own funds to MCR**

R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	186 609 940.00	186 609 940.00	0.00	0.00	0.00
R0510	186 609 940.00	186 609 940.00	0.00	0.00	
R0540	186 609 940.00	186 609 940.00	0.00	0.00	0.00
R0550	186 609 940.00	186 609 940.00	0.00	0.00	
R0580	127 686 816.64				
R0600	35 216 948.15				
R0620	1.461466				
R0640	5.298867				

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Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non-life business

Total EPIFP**C0060**

R0700	186 609 940.00
R0710	
R0720	
R0730	46 500 000.00
R0740	
R0760	140 109 940.00
R0770	2 483 940.00
R0780	
R0790	2 483 940.00

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Solvency Capital Requirement - for undertakings on Standard Formula

Article 112? (Y/N)

Z0010

(2) Regular reporting

Basic Solvency Capital Requirement

	Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
	C0030	C0040	C0050
Market risk	R0010 72 128 361.42	139 064 363.57	
Counterparty default risk	R0020 5 009 982.67	5 009 982.67	
Life underwriting risk	R0030 76 603 683.07	182 957 884.71	
Health underwriting risk	R0040 0.00	0.00	
Non-life underwriting risk	R0050 0.00	0.00	
Diversification	R0060 -34 448 497.33	-69 416 803.31	
Intangible asset risk	R0070 0.00	0.00	
Basic Solvency Capital Requirement	R0100 119 293 529.83	257 615 427.64	

Calculation of Solvency Capital Requirement

Adjustment due to RFF/MAP nSCR aggregation

Operational risk

Loss-absorbing capacity of technical provisions

Loss-absorbing capacity of deferred taxes

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

Solvency Capital Requirement excluding capital add-on

Capital add-on already set

Solvency capital requirement**Other information on SCR**

Capital requirement for duration-based equity risk sub-module

Total amount of Notional Solvency Capital Requirements for remaining part

Total amount of Notional Solvency Capital Requirement for ring fenced funds

Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

Method used to calculate the adjustment due to RFF/MAP nSCR aggregation

Net future discretionary benefits

C0100

R0120	0.00
R0130	39 887 346.81
R0140	-138 321 897.81
R0150	-31 494 060.00
R0160	0.00
R0200	127 686 816.64
R0210	0.00
R0220	127 686 816.64
R0400	
R0410	
R0420	
R0430	
R0440	
R0450	(4) No adjustment
R0460	304 574 285.20

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Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010		
MCRNL Result	R0010	0.00		
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
			C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	0.00	0.00	0.00
Income protection insurance and proportional reinsurance	R0030	0.00	0.00	0.00
Workers' compensation insurance and proportional reinsurance	R0040	0.00	0.00	0.00
Motor vehicle liability insurance and proportional reinsurance	R0050	0.00	0.00	0.00
Other motor insurance and proportional reinsurance	R0060	0.00	0.00	0.00
Marine, aviation and transport insurance and proportional reinsurance	R0070	0.00	0.00	0.00
Fire and other damage to property insurance and proportional reinsurance	R0080	0.00	0.00	0.00
General liability insurance and proportional reinsurance	R0090	0.00	0.00	0.00
Credit and suretyship insurance and proportional reinsurance	R0100	0.00	0.00	0.00
Legal expenses insurance and proportional reinsurance	R0110	0.00	0.00	0.00
Assistance and proportional reinsurance	R0120	0.00	0.00	0.00
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0.00	0.00	0.00
Non-proportional health reinsurance	R0140	0.00	0.00	0.00
Non-proportional casualty reinsurance	R0150	0.00	0.00	0.00
Non-proportional marine, aviation and transport reinsurance	R0160	0.00	0.00	0.00
Non-proportional property reinsurance	R0170	0.00	0.00	0.00

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Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	35 216 948.15

Obligations with profit participation - guaranteed benefits

Obligations with profit participation - future discretionary benefits

Index-linked and unit-linked insurance obligations

Other life (re)insurance and health (re)insurance obligations

Total capital at risk for all life (re)insurance obligations

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	C0050	C0060
R0210	269 172 019.47	
R0220	0.00	
R0230	3 529 477 763.81	
R0240	19 955 879.59	
R0250		188 808 016.30

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Overall MCR calculation

Linear MCR	R0300	C0070	35 216 948.15
SCR	R0310		127 686 816.64
MCR cap	R0320		57 459 067.49
MCR floor	R0330		31 921 704.16
Combined MCR	R0340		35 216 948.15
Absolute floor of the MCR	R0350		3 700 000.00

Minimum Capital Requirement

R0400	35 216 948.15
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