Solvency II

Solvency Financial Condition Report

Allianz Life Luxembourg S.A.

7 July 2021

Contents

Executive Summary

During 2020 Allianz Life Luxembourg S.A. (ALL) has continued its repositioning as provider of life insurance solution for ultra-high net worth individuals with the focus on traditional life products (EuroFund) and unit linked products in its core markets France and Italy. The Covid-19 crisis heavily affected both ALL's operations and business, similar to the Luxemburg life insurance market as a whole. ALL weathered these difficult conditions well, with a swift shift of the operations from office work to home work, and an only moderate decline in gross written premium of -14% to 918 m€.

ALL was able to further strengthen its system of governance in line with the system of governance of Allianz Group with the establishment of the (Financial) Disclosure and the Investment Committee.

ALL remains well capitalized with a solvency ratio (with respect to the SCR) of 145% as at 31.12.2020, which means that ALL has own funds of 219 m€ in an amount of 145% of the SCR (152 m€; down 2%points from 147%). ALL's solvency is calculated with the standard formula and the volatility adjustment; it covers all quantifiable risks. The main risks for ALL remain market and life underwriting risk.

Index of used terms and abbreviations

Abbreviation / Term	Description
ABX	Allianz Benelux S.A.
AGM	Annual general meeting
ALL	Allianz Life Luxemburg S.A.
ALM	Asset liability management
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht
BEL	Best estimate liability
BoD	Board of Directors
BSCR	Basic SCR
CAA	Commissariat aux Assurances
CAO	Chief actuarial officer
CEO	Chief executive officer
ComEx	Executive committee
CRO	Chief risk officer
EU	European Union
FATCA	Foreign account tax compliance act
GWP	Gross written premium
IAS	International accounting standards
ICOFR	Internal control over financial reporting process
ICS	Internal control system
IFRS	International financial reporting standards
Insurance Law	Luxemburg Law of 7 December 2015 on the insurance sector
IRCS	Integrated risk and control system
IT	Information technology
KPI	Key performance indicator (business related)
KRI	Key risk indicator
LACDT	Loss absorbing capacity of deferred taxes
LACTP	Loss absorbing capacity of technical provisions
LoB	Lines of business
Lux GAAP	Luxemburg generally accepted accounting principles
MCR	Minimum capital requirement
MVBS	Market value balance sheet
ORSA	Own risk and solvency assessment
RiCo	Risk committee
RM	Risk margin
SAA	Strategic asset allocation
SCR	Solvency capital requirement (as calculated with the standard formula)
TP	Technical provisions
TRA	Top risk assessment
UHNWI	Ultra-high net worth individuals
VA	Volatility adjustment

A. Business and Performance

All information in this report, unless specified otherwise, refers to the financial year 2020 and is as at 31.12.2020. Where reference is made to a development compared to the previous year, this is the financial year 2019 and as at 31.12.2019.

A.1 Business

A.1.1 General information and intercompany structure

Allianz Life Luxembourg S.A. (ALL) is a life insurance undertaking subject to Luxembourg law and regulations. ALL is supervised by the *Commissariat aux Assurances* (CAA)[1] and externally audited by PwC[2].

ALL is a direct and indirect (via Sofiholding S.A.) subsidiary of the Belgian composite insurance undertaking Allianz Benelux S.A.[3] (ABX), which is an indirect subsidiary of Allianz SE. Allianz SE is a German reinsurance undertaking and mixed financial holding company subject to supervision by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin)[4].

[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.bafin.de

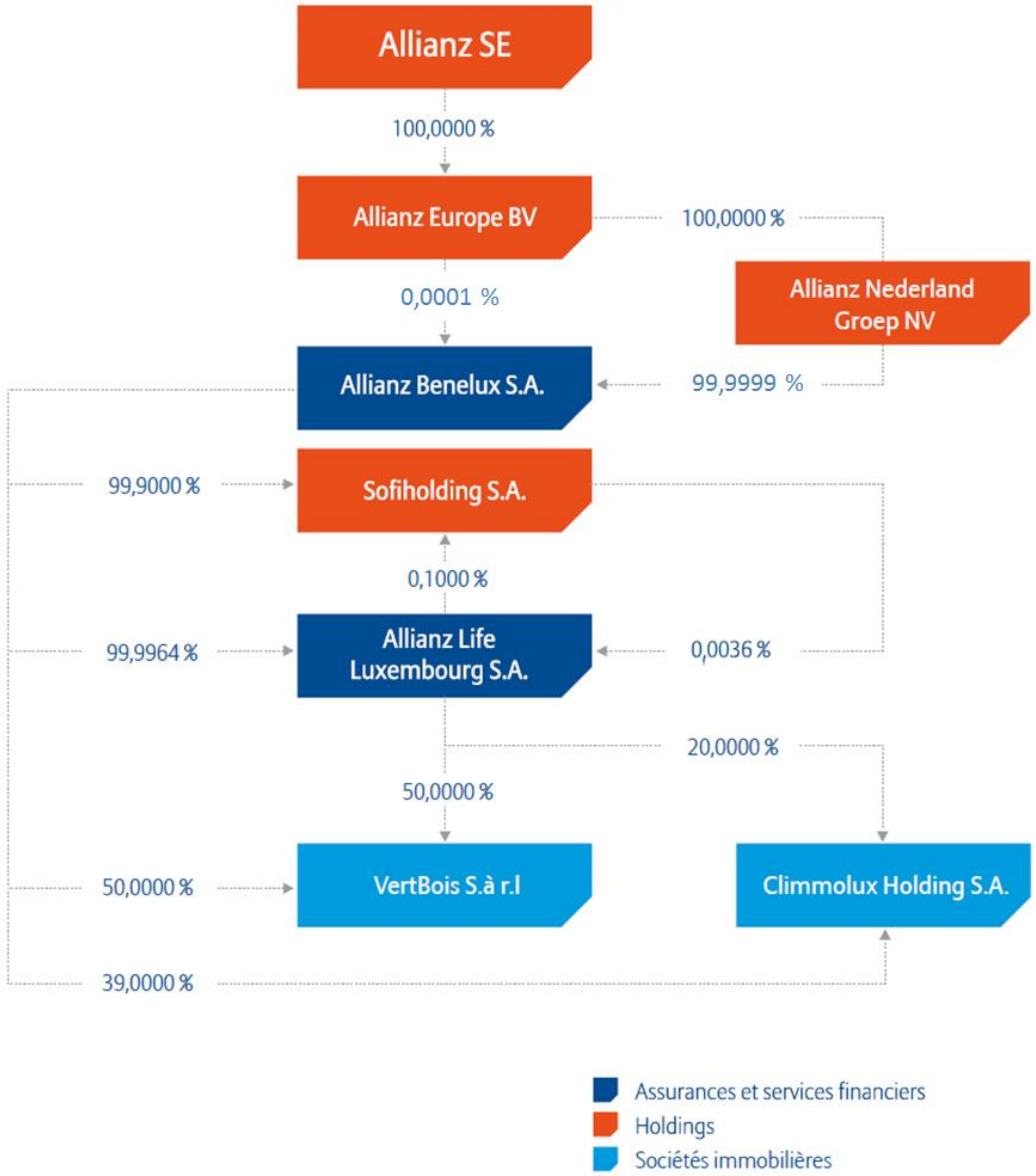

Figure 1: shareholding structure

ALL employs 64 employees which represent 60 full time equivalents.

A.1.2 Business portfolio

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

I. Traditional life products with minimum guarantee rate and profit sharing (EuroFund)

II. Unit linked products.

The further products of ALL are closed for new business.

A.1.3 Market and business environment

The year was dominated by the Covid-19 crisis, which started in March. It caused high economic uncertainties, which lead to a huge drop in equity markets in the meantime and governments in the European Union to take massive counter-measures. Also thanks to this, a strong recovery of the economies took place until year-end. Over the year, the Euro zone equity index (Eurostoxx 50) only dropped by -4.4%, whereas the global equity index even rose 13.7%. Due to the intervention of the states and the European Central Bank, the interest rates even further decreased (e.g. -0.46% for the 10 year Swap EUR).

The main challenge for life insurers therefore continues to be the low interest rate environment, which render it very difficult and costly to earn yields guaranteed to clients. New business opportunities have to be found in the unit linked market.

It is ALL’s ambition to gradually increase its market share in this line of business with so called ultra-high net worth individuals (UHNWI), 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.1.5 Customer segments and growth products

ALL provides insurance solutions targeted in priority to UHNWI 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 (GWP) totalled 918 m€, in comparison to 1.069 m€ in the previous year (-14%).

This drop is explained by the market turbulences following the Covid-19 crisis, which impacted the Luxemburg life insurance market as a whole. The two main products sold were unit linked with UHNWI with 274 m€ and the EuroFund, which is entirely reinsured to ALL's affiliated insurance undertaking Allianz Vie S.A., with 628 m€. On the local market the classical individual life business reached 8.8 m€, a decrease of 13% due to no willingness to actively develop this activity.

Corporate life business has decreased by -2% and reached 7.4 m€ GWP also due to ALL's lack of willingness to actively develop this activity.

ALL has no branches; the business abroad is carried out under freedom of services. Thereof, 52% came from clients residing in France, and 36% from clients residing in Italy.

A.3 Investment Performance

A.3.1 Investment result and its components

ALL's assets held for investment are mainly driven by the insurance businesses (insurance assets), and mainly invested in debt instruments.

The following table provides an overview of the asset allocation at market value within the investment portfolio.

ASSET ALLOCATION	in MEUR			in % of total	
Type of investment	*31.12.2020*	*31.12.2019*	*DELTA*	*31.12.2020*	*31.12.2019*
Government Bonds	171	161	10	33.8%	28.9%
Corporate Bonds	62	68	- 6	12.3%	12.2%
Other	0	0	0	0.1%	0.1%
Holdings in related undertakings, including participations	39	38	1	7.6%	6.8%
Collective investments undertakings	96	118	- 22	18.9%	21.2%
Real Estate	33	33	0	6.6%	5.9%
Loans and mortgages	40	44	- 4	7.8%	7.9%
Cash	65	95	- 30	12.8%	17.0%
Total	506	557	- 51	100.0%	100.0%

Table 1: asset allocation

The development of ALL's investment result and its components is mainly driven by the asset allocation of the investments and the respective capital market developments.

The year was characterized by a refocusing on representative and interest-bearing investments in order to close the duration gap (i.e. the difference in duration of assets – liabilities, which exposes to interest rate risk[5]). The wide range of funds managed by our related undertakings Pimco and Allianz Global Investors (AGI) allowed us to choose the right duration and level of risk. To further reduce the duration gap, we sold short-term corporate bonds to reinvest in longer durations here, too, using dynamically managed Pimco and AGI funds.

Our interest and similar income translates into a yield of 3.38% (based on the average asset base).

A.3.2 Projections over the business planning time period

For ALL, the "financial frame" forms the basis for investment management: as a liability driven investor, ALL has to respect multiple targets and constraints.

On the basis of the liability characteristics, ALL derives a strategic asset allocation (SAA) and corresponding leeways, which in aggregate reflect the financial frame. The SAA proves to be relatively stable over time and is only changed in case of significant market movements, which impact the investment portfolio in such a way that key performance indicators (KPIs) or key risk indicators (KRIs) threaten to be breached.

[5] See section C.2.2.

B. System of Governance

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

B.1 Fundamentals

B.1.1 Corporate bodies

ALL's corporate bodies comprise the annual general meeting (AGM), the shareholders' representation, and the management. ALL is governed by a two-tier board system consisting of an Executive Committee (ComEx) and a Board of Directors (BoD). This governance is established by ALL's articles of association and the respective charters of the bodies. The main features of these three governance bodies are summarized in the following.

B.1.1.1 Annual General Meeting (AGM)

The AGM takes place each year; its responsibilities include the appointment and dismissal of members of the BoD, the approval of the financial statements including the a of the net income and the dividend.

B.1.1.2 Board of Directors (BoD)

The BoD is the main deciding and controlling body of ALL, with responsibility for all matters which the articles of association don't assign to the AGM. The BoD challenges, validates, and controls any significant decision, project or initiative.

This body is scheduled to meet four times each year, and is fed by a continuous reporting coming from firstly its committees, the audit committee and the risk committee, and secondly, from the ComEx and ALL's key functions.

The BoD defines ALL's business and risk strategy as well as the corporate rules (e.g. Policies), which establish ALL's system of governance. The BoD adopts plans and budgets, approves the financial statements and determines responsibilities, composition and remuneration of the ComEx. Furthermore, it is the BoD's duty to exercise effective supervision over the activities and the management delegated to the ComEx.

B.1.1.2.1 Composition

ALL's BoD was composed of seven members:

- Kathleen VAN DEN EYNDE, Chairwoman (Representative of ABX)
- Blaise BOURGEOIS, Director (Representative of ABX)

- Anthony BRADSHAW, Director (Representative of ABX)
- Robert FRANSSEN, Director
- Benoît REDON, Director
- Alain SCHAEDGEN, Director
- Eric WINTER, Director, Chief Executive Officer (CEO) of ALL.

B.1.1.2.2 Audit Committee

Specifically with respect to financial statements as well as ALL's internal control system (ICS) and functions, the BoD upon recommendation of its audit committee:

- Verifies the validity, completeness and accuracy of the financial statements;
- Verifies the validity of intragroup transactions and ensures that they are at arm's length;
- Monitors the activities of the independent control functions (Actuarial, compliance and internal audit function);
- Monitors the internal control over financial reporting process (ICOFR); and
- Examines the quality of the work of the external auditor, their independence and remuneration;

B.1.1.2.3 Risk Committee

Specifically with respect to risk management, the BoD upon recommendation of its risk committee:

- approves ALL's risk strategy including the risk appetite and general risk tolerance limits (expressed as KRIs), and the risk policy framework, including detailed corporate rules on specific risk management aspects;
- monitors ALL's risk profile and takes necessary actions in case of risks exceeding the risk appetite;
- monitors the activities of the independent risk management function; and
- steers the own risk and solvency assessment (ORSA) and approves the report.

B.1.1.3 Executive Committee (ComEx)

The ComEx is responsible for ALL's day-to-day management of all matters conferred upon it by the BoD, and within the limits of such delegation.

The ComEx is composed of five members:

- Eric WINTER, CEO
- Patrick BOUCKAERT, Head of IT & Organisation
- Thomas GASPERINI, Head of Sales & Marketing
- Christophe HUCQUE, Head of Finance & Risk
- Marie-Audrey KER, Head of Technical & Operations.

The ComEx is scheduled to meet every two weeks; it is informed and advised by ALL's first, second and third line of defense functions and reports to the BoD. The ComEx has set up three sub-committees with the following main responsibilities:

- Disclosure committee: preparation and review of the financial statements in line with the Allianz Group standards;
- Investment committee: preparation and monitoring of the strategic asset allocation with respect to ALL's own investments, approval of investment guidelines and asset manager mandates, approval of minor transactions;
- Underwriting committee: proposing decisions, and executing them, with respect to validation of new partner on-boarding (broker, custodian, asset manager), reviewing and approving specific business / tenders.

B.1.1.4 Role of ABX

ABX as shareholder of ALL is responsible for the management of the Allianz business on a regional level, including the business of ALL. Furthermore, ABX provides several services to ALL to use economies of scale and skill, e.g. investment management with respect to ALL's own investments (see section 0).

B.1.2 Key functions

All has implemented the required Solvency II key functions, which form part of the second (actuarial function, compliance function, risk management function) and third line of defense (internal audit) of ALL's system of governance. Furthermore and in line with the Allianz Group governance, ALL has defined two further functions as key functions of the second line of defense: accounting and reporting as well as legal.

Note that the description of the risk, compliance, audit and actuarial function can be found in the dedicated sections (respectively B.3.3.2, B.4.3, B.5, B.6).

To ensure an effective internal control system, the ComEx and BoD need to inform and consult the affected key functions before taking material decisions; in case of a veto, the issue is escalated to the respective regional or Group key function. Furthermore, the key functions have to cooperate and exchange necessary information and advice among themselves.

B.1.3 Policy framework

ALL has established a policy framework, i.e. a set of corporate rules, which is consistent with the policy framework of Allianz Group and subject to yearly review. The framework comprises the ALL code of conduct as well as eleven policies with high level stipulations, which are further detailed by standards and functional rules. The policies relate to the key functions as well as further significant topics and include:

- Accounting and reporting policy;
- Actuarial policy;
- Audit policy;
- Capital management policy;
- Compliance policy;
- Fit and proper policy;
- Governance and control policy;
- Legal policy;
- Outsourcing policy;
- Remuneration policy;
- Risk policy.

B.1.4 Remuneration

ALL has established a remuneration system on the basis of its remuneration policy, which is consistent with the Group's principles.

B.1.4.1 Principles

ALL's compensation system is appropriate, transparent and promotes a sustainable development of the undertaking.

To ensure appropriateness of (individual) remuneration and general pay levels, vertical and horizontal benchmarking is performed within Allianz Group, ABX and ALL. As regards horizontal appropriateness of pay levels, base salaries, benefits and variable components are regularly benchmarked against the market position with peers. The remuneration awards must not threaten the adequacy of ALL's capital base.

Base salary is the fixed remuneration component, which rewards the respective role and responsibilities, and provides for a stable source of income. The fixed component represents a sufficiently high proportion of the total remuneration to avoid the employees being overly dependent on the variable components and/or should allow for full flexibility in variable compensation.

Where employees are, depending on their seniority, granted variable remuneration, it is designed such to avoid excessive risk taking, conflicts of interest and risks which exceed the risk tolerance limits of the company. This is achieved through the evaluation of both ALL's performance and the employee's individual performance according to both financial and non-financial criteria; the latter include compliance with in- and external requirements. Furthermore, to align the employee's interests with ALL's long-term sustainable interests, variable compensation may be deferred, restricted, cancelled or claimed back. Variable compensation may take the form of cash or shares of Allianz SE, the parent undertaking of Allianz Group.

B.1.4.2 Board of Directors

BoD members are not remunerated as such (qualitate qua), where they are already remunerated for another position within Allianz Group, which forms the basis for their belonging to the BoD.

A specific remuneration is hence reserved to directors, who are external to Allianz Group. For these, the remuneration is composed of two parts:

- A fixed component for the membership in a BoD, and
- A moderate attendance fee to encourage attention.

B.1.4.3 Executive employees

Executive employees of ALL, including the members of the ComEx, receive a combination of fixed and variable remuneration components, where the proportion of the variable remuneration in the total remuneration depends on the level of seniority.

B.1.4.4 Control process

For each executive employee, an annual performance management process is in place. It starts with the agreement of "what" and "how" related targets for the financial year, which are reviewed during the year, and concludes with the target achievement assessment at the end of the year. Thereby quantitative and qualitative aspects of the individual performance including behavioral components are considered.

B.1.4.5 Related party transactions

Apart from the dividend payment and the reception of services, ALL has not carried out any material transactions with its shareholder ABX, and none with respect to other persons who exercise a significant influence on the undertaking, or with members of the BoD and ComEx (with the exception of the remuneration outlined above).

B.2 Fit and proper requirements

B.2.1 Scope

All has in place fitness and propriety requirements for holders of positions in the BoD, the ComEx and of key functions (see section B.1.2).

B.2.2 Criteria

A person is considered fit (Fitness) if their professional qualifications, knowledge and experience are adequate to enable sound and prudent fulfillment of their role. This includes leadership experience and management skills, as well as the relevant qualifications, knowledge and experience for the specific role. With respect to the ComEx and beyond the individual fitness, also the corporate body as a whole must be fit, i.e. sufficiently experienced and skilled.

A person is considered proper (Propriety) if they are of good repute and integrity, depending on their 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 them to fulfill their position in a sound and prudent manner.

B.2.3 Assessment procedure

Fitness and propriety of a function holder are assessed both initially before appointment and regularly in the annual performance management process (see section 0). Initially a candidate has to submit several documents to ALL's human resources function and legal function, which demonstrate their fitness (e.g. curriculum vitae) and propriety (e.g. criminal records). Furthermore, the human resources function carries out background checks.

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

B.3.1 Risk Management framework

B.3.1.1 General

As life insurance undertaking, which assumes risks from our clients, we consider risk management to be a core competency and integral part of our business. ALL has implemented a risk management framework, which is compliant with the regulatory requirements of Solvency II and consistent with the framework of Allianz Group. ALL's risk management framework covers all businesses and operations in proportion to the inherent risks of their activities, ensuring that risks across the company are consistently identified, analyzed, assessed, and managed. The primary goals of the risk management framework are:

- Promotion of an adequate risk culture, supported by a strong risk governance structure
- Consistent and proportional application of an integrated risk capital framework, which to the extent possible quantifies inherent risks, and thereby protects our capital base and supports effective capital management
- Integration of risk considerations and capital into management and decision-making processes by attributing risk and allocating capital to business segments and products.

ALL calculates its risk capital, the regulatory solvency capital requirement (SCR), with the standard formula.

B.3.1.2 Risk management pillars

ALL's risk management is based on the following four pillars:

- Risk identification and underwriting: a robust system of risk identification and underwriting forms the foundation for adequate risk management decisions. Supporting activities include standards for underwriting, valuation methods, individual transaction and new product approvals, emerging- and top-risk assessments, liquidity risk and scenario analysis, amongst others.

- Risk strategy and risk appetite: ALL's strategy defines the risk appetite consistent with the business strategy and Allianz Group's risk strategy. It ensures that rewards are appropriate based on the risks taken and the capital required.
- Risk reporting and monitoring: ALL's comprehensive qualitative and quantitative risk monitoring and reporting framework provides management with the transparency needed to assess whether ALL's actual risk profile remains within the approval limits, and to identify emerging issues and risks quickly.
- Communication and transparency: transparent risk disclosure provides the basis for communicating ALL's strategy and performance to internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing. It also strengthens the risk awareness and risk culture throughout the company.

B.3.2 Strategy and objectives

The risk strategy is a core element of ALL risk management framework. ALL's risk strategy, risk management principles and overall risk appetite are coordinated with, and derived from, ALL's business strategy, and consistent with Allianz Group's risk strategy.

The risk strategy consists of medium- to long-term objectives and initiatives, which may have a shorter time horizon and are more regularly refined in response to inter alia competition and markets developments. Finally, the risk strategy is operationalized through key risk indicators or limits as part of the risk appetite, which allow for the implementation monitoring of the strategy. The risk appetite is defined with respect to all material qualitative and quantitative risks. This includes setting target ratings for top risks (Top Risk Assessment – TRA), establishing minimum and target capital ratios and defining quantitative limits including for liquidity. Adherence to the risk appetite is enacted through dedicated risk management processes.

The risk strategy is regularly, at least annually, reviewed and approved by the ComEx, the RiCo and ultimately the BoD.

B.3.3 Risk governance

ALL's risk governance comprises the organisational structure and the respective roles and responsibilities with respect to the risk management processes as established by ALL's corporate rules including the risk policy framework and the risk strategy.

B.3.3.1 ComEx and BoD

ALL's BoD is ultimately responsible for the monitoring of ALL's risk profile, the setting of the risk strategy and the approval of the ORSA. For these and the discussion of further risk related issues with management including ComEx, the BoD has established the RiCo. The RiCo regularly monitors ALL's risk profile including top risks and the development of key risk indicators (e.g. solvency ratio, liquidity intensity ratio), as well as the implementation of the main risk initiatives.

ALL's ComEx is tasked with the implementation of the strategies and the day-to-day management of the company. Within this framework, the ComEx is responsible for the risk management; this includes proposing the risk strategy and ORSA to the BoD.

B.3.3.2 Risk management function

ALL has implemented a risk management function on the basis of the ALL risk policy as key function of the second line (see section B.4.2), which is headed by the Chief Risk Officer (CRO). The CRO reports to the Head of Finance and Risk in the ComEx and is a non-voting guest of the BoD's Risk Committee.

The risk management function carries out the independent risk oversight, and supports the ComEx and BoD, including the RiCo, by performing various analyses communicating risk related information and implementing risk related initiatives of the ComEx and/or BoD including RiCo.

The risk management function bears the operational responsibility for the risk management processes, in particular:

- Reviewing consistency of ALL's business and risk strategy;
- Developing the risk policy framework in line with the risk strategy and consistently with the Group's risk policy framework;
- Monitoring the risk profile and its adherence to the risk appetite as well as communicating any breaches to ComEx and BoD including RiCo.

ALL's risk management function is supported by the other second line key functions of ALL (actuarial, compliance and legal function), which also take care of the management of specific risks such as those relating to reserving (underwriting risk), legal and compliance (operational and reputational risks).

B.3.4 Risk Management Processes

ALL has established for all material quantified and non-quantified risks a comprehensive risk management process which incorporates (i) risk identification, (ii) risk assessment, (iii) risk response and control activities, (iv) risk monitoring, and (v) risk reporting. The process is implemented and conducted within the confines of a clearly defined risk strategy and risk appetite, and is periodically assessed for adequacy.

B.3.4.1 Solvency Assessment

The solvency assessment is a comprehensive assessment of all risks inherent to the business in order to determine whether current and future capital will be sufficient to ensure ongoing solvency against these risks. In this respect, the solvency assessment comprises the entirety of the processes and procedures employed to identify, assess, monitor, report and manage ALL's risks and solvency. The solvency assessment constitutes ALL's ORSA.

The solvency assessment is performed from both a regulatory as well as an economic perspective ("management's assessment"). All material risks are translated into SCR and compared to the own funds. In addition, ALL applies stress tests for assessing its regulatory solvency under various capital market and other risk scenarios.

With regards to non-quantified risks, the solvency assessment shall cover these risks in a qualitative way by ensuring they are sufficiently mitigated under existing risk management measures in place (e.g. internal controls).

ALL's ComEx and BoD regularly discuss the solvency assessment, take appropriate actions based on the findings and report the outcome to the CAA.

B.3.4.2 SCR calculation

ALL calculates its solvency with respect to all material risks of the risk categories market, credit, business and operational risk, as well as underwriting risk, on a quarterly basis. The calculation of the SCR is based on the standard formula. Furthermore, ALL applies the volatility adjustment (VA) for calculating its technical provisions.

B.3.4.3 Top Risk Assessment (TRA)

ALL performs a TRA on a quarterly basis. The TRA is a periodic analysis of all material quantified and non-quantified risks to identify and remediate significant threats to financial results, operational viability or the delivery of key strategic objectives. In the TRA, single top risks or risk concentrations are assessed and their actual risk value is compared to the risk appetite or target risk value.

B.3.4.4 Ad-hoc stress scenarios

ALL's regularly conducts ad-hoc stress scenario analysis and presents the results to the ComEx and/or BoD including the RiCo, which may decide on mitigation actions in case the risks exceed the risk appetite. Such analysis consists of identifying, evaluating and responding to a dynamic set of relatively specific forward looking scenarios. The analysis complements the static standard formula stress scenarios and comparatively formal TRA process by providing a timely evaluation of potential risk events and approximation of their impacts. Results from the ad-hoc stress scenario process are used to evaluate whether the given scenarios reside within the risk appetite.

B.3.4.5 Further risk management processes

ALL has established further processes for the management of specific risks. These relate to inter alia underwriting risk (underwriting approval process), market risk (asset-liability and investment risk management), liquidity risk management as well as operational risk (internal risk and control system).

B.3.5 Own risk and Solvency Assessment (ORSA)

The ORSA is a comprehensive assessment of all risks inherent in ALL’s business to determine whether current and future capital or own funds will be sufficient to ensure sustained solvency in the face of these risks.

The ORSA is the combination of all processes deployed to cover the identification, assessment, monitoring, management, and reporting of all short term and long term risks faced by ALL. Its purpose is to provide ongoing and prospective insight into the resilience of the undertaking, either under potential adverse events, or as a result of a chosen business strategy. The aspect of risk resilience is translated into solvency and liquidity requirements that have to be met at all times. Furthermore, the coherence between risk strategy (risk appetite), business strategy and capital management is discussed and established in the ORSA.

While the ORSA is largely based on the regulatory solvency calculation and also aims to quantify the risks to the extent possible, it goes beyond such calculation in several regards by:

- Analysing the tops risks, including non-quantifiable risks, in a qualitative way and subjecting them to active risk steering processes (TRA, see section B.3.4.3);
- Projecting the solvency beyond the regulatory one year horizon, i.e. according to the business planning period of ALL three years;
- Calculating the solvency in stress scenarios; and
- Assessing the adequacy of the regulatory solvency by comparing the underlying assumptions to the economic risk profile of ALL.

While the ORSA as a process is performed on an ongoing basis, the results are only reported annually (ORSA report).

The ORSA process is owned ALL’s BoD, supported by:

- The BoD's RiCo, challenging the process and its outcome,
- The ComEx, providing input for the assessment of top risks,
- ALL's risk management function, charged by the RiCo to implement the process on an ongoing basis, leading to the annual ORSA report.

The outcome of the ORSA process is reported to all relevant stakeholders, and influences, as the case may be, the setting of the business and risk strategy including capital management.

B.4 Internal control system

B.4.1 Overview

B.4.1.1 Pillars of the ICS

The internal control system (ICS) of ALL comprises the entirety of activities undertaken to continuously review the effectiveness of the relevant processes and procedures (including operations and reporting), their coherence and potential actions to timely rectify deficiencies. The ICS is based on the following pillars:

- Safeguarding and segregation of duties to avoid potential conflicts of interest (e.g. separation of the exercise of controls from their testing)
- Material decision are taken by at least two representatives (four-eyes principle)
- Application of the three lines governance model (see section B.4.2)
- Application of the internationally recognised control framework of COSO[6] for financial reporting and parts of the COBIT[7] model throughout Allianz Group
- Application of effective process-level controls to ensure operational effectiveness.

B.4.1.2 Integrated risk and control system (IRCS)

The process-level controls are part of Allianz Group's integrated risk and control system (IRCS). It ensures that effective controls or other risk mitigation measures exist for all material operational risks from these areas: financial reporting including the calculation of the SCR, compliance, IT, information security, underwriting and products, investments as well as protection and resilience. The controls are embedded in the operational and organisational set-up and subject to regular reviews.

Each year, ALL selects those risks from a catalogue provided by Allianz Group, which are applicable to ALL's business and which are material (e.g. payment of insurance policy

[6] Committee of Sponsoring Organizations of the Treadway Commission.
[7] Control Objectives for Information and Related Technology.

claim to fraud or outdated account). Subsequently, for each applicable, material risk, a preventive or detective control is implemented (e.g. check of client data before payment).

B.4.2 Three lines governance model

B.4.2.1 Functions and their responsibilities

Based on its governance and control policy, and consistent with Allianz Group's governance, ALL has established the three lines governance model[8], which clearly distinguishes different levels of control with graduated control responsibilities.

The first line is integrated in day-to-day operating business responsible for both risks and returns, and consists of management, risk control, and risk management activities. Specifically, these include:

- Assessing opportunities and risks at an operational level (this is a part of risk assumption, e.g. when ALL calculates premiums and assesses the risks accepted)
- Identifying and implementing methods, models, reporting formats or other control standards to help optimize the balance of risk and opportunities
- Participating in business decisions.

In general, any function not explicitly classified as second or third line is considered part of the first line.

The second line consists in reviewing and independently monitoring our day-to-day risk assumption and the first line's control activities. These tasks are carried out by ALL's key functions Actuarial, Compliance, Legal and Risk Management. Activities include:

- Examining the adequacy of the IRCS
- Independent identification, assessment and reporting of risks
- Advising on strategies on how to mitigate risks.

To enable the second line functions to perform their duties, ALL's governance and control policy vests them with the following rights:

- Independence from first line functions in terms of reporting lines and compensation
- Direct reporting line to the responsible member of the ComEx and unrestricted access to the entire ComEx and the BoD
- Veto right for good cause, with the effect that the business decision in question must be escalated within ALL or Allianz Group
- Unrestricted access to necessary information.

[8] Formerly referred to as three lines of defense model.

The third line provides independent assurance across the first and second line. Specifically, its activities include:

- Independently assessing effectiveness and efficiency of the ICS
- Reporting the results of the assessment to ComEx and BoD (Audit Committee).

All third line activities are exclusively performed by ALL's internal audit function (key function).

B.4.2.2 Relationship between functions

Second and third line functions as well as the head of accounting and reporting (first line key function) are subject to instructions from the ComEx and BoD only. The second line functions are routinely involved in the decision-making processes regarding material decisions, in that they provide advice to ComEx and BoD. To ensure their continuous involvement, they are non-voting guests in the ComEx sub-committees, the Underwriting and Investment Committee.

The second line functions are separated from each other and the internal audit function. There are no instruction rights or reporting obligations between any of these functions. The second line functions are included in the audit programme and hence subject to the periodic assessment of the internal audit function regarding adequacy and effectiveness. Nevertheless, all the named functions cooperate closely and exchange information to the extent permitted.

B.4.3 Compliance Function

ALL has implemented a compliance function as key function of the second line (see section B.4.2) on the basis of the ALL compliance policy, which is headed by the Compliance Officer.

The compliance function's tasks comprise according to ALL's compliance policy:

- Risk identification and assessment with respect to compliance risks (operational risks)
- Advice to ComEx and BoD on ALL's compliance with external requirements and changes thereof (legal change monitoring)
- Monitoring of compliance with external requirements
- Setting up of the compliance plan
- Performance of compliance investigations, incident handling as well as compliance reporting.

The compliance function develops, implements and oversees the compliance framework for the assigned compliance risk areas; these comprise:

- Anti-Bribery and corruption

- Anti-money laundering and counter-terrorism financing
- Economic sanctions
- Capital markets compliance (including insider trading)
- Customer protection (including insurance distribution directive and conflicts of interests)
- Antitrust
- Foreign account tax compliance act (FATCA), the common reporting standard and DAC 6.

B.5 Internal audit function

B.5.1 Implementation

ALL has implemented an internal audit function on the basis of the internal audit policy as key function of the third line (see section B.4.2), which is headed by the Chief Audit Executive. The Chief Audit Executive reports to the Chairman of the ComEx and is a non-voting guest of the BoD's Audit Committee.

The main task of internal audit is to support ALL to accomplish its objectives by using a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes of ALL, including those of service providers, to which ALL has outsourced activities (see section B.7). This is achieved by independent, objective assurance and consulting activity designed to add value and improve the organization's operations, which is based on a comprehensive, risk-oriented audit plan and on management's request or due to new risk developments (unplanned audits). For each internal audit performed, the function prepares a report addressed to the auditee and the Chairman of the ComEx. Significant findings are also reported to the BoD's Audit Committee and to the internal audit function of Allianz Group. The audit report includes recommendation to mitigate the findings, and the implementation of mitigation actions is monitored by the internal audit function.

B.5.2 Organizational independence

ALL's internal audit function has high organizational independence, which corresponds to its functions as third – and last – line. This means that no undue influence can be exercised over the function, e.g. in terms of reporting, the setting of objectives or targets, compensation or other means. The internal audit function must avoid conflicts of interest in fact or appearance.

The independence of ALL's internal audit function is further supported by the reporting lines to the Chairman of the ComEx, the BoD's Audit Committee and the Chairwoman of the BoD, as well as to the internal audit functions of ABX and Allianz Group.

B.6 Actuarial Function

ALL has implemented an actuarial function on the basis of the ALL actuarial policy as key function of the second line (see section B.4.2), which is headed by the Chief Actuarial Officer (CAO). The CAO reports to the Head of Finance and Risk in the ComEx and is a non-voting guest of the BoD's Risk Committee.

ALL's actuarial function has the following tasks according to the actuarial policy:

- Calculation of technical reserves for accounting and regulatory purposes (IFRS and Lux GAAP);
- Pricing and profitability oversight (including advising on the underwriting policy and adequacy of reinsurance arrangements);
- Support of business planning, reporting and result monitoring;
- Reserving oversight, coordination of the calculation of technical provisions according to Solvency II; and
- Contribution to the effective implementation of the risk management system.

B.7 Outsourcing

B.7.1 Overview

The outsourcing of functions or services essential to the operations of ALL directly affect our customers' interests. In order to appropriately safeguard these interests, certain principles and processes (requirements) have to be adhered to within ALL in order to adequately assess, mitigate, and control the risks associated with outsourcing and to ensure business continuity in case of adverse events or termination. To establish these principles and processes, ALL has implemented an outsourcing policy, for which ALL's legal function is responsible.

Outsourcing is the transfer of a service or function, which otherwise ALL would need to perform, to a service provider within or outside Allianz Group, which is material in scope and time and relates to:

- An activity directly relating to ALL's core business (e.g. the calculation of taxes) – referred to as "simple outsourcing";

- A critical or important service, which is essential for ALL to fulfil its obligations (as defined in ALL's policy, e.g. investment management of insurance assets), or a key function (see section B.1.2) – referred to as "critical outsourcing".

The fundamental principle applying to outsourcing is that ALL remains ultimately responsible – in particular vis-à-vis its clients – for the performance of outsourced services or functions. Therefore the outsourced services or functions must be duly performed, remain integrated into ALL's risk management system and internal control system, and remain accessible for ALL's key functions, ALL's external auditor and ALL's supervisory authority CAA.

B.7.2 Requirements

On the basis of ALL's outsourcing policy, each proposal must go through the subsequent processes or phases and comply with the respective principles:

- Decision phase: each outsourcing proposal requires a business plan from the business owner, a risk assessment as well as a due diligence of the service provider;
- Implementation phase: the outsourcing agreement must provide for sufficient access to data, disclosure of relevant issues, protection of confidential information and the provider's cooperation with the CAA;
- Operational phase: the business owner must monitor the performance of the outsourced services or functions according to the agreed KPIs and take appropriate actions if needed;
- Exit phase: the business owner must ensure the proper in-sourcing of the services or functions before effective termination.

B.7.3 Transactions

ALL has in place four critical outsourcing transactions with respect to critical or important services. More details are shown in the subsequent table.

#	Service or function	Location of provider	Intragroup?
1	Investment management (for ALL's insurance and own assets)	Belgium	Yes (ABX)
2	Accounting and reporting: internal funds valuation and accounting (unit linked business)	Luxemburg	No
3	IT: infrastructure for policy records management	Luxemburg	No
4	IT: infrastructure for business continuity planning and disaster recovery	Luxemburg	No

Table 2: Outsourcing transactions

B.8 Any other information

A structured process is in place for the regular review of the system of governance of Allianz Group and ALL. The process is fed by self-assessments from the entities of Allianz Group and assessments of the key functions. Starting at the level of the Group, this process leads to regular adjustments of the system of governance, in particular the policies (see section B.1.3).

Also based on the above process, the following material changes occurred to ALL's system of governance:

- Establishment of the ComEx' Investment Committee and Disclosure Committee (see section B.1.1.3);
- Strengthening of the involvement of ALL's second line key functions in material decision-making processes (see sections B.1.2 and B.4.2);
- Extension of the IRCS to financial reporting (in replacement of the former ICOFR[9], see section B.4.1.2).

Also based on the above regular review, ALL's system of governance is deemed adequate to the nature, scale and complexity of the risks inherent in ALL's business.

[9] Internal controls over financial reporting.

C. Risk profile

ALL measures and steers risks predominantly (for additional risk indicators and limits, see B.3.2) based on the regulatory solvency calculation according to Art. 104 of the Luxemburg Law of 7 December 2015 on the insurance sector (Insurance Law); ALL's own funds or capital must be at least as high as the solvency capital requirement (SCR) or risk capital, which ALL calculates with the standard formula. The SCR measures the potential adverse developments of own funds in pre-defined scenarios.

This section provides an overview of the overall risk profile of ALL, including the risks shown in the subsequent figure, which are quantified with the SCR in the standard formula. Further risks not included in the standard formula are strategic and reputational as well as liquidity risk. The categorization of risks into risk categories and risk types is based on the risk taxonomy according to ALL's risk policy.

In the standard formula SCR calculation, the SCR of all quantifiable risk categories (but one) is aggregated, thereby reflecting diversification effects, to the Basic SCR. To this, the SCR for operational risk is added. Subsequently, the loss absorbing capacity of deferred taxes (LACDT) and of technical provisions (LACTP) are considered, resulting in the total SCR. ALL's SCR and Basic SCR is dominated by market and life (underwriting) risks. By contrast, the SCR for health and non-life (underwriting) risks is zero, as ALL is not active in these business segments.

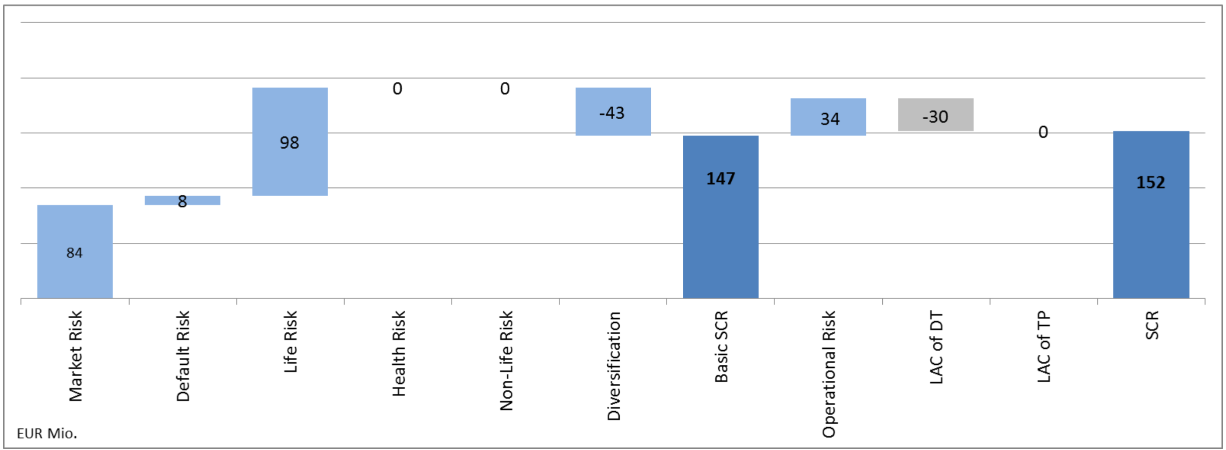

Figure 2: SCR breakdown

ALL invests its insurance assets (for which ALL bears the financial risks) in accordance with the prudent person principle of Art. 114 of the Insurance Law and the respective Allianz requirements as follows:

- All assets are invested so as to ensure the quality, security, liquidity, profitability and availability of the investment portfolio as a whole; thereby, the nature and duration of the insurance liabilities is taken into account in the strategic asset allocation (SAA);
- ALL only invests in assets for which it can properly identify, measure, monitor, control, and report the involved risks and integrate them into the solvency assessment.

C.1 Life underwriting risk

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 temporary or permanent changes in 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.

Life underwriting risk is ALL’s dominant risk category, driven by lapse risk. More concretely, ALL’s largest risk is that lapses of policyholders develop differently than expected, and therefore ALL earns fewer fees from the business than planned. The exposure towards longevity, mortality and expenses risks is rather limited due to the ALL’s product mix.

C.2 Market risk

Market risk is the risk of unexpected losses arising due to changes in market prices or parameters influencing market prices, as well as the resultant risk from options and guarantees that are embedded in contracts. In particular, these include changes driven by equity prices, interest rates, real estate prices, exchange rates, credit spreads and implied volatilities, or from changes to the net worth of assets and liabilities in related undertakings driven by market parameters. By that it also includes changes in market prices due to a worsening of market liquidity.

Market risk is the second largest risk category for ALL, to which it is both directly and indirectly exposed. The direct exposure comes from insurance assets for policyholders and those covering own funds, for which ALL bears the financial risk (market and credit risk).[10] According to the respective insurance policies, ALL promises a certain minimum yield on the premiums paid by the policyholders, which it needs to earn from the assets. Such business is no longer pursed by ALL as core business.

The indirect exposure comes from the unit linked and Euro fund business, for which the financial risks are borne by the policyholder (selecting the assets of the funds) or by ALL's reinsurer. ALL is nevertheless indirectly exposed to the value of the assets, as it determines the amount of fees, which ALL can earn.

The material risk types of the risk category market risk for ALL are equity risk, interest rate risk, equity risk and spread risk, whereas currency risk and concentration risk are immaterial for ALL.

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.

ALL holds only very limited amounts of equity as insurance assets. The equity risk is rather driven by the participations in the policyholders' unit linked funds, which represent ALL's future fee claims. Where ALL has no information on the exact allocation of assets in the funds (e.g. fixed income), the most prudent (i.e. highest) risk type is assumed for prudential reasons. This is the SCR for equity type 2.

C.2.2 Interest rate risk

Interest rate risk is the risk that the net position of the assets and liabilities is adversely affected by changes in interest rates. ALL is exposed to this where the policies include a minimum yield on the premiums paid by the policyholders, which it needs to earn from the assets. This can result in a loss if maturing fixed income assets need to be reinvested prior to the maturity of the policies (technical provisions), they are backing, and the interest rates for such assets have declined.

As ALL predominantly carries out unit linked and reinsured Eurofund business, it is not materially exposed to this risk. With respect to the remaining business, ALL has in place an asset liability management (ALM) for insurance assets to manage interest rate risks.

[10] See Table 1.

C.2.3 Real estate risk

Real estate risk is the risk of losses due to changes in the market value of real estate or property.

ALL is materially exposed to this risk as it holds real estate of considerable size as insurance asset.

C.2.4 Spread risk

Spread risk is the risk of losses due to decreases 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 of certain debtors over the risk-free interest rate. Note that government bonds (where a European Union (EU) member state is the debtor) are not subject to spread risk.

ALL is materially exposed to this risk as bonds and loans form a significant part of insurance assets. Note that in case of a stable and well-matched asset-liability portfolio, spread risk does not lead to actual losses if the bonds are held until maturity (when the principal is paid back). Therefore, ALL's ALM aims to prevent that spread risk leads to effective losses.

C.3 Credit risk

Credit or counterparty default risk is the risk of unexpected losses in the market value of assets due to deterioration in the credit quality of counterparties (debtors) including their failure to meet payment obligations or due to nonperformance of instruments (i.e. payment overdue).

Different SCR apply to type 1 and 2 exposures. Type 1 relates to reinsurance arrangements, deposits with ceding undertakings and cash at bank, which are assumed to be not diversified, but rated. Type 2 relates to all other credit exposures, which are assumed to be not rated but diversified, including loans, mortgages and receivables (e.g. from policyholders).

For ALL, type 1 is the main credit risk and relates predominantly to cash at BNP Paribas S.A. with an A+ rating.

ALL manages this risk on the basis of its liquidity risk reporting; ALL is not materially exposed to this risk due to the high liquidity of its assets (in particular bonds) and the low liquidity of its technical provisions (liabilities).

C.4 Liquidity risk

Liquidity risk is the risk of losses due to the inability to meet current or future payment obligations 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. It is not reflected in the standard formula SCR calculation as it doesn't result in a loss in own funds.

C.5 Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal processes and systems, from human misbehavior or errors or from external events. It includes legal and compliance risks.

These risks are managed in general through ALL's ICS and IRCS (see section B.4). Legal and compliance risks in particular are managed through the processes of these two key functions of ALL (see section B.4.3).

C.6 Other material risks

Other material risks, which are not quantified in the SCR, are reputational and strategic risks. These are managed through structured processes at the level of Allianz Group, ABX and ALL and are not deemed significant for ALL after mitigation measures.

C.7 Any other information

All material information regarding the risk profile has already been provided in the previous chapters.

D. Valuation for Solvency purposes

For solvency purposes, ALL has to establish in accordance with Art. 98 et seq. of the Insurance Law a market value balance sheet (MVBS), which follows a different methodology than the Luxemburg generally accepted accounting principles (Lux GAAP) with respect to recognition, measurement and valuation of assets and liabilities.

D.1 Valuation of assets

The subsequent table provides an overview of the reconciliation between the different values of assets in MVBS (Solvency II value) and Lux GAAP (Statutory accounts value).

		Solvency II value	Statutory accounts value
Assets		C0010	C0020
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	27.147.830,00	1.376.941,00
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	379.048.190,00	318.537.932,00
Property (other than for own use)	R0080	6.078.000,00	3.180.982,00
Holdings in related undertakings, including participations	R0090	38.685.000,00	27.094.542,00
Equities	R0100		
Equities - listed	R0110		
Equities - unlisted	R0120		
Bonds	R0130	236.093.660,00	193.859.416,00
Government Bonds	R0140	158.313.550,00	135.821.785,00
Corporate Bonds	R0150	77.780.110,00	58.037.631,00
Structured notes	R0160		
Collateralised securities	R0170		
Collective Investments Undertakings	R0180	97.845.410,00	94.114.865,00
Derivatives	R0190	346.120,00	288.127,00
Deposits other than cash equivalents	R0200		
Other investments	R0210		
Assets held for index-linked and unit-linked contracts	R0220	3.977.910.770,00	4.085.759.041,00
Loans and mortgages	R0230	41.254.480,00	35.938.798,00
Loans on policies	R0240	1.562.230,00	1.562.233,00
Loans and mortgages to individuals	R0250		
Other loans and mortgages	R0260	39.692.250,00	34.376.565,00
Reinsurance recoverables from:	R0270	5.109.009.260,00	4.484.176.443,00
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	5.108.610.480,00	4.484.176.443,00
Health similar to life	R0320		
Life excluding health and index-linked and unit-linked	R0330	5.108.610.480,00	4.484.176.443,00
Life index-linked and unit-linked	R0340	398.780,00	
Deposits to cedants	R0350		
Insurance and intermediaries receivables	R0360	1.563.130,00	1.563.127,00
Reinsurance receivables	R0370	14.295.570,00	14.295.566,00
Receivables (trade, not insurance)	R0380	22.465.720,00	15.807.674,00
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	59.104.020,00	64.802.708,00
Any other assets, not elsewhere shown	R0420		2.537.586,00
Total assets	R0500	9.631.798.970,00	9.024.795.816,00

Table 3: Reconciliation of assets between Lux GAAP and Solvency II

In principle assets are valued at fair value in the MVBS and at amortized costs in Lux GAAP.

Measurement at fair value means the following: when quoted prices in active markets are available for the valuation of investments, those prices are used in the MVBS. 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. When 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 include the following:

- 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).

D.1.1 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 ALL for its own use. It also includes property for own use under construction.

The difference between Lux GAAP and MVBS values is due to the different measurement basis, i.e. amortized cost in Lux GAAP vs. fair value in the MVBS.

D.1.2 Investments (other than assets held for index-linked and unit-linked funds)

Investments comprise ALL's insurance assets (covering technical provisions, under which ALL bears the financial risks) and own assets (covering own funds). In each MVBS line for the investments, the valuation techniques used are described.

D.1.2.1 Property (other than for own use)

Property is valued similar to property for own use (see section D.1.1).

D.1.2.2 Holdings in related undertakings

In Lux GAAP, holdings in related undertakings are valued at cost. In the MVBS, such holdings in related undertakings are valued on the basis of the adjusted equity method in accordance with ALL's share of the excess of assets over liabilities of the related undertaking's MVBS. Where this is not feasible, the equity method can be used, i.e. the participation value is based on ALL'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).

D.1.2.3 Bonds

This category comprises government and corporate bonds. 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.

In Lux GAAP, such assets are valued at acquisition cost and decreased when necessary by impairments. In the MVBS, they 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.1.2.4 Collective investment undertakings (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. In Lux GAAP, investments funds are accounted at acquisition cost and decreased when necessary by impairments. In the MVBS, they are valued at fair value.

D.1.2.5 Derivatives

ALL holds derivatives in order to hedge a compensation plan.

D.1.3 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 policies, 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 Lux GAAP values is due to timing constraints; while intermediate valuations were used for MVBS, definitive valuations were used for Lux GAAP.

D.1.4 Loans and mortgages

Loans and mortgages include "loans and mortgages to individuals", "other loans" and "mortgages and loans on policies"; the latter are collateralized by the policies, while the further loans may also be without collateral.

In Lux GAAP, these assets are measured at amortized cost using the effective interest method. In the MVBS, they are measured at their fair value, which is 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.

D.1.5 Reinsurance recoverables

ALL holds reinsurance recoverables from life, mainly resulting from the reinsurance of the EuroFund business to Allianz Vie S.A., and a small recoverable on the unit-linked business.

These recoverables represent the reinsurer's share in ALL's reserves (Lux GAAP) or technical provisions (MVBS), which are to be calculated on a gross basis in order to reflect that ALL is in general exposed to the credit risk of the reinsurer. 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 takes into account the following cash flows:

- Cash inflows:
  - Recoverables from reinsurance contracts for claims payments and related expenses; and
  - Revenues from reinsurance commission and profit shares where specified in individual reinsurance contracts.
- Cash outflows:
  - Future premiums for reinsurance contracts; and
  - Counterparty default adjustment (the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default)).

For ALL, the counterparty default adjustment is negligible, as the main recoverable from Allianz Vie S.A. is collateralized.

The different valuation of the recoverables in MVBS and Lux GAAP follows the different valuation of the reserves or technical provisions.

D.1.6 Insurance and intermediaries receivables

Insurance and intermediaries receivables include amounts past-due by policyholders, insurers, and others participating in the insurance business, which are not included in the cash inflows of reserves or technical provisions. The latter is treated differently in MVBS and Lux GAAP. The valuation of the resulting asset is similar in both standards, though: they are measured at their nominal amount.

D.1.7 Reinsurance receivables

Reinsurance receivables include amounts past-due by reinsurers; by contrast to reinsurance recoverables, they relate to settled claims of policyholders or beneficiaries, payments in relation to other than insurance events or settled insurance claims. Reinsurance receivables are measured similarly to insurance receivables.

D.1.8 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 measured at their nominal amount.

D.1.9 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.

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

D.1.10 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. There is no significant difference between Lux GAAP and MVBS values as the respective assets are measured at their nominal values. However, note that Lux GAAP includes the accrued interests from bonds, which are shown in the line item bonds in MVBS.

Note that ALL has the following significant off-balance sheet asset: ALL has a reinsurance contract with Allianz Vie S.A. under which ALL commits to cede to the reinsurer all the premiums to be invested in the guaranteed return component, which is reinsured. As collateral for its commitment or recoverable from reinsurance, the reinsurer has opened a safekeeping account as a senior pledge to ALL. The market value of securities included in this account is 5.16 bn€. This pledge is an off-balance sheet asset of ALL. Apart from the above off-balance sheet item, all important information regarding the valuation of its assets, technical provisions and other liabilities for solvency purposes is addressed in the above sections.

D.2 Valuation of technical provisions

The following table shows the consolidated MVBS technical provisions on Super-LoB basis.

		Solvency II value
Liabilities		**C0010**
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**	5,404,373,140.00
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**	5,404,373,140.00
Technical provisions calculated as a whole	**R0660**	
Best Estimate	**R0670**	5,352,917,060.00
Risk margin	**R0680**	51,456,080.00
Technical provisions - index-linked and unit-linked	**R0690**	3,924,150,550.00
Technical provisions calculated as a whole	**R0700**	
Best Estimate	**R0710**	3,894,704,700.00
Risk margin	**R0720**	29,445,850.00

Table 4: Life – MVBS technical provisions on Super-LoB basis

D.2.1 Bases, methods and main assumptions

ALL calculates its technical provisions with respect of all insurance obligations to policyholders in accordance with Art. 100 of the Insurance Law. The technical provisions (TP) correspond to the current amount that ALL would have to pay if it was to transfer its insurance obligations immediately to another insurance undertaking. The technical provisions comprise the best estimate liabilities (BEL) and a risk margin (RM), which are calculated separately.

In the calculation, ALL's 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.

D.2.1.1 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 Lux GAAP reserve. All options and guarantees 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.

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. ALL uses the Allianz Group’s yield curve extrapolation, which is done in accordance with Art. 46 and 47 of the Delegated Regulation (EU) 2015/35.

The main differences between MVBS (technical provisions) and Lux GAAP (reserves) are due to the different rates used for the discounting of BEL and reserves as well as the risk margin, which is added only to the BEL.

D.2.1.2 Risk Margin (RM)

The risk margin is calculated by determining the costs of providing an amount of eligible own funds equal to the SCR necessary to support the insurance obligations over lifetime.

Thereby an allowance for the cost of holding own funds for non-hedgeable risks is required, i.e. for the financial risks other than interest rate risks as well as insurance and operational risks that cannot be transferred through the capital markets. By contrast, no risk margin is required for hedgeable financial risks as these are transferred through the capital markets.

The cost of capital rate is set at 6% by Art. 39 of Delegated Regulation (EU) 2015/35. Appropriate diversification benefits between Lines of Business (LoB) are reflected in the calculation of the risk margin.

D.2.1.3 Application of transitional measures

ALL does not apply the transitional measures referred to in Articles 308 c and d of the Directive 2009/138/EC.

D.2.2 Material changes

Material changes in the value of BEL resulted from the last yearly review of the non-economic assumptions. These relate to lapse assumptions and the allocation of expenses to the various portfolios of ALL, which impact the BEL due to their different durations.

D.2.3 Level of Uncertainty

D.2.3.1 Sensitivity testing

ALL tests the sensitivity of the technical provisions to changes in the key assumptions. Such sensitivity testing is to be performed by rerunning the in-force business using alternative assumptions. For each sensitivity test, key assumptions are changed with reference to the central values. The change in assumptions is applied at the valuation date. The central values as well as the effect of recalculating values with different assumptions must be reported. The sensitivities are to be performed on best estimate liabilities, risk margin as well as options & guarantees.

D.2.3.2 Non-economic assumptions

The calculation of technical provisions is necessarily based on economic and non-economic assumptions. Economic assumptions relate to the performance of ALL’s assets. They are mainly set centrally in Allianz Group to ensure consistency.

Non-economic assumptions relate to mortality/morbidity, lapses and paid-ups, annuity conversion rates, expenses, profit sharing and future management actions. These non-economic assumptions including their methodology are set by ALL's actuarial function.

D.2.4 Reconciliation between Lux GAAP and Solvency II

		Solvency II value	Statutory accounts value
Liabilities		C0010	C0020
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	5,404,373,140.00	4,772,843,197.00
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	5,404,373,140.00	4,772,843,197.00
Technical provisions calculated as a whole	R0660		
Best Estimate	R0670	5,352,917,060.00	
Risk margin	R0680	51,456,080.00	
Technical provisions - index-linked and unit-linked	R0690	3,924,150,550.00	4,085,759,041.00
Technical provisions calculated as a whole	R0700		
Best Estimate	R0710	3,894,704,700.00	
Risk margin	R0720	29,445,850.00	
Other technical provisions	R0730		
Contingent liabilities	R0740		
Provisions other than technical provisions	R0750	7,674,740.00	7,674,752.00
Pension benefit obligations	R0760	3,590,880.00	70,594.00
Deposits from reinsurers	R0770		
Deferred tax liabilities	R0780	30,177,550.00	
Derivatives	R0790		
Debts owed to credit institutions	R0800		
Financial liabilities other than debts owed to credit institutions	R0810	0.00	
Insurance & intermediaries payables	R0820	12,006,740.00	11,099,845.00
Reinsurance payables	R0830	332,300.00	332,305.00
Payables (trade, not insurance)	R0840	8,456,110.00	24,561,551.00
Subordinated liabilities	R0850		
Subordinated liabilities not in Basic Own Funds	R0860		
Subordinated liabilities in Basic Own Funds	R0870		
Any other liabilities, not elsewhere shown	R0880	16,690,260.00	5,476,473.00
Total liabilities	R0900	9,407,452,270.00	8,907,817,758.00
Excess of assets over liabilities	R1000	224,346,700.00	116,978,058.00

Table 5: Reconciliation of liabilities between Lux GAAP and MVBS

D.2.4.1 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 using the best estimate for this kind of provisions. Therefore, there are no material differences between Lux GAAP and MVBS values.

D.2.4.2 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.

In Lux 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 previous IAS 19 rules (i.e. with the corridor approach).

In the MVBS, actuarial gains or losses are recognized. 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 two elements explain the valuation/reclassification difference between Lux GAAP and MVBS.

D.2.4.3 Deferred tax liabilities

Deferred tax liabilities are the amounts of income tax payable in future periods with respect to taxable temporary valuation differences in the MVBS compared to the tax valuation; they hence only exist in the MVBS.

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 the MVBS, and
- the values ascribed to assets and liabilities as recognized and valued 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.

D.2.4.4 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) and exclude 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 in both Lux GAAP and MVBS.

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

D.2.5 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 both Lux GAAP and MVBS.

There are no (material) differences between Lux GAAP and MVBS values.

D.2.6 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 Lux GAAP, which is considered to be the market value. However, if there are material differences between the Lux GAAP value and the MVBS value, then revaluation adjustment is taken into account. Note that a large portion of these payables in Lux GAAP are classified as other liabilities in the MVBS.

D.2.7 Any other liabilities, not elsewhere shown

ALL holds any other liabilities, which are not elsewhere shown and which include any liabilities that are not included in the other balance sheet items. These are those which are classified as payable in Lux GAAP.

D.2.8 Volatility adjustment

ALL applies the volatility adjustment (VA) according to Art. 77d of Directive 2009/138/EC, but not the matching adjustment according to Art. 77b.

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%. The subsequent table shows the impact of the VA application on various metrics.[11]

Impact of long term guarantees measures and transitional

		Amount with Long Term Guarantee measures and transitionals	Impact of the Long Term Guarantee measures and transitionals (Step-by-step approach)		
			Without volatility adjustment and without other transitional measures	Impact of volatility adjustment set to zero	Impact of all LTG measures and transitionals
		C0010	C0060	C0070	C0100
Technical provisions	R0010	9,328,523,680.00	9,357,823,890.00	29,300,210.00	29,300,210.00
Basic own funds	R0020	219,346,700.00	217,982,649.89	-1,364,050.11	-1,364,050.11
Excess of assets over liabilities	R0030	224,346,700.00	222,982,649.89	-1,364,050.11	-1,364,050.11
Restricted own funds due to ring-fencing and matching portfolio	R0040	0.00	0.00	0.00	0.00
Eligible own funds to meet Solvency Capital Requirement	R0050	219,346,700.00	217,982,649.89	-1,364,050.11	-1,364,050.11
Tier I	R0060	219,346,700.00	217,982,649.89	-1,364,050.11	-1,364,050.11
Tier II	R0070	0.00	0.00	0.00	0.00
Tier III	R0080	0.00	0.00	0.00	0.00
Solvency Capital Requirement	R0090	151,551,332.46	152,204,343.00	653,010.54	653,010.54
Eligible own funds to meet Minimum Capital Requirement	R0100	219,346,700.00	217,982,649.89	-1,364,050.11	-1,364,050.11
Minimum Capital Requirement	R0110	37,887,833.11	38,051,085.94	163,252.83	163,252.83

Table 6: impact of VA (values in €)

[11] As set out, ALL neither applies transitional measures nor the matching adjustment.

E. Capital Management

E.1 Own Funds

E.1.1 Principles for Capital Management

ALL fully complies with the regulatory requirements of in particular Art. 104 of the Insurance Law such that it holds sufficient eligible own funds to cover the SCR and MCR. This means according to the regulatory requirements that ALL has sufficient own funds to meet all its obligations and considering all possible risks with a probability or confidence level of 99.5%.

Furthermore, ALL has implemented a transparent and effective governance to ensure ongoing compliance with the capital requirements based on its capital management policy, which consistent with Allianz Group's policy.

In Allianz Group, capital is managed centrally to protect the Group's capital base and its competitiveness and to ensure its fungibility within the Group, which is necessary to ensure compliance with regulatory minimum capital requirements in all entities of the Group.

Capital (own funds) poses the central resource for ALL to support its multiple activities. It is managed such that it efficiently supports the business strategy and provides the necessary risk-bearing capacity over a mid-term horizon. For that, capital needs are projected annually over ALL's planning horizon of three years, taking into account the planned business development and estimated financial markets.

In addition, ALL defines its capital needs well above the regulatory minimum requirements: they are defined such that own funds would still exceed the SCR and MCR after the worst of several scenarios, which are calculated each year as part of the ORSA process (see section B.3.5) and are then integrated into ALL's risk strategy as risk appetite limit (so called management ratio; see section B.3.1.2). A further constraint according to ALL's capital management policy is that a dividend should only be distributed if the remaining own funds still exceed the amount necessary to meet the management ratio.

E.1.2 Own Fund items

The following table shows the own funds of ALL. They consist of ordinary share capital, related share premium account and the reconciliation reserve, all of which items are of the highest quality according to Art. 102 (4) of the Insurance Law (tier 1) and thus eligible to cover both SCR and MCR. The reconciliation reserve comprises accrued profits and the valuation differences between Solvency II (MVBS) and Lux GAAP (see sections D.1 and

D.2.4). As such, the reconciliation reserve is subject to volatility. Further to the following table, note that the planned dividend of 5 m€ has already been deducted from the own funds.

Own funds		Total
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35		**C0010**
Ordinary share capital (gross of own shares)	**R0010**	30 000 000.00
Share premium account related to ordinary share capital	**R0030**	16 500 000.00
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**	
Subordinated mutual member accounts	**R0050**	
Surplus funds	**R0070**	
Preference shares	**R0090**	
Share premium account related to preference shares	**R0110**	
Reconciliation reserve	**R0130**	172 846 700.00
Subordinated liabilities	**R0140**	
An amount equal to the value of net deferred tax assets	**R0160**	
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds		
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**	
Deductions		
Deductions for participations in financial and credit institutions	**R0230**	
Total basic own funds after deductions	**R0290**	219 346 700.00
Ancillary own funds		
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**	
Unpaid and uncalled preference shares callable on demand	**R0320**	
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**	
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	
Other ancillary own funds	**R0390**	
Total ancillary own funds	**R0400**	
Available and eligible own funds		
Total available own funds to meet the SCR	**R0500**	219 346 700.00
Total available own funds to meet the MCR	**R0510**	219 346 700.00
Total eligible own funds to meet the SCR	**R0540**	219 346 700.00
Total eligible own funds to meet the MCR	**R0550**	219 346 700.00
SCR	**R0580**	151 551 332.46
MCR	**R0600**	37 887 833.11
Ratio of Eligible own funds to SCR	**R0620**	144.7343%
Ratio of Eligible own funds to MCR	**R0640**	578.9370%

Table 7: own funds items

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Overview

The own funds, which constitute the economic risk bearing capacity of ALL, are to be compared to the risks, to which ALL is actually exposed. Such risks are measured with the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). The SCR reflects the level of own funds, which ALL should hold in order to absorb extreme losses, which are expected to occur once in two hundred years (confidence level of 99.5%). The MCR reflects the level of own funds, which ALL must at least hold to be allowed to stay in business. The following table shows the SCR and MCR and the respective solvency ratios when compared to the own funds (see section E.1.2).

	4Q2020
Solvency Capital Requirement (SCR)	152
Own Funds (OF) - after dividend	219
Solvency Ratio (OF/SCR)	**145%**
Minimum Capital Requirement (MCR)	38
Solvency Ratio (OF/MCR)	579%

Table 8: SCR and MCR (values in m€)

E.2.2 SCR

ALL uses the standard formula according to Art. 107 of the Insurance Law to calculate its SCR. The SCR is the combination of the (net) Basic SCR (BSCR), the loss-absorbing capacity of deferred taxes and the operational risk.

The BSCR, in turn, is the aggregation of three risk modules, thereby taking into account diversification effects between the modules for the various risk categories and the loss absorbing capacity of technical provisions. The three risk modules are market risk, counterparty default or credit risk, and life underwriting risk. The risk modules for non-life and health underwriting as well as intangible asset risk are not relevant for ALL and hence not used. For more details regarding the risk categories, please refer to section C.

ALL does not use undertaking specific parameters for calculating its life underwriting risk or the duration-based equity risk sub-module. ALL does use, however, a simplified calculation with respect to the assessment of its reinsurance exposure in the counterparty default or credit risk module; this is justified by the nature, scale and complexity of the risks and adequate according to Art. 108 of the Insurance Law.

		Net solvency capital requirement	Gross solvency capital requirement
		C0030	C0040
Market risk	R0010	84 485 196.73	102 346 944.40
Counterparty default risk	R0020	8 274 784.44	8 274 784.44
Life underwriting risk	R0030	98 100 809.65	143 615 550.32
Health underwriting risk	R0040	0.00	0.00
Non-life underwriting risk	R0050	0.00	0.00
Diversification	R0060	-43 451 658.12	-55 401 303.88
Intangible asset risk	R0070	0.00	0.00
Basic Solvency Capital Requirement	R0100	147 409 132.70	198 835 975.28

Table 9: BSCR split by risk modules (values in €)

The further elements of ALL's SCR are shown in the subsequent table (see also section C). They comprise the SCR for operational risks, which is based on ALL's GWP and does not consider diversification effects, as well as the loss absorbing capacity of technical provisions and deferred taxes. The latter reflect that the incurred losses in the SCR calculation would not be entirely borne by ALL's own funds, but also reduce its liabilities towards policyholders (technical provisions) and its tax liabilities.

Calculation of Solvency Capital Requirement		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	0.00
Operational risk	R0130	34 319 749.76
Loss-absorbing capacity of technical provisions	R0140	-51 426 842.58
Loss-absorbing capacity of deferred taxes	R0150	-30 177 550.00
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0.00
Solvency Capital Requirement excluding capital add-on	R0200	151 551 332.46
Capital add-on already set	R0210	0.00
Solvency capital requirement	R0220	151 551 332.46

Table 10: further elements of the SCR (values in €)

E.2.3 MCR

The MCR is calculated by a linear function of technical provisions and net written premiums during the last 12 months, capped at 45% and floored at 25% of the SCR. Moreover, an absolute floor to the MCR is defined. For ALL, the MCR is determined by the floor (i.e. 25% of SCR).

Overall MCR calculation		**C0070**
Linear MCR	**R0300**	26 593 814.89
SCR	**R0310**	151 551 332.46
MCR cap	**R0320**	68 198 099.61
MCR floor	**R0330**	37 887 833.11
Combined MCR	**R0340**	37 887 833.11
Absolute floor of the MCR	**R0350**	3 700 000.00
Minimum Capital Requirement	**R0400**	37 887 833.11

Table 11: calculation of the MCR (values in €)

E.2.4 Evolution of SCR and MCR

Over the year, the SCR has increased and such has the MCR, which amounts to 25% of SCR.

	4Q2019	4Q2020	difference
Solvency Capital Requirement (SCR)	145	152	7
Minimum Capital Requirement (MCR)	36	38	2

Table 12: evolution of SCR and MCR (values in m€)

F. Annex

F.1 S.02.01.02 (MVBS)

See Table 3 in section D.1 (assets) and Table 5 in section D.2.4 (liabilities)

F.2 S.05.01.02 (Premiums, claims and expenses by LoB)

		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		643,547,629.72	274,318,414.16	557,030.00					918,423,073.88
Reinsurers' share	R1420		627,780,446.72							627,780,446.72
Net	R1500		15,767,183.00	274,318,414.16	557,030.00					290,642,627.16
Premiums earned										
Gross	R1510		643,547,629.72	274,318,414.16	557,030.00					918,423,073.88
Reinsurers' share	R1520		627,780,446.72							627,780,446.72
Net	R1600		15,767,183.00	274,318,414.16	557,030.00					290,642,627.16
Claims incurred										
Gross	R1610		647,143,606.42	344,117,374.33	860,630.00					992,121,610.75
Reinsurers' share	R1620		611,213,912.95							611,213,912.95
Net	R1700		35,929,693.47	344,117,374.33	860,630.00					380,907,697.80
Changes in other technical provisions										
Gross	R1710		47,272,905.79	-43,289,591.46	-883,346.79					3,099,967.54
Reinsurers' share	R1720		61,275,027.31							61,275,027.31
Net	R1800		-14,002,121.52	-43,289,591.46	-883,346.79					-58,175,059.77
Expenses incurred	R1900		23,762,575.52	32,319,837.50	29,699,448.96					85,781,861.98
Administrative expenses										
Gross	R1910		9,809,576.16	13,780,628.26	28,071.02					23,618,275.44
Reinsurers' share	R1920									
Net	R2000		9,809,576.16	13,780,628.26	28,071.02					23,618,275.44
Investment management expenses										
Gross	R2010		127,058.93	2,186,700.57	363.59					2,314,123.09
Reinsurers' share	R2020									
Net	R2100		127,058.93	2,186,700.57	363.59					2,314,123.09
Claims management expenses										
Gross	R2110		714,930.32	700,125.28	950.78					1,416,006.38
Reinsurers' share	R2120									
Net	R2200		714,930.32	700,125.28	950.78					1,416,006.38
Acquisition expenses										
Gross	R2210		10,193,410.40	15,633,060.85	25,835,294.27					51,661,765.52
Reinsurers' share	R2220									
Net	R2300		10,193,410.40	15,633,060.85	25,835,294.27					51,661,765.52
Overhead expenses										
Gross	R2310		2,917,599.71	19,322.54	3,834,769.30					6,771,691.55
Reinsurers' share	R2320									
Net	R2400		2,917,599.71	19,322.54	3,834,769.30					6,771,691.55
Other expenses	R2500									
Total expenses	R2600									85,781,861.98
Total amount of surrenders	R2700									

F.3 S.05.02.01 (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	(BE) Belgium	(IT) Italy	(DE) Germany	(MA) Morocco
		C0220	C0280	C0230	C0230	C0230	C0230	C0230
Premiums written								
Gross	R1410	43,572,381.00	911,061,190.32	475,543,329.63	54,768,040.69	328,078,804.00	5,198,635.00	3,900,000.00
Reinsurers' share	R1420	25,686,127.91	627,743,986.12	402,565,025.00	54,136,367.21	145,300,750.00	55,716.00	
Net	R1500	17,886,253.09	283,317,204.20	72,978,304.63	631,673.48	182,778,054.00	5,142,919.00	3,900,000.00
Premiums earned								
Gross	R1510	43,572,381.00	911,061,190.32	475,543,329.63	54,768,040.69	328,078,804.00	5,198,635.00	3,900,000.00
Reinsurers' share	R1520	25,686,127.91	627,743,986.12	402,565,025.00	54,136,367.21	145,300,750.00	55,716.00	
Net	R1600	17,886,253.09	283,317,204.20	72,978,304.63	631,673.48	182,778,054.00	5,142,919.00	3,900,000.00
Claims incurred								
Gross	R1610	197,970,072.00	958,164,773.00	589,050,553.00	105,292,407.00	49,121,025.00	12,487,523.00	4,243,193.00
Reinsurers' share	R1620	133,745,683.00	607,262,216.00	341,748,782.00	99,577,498.00	32,291,305.00	-101,052.00	
Net	R1700	64,224,389.00	350,902,557.00	247,301,771.00	5,714,909.00	16,829,720.00	12,588,575.00	4,243,193.00
Changes in other technical provisions								
Gross	R1710	140,044,646.28	-13,847,765.93	80,314,408.07	46,264,073.76	-287,306,989.37	6,853,925.79	-17,830.46
Reinsurers' share	R1720	96,606,063.67	-3,494,621.06	40,102,883.02	100,337,435.69	-240,334,579.38	-206,424.06	
Net	R1800	43,438,582.61	-10,353,144.87	40,211,525.05	-54,073,361.93	-46,972,409.99	7,060,349.85	-17,830.46
Expenses incurred	R1900	4,492,525.00	34,378,197.00	23,850,844.00	1,817,299.00	3,272,640.00	812,339.00	132,550.00
Other expenses	R2500							
Total expenses	R2600		34,378,197.00					

F.4 S.12.01.02 (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, including 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
Technical provisions calculated as a whole	R0010								
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020								
Technical provisions calculated as a sum of BE and RM									
Best Estimate									
Gross Best Estimate	R0030	5,334,654,980.00		3,798,896,600.00	95,808,100.00		18,262,060.00		9,247,621,740.00
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	5,108,499,750.00		15,620.00	383,160.00		110,730.00		5,109,009,260.00
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	226,155,230.00		3,798,880,980.00	95,424,940.00		18,151,330.00		4,138,612,480.00
Risk Margin	R0100	50,583,780.00	29,445,850.00			872,310.00			80,901,940.00
Amount of the transitional on Technical Provisions									
Technical Provisions calculated as a whole	R0110								
Best estimate	R0120	0.00		0.00	0.00		0.00		0.00
Risk margin	R0130	0.00	0.00			0.00			0.00
Technical provisions - total	R0200	5,385,238,760.00	3,924,150,550.00			19,134,370.00			9,328,523,680.00

F.5 S.22.01.21 (Impact of long-term measures)

See **Table 6** in section D.2.8.

F.6 S.23.01.01 (Own funds)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35		C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	R0010	30,000,000.00	30,000,000.00		0.00	
Share premium account related to ordinary share capital	R0030	16,500,000.00	16,500,000.00		0.00	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	172,846,700.00	172,846,700.00			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	219,346,700.00	219,346,700.00		0.00	
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	219,346,700.00	219,346,700.00		0.00	
Total available own funds to meet the MCR	R0510	219,346,700.00	219,346,700.00		0.00	
Total eligible own funds to meet the SCR	R0540	219,346,700.00	219,346,700.00		0.00	
Total eligible own funds to meet the MCR	R0550	219,346,700.00	219,346,700.00		0.00	
SCR	R0580	151,551,332.46				
MCR	R0600	37,887,833.11				
Ratio of Eligible own funds to SCR	R0620	144.7343%				
Ratio of Eligible own funds to MCR	R0640	578.9370%				

F.7 S.25.01.21 (SCR)

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0030	**C0040**	**C0050**
Market risk	**R0010**	84,485,196.73	102,346,944.40	
Counterparty default risk	**R0020**	8,274,784.44	8,274,784.44	
Life underwriting risk	**R0030**	98,100,809.65	143,615,550.32	
Health underwriting risk	**R0040**	0.00	0.00	
Non-life underwriting risk	**R0050**	0.00	0.00	
Diversification	**R0060**	-43,451,658.12	-55,401,303.88	
Intangible asset risk	**R0070**	0.00	0.00	
Basic Solvency Capital Requirement	**R0100**	147,409,132.70	198,835,975.28	

Calculation of Solvency Capital Requirement		**C0100**
Adjustment due to RFF/MAP nSCR aggregation	**R0120**	0.00
Operational risk	**R0130**	34,319,749.76
Loss-absorbing capacity of technical provisions	**R0140**	-51,426,842.58
Loss-absorbing capacity of deferred taxes	**R0150**	-30,177,550.00
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	0.00
Solvency Capital Requirement excluding capital add-on	**R0200**	151,551,332.46
Capital add-on already set	**R0210**	0.00
Solvency capital requirement	**R0220**	151,551,332.46
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	
Total amount of Notional Solvency Capital Requirement for ring fenced funds	**R0420**	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	**R0430**	
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	**R0450**	(4) No adjustment
Net future discretionary benefits	**R0460**	107,076,227.53

F.8 S.28.01.01 (MCR)

		C0040
MCRL Result	R0200	26,593,814.89

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	119,079,023.46	
Obligations with profit participation - future discretionary benefits	R0220	107,076,227.53	
Index-linked and unit-linked insurance obligations	R0230	3,894,305,914.39	
Other life (re)insurance and health (re)insurance obligations	R0240	18,151,336.79	
Total capital at risk for all life (re)insurance obligations	R0250		163,621,974.18

Overall MCR calculation		C0070
Linear MCR	R0300	26,593,814.89
SCR	R0310	151,551,332.46
MCR cap	R0320	68,198,099.61
MCR floor	R0330	37,887,833.11
Combined MCR	R0340	37,887,833.11
Absolute floor of the MCR	R0350	3,700,000.00
Minimum Capital Requirement	R0400	37,887,833.11

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