Allianz Global Life dac

Solvency and Financial condition Report

31 December 2019

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Scope of the Report

Solvency II, an EU-wide regulatory regime for insurance companies, came into force in January 2016. Under Solvency II the Solvency and Financial Condition Report ('SFCR') is an annual regulatory public disclosure requirement. This report is the SFCR for the year ended 31 December 2019 for Allianz Global Life dac (the 'Company' or 'AGL').

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

A. Business and Performance;

B. System of Governance;

C. Risk Profile;

D. Valuation for Solvency Purposes; and

E. Capital Management

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

Approval

This report and supporting Qualitative Reporting Templates ('QRTs') have been approved by Allianz Global Life's Board of Directors on 1 April 2019 prior to submission to the Central Bank of Ireland ('Central Bank') and publication on the AGL public website.

Summary

COVID-19 – Significant Events

The outbreak of the novel Coronavirus SARS-CoV 2 throughout the world has impacted business in a number of ways. AGL have implemented business continuity measures to ensure it can continue to service its customers. However, changing markets have led to hedge losses and changes in the Company's balance sheet. While these impacts are somewhat significant, projections have indicated that the Solvency Coverage Ratio remains within the Risk Appetite levels and the Company has the capital and liquidity available to weather further volatility.

Business and Performance

AGL is authorised in Ireland to transact life assurance business in the European Union. The Company is regulated by the Central Bank and underwrites insurance risks through its head office and local branches along three lines of business (variable annuity[1], unit-linked and protection). The Company is a wholly owned subsidiary of Allianz SE.

Significant events for the Company over the year include:

- Sales fell across all business lines following the downturn in the markets at year-end 2018.
- However the Company continued to enlarge its distribution capacity and geographical reach in 2019. Amongst others, sales through non-proprietary channels commenced in Italy, whilst preparations for the business launch in Greece neared completion.
- The development of market factors was closely monitored and reprices prepared to maintain profitability especially in response to the further decline in interest rates.

AGL's underwriting performance (including investment income) in 2019 was higher than the 2018 result. This was driven predominantly by lower hedge losses and assumption changes causing a change in liabilities. Overall,

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

underwriting performance was ahead of plan. Protection against mortality, morbidity and catastrophe risks are the focus of AGL's reinsurance arrangements, however these are of minor scale amongst the overall risks. Equity markets rose during 2019, as a result, unit-linked assets recorded positive performance. The Company runs a hedging programme in order to offset the future change in the economic value of the guarantees as capital markets fluctuate.

System of Governance

The governance structure of the Company has not changed during 2019 and AGL continues to operate an effective System of Governance which provides for prudent and sound management of the business.

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

AGL has implemented a comprehensive risk management system, consistent with Allianz Group standards and industry best practices, referred to as its risk management framework. The Chief Risk Officer and the Risk Management function are responsible for setting an auditable framework for all risk-related activities in the Company. The framework is achieved via the development, maintenance and monitoring of risk policies, limits and guidelines as well as the risk measurement methodology, and is compliant with all applicable regulatory requirements.

The Company performs a regular own risks and solvency assessment (the 'ORSA'), directed by the Board. The ORSA is the collection of interlinked processes implemented by AGL to identify, assess, monitor, manage and report on the short, medium and long term risks that the Company faces and to determine the amount of capital ('Own Funds') necessary to ensure that overall solvency needs are met at all times.

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

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

Risk Profile

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

AGL's top risk relates to risks arising from financial markets. The primary source of AGL's market risk is in relation to guarantee obligations to policyholders and the future profits of the Company. The Company employs a dynamic hedging programme to mitigate the risk in relation to guarantee movements. The hedging programme invests in financial derivatives which increase in value to offset increases in expected guaranteed pay-outs and vice versa, thus reducing the volatility of Company profits.

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

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

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

There were no significant changes to the risk profile of AGL during 2019.

Valuation for Solvency Purposes

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

The Technical Provisions comprise the Best Estimate Liability and the Risk Margin. A number of assumptions feed into the calculation of the Technical Provisions. Over 2019, as part of the annual experience investigations the assumptions for future mortality, lapses and expenses were updated. There were no material changes to the calculation method of the Technical Provisions.

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

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

Table 1: Comparison of balance sheets as at 31 December 2019 (€m)

	Solvency II	IFRS**	Deviation
Total assets	6,096.4	6,151.3	54.9
Total liabilities, including technical provisions	5,816.4	6,007.2	190.8
Excess assets over liabilities / Net asset value*	**280.0**	**144.1**	**135.9**

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

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

The main difference between SII excess assets over liabilities and IFRS Net asset value shown in Table 1 is related to the valuation of technical provisions (as described in Section D.2), and the removal of deferred tax assets and liabilities (as described in Section D.1).

Capital Management

AGL operates within a defined capital management framework. The primary objective of this framework is to ensure adequate capital is available to fulfil regulatory requirements, and specifically to cover the SCR.

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

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

All of the Company's Own Funds fall under Tier 1 capital, made up of high-quality and unrestricted Own Funds. The Company's available Own Funds as at 31 December 2019 amount to €280.0m. There has been a substantial increase in Own Funds over 2019, primarily driven by the positive impact of new business, an increase in expected future profits from strong equity performance and best estimate assumption updates. This was partially offset by hedge losses on the Asian book.

The solvency ratio at 31 December 2019 was 208%, an increase from 174% at 31 December 2018. The SCR before tax has increased in line with increasing new business volumes however the Own Funds have increased more dramatically, leading to the improved solvency ratio.

There were no significant changes to AGL's capital management framework during 2019.

COVID-19 – Significant Events

Whenever any major development occurs that substantially changes the significance of the information published in the SFCR, an update of the Solvency and Financial Condition Report is required in accordance with Article 54 of the Solvency II directive. The current situation regarding the COVID-19 pandemic is considered to be a major development of this kind.

The following sections on the five chapters of the SFCR provide information on the nature and impact of the major development with respect to the coronavirus, as far as it can be estimated at this stage.

A. Business and Performance

The COVID-19 pandemic is currently affecting all aspects of our personal and professional lives, the health of the world's population, global economic performance and the financial markets. Despite all these uncertainties, AGL and its branches are very well prepared for the situation. This applies both to keeping operations going and maintaining the capital position in times of crisis. The great majority of AGL operations have now switched to home working – and this has been achieved in an effective manner. By doing so, AGL has ensured its employees are safe and is also prepared to ensure work can continue even if the restrictions on public life are further tightened.

While it is too early to give a concrete expectation of the impact on the Company's overall underwriting result, for mortality sensitive products, i.e. GenialLife, CQP and Group Life, there may be some deterioration in experience which is limited through the use of reinsurance and the fact that these products make up a small portion of the business. The Company has been in contact with its reinsurers and does not expect any interruption to its cover. The mortality impact on the variable annuity book is not expected to be material given the low mortality coverage.

So far, there have been no material impact to AGL's 2020 sales volumes, which were tracking ahead of plan during Q1 2020. It is currently too early to tell what the impact may be on surrender/lapse experience although this is expected to be impacted by market factors.

The overall impact of the COVID-19 pandemic on the expected financial result of the Company is likely to be negative. During Q1 2020, the Company experienced hedge losses as a result of the significant market volatility that will feed into its overall financial result. Continuing volatility in financial markets will impact the hedge performance but the potential for ongoing losses is reduced in the near future due to the effective operation of Targeted Volatility Mechanisms within the variable annuity funds. These mechanisms de-risked the variable annuity funds, moving significant fund portions out of equities between mid-February and mid-March. The Company has sufficient capital to sustain further significant hedge losses.

B. System of Governance

The Risk Management function is responsible, among other things, for assessing risks and monitoring limits and risk accumulation. This also includes the ongoing assessment of risks resulting from pandemics such as COVID-19. In order to assess current developments with potentially significant effects on AGL, such as COVID-19, it is particularly important to conduct specific analyses.

The Company's Own Risk and Solvency Assessment (ORSA) is a comprehensive evaluation of all risks of the business. The Company concludes its regular annual ORSA process in May and the impacts of COVID-19 will be full considered in this assessment.

In general, external events have no impact on the governance system of AGL. The Company's normal governance structure remains operational at this time and all personnel, including non-executive and independent non-executive directors have the ability to work remotely.

C. Risk Profile

AGL continues to monitor and manage all risks to which it is exposed in line with its existing risk management framework. Impacts of specific underwriting and business risks are in line with the discussion above in the section on business and performance.

Market Risk remains the Company's largest risk exposure, and may be expected to increase due to the ongoing volatility in the markets. This risk is being actively monitored on an ongoing basis.

The Company's liquidity position has improved as a result of the significant in-flows of hedge collateral during Q1 2020 and now ranges significantly above the Company's liquidity risk limits. However, such in-flow may increase the Company's credit/counterparty risk exposure.

The Company does not expect significant changes to the other risk categories as a result of the COVID-19 situation.

Note, the statements on the risks associated with the COVID-19 pandemic are subject to the proviso that risk identification and assessment are of a provisional nature at the time of reporting (end of March 2020).

D. Valuation for Solvency purposes

As noted above, the Company has experienced losses on its hedging portfolio as a result of the ongoing volatility in financial markets. Other shareholder assets are primarily invested in fixed income securities, which have seen an increase in their value.

It is currently expected that AGL will see an overall reduction in technical provisions. We expect the best estimate liability (excluding unit-liability) to increase due to reduced projected income as a result of lower fund values and falling interest rates increasing the cost of guarantees. The risk margin will also be expected to increase due to the impact of falling interest rates on the longevity and lapse SCRs. These increases will likely be offset by the large fall in unit liability due to poor market performance hence reducing the overall technical provisions. It is too early to quantify the magnitude of these changes.

E. Capital Management

In view of the Solvency II capital ratio of 208% as of December 31, 2019, and the stress tests performed, AGL does not foresee any breach of its Solvency Capital Requirement or Minimum Capital Requirement. This statement also applies in the context of the COVID-19 pandemic. Based on the information available to us in mid-March, we expect the Company to continue to be sufficiently capitalized, in compliance with the regulatory Solvency Capital Requirement and the Minimum Capital Requirement.

The Company carried out a full recalculation of the Solvency Coverage Ratio at end-February 2020, this resulted in a decrease of the solvency ratio from 208% at year-end 2019 to 193% at end-February. The solvency ratio is estimated to have fallen further to circa 174% at mid-March 2020. While we note these falls are significant they remain within Risk Appetite levels. The falls above are driven by an increase in the Solvency Capital Requirement mainly due to falling interest rates, coupled with weaker market returns eroding present value of future profits and hedge losses reducing own funds.

A. Business and Performance

A.1. Business

A.1.1. Business operations

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

A.1.1.1. Supervisor

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

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

A.1.1.2. Auditor

The external auditors are PricewaterhouseCoopers ('PWC'), Chartered Accountants. The registered office of PWC is One Spencer Dock, North Wall Quay, Dublin 1, Ireland.

A.1.1.3. Insurance operations

The Company operates predominantly on a Freedom-of-Establishment basis, underwriting insurance risks through local branches along three lines of business (variable annuity, unit-linked and protection). The Company focused initially on the sale of a variable annuity ('VA') product with a guaranteed minimum withdrawal benefit ('GMWB') which is enhanced by a guaranteed minimum death benefit ('GMDB') for some product generations (Invest4Life). This product, also referred to as classic variable annuity business, is sold via a proprietary sales channel through the Company's French branch office since its set up in 2008, and its Italian branch office since its set up in 2009. The German branch, set up in 2009, ceased selling this product in 2012.

Subsequently, the variable annuity business has expanded through two distinct developments. Firstly, the Company started accepting reinsurance at the beginning of 2016, taking over treaties from Allianz Re Dublin dac for variable annuity policies that were underwritten by Allianz Japan and Allianz Taiwan. These reinsurance activities were extended during 2019 through a new reinsurance treaty with Allianz Philippines, through which the Company accepted market and biometric risks in relation to a fixed index annuity product. Secondly, in late 2016 the Company successfully launched a new variable annuity product with guaranteed minimum accumulation and death benefits via its Italian and French branch offices, availing in both markets predominantly of proprietary sales channels of Allianz Group. During 2019, the Company commenced in Italy to distribute business outside of these structures. For both developments, the Company continues to seek opportunities to expand its sales capacity further through third-party distributors and, potentially, geographical expansion whilst focusing in parallel on enhancements of both its decumulating and accumulating variable annuity products. This also includes work on the hedging set-up to improve both hedge efficiency and management information, in particular with regards to the attribution of hedge profits and losses.

In the unit-linked area, the Company currently sells two different products. Firstly, the Company offers an investment portfolio product with an age-dependent death benefit (Private Solutions), targeting affluent clients which is exclusively underwritten by its Italian branch. Secondly, for its retail clientele, the Company underwrites a product offering an active and dynamic life cycle investment concept (Target4Life), whereby the investments are managed by the investment manager over the life cycle and risk appetite as specified by the client, with an age-dependent death benefit. This product was firstly launched in Italy in 2017 and introduced recently to the Company's Greek branch with first sales expected in the early part of 2020.

During 2018, the product was made available by broker distribution to the Belgian market on a Freedom-of-Services basis through the Company's head office in Dublin. The company is seeking opportunities to continue to expand its geographical footprint using this product platform.

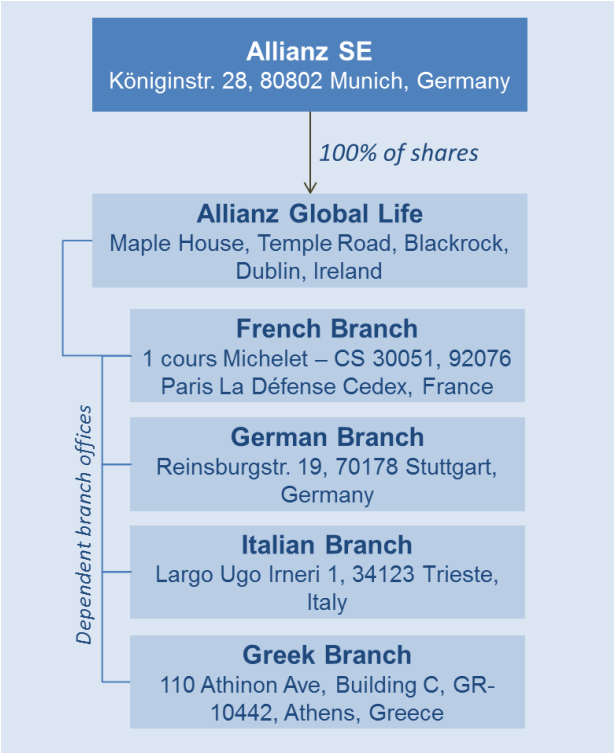
A third retail product (BigCityLife) sold originally through the Italian branch was closed to new business in late 2018.

Group life business, offering death and disability benefits for employees of corporate clients, was introduced to the Company's product range in 2015. This business is underwritten via brokers through the Company's head office on a Freedom-of-Services basis and initially focused on the German market. In late 2017, the offering was extended to Lithuania.

Protection business for retail clients was started through the Company's Italian branch office in late 2015, offering a term life product with various rider options (GenialLife). Work continues to increase sales of this product through improved customer services and lead generation with the intention to leverage on its digital platform to expand geographically in the first half of 2020. A decreasing term insurance product was added to the protection product range in early 2017 (Cessione del Quinto della Pensione). This product is sold via brokers into the Italian market. The Company aims to grow protection business further through an expansion of the distribution reach.

A.1.2. Company structure

The Company is a wholly owned subsidiary of Allianz SE, a company incorporated in Germany. Allianz SE is also the ultimate holding company of the Company, holding 100% voting rights.



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

Table 2: Material branches

Material Branch	Material lines of business
AGL Head Office	Reinsurance • Asian VA reinsurance (closed to new business) • Philippines Fixed Index Annuity Protection • Group Life Protection Germany and Lithuania Unit-linked • Target4Life Belgium
AGL French Branch	Variable annuity: • Invest4Life • Active4Life
AGL Italian Branch	Variable annuity: • Invest4Life • Active4Life Unit-linked • Target4Life • BigCityLife (closed to new business) • Private Solutions Protection • GenialLife • Cessione del Quinto della Pensione
AGL German Branch	Variable annuity: • Invest4Life (closed to new business)

The Greek Branch is not currently considered material for the Company.

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

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

A.1.3. Significant business and other events

No significant business and other events were noted outside of those outlined above in Section A.1.1 and Section COVID-19 – Significant Events. No external events had a significant impact on the business during the reporting period.

A.1.3.1. Significant changes in the scope of consolidation

A.1.3.1.1. Significant acquisitions

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

A.1.4. Further information

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

A.2. Underwriting Performance

A.2.1. Life

A.2.1.1. Underwriting performance by material line of business

As highlighted by the tables below, AGL's underwriting performance in 2019, including investment income, represented an overall increase to €13.0m compared to the 2018 result of €3.9m. This increase was largely driven by the European business profits, stemming from the unit-linked component of its VAs and unit-linked products, which overall reported positive returns on account of rising account values due to positive equity performance over the year.

This positive return was partially offset by the life reinsurance result which is related to the Asian VA business. The result of -€5.7m (-€6.9m in 2018) was driven by hedge losses.

The other life insurance result, comprised of the Company's protection business, delivered a positive result of €0.3m in 2019 however declined compared to 2018 (2018: €1.9m). This decrease was as a result of an increase in reserves and to a single large group life scheme which was not renewed in Q3 19 which was only partially offset by new premiums for smaller group schemes.

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

	2019	2018
Variable annuity and unit-linked insurance	28.6	12.8
Other life insurance	0.3	1.9
Life reinsurance	(5.7)	(6.9)
Other	-	0.1
Total Operating Profit	**23.2**	**7.9**
Taxation	(10.2)	(4.0)
Total Net Income	**13.0**	**3.9**

A.2.1.2. Income and expenses by material geographical area

The Company's performance is driven by the business written in France, which is reflective of the significantly larger value of variable annuity assets under management in that branch, and favourable market conditions resulting in hedge profits in 2019. The positive performance of the Italian branch in 2019 reflects the unit-linked result of the variable annuity portfolio positive contribution, partially offset by hedge losses. The Asian variable annuities portfolio delivered a loss during the year following losses experienced in its hedging programme.

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

	2019	2018
France	21.0	8.4
Italy	8.2	3.5
Asia	(5.7)	(6.9)
Other	(0.3)	2.9
Total Operating Profit	**23.2**	**7.9**
Taxation	(10.2)	(4.0)
Total Net Income	**13.0**	**3.9**

A.3. Investment Performance

A.3.1. Investment result and its components

The financial assets of the Company include both shareholder and policyholder financial assets comprised primarily of collective investment schemes, fixed interest securities, government and covered bonds, equities and derivatives.

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

Table 5: Financial assets at 31 December 2019 (€m)

	2019	2018
	Total	Total
Shareholder financial assets		
Fixed income Securities		
Government bonds	24.7	20.4
Government agency bonds	36.6	22.8
Supranational bonds	15.3	17.6
Covered bonds	73.2	50.3
Corporate bonds	21.1	11.5
Collateralised securities	10.2	2.3
Total Fixed Income Securities	181.1	124.9
Cash and cash equivalents	84.4	90.8
Derivative assets	-	22.0
Total Shareholder financial assets	**265.5**	**237.7**
Policyholder financial assets		
Equities	39.1	34.5
Fixed Income Securities	84.0	78.0
Collective Investment Schemes	4,943.2	4,150.8
Cash and cash equivalents	51.0	49.4
Total Policyholder financial assets	**5,117.2**	**4,312.7**

A.3.2. Overall investment performance

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

Table 6: Performance by asset class in 2019 (€m)

	Shareholder Investments*	Investments on behalf of policyholders	Total
Equities	-	1.4	**1.4**
Fixed income securities	0.2	1.1	**1.3**
Collective Investment undertakings	-	1.6	**1.6**
Futures	0.2	-	**0.2**
Swaps	(38.7)	-	**(38.7)**
Loans & Mortgages	-	-	**0.0**
Total Investment income	**(38.2)**	**4.1**	**(34.1)**
Equities	-	3.8	**3.8**
Fixed income securities	0.2	1.2	**1.4**
Collective Investment undertakings	-	44.7	**44.7**
Futures	(199.7)	-	**(199.7)**
Forwards	6.0	-	**6.0**
Swaps	51.4	-	**51.4**
Net realised gains/(losses) on financial assets	**(142.1)**	**49.7**	**(92.4)**
Equities	-	5.4	**5.4**
Fixed income securities	0.8	3.3	**4.0**
Collective Investment undertakings	-	597.1	**597.1**
Forwards	(2.4)	-	**(2.4)**
Swaps	94.5	-	**94.5**
Unrealised gains/(losses) on financial assets	**92.8**	**605.9**	**698.7**
Investment Expenses	**(0.2)**	**(4.4)**	**(4.6)**

Table 7: Performance by asset class in 2018 (€m)

	Shareholder Investments*	Investments on behalf of policyholders	Total
Equities	-	1.3	**1.3**
Fixed income securities	0.2	1.5	**1.7**
Collective Investment undertakings	-	1.7	**1.7**
Swaps	28.4	-	**28.4**
Total Investment income	**28.7**	**4.6**	**33.3**
Equities	-	(0.6)	**(0.6)**
Fixed income securities	0.2	(1.6)	**(1.4)**
Collective Investment undertakings	-	(24.3)	**(24.3)**
Futures	31.7	-	**31.7**
Forwards	8.2	-	**8.2**
Swaps	9.6	-	**9.6**
Net realised gains/(losses) on financial assets	**49.7**	**(26.5)**	**23.2**
Equities	-	(6.1)	**(6.1)**
Fixed income securities	(0.2)	(2.9)	**(3.2)**
Collective Investment undertakings	-	(257.7)	**(257.7)**
Forwards	8.1	-	**8.1**
Swaps	(3.0)	-	**(3.0)**
Unrealised gains/(losses) on financial assets	**4.9**	**(266.8)**	**(261.9)**
Investment expenses	**(0.1)**	**(4.1)**	**(4.2)**

*Shareholder's investments includes gains/losses that are recognised through shareholder equity. These are presented separately under Section A.3.4.

Investments on behalf of policyholders

Following poor performance at the start of the year, European bonds and equity markets recorded an increase in overall performance as the year progressed, with stocks significantly outperforming fixed income instruments. As a result unit-linked assets, in addition to new business inflows, recorded a positive performance with funds with higher equity exposure performing significantly better than funds with higher fixed income exposure.

Shareholder's Investments

Investment performance from shareholder's assets relates predominantly to fixed income securities and cash.

The majority of the Company's investment income result relates to interest rate swaps ('IRS'). The result from valuation of IRS is shown under unrealised gains/losses. Total result from IRS is driven by fluctuations in interest rates during the period which resulted in a positive performance in the current year.

Futures were the main contributor to the Company's net realised loss result in 2019. The majority of the futures portfolio is linked to equity movements which recorded strong performance in the latter part of 2019. As a result the Company's short position in futures instruments recorded substantial realised losses.

Other shareholder assets including fixed income securities and cash returned a neutral performance during 2019 due to low interest rates and the short duration of the bonds.

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

Table 8 sets out the composition of AGL's other comprehensive income in relation to shareholder bonds of €181.1m as at 31 December 2019, recognised directly in shareholder equity (as previously captured in Table 5: Financial assets at 31 December 2019 (€m)):

Table 8: Gains/Losses recognised in shareholder equity (€m)

	2019
Movements in financial assets:	
Fair value movement	0.8
Deferred tax effect of fair value movement	(0.1)
Net income recognised in equity	**0.7**

A.3.4. Information about investments in securitisation

At the end of the reporting period, the value of the Company's investments in collateralised securities was €10.2m.

A.4. Performance of Other Activities

A.4.1. Asset management

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

A.4.2. Corporate and other

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

A.4.3. Leasing arrangements

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

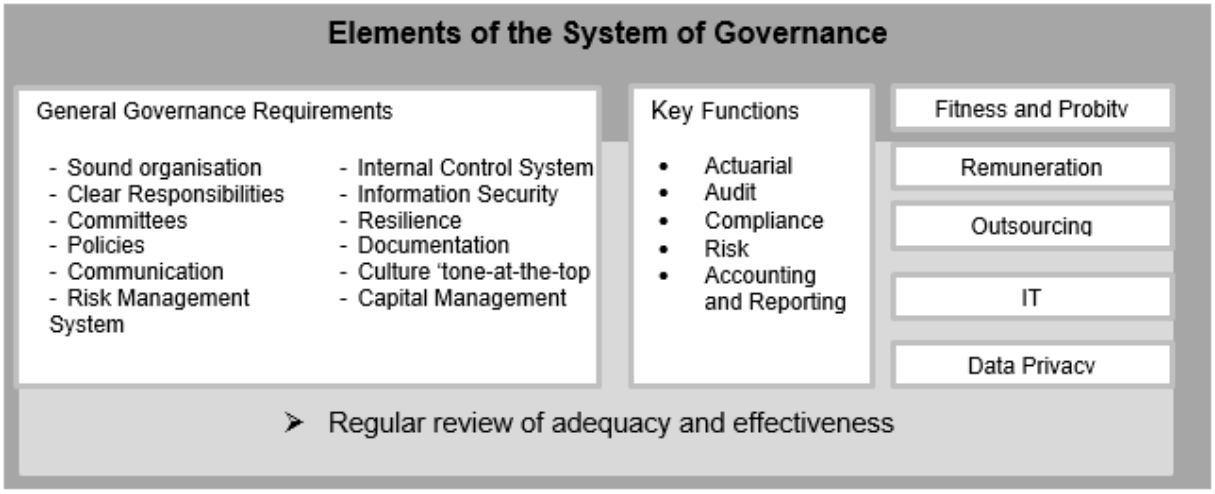
A.5. Any Other Information

All material information regarding the business and performance of the Company as at year-end has been set out above.

B. System of Governance

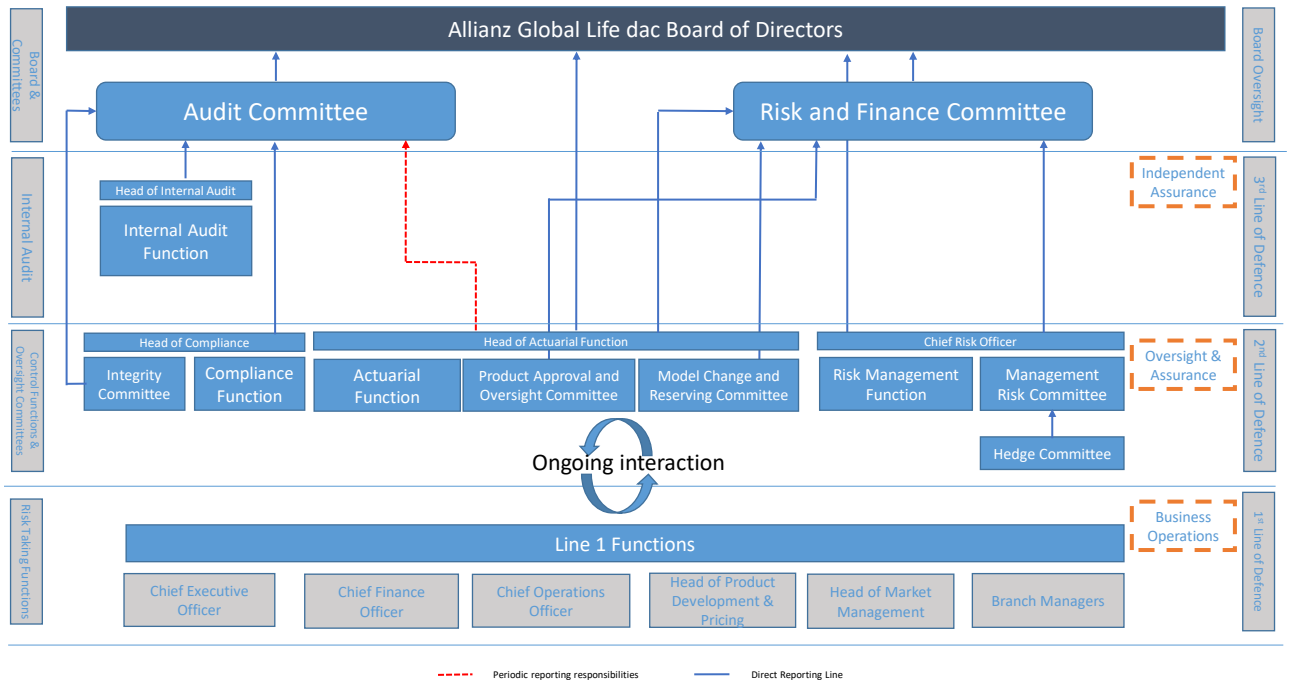
B.1. General Information on the System of Governance

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



B.1.1. Overview

Good corporate governance is essential for sustainable business performance. Therefore the Board and senior management of AGL attach great importance to complying with the obligations of the European Union (Insurance and Reinsurance) Regulations 2015 and the Corporate Governance Requirements for Insurance Undertakings 2015 issued by the Central Bank. The following diagram sets out a summary of the governance structures in place within AGL which is explained further in the following sections.



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

while retaining responsibility for overall control of the Company and strategic decisions. Delegation does not relieve the Board of its duties and responsibilities.

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

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

At 31 December 2019 AGL Board comprised six members:

- Two Independent Non-Executive Directors (INEDs);
- Two Group Non-Executive Directors (NEDs);
- Two Executive Directors (EDs).

The Chairman of the Board is a Group NED.

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

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

B.1.2. Committee framework

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

AGL utilises a system of two types of Committees:

- Board Committee
- Management/Functional Committee

B.1.2.1. Board committees

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

Table 9: Summary of Board Committee responsibilities

Board Risk and Finance Committee	Board Audit Committee
The Committee provides support to the Board in the following areas: • Risk management framework, including Risk Strategy, Risk Policy and Risk Appetite Statement • Investment strategy (e.g. strategic asset allocation) and investment operations policies • Reinsurance Strategy • Capital & liquidity position, requirements, and outlook – including both working and solvency capital • Company's financial performance The Committee provides oversight of the Risk Management, Actuarial and Accounting and Financial Reporting functions.	The Committee provides support to the Board in following areas: • The review and assessment of the Company's systems of internal control adequacy and effectiveness. • The preparation, review and approval of the Company's annual statutory and regulatory accounts • Matters regarding external and internal audit operation and control • Other governance matters, including approval of specified transactions and review of Company's internal instructions The Committee provides oversight of the Internal Audit and Compliance functions.
Members: two INEDs, one NED, one ED Committee is chaired by an INED	Members: two INEDs, one NED Committee is chaired by an INED

B.1.2.2. Management committees

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

B.1.3. Remuneration policy and practices

B.1.3.1. Policy and principles

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

Employees' total annual remuneration comprises an annual fixed component and an annual variable component. The fixed component represents a sufficiently high proportion of the total remuneration so that the system does not give rise to negative effects. The Company operates a fully flexible bonus policy, which means that the Company is not obliged to pay bonuses when it would be inappropriate to do so.

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

B.1.3.2. Remuneration factors

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

Table 10: Remuneration factors

Risk takers[2]	Key Function Holders and Staff
The measurement of performance as a basis for variable remuneration shall include an adjustment for current and future risks and the potential impact of these risks for the Company.	The basis for bonus payable to employees who work in a review capacity, such as employees in compliance, risk management, internal audit, actuarial, legal and accounting & financial reporting functions, shall be independent from the performance of the business areas they review and oversee. Employees shall not be remunerated according to assumptions that incentivise an excessive risk-taking or an underestimation of the existing risks.

B.1.3.3. Director's fees

To avoid conflict of interests, Non-Executive Directors shall only receive a fixed remuneration for their services plus the reimbursement of reasonable expenses. Mandates carried out by Executive Directors or any Directors who are employed by Group entities (i.e. Group Directors) are not compensated at all. There have been no material changes regarding Directors' remuneration from previous period.

B.1.3.4. Pension arrangements

AGL operates a defined contribution pension scheme for all employees. There were no supplementary pension payments made during the reporting period. Nor were there any early retirement schemes in operation in respect of any member of staff of AGL during the reporting period.

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

There were no material transactions during 2019 with shareholders (being only Allianz SE at the moment), directors or persons who exercise a significant influence on the Company.

B.1.3.6. Transactions with senior management

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

B.2. Fit and Proper Requirements

B.2.1. Policy and processes

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

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

The FPP contains a definition of fitness and probity and corresponding requirements for the various relevant positions and describes the processes necessary to ensure the fitness and probity of the persons holding, or proposed for, these positions. The FPP provides guidance on how fitness and probity are assessed depending on the findings and information gathered during recruiting, regular and ad-hoc reviews, and on the consequences

[2] As defined in the Company's Remuneration Policy in line with Solvency II requirements.

of a negative assessment. The FPP is compliant with the Fitness and Probity Standards of the Central Bank and is reviewed annually.

B.2.2. Fit and proper requirements

The specific standard of fitness required for each position in scope of FPP is set out in AGL's FPP in order to ensure that individuals occupying or proposed for such roles are competent and capable. For each position minimum level of previous experience, technical knowledge and qualifications in particular areas are set out. It is expected that all individuals proposed or holding such positions have clear and comprehensive understanding of the applicable regulatory and legal environment. The collective competencies, qualifications, and experience of the Board, management and other employees within the Company shall at a minimum include:

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

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

B.2.3. Fit and proper assessment and monitoring process

B.2.3.1. Initial due diligence

The assessment of the individual's fitness for a role includes a review of previous experience, knowledge and professional qualifications, and demonstration of due skill, care, diligence and compliance with the relevant standards of the sector the person has worked in. The assessment is based on the review of the individual's curriculum vitae, in-depth interview process, obtaining references and carrying out due diligence checks.

The assessment of probity of an individual is based on their reputation reflecting past conduct, criminal record, financial record and supervisory authority record. The assessment is based on due diligence checks verified by the Compliance function and senior management.

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

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

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

B.2.3.2. Regular reviews

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

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

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

B.3.1. Risk management system

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

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

ii) Risk policies and standards – AGL's risk policies and standards define the Company's approach to risk management and establish the controls, procedures, limits and escalation procedures to ensure that risks are managed in line with the Company's Risk Appetite. New policies and standards are developed in response to changes in the Company's risk profile over time.

iii) Risk identification and assessment – The risk management framework sets out processes for the identification of existing and emerging risks at the business operation level and company level (through the Top Risk Assessment and Internal Risk and Control system ('IRCS') processes).

iv) Risk oversight - Risk control procedures and systems are established and designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss. Risk management frameworks and procedures focus on aligning the levels of risk-taking with the achievement of business objectives.

v) Risk reporting and monitoring – AGL has implemented a comprehensive qualitative and quantitative risk reporting framework. The reporting framework provides senior management and the Directors with transparent risk indicators to help them to understand the Company's risk profile and where it stands in relation to its stated Risk Appetite. Examples include key risk indicator dashboards, ORSA reports, and Top Risk Assessment outputs. Each of these documents are reviewed and discussed at the Management Risk Committee and/or Board Risk and Finance Committee, where action plans are agreed to address such risks identified.

B.3.2. Risk governance structure

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

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

B.3.2.1. AGL Board of Directors

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

B.3.2.2. AGL Board Committees

B.3.2.2.1. AGL Board Risk and Finance Committee

The AGL Board Risk and Finance Committee contributes to the effectiveness of the Company's risk management system. The Committee's risk-related responsibilities include the following:

- Advising the Board of Directors on risk appetite and tolerance for future strategy. In doing this, the Committee takes into account the overall risk appetite of the Company, the current financial position of the Company, the capacity of the Company to manage and control risks within the agreed appetites. It also considers the work of the Audit Committee and external auditors;
- Oversight of the risk management function of the Company;
- Ensuring that risks are fully monitored, managed and reported on in accordance with Allianz Group and Allianz Global Life risk management standards and procedures, and regulatory requirements;
- Ensuring implementation of the risk management processes including solvency assessment.

B.3.2.2.2. AGL Board Audit Committee

The AGL Board Audit Committee contributes to the effectiveness of the Company's risk management and monitoring framework. It reports to the AGL Board of Directors with regard to required enhancements to the risk management framework, e.g. due to regulatory changes as well as changes in the market and business environment. It reviews the Company's Audit Plan for each year and ensures that adequate arrangements have been made for effective performance of the internal audits, which include review of adherence to the AGL risk management framework, as well as the external audits.

B.3.2.2.3. AGL Chief Risk Officer ('CRO') and the Risk Management Function

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

In particular, the CRO together with the Risk Management function:

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

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

The CRO is the Chair of the Management Risk Committee, a member of the Product Approval & Oversight Committee, the Model Change & Reserve Committee, and the Hedge Committee and uses these bodies as a means to exercise risk oversight.

B.3.2.3. Management committees

B.3.2.3.1. Management Risk Committee

The Management Risk Committee is a management sub-committee of the Board Risk and Finance Committee responsible for the oversight of the risk management process of the Company ensuring its operations are in line with the Board approved Risk Policy and Risk Appetite Statement. It provides an early warning function and monitors the Company's risk profile and availability of capital in order to maintain an adequate relationship between return and risk. It is responsible for monitoring of the integrated risk and control system. Furthermore, it is responsible for recommending and coordinating measures to mitigate material risks.

B.3.2.3.2. Model Change & Reserve Committee

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

The MCRC also fulfils the role of an Independent Validation Unit ('IVU') for the validation of the Internal Model, as well as overseeing relevant reserving and regulatory reporting matters.

B.3.2.3.3. Hedge Committee

The Hedge Committee has oversight responsibility over the hedging programme which is a key risk mitigation activity. Its responsibilities include defining and proposing changes in the Hedging Strategy/trading limits to the Management Risk Committee, defining the framework and infrastructure for hedging systems, and determining the related project priorities.

B.3.2.3.4. Product Approval & Oversight Committee

It is the responsibility of the Product Approval & Oversight Committee ('PAOC') to provide formal approval of new products and product amendments such as re-pricings. It aims to ensure products approved are consistent with Allianz Group and AGL targets and strategic objectives, monitors product performance and regularly reviews products to ensure they continue to meet their original goals.

B.3.3. Risk exposures and Solvency Capital Requirements

B.3.3.1. Risk exposures

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

Table 11: Risk category definitions

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

B.3.3.2. Solvency Capital Requirements

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

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

Chapter C includes greater detail on the risks to which the Company is exposed, while information on how these risks are captured in the Internal Model is covered in Section E.4.

B.3.3.3. Internal Model governance

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

B.3.3.3.1. AGL Board of Directors

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

B.3.3.3.2. Allianz Group Standards

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

Allianz Standard for Model Governance

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

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

Allianz Standard for Model Change

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

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

The roles assigned through these standards are outlined in Table 12.

Table 12: Internal Model Governance Responsibilities

	ASMG	ASMC
Board	• Implementation of ASMG • Approval of the application to use the Internal Model • Confirmation of the ongoing appropriateness of the Internal Model (at least annually)	• Implementation of ASMC • Approval of any major local model change as well as the respective application to the Allianz Group supervisor (BaFin) for external approval
Board Risk and Finance Committee	• Recommendation for approval of initial application • Recommendation for confirmation of ongoing appropriateness	• Decision on the classification of model changes based on recommendation of CRO • Recommendation for approval of major central and local model changes • Approval of minor model changes

	ASMG	ASMC
CRO	• Ensuring compliance with ASMG including: - Ensuring model validation is performed and documented - Ensuring that the persons providing expert judgment have adequate skills and experience - Ensuring that all relevant documentation is kept complete and up-to-date	• Proposal for the classification of model changes • Ensuring compliance with ASMC • Approval of immaterial model changes (in case of stochastic cash flow model joint approval with Head of Actuarial Function)
Model Change & Reserving Committee	• Initial approval of the model (component) • Deciding on a remediation plan if necessary	• Initial approval of any model change • Fulfils the role of the Independent Validation Unit
Model Owner	• Ensuring the existence of adequate documentation • Model development • Overseeing the implementation of controls • Assessing data quality and sign-off of expert judgment	• Identification of the need for a model change • Implementation or oversight of the implementation of model changes • Evaluating the impact of model changes • Ensuring independent validation

There has been no change to AGL's Internal Model governance process during 2019.

B.3.3.3.3. Internal Model validation

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

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

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

B.3.4. Own Risk and Solvency Assessment

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

B.3.4.1. ORSA Process

The ORSA is the collection of interlinked processes implemented by AGL to identify, assess, monitor, manage and report on the short- and long-term risks that the Company faces and to determine the Own Funds necessary to ensure that overall solvency needs are met at all times. The ORSA is not a single report prepared once each year. Instead, it is the culmination of a continuous risk management process carried out throughout the year and is summarised in the ORSA report.

Compilation of the ORSA Report comprises three stages:

- **Current state -** AGL determines its risk profile at the time of the ORSA. The assessment of current solvency needs determines whether the Company is adequately capitalised based on an identification and assessment

of all material risks it is currently exposed to. This assessment takes risk capital, available capital and stress scenario impacts to the solvency position, as well as the effectiveness of the internal control system into consideration.

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

The Company's ORSA process is governed by the Allianz Standard for Own Risk And Solvency Assessment ('ASORSA'), which details the process as outlined above.

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

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

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

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

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

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

A key output of the ORSA process is the assessment of the sufficiency of available capital given the risks the Company faces. The Company sets a target level of capitalisation, which incorporates a buffer, in order to ensure that the Company would remain solvent, even after the occurrence of financial stresses or losses. The ORSA process examines the impact of various stresses and scenarios and the Board use this information together with the targets set out in the Capital Management Policy to adjudicate on the capital adequacy.

B.3.4.4. Board review and approval

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

B.4. Internal Control System

AGL's control objectives include:

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

B.4.1. General control elements

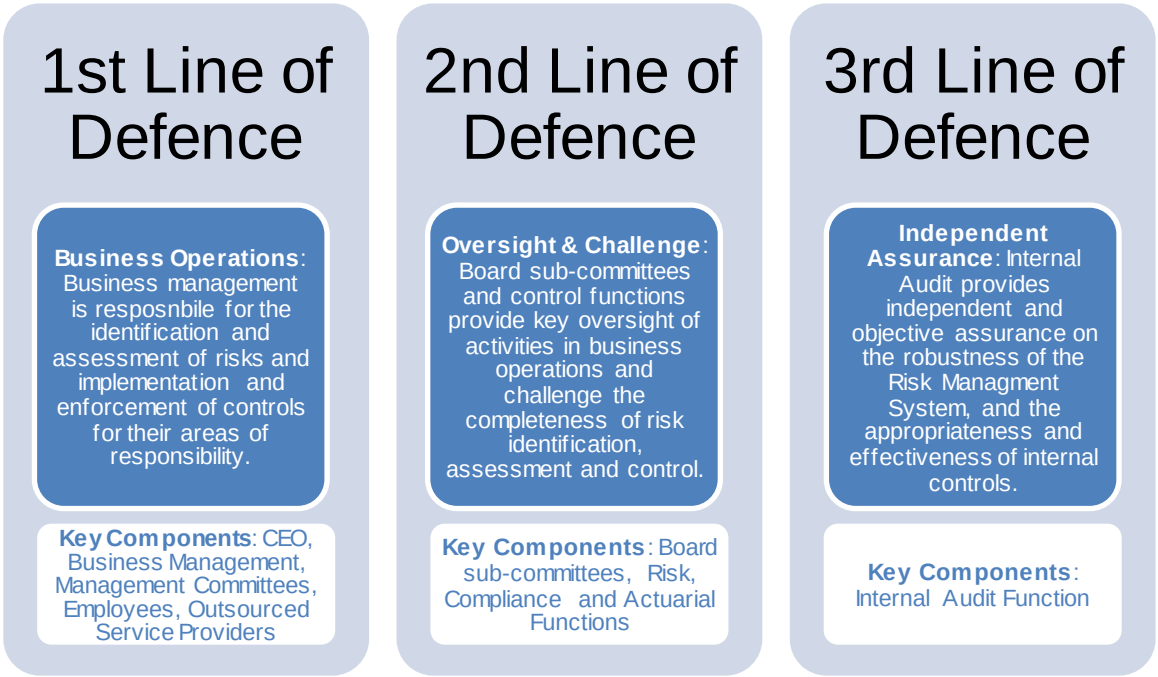
B.4.1.1. Principles

In order to achieve these objectives, AGL has put a comprehensive suite of internal controls in place. The general principles upon which the design of the suite of internal controls is designed are:

- Safeguarding and segregation of duties to avoid excessive risk taking and potential conflict of interests.
- Material decisions are taken by at least two representatives of the Company ('four-eyes-principle') subject to authority limits. Decision making processes at all management levels incorporate relevant unbiased information that facilitates sound business judgement.
- For the financial reporting process, AGL applies a control framework that aligns with the Allianz Group.
- Roles and responsibilities for the operation of internal controls are clearly defined and communicated. Responsible individuals are trained in the operation of the processes and controls.
- Processes are to be well structured and documented and key controls that are appropriately designed and operate effectively, are put in place.

B.4.1.2. 'Three lines of defence' model

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



B.4.1.3. Policy framework

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

- The policy is implemented and adhered to;
- The policy is kept up to date;
- The policy is distributed to the relevant audience (including AGL branches and other parties).

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

B.4.1.4. Integrated Risk and Control System

AGL applies an Integrated Risk and Control System ('IRCS') to support effective management of operational risks, including reporting risks, compliance risks and other operational risks (e.g. information security, business continuity, outsourcing and legal). The IRCS constitutes a harmonization with respect to the principles, processes, methodologies (e.g. risk assessment, issue classification) and reporting formats employed by key control functions as part of their responsibility to oversee operational risk management by the business.

The IRCS provides a control effectiveness assessment covering the most important controls ("key controls") relied upon to mitigate significant operational risks.

B.4.2. Specific control areas

B.4.2.1. Controls around Financial Reporting

In order to identify and mitigate the risk of material errors in the Group's consolidated financial statements and the Group Management Report, Allianz Group has implemented controls around its financial reporting.

A robust set of key controls and validations should be implemented across the financial reporting process checking. All relevant data must be gathered, reviewed and validated in an accurate manner, documenting end-to-end processes. Automated solutions are employed where possible. An Integrated Risk and Control System ('IRCS') shall be implement with respect to information data quality for financial reporting. Segregation of responsibilities between preparer and reviewer should be in place. The various controls should be subject to review and documented as evidence.

To identify and manage all operational risks that may significantly impact the reliability of reporting ("Reporting risks"), the overall "IRCS concept shall be applied (IRCS-concept, replacing the former ICOFR approach). The IRCS controls are based on the Allianz Group IRCS Catalogue which contains a comprehensive list of risks typically faced by OEs, broken down into the risk types of Reporting risks, Compliance risks and Operations risks. Further guidance is provided in the Integrated Risk and Control System Guideline.

Testing of the control effectiveness is carried out on a 5 years cycle and follows a risk based approach. Deficiencies noted through the control testing process are reported to the Audit Committee

B.4.2.2. Accounting Procedures

The Group's and AGL's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

AGL has implemented an Accounting and Reporting Policy which follows the Group Policy as adapted appropriately for local consideration and approved by AGL'S Board of Directors. Adherence to Group requirements shall be confirmed by Management via signing a respective Statement of Accountability.

B.4.2.3. Controls around Information Security

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

B.4.2.4. Controls around the Solvency Capital Requirement

Allianz Group has established controls in relation to the calculation and reporting of the Solvency Capital Requirement. These include:

- Controls governing the accuracy, completeness and appropriateness of any data used in the calculation of the Solvency Capital Requirement (SCR) (i.e. that is not already reflected in controlled accounting results);
- Controls designed to reduce the risk of errors within the risk capital computation and reporting processes;

Appropriateness of Internal Model

Controls in place to ensure the initial and ongoing appropriateness of the Internal Model used in determination of the SCR include the validation of models and assumptions by independent reviews.

B.4.2.5. Controls around underwriting and products

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

When developing the above documents, AGL ensures that principles outlined in the Allianz Standard for the Life & Health Product Framework, Standard for Retail Risk Management and Sales Compliance Minimum Standard are applied where relevant.

B.4.2.6. Controls around investments

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

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

With respect to the investment of third party assets, separate control mechanisms exist as imposed by the Guidelines for Insurance Undertakings on Asset Management issued by the Central Bank of Ireland. The processes in relation to investment assets managed by or on behalf of AGL are set out in AGL's Investment Policy.

B.4.2.7. Controls around Protection and Resilience

a) Protection and Resilience Framework

In order to anticipate and prepare for, and adapt to changes and sudden disruptions to protect Allianz' business operations (IT and non-IT), personnel and physical assets, Allianz has developed and operates a Protection & Resilience Framework. This framework outlines the principles and procedures on how to establish, implement, and maintain Protection & Resilience within Allianz Group (refer to the Allianz Standard for Protection & Resilience). The scope of the framework covers various domains such as Business Continuity Management, IT Service Continuity, Protective Security, Global Incident Management and Crisis Management.

b) Monitoring and Reporting

The implementation of the Protection & Resilience Framework is supported by systematic monitoring and reporting based on self-assessments by AGL and periodic reviews by Allianz Group. Identified deficiencies shall be reported via the AGL Head of Protection & Resilience to the COO who is in charge of Protection & Resilience.

c) Control Catalogue

As part of the IRCS, the Protection & Resilience Framework provides an integrated control catalogue containing a list of key controls. This control catalogue is binding for AGL to ensure compliance with the Allianz Standard for Protection & Resilience.

B.4.3. Compliance Function

The Head of Compliance is the Key Function Holder as regards the independent Compliance function of the Company and is part of the second line of defence. The Compliance function is responsible for oversight, detection, prevention and advice with respect to the Compliance Risk areas of the Company. The Compliance function is designed to supplement the responsibility of the Board and of senior management to ensure compliance with legislation and applicable guidelines.

The main objectives of the Compliance function are:

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

B.4.3.1. Compliance general activities and processes

As part of the Internal Control System of the Company, the Compliance function exercises a set of activities to achieve its objectives mainly by establishing and maintaining an adequate and effective compliance management system. This compliance management system comprises of the following elements:

- Promote a culture of integrity and compliance
- Provide compliance training & communication
- Provide advice
- Establish and maintain Compliance principles and procedures
- Compliance investigations, incident handling and employee reporting
- Interaction with regulatory authorities
- Monitoring, control assessment and reporting

B.4.3.2. Compliance risk assessment

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

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

B.5. Internal Audit Function

B.5.1. Implementation of the Internal Audit function

The Internal Audit function independently:

- Reviews risk governance implementation, performs quality reviews of risk processes and tests adherence to business standards including the internal control framework;
- Evaluates and makes recommendations for improvements in the effectiveness of the system of internal controls and governance through the application of a systematic, disciplined auditing approach;
- Develops an audit universe covering all risks, including those arising from outsourced and co-sourced functions which is defined and revised annually using a risk-based approach and subsequently used to steer and prioritise internal audit activities in the context of an overall objective to obtain adequate coverage of the entire universe within a 5-year audit plan;
- Issues an audit report including recommendations based on facts and professional judgement and a summary of the most important results, including an overall assessment for each audit performed;
- Performs follow-up monitoring to ensure the deficiencies are resolved.

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

Internal Audit's standing within AGL's organisational structure ensures that independence is maintained at all times. Maintaining independence means that no undue influence is exercised over the Internal Audit function, for instance in terms of reporting, objectives, target setting, compensation or by any other means.

The Internal Audit function has the authority to express its own assessment and recommendations but cannot give orders (except in cases of suspicion of illegal activities/fraud).

Independence is achieved by ensuring that audit is positioned outside of functional roles and responsibilities, that there are no obvious conflicts of interests in assignments and that auditors have not been engaged in drafting procedures, designing, installing or operating systems, or implementing recommendations. They may not carry out operational roles.

The Head of the Internal Audit department reports directly to the Company's CEO and also has a reporting line to the Chairman of the Audit Committee. The Internal Audit function reports to Allianz Group Audit and are subject to oversight from Group Audit.

The Internal Audit function has the right to communicate with any employee and obtain access to any information, records or data necessary to carry out its responsibilities, to the extent legally permitted. It has the responsibility and the right to review activities, procedures and processes in all areas of the Group, without limitation. Internal Audit has the unlimited right to obtain information and management must inform Internal Audit of serious deficiencies and major changes in internal control systems. This information must be handled with discretion and confidentiality.

In addition to auditing activities, management may seek the advice of Internal Audit on internal control related topics which Internal Audit may provide. However, Internal Audit cannot compromise its independence and cannot implement working procedures. The advisory function of Internal Audit may not jeopardise its core audit activities and the fulfilment of its audit plan. The Head of Internal Audit must confirm the independence of the Internal Audit activity to the CEO (and Audit Committee), at least annually.

The Actuarial, Compliance and Risk Management functions are separate from the Internal Audit function with no instruction or reporting of one function into the other.

B.6. Actuarial Function

The Head of Actuarial function is the key function holder and part of the second line of defence in relation to reporting, oversight and controlling activities.

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

The Actuarial function performs tasks that are based on regulatory and business requirements and consist of coordination and calculation of technical reserves for accounting and regulatory purposes and other controlling and reporting figures.

The core tasks performed by the Actuarial function in 2019, as defined by the Domestic Actuarial Regime and Related Governance, issued by the CBI in 2015 and the Guidance for (Re) Insurance Undertakings on the Head of Actuarial function Role, issued by the CBI in 2016, included but are not limited to:

- The coordination and calculation of Technical Provisions for accounting and regulatory reporting purposes;
- Ensuring the appropriateness of the assumptions and valuation methodologies used in the calculation of the Technical Provisions;
- Expressing an opinion on the adequacy of the Technical Provisions;
- Expressing an opinion on the overall underwriting policy and on the adequacy of the reinsurance arrangements;
- Expressing an opinion on the ORSA;
- Contributing to the effective implementation of the risk management system.

The Head of Actuarial Function for the Company produces all of the above on an annual basis. In relation to Technical Provisions requirements, the Head of Actuarial Function provides an Actuarial Opinion on Technical Provisions ('AOTP') for the CBI and an Actuarial Report on Technical Provisions ('ARTP') supporting the AOTP for the Board. The regime also requires an independent peer review of the technical provisions and the associated AOTP and ARTP, thereby providing an "independent view of the company's reserving" every three years. The Company's first peer review was carried out in relation to 2018.

The Actuarial function cooperates closely with the Risk Management function by:

- Expressing opinions on key aspects of the business and its operation as outlined above;
- Contributing to methodologies, models and assumptions used for the assessment of risk;
- Contributing to the overall risk management process.

The HoAF supports the risk management framework through acting as Chair of the Product Approval and Oversight Committee and Model Change and Reserve Committee and by being a member of the Management Risk Committee and Hedge Committee.

B.7. Outsourcing

B.7.1. Outsourcing Policy

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

In summary, AGL's Outsourcing Policy sets out:

- The roles and responsibilities of all key stakeholders involved in the outsourcing of functions and activities;
- Processes and procedures for the completion of due diligence to be carried out prior to electing to place business with a particular outsourced service provider;
- The processes and procedures for obtaining appropriate approval for new or amended outsourcing relationships;
- The processes and procedures for the ongoing monitoring of the activities and performance of outsourced service providers;
- The requirement to develop and maintain contingency plans and exit strategies in respect of all important and critical outsourcing relationships;
- The reporting requirements, including escalation protocols, both within AGL, the Allianz Group and externally to the Central Bank.

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

B.7.2. Outsourcing of critical or important operational functions

The table below outlines the critical outsourcers used by AGL.

Table 13: Outsourcing details

Provider	Description of the outsourced Function or Service	Provider's Jurisdiction
Allianz Deutschland AG	Business applications and sub-ledger accounting	Germany
Allianz Hellas Insurance Co. SA	Policy and branch administration for the Greek business.	Greece
Allianz Investment Management SE	Hedging and related reporting services	Germany
Allianz Investment Management LLC	Cash management and settlement services	USA
Allianz Lebensversicherungs-AG	Policy and branch administration for the German business	Germany
Allianz plc	Provision of the Internal Audit function & HR support	Ireland
Allianz S.p.A.	Policy and branch administration for the Italian business.	Italy
Allianz Technology SE	Infrastructure services for workplace, direct operations and business services	Germany
Allianz Vie	Policy and branch administration for the French business.	France
AWP Health & Life Services Ltd	Policy and claims administration for the corporate life business	Ireland
Darta Saving Life Assurance dac	Provision of the Compliance function activities, operations services for Freedom-of-Services business and IT infrastructure services	Ireland
Darta Saving Life Assurance dac	Policy and claims administration for Freedom-of-Services unit-linked product	Ireland
Irish Progressive Services International Limited	Business applications and sub-ledger accounting	Ireland

B.8. Any Other Information

B.8.1. Assessment of the Adequacy of the System of Governance

AGL continuously aims to improve its compliance and governance systems by ensuring that they are reviewed, evaluated and recommendations made to the Board regarding the enhancement and development of the system, including the outcomes from controls monitoring, root cause analysis of complaints, breaches and risk events. The AGL Governance & Control Policy requires an annual review of the System of Governance. This exercise was undertaken in 2019 by the Compliance, Internal Audit, Risk, Financial Reporting and Actuarial functions. This review covered both the design effectiveness and operating effectiveness of the internal control framework. Based on this input the Board concluded that its system of governance is considered to be adequate given the nature, scale and complexity of the risks inherent in the business.

B.8.2. Other material information

All material information has been provided in the previous sections.

C. Risk Profile

C.0. Introduction

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

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

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

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

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

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

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

Table 14 shows a break-down of the SCR by individual risk categories and their sub-categories. These are explained further in this chapter. The standalone risk SCRs are shown before allowing for the diversification benefit, with this reduction applying after the individual SCRs are aggregated.

Table 14: AGL Internal Model SCR at 31 December 2019 by risk category (€m)

Risk Category	Sub-category	Standalone	Intra-category diversification	Total
Underwriting risk	Longevity	67.0		
	Mortality & Morbidity	4.0		
	Total	**71.1**	(5.2)	**65.9**
Business risk	Surrender	84.9		
	Expense	38.7		
	Total	**123.6**	(28.5)	**95.1**
Market risk	Guarantees and future profits	108.9		
	Shareholder assets	8.9		
	Total	**117.8**	(8.4)	**109.4**
Credit risk	Derivatives	8.4		
	Cash & receivables	6.2		
	Bonds, loans & reinsurers	1.1		
	Total	**15.8**	(2.1)	**12.4**

Operational risk	Execution delivery & process mgmt.	16.9		
	Clients products & business practices	11.6		
	Fraud	4.0		
	Business Disruption and System Failures	0.6		
	Total	**33.0**	(8.8)	**24.2**
Sum of risk categories				**307.0**
Diversification between risk categories				(133.8)
Cross-effects capital buffer				4.5
Total diversified SCR before tax				**177.7**
Loss-absorbing capacity of deferred taxes				(43.3)
Total diversified SCR after tax				**134.5**

Section C gives more details on the risk exposures, including how these give rise to the above capital requirements.

C.1. Underwriting Risk

C.1.1. Exposure

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

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

There has been an increase in AGL's underwriting risk exposure during 2019 due to sales of new business during the year and a fall in interest rates. A fall in interest rates increases the value of the guarantees to the customer, thereby increasing the exposure to the Company.

C.1.2. Assessment and mitigation

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

There has been no change in how AGL assesses underwriting risk exposure during 2019.

The strategy for managing longevity exposures includes:

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

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

During 2019, the Company further increased its sales of the shorter term variable annuity business with no longevity risk alongside sales of the existing unit-linked (excluding variable annuities) and protection products in a manner consistent with the desire to mitigate longevity risks.

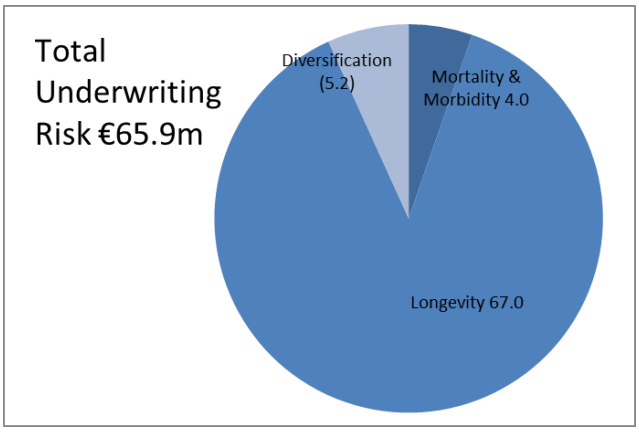
The strategy for managing mortality/morbidity exposures includes:

- Reinsurance arrangements to limit mortality and morbidity exposures to individual policyholders and to concentrations of policyholders where Groups are insured; and

- Obtaining reinsurer advice on underwriting and pricing due to their larger pool of past experience.

C.1.3. Sensitivity

AGL's sensitivity to underwriting risk is captured in the results of the Internal Model (Section E.4). The Company's standalone underwriting risk SCR indicates the loss that would occur in the event of an extreme shock i.e. 1-in-200 year event, as discussed in Section B.3.3.2, to the relevant risk, increasing longevity (€67.0m) and increasing mortality and morbidity (€4.0m). However, as noted in Section C.1.2, longevity and mortality/morbidity are offsetting risks and not likely to occur at the same time. The graphic below illustrates the components of this SCR, in particular highlighting the material exposure in relation to longevity.



C.2. Business Risk

C.2.1. Exposure

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

The surrender risk from the variable annuity book is material for the Company. Surrender risk refers to the risk that more policyholders than expected exercise their surrender option when future cash-flows are expected to be positive for the Company or that fewer policyholders exercise the option when future cash-flows are expected to be negative for the Company. Misestimating the surrender assumption is particularly crucial when considered in conjunction with the hedging programme. The hedging programme is based on the current surrender assumptions and will not cover any increase in expected pay-outs due to a deviation from these assumptions.

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

There has been an increase in AGL's business risk exposure during 2019 mainly due to an increase in surrender risk. Surrender risk increased because falling interest rates increase the value of long-term guarantees meaning that if less policyholders that expected surrender higher losses will be incurred.

C.2.2. Assessment and mitigation

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

There has been no change in how AGL assesses business risk exposure during 2019.

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

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

The risk of a material increase in internal expenses is not perceived to be significant given the Company's increasing assets under management. The Company currently operates within an optimal staffing structure, leases premises and operates within an IT infrastructure provided by Allianz Group. A number of services (e.g.

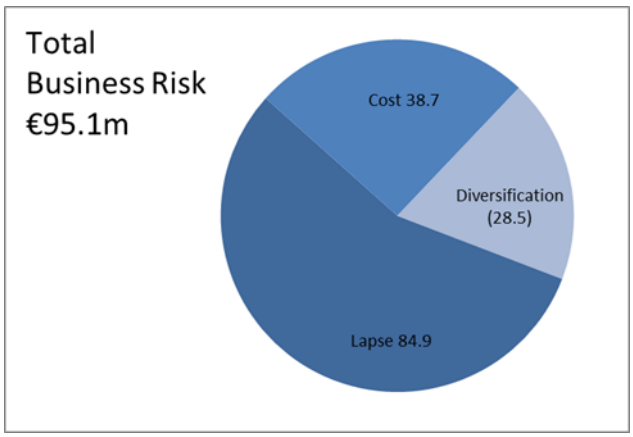
hedging operations) are outsourced to other Allianz entities with appropriate cancellation clauses. The Company performs a full expense-budget annually and monitors the cost development regularly.

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

C.2.3. Sensitivity

AGL's sensitivity to a change in surrender rates and expenses is captured in the results of the Internal Model (Section E.4). The Company's standalone business risk SCR indicates the loss that would occur in the event of an extreme shock i.e. 1-in-200 year event, as discussed in Section B.3.3.2, to the relevant risk, increasing expenses by €38.7m and surrenders by €84.9m.

Surrender risk is a significant exposure at €84.9m, the key exposure being fewer surrenders than expected combined with poor market performance resulting in the Company paying out significantly higher guaranteed pay-outs than expected. Expense risk of €38.7m reflects the loss that would occur if the future expenses of the Company were to increase significantly.



C.3. Market Risk

C.3.1. Exposure

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

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

There has been an increase in AGL's market risk exposure during 2019 but by less than the amount expected due to new business. This is due to more favourable market conditions at year-end 2019 compared to 2018 and the ongoing run-off of the Asian VA reinsurance portfolio.

C.3.2. Assessment and mitigation

The key risk mitigation employed in relation to guarantee related market risk exposures is a daily dynamic hedging programme.

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

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

AGL's Hedge Committee and Management Risk Committee both monitor the performance of the hedging programme on a quarterly basis, and a separate Hedge Working Group, which meets more regularly (and at least monthly) is used as a forum to discuss ongoing hedge performance. Daily results are provided to AGL from the hedge programme and these are monitored by the Head of Hedging Strategy and Derivatives Management and escalated to the CFO and CRO as required. The Company aims to maintain cumulative hedged profit/loss over a calendar year within predefined limits.

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

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

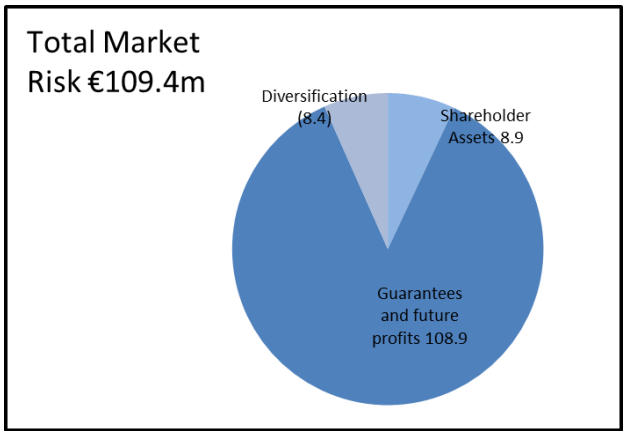
There has been no change in how the Company assesses market risk exposure during 2019.

C.3.3. Sensitivity

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

The Company's standalone market risk SCR indicates the loss that would occur in the event of an extreme shock i.e. 1-in-200 year event, as discussed in Section B.3.3.2, to the relevant risk, in relation to guarantees and future profits (€108.9m) and in relation to shareholder investments (€8.9m).

The graphic below illustrates the components of this SCR, in particular highlighting the dominance of the risk related to guarantees and future profits.



C.3.4. Application of the Prudent Person Principle

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

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

Derivatives are not seen as a separate asset class, but always in combination with the underlying basis instrument or risk. Specifically with regard to the Company's use of derivatives in the hedging programme, the following principles apply:

- The investment contributes to a reduction in investment risk or facilitates efficient portfolio management.
- The use of derivatives must not create additional risks that have not been assessed previously.
- The Company shall not invest in derivatives for speculative purposes.
- The Company must document the rationale for investing in derivatives and demonstrate the effective risk transfer obtained.

C.4. Credit Risk

C.4.1. Exposure

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

- Amounts due from bond issuers on bonds held in the shareholder assets;
- Collateral balances and margin accounts from derivative positions held as part of the hedging programme;
- Cash balances and deposits held with credit institutions;
- Receivables due from debtors;
- Policyholder financial assets;
- Amounts due from reinsurers;
- Italian Withholding Tax ('IWT'), as outlined in Section D.1.9.

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

AGL's credit risk increased over 2019 in line with the increase to the underlying exposures.

C.4.2. Assessment and mitigation

There has been no change in how AGL assesses credit risk exposure during 2019.

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

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

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

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

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

With regards to policyholder financial assets, the Company has an exposure to credit risks related to the underlying investments through the guarantees written. This is managed through the hedging programme as described under the market risk section. The exposure to reduced profits on future fee income from credit risks is less material to the Company.

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

With regard to reinsurance, AGL may only enter into contracts with counterparties vetted by Allianz Group. Allianz Group companies have two primary criteria in selecting reinsurers. These are security and strategic

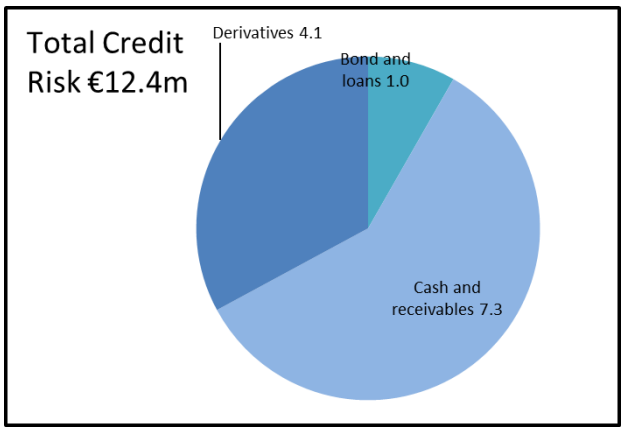
partnership. Reinsurance counterparties are pre-selected by the Allianz Group. Reinsurers that meet the Allianz Group selection criteria and with which the Allianz Group has expressed an interest in doing business are contained in the Mandatory Security List ('MSL'). AGL only uses reinsurers which are on the MSL.

C.4.3. Sensitivity

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

The Company's standalone credit risk SCR indicates the loss that would occur in the event of an extreme shock i.e. 1-in-200 year event, as discussed in Section B.3.3.2, to the credit quality of the counterparties on derivative positions (€4.1m), cash and receivables (€7.3m) and bonds (€1.0m).

The graphic below illustrates the components of this SCR, in particular highlighting the key exposure in relation to derivatives.



C.4.4. Application of the Prudent Person Principle

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

C.5. Operational Risk

C.5.1. Exposure

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

In addition to the hedging programme, the Company is exposed to a range of other operational risks for example conduct risk, IT security risk, outsourcing risk, product design failures etc.

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

There has been no material change in AGL's operational risk exposure during 2019.

C.5.2. Assessment and mitigation

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

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

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

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

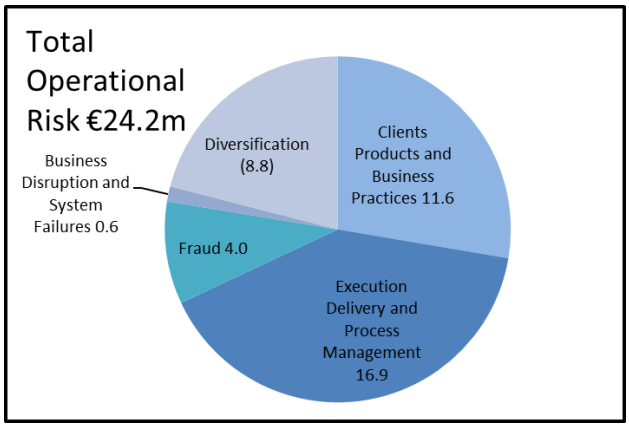
C.5.3. Sensitivity

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

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

The standalone operational risk SCR at 31 December 2019 is €24.2m. This is calculated using a set of risk categories as they are defined in the Basel II regulations.

The graphic below illustrates the components of the SCR, in particular highlighting the key exposure of 'Execution Delivery and Process Management' (€18.4m) under which operational risks in relation to the hedging programme are captured. Further detail of the exposures can be seen in Table 14.



C.6. Liquidity Risk

C.6.1. Exposure

In managing its assets and liabilities, the Company seeks to ensure that cash is available at all times to settle liabilities as they fall due. Available funds are, as per the Company's current investment policy, only invested in short/medium Euro-denominated government, covered, corporate and asset-backed bonds. The Company's treasury position is reviewed on a regular basis and cash balances are maintained to meet due liabilities.

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

The main liquidity risk exposure is to daily collateral flows caused by changes in the value of the instruments used in the hedging programme. Due to market changes (movements in interest rates, bonds, equities and currency

exchange rates), the Company may be required to make collateral payments to its counterparties. Although these changes should be offset by a corresponding change in the value of guarantee pay-outs and thus not change the Company's solvency position, the collateral payments are required immediately while the guarantee pay-outs will be experienced at some future date.

Due to the offsetting effects of positive equity performance and interest rates, the Company's liquid assets have remained broadly stable over the year, increasing from €356m to €380m.

C.6.2. Assessment and mitigation

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

The Company's liquid assets consist of cash at bank, and bonds of various types. Maintaining adequate liquidity at all times is a key element of AGL's risk appetite framework. Regular liquidity reports are presented to the Management Risk Committee and Board Risk and Finance Committee.

The Company considers its liquidity needs in all business process and planning exercises. In particular, investment decisions are made with due allowance for current liquidity needs and the potential changes in those needs.

Liquidity stress testing is a useful risk management tool that assists the Company in identifying potential vulnerabilities in its liquidity position under stressed conditions. In this regard, the Company applies stress tests to its liquidity position as follows:

- On a monthly basis, the impact of certain market shocks on the available liquidity are determined.
- On a quarterly basis, the Company's liquidity position is subjected to stress tests and scenario analyses.

Adequate stresses and scenarios are set by the Management Risk Committee, taking the Company's current and expected exposure to liquidity risk into account.

In addition to the above as part of the Company's regular planning exercises, liquidity projections are produced based on expected and stressed sales, surrenders, investment growth rates and operating expenses which cover a period of three years. These liquidity projections, incorporating base and stressed conditions, constitute AGL's primary planning tool to assess the Company's liquidity position over the medium to long term. The Company targets a liquidity position such that no liquidity shortfalls are anticipated in these projections.

If the assessments above reveal a potential liquidity shortfall or a potential breach of the Company's risk appetite the Company initiates actions to restore sufficient liquidity availability.

There have been no material changes to how AGL assesses liquidity risk during 2019.

C.6.3. Sensitivity

The Company does not hold solvency risk capital for liquidity risk, as capital is not considered an appropriate mitigation method for this risk.

The Company had liquid assets of €380m available to cover liquidity requirements at 31 December 2019. Collateral flows due to market movements can materially change this amount. The impact on the liquidity position of a set of market stresses over 2020 is estimated as follows:

- A 100bps upward movement in interest rates would result in a decrease in liquid assets of €165m, i.e. a decrease in liquid assets from €380m to €215m.
- A 30% upward movement in equity prices would result in a decrease in liquid assets of €136m, i.e. a decrease in liquid assets from €380m to €244m.

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

C.6.4. Application of the Prudent Person Principle

Cash resources are held across a number of banks throughout Europe and are subject to upper limits on the amount of cash that may be held within any one institution at any one time. The banks used by the Company are approved counterparties as prescribed by the Allianz Group.

C.6.5. Further information

The expected profit included in future premiums ('EPIFP') is the expected present value of cash flows arising due to future premiums included in the technical provisions. The total amount of EPIFP at 31 December 2019 is €1.2m.

EPIFP is relatively immaterial for the Company, due to the small amount of regular premium business sold.

C.7. Any Other Information

Additional capital is held to reflect the additional impact of multiple risks occurring simultaneously as opposed to individually that are not already allowed for through the correlation factors. The combined impact of risks occurring together can be greater than the sum of the individual impacts depending on the nature of the risks. The market risk model captures the cross-effects between different market components (e.g. interest and equity). Other cross-effects such as longevity risk versus market risk or surrender risk versus market risk are also allowed for in the SCR calculation, either through a reduction in diversification or the holding of a "cross-effects capital buffer".

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

D. Valuation for Solvency Purposes

AGL prepares its financial statements in accordance with IFRS. The following sections contain qualitative and quantitative information on the differences arising in respect of the asset classes reported under Solvency II and the asset classes reported in the financial statements.

Reconciliation of differences between IFRS and Solvency II

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

Table 15: Comparison of balance sheets as at 31 December 2019 (€m)***

	Solvency II	IFRS**	Deviation
Total assets	6,096.4	6,151.3	54.9
Total liabilities, including technical provisions	5,816.4	6,007.2	190.8
Excess assets over liabilities / Net asset value*	**280.0**	**144.1**	**135.9**

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

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

***Note that as the table is shown in millions rounding errors may cause some differences.

D.1. Assets

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

Table 16: Solvency II-IFRS differences at 31 December 2019 (€m)*

	Solvency II	IFRS	Deviation
Deferred acquisition costs	-	49.5	(49.5)
Deferred tax assets	-	2.3	(2.3)
Investments (other than assets held for unit-linked funds)	495.4	495.4	-
Assets held for unit-linked funds	5,117.3	5,117.3	-
Loans and mortgages	196.6	196.6	-
Reinsurance recoverables	7.5	7.5	-
Insurance and intermediaries receivables	34.6	34.6	-
Cash and cash equivalents	46.0	46.0	-
Reinsurance receivables	1.0	1.0	-
Receivables (trade, not insurance)	197.6	200.7	(3.1)
Any other assets, not elsewhere shown	0.4	0.4	-
Total Assets	**6,096.4**	**6,151.3**	**(54.9)**

*Note that as the table is shown in millions rounding errors may cause some differences.

D.1.1. Recognition and measurement basis

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

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

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

D.1.2. Deferred acquisition costs

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

Acquisition costs are deferred as an explicit deferred acquisition cost asset, gross of tax, to the extent that they are recoverable out of future revenue to which they relate. Such costs are amortised through the Income Statement in the IFRS financial statements over the period in which the revenues on the related contracts are expected to be earned. The rate of amortisation is based on an assessment of the expected pattern of receipt of future revenue margins, taking account of persistency, from the related contracts.

Under Solvency II, acquisition costs are not recognised as an asset on the balance sheet, rather they are incurred upfront.

D.1.3. Deferred tax assets

Deferred taxes are calculated based on the difference between the values ascribed to assets and liabilities under Solvency II and the values ascribed to the same assets and liabilities for tax purposes as defined in IAS 12. The deferred tax asset under IFRS is offset against the deferred tax liability arising from Solvency II/IFRS differences. Except where otherwise required by accounting standards, full provision without discounting is made for all temporary differences which have arisen but not reversed at the balance sheet date. A deferred tax asset is recognised where it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Projected future taxable profits are assessed over a three year period in line with the approved business plan. The timing of any outflows relating to these valuation differences is expected to be more than twelve months after the financial position date.

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

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

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

In AGL, the financial assets held under this category of investments at 31 December 2019 are bonds and derivative assets.

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

Fixed income securities

Fixed income securities held include government bonds, corporate bonds, covered bonds and collateralised securities. Government bonds are bonds issued by public authorities, e.g. central governments, supranational government institutions, regional governments or municipal governments. Corporate bonds are bonds issued by corporations. Each instrument in this class is individually valued through the application of quoted prices (unadjusted) obtained from an active market (recognised and active exchange) for identical assets.

Derivatives

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

Derivatives are measured at market value under IFRS.

D.1.5. Assets held for unit-linked funds

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

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

Assumptions and inputs used in valuation techniques include:

- Risk-free and benchmark interest rates;
- Credit spreads and other premiums used in estimating discount rates;
- Bond and equity prices;
- Foreign currency exchange rates;
- Equity and equity index prices; and
- Expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

D.1.6. Loans and mortgages

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

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

D.1.7. Reinsurance recoverables

Reinsurance recoverables valued at €7.5m exist in relation to mortality and morbidity benefits on some products. Different valuation methodology between IFRS and Solvency II is the key driver of a minor difference of €0.047m, too small to reflect in Table 16.

D.1.8. Insurance and intermediaries receivables

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

D.1.9. Receivables (trade, not insurance)

D.1.9.1. Italian tax asset

Included in the Receivables (trade, not insurance) is the Italian tax asset of €27.8m. Payments to the Italian authorities as a result of the Company being a withholding tax agent are recognised as assets. The asset arising from the advance payment of Italian policyholder tax obligations is expected to be recoverable either by

deduction from tax withheld on behalf of policyholders or by offset against taxes payable to Italian revenue or by surrender to group companies. This asset is carried at its full future recoverable value under IFRS but under Solvency II the asset is discounted. This accounts for the full €3.1m difference is the full difference in Table 16 above.

D.1.10. Cash and cash equivalents

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

D.1.11. Reconciliation to financial reporting

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

D.1.11.1. Explanation of material differences

The material differences in asset classes are explained under Sections D.1.2, D.1.3 and D.1.9 for deferred acquisition costs, deferred tax assets and Italian tax asset respectively.

The following sections have no material differences noted:

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

D.1.12. Any other assets, not elsewhere shown

There are no other material assets noted.

D.2. Technical Provisions

D.2.1. Technical Provisions at 31 December 2019

The value of the Solvency II Technical Provisions is the sum of Best Estimate Liability ('BEL') plus a Risk Margin. At 31 December 2019 the Technical Provisions were:

Table 17: Solvency II Technical Provisions at 31 December 2019 (€m)

Technical Provisions	
Best Estimate Liability	5,149.4
Risk Margin	98.4
Total	**5,247.8**

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

The BEL corresponds to the probability weighted average of future cash flows, taking account of the time value of money (expected present value of future cash-flows) using the relevant risk free interest rate term structure. The unit liability is included in the BEL. The calculation of the BEL is based on up-to-date and credible information and realistic assumptions. It is calculated gross, without deduction of amounts recoverable from reinsurance contracts and special purpose vehicles.

The Risk Margin is an addition to the BEL to ensure that the Technical Provisions as a whole are equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations. It reflects the cost of setting aside the shareholder funds needed to cover the unhedgeable part of the SCR over the lifetime of the business at the prescribed cost of capital rate of 6% per annum.

D.2.2. Valuation differences between IFRS and Solvency II

The table below reconciles the Technical Provisions reported in the financial statements to those reported for Solvency II. The key differences in valuation methodology and assumptions are as follows:

- IFRS uses an unadjusted interest rate market curve in the valuation whereas under Solvency II a number of prescribed adjustments are applied to the interest rate curve. These adjustments reduce the Technical Provisions in respect of unit-linked business with long term investment guarantees.
- Solvency II includes the present value of future fee income net of expense outgo on the underlying unit-linked funds reducing the level of Technical Provisions required. These projected surplus cash flows are excluded under IFRS.
- The Solvency II Technical Provisions include a Risk Margin to allow for the cost of capital in respect of risks that cannot be hedged away. IFRS has no such risk margin.
- The IFRS Technical Provisions exclude unallocated premiums, which are instead included in alternative liability balances. These unallocated premiums are included in the Solvency II Technical Provisions due to contract initial recognition rules being different between Solvency II and IFRS.

Table 18: Reconciliation of Technical Provisions from IFRS to Solvency II at 31 December 2019 (€m)*

Reconciliation	Protection	Unit-linked	Variable annuity	Reinsurance Accepted	Total
IFRS Technical Provisions	**14.4**	**767.4**	**4,590.7**	**54.2**	**5,426.7**
Use Solvency II curve	-	-	(47.8)	1.8	(46.0)
Surplus cash flows on unit-linked funds	-	(11.5)	(230.2)	-	(241.7)
Apply Risk Margin	0.3	1.1	95.7	1.2	98.4
Include unallocated premiums	-	6.9	4.8		11.7
Other	(1.2)	-	-	(0.1)	(1.3)
Solvency II Technical Provisions	**13.5**	**763.8**	**4,413.4**	**57.1**	**5,247.8**
Difference	**(0.9)**	**(3.5)**	**(177.4)**	**3.0**	**(178.8)**

*Note that as the table is shown in millions rounding errors may cause some differences.

D.2.3. Technical Provisions per Line of Business (LoB) at 31 December 2019

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

Table 19: Technical Provisions per LoB at 31 December 2019 (€m))

	Best Estimate Liability	Risk Margin	Total
Protection	13.2	0.3	**13.5**
Unit-linked	762.7	1.1	**763.8**
Variable annuity	4,317.6	95.7	**4,413.4**
Reinsurance accepted	55.9	1.2	**57.1**
Total	**5,149.4**	**98.4**	**5,247.8**

* Note that as the table is shown in millions rounding errors may cause some differences.

D.2.4. Actuarial methodologies and key assumptions

Methodology

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

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

Surrenders

Surrender assumptions are based on AGL experience data where appropriate. Where the AGL surrender experience data for a given product is deemed statistically unreliable, the experience data on similar products within the Allianz Group is considered in the assumption setting exercise. Surrender rates cannot be predicted with certainty and actual future surrender experience will deviate from that assumed.

A review of surrender experience was conducted during 2019. The surrender assumptions were updated accordingly leading to a small increase in Technical Provisions at year-end 2019.

Mortality

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

A review of mortality experience was conducted during 2019. The mortality assumptions were updated accordingly leading to a small increase in Technical Provisions at year-end 2019.

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

Expenses

The expense assumptions are based on AGL's 2019 corporate plan which includes a detailed bottom-up assessment of the expenses over the next three years. This takes into account past experience, expected portfolio development based on actuarial projections, expected future sales, new product initiatives, projects and staffing needs. The expense assumption setting exercise takes the expenses from the corporate plan into account, together with the terms and conditions of contractual arrangements relating to outsourced services, distribution channels and asset managers. There is uncertainty relating to future expenses.

The expense assumptions were updated in accordance with the 2019 corporate plan leading to a decrease in Technical Provisions at year-end 2019.

The overall impact was a decrease in the Technical Provisions.

Economic Assumptions

Projected investment returns, interest rates and discount rates are based on the prescribed risk free curve issued by EIOPA.

Other

The matching adjustment referred to in Article 77b of the Solvency II Directive is not applied.

The volatility adjustment referred to in Article 77d of the Solvency II Directive is not applied.

The transitional measure on the risk-free interest rates referred to in Article 208c of the Solvency II Directive is not applied.

The transitional deduction referred to in Article 208d of the Solvency II Directive is not applied.

D.2.5. Policyholder behaviour and management actions

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

No management actions are assumed in the calculation of the technical provisions.

D.3. Other Liabilities

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

1. Quantitative explanations of material differences in valuations between Solvency II and those used for the statutory financial statements; and
2. Valuation bases, methods and main assumptions used for Solvency II and any material differences with those used for the statutory financial statements for the financial year ended 31 December 2019.

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

Table 20: Value of other liabilities at 31 December 2019 (€m)***

	Solvency II	IFRS*	Deviation
Other technical provisions	-	49.9	(49.9)
Unallocated premiums	-	11.7	(11.7)
Provisions, other than technical provisions	14.1	14.1	-
Deposits from reinsurers	-	-	-
Deferred tax liability	49.8	0.2	49.6
Derivative liabilities	30.2	30.2	-
Debts owed to credit institutions	295.5	295.5	-
Insurance and intermediaries payables	18.6	18.6	-
Reinsurance payables	0.2	0.2	-
Payables (trade, not insurance)	16.3	16.3	-
Any other liabilities, not elsewhere shown	144.0	144.0	-
Total**	**568.6**	**580.6**	**(12.0)**

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

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

*** Note that as the table is shown in millions rounding errors may cause some differences.

D.3.1. Other Technical Provisions

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

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

D.3.2. Unallocated premiums

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

D.3.3. Deferred tax liabilities

Deferred tax liabilities are the amounts of taxes payable in future periods in respect of taxable temporary differences. Deferred taxes are calculated based on the difference between the values ascribed to assets and liabilities under Solvency II and the values ascribed to the same assets and liabilities for tax purposes as defined in IAS 12. The deferred tax asset under IFRS is offset against the deferred tax liability arising from Solvency II/IFRS differences in the total deferred tax liability under Solvency II of €49.8m. The timing of any outflows relating to these valuation differences is expected to be more than twelve months after the financial position date.

D.3.4. Derivative liabilities

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

D.3.5. Debts owed to credit institutions

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

D.3.6. Any other liabilities, not elsewhere shown

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

D.3.7. Reconciliation to financial reporting

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

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

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

D.4. Alternative Methods for Valuation

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

D.5. Any Other Information

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

E. Capital Management

E.1. Own Funds

E.1.1. Objectives, policies and processes

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

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

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

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

If the level of capital falls below the management ratio, alert and action levels exist in order to initiate actions before regulatory capital requirements are endangered. If the alert level is breached, contingency plans are drawn up and considered by the Board. If the action level is breached, the actions from the contingency plans shall be implemented to improve the capital position. Similarly if the level of capital increases above an upper barrier level contingency plans are drawn up and considered by the Board; such plans may include but are not limited to the payment of capital upstream to the Group via a dividend.

The capital position of the Company is monitored on an ongoing basis by management and Board committees, as described in Section B.1.2.

No material changes have been introduced in respect of AGL's Capital Management Policies or accompanying processes during 2019.

E.1.2. Analysis of Own Funds

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

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

The structure and quality of the Company's Own Funds has not changed during the year, and the value of ordinary share capital and other approved Basic Own Fund items have remained constant. The reconciliation reserve is the only own fund category which has changed in value, increasing by €57.5m from the end of 2018 to the end of 2019.

The table below shows the Company's Own Funds position as at 31 December 2019 and 31 December 2018.

Table 21: Own Funds at 31 December (€m)*

2019	Total	Tier 1 - unrestricted	Tier 1 - restricted	Status
Basic Own Funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35				
Ordinary share capital (gross of own shares)	45.1	45.1	-	Available
Reconciliation reserve	151.7	151.7	-	Available
Other own fund items approved by the supervisory authority as basic Own Funds not specified above	83.1	83.1	-	Available
Available and eligible Own Funds	**280.0**	**280.0**	**-**	

2018	Total	Tier 1 - unrestricted	Tier 1 - restricted	Status
Ordinary share capital (gross of own shares)	45.1	45.1	-	Available
Reconciliation reserve	94.2	94.2	-	Available
Other own fund items approved by the supervisory authority as basic Own Funds not specified above	83.1	83.1	-	Available
Available and eligible Own Funds	**222.4**	**222.4**	**-**	

* Note that as the table is shown in millions rounding errors may cause some differences.

There has been a substantial increase in Own Funds over 2019, primarily driven by the positive impact of new business, an increase in expected future profits from strong equity performance and best estimate assumption updates. This was partially offset by hedge losses in the year end 2019 Own Funds.

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

Table 22: Reconciliation Reserve breakdown at 31 December (€m)*

Components	2019	2018	Comments
Excess of assets over liabilities	280.0	231.0	A full split of assets and liabilities has been included in Section D.1 and D.3 respectively.
Own shares (held directly and indirectly)	-	-	
Foreseeable dividend payments, distributions and charges	-	(8.6)	
Other basic own fund items	(128.2)	(128.2)	Represented by ordinary share capital and other own fund items approved by the supervisory authority as basic Own Funds not specified above.
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-	
Total reconciliation reserve	**151.7**	**94.2**	

*Note that as the table is shown in millions rounding errors may cause some differences.

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

Table 23 shows a high-level reconciliation between the Company's Own Funds under Solvency II and its shareholder equity as reported in the IFRS financial statements.

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

Table 23: Reconciliation of IFRS Shareholder Equity to Solvency II Own Funds at 31 December (€m)

Reconciliation	2019	2018
IFRS shareholder's equity*	**144.1**	**139.0**
Technical Provisions (net of reinsurance)	191.0	138.0
Deferred Tax	(52.0)	(43.4)
Italian Tax Asset (discounting)	(3.1)	(2.6)
SII Excess assets over liabilities	**280.0**	**231.0**

* IFRS total equity as published in the financial statements for year ended 31 December 2019.

E.1.4. Basic Own Funds and available Own Funds

The Company's available Own Funds as at 31 December 2019 amount to €280.0m (this is equivalent to the excess assets over liabilities). The structure of the Own Funds is outlined in Section E.1.5. The Company has no ancillary Own Funds.

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

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

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

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

E.1.7. Own Funds movements over the reporting period

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

E.2. Solvency Capital Requirement and Minimum Capital Requirement

Table 24 shows the Company's SCR split by risk category and the Minimum Capital Requirement (MCR) as at 31 December 2019, with a comparison back to the previous year.

Table 24: AGL SCR by risk category and MCR at 31 December (€m)

Risk category	2019	2018
Underwriting Risk	65.9	52.5
Business Risk	95.1	90.2
Market Risk	109.4	107.6
Credit Risk	12.4	8.9
Operational Risk	24.2	23.4
Sum over risk categories	**307.0**	**282.5**
Diversification	(133.8)	(117.4)
Cross-effects capital buffer	4.5	2.4
Total diversified SCR before tax	**177.7**	**167.6**
Loss absorbing capacity of deferred tax	(43.3)	(41.5)
SCR after tax	**134.5**	**126.1**

Risk category	2019	2018
MCR	**36.8**	**31.9**

Overall, the SCR has increased by €8.3m over 2019. As expected, the SCR before tax has increased in line with increasing new business volumes and due to a change in the market environment over the year partially offset by an increase in the loss absorbing capacity of deferred taxes.

E.2.1. Available Own Funds and solvency requirements

The solvency ratio at 31 December 2019 was 208%, an increase from 174% at 31 December 2018.

The resultant increase in available Own Funds (as noted in Section E.1.2) is in line with the business growth and market impacts has been larger over the year than the corresponding increase in SCR. The mismatch in increases between the two numbers causes the overall increase in the solvency ratio.

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

E.2.2. Inputs used for the MCR calculation

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

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

Table 25: MCR at 31 December (€m)

Component	2019	2018
Index-linked and unit-linked insurance obligations	5,136.1	4,416.7
Other life (re)insurance and health (re)insurance obligations	5.8	4.2
Total capital at risk for all life (re)insurance obligations	1,077.4	1,120.5
Linear MCR	**36.8**	**31.8**
SCR	134.5	127.7
MCR cap (45% of SCR)	60.5	57.5
MCR floor (25% of SCR)	33.6	31.9
Combined MCR	**36.8**	**31.9**
Absolute floor of the MCR	3.7	3.7
Minimum Capital Requirement	**36.8**	**31.9**

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

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

E.4. Internal Model Information

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

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

E.4.1. Scope of the Internal Model

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

E.4.2. Methodology underlying the Internal Model

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

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

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

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

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

Table 26: Differences between Standard Formula and Allianz Group Internal Model

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

E.4.4. Diversification benefit

In order to set an appropriate level of diversification benefit, it is necessary to determine the dependencies between the risks to which the Company is exposed. The Company relies on the industry-standard Gaussian copula approach, using a methodology developed by Allianz Group. This describes the correlations between the different risk types. These correlations, which define the relationship between different risks, are derived through statistical analysis of historical data, considering quarterly observations over several years. In the case where historical data or other business-specific observations are insufficient or not available, relationships are

set according to a well-defined, Group-wide process which combines the expertise of risk and business experts. In general, relationships are set to represent how risk types will interact under conditions which deteriorate the Company's solvency position.

E.4.5. Appropriateness of Internal Model

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

E.4.6. Internal Model data

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

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

The Company is not using undertaking-specific parameters as the SCR is not based on the Standard Formula approach.

There are no regulatory capital add-ons applied.

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

Allianz Global Life complied with the MCR and the SCR throughout 2019.

E.6. Any Other Information

As noted in Section C.7 above the "cross-effects capital buffer" is capital held to reflect the additional impact of multiple risks occurring simultaneously as opposed to individually that are not already allowed for through the correlation factors. The combined impact of risks occurring together can be greater than the sum of the individual impacts depending on the nature of the risks. The market risk model captures the cross-effects between different market components (e.g. interest and equity). Other cross-effects such as longevity risk versus market risk or surrender risk versus market risk are also allowed for in the SCR calculation, either through a reduction in diversification or the holding of a cross-effects capital buffer.

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

S.02.01.02: Balance Sheet (€000)

S.02.01.02
Balance sheet

		Solvency II value
Assets		C0010
Intangible assets	R0030	-
Deferred tax assets	R0040	-
Pension benefit surplus	R0050	-
Property, plant & equipment held for own use	R0060	-
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	495,395
Property (other than for own use)	R0080	-
Holdings in related undertakings, including participations	R0090	-
Equities	R0100	-
Equities - listed	R0110	-
Equities - unlisted	R0120	-
Bonds	R0130	182,187
Government Bonds	R0140	77,115
Corporate Bonds	R0150	94,640
Structured notes	R0160	-
Collateralised securities	R0170	10,432
Collective Investments Undertakings	R0180	-
Derivatives	R0190	313,208
Deposits other than cash equivalents	R0200	-
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	5,117,309
Loans and mortgages	R0230	196,600
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	196,600
Reinsurance recoverables from:	R0270	7,540
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	7,486
Health similar to life	R0320	-
Life excluding health and index-linked and unit-linked	R0330	7,486
Life index-linked and unit-linked	R0340	54
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	34,563
Reinsurance receivables	R0370	997
Receivables (trade, not insurance)	R0380	197,626
Own shares	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	45,985
Any other assets, not elsewhere shown	R0420	408
Total assets	R0500	6,096,425

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	-
Technical provisions – non-life (excluding health)	R0520	-
TP calculated as a whole	R0530	-
Best Estimate	R0540	-
Risk margin	R0550	-
Technical provisions - health (similar to non-life)	R0560	-
TP calculated as a whole	R0570	-
Best Estimate	R0580	-
Risk margin	R0590	-
Technical provisions - life (excluding index-linked and unit-linked)	R0600	13,537
Technical provisions - health (similar to life)	R0610	-
TP calculated as a whole	R0620	-
Best Estimate	R0630	-
Risk margin	R0640	-
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	13,537
TP calculated as a whole	R0660	-
Best Estimate	R0670	13,195
Risk margin	R0680	342
Technical provisions – index-linked and unit-linked	R0690	5,234,312
TP calculated as a whole	R0700	-
Best Estimate	R0710	5,136,244
Risk margin	R0720	98,068
Other technical provisions	R0730	-
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	14,079
Pension benefit obligations	R0760	-
Deposits from reinsurers	R0770	-
Deferred tax liabilities	R0780	49,766
Derivatives	R0790	30,161
Debts owed to credit institutions	R0800	295,530
Financial liabilities other than debts owed to credit institutions	R0810	-
Insurance & intermediaries payables	R0820	18,588
Reinsurance payables	R0830	234
Payables (trade, not insurance)	R0840	16,284
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	143,968
Total liabilities	R0900	5,816,458
Excess of assets over liabilities	R1000	279,967

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

Columns containing no data for AGL have been excluded.

Premiums, claims and expenses by line of business

		Line of Business for: life obligations		Life reinsurance obligations	Total
		Index-linked and unit-linked insurance	Other life insurance	Life reinsurance	
		C0230	C0240	C0280	C0300
Premiums written					
Gross	R1410	671,727	7,679	27,300	706,706
Reinsurers' share	R1420	171	1,715		1,886
Net	R1500	671,555	5,964	27,300	704,820
Premiums earned					
Gross	R1510	671,727	13,494	30,476	715,697
Reinsurers' share	R1520	171	5,808		5,979
Net	R1600	671,555	7,686	30,476	709,718
Claims incurred					
Gross	R1610	409,401	8,420	5,172	422,993
Reinsurers' share	R1620	35	6,443		6,478
Net	R1700	409,366	1,977	5,172	416,515
Changes in other technical provisions					
Gross	R1710	169,562	4,740	- 42,447	131,855
Reinsurers' share	R1720		2,089		2,089
Net	R1800	169,562	2,651	- 42,447	129,765
Expenses incurred	R1900	45,679	3,148	1,895	50,721
Administrative expenses		-	-	-	-
Gross	R1910	5,246	299	0	5,545
Reinsurers' share	R1920				
Net	R2000	5,246	299	0	5,545
Investment management expenses					
Gross	R2010	3,655	12	892	4,559
Reinsurers' share	R2020				
Net	R2100	3,655	12	892	4,559
Claims management expenses					
Gross	R2110				
Reinsurers' share	R2120				
Net	R2200				
Acquisition expenses					
Gross	R2210	22,867	424		23,291
Reinsurers' share	R2220				
Net	R2300	22,867	424		23,291
Overhead expenses					
Gross	R2310	13,911	2,413	1,002	17,326
Reinsurers' share	R2320				
Net	R2400	13,911	2,413	1,002	17,326
Other expenses	R2500				
Total expenses	R2600				50,721
Total amount of surrenders	R2700	299,223			299,223

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

Premiums, claims and expenses by country

		Home Country	Total Top 5 and home country	Top 5 countries (by amount of gross premiums written) - life obligations				
	R1400			(DE) Germany	(FR) France	(IT) Italy	(JP) Japan	(TW) Taiwan (Province of China)
		C0220	C0280	C0230	C0230	C0230	C0230	C0230
Premiums written								
Gross	R1410		706,306	889	225,765	452,515	26,880	257
Reinsurers' share	R1420		1,886	559		1,327		
Net	R1500		704,420	329	225,765	451,188	26,880	257
Premiums earned								
Gross	R1510		715,316	6,704	225,765	452,515	30,075	257
Reinsurers' share	R1520		5,979	4,653		1,327		
Net	R1600		709,336	2,051	225,765	451,188	30,075	257
Claims incurred								
Gross	R1610		422,993	9,183	195,641	212,997	4,337	835
Reinsurers' share	R1620		6,478	6,136		343		
Net	R1700		416,515	3,047	195,641	212,654	4,337	835
Changes in other technical provisions								
Gross	R1710		131,462	- 376	- 15,241	189,688	- 40,771	- 1,838
Reinsurers' share	R1720		2,089	1,754		335		
Net	R1800		129,373	- 2,130	- 15,241	189,352	- 40,771	- 1,838
Expenses incurred	R1900		50,685	1,269	18,628	28,893	1,589	306
Other expenses	R2500							
Total expenses	R2600		50,685					

S.12.01.02: Life Technical Provisions

Columns containing no data for AGL have been excluded.

S.12.01.02

Life and Health SLT Technical Provisions

		Index-linked and unit-linked insurance			Other life insurance		Accepted reinsurance		
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees		Index-linked and unit-linked insurance on Accepted reinsurance (Gross)	**Total (Life other than health insurance, incl. Unit-Linked)**
		C0030	**C0040**	**C0050**	**C0060**	**C0070**	**C0100**	**C0120**	**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 as a whole	**R0020**								
Technical provisions calculated as a sum of BE and RM									
Best Estimate									
Gross Best Estimate	**R0030**		762,714	4,317,614		13,195	55,915	55,915	5,149,438
Total recoverables from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	**R0040**		54			7,486			7,540
Recoverables from reinsurance (except SPV and Finite Re) before adjustment for expected losses	**R0050**		54			7,486			7,540
Recoverables from SPV before adjustment for expected losses	**R0060**		-			-			-
Recoverables from Finite Re before adjustment for expected losses	**R0070**		-			-			-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**		54			7,486			7,540
Best estimate minus recoverables from reinsurance/SPV and Finite Re	**R0090**		762,660	4,317,614		5,709	55,915		5,141,898
Risk margin	**R0100**	96,860			342		1,209	1,209	98,411
Amount of the transitional on Technical Provisions									
Technical provisions calculated as a whole	**R0110**	-			-		-		-
Best Estimate	**R0120**						-		-
Risk margin	**R0130**	-			-		-		-
Technical provisions - total	**R0200**	5,177,188			13,537		57,124		5,247,849

S.23.01.01: Own Funds (€000)

S.23.01.01: Own Funds (€000)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	45,100	45,100		-	
Share premium account related to ordinary share capital	R0030	-	-		-	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	151,737	151,737			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	-				-
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	83,130	83,130			
Own funds from the financial statements that should 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 should 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	279,967	279,967		-	-
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	279,967	279,967		-	-
Total available own funds to meet the MCR	R0510	279,967	279,967		-	
Total eligible own funds to meet the SCR	R0540	279,967	279,967		-	-
Total eligible own funds to meet the MCR	R0550	279,967	279,967		-	
SCR	R0580	134,456				
MCR	R0600	36,829				
Ratio of Eligible own funds to SCR	R0620	208%				
Ratio of Eligible own funds to MCR	R0640	760%				

Reconciliation reserve		C0060
Excess of assets over liabilities	R0700	279,967
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	128,230
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	151,737
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	1,225
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	1,225

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

Annex I

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10	IM - Market risk	109,378
11	IM - Underwriting risk	65,896
12	IM - Business risk	95,084
13	IM - Credit risk	12,369
14	IM - Operational risk	24,248
15	IM - LAC DT (negative amount)	- 43,292
16	IM - Capital Buffer	4,537
17	IM - Adjustment due to RFF/MAP nSCR aggregation	-

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	268,220
Diversification	R0060	- 133,764
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	
Solvency capital requirement excluding capital add-on	R0200	134,456
Capital add-ons already set	R0210	
Solvency capital requirement	R0220	134,456
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	-
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	43,292
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	
Net future discretionary benefits	R0460	-

S.28.01.01: MCR – non-composite (€000)

Annex I
S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	36,829

		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	-	
Obligations with profit participation - future discretionary benefits	R0220	-	
Index-linked and unit-linked insurance obligations	R0230	5,136,104	
Other life (re)insurance and health (re)insurance obligations	R0240	5,794	
Total capital at risk for all life (re)insurance obligations	R0250		1,077,396

Overall MCR calculation		C0070
Linear MCR	R0300	36,829
SCR	R0310	134,456
MCR cap	R0320	60,505
MCR floor	R0330	33,614
Combined MCR	R0340	36,829
Absolute floor of the MCR	R0350	3,700
Minimum Capital Requirement	R0400	36,829