# Allianz Global Life dac

# Solvency and Financial Condition Report

# 31 December 2022

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## Scope of the Report

Solvency II ('SII') is an EU-wide regulatory regime for insurance companies. Under SII, 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 2022 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.

Figures are expressed in Euro (€), which is the functional and presentational currency of the Company. Within the body of the report figures are typically rounded in € millions, which may cause some presentational differences in table formats.
The figures in the supporting Qualitative Reporting Templates ('QRTs') (included the Annex) are rounded to nearest €000, in line with requirements

*Approval*
This report and supporting QRTs have been approved by the Company's Board of Directors on 30th March 2023, prior to submission to the Central Bank of Ireland ('CBI') and publication on AGL's public website.

## Summary

### Business and Performance

AGL is authorised in Ireland to transact life assurance business in the European Union. The Company is regulated by the CBI 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.

Key aspects of the business performance over the year include:

- AGL's IFRS net income (i.e., underwriting performance) was €1.1m in 2022, representing an overall decrease of €21.2m compared to the 2021 result (€22.3m). The main reason for the decrease compared to prior year is the poor market performance experienced during 2022 and the related impact on the Company's hedging programme[2].
- The majority of the Company's investment income result relates to interest rate swaps and futures. Overall investment performance on shareholder assets increased over 2022 driven by the gains on the futures portfolio (compared to losses in prior year), as well as increased interest income on swaps. This was partially offset by increased unrealised losses on swaps due to the rise in increased interest rates.
- Investment performance for policyholder assets decreased over the reporting period due to the poor performance in equity and bond markets.
- In general, sales were ahead of the business plan during 2022. Both variable annuity and unit-linked portfolios exceeded the internal sales targets.
- The Company continues to seek opportunities to grow its business into other EU markets and new distribution partnerships through both leveraging its existing product range and new product developments.

During 2022, significant events included:

- The impact of COVID-19 eased, with Allianz Group declaring the end of the Covid-19 crisis status.
- Russia invaded Ukraine in February 2022. Although AGL does not have any direct exposure in these jurisdictions, it is impacted via the related market turbulence and ongoing sanctions screening.

The consequences of the above, amongst other factors, contributed to significant ongoing market volatility, rising interest rates and inflation. Management continues to closely monitor these factors and respond as necessary given the potential implications for the Company's solvency and liquidity positions.

### System of Governance

The governance structure of the Company has not changed during 2022 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 their role and is honest and trustworthy.

AGL has implemented a comprehensive risk management system, consistent with Allianz Group standards, applicable regulatory requirements 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. This includes the development, maintenance and monitoring of risk policies, limits and guidelines, as well as the supporting measurement, methodology and tools.

The Own Risk and Solvency Assessment ('ORSA') is one of the key elements of the System of Governance and is directed by the Board. The ORSA is the collection of interlinked processes implemented by AGL to identify, assess,

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

[2] The Company employs a dynamic hedging programme to mitigate the risk in relation to policyholder guarantees. 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.

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 is 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). There were no significant changes to the risk profile of AGL during 2022.

Market risk remains the most material risk for AGL. The primary source of the Company's market risk is in relation to guarantee obligations to policyholders and the future profits of the Company, both of which can change as a result of market movements.

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. The Company continuously monitors both existing and emerging risks.

Risk is controlled and managed with reference to the regulatory SII principles. The Company uses an Internal Model to calculate its SII Solvency 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 and the target volatility mechanisms within policyholder funds. The Internal Model is part of the Allianz Group Internal Model and was approved by the CBI as part of the wider Allianz Group approval by their supervisor, the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – 'BaFin').

## Valuation for Solvency Purposes

AGL has valued its assets and liabilities on a market consistent basis i.e., using information which is market observable 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 material changes to the recognition, valuation bases or estimation techniques used for its asset or liability valuations.

The Technical Provisions comprise the Best Estimate Liability and the Risk Margin. Several assumptions feed into the calculation of the Technical Provisions. Over 2022, as part of the annual experience investigations the assumptions for future mortality, surrenders and expenses were updated. There were no material changes to the calculation method of the Technical Provisions.

For certain assets and liabilities, the valuation principles and methods used as part of the SII 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. The main differences are related to the removal of deferred acquisition costs, the valuation of Technical Provisions and treatment of deferred tax.

| | Solvency II | IFRS** | Deviation |
|---|---|---|---|
| Total assets | 5,967.2 | 6,028.5 | **(61.3)** |
| Total liabilities, including technical provisions | 5,730.4 | 5,886.8 | (**156.3**) |
| **Excess assets over liabilities / Net asset value*** | **236.7** | **141.7** | **95.0** |

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

*** IFRS data has been reclassified to align with the SII 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.*

## 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 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. There were no significant changes to AGL's Capital Management Framework during 2022.

The solvency ratio at 31 December 2022 was 220%, a decrease from 230% at 31 December 2021.

| | 2022 | 2021 |
|---|---|---|
| Own Funds | 236.7 | 307.8 |
| Required Capital | 107.7 | 134.1 |
| Solvency Ratio | 220% | 230% |

The Company's Own Funds all fall under Tier 1 capital, made up of high-quality and unrestricted Own Funds. The Company's available Own Funds decreased by €71.1m over the year. This was primarily driven by negative market related impacts, partially offset by the positive impact of new business and reduction in the Risk Margin.

Overall, the SCR decreased by €26.4m over 2022. Business and underwriting risks, in particular longevity and lapse, fell significantly due to the large increase in interest rates over the year.

# 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 CBI 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 CBI. The registered office of the CBI 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 ('VA'), unit-linked and protection. Currently the customer base of the Company is predominantly based in France and Italy.

The Company focused initially on the sale of a VA product with a guaranteed minimum withdrawal benefit which is enhanced by a guaranteed minimum death benefit for some product generations (Invest4Life). This product, also referred to as "classic VA" business, is sold via proprietary sales channels 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 VA 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 VA 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 leveraged its expertise in managing hedged products for a further business expansion and successfully launched a new VA product with guaranteed minimum accumulation and death benefits (Active4Life). This product is sold via its Italian and French branch offices, availing in both markets predominantly of proprietary sales channels of Allianz Group. Subsequently, the Company commenced to distribute business outside of these structures and established in 2020 its first sales partnership with an external bank in Italy. In 2021 and 2022 the Company continued to expand with increased distribution via third party distribution channels. For both its direct and reinsured VA business, the Company continues to seek opportunities to broaden its sales capacity further through both new third-party distributors and geographical expansion.

Group Life business, offering death and disability benefits for employees of corporate clients, was introduced to the Company's product range in 2010. This business is underwritten via brokers through the Company's head office and is currently offered in Lithuania. It was previously also offered in the Germany market, which is now closed to new business.

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 via the internet (GenialLife). At the start of 2020, an iteration of this product was launched in Lithuania through the Company's head office. Work continues to increase sales of this product category through improved customer service and experience, with the intention to leverage on its digital platform to continue to expand geographically. In parallel, the Company continues to develop its payment protection insurance business in Italy (Cessione del Quinto della Pensione, 'CQP').

In 2014, the Company entered into unit-linked business activity through its Italian branch office. It started with a product for private clients (Private Solution), and then subsequently also launched a product for retail clients (Target4Life), all of which offer death benefits and are sold by Allianz Group distributors. The Company launched a new unit-linked private pension plan product during the first half of 2020 (Piano Pensione Moneyfarm), which is sold via a specialised digital advisory firm. In 2022, a third-party unit-linked decumulation product (Periodical4Life) was also launched. A further retail product (BigCityLife) is closed to new business.

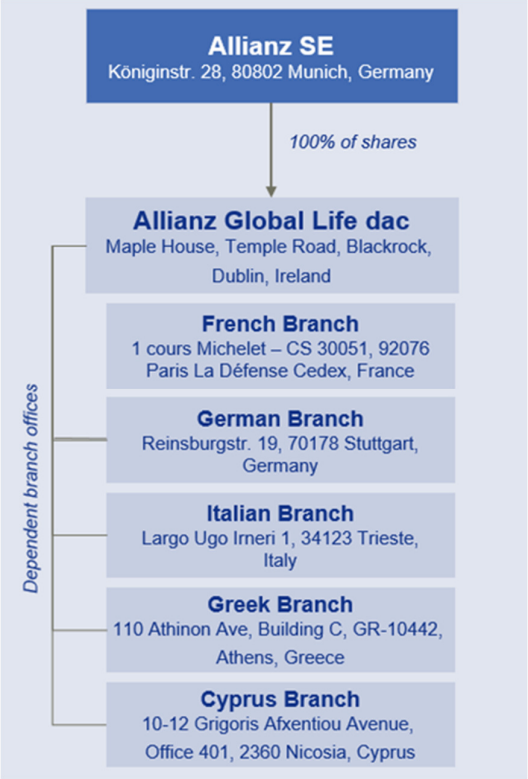
In late 2017, the Company obtained regulatory approval to launch its Greek branch, selling a product with a similar design to one of the Italian retail unit-linked products through this branch on a freedom of establishment basis, and sales commenced in 2020. In 2022 the Active4Life product was also launched in Greece.

Since 2016, the Company has the authority to operate in Cyprus on a branch basis, however, to date no business has been underwritten in this jurisdiction. The Company also operates in Iceland and Belgium on a freedom of service basis, although the latter is closed to new business.

In 2021 and 2022 the Company expanded with increased distribution via third party distributors for the retail unit-linked product in Italy. In this product segment, the Company continues to seek opportunities to grow its business into other EU markets and new distribution partnerships through both leveraging its existing product range and new product developments.

### A.1.2. Company structure

AGL is a wholly owned subsidiary of Allianz SE, a company incorporated in Germany and has five dependent branch offices, as outlined below. Allianz SE is also the ultimate holding company, with 100% voting rights.



A summary of the products by geographical location are outlined in the following table:

| Material Branch* | Lines of Business | Product Type |
|---|---|---|
| AGL French Branch | Variable annuity | Invest4Life |
| | | Active4Life |
| AGL Italian Branch | Variable annuity | Invest4Life |
| | | Active4Life |
| | Unit-linked | Private Solution |
| | | Piano Pensione Moneyfarm |
| | | Target4Life |
| | | BigCityLife (closed to new business) |
| | | Periodical4Life |
| | Protection | GenialLife |
| | | Cessione del Quinto della Pensione |
| AGL German Branch | Variable annuity | Invest4Life (closed to new business) |
| AGL Head Office | Reinsurance | Asian VA reinsurance (closed to new business) |
| | | Philippines Fixed Index Annuity (FIA) (closed to new business) |
| | Protection | Group Life Germany and Lithuania |
| | | GenialLife Lithuania |
| | Unit-linked | Target4Life Belgium (closed to new business) |
| | | Target4Life Iceland |

**Note that the Greek and Cypriot Branches are not currently considered material for the Company.*

### A.1.3. Significant business and other events

During 2022 the impact of COVID-19 eased, with Allianz Group declaring the end of the Covid-19 crisis status. Following changes driven or accelerated by the pandemic, AGL are currently implementing a "New Work Model" project, whilst also monitoring any longer term COVID-19 related impacts on the Company's risk exposures.

In February 2022, Russia invaded Ukraine. AGL does not have any direct exposure in these jurisdictions, although is impacted via the related market turbulence and ongoing sanctions screening.

The consequences of the above, amongst other factors, contributed to the significant market volatility, rising interest rates and inflation observed over 2022. This is leading to greater economic uncertainty and prompting concerns of an energy and cost-of-living crisis. In particular:

- Market volatility can impact the effectiveness of the hedging programme (resulting in hedge losses) and magnitude/frequency of related margin and collateral calls. More intensive monitoring of liquidity has been put in place, and an overdraft facility has been arranged with Allianz Group Treasury and Corporate Finance, which can be accessed if required.
- AGL continues to monitor its exposure to these economic factors, which could have various potential impacts on the Company, e.g., an increased cost base, reduction in customer sentiment, less demand from markets and therefore lower sales, revision of the best estimate assumptions etc.

There were no significant acquisitions or divestments over the reporting period, and as a result, there were no significant changes in the Company structure.

## A.2. Underwriting Performance

### A.2.1. Underwriting performance by material line of business

As highlighted by the table below, AGL's net of tax underwriting performance (i.e., IFRS net income) was €1.1m in 2022, representing an overall decrease of €21.2m compared to the 2021 result (€22.3m).

**Life underwriting performance by material line of business (€m)**

| | 2022 | 2021 |
|---|---|---|
| Variable annuity and unit-linked insurance | 7.3 | 38.1 |
| Other life insurance | (0.1) | (2.8) |
| Life reinsurance | (2.0) | (3.3) |
| **Total Operating Profit** | **5.2** | **32.0** |
| Shareholder bonds gains / (losses) | (1.7) | 0.1 |
| **Profit before Taxation** | **3.5** | **32.1** |
| Taxation | (2.4) | (9.8) |
| **Total Net Income** | **1.1** | **22.3** |

This decrease was largely driven by the VA and unit-linked insurance result of €7.3m in 2022, a decrease of €30.8m compared to 2021 (€38.1m). The main reason for the decrease compared to prior year is a hedge result variance of €31.4m. The hedge result in 2022 was a €21.8m loss, compared to hedge gains of €9.6m in 2021. Fee earnings were also negatively impacted by the poor market performance experienced during 2022.

The other life insurance result, comprised of the Company's protection business, reported a negative result of €0.1m in 2022, an improvement of €2.7m compared to negative €2.8m result in 2021. The main driver of the variance is the CQP product result of -€0.9m in 2022 compared to -€4.2m in 2021 (the 2021 CQP result was partly impacted by an update of the IFRS accounting treatment, resulting in a Deferred Profit Liability being established).

The life reinsurance result of -€2.0m (2021: -€3.3m) was driven by hedge losses related to the Asian VA reinsurance business.

In general, sales were ahead of the business plan during 2022 and were in excess of prior year volumes (excluding a large 'Big Ticket' policy during 2021). Both VA and unit-linked portfolios exceeded the internal sales targets. The VA sales were driven by the Active4Life product which can be explained by an increase in the relative attractiveness of products with capital guarantees in the highly volatile market environment experienced during 2022. Protection sales under-performed, as in contrast to AGL's approach, competitors continued with aggressively priced propositions, leading to reduced market share for AGL.

### A.2.2. Income and expenses by material geographical area

France recorded a profit of €3.4m for 2022, a reduction of €25.9m compared to 2021, which was primarily due to the negative hedge results over the year.

Italy recorded a profit of €3.7m for 2022, a reduction of €2.6m compared to 2021. This was largely as a result of profits from the sales of Active4Life, partially offset by hedge losses.

The Asian VA portfolio delivered a loss due to the hedge result.

**Underwriting performance by material geographical area (€m)**

| | 2022 | 2021 |
|---|---|---|
| France | 3.4 | 29.3 |
| Italy | 3.7 | 6.3 |
| Asia | (2.0) | (3.3) |
| Other | 0.1 | (0.3) |
| **Total Operating Profit** | **5.2** | **32.0** |
| Shareholder bonds gains / (losses) | (1.7) | 0.1 |
| **Profit before Taxation** | 3.5 | **32.1** |
| Taxation | (2.4) | (9.8) |
| **Total Net Income** | **1.1** | **22.3** |

Further information on the Company's premiums, claims and expenses by country is presented in the QRT S.05.02.02 (see Annex).

## 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.

**Financial assets by category at 31 December (€m)**

| | 2022 | 2021 |
|---|---|---|
| **Shareholder financial assets** | | |
| Fixed income securities | 143.9 | 200.9 |
| *Government bonds* | 41.6 | 49.0 |
| *Government agency bonds* | 20.7 | 34.0 |
| *Supranational bonds* | 1.0 | 9.1 |
| *Covered bonds* | 20.5 | 32.9 |
| *Corporate bonds* | 55.3 | 71.3 |
| *Collateralised securities* | 4.8 | 4.5 |
| Cash and cash equivalents | 104.3 | 53.6 |
| CashPool funds (within Loans & Mortgages) | 24.6 | 115.6 |
| Derivative assets | 20.5 | 7.8 |
| **Total Shareholder financial assets** | **293.2** | **377.9** |
| | | |
| **Policyholder financial assets** | | |
| Equities | 16.6 | 25.7 |
| Fixed income securities | 59.2 | 57.2 |
| Collective investment schemes | 5,340.0 | 6,039.4 |
| Cash and cash equivalents | 49.1 | 34.9 |
| **Total Policyholder financial assets** | **5,464.9** | **6,157.2** |

The total shareholder and policyholder financial assets have reduced given the fall in financial markets. Note that the increase in Shareholder cash and cash equivalents (and corresponding decrease in the CashPool funds) is mostly related to the increase in deposits for margin requirements on futures.

### 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.

### Performance by asset class in 2022 (€m)

| | Shareholder Investments* | Investments on behalf of policyholders | Total |
|---|---|---|---|
| Equities | - | 0.8 | **0.8** |
| Fixed income securities | 0.3 | 0.4 | **0.7** |
| Collective Investment undertakings | - | 1.5 | **1.5** |
| Futures | (0.3) | - | **(0.3)** |
| Swaps | 51.1 | - | **51.1** |
| Loans & Mortgages | 0.0 | - | **0.0** |
| **Total Investment income** | **51.2** | **2.8** | **54.0** |
| | | | |
| Equities | - | (1.9) | **(1.9)** |
| Fixed income securities | (1.7) | (0.7) | **(2.4)** |
| Collective Investment undertakings | - | (58.3) | **(58.3)** |
| Futures | 193.2 | - | **193.2** |
| Forwards | 1.0 | - | **1.0** |
| Swaps | (10.1) | - | **(10.1)** |
| Options | (0.1) | - | **(0.1)** |
| **Net realised gains/(losses) on financial assets** | **182.3** | **(60.9)** | **121.4** |
| | | | |
| Equities | - | (1.3) | **(1.3)** |
| Fixed income securities | (11.9) | (1.2) | **(13.2)** |
| Collective Investment undertakings | - | (1,013.8) | **(1,013.8)** |
| Forwards | (0.1) | - | **(0.1)** |
| Swaps | (291.5) | - | **(291.5)** |
| Options | 0.0 | - | **0.0** |
| **Unrealised gains/(losses) on financial assets** | **(303.5)** | **(1,016.3)** | **(1,319.8)** |
| | | | |
| **Investment Expenses** | **(0.2)** | **(2.3)** | **(2.5)** |

### Performance by asset class in 2021 (€m)

| | Shareholder Investments* | Investments on behalf of policyholders | Total |
|---|---|---|---|
| Equities | - | 1.2 | **1.2** |
| Fixed income securities | 0.1 | 0.4 | **0.5** |
| Collective Investment undertakings | - | 0.2 | **0.2** |
| Futures | (0.1) | - | **(0.1)** |
| Swaps | 16.5 | - | **16.5** |
| Loans & Mortgages | (0.5) | - | **(0.5)** |
| **Total Investment income** | **15.9** | **1.8** | **17.8** |
| | | | |
| Equities | - | 3.9 | **3.9** |
| Fixed income securities | 0.1 | (0.3) | **(0.2)** |
| Collective Investment undertakings | - | 25.7 | **25.7** |
| Futures | (119.2) | - | **(119.2)** |
| Forwards | (0.7) | - | **(0.7)** |
| Swaps | 1.8 | - | **1.8** |
| Options | (0.1) | - | **(0.1)** |
| **Net realised gains/(losses) on financial assets** | **(118.1)** | **29.3** | **(88.8)** |
| | | | |
| Equities | - | 3.1 | 3.1 |
| Fixed income securities | (1.3) | - | (1.3) |
| Collective Investment undertakings | - | 550.5 | 550.5 |
| Forwards | - | - | - |
| Swaps | (100.2) | - | (100.2) |
| Options | - | - | - |
| **Unrealised gains/(losses) on financial assets** | **(101.5)** | **553.6** | **452.4** |
| | | | |
| **Investment expenses** | (0.2) | **(4.1)** | **(4.3)** |

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

#### *Shareholder's Investments*

Investment performance from shareholder's assets relates predominantly to fixed income securities, cash and derivative instruments underlying the hedging programme.

The majority of the Company's investment income result relates to interest rate swaps and futures. Swaps decreased in value over 2022 driven by an increase in interest rates. The majority of the futures portfolio is linked to equity movements which recorded an overall positive performance in 2022. As a result, the Company's short position in futures instruments recorded realised gains.

Realised and unrealised losses were reported on fixed income securities as bond values fell during 2022.

Overall investment performance on shareholder assets increased over 2022 driven by the gains on the futures portfolio (compared to losses in prior year), as well as increased interest income on swaps. This was partially offset by increased unrealised losses on swaps due to the rise in interest rates.

*Investments on behalf of policyholders*

Over the course of 2022 equities fell considerably (MSCI World reduced c. 16% in 2022). Bonds fell to a similar extent (JPM EMU Investment Grade dropped 18% over 2022). Despite new business inflows, these market related factors led to a decrease in policyholder funds.

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

The table below sets out the composition of AGL's other comprehensive income in relation to shareholder bonds of €143.9m as at 31 December 2022 (2021: €200.9m), which are recognised directly in shareholder equity.

**Gains/Losses recognised in shareholder equity (€m)**

| | 2022 | 2021 |
|---|---|---|
| Movements in financial assets: | | |
| Fair value movement | (11.9) | (1.3) |
| Deferred tax effect of fair value movement | (0.1) | 0.2 |
| | | |
| **Net income recognised in equity** | **(12.0)** | **(1.1)** |

### 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 €4.8m.

## A.4. Performance of Other Activities

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

AGL does also not have any material operating or finance lease arrangement in place at this time.

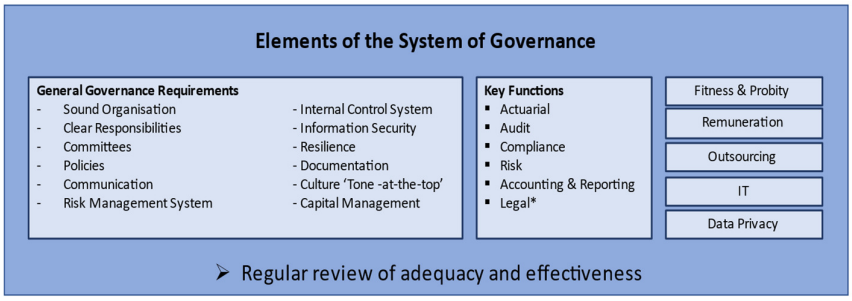
## A.5. Any Other Information

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

# B. System of Governance

## B.1. General Information on the System of Governance

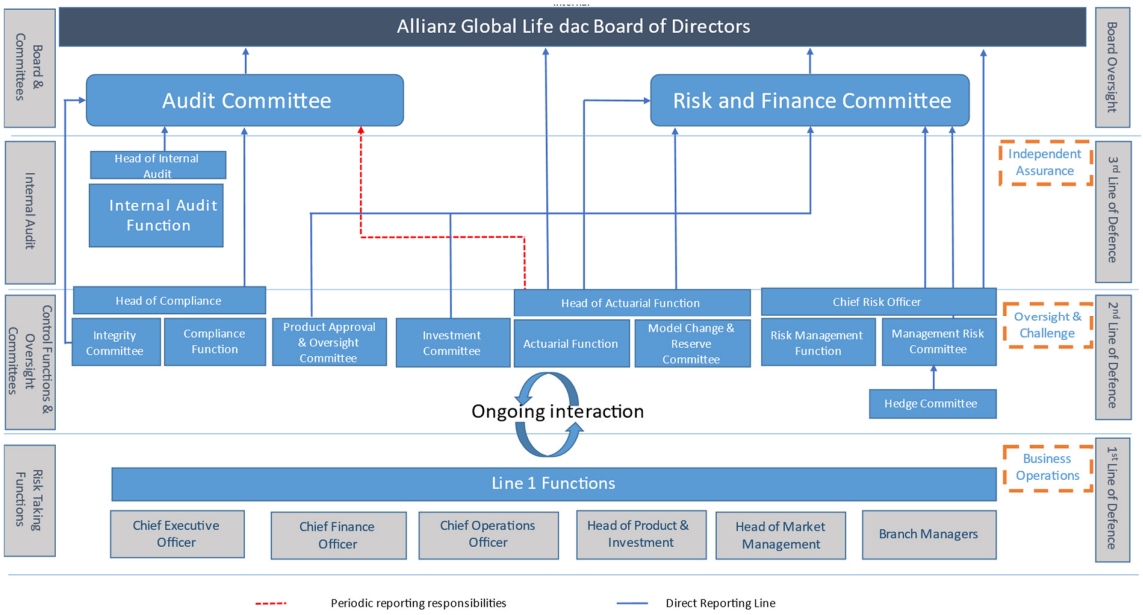
AGL's Board believe that an effective System of Governance is essential for prudent and sound management of the business. The key elements of the System of Governance are outlined below.




** AGL does not have a dedicated Legal Function and fulfils this requirement through the engagement of external legal advisers. Such legal support may include the engagement of Allianz Group or other Operating Entity Legal Functions and / or selected Irish and outside counsel based in local jurisdictions.*

### 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 CBI. The following diagram sets out a summary of the governance structures in place within AGL, which is explained further in the following sections.




The Board takes collective responsibility for establishing the Company's vision, values and standards, setting the appropriate strategy and structure, and exercising accountability to its shareholder and its regulator. The Board delegates certain responsibilities to its Committees and senior management, while retaining responsibility for overall control of the Company and strategic decisions. The Board may delegate its authority to senior management and Committees, with exception of the following items:

- Proposals of matters requiring the approval of the General Meeting of shareholders;
- Appointment and dismissal of directors, the Company Secretary, the Chief Executive Officer ('CEO') and senior management, and the appointment or removal from office of the head of a control function;
- Installation of a Board Committee and the appointment or 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 Association; and
- Other matters as stipulated in law.

The Board meets on a regular basis, at least once each quarter. As at 31 December 2022, the AGL Board is comprised of six members:

- Two Independent Non-Executive Directors ('INEDs')
- Two Group Non-Executive Directors ('NEDs'), and
- Two Executive Directors ('EDs')

The Chairperson of the Board is a Group NED. The Board and Board Committees regularly review the efficiency and effectiveness of their activities. The INEDs assess the performance of the Chairperson on an annual basis. The Chairperson 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 Committees; and
- Management/Functional Committees.

#### B.1.2.1. Board Committees

Board Committees include the Board Risk and Finance Committee ('BRFC') and Board Audit Committee ('BAC'). Terms of Reference (including composition, objectives and responsibilities) of these Committees are clearly defined and approved by the Board. 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.

**Summary of Board Committee responsibilities**

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

#### B.1.2.2. Management Committees

The Board Committees delegate several roles and responsibilities to various Management Committees and individuals within the Company. The various Management/Functional Committees are outlined below. The

composition, objectives and responsibilities of these Committees are clearly defined and documented. Terms of Reference are subject to approval by the Board or relevant Board Committee. In addition to such Committees, the Company has several working groups (e.g., Hedge Working Group) and steering boards (e.g., Information Security Steering Board) to help facilitate collaboration and information sharing on key topics across the business.

| Committee | Responsibilities |
|---|---|
| Hedge Committee | The Hedge Committee has oversight responsibility over the hedging programme which is a key risk mitigation activity. The Committee defines trading limits and the framework and infrastructure for hedging systems and determines related project priorities. |
| Model Change & Reserve Committee ('MCRC') | The 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.<br><br>The MCRC also fulfils the role of an Independent Validation Unit ('IVU') for the validation of the Internal Model (see Section B.3.3 for further details). |
| Product Approval & Oversight Committee ('PAOC') | It is the responsibility of the 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 goals. |
| Management Risk Committee ('RiCo') | The RiCo is 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 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. |
| Integrity Committee | The Integrity Committee coordinates activities concerning fraud prevention, detection and response, with a core focus on internal fraud and handling of whistle-blower complaints. |
| Investment Committee | The Investment Committee is responsible for providing oversight on the Company's investment activities. |

### B.1.3. Adequacy Assessment

AGL continuously aims to improve its compliance and governance systems by ensuring that they are regularly reviewed and evaluated, with recommendations made to the Board regarding their enhancement. This includes the outcomes from controls monitoring, root cause analysis of complaints, breaches and risk events. The AGL Governance and Control Policy requires an annual review of the System of Governance. The Head of Compliance coordinated this exercise for 2022, which included input from Human Resources, Internal Audit, Risk, Financial Reporting and Actuarial functions. This review covered both the design effectiveness and operating effectiveness of the internal control framework. The review did not identify any material deficiencies and all areas that require improvement have been addressed with a remediation action. Based on this input, the Board concluded that the System of Governance is adequate given the nature, scale and complexity of the risks inherent in the business.

### B.1.4. Remuneration policy and practices

#### B.1.4.1. Policy and principles

The Board 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 excessive risk-taking, whilst also ensuring that the Company is able to attract, develop and retain skilled individuals.

Employees' total annual remuneration comprises a fixed component and variable component. The fixed component represents a sufficiently high proportion of the total remuneration. Employees may also receive Benefits and Allowances subject to local rules and conditions.

The variable component, including bonus, of an employee's remuneration is based on a combination of the individual performance in relation to established goals and targets, and the overall results of the Company. The measurement of the employee's performance in relation to established goals and targets considers 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. 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 following table summarises additional factors that are considered when determining whether the following categories of employees are entitled to receive the bonus payment:

| Risk takers | Other Key Function Holders and Staff |
|---|---|
| A Risk Taker is defined as a person whose actions may have a significant impact on the Company's risk profile.<br><br>These are typically employees with a profit and loss responsibility and the respective authority to assume risks, including strategic risks, on behalf of the Company.<br><br>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 on the Company. | The remuneration of the Key Function Holders and Staff shall be set at an appropriate level to ensure appropriate staffing and independent control.<br><br>The variable Compensation of Company's Key Function Holders and Staff shall be independent from the performance of the operational units and areas that are submitted to their control. This shall, however, not prevent from setting targets based on Group performance indicators or Company performance indicators, as long as this is not contrary to the control function and is in compliance with local regulatory requirements. |

#### B.1.4.2. 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.1.4.3. Pension arrangements

AGL operates a defined contribution pension scheme for all eligible employees. There were no supplementary pension payments made during the reporting period. There were no early retirement schemes in operation in respect of any member of staff of AGL during the reporting period.

#### B.1.4.4. Material transactions

During 2022, there were no material transactions with the shareholder (Allianz SE), members of the Board or persons who exercise a significant influence on the Company.

## 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. This sets out principles, criteria and processes to ensure that all persons who effectively run or occupy key roles within the Company:

- continue to remain fit and proper to provide sound and prudent management, through their professional qualifications, knowledge and experience; and
- are of good repute and integrity.

The FPP contains a definition of fitness and probity and the corresponding requirements for the various relevant positions. It also 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 recruitment, regular and ad-hoc reviews and on the consequences of a negative assessment. The FPP is compliant with the Fitness and Probity Standards of the CBI and is reviewed annually.

#### B.2.2. Fit and proper requirements

The specific standard of fitness required for each position in scope 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 a 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 a clear and comprehensive understanding of the applicable regulatory and legal environment. 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 Pre-Approval Controlled Function ('PCF') or Controlled Function ('CF') role includes a review of previous experience, knowledge and professional qualifications, as well as 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, 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 Human Resources, senior management and oversight by the Compliance function.

Each proposed individual is required to certify that they are aware of the Fitness and Probity Standards (Code and Guidelines issued by the CBI 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 PCF positions approval from the CBI is required prior to appointing the individual to the position.

##### B.2.3.2. Regular reviews

The fitness and probity of each individual holding PCF or CF role(s) is regularly reviewed as part of the annual performance review process. The Company investigates any concerns noted and re-assesses the fitness and probity of the person concerned, where applicable.

As part of this annual ongoing performance monitoring, individuals holding PCF or CF positions are required to re-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 accept 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, processes, 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 and changes in regulations 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 various processes such as the Top Risk Assessment, ORSA and Integrated Risk and Control System).

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. The Risk Management Framework and related 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. This 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 and Recovery Plan reports and Top Risk Assessment outputs. Each of these documents are reviewed and discussed at the RiCo and/or BRFC, 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. 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 and Board committees are set out in Section B.1. The various roles and responsibilities as related to the risk management system are discussed below.

#### B.3.2.1. Board of Directors

The AGL Board 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, maintained and monitored. 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. Board Committees

*Board Risk & Finance Committee*

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

- Advising the Board on Risk Appetite and tolerance for future strategy. In doing this, the Committee considers the overall Risk Appetite of the Company, the current financial position of the Company and 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 AGL risk management standards and procedures and regulatory requirements; and
- Ensuring the review and implementation of risk management processes, including those related to the ORSA, the use of the Internal Model, and the Recovery Plan.

*Board Audit Committee*

The AGL BAC contributes to the effectiveness of the Company's Risk Management and Monitoring Framework. The Committee's risk-related responsibilities include the following:

- Reviewing and assessing the adequacy and effectiveness of the Company's systems for internal control, including financial reporting and financial controls;
- Oversight of the Compliance Function, which is managed on a day-to-day basis by the Head of Compliance and ensuring that it has an appropriate mandate; and

- Reviewing the Company's audit plans and ensuring that adequate arrangements have been made for the performance of both internal and external audits.

#### B.3.2.3. Risk Management function

The Chief Risk Officer ('CRO') leads the Risk Management function within the Company and is responsible for setting an auditable framework for all risk-related activities. This includes the development, maintenance and monitoring of risk policies, limits and guidelines, as well as the supporting measurement, methodology and tools. It is constructed to be consistent with the Group Risk Framework and compliant with any applicable regulatory requirements.

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

- Proposes the Risk Appetite to the Board;
- Oversees the execution of the risk management processes;
- Monitors and reports the Company's risk profile including the calculation and reporting of the risk capital;
- Supports the Company's Board and senior management through the analysis and communication of risk management related information and by facilitating the communication and implementation of its decisions;
- Escalates to the Board in cases of material and unexpected increases of risk exposure;
- Reports the ORSA as well as any further material risk management related information to relevant stakeholders including Group Risk;
- Maintains the Company's Board-approved Recovery Plan, and the ongoing monitoring of related recovery indicators;
- Develops and implements the Internal Model, in particular local components, in cooperation with Group Risk and the local Actuarial function, including ongoing validation of the model; and
- Develops and maintains 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 RiCo, a member of the PAOC, MCRC, Investment Committee, Integrity Committee and Hedge Committee and uses these bodies to exercise risk oversight.

### B.3.3. Internal Model governance

Insurance companies 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 SII 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, whereas 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 the 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 VA reserves, which reflects the guarantees promised to policyholders. The Company's Internal Model is part of the Allianz Group Internal Model and was approved by the CBI as part of the wider Allianz Group approval by their supervisor, BaFin.

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

The key purpose of the Internal Model governance structure and related processes 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. There has been no material change to AGL's Internal Model governance process during 2022.

*AGL Board of Directors*

The use of the Internal Model is subject to internal approval by the Board. The Board applied 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 ongoing appropriateness of the design and operation of the Internal Model.

### *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').

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 they 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.

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

- The Internal Model may need to be changed after the 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 and governance responsibilities assigned through these standards are outlined below.

| | ASMG | ASMC |
|---|---|---|
| Board | - Implementation of ASMG<br>- Approval of the application to use the Internal Model<br>- Confirmation of the ongoing appropriateness of the Internal Model (at least annually) by approving the Annual Validation Report | - Implementation of ASMC<br>- Approval of any major local model change as well as the respective application to the Allianz Group supervisor (BaFin) for external approval |
| Board Risk & Finance Committee | - Recommendation to Board for approval of initial application<br>- Recommendation to Board regarding confirmation of ongoing model appropriateness and remediation actions<br>- Ensure systems are put in place to allow proper operation of the Internal Model on a continuous basis | - Recommendation to Board for approval of major central and local model changes |
| CRO | - Ensuring compliance with ASMG including:<br>  ○ Ensuring model validation is performed and documented<br>  ○ Ensuring that the persons providing expert judgment have adequate skills and experience | - Ensuring compliance with ASMC including:<br>  ○ Proposing the classification of model changes |

| | ASMG | ASMC |
|---|---|---|
| | ○ Ensuring that all relevant documentation in the model inventory and the model documentation repository is kept complete and up to date | |
| Model Change & Reserve Committee | - Initial approval of the model (component)<br>- Deciding on a remediation plan if necessary | - Approval and classification of minor/immaterial model changes<br>- Recommendation to Board regarding approval of major model changes<br>- Fulfils the role of the Independent Validation Unit |
| Model Owner | - Ensuring the existence of adequate documentation<br>- Model development<br>- Overseeing the implementation of controls<br>- Assessing data quality and sign-off of expert judgment<br>- Assess the appropriateness of the results produced by the model | - Identification of the need for a model change<br>- Implementation or oversight of the implementation of model changes<br>- Evaluating the impact of model changes<br>- Ensuring independent validation |

The ASMC was amended in 2022, in particular to reflect new regulatory as well as model developments, introduce simplifications and eliminate minor inconsistencies. The rules governing how the accumulation of immaterial/minor model changes trigger a major model change were also updated. The new ASMC was effective from of 1st October 2022. There were no updates to the ASMG in 2022.

*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 ongoing 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 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 ongoing 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 annual ORSA report summarises the outcome of the various processes, and focuses on the following aspects:

- *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 the 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 solvency 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. Projections are consistent with AGL's regular planning horizon.
- *Reporting*: The Board assesses the results of the ORSA process, whether actions should be taken and adjudicates on the sufficiency of the Company's available capital. The results of the ORSA process are formally approved by the Board and published in the ORSA report provided to the CBI.

The Company's ORSA process is governed by the Board-approved Allianz Standard for Own Risk and Solvency Assessment, which details the various processes referenced above.

The ORSA is an important part of AGL's business strategy and takes into consideration the nature, scale and complexity of the risks inherent in the business. 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.3.4.2. Own solvency needs

The ORSA process includes SII balance sheet projections on a number of alternative scenarios to investigate AGL's ability to withstand a variety of possible conditions in the future. A key output of the ORSA process is the assessment of the sufficiency of available capital given the risks the Company faces, reflecting the interaction between the Company's capital management and risk management systems. 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 judge the Company's capital adequacy.

#### B.3.4.3. Board review and approval

The AGL Board 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 BRFC, before being reviewed and approved by the Board. Once approved by the Board, the ORSA report is distributed to 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

### B.4.1. Internal Controls

#### B.4.1.1. Objectives & Principles

AGL's internal control system comprises a coherent, comprehensive and continuous set of mechanisms designed to secure the following objectives:

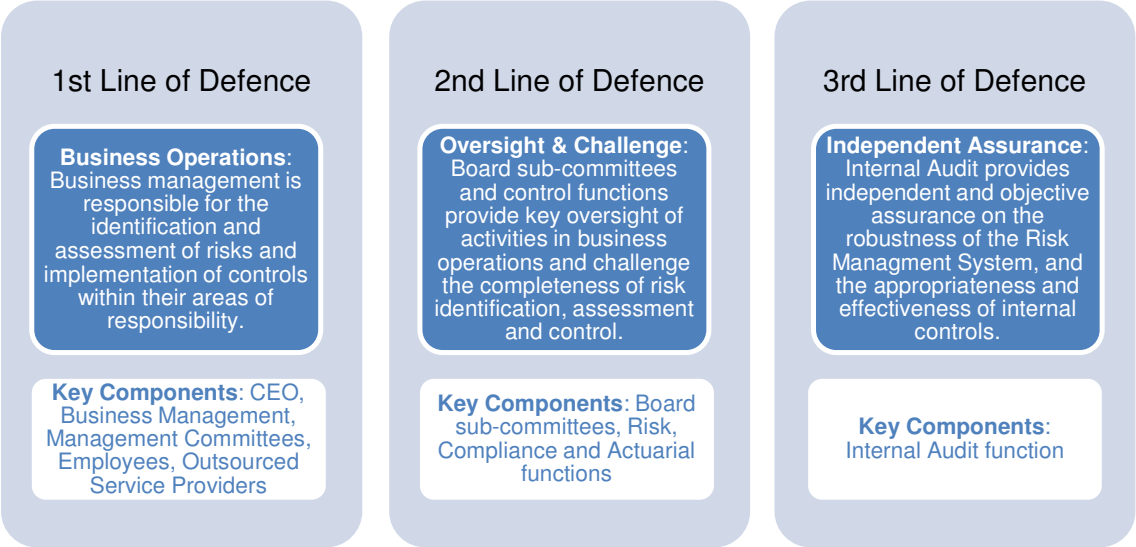
- Safeguarding the Company's existence and business continuity;
- Creating a strong control environment, ensuring that all employees are aware of the importance of internal controls and their role in the internal control system;
- Effectiveness and efficiency of the Company's operations in view of its risks and objectives;
- Availability and reliability of financial and non-financial information; and
- Compliance with applicable laws, regulations and administrative provisions.

In order to achieve these objectives, AGL has put a comprehensive suite of internal controls in place, based on the following principles:

- Clear assignment of responsibilities and allocation of accountabilities for key leadership positions;
- 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;
- Ensuring decision-making processes at all management levels incorporates relevant unbiased information that facilitates sound business judgement;
- Raising awareness to perform internal controls by defining and communicating clear roles and responsibilities and implementing respective trainings;
- Maintaining structured and documented processes for which key controls are implemented and are working effectively; and
- An annual plan for testing controls.

#### B.4.1.2. Three lines of defence

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 principles 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. AGL has established a Policy Framework according to the principle of proportionality reflecting Group and local requirements. AGL policy documents are reviewed regularly, at least annually, to ensure their continued appropriateness. Internal policies are AGL-specific rule and/or principle setting documents, issued by an authorised owner with the intention to establish binding rules or guidelines for relevant topics. Each owner ensures that:

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

#### 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 others such as information security, business continuity, outsourcing and legal risks. The primary objective of the IRCS is to ensure that effective controls or other risk mitigation activities are in place for all significant operational risks. The IRCS harmonises 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.

### B.4.2. Compliance Function

The Head of Compliance is the key function holder who leads the independent Compliance function, which 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 and contributes to the effective implementation of the internal control system and Risk Management Framework. 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.

As part of the internal control system, the Compliance function (which also includes the Privacy function) establishes and maintains an adequate and effective compliance management system. This compliance management system comprises of the following elements:

- Promotion of a culture of integrity and compliance;
- Provision of compliance training and communication;
- Provision of compliance advice;
- Creation and maintenance of compliance principles and procedures;
- Compliance investigations, incident handling and facilitating employee reporting, including anonymous reporting ("whistle blowing") of possible illegal or improper conduct;
- Interaction with regulatory authorities; and
- Monitoring, control assessment and reporting.

On a regular basis, the Compliance function identifies, assesses and documents 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 work closely to manage these risks.

## B.5. Internal Audit Function

### B.5.1. Implementation

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 a master audit universe covering the complete System of Governance, including risks arising from outsourced and co-sourced functions, which is defined and revised annually using a risk-based approach (driven by structured risk-ratings). This is 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; and
- Performs follow-up monitoring to ensure the deficiencies are resolved and implements escalation steps where deficiencies are not remediated in a timely or appropriate manner.

### B.5.2. Independence & Objectivity

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 Internal Audit reports directly to the Chair of the Audit Committee and has access to the Board, as required. The Head of Internal Audit confirms to the CEO and Audit Committee, at least annually, the independence of the Internal Audit activity. The Internal Audit function has a functional reporting line to the Group Audit function and is subject to oversight by same. Steps are in place to ensure that the Internal Audit function remains independent of all other functions at all times.

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 Company 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. Internal Audit may provide such advice, according to and consistent with the Institute of Internal Audit (IIA) Standards. 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 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 to be performed by the Actuarial function are defined by the 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II' and the 'Guidance for (Re) Insurance Undertakings on the Head of Actuarial Function Role', issued by the CBI in 2018 and 2016 respectively. During 2022, this included but is not limited to the following activities:

- 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 Technical Provisions;
- Providing an actuarial report on 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; and
- Contributing to the effective implementation of the risk management system.

The Head of Actuarial Function for the Company produces all 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 most recent peer review was carried out at year-end 2021.

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; and
- Contributing to the overall risk management processes.

The Head of Actuarial Function supports the Risk Management Framework by acting as Chair of the MCRC, and by being a member of the Risk Committee, Product Approval and Oversight Committee and Hedge Committee.

## B.7. Outsourcing

### B.7.1. Outsourcing Policy

AGL has a formal Outsourcing Policy in place, as approved by the Board, which in line with all 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; and
- The reporting requirements, including escalation protocols, both within AGL, Allianz Group and externally to the CBI.

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 are to be approved by the Board prior to being implemented.

and critical outsourcing relationships are to be approved by the Board prior to being implemented.

### B.7.2. Outsourcing arrangements

**Critical / Important Outsourcers [31 December 2022]**

| 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 in relation to the Company's unit-linked products in Greece. | Greece |
| **Allianz Investment Management SE** | Cash management and settlement services. | Germany |
| **Allianz Investment Management LLC** | Hedging and related reporting services. | USA |
| **Allianz Lebensversicherungs-AG** | Distribution, policy and branch administration for the German business. | Germany |
| **Allianz Ireland Plc** | Provision of the Internal Audit services. | Ireland |
| **Allianz S.p.A. and its tied agents** | Policy and branch administration for the Company's Italian branch and distribution of Company's VA and unit-linked products in Italy. | Italy |
| **Allianz Technology SE** | Infrastructure services for workplace, direct operations and business services. | Germany |

| Provider | Description of the outsourced function or service | Provider's Jurisdiction |
|---|---|---|
| **Allianz Vie S.A.** | Distribution of VA products and policy and branch administration for the Company's French branch | France |
| **AWP Health & Life Services Ltd** | Policy administration services in respect of the Company's group life business | Ireland |
| **Darta Saving Life Assurance dac** | Operations services for Freedom-of-Services business and IT infrastructure services. Policy and claims administration for Freedom-of-Services unit-linked product. | Ireland |
| **FNZ Ireland (formerly Irish Progressive Services International Limited)** | Policy, fund and claims administration. | Ireland |
| **Kane LPI Solutions (Malta) Limited and Kane IM (Malta) Limited** | Provision of policy and fund administration for unit-linked and pension products. | Malta |
| **Francis O'Hara** | Company Secretarial Services. | Ireland |

## B.8. Any Other Information

All material information regarding the System of Governance of the Company has been included above.

## C. Risk Profile

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 VA products sold directly into Europe. In providing the related financial 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 VA) 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 to 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. The Company does not have any additional off-balance sheet risk exposures, loan portfolios and does not transfer any risk to special purpose vehicles. It also has not entered into securities lending or borrowing transactions, repurchase or reverse repurchase agreements.

The Internal Model 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. Further information on the methodology and assumptions employed in the Internal Model can be found in Section E.4.

The table below shows a break-down of the SCR by individual risk categories and their sub-categories. The standalone risk SCRs are shown before allowing for the diversification benefit, with this reduction applying after the individual SCRs are aggregated.

**Internal Model SCR at 31 December 2022 by risk category (€m)**

| Risk Category | Sub-category | Standalone | Intra-category diversification | Total |
|---|---|---|---|---|
| **Underwriting risk** | Longevity | 44.7 | | |
| | Mortality & Morbidity | 9.2 | | |
| | **Total** | **53.9** | (11.5) | **42.5** |
| **Business risk** | Surrender | 63.6 | | |
| | Expense | 39.1 | | |
| | **Total** | **102.7** | (31.9) | **70.7** |
| **Market risk** | Guarantees and future profits | 107.1 | | |
| | Shareholder assets | 16.8 | | |
| | **Total** | **123.9** | (15.2) | **108.7** |
| **Credit risk** | Derivatives | 1.3 | | |
| | Cash & receivables | 0.9 | | |
| | Bonds, loans & reinsurers | 2.2 | | |
| | **Total** | **4.4** | (0.0) | **4.4** |
| **Operational risk** | Execution delivery & process mgmt. | 14.8 | | |
| | Clients products & business practices | 12.9 | | |
| | Fraud | 6.4 | | |
| | Business Disruption and System Failures | 1.4 | | |
| | **Total** | **35.5** | (11.1) | **24.3** |
| **Sum of risk categories** | | | | **250.7** |
| Diversification between risk categories | | | | (109.3) |
| Cross-effects capital buffer | | | | 0.3 |
| **Total diversified SCR before tax** | | | | **141.7** |
| Loss-absorbing capacity of deferred taxes | | | | (34.0) |
| **Total diversified SCR after tax** | | | | 107.7 |

The following sub-sections provides further details on the risk exposures, including how these give rise to the above capital requirements.

Note that unless indicated otherwise, the sensitivities included below reflect the Company's standalone Internal Model SCR, i.e., it indicates the loss that would occur as a result of an extreme shock, 1-in-200-year event.

## C.1. Underwriting Risk

### C.1.1. Longevity and Mortality

#### C.1.1.1. 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 exposure to mortality and morbidity risk primarily on 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 overall decrease in AGL's underwriting risk exposure during 2022. The value of the guaranteed lifetime incomes to the customer decreased due to the increase in interest rates, thereby decreasing the Company's longevity exposure. Mortality exposures increased over 2022 due to new business sales.

#### C.1.1.2. 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 2022.

The strategy for managing longevity exposures includes:

- Regular review of pricing assumptions;
- Diversification of the product range towards shorter term VA 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.

The strategy for managing mortality/morbidity exposures includes:

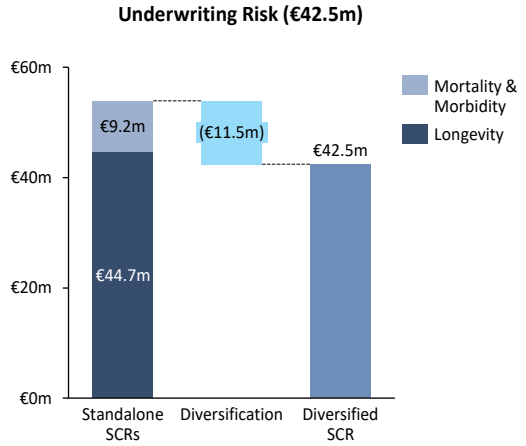
- Reinsurance arrangements to limit mortality and morbidity exposures to individual policyholders and to concentrations of policyholders where groups are insured; and
- Obtaining reinsurer advice on underwriting and pricing due to their larger pool of past experience.

During 2022, the Company further increased its sales of the shorter-term Active4Life business with no longevity risk, alongside sales of the existing unit-linked and protection products in a manner consistent with the desire to mitigate longevity risks.

AGL also closely monitor claims experience on an ongoing basis. Overall experience in 2022 was broadly in line with expectations, although there were higher than expected claims observed on the protection product (CQP).

#### C.1.1.3. Sensitivity

The results of the underwriting risk shocks are increased longevity (€44.7m) and mortality and morbidity (€9.2m). There is significant diversification as these risks are offsetting and not likely to occur at the same time.




### C.1.2. Business Risk

#### C.1.2.1. Exposure

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

The surrender risk from the VA 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 change 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 overall decrease in AGL's business risk exposure during 2022. Surrender risk decreased mainly due to rising interest rates which decrease the value of long-term guarantees, meaning that if less policyholders than expected surrender, then lower losses will be incurred. Expense risk was broadly unchanged.

#### C.1.2.2. 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.

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' for draw-down products with investment guarantees in that they vary to reflect the perceived value of the benefits to the policyholder, for example depending on market performance.

There have been a number of refinements to the expense assumptions in recent years as the Company has matured. The expense inflation assumption was also updated in 2022.

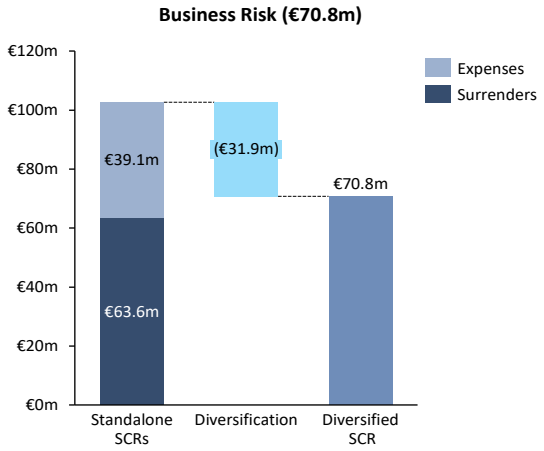
The risk of future material increases in internal expenses is not perceived to be significant given the Company's increasing assets under management. The Company currently operates within an efficient staffing structure, leases premises and operates within an IT infrastructure provided by Allianz Group. 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.

There has been no change in how the Company assesses business risk exposure during 2022.

#### C.1.2.3. Sensitivity

Surrender risk is a significant exposure at €63.6m, 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 €39.1m reflects the loss that would occur if the future expenses of the Company were higher than expected. There is significant diversification as these risks are not likely to occur at the same time; in particular a large one-off surrender event is seen as unlikely to happen at the same time as permanent changes to ongoing surrender and expense levels.



## C.2. Market Risk

### C.2.1. 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. An increase in interest rates or credit spreads would result in a decrease in the value of these bonds.

Overall, there has been a decrease in AGL's market risk exposure during 2022, mainly due to the change in moneyness as a result of negative fund returns. When the guarantees are deep "in-the-money" (from the policyholder's perspective) the risk of gamma losses is significantly reduced as changes in the guarantee liability value tend to be closely offset by payoffs from the hedge assets. This results in lower projected hedge losses.

### C.2.2. Assessment and mitigation

The key risk mitigations employed in relation to guarantee related market risk exposures are a daily dynamic hedging programme and a target volatility mechanism within the policyholder funds.

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, 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 in-force business, for example, due to new business sold.

AGL's Hedge Committee and RiCo both monitor the performance of the hedging programme on a quarterly basis. There is a separate Hedge Working Group, which meets more regularly and is used as a forum to discuss ongoing hedge performance, operational matters and potential developments to the hedging programme. 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 Chief Financial Officer and CRO as required. The Company aims to maintain cumulative hedged profit/loss over a calendar year within predefined limits as outlined in the Company's Risk Appetite Statement.

The target volatility mechanism mitigates market risk by reducing exposures to risky assets in times of high market volatility by moving investments into cash.

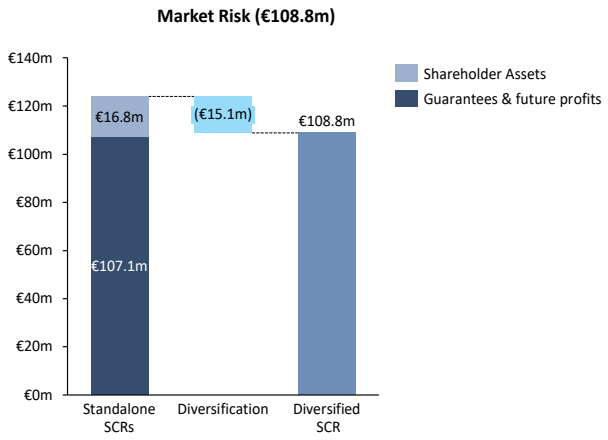
As well as managing the market risk exposures of business which has already been written, the Company also actively reprices its new product offerings in order to keep pace with the latest market environment, offer value to customers and protect the future financial position of the Company.

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 2022.

### C.2.3. Sensitivity

The results of the market risk shocks are increases of capital in relation to guarantees and future profits (€107.1m) and in relation to shareholder investments (€16.8m), in particular highlighting the dominance of the risk related to the former.




### C.2.4. 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; and
- 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. Compliance with investment mandates is regularly monitored.

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

- 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; and
- The Company must document the rationale for investing in derivatives and demonstrate the effective risk transfer obtained.

## C.3. Credit Risk

### C.3.1. 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; and
- Italian Withholding Tax, as outlined in Section D.1.

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

AGL's credit risk decreased over 2022 in line with the decrease to the underlying exposures, in particular due to those within the hedging programme.

### C.3.2. Assessment and mitigation

There has been no material change in how AGL assesses credit risk exposure during 2022.

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, geography, asset classes and credit quality) in order to mitigate concentration risks.

Bond issuer risk is reduced by investing in bonds of investment-grade rating or that are backed by an EU government. Where corporate bonds are held, these are limited to a specified exposure e.g., limits of proportions held.

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.

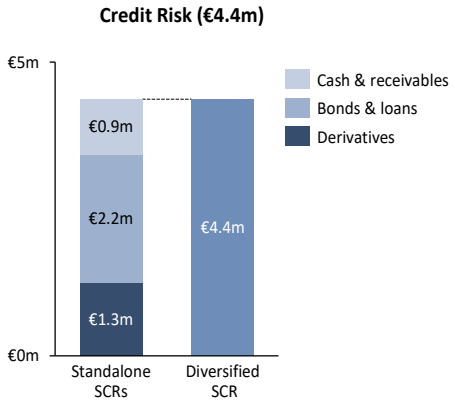
With regards to policyholder financial assets, the Company has an exposure to credit risks related to the underlying investments through the guarantees written. This is managed through the hedging programme as described in Section C.2. The exposure to reduced profits on future fee income from credit risks is less material to the Company.

AGL may only enter into reinsurance contracts with counterparties vetted by Allianz Group. The primary vetting criteria are security and strategic partnership.

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

### C.3.3. Sensitivity

The results of the credit risk shocks are increases of capital[3] due to the credit quality of the counterparties on derivative positions (€1.3m), bonds (€2.2m) and cash and receivables (€0.9m).




[3] Due to the methodology used in the credit risk model, the individual categories are shown after diversification.

## C.4. Liquidity Risk

### C.4.1. 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 government, covered, corporate and asset-backed bonds. The majority of assets held are Euro-denominated. 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 concentration of liquidity risk exposure is to daily collateral and margin flows caused by changes in the value of the instruments used in the hedging programme. 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. AGL's main liquidity exposure is to rising markets, where collateral payments would be required due to increases in interest rates or equity markets.

Due to collateral and margin outflows mainly caused by increasing interest rates, the Company's liquid assets have decreased over the year, falling from €325m at year-end 2021 to €198m at year-end 2022.

*EPIFP*

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 2022 is €3.7m. It is calculated using the same methodology and assumptions as the BEL.

### C.4.2. 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, CashPool funds and bonds available for sale. Maintaining adequate liquidity at all times is a key element of AGL's Risk Appetite Framework. Regular liquidity reports are presented to the RiCo and BRFC.

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, on a quarterly basis, the Company's liquidity position is subjected to stress tests and scenario analysis.

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. 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 2022.

### C.4.3. 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 €198m available to cover liquidity requirements at 31 December 2022. Collateral flows due to market movements can materially change this amount. Allowing for expected cash inflows over 2023, the impact on the liquidity position of a set of market stresses over 2023 is estimated as follows:

- A 100bps upward movement in interest rates would result in a decrease in liquid assets of €37m, i.e., a decrease in liquid assets from €198m to €161m.

- A 30% upward movement in equity prices would result in a decrease in liquid assets of €76m, i.e., a decrease in liquid assets from €198m to €122m.

Whilst the effective impact on the liquidity position is driven by a combination of market factors, the above scenarios demonstrate the sensitivity of the Company's liquidity position to individual stresses.

## 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 (e.g., due to the use of third-party administrators), product design failures etc.

Operational risk capital increased marginally over 2022 in line with hedging exposures, with minor offsetting updates for the capital held for several of the underlying sub-risks.

### 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 0, the Company has an internal control system in place 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. 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.

As noted within Section B.7, the Outsourcing Policy governs the management of outsourced activities. In order to manage operational risk at outsourcers, outsourcing arrangements are governed by Service Level Agreements which are regularly monitored. Each outsourcing arrangement is assigned to a business owner who is responsible for monitoring of the outsourced activity and relevant key performance indicators are monitored.

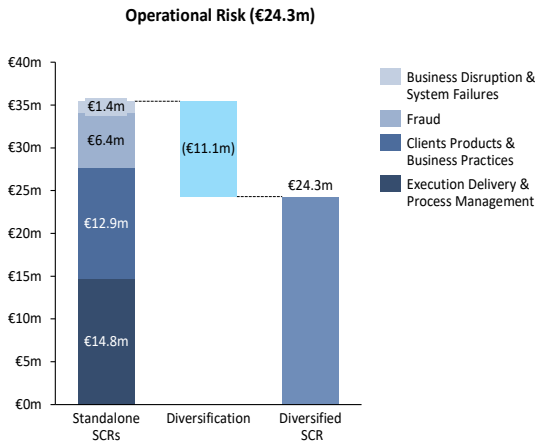
There has been no material change in how AGL assesses operational risk exposure during 2022.

### C.5.3. Sensitivity

The Internal Model uses the Allianz Group developed operational risk model with local calibration to capture the operational risk. This is based on the set of operational risk categories, as defined in the Basel II regulations. Operational risk capital is determined with reference to actual local 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 2022 is €24.3m. The graphic below illustrates the main operational risk categories, in particular highlighting the key exposure of 'Execution Delivery and Process Management' (€14.8m) under which operational risks in relation to the hedging programme are captured.




## C.6. Other material risks

### C.6.1. Non-Modelled Risks

AGL are exposed to certain risks that are not captured by the Internal Model capital calculation, i.e., liquidity risk, strategic risk and reputational risk. Capital is not considered an appropriate mitigation method for these risks. Instead, the Company's regular operations and formal governance structures monitor and manage these risks.

Additionally, special consideration is given to emerging risks, in particular 'ESG' risks.

### C.6.2. Emerging risk

Emerging risk refers to expected or possible changes to the current risk profile due to future events whose impacts are either unknown or subject to great uncertainty. Emerging risks may occur in any of the risk categories discussed above.

Key emerging risks, which the Company is actively monitoring, include but are not limited to:

- Changing business and work landscape;
- EIOPA 2020 Solvency II Review;
- Embedding accounting changes (IFRS17);
- Longer term impacts of COVID19;
- Potential impacts of the Russian invasion of Ukraine;
- Regulatory/legislative changes;
- Rising inflation; and
- Environmental, Social and Governance ('ESG') factors (see subsequent section).

AGL continuously monitors the emerging risk landscape as part of its standard risk identification processes e.g., Top Risk Assessment. Where emerging risks are identified these are assessed and appropriate mitigation actions implemented.

### C.6.3. ESG risk

ESG risks are defined as Environmental, Social or Governance events or conditions which, if they occur, may potentially have significant negative impacts on the assets, profitability or reputation of AGL. ESG risks include climate change and sustainability risks. ESG-related risks are considered transversal risks and do not represent stand-alone risk categories, but rather can result in impacts that may be realised in one or more of the other risk categories.

ESG risk management, including climate change, is a rapidly evolving topic in terms of societal and regulatory expectations. In particular, AGL are exposed to transition risk and the second order effects that may lead to market instability or the reduction in the prices of certain assets.

## C.7. Any other information

### C.7.1. Cross-effects capital buffer

In calculating the SCR, additional capital is held to reflect the additional impact of multiple risks occurring simultaneously, as opposed to individually, if 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”.

## 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 SII and the asset classes reported in the financial statements

**Comparison of balance sheets as at 31 December 2022 (€m)**

| | Solvency II | IFRS** | Deviation |
|---|---|---|---|
| Total assets | 5,967.2 | 6,028.5 | **(61.3)** |
| Total liabilities, including technical provisions | 5,730.4 | 5,886.8 | (**156.3**) |
| **Excess assets over liabilities / Net asset value*** | **236.7** | **141.7** | **95.0** |

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

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

### D.1. Assets

The table below shows assets held on the SII balance sheet and the comparative IFRS values as at year-end 2022.

**Difference between Solvency II and IFRS assets as at 31 December 2022 (€m)**

| | Solvency II | IFRS | Difference |
|---|---|---|---|
| Deferred acquisition costs | - | 60.5 | (60.5) |
| Deferred tax assets | - | - | - |
| Investments (other than assets held for unit-linked funds) | 183.1 | 183.1 | - |
| Assets held for unit-linked funds | 5,464.9 | 5,464.9 | - |
| Loans and mortgages | 146.8 | 146.8 | - |
| Reinsurance recoverables | 13.3 | 14.1 | (0.8) |
| Insurance and intermediaries' receivables | 20.8 | 20.8 | - |
| Cash and cash equivalents | 41.4 | 41.4 | - |
| Reinsurance receivables | 0.0 | 0.0 | - |
| Receivables (trade, not insurance) | 93.5 | 93.5 | - |
| Any other assets, not elsewhere shown | 3.2 | 3.2 | - |
| **Total Assets** | **5,967.2** | **6,028.5** | **(61.3)** |

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

- Assets shall be valued at their market value; and
- 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 SII purposes, and how these compare with the corresponding IFRS approach. During the reporting period, AGL did not make any material changes to the recognition and valuation bases used for assets, or to estimation techniques employed under SII.

*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 SII, acquisition costs are not recognised as an asset on the balance sheet, rather they are incurred upfront.

*Deferred tax assets*

Deferred taxes are calculated based on the difference between the values ascribed to assets and liabilities under SII and the values ascribed to the same assets and liabilities for tax purposes on a local tax basis.

Under SII the deferred tax asset is offset against deferred tax liabilities arising from SII/taxation differences resulting in a net deferred tax liability position.

*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 SII 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 2022 are fixed income securities (bonds) and derivative assets.

AGL's 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 are measured at market value under both IFRS and SII. The Company currently employs equity, bond and foreign exchange futures, interest rate swaps, and foreign exchange spots and forwards to manage the identified market risk factors.

*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 SII, the valuation is the same as IFRS.

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.

*Loans and mortgages*

Loans and receivables include collateral deposits with derivative counterparties and cash deposits held in the CashPool facility. 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 SII.

*Reinsurance recoverables*

Reinsurance recoverables valued at €13.3m exist in relation to mortality and morbidity benefits on some products. Different valuation methodology between IFRS and SII is the key driver of a minor difference of €0.8m.

*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. There are no valuation differences between IFRS and SII.

*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 SII.

*Receivables (trade, not insurance)*

The most material component included in the Receivables (trade, not insurance) is the Italian tax asset of €50.7m. 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 and SII within Receivables (trade, not insurance). Any discounting in respect of this asset is adjusted within the BEL in the Technical Provisions.

*Any other assets, not elsewhere shown*

There are no other material asset classes and AGL does not have any material off-balance sheet assets.

## D.2. Technical Provisions

The value of the SII Technical Provisions is the sum of the Best Estimate Liability ('BEL') plus a Risk Margin.

**Solvency II Technical Provisions at 31 December 2022 (€m)**

| Technical Provisions | |
|---|---|
| Best Estimate Liability | 5,466.4 |
| Risk Margin | 52.9 |
| **Total** | **5,519.3** |

The Technical Provision calculations were performed in accordance with Article 75 to 86 of the SII 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 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.2.1. Valuation differences between IFRS and Solvency II

**Reconciliation of Technical Provisions from IFRS to Solvency II at 31 December 2022 (€m)**

| Reconciliation | Protection | Unit-linked | Variable annuity | Reinsurance Accepted | Total |
|---|---|---|---|---|---|
| **IFRS Technical Provisions** | 57.1[4] | 641.2 | 4,941.6 | 18.7 | 5,658.6 |
| Use Solvency II curve | -3.5 | 0.0 | 15.2 | 2.0 | 13.7 |
| Surplus cash flows on unit-linked funds | 0.0 | (9.7) | (196.5) | 0.0 | (206.2) |
| Apply Risk Margin | 1.1 | 1.6 | 48.2 | 2.0 | 52.9 |
| Include unallocated premiums | - | 0.2 | 2.2 | - | 2.4 |
| Protection methodology differences | (2.1) | - | - | - | (2.1) |
| Other | 0.1 | (0.0) | - | (0.0) | 0.1 |
| **Solvency II Technical Provisions** | **52.8** | **633.2** | **4,810.7** | **22.6** | **5,519.3** |
| **Difference** | **(4.4)** | **(8.0)** | **(130.9)** | **3.9** | **(139.3)** |

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

- IFRS uses an unadjusted interest rate market curve in the valuation, whereas under SII a number of prescribed adjustments are applied to the interest rate curve. In particular, the interest rate curve used for SII purposes includes a credit adjustment of 10bps and so is lower than the market curve used for IFRS reporting, therefore resulting in a higher cost of claims. This adjustment increases the Technical Provisions in respect of unit-linked business with long-term investment guarantees. The protection business uses a locked in curve for IFRS reporting purposes and an updated market consistent curve for SII purposes. Given the rise in interest rates over the year, the SII curve is now higher than the locked in curve used for IFRS. This results in a lower cost of claims for SII purposes and hence a lower reserve.
- SII 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 SII 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 SII Technical Provisions due to contract initial recognition rules being different between SII and IFRS.
- The methodology used to calculate the IFRS Technical Provisions for protection business includes additional pads in respect of the mortality assumptions and the level of premiums, whereas the SII Technical Provisions are based on best estimate assumptions. There are also differences in the base mortality assumptions used for the CQP product for IFRS and SII reporting purposes.

### D.2.2. Technical Provisions per Line of Business

**Technical Provisions per line of business at 31 December 2022 (€m)**

| | Best Estimate Liability | Risk Margin | Total |
|---|---|---|---|
| Protection | 51.6 | 1.1 | **52.8** |
| Unit-linked | 631.7 | 1.6 | **633.2** |
| Variable annuity | 4,762.5 | 48.2 | **4,810.7** |
| Reinsurance accepted | 20.7 | 2.0 | **22.6** |
| **Total** | **5,466.4** | **52.9** | **5,519.3** |

[4] Note that this reserve excludes an additional €990k of claims that had not yet been settled at year end and were therefore not included in the Actuarial data. This amount was included in the IFRS technical provisions as reported in the Financial Statements.

### D.2.3. 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 2022. The surrender assumptions were updated accordingly leading to a small increase in Technical Provisions at year-end 2022.

*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. 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.

A review of mortality experience was conducted during 2022. The mortality assumptions were updated accordingly leading to a small decrease in Technical Provisions at year-end 2022.

*Expenses*

The expense assumptions are based on AGL's 2022 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 2022 corporate plan leading to an increase in Technical Provisions at year-end 2022.

*Economic Assumptions*

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

*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.

*Other*

AGL do not currently apply any of the following measures:

- The matching adjustment as referred to in Article 77b of the SII Directive;
- The volatility adjustment as referred to in Article 77d of the SII Directive;
- The transitional measure on the risk-free interest rates as referred to in Article 208c of the SII Directive; and
- The transitional deduction as referred to in Article 208d of the SII Directive.

## D.3. Other Liabilities

The following table sets out the values of each material class of other liabilities under SII and IFRS.

**Difference between Solvency II and IFRS other liabilities as at 31 December 2022 (€m)**

| | Solvency II | IFRS | Difference |
|---|---|---|---|
| Other technical provisions | - | 52.3 | (52.3) |
| Unallocated premiums | - | 2.2 | (2.2) |
| Provisions, other than technical provisions | 20.3 | 20.3 | - |
| Deferred tax liability | 40.8 | 2.2 | 38.6 |
| Derivative liabilities | 88.6 | 88.6 | - |
| Debts owed to credit institutions | 15.4 | 15.4 | - |
| Financial liabilities other than debts owed to credit institutions | 0.3 | 0.3 | - |
| Insurance and intermediaries payables | 23.6 | 23.6 | - |
| Reinsurance payables | 0.1 | 0.3 | (0.2) |
| Payables (trade, not insurance) | 2.9 | 2.9 | - |
| Any other liabilities, not elsewhere shown | 19.0 | 19.0 | - |
| **Total** | **211.1** | **227.2** | **(16.1)** |

For each category of other liabilities shown above, the following sections describe the specific valuation principles and methods used by AGL for SII purposes and how these compare with the corresponding IFRS approach. The expected timing of any outflows of economic benefits is expected within the financial year unless otherwise disclosed below. During the reporting period, AGL did not make any material changes to the recognition and valuation bases used for other liabilities, or to estimation techniques employed under SII.

### *Other Technical Provisions*

Other Technical Provisions are predominantly deferred income arising from up-front premium charges, loadings on the commencement of a policy and the Deferred Profit Liability for Italian protection business. 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 SII there is no equivalent concept of deferring income over the life of the contract. Therefore, in contrast to IFRS, SII does not contain such a provision.

### *Unallocated premiums*

Unallocated premiums are included in alternative liability balances under IFRS and in Technical Provisions under SII, as stated in Section D.2.1.

### *Provisions, other than technical provisions*

Provisions, other than technical provisions comprise mainly of accruals relating to general operating expenses. The recognition and valuation basis for this category is consistent between SII and IFRS.

### *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 SII, and the values ascribed to the same assets and liabilities for tax purposes on a local tax basis. As a result of the differences between the SII and IFRS balance sheets, there is a net deferred tax liability under SII. The timing of any outflows relating to these valuation differences is expected to be more than twelve months after the financial position date.

*Derivative liabilities*

Derivative liabilities valuation approach has been addressed as part of Section D.1. Please refer to this section for further details.

*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 SII purposes.

*Financial liabilities other than debts owed to credit institutions*

Liabilities other than debts owed to credit institutions includes overdrafts on cash deposits held in the Allianz SE CashPool facility. For IFRS purposes, these liabilities are carried at amortised cost under IFRS. There is no difference in valuation for SII purposes.

*Insurance and intermediaries payables*

Insurance and intermediaries payables are predominantly policyholder and agents related payables. The recognition and valuation basis for this category is consistent between SII and IFRS.

*Reinsurance payables*

Reinsurance payables are payables in respect of reinsurance contracts. The recognition and valuation basis for this category is consistent between SII and IFRS.

*Payables (trade, not insurance)*

Payables (trade, not insurance) comprise mainly of tax payables. The recognition and valuation basis for this category is consistent between SII and IFRS.

*Any other liabilities, not elsewhere shown*

Any other liabilities, not elsewhere shown comprise mainly of policyholder fund related payables and derivative related payables. Such expenses are recognised on an accruals basis. The recognition and valuation basis for this category is consistent between SII and IFRS.

AGL does not have any material off-balance sheet other liabilities.

## D.4. Alternative Methods for Valuation

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

## D.5. Any Other Information

*Going concern*

The financial statements and the SFCR/RSR have been prepared on a going concern basis. In assessing the going concern basis of the Company, the Board of Directors have considered the significant demographic, economic, regulatory and political risks and uncertainties that currently impact the Company. In making this assessment the Directors have considered the following:

- the Company's capital position and the surplus over its required SCR and Minimum Capital Ratio ('MCR');
- the Company's balance sheet strength;
- the Company's past financial performance including profit generation;
- the current and projected financial performance based on the annual corporate plan;
- the credit rating of the Company's reinsurance counterparties;
- the quality of the Systems of Governance and Risk Management Framework;
- the Company's operational resilience; and
- the overall economic environment, including market volatility, inflationary pressures, and the effects of the ongoing war in Ukraine.

All material information regarding the valuation of assets and liabilities for solvency purposes has been included above.

# 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 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 barriers exist in order to initiate actions before regulatory capital requirements are endangered. If the alert barrier is breached, contingency plans are drawn up and considered by the Board. If the action barrier is breached, the actions from the contingency plans shall be implemented to improve the capital position.

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 Policy or accompanying processes during 2022.

### E.1.2. Analysis of Own Funds

The Company's available Own Funds as at 31 December 2022 amount to €236.7m, reflecting a decrease of €71.1m over the year. This was primarily driven by negative market related impacts, partially offset by the positive impact of new business and reduction in the Risk Margin.

The Company has no ancillary Own Funds and no Own Funds subject to the transitional arrangements[5]. SII requires insurers to categorise Own Funds into the three tiers. As per the previous reporting period, all of the Company's Own Funds fall under Tier 1 capital, reflecting high-quality and unrestricted Own Funds. The Own Funds consist of ordinary share capital as per the Company's statutory accounts, the reconciliation reserve and capital contributions. The reconciliation reserve is equivalent to the portion of the excess of assets over liabilities which does not relate to other Own Fund items.

SII 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 AGL, as all Own Funds are Tier 1, they are fully eligible to meet both the Solvency and Minimum Capital Requirements.

**Own Funds at 31 December (€m)**

| | 2022<br>Tier 1 (unrestricted) | 2021<br>Tier 1 (unrestricted) | Movement |
|---|---|---|---|
| Ordinary share capital (gross of own shares) | 45.1 | 45.1 | - |
| Other Own Fund items approved by the supervisory authority as basic Own Funds not specified above | 83.1 | 83.1 | - |
| Reconciliation reserve | 108.5 | 179.6 | (71.1) |
| **Available and eligible Own Funds** | **236.7** | **307.8** | **(71.1)** |

[5] as referred to in Articles 308b(9) and 308b(10) of SII Directive 2009/138/EC

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 category which has changed in value, decreasing by €71.1m from the end of 2021 to the end of 2022.

**Reconciliation Reserve breakdown at 31 December (€m)**

| Components | 2022 | 2021 | Comments |
|---|---|---|---|
| Excess of assets over liabilities | 236.7 | 307.8 | 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 | - | - | |
| Other basic Own Fund items | (128.2) | (128.2) | Represented by ordinary share capital and other Own Fund items approved by the supervisory authority |
| Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring-fenced funds | - | - | |
| **Total reconciliation reserve** | **108.5** | **179.6** | |

### E.1.3. Reconciliation between IFRS and Solvency II

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

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

| Reconciliation | 2022 | 2021 |
|---|---|---|
| **IFRS shareholder's equity** | **141.7** | **152.6** |
| Technical Provisions (net of reinsurance) | 133.6 | 215.1 |
| Deferred Tax | (38.6) | (59.8) |
| **SII Excess assets over liabilities** | **236.7** | **307.8** |

## E.2. Solvency Capital Requirement and Minimum Capital Requirement

### E.2.1. Solvency Ratio

Both the Own Funds and SCR decreased over the reporting period, with the combined effect resulting in an overall reduction in the solvency ratio from 230% to 220%.

**Solvency Ratio (€m)**

| | 2022 | 2021 |
|---|---|---|
| Own Funds | 236.7 | 307.8 |
| Required Capital | 107.7 | 134.1 |
| Solvency Ratio | 220% | 230% |

### E.2.2. SCR

**SCR by risk category and MCR at 31 December (€m)**

| Risk category | 2022 | 2021 |
|---|---|---|
| Underwriting Risk | 42.5 | 80.2 |
| Business Risk | 70.7 | 83.2 |
| Market Risk | 108.7 | 125.7 |
| Credit Risk | 4.4 | 10.5 |
| Operational Risk | 24.3 | 23.9 |
| **Sum over risk categories** | **250.7** | **323.7** |
| Diversification | (109.3) | (145.6) |
| Cross-effects capital buffer | 0.3 | 2.1 |
| **Total diversified SCR before tax** | **141.7** | **180.2** |
| Loss absorbing capacity of deferred tax | (34.0) | (46.0) |
| **SCR after tax** | **107.7** | **134.1** |

Overall, the SCR decreased by €26.4m over 2022. Business and underwriting risks, in particular longevity and lapse, fell significantly due to the large increase in interest rates over the year.

Market risk decreased over 2022 largely driven by the change in moneyness of Invest4Life, as a result of negative fund returns. Market risk capital for the other products was broadly stable.

Operational risk increased slightly after the recalibration in 2022, while credit risk fell significantly due to a change in the mix of hedge assets held at Q4 2022.

The reduction in exposure to business and underwriting risks over 2022 also resulted in less exposure to cross-effects with interest rates, leading to a reduction in cross-effects capital buffer.

The loss absorbing capacity of deferred taxes decreased significantly due to a decrease in the deferred tax liability as a consequence of the reduction in Own Funds, which reduced the implied tax relief.

Given the Company's use of an Internal Model to calculate the SCR, undertaking-specific parameters are not relevant. There are no regulatory capital add-ons applied.

### E.2.3. MCR

The calculation of the MCR is formula based as dictated by EIOPA SII 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 €4.0m is prescribed by EIOPA (was €3.7m during 2021).

**MCR at 31 December (€m)**

| Component | 2022 | 2021 |
|---|---|---|
| Index-linked and unit-linked insurance obligations | 5,414.9 | 6,065.2 |
| Other life (re)insurance and health (re)insurance obligations | 38.2 | 30.1 |
| Total capital at risk for all life (re)insurance obligations | 2,508.0 | 2,031.1 |
| | | |
| **Linear MCR** | **40.5** | **44.5** |
| SCR | 107.7 | 134.1 |
| MCR cap (45% of SCR) | 48.4 | 60.3 |
| MCR floor (25% of SCR) | 26.9 | 33.5 |
| **Combined MCR** | **40.5** | **44.5** |
| Absolute floor of the MCR | 4.0 | 3.7 |
| | | |
| **Minimum Capital Requirement** | **40.5** | **44.5** |

## 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. Differences between the standard formula and any internal model used

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 and the BRFC.

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 and methodology

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.

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.

### Main differences between the Internal Model and the Standard Formula

| 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.<br>Worst shock determines the capital requirement for each risk factor.<br>No shock to certain bonds, e.g., EU government bonds.<br>No explicit risk module for volatility risks.<br>Instantaneous shock does not reflect the daily reaction to the market movements of the hedging programme.<br>Aggregation based on pre-defined correlation assumptions. | Underlying distribution for each modelled risk factor is calibrated to market data.<br>Complex changes such as twists in the interest rate curve are considered.<br>All bonds are subject to changes in value.<br>Interest rate volatility risk and equity volatility risk are explicitly considered.<br>AGL-developed market risk model allows for dynamic hedging programme.<br>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.<br>Internal Allianz rating system is used.<br>Collateralisation of credit exposures more accurately allowed for.<br>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, expenses incurred and Technical Provisions. | Scenario-based risk modelling approach<br>Risk identification within AGL.<br>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 Formula SCR that would result in a reduction in deferred tax liabilities. AGL limit this loss absorbing capacity to the minimum of the currently recognised deferred tax liability and the implied tax relief. | 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 the minimum of the currently recognised deferred tax liability and the implied tax relief. |

As noted previously, the final SCR is less than the sum of the individual risk capital requirements due to the diversification benefit. Under Standard Formula, the correlation matrix used to calculate the diversification benefit is prescribed by EIOPA. Whereas as part of the Internal Model, AGL use the Allianz Group derived correlations, that are then locally assessed to ensure suitability. These correlations are derived from past market observed relationships and expert judgement for non-market risks.

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

### E.4.2. 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 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 validated internally and by external auditors. Overall, the Company believes that the independent validation processes are effective and that the model adequately assesses the risks to which the Company is exposed.

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

AGL complied with the MCR and the SCR throughout 2022.

## E.6. Any Other Information

All material information regarding the capital management of the Company has been included above.

## Annex: Quantitative Reporting Templates

*All figures presented in €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 | 183,068 |
| Property (other than for own use) | R0080 | |
| Holdings in related undertakings, including participations | R0090 | |
| Equities | R0100 | |
| Equities - listed | R0110 | |
| Equities - unlisted | R0120 | |
| Bonds | R0130 | 144,562 |
| Government Bonds | R0140 | 63,307 |
| Corporate Bonds | R0150 | 76,432 |
| Structured notes | R0160 | |
| Collateralised securities | R0170 | 4,824 |
| Collective Investments Undertakings | R0180 | |
| Derivatives | R0190 | 38,506 |
| Deposits other than cash equivalents | R0200 | |
| Other investments | R0210 | |
| Assets held for index-linked and unit-linked contracts | R0220 | 5,464,946 |
| Loans and mortgages | R0230 | 146,841 |
| Loans on policies | R0240 | |
| Loans and mortgages to individuals | R0250 | |
| Other loans and mortgages | R0260 | 146,841 |
| Reinsurance recoverables from: | R0270 | 13,292 |
| 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 | 13,491 |
| Health similar to life | R0320 | |
| Life excluding health and index-linked and unit-linked | R0330 | 13,491 |
| Life index-linked and unit-linked | R0340 | -199 |
| Deposits to cedants | R0350 | |
| Insurance and intermediaries receivables | R0360 | 20,839 |
| Reinsurance receivables | R0370 | 0 |
| Receivables (trade, not insurance) | R0380 | 93,540 |
| 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 | 41,429 |
| Any other assets, not elsewhere shown | R0420 | 3,218 |
| **Total assets** | R0500 | 5,967,172 |

| Liabilities | | Solvency II value<br>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 | 52,766 |
| 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 | 52,766 |
| TP calculated as a whole | R0660 | |
| Best Estimate | R0670 | 51,622 |
| Risk margin | R0680 | 1,144 |
| Technical provisions – index-linked and unit-linked | R0690 | 5,466,557 |
| TP calculated as a whole | R0700 | |
| Best Estimate | R0710 | 5,414,809 |
| Risk margin | R0720 | 51,748 |
| Contingent liabilities | R0740 | |
| Provisions other than technical provisions | R0750 | 20,271 |
| Pension benefit obligations | R0760 | |
| Deposits from reinsurers | R0770 | |
| Deferred tax liabilities | R0780 | 40,814 |
| Derivatives | R0790 | 88,647 |
| Debts owed to credit institutions | R0800 | 15,400 |
| Financial liabilities other than debts owed to credit institutions | R0810 | 321 |
| Insurance & intermediaries payables | R0820 | 23,647 |
| Reinsurance payables | R0830 | 98 |
| Payables (trade, not insurance) | R0840 | 2,923 |
| 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 | 18,997 |
| **Total liabilities** | R0900 | 5,730,441 |
| **Excess of assets over liabilities** | R1000 | 236,731 |

### S.05.01.02: Premiums/Claims/Expenses by Line of Business

Columns containing no data for AGL have been excluded.

| | | 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** | 780,197 | 28,011 | 3,488 | 811,696 |
| Reinsurers' share | **R1420** | 148 | 3,459 | | 3,607 |
| Net | **R1500** | 780,049 | 24,552 | 3,488 | 808,089 |
| **Premiums earned** | | | | | |
| Gross | **R1510** | 780,197 | 28,026 | 7,213 | 815,436 |
| Reinsurers' share | **R1520** | 148 | 3,464 | | 3,612 |
| Net | **R1600** | 780,049 | 24,562 | 7,213 | 811,824 |
| **Claims incurred** | | | | | |
| Gross | **R1610** | 454,727 | 12,874 | 666 | 468,267 |
| Reinsurers' share | **R1620** | 82 | 4,151 | | 4,233 |
| Net | **R1700** | 454,645 | 8,723 | 666 | 464,034 |
| **Changes in other technical provisions** | | | | | |
| Gross | **R1710** | 200,689 | 9,239 | 7,112 | 217,040 |
| Reinsurers' share | **R1720** | 432 | 1,053 | | 1,485 |
| Net | **R1800** | 200,257 | 8,186 | 7,112 | 215,554 |
| **Expenses incurred** | **R1900** | 63,461 | 3,421 | 472 | 67,353 |
| **Administrative expenses** | | | | | |
| Gross | **R1910** | 9,243 | 143 | | 9,387 |
| Reinsurers' share | **R1920** | | | | |
| Net | **R2000** | 9,243 | 143 | | 9,387 |
| **Investment management expenses** | | | | | |
| Gross | **R2010** | 1,997 | 11 | 505 | 2,513 |
| Reinsurers' share | **R2020** | | | | |
| Net | **R2100** | 1,997 | 11 | 505 | 2,513 |
| **Claims management expenses** | | | | | |
| Gross | **R2110** | | | | |
| Reinsurers' share | **R2120** | | | | |
| Net | **R2200** | | | | |
| **Acquisition expenses** | | | | | |
| Gross | **R2210** | 30,597 | 2,227 | | 32,824 |
| Reinsurers' share | **R2220** | | | | |
| Net | **R2300** | 30,597 | 2,227 | | 32,824 |
| **Overhead expenses** | | | | | |
| Gross | **R2310** | 21,623 | 1,039 | -33 | 22,630 |
| Reinsurers' share | **R2320** | | | | |
| Net | **R2400** | 21,623 | 1,039 | -33 | 22,630 |
| **Other expenses** | **R2500** | | | | |
| **Total expenses** | **R2600** | | | | 67,353 |
| **Total amount of surrenders** | **R2700** | 208,242 | | | 208,242 |

## S.05.02.02: Premiums/Claims/Expenses by Country

| | | Home Country | Total Top 5 and home country | Top 5 countries (by amount of gross premiums written) - life obligations | | | | |
|---|---|---|---|---|---|---|---|---|
| | R1400 | | | (IT) Italy | (FR) France | (JP) Japan | (GR) Greece | (DE) Germany |
| | | C0220 | C0280 | C0230 | C0230 | C0230 | C0230 | C0230 |
| **Premiums written** | | | | | | | | |
| Gross | R1410 | | 811,232 | 663,592 | 143,256 | 3,326 | 584 | 475 |
| Reinsurers' share | R1420 | | 3,607 | 3,320 | | | | 287 |
| Net | R1500 | | 807,625 | 660,272 | 143,256 | 3,326 | 584 | 188 |
| **Premiums earned** | | | | | | | | |
| Gross | R1510 | | 814,969 | 663,592 | 143,256 | 7,048 | 584 | 490 |
| Reinsurers' share | R1520 | | 3,612 | 3,320 | | | | 292 |
| Net | R1600 | | 811,357 | 660,272 | 143,256 | 7,048 | 584 | 198 |
| **Claims incurred** | | | | | | | | |
| Gross | R1610 | | 468,267 | 269,352 | 195,074 | 666 | 38 | 3,137 |
| Reinsurers' share | R1620 | | 4,233 | 3,021 | | | | 1,212 |
| Net | R1700 | | 464,034 | 266,330 | 195,074 | 666 | 38 | 1,925 |
| **Changes in other technical provisions** | | | | | | | | |
| Gross | R1710 | | 216,953 | 423,143 | -210,460 | 7,250 | 478 | -3,458 |
| Reinsurers' share | R1720 | | 1,485 | 1,730 | | | | -245 |
| Net | R1800 | | 215,468 | 421,413 | -210,460 | 7,250 | 478 | -3,212 |
| **Expenses incurred** | R1900 | | 67,341 | 44,708 | 21,955 | 468 | 66 | 144 |
| **Other expenses** | R2500 | | | | | | | |
| **Total expenses** | R2600 | | 67,341 | | | | | |

### S.12.01.02: Life Technical Provisions

Columns containing no data for AGL have been excluded.

| | | 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** | | 631,657 | 4,762,491 | | 51,622 | 20,661 | 20,661 | 5,466,431 |
| Total recoverables from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default | **R0040** | | -199 | | | 13,497 | | | 13,298 |
| Recoverables from reinsurance (except SPV and Finite Re) before adjustment for expected losses | **R0050** | | -199 | | | 13,497 | | | 13,298 |
| 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** | | -199 | | | 13,491 | | | 13,292 |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re | **R0090** | | 631,856 | 4,762,491 | | 38,131 | 20,661 | | 5,453,139 |
| **Risk margin** | **R0100** | 49,792 | | | 1,144 | | 1,956 | 1,956 | 52,892 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | |
| Technical provisions calculated as a whole | **R0110** | | | | | | | | |
| Best Estimate | **R0120** | | 0 | 0 | | 0 | | | 0 |
| Risk margin | **R0130** | 0 | | | 0 | | | | 0 |
| **Technical provisions - total** | **R0200** | 5,443,940 | | | 52,766 | | 22,617 | | 5,519,323 |

## S.23.01.01: Own Funds

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** |
| Ordinary share capital (gross of own shares) | **R0010** | 45,100 | 45,100 | | 0 | |
| Share premium account related to ordinary share capital | **R0030** | 0 | 0 | | 0 | |
| 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** | 108,501 | 108,501 | | | |
| Subordinated liabilities | **R0140** | | | | | |
| An amount equal to the value of net deferred tax assets | **R0160** | 0 | | | | 0 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | **R0180** | 83,130 | 83,130 | 0 | 0 | 0 |
| **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** | 236,731 | 236,731 | 0 | 0 | 0 |
| **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** | 236,731 | 236,731 | 0 | 0 | 0 |
| Total available own funds to meet the MCR | **R0510** | 236,731 | 236,731 | 0 | 0 | |
| Total eligible own funds to meet the SCR | **R0540** | 236,731 | 236,731 | 0 | 0 | 0 |
| Total eligible own funds to meet the MCR | **R0550** | 236,731 | 236,731 | 0 | 0 | |
| **SCR** | **R0580** | 107,654 | | | | |
| **MCR** | **R0600** | 40,463 | | | | |
| **Ratio of Eligible own funds to SCR** | **R0620** | 220% | | | | |
| **Ratio of Eligible own funds to MCR** | **R0640** | 585% | | | | |

| Reconciliation reserve | | C0060 |
|---|---|---|
| Excess of assets over liabilities | R0700 | 236,731 |
| 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 | 108,501 |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | 3,699 |
| Expected profits included in future premiums (EPIFP) - Non-life business | R0780 | |
| **Total Expected profits included in future premiums (EPIFP)** | R0790 | 3,699 |

### S.25.03.21: SCR – Internal Model

| Unique number of component | Components description | Calculation of the Solvency Capital Requirement |
|---|---|---|
| C0010 | C0020 | C0030 |
| 10 | IM - Market risk | 108,747 |
| 11 | IM - Underwriting risk | 42,456 |
| 12 | IM - Business risk | 70,750 |
| 13 | IM - Credit risk | 4,419 |
| 14 | IM - Operational risk | 24,315 |
| 15 | IM - LAC DT (negative amount) | -34,007 |
| 16 | IM - Capital Buffer | 321 |
| 17 | IM - Adjustment due to RFF/MAP nSCR aggregation | 0 |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Total undiversified components | **R0110** | 217,003 |
| Diversification | **R0060** | -109,349 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional) | **R0160** | 0 |
| **Solvency capital requirement excluding capital add-on** | **R0200** | 107,654 |
| Capital add-ons already set | **R0210** | 0 |
| **Solvency capital requirement** | **R0220** | 107,654 |
| **Other information on SCR** | | |
| Amount/estimate of the overall loss-absorbing capacity of technical provisions | **R0300** | 0 |
| Amount/estimate of the overall loss-absorbing capacity of deferred taxes | **R0310** | -34,007 |
| 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** | 0 |

## S.28.01.01: MCR – non-composite

**Linear formula component for life insurance and reinsurance obligations**

| | | C0040 |
|---|---|---|
| MCRL Result | R0200 | 40,463 |

| | | 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 | 5,414,891 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | 38,248 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 2,507,975 |

| **Overall MCR calculation** | | C0070 |
|---|---|---|
| Linear MCR | R0300 | 40,463 |
| SCR | R0310 | 107,654 |
| MCR cap | R0320 | 48,444 |
| MCR floor | R0330 | 26,913 |
| Combined MCR | R0340 | 40,463 |
| Absolute floor of the MCR | R0350 | 4,000 |
| **Minimum Capital Requirement** | R0400 | 40,463 |