Allianz Global Corporate & Specialty

2017

Allianz Global Corporate & Specialty SE
Solvency and Financial Condition Report

Allianz

Contents

7 Executive Summary
9 A. Business and Performance
9 A.1 Business
10 A.2 Underwriting Performance
18 A.3 Investment Performance
19 A.4 Development of other activities
19 A.5 Any Other Information
20 B. System of Governance
20 B.1 General Information on the System of Governance
29 B.2 Fit and Proper Requirement
31 B.3 Risk Management System including the Own Risk and Solvency Assessment
39 B.4 Internal Control System
43 B.5 Internal Audit Function
45 B.6 Actuarial Function
46 B.7 Outsourcing
47 B.8 Any Other Information
48 C. Risk Profile
48 C.1 Underwriting Risk
50 C.2 Market Risk
54 C.3 Credit Risk
57 C.4 Liquidity Risk
58 C.5 Operational Risk
60 C.6 Other Material Risks
60 C.7 Any Other Information
61 D. Valuation for Solvency Purposes
62 D.1 Assets
68 D.2 Technical Provisions
76 D.3 Other Liabilities
80 D.4 Alternative Valuation Methods
82 D.5 Any Other Information

83 E. Capital Management

83 E.1 Own Funds

85 E.2 Solvency Capital Requirements and Minimum Capital Requirements

85 E.3 Use of Duration-Based Equity Risk Sub-Module in the Calculation of Solvency Capital Requirement

86 E.4 Differences between the Standard Formula and Any Internal Model Used

90 E.5 Non-Compliance with the Minimum Capital Requirement and Non-Compliance with the Solvency Capital Requirement

90 E.6 Any Other Information

92 List of abbreviations

94 Appendices

The "Solvency and Financial Condition Report" hereby submitted is a report stipulated under supervisory law pursuant to §§ 40 et seq. of the German Insurance Supervision Act (VAG) in conjunction with articles 290 et seq. of the Delegated Regulation (EU) 2015/35 of the Commission dated October 10, 2014. The company's Board of Management does not pursue any other goals beyond that of complying with the requirements under supervisory law.

Cautionary note regarding forward-looking statements

In so far as forecasts or expectations are expressed in this document or where our statements concern the future, these forecasts, expectations or statements may involve known or unknown risks and uncertainties. Actual results and developments may therefore differ considerably from the expectations and assumptions made. In addition to other reasons not listed here, differences may occur as a result of changes in the general economic environment or the competitive situation, especially in Allianz core business areas and markets, or of acquisitions and the subsequent integration of companies or of restructuring measures. Differences may also occur as a result of the extent or frequency of insured events (e.g. as a result of natural catastrophes), the development of damage costs, lapse rates, mortality and illness rates or tendencies and the default rate of borrowers and other debtors, particularly in the capital investment sector. The development of financial markets (e.g. market fluctuations or loan defaults) and the exchange rate, as well as the exchange rate and changes in national and international legislation, in particular with regard to tax regulations, can also have a corresponding impact. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The company is under no obligation to update forward-looking statements.

Figures shown

The figures shown in the report have been rounded in line with commercial principles. The rounding may, in individual cases, lead to values in this report not adding up to the exact sum shown, and to percentages not being a precise result based on the values shown.

Executive Summary

Basis of the report

The first uniform Europe-wide system of financial supervision for primary insurance companies and reinsurance companies entered into force on January 1, 2016 under the name "Solvency II".

Under the European legislative framework, the European Parliament and the Council of the European Union on November 9, 2009, approved the proposal by the EU Commission and issued a framework directive (Directive 2009 / 138 / EC of the European Parliament and of the Council). This directive governs the taking-up and pursuit of the business of insurance and reinsurance in Europe. On January 1, 2016, a fully revised Insurance Supervision Act (VAG) entered into force, which transposes this European directive into German law. In addition, there is a European regulation (Commission Delegated Regulation (EU) 2015/35), which was passed by the EU Commission as a delegated act on October 10, 2014 and is directly applicable in the member states. It contains detailed rules on implementing the framework directive.

A prominent feature of the new supervisory system is the systematically risk-based focus of the companies' reporting. This new focus has also resulted in a reform – and significant expansion – of reporting. In addition to obligations to report quarterly figures to the supervisory authority, including numerous electronic reporting templates, there is an annual report to the public in narrative format, extensive reports to the national supervisory authority and, not least, ad-hoc reporting whose purpose is to notify the regulator in a timely manner of significant events and decisions by management.

While the annual financial statements and the associated reporting requirements according to Germany's Code of Commerce (Handelsgesetzbuch - HGB) remain largely unaffected, the reporting requirements stipulated in the new version of the VAG require another report that is presented here. It is called the "Solvency and Financial Condition Report" (SFCR) and is intended to provide an informative picture of the company's solvency and financial condition.

In line with the principles of the new supervisory system, this report is written from a risk-oriented viewpoint and shows how the company addresses risks. Using a standardized procedure, the company evaluates and describes its main business processes. In addition, assets and liabilities valued in economic terms (at market value) are juxtaposed in the so-called Solvency Overview. The excess of assets over liabilities is shown here as the equity base.

The Allianz Group and with it Allianz Global Corporate & Specialty SE (AGCS SE) made extensive preparations for the new supervisory rules which entered into force on January 1, 2016 and are fully in compliance with the stricter requirements. The Allianz Group has an approved partial internal model for determining the Solvency Capital Requirements according to section 111 VAG, which it refines on an ongoing basis. The internal model of AGCS SE is part of the internal model of the Allianz Group.

Contents

The Solvency and Financial Condition Report supplements the quantitative reporting requirements that are appended to this report. The report's structure follows the general recommendations of the German Supervisory Authority (BaFin) and consists of five chapters, all of which are for the reporting period from January 1 to December 31, 2017 December 2017. The closing date for this report is December 31, 2017.

Chapter A of the report, „Business Activities and Performance", contains detailed data on the position of AGCS SE within the Allianz Group's legal structure and a description of the company's main business segments. It also provides qualitative and quantitative information about underwriting performance during the reporting period, both at the aggregate level and broken down into the main business segments. Finally, the first section provides information on investment results, both overall and broken down into asset classes, as well as on their composition. In 2017, AGCS SE reported a net underwriting profit of €38 273 thou and investment income of €198 571 thou.

Chapter B provides a description of corporate governance system of AGCS SE. This includes information on the organizational structure and workflows, in particular on the design and integration of so-called key functions into the new supervisory system. Additional elements of reporting include requirements for the professional qualifications and personal propriety of management („Fit and Proper Requirements"), as well as information on the risk management system and the internal control system. Considering the nature, scope and complexity of the risks inherent in the business activities of AGCS SE, the Board of Management of AGCS SE has judged the company's governance system to be adequate.

Chapter C deals with the company's risk profile. Information is provided regarding business risks, which are broken down into the following risk categories: underwriting risk, market risk, credit risk, liquidity risk, operational risk and other major risks. Along with a description of these risks, the chapter contains an assessment of their materiality and a discussion of risk concentrations and risk-mitigation techniques. The risk profile of AGCS SE is essentially dominated by underwriting risks and market risks.

Chapter D of the report focuses on the valuation principles used to prepare the Solvency Overview in accordance with supervisory law, including an analysis of the differences in value from financial reporting in accordance with commercial law. For the valuation of assets, technical provisions and other obligations, the rules for the economic assessment under Solvency II were implemented. At December 31, 2017, the assets according to supervisory law amounted to a total of €16 081 782 thou and the technical provisions to €9 265 582 thou.

Chapter E (Capital Management) presents a reconciliation of shareholders' equity under commercial law with regulatory capital („own funds") and the amount of own funds eligible to meet the regulatory Solvency Capital Requirement.

AGCS SE uses an internal model for determining the Solvency Capital Requirement instead of the standard formula. This model shows that at the end of the reporting year, AGCS SE had sufficient own funds (€2 851 895 thou) to meet the capital requirements of €1 635 935 thou. The corresponding solvency ratio was 174 percent.

With its solid equity base and its comprehensive, transparent risk management processes, AGSC SE is well equipped to meet the requirements of the still young supervisory system

The present Solvency and Financial Condition Report shows the company's sound economic situation.

A. Business and Performance

A.1 Business

Allianz Global Corporate & Specialty SE (AGCS SE) is a European public company (Societas Europaea) and a wholly owned direct subsidiary of Allianz SE, Munich, headquartered in Munich. It was created in 2006 as the Allianz global risk carrier for industrial and specialty business lines. AGCS SE offers global corporate customers a broad range of insurance products and services, particularly in the insurance lines General Liability, Professional Liability, Property and Technical insurance as a well as the specialty lines Transport, Marine and Aviation, Energy and Entertainment. In the market, AGCS SE differentiates itself through excellent claims handling, cross-border solutions as part of international insurance programs, captive and fronting services, risk consulting and structured risk transfer solutions. To be close to its customers, AGCS SE maintains teams in 32 countries worldwide. With a network of Allianz subsidiaries in more than 70 countries and partner companies in additional regions, we can serve customers in 210 countries. In addition to the already existing branch offices in London, UK, Paris, France, Vienna, Austria, Copenhagen, Denmark, Milan, Italy, Antwerp, Belgium, Madrid, Spain, Rotterdam, Netherlands, Stockholm, Sweden, Singapore and Hong Kong, and China, AGCS SE opened a branch office in Seoul, South Korea, in the reporting year.

With respect to the business segments of AGCS SE, the German supervisory agency BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht) in the reporting year 2017 granted the company the authorization to provide credit insurance. The premium income of AGCS SE came essentially from the insurance lines Fire and Other Property Insurance, General Liability Insurance as well as Marine, Aviation and Transport insurance. With respect to the countries of origin, AGCS SE generated the greatest part of its gross premiums in Germany, the US, UK and France.

As auditors for fiscal year 2017, KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstraße 29, D-80339 Munich were appointed. Allianz Group and thus AGCS SE are subject to the supervision of:

Bundesanstalt für Finanzdienstleistungsaufsicht,
Graurheindorfer Straße 108
53117 Bonn

Postfach 1253
53002 Bonn
Fon: 0228 / 4108 – 0
Fax: 0228 / 4105 – 1550

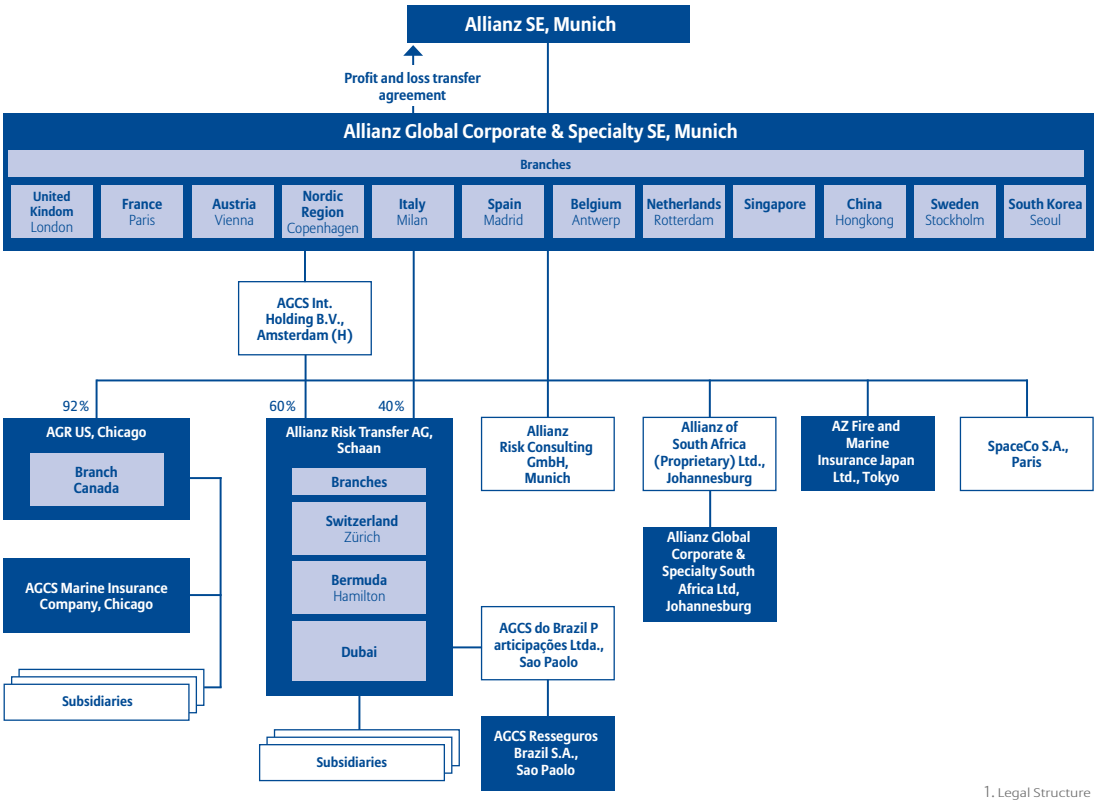
Email: poststelle@bafin.de
De-mail: poststelle@bafin.de-mail.de

Allianz Global Corporate & Specialty SE is a member of the Allianz Group headed by Allianz SE, Munich. The Solvency II Report of Allianz SE is published on company's website. It can be consulted there or is available upon request from the company. Allianz Global Corporate & Specialty SE is included in the group-level Solvency Overview of Allianz SE.

Major affiliated enterprises

	Country	Participation in % (corresponds to voting rights quota)
AGCS International Holding B.V., Amsterdam	Netherlands	100
AGCS Marine Insurance Company, Chicago	USA	92
AGR US, Chicago	USA	92
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	Japan	100
Allianz Global Corporate & Specialty do Brasil Participações Ltda., Sao Paulo	Brazil	100
Allianz Global Corporate & Specialty of Africa (Proprietary) Ltd., Johannesburg	South Africa	100
Allianz Global Corporate & Specialty Resseguros Brasil S.A., Sao Paulo	Brazil	100
Allianz Global Corporate & Specialty South Africa Ltd., Johannesburg	South Africa	100
Allianz Risk Consulting GmbH, Munich	Germany	100
Allianz Risk Transfer AG, Schaan	Liechtenstein	100
SpaceCo S.A., Paris	France	100

Rechtliche Struktur[1]



1. Legal Structure

A.2 Underwriting Performance

Overall underwriting performance

In a persistently difficult market environment, 2017 was marked by the strong impact of a number of natural catastrophes in North America on our underwriting result.

Despite slightly lower gross premiums written, the company was able to keep net premiums earned at the prior year level. Premium development was characterized by a persistently competitive market environment and the ensuing pressure on premium rates, which mainly affected the insurance lines Transport, Fire and Aviation. Additional premium losses were due to currency effects, in particular from the British Pound and the US Dollar. Severe natural catastrophes such as hurricanes Harvey, Irma and Maria as well as the wildfires in California resulted in an increase of claims expenses compared to the prior year. Taking into account the also higher operating expenses for own account, the company recorded an increase of the combined ratio from 88.7 to 96.9 percent.

Overall, the company reported a net underwriting profit (before allocations to the equalization reserve and reserves similar to the equalization reserve) of €38 273 (136 319) thou.

The table 'Underwriting Performance' presents the underwriting performance according to HGB as required by Implementing Regulation (EU) 2015/2450, Appendix I. Contrary to our published Annual Report under HGB, claims management expenses are recognized as net operating expenses rather than claims expenses. In the Underwriting Performance table below, investment management expenses are recognized as net operating expenses (in the broader sense), but they are not part of Net underwriting performance (before allocation to the equalization reserve) according to the Ordinance on the Financial Reporting of Insurance Undertakings (RechVersV).

	Actual	
Underwriting performance	2017 €K	2016 €K
Gross premiums written	4 035 180	4 072 676
Net premiums earned	1 219 725	1 202 436
Other underwriting net income		
Net claims expenses	-683 778	-632 310
Changes in other technical reserves (net)	-577	14 173
Net operating expenses (in the broader sense)	-13 670	-1 805
incl. operating expenses (in the narrow sense)	-491 276	-450 990
incl. claims management expenses[1]	-393 521	-355 189
incl. investment management expenses[2]	-87 512	-86 189
Other underwriting expenses (net)	-10 243	-9 612
Net underwriting performance (before equalization reserve)	-2 394	-4 797
	38 273	136 319
Net claims ratio according to HGB[3]	63.2%	59.8%
Net cost ratio according to HGB[3]	33.6%	28.9%
Net combined ratio according to HGB	96.9%	88.7%

1. In accordance with the provisions of the Technical Implementation Standard for Regular Solvency II Reporting, Appendix II, S.05.01, claims management expenses are not recognized as claims expenses but, contrary to the commercial balance sheet according to RechVersV, attributed to net operating expenses (in the broader sense).
2. In accordance with RechVersV, these are not part of the underwriting performance and therefore not included under Net underwriting performance in the table.
3. In accordance with RechVersV, claims management expenses must be attributed to claims expenses and are therefore not included in the HGB net claims ratio.

The company's gross premium income in the reporting year decreased by 0.9 percent to €4 035 180 (4 072 676) thou. Adjusted for foreign currency effects, in particular from the devaluation of the British Pound and the US Dollar, there was a slight increase in gross premium. But these foreign currency effects are not reported separately in the following account of premium developments.

At the same time, net premiums earned of €1 219 725 (1 202 436) thou were above the prior year level, primarily because of the increase in premium volume in the UK.

The claims situation deteriorated by €51 468 thou in the reporting year, net claims expenses (not including claims management expenses) amounted to €683 778 (632 310) thou. The increase of claims expenses went hand-in-hand with an increase of net claims incurred from fiscal year losses by €43 109 thou to €886 566 (843 457) thou as well as a €8 358 lower net run-off profit of €202 789 (211 147) thou.

The change in other net technical provisions resulted from an allocation to the lapse reserve in the amount of €577 thou, following an exceptional release from the lapse reserve in the amount of €14 173 thou in the prior year.

Net operating expenses (in the broader sense) of €491 276 (450 990) thou were above the prior year level. The increase essentially resulted from the increase of operating expenses (in the narrow sense) by €38 332 thou to €393 521 (355 189) thou. Claim settlement expenses, which, in accordance with RechVersV must be recognized as part of claims expenses under HGB, slightly increased from €86 189 thou to €87 512 thou. Investment management expenses of €10 243 (9 612 thou, which according to RechVersV must be recognized as non-technical expenses under HGB, were slightly above the prior level.

Following an audit of the allocation of personnel and material costs to functional areas in the reporting year, certain cost components were reclassified from claims settlement expenses to administrative expenses, which reduced the loss ratio by 1.0 percentage point from the prior year while the cost ratio increased accordingly.

This resulted in a net loss ratio of 63,2 (59,8) percent and a cost ratio of 33,6 (28,9) percent, which also includes all other net expenses, in particular for premium refunds and the lapse reserve that amounted to 1.4 (-0.6) percent.

Overall, the company reported an underwriting net performance under HGB before allocation to the claims equalization reserve of €38 273 (136 319) thou.

Underwriting performance by insurance line

	Gross premiums written	
	2017 € thou	2016 € thou
Direct business and accepted proportional reinsurance		
Fire and other damage to property insurance	1 188 427	1 281 899
General liability insurance	1 302 674	1 245 688
Marine, aviation and transport insurance	747 866	905 186
Miscellaneous financial losses	317 547	275 424
Other insurance	44 906	48 967
Subtotal 1	3 601 420	3 757 164
Accepted non-proportional reinsurance		
Non-proportional property reinsurance	292 032	207 193
Non-proportional marine, aviation and transport insurance	75 705	46 673
Non-proportional liability reinsurance	66 023	61 646
Subtotal 2	433 760	315 512
Total	**4 035 180**	**4 072 676**

1. In accordance with the provisions of the Technical Implementation Standard for Regular Solvency II Reporting, Appendix II, S.05.01, claims management expenses are not recognized as claims expenses but, contrary to the commercial balance sheet according to RechVersV, attributed to net operating expenses (in the broader sense).
2. In accordance with regulatory, operating expenses (in the broader sense) as of this SFCR also include investment management expenses. For this reason, the prior year figures are slightly different from those presented in the 2016 SFCR.
3. The total of the Net underwriting result cannot be derived from the entries in the Income Statement listed above, because non-essential positions are not listed and investment management expenses are, in accordance with RechVersV are not part of underwriting performance.

In the following section, the underwriting result of fiscal year 2017 is presented separately for each line of business according to Appendix II, S.05.01 of the Technical Implementing Standard for the SFCR. The basis are the net fiscal year figures, in particular the underwriting net result before changes in the equalization reserve and the reserves similar to the equalization reserve. For a description of the underwriting results after changes in the equalization reserve and the reserve similar to the equalization reserves we refer to our Annual Report (Development overview, pages 7-12).

Direct business and accepted proportional reinsurance

While Fire and other Damage to Property insurance was still our biggest line of business in terms of gross premiums written in 2016, it only took second place in the reporting year with €1 188 427 thou. Net premiums earned increased slight from €313 439 thou to €348 924 thou in the reporting period. During the same period, net claims expenses increased from €136 821 thou to €203 174 thou. Taking into account net operating expenses of €166 377 (141 562) thou, the net underwriting profit decreased slightly to €30 705 (39 123) thou.

With €1 302 674 (1 245 688) thou, General Liability Insurance generated the highest gross premiums written in the reporting year. Gross premiums earned in this insurance line amounted to €504 549 (499 709) thou. At the same time, net claims expenses decreased to €292 752 (407 211) thou. The decline is due to the major claims situation, which was more favorable in the reporting year. After net operation expenses (in the broader sense) of €194 466 (189 502) thou, a profit of €22 924 (loss of 87 642) thou was reported.

In Marine, Aviation and Transport Insurance, profit decreased to €43 468 (51 824) thou. Our continued selective underwriting policy and persistent competitive pressures in this are resulted in a decline of net premiums earned to €182 720 (242 772) thou. At the same time, net claims expenses decreased from €86 896 thou to €36 779 thou due to lower fiscal year claims expenses. Net operating expenses (in the broader sense) of €104 196 thou were below the prior year level of €108 749 thou.

Net premiums earned		Net claims expenses[1]		Net operating expenses in the broader sense[2]		Net underwriting performance before equalization reserve[3]	
2017 € thou	2016 € thou	2017 € thou	2016 € thou	2017 € thou	2016 € thou	2017 € thou	2016 € thou
348 924	313 439	-203 174	-136 821	-166 377	-141 562	-30 705	39 123
504 549	499 709	-292 752	-407 211	-194 466	-189 502	22 924	-87 642
182 720	242 772	-36 779	-86 896	-104 196	-108 749	43 468	51 824
96 331	74 030	-97 112	-2 119	-20 649	-15 890	-19 731	55 037
10 400	12 461	1 840	6 516	-5 846	-6 320	6 450	12 698
1 142 924	1 142 411	-627 977	-626 531	-491 534	-462 023	22 406	71 039
61 515	44 527	-50 476	-3 525	-5 996	2 520	-348	43 523
8 897	8 207	-2 677	-2 217	5 524	4 732	11 744	10 723
6 389	7 291	-2 648	-38	730	3 781	4 471	11 033
76 801	60 025	-55 801	-5 779	258	11 033	15 867	65 279
1 219 725	**1 202 436**	**-683 778**	**-632 310**	**-491 276**	**-450 990**	**38 273**	**136 319**

The increase of net premiums earned in the insurance line Miscellaneous Financial Loss to €96 331 (74 030) thou was offset by higher net claims expenses of €97 112 (2 119) thou. These were attributable to higher fiscal year losses, mainly driven by two major business interruption losses in Central Europe and the participation in hurricanes Harvey, Irma and Maria. Net operating expenses also increased – to €20 649 (15 890) thou – and resulted in a loss in the amount of €19 731 (profit of 55 037) thou.

In addition to the insurance lines listed above, AGCS SE in the reporting years also wrote business in the insurance lines Motor Vehicle liability insurance, Other Motor insurance, Medical Expense insurance, Income Protection insurance, Worker's Compensation insurance and Legal Expenses insurance. These insurance lines are grouped in the table "Underwriting performance by insurance line" under Other Insurance. With net premiums earned of €10 400 (12 461) thou, these insurance lines contributed a relatively small share of the company's total premium income. Together with income from claims expenses of €1 840 (income of 6 516) thou and net operating expenses in the amount of €5 846 (6 320) thou, an underwriting profit of €6 450 (profit of 12 698) thou was reported, which was primarily generated by Medical Expense insurance.

Non-proportional reinsurance accepted

The biggest insurance line in the non-proportional reinsurance business accepted is Non-proportional property reinsurance with net premiums earned of €61 515 (44 527) thou in the reporting year. In this insurance line, net claims expenses increased substantially from the prior year to €50 476 (3 525) thou, which was mainly do to a loss from the settlement of prior year losses. Operating expenses of €5 996 (income of 2 520) thou were also above the prior year level. This was due to higher expenses for premium refunds related to our offer of structured risk transfer solutions. Overall, an underwriting loss of €348 (profit of 43 523) thou was reported.

Non-proportional Marine, Aviation and Transport insurance generated in the reporting year gross premiums earned in the amount of €6 389 (7 291) thou. The net underwriting profit of €4 471 (profit of 11 033) thou was also lower than in the prior year. The decrease is attributable to higher claims expenses of €2 648 (38) thou as well as higher operating expenses. But due to high commission payments from reinsurers, income in the amount of €730 (income of 3 781) thou was reported.

The third insurance line of non-proportional business accepted, Non-proportional Liability Reinsurance, was also able to report a profit in 2017, which increased slightly to €11 744 (10 723) thou from the prior year. On the one hand, this was due to slightly higher net premiums earned of €8 897 (8 207) thou, on the other hand to income from net operating expenses, which increase to €5 524 (income of 4 732) thou. Claims expenses amounted to €2 677 (2 217) thou.

Underwriting performance by country[1]

	Gross premiums written	
	2017 € thou	2016 € thou
Germany	934 772	1 014 841
United States of America	692 938	577 002
United Kingdom	529 158	507 835
France	368 270	374 426
China	166 732	188 403
Italy	96 580	105 026
Total Top 6	2 788 450	2 767 533
Other countries	1 246 730	1 305 143
Total	**4 035 180**	**4 072 676**

1. The attribution of countries is made according to Technical Implementation Standard for Regular Solvency II Reporting, Appendix II, S.05.01. For items that cannot be directly attributed (e.g. internal costs), appropriate allocation keys were used.
2. In accordance with the provisions of the Technical Implementation Standard for Regular Solvency II Reporting, Appendix II, S.05.01, claims management expenses are not recognized as claims expenses but, contrary to the commercial balance sheet according to RechVersV, attributed to net operating expenses.
3. In accordance with regulatory, operating expenses (in the broader sense) as of this SFCR also include investment management expenses. For this reason, the prior year figures are slightly different from those presented in the 2016 SFCR.
4. The total of the Net underwriting result cannot be derived from the entries in the Income Statement listed above, because non-essential positions are not listed.

Gross premiums earned		Gross claims expenses[3]		Gross operating expenses in the broader sense[3]		Gross underwriting performance[4]	
2017 € thou	2016 € thou	2017 € thou	2016 € thou	2017 € thou	2016 € thou	2017 € thou	2016 € thou
947 685	995 484	- 964 007	- 645 359	- 196 179	- 257 966	- 215 775	88 416
678 510	575 379	- 775 320	- 125 712	- 241 193	- 159 547	- 336 152	291 559
490 210	505 639	- 502 821	- 231 345	- 137 158	- 118 650	- 149 078	172 501
366 604	379 696	- 211 275	- 106 456	- 96 372	- 96 676	59 503	173 764
169 749	181 854	- 88 936	- 71 665	- 59 139	- 62 776	22 116	47 417
98 961	108 334	- 46 255	- 52 484	- 24 944	- 26 771	27 814	29 007
2 751 719	2 746 387	-2 588 613	-1 233 021	- 754 986	- 722 386	- 591 572	802 664
1 233 291	1 323 749	- 618 859	- 750 432	- 327 726	- 357 404	279 559	218 915
3 985 010	**4 070 135**	**-3 207 473**	**-1 983 453**	**-1 082 712**	**-1 079 790**	**- 312 014**	**1 021 579**

In the following section, the underwriting performance is described on the basis of key figures, particularly the gross underwriting performance.

AGCS SE underwrites insurance and reinsurance in more than 180 countries. An explanation of the business developments in the various countries on the basis of HGB gross figures is the most meaningful, because the non-proportional reinsurance business can be attributed to the individual countries only by means of distribution keys. Here too, claims settlement and investment management expenses are – as in the descriptions of the business lines – attributed to net operating expenses (in the broader sense).

The core market of AGCS SE is Germany. In this country of origin, gross premiums written decreased by €80 069 thou from the prior year to €934 772 (1 014 841) thou. Therefore, gross premiums earned of €947 685 (995 484) thou fell below the prior year level by €47 799 thou. This was essentially due to lower premium income in Marine, Aviation and Transport insurance. Gross claims expenses of €964 007 thou were significantly higher than the prior year figure of €645 359 thou. This was primarily attributable to run-off losses from prior year claims, particularly in Marine, Aviation and Transport insurance. Gross operating expenses (in the broader sense) decreased by €61 620 thou to €196 179 (257 799) thou because on the one hand, it was possible to reduce claims settlement expenses after high allocations to the reserves in the prior year by €34 828 thou, and on the other hand, it was possible to reduce operating expenses (in the narrow sense) in the reporting year by €26 955 thou, in line with the decline in premium income. Taking into account the changes in other gross technical reserves, the result was a gross underwriting loss of €215 775 (profit of 88 416) thou.

In the reporting year, gross premiums written in the country of origin United States of America increased by €115 936 thou to €692 938 (577 002) thou. Gross premiums earned followed the same development in the US business and increased by €103 131 thou to €678 510 (575 379) thou. This premium growth is primarily attributable to the expansion of proportional reinsurance contracts in our North American subsidiary by €72 550 thou, in particular in the insurance lines Professional Liability insurance and Transport insurance. In addition, there was the transfer of a portfolio of €68 101 of a US cedant, which in 2016 had still been reported under Canada. The increase of gross claims expenses by €649 608 thou to €775 320 (125 712) thou was caused by higher claims expenses from hurricanes Harvey, Irma and Maria as well as brush fires in California. Due to the expansion of the proportional reinsurance business with high commission ratios, an increase of claims settlement expenses by €20 819 thou, gross operating expenses (in the broader sense) also increased by €81 359 thou to €241 193 (159 834) thou. Altogether, the country of origin United States of America reported a gross underwriting loss of €336 152 thou, while in the prior year a profit of €291 559 thou had been reported.

The increase of premiums written in the country of origin United Kingdom by €21 323 thou to €529 158 (507 835) thou was essentially attributable to the higher premium volume in Miscellaneous Financial Loss. As for gross premiums earned, the increase was offset by the negative premium development in Transport insurance. Overall, gross premiums earned of €490 210 (505 639) thou were beneath the prior year level. Due to hurricanes Harvey, Irma and Maria, total gross claims expenses increased by €271 476 thou to €502 821 (231 345) thou. At the same time, gross operating expenses (in the broader sense) increased by €18 508 thou to €137 158 (118 711) thou. Overall, a gross underwriting loos of €149 078 (profit of 172 501) thou was incurred.

In the country of origin France, gross premiums written decreased by €6 156 thou to €368 270 (374 426) thou. Gross premiums earned also fell by €13 092 thou to €366 604 (379 696) thou. The increase of gross claims expenses by €104 819 thou to €211 275 (106 456) thou resulted primarily from the higher claims expenses due to hurricanes Harvey, Irma and Maria as well as various major losses, particularly in the insurance line Miscellaneous Financial Loss. The gross underwriting profit amounted to €59 503 thou, compared to a substantially higher profit of €173 764 thou in the prior year.

Premiums written in the country of origin China of €166 732 (188 403) thou were below the 2016 level, just as were gross premiums earned in the amount of €169 749 (181 854) thou. Gross claims expenses rose in the reporting year from €71 665 thou to €88 936 thou. At the same time, operating expenses (in the broader sense) decreased from €62 729 thou to €59 139 thou. The overall gross underwriting profit of €22 116 thou was below the prior year profit of €47 417) thou.

Premiums written in the country of origin Italy of €96 580 thou were below the prior year figure of €105 026 thou. Accordingly, gross premiums earned of €98 961 (108 334) thou were also lower than in 2016. Gross claims expenses decreased by €6 229 thou to €46 255 (52 484) thou. In line with lower premium income, operating expenses (in the broader sense) decreased from €26 771 thou to €24 944 thou. Overall, a gross underwriting profit of €27 814 thou was reported, following a prior year profit of €29 007 thou.

In the other countries, premiums written decreased by €58 413 thou to €1 246 730 (1 305 143) thou. In line with this development, gross premiums earned decreased by €90 458 thou to €1 233 291 (1 323 749) thou. The main reason for the lower premium income is the fact that gross premiums written of €68 207 thou for the portfolio of a US cedant, which in 2016 was still reported under Canada, was now reported under the country of origin United States of America as stated above. Gross claims expenses of €618 859 (750 432) thou were lower than in the prior year. Following a decline of operating expenses (in the broader sense) by €34 295 thou to €327 726 (362 021) thou, a gross underwriting profit of €279 559 thou was reported, following a profit of €258 749 thou in the prior year.

A.3 Investment Performance

	Current gains/expenses		Profit	
Type of investment	31/12/2017 € thou	31/12/2016 € thou	31/12/2017 € thou	31/12/2016 € thou
Participations and other holdings				
Holdings in related undertakings, including participations	70 592	86 458		370 198
Property (other than for own use)	4 974	5 145		
Debit instruments				
Government bonds	33 600	42 535	24 205	40 661
Corporate bonds	38 870	60 620	20 783	75 497
Collateralized securities	2 051	1 985	2 676	1 154
Other loans and mortgages	3 809	362		64
Short-term and other investments				
Collective investment undertakings[1])	45 486		60 005	
Deposits to cedants		870		
Short-term investments (incl. derivatives)		68		
Investment expenses	-6 405	-9 609		
Total	**192 976**	**188 434**	**107 670**	**487 573**

1. In the current report, Special funds - which in 2016 were included under „Holdings in related undertakings, including participations" - are recognized under „Collective investment undertakings".

Total investment income in 2017 amounted to €198 571 (648 298) thou. The decrease is essentially due to substantial one-off effects in 2016 from the restructuring or participations, which did not reoccur in fiscal 2017.

Income from Participations and other Holdings essentially resulted from the dividend income from Allianz Risk Transfer AG (ART AG). In fiscal 2016 there were substantial gains on disposals from the restructuring of participations. There was no such significant non-recurring effect in 2017. On the other side, there were write-offs on participations and other holdings. Overall, investment income from Participations and other Holdings amounted to €71 789 (456 255) thou.

Income from debt instrument fell to €37 957 (200 715) thou. The decrease is primarily due to lower realized gains and losses and higher write-offs. Of the write-downs of €70 112 (25 685) thou, €39 267 (11 865) thou were attributable to government bonds and €26 533 (13 785) thou to corporate bonds. At the same, there was a decrease of current gains from debt instruments and write-ups.

Since 2017, Collective Investment Undertakings include Special Funds, which in 2016 were reported under Holdings in affiliated enterprises, including participations. Current gains and profit realizations amounted to €105 491 thou while write-offs came to €10 260 thou. Current gains/expenses for investment management decreases to €6 405 (9 609) thou.

The valuation reserves in our investments decreased by a total of €1 036 567 (1 050 843) thou. Valuation reserves are composed of undisclosed reserves of €1039 908 (1 052 158) thou and undisclosed liabilities of €3 341 (1 315) thou. The valuation reserves on investments in affiliated/associated enterprises increased to €392 074 (262 068) thou. The valuation reserves for directly held real estate amounted to 32 395 (17 893) thou. The valuation reserves for investment fund certificates decreased to €512 876 (586 705) thou. On bearer bonds, the valuation reserves decreased to €85 119 (162 310) thou. For mortgage bonds, the valuation reserves amounted to €828 (1 123) thou. The valuation reserves for other loans came to €13 272 (20 745) thou.

Loss		Write-up		Write down		Investment performance	
31/12/2017 € thou	31/12/2016 € thou	31/12/2017 € thou	31/12/2016 € thou	31/12/2017 € thou	31/12/2016 € thou	31/12/2017 € thou	31/12/2016 € thou
			482	-2 144	-4 416	68 447	452 722
		5		-1 637	-1 612	3 342	3 533
-13 898	-2 086	165	5 676	-39 267	-11 865	4 805	74 922
-4 191	-4 870	442	4 839	-26 533	-13 785	29 372	122 300
-448	-8	4		-4 301	-35	-17	3 103
	-35			-12		3 797	390
				-10 260		95 230	
							870
			-60				68
						-6 405	-9 609
-18 538	**-6 999**	**617**	**11 005**	**-84 154**	**-31 714**	**198 571**	**648 298**

Securitized investments

A small part of the investment result comes from securitized investments, i.e. directly held collateralized securities. According to IFRS financial reporting rules, collateralized securities include asset backed securities (ABS) and mortgage backed securities (MBS). Mortgage bonds are not part of securitized investments because they are grouped together with the engagement in corporate bonds. In addition, there were no profits or losses that were directly recorded in equity (article 293 (3b) Solvency II CDR).

At December 31, 2017, the engagement in collateralized securities amounted to a total of €77 772 (62 069) thou, including €0 (5 445) thou in untranched US-Agency MBS and €77 772 (56 624) thou in other MBS and ABS. 100 percent of the ABS portfolio has investment-grade ratings.

A.4 Development of other activities

In the reporting period, there were no other material gains and expenses and there were no material leasing agreements.

A.5 Any Other Information

All material information regarding the business and performance of AGCS SE has been addressed in the previous sections.

B. System of Governance

B.1 General Information on the System of Governance

B.1.1. Steering principles of AGCS Global

B.1.1.1 Definitions

AGCS SE has management responsibility for AGCS Global (hereafter AGCS), which consists of AGCS SE and its subsidiaries. Taking into account the specifics of separate legal entities and the distinctiveness of local markets, the Board of Management of AGCS SE sets an adequate governance framework that balances and recognizes the interests of both AGCS as a whole and the individual legal entities and local markets it comprises.

AGCS is managed through a vertical management structure including management units at global, regional and local level. AGCS Global refers to AGCS in its entirety. Regional level refers to a region which comprises several countries. Local level refers to the level of a legal entity or a branch of a legal entity.

1. Steering of AGCS at the global level

   a. The overall responsibility for global steering lies with the Board of Management of AGCS SE. In particular, this comprises the definition of the business strategy, including the risk and investment strategy and the organizational structure.

   b. Global functions take responsibility for all specific subject-related matters of overarching relevance for all of AGCS. Some client-facing functions are managed at regional level by the regional CEOs.

   c. The AGCS insurance business comprises different lines of business.

   d. The regions and business units of AGCS SE are steered through an integrated management and control process.

      i. The business strategy of AGCS SE is implemented through an institutionalized management dialogue process with the parent company, which leads to a three-year business plan and ultimately to financial plans for AGCS SE. The three-year plan is the basis for performance steering and capital management of AGCS SE as well as for incentivizing employees and managers with variable compensation components. The business strategy is implemented via global, regional and local management.

      ii. The development of the business units is monitored by means of a monthly analysis of key financial and operational performance indicators. In addition to the analysis of business developments, specific risk control processes have been implemented.

      iii. Decisions concerning the development of new business segments are made in an institutionalized process. This process takes into account the development of key indicators such as the combined ratio and the return on risk capital (RoRc).

      iv. Local regulatory solvency requirements, including requirements by rating agencies are material and binding. It is part of the responsibility of the respective global and/or regional management levels of AGCS to ensure mandatory compliance with all external requirements.

2. Structure of the Board of Management of AGCS SE

AGCS SE uses a divisional structure for the Board of Management, which comprises divisions with functional responsibilities as well as divisions with business responsibilities.

The Board members heading the functional divisions are responsible for group functions of global relevance for AGCS SE. These include the Chief Executive Officer, the Chief Finance Officer and the Chief Operating Officer.

The Board members heading the business divisions are responsible for managing the business segments of AGCS SE. These include the Chief Regions & Markets Officers, the Chief Underwriting Officers and the Chief Claims Officer.

The assignment of responsibilities to individual Board members is supported by the process rules of the AGCS SE Board of Management including the distribution of divisional responsibilities and the schedule of business responsibilities. The structure and the internal attribution of responsibilities are regularly reviewed.

The process rules define the work of the Board of Management in detail. They define the responsibilities of the members of the Board, matters to be decided by the Board of Management as a whole and other business operation processes.

In general, the Board of Management meets on a monthly basis.

The agenda and the relevant documents are distributed no later than three days before a Board meeting. Each member of the Board may request a meeting; every member of the Board also has the right to put subjects on the agenda.

Decisions by the entire Board of Management shall be taken by a simple majority of the participating members, unless there are other mandatory requirements by law. In the event of a tie, the Chairman casts the deciding vote. If, in case of a problem of fundamental importance, a member of the Board believes that the decision taken by the majority is irreconcilable with his / her responsibility, this member of the Board has the right and the duty, after prior information of the Chairman of the Board, to report this issue to the Chairman of the Supervisory Board.

3. Management structure of legal entities

Local legal entities are steered by local management teams with the corresponding responsibilities and reporting lines to the Board of Management of AGCS SE

B.1.1.2 Board of Management and Supervisory Board

Good corporate governance is essential for sustainable business performance. The Board of Management and the Supervisory Board of AGCS SE therefore attach great importance to complying with the corresponding recommendations of the German Corporate Governance Code. AGCS SE, just like its parent company Allianz SE, acts in the sense of the current recommendation of this code.

As a Societas Europaea based in Germany, AGCS SE must meet the special requirements for a Societas Europaea as well as the regulations of the German Stock Corporation Act. A main feature of the company is therefore the two-tier management system with a Board of Management and a Supervisory Board.

The Board of Management reports regularly and comprehensively to the supervisory board about business developments, capital resources and earning situation, planning and achievement of objectives as well as the business strategy and risk exposure of the company.

Certain decisions by the Board of Management are – in accordance with legal requirements or the statutes of the company – subject to the approval of the Supervisory Board. Among others, this includes the approval of certain transactions, such as the conclusion of corporate contracts, the approval of the acquisition of companies, participations in companies and parts of companies to the extent that these are allocated to free assets at the time of acquisition, and if, in individual cases, a participation of at least 10% is acquired and the fair value or, if no fair value is available, the book value reaches or exceeds 15% of equity in the balance sheet of the most recent financial statement. Approval is also required for the divestment for participations held as free assets (with the exception of financial participations) in a group company, to the extent that this company leaves the scope of consolidation of group companies and if, in individual cases, a participation of at least 10% is divested and the market value or, if no market value is available, the book value reaches or exceeds 15% of equity in the balance sheet of the most recent financial statement.

B.1.1.3 Principles and function of the Supervisory Board

The Supervisory Board comprises six members, which are appointed at the Annual General Meeting. Two of these members are appointed upon proposal by the employees and the General Meeting is bound to adopt these two proposals. The employee representatives come from the countries with the most employees. At present, the Supervisory Board includes one employee representative from Germany and one from the UK. The size and composition of the Supervisory Board are determined by the general Societas Europaea regulations (SE participation law), which have been implemented in the Statutes of the company.

The Supervisory Board oversees the management of the company by the Board of Management and advises it in leading the company. Among others, it examines the annual financial statements and deals with such subjects as the risk strategy, the risk situation and the main areas of activity of the internal audit and the compliance department.

The Supervisory Board is also responsible for:

- Appointing and dismissing the members of the Board of Management,
- Determining the remuneration the members of the Board of Management
- Appointing the auditors.

The Supervisory Board regularly meets twice per calendar half-year. Additional meetings are possible if they are required for maintaining business operations The Supervisory Board takes all decisions by simple majority.

The Supervisory Board of AGCS SE has not formed any committees. Given its relatively small size, all relevant subjects and decisions are discussed and decided in plenary meetings.

B.1.2. Operational and organizational set-up

B.1.2.1 Committees

Certain matters are delegated for decision making or for obtaining recommendations to a dedicated body (Committee). Committees aim to facilitate business steering and to safeguard the AGCS SE oversight function (thereby also supporting the internal control system). Committees need clearly defined mandates, authority, appropriate independence and shall be composed in a manner properly reflecting different functions.

AGCS SE utilizes a system of three types of committees:

- Board Committees
- Functional Committees
- Advisory Committees

The decision making authority of committees is limited to decisions that do not require the involvement of the full Board of Management of AGCS SE as outlined in its Rules of Procedures.

AGCS SE has a total of three Board Committees.

Reinsurance Committee

The voting members of the Reinsurance Committee are the Chief Executive Officer (chair), Chief Financial Officer, Chief Underwriting Officer Corporate, Chief Underwriting Officer Specialty, Chief Regions & Markets Officer Region 2 and the Chief Claims Officer.

The non-voting secretary of the Reinsurance Committee is the Global Head of Reinsurance. Another permanent non-voting guest is the Chief Risk Officer (including escalation rights).

The Reinsurance Committee meets quarterly and has a quorum when at least five voting members are present.

The essentials tasks of the Reinsurance Committee are:

- Definition of a company-wide reinsurance strategy.
- Definition of specific a reinsurance strategy for certain business segments, depending on the nature and type of the segment as well as the current reinsurance and market position.
- Decisions about the purchase of reinsurance / retrocessions.
- Monitoring the (capital) efficiency of contract reinsurance / retrocessions.
- Decisions about group-internal reinsurance.

Risk Committee

The voting members of the AGCS Risk Committee are the Chief Financial Officer (chair), Chief Executive Officer, Chief Claims Officer, Chief Operating Officer, Chief Regions & Markets Officer Region 1, Chief Underwriting Officer Corporate and the Chief Underwriting Officer Specialty.

The non-voting secretary of the AGCS Risk Committee is the Chief Risk Officer. Other non-voting guests are the Chief Actuary, Global Head of Internal Audit and a representative from Allianz Group Risk.

The AGCS Risk Committee meets quarterly and has a quorum when at least five voting members are present.

The essential tasks of the AGCS Risk Committee are:

- Decisions about the structure and environment of risk management and the internal audit framework.
- Regular performance of the Own Risk and Solvency Assessment (ORSA), including surveillance of identification, evaluation, reporting and risk control processes.
- Drafting of a risk strategy and submission of this strategy to the full Board of Management of AGCS SE for approval.
- Making sure that the Board of Management of AGCS SE is adequately tied into the risk management and control processes and regularly informed about the current risk profile of AGCS SE.

Underwriting Committee

The voting members of the Underwriting Committee are the Chief Underwriting Officer Corporate (chair), Chief Executive Officer, Chief Underwriting Officer Specialty, Chief Regions & Markets Officer Region 2, Chief Operating Officer and the Chief Claims Officer.

The non-voting secretary of the Underwriting Committee is the Global Head of Underwriting Integrity & Solutions. Additional permanent non-voting guests are the Chief Risk Officer (including escalation rights) and the Global Head of Reinsurance.

The Underwriting Committee meets quarterly and has a quorum when at least five voting members are present.

The essential tasks of the Underwriting Committee are:

- Decisions about new product launches.
- Preparation of the documents to be presented to the Board in view of entering new markets.
- Decisions about deviations from the AGCS Underwriting Standards, which influence the net exposure of AGCS SE and AGCS Global beyond reinsurance retention.
- Annual approval of the business plans of the Chief Underwriting Officers.
- Quarterly review of rate changes.
- Quarterly review of product developments.
- Identification and migration of all material risks related to strategic business developments.

In addition, the company has appointed three Functional Committees:

Global Program Steering Group

The voting members of the Global Program Steering Group are the Chief Operating Officer (chair), Chief Executive Officer, Chief Financial Officer, Chief Regions & Market Officer Region 1, the Chief Claims Officer, the Global Head of Underwriting Integrity & Solutions and the Regional Head of Business Transformation, North America.

The non-voting secretary of the Global Program Steering Group is the Head of Central Program Office Governance. Other non-voting guests are the Chief Risk Officer (including escalation rights), Head of Central Program Office, Chief Information Officer and the Global Head of Planning & Performance Management.

The Global Program Steering Group meets quarterly and has a quorum when at least three voting members are present.

The essential tasks of the Global Program Steering Group are:

- Decisions about the project portfolio and the budget.
- Making sure that all projects in the portfolio reach their agreed objectives within the framework of the strategic priorities.
- Review of new projects to ensure adequate financing of these projects.

- Identification of risks and definition of appropriate mitigation measures.
- Decisions about budget priorities.
- Decisions about project priorities.

Local Investment Management Committee

The voting members of the Local Investment Management Committee are the Chief Executive Officer (chair), Chief Financial Officer, Regional Chief Information Officer of AIM SE, Chief Investment Manager of AIM SE responsible for Allianz Germany Property & Casualty.

Permanent non-voting guests are the Chief Risk Officer (including escalation rights), a corresponding regional Board member of Allianz SE, Head of AIM Munich IMPC, Global Head of Corporate Finance & Treasury and the Head of Global ALM and Investment Risk Analysis.

The Local Investment Management Committee meets quarterly and has a quorum when at least three voting members are present.

The essential tasks of the Local Investment Management Committee are:

- Consulting on all investment subjects for AGCS SE.
- Preparation of the documentation for strategic asset allocation to be submitted to the Board of Management of AGCS SE for decision.
- Investment performance review.
- Steering of the IFRS investment result.
- Liquidity review of AGCS SE.
- Definition of a derivatives strategy.
- Surveillance of investment-related outsourcing contracts.
- Approval of individual investment transactions.

Loss Reserve Committee

The voting members of the Loss Reserve Committee are the Chief Actuary (chair), Chief Executive Officer, Chief Financial Officer and the Chief Claims Officer.

The nonvoting secretary of the is the Head of Actuarial Reserving & Analysis. Permanent non-voting guests of the Loss Reserve Committee are the Chief Risk Officer (including escalation rights), Global Head of Accounting, Global Head of Planning & Performance Management, a representative of Allianz Group Actuarial and a representative of Ressort H9 - Anglo Broker Markets / Global Lines - of Allianz SE.

The Loss Reserve Committee meets quarterly and has a quorum when at least three voting members are present.

The essential tasks of the Loss Reserve Committee are:

- Determination, justification and communication of the reserves to be set up under IFRS at the end of each quarter .
- Review of activities related to the loss reserving and trend observation.
- Making sure that the loss reserving rules issued by Allianz Group are observed.

B.1.2.2 Committees at the local level

In general, committees are established only at the global level. Legal entities or branches shall establish local committees only if they are necessary to fulfil local, legal or regulatory requirements. In addition, committees can be formed at the regional or local level when this is required in the interest of good organizational structure and process organization. Their creation is coordinated in advance with the corresponding global bodies as well as the AGCS SE governance function.

B.1.2.3 Company rules

Company rules include all internal rules established by an authorized party with the intention of creating a company-wide binding standard or a binding guideline. Every company rule must be documented and approved by a relevant body. There is a defined set of rules within AGCS SE that describes the relevant criteria for drawing up and updating company rules (including the underlying rule-definition process). The set of rules encompasses four levels:

- Code of Conduct
- AGCS Policies
- AGCS Standards
- AGCS Functional Rules

B.1.2.4 Three Lines of Defense Model

An elementary component of our control framework is the Three Lines of Defense model.

The separation of the different Lines of Defense is defined by the following activities.

a. The First Line of Defense is maintained by the operating business units, for example through their daily activities, risk management, and internal controls. Its key activities include:
   - Operational management of risks by assuming or directly influencing the organization, evaluation and acceptance of these risks.
   - Design and implementation of methods, models, management reports or other controls to control risks and support expected profits.
   - Participation in business decisions.

b. The Second Line of Defense ensures independent surveillance and reviews the daily risk assumption and control by the First Line of Defense. Its key activities include:
   - Definition of an overarching control framework within which the operating business units can act.
   - Surveillance of compliance with the control framework, review of business decisions and similar activities.
   - Evaluation of the design and effectiveness of the control environment, including evaluation of control models and methods. Consulting on risk minimization strategies and control activities (including the provision of expert opinions) for the operating business units and top-level management.

The Second Line of Defense is characterized by the following features:

   - Independence of reporting, objectives, setting of objectives and responsibilities of the First Line of Defense.
   - Direct reporting line and unrestricted access to the Board member in charge (or to another adequate management team).
   - Veto right against business decisions on the basis of well-founded reasons in the coordination with the respective global functions within AGCS SE or Allianz SE.
   - The right to be involved in material business decisions and to be provided with all relevant information.

c. The Third Line of Defense provides independent control over the First and Second Lines of Defense. Its activities include in particular:
   - An independent evaluation of the effectiveness and efficiency of internal controls as well as the activities of the First Line of Defense and the Second Line of Defense.
   - Reporting to the Board member in charge.

The Third Line of Defense has the same rights as the Second Line of Defense, with the exception of the veto right against business decisions.

B.1.2.5 Reciprocal oversight

To ensure an effective internal control system, all control functions are obliged to cooperate and to exchange necessary information and advice. Given that control activities may be exercised by staff in different organizational units, appropriate mechanism shall be in place between the control functions to allow fully informed and well founded decision making.

1. Where control activities of a second line of defense function are carried out by a first line of defense or another second line function, the assignment of responsibilities must be based on a clear and documented management decision.

2. Relationship between second line of defense functions and the Internal Audit function. These functions are separate without instructions rights or reporting lines from the one to the other (except for the Legal and Compliance functions, which can be organized as one department). The Actuarial, Legal, Compliance and Risk Management functions shall be included in the audit program and methodology of the Internal Audit function, including a periodic assessment of the adequacy and effectiveness of these functions. The Head of Internal Audit shall keep the Heads of Actuarial, Legal, Compliance and Risk Management informed of any audit findings related to their area of responsibilities.

3. The Actuarial, Legal, Compliance, Risk Management and Internal Audit functions shall jointly assess and ensure, at least once per year, that clear and consistent responsibilities and processes regarding the control framework are in place. These functions shall closely cooperate, maintain reciprocal oversight and be aware of concrete tasks and competencies of each sister function.

The responsibility of the Internal Audit function to independently assess the effectiveness and efficiency of the internal control system remains unaffected.

B.1.2.6 Actuarial function

The Actuarial function carries out tasks based on regulatory and business requirements.

It heads up the Loss Reserve Committee, which makes decisions about the amount of technical provisions, issues a recommendation to this body regarding the appropriate amount of such provisions and is itself represented and entitled to vote via the owner of the Actuarial function.

The Actuarial function also expresses an opinion regarding the company's underwriting and acceptance policy and the appropriateness of the reinsurance structure.

The Actuarial function interfaces and works closely together with the Risk Management function. In particular, it is responsible for modeling all underwriting risks within the internal risk capital model.

B.1.2.7 Compliance function

The Compliance function comprises all departments which:

- Support and monitor compliance with applicable legal and administrative requirements in order to protect AGCS SE from compliance risks; this includes identifying, assessing and minimizing such risks.
- Advise upper-level management and supervisory bodies on the legal and administrative requirements adopted pursuant to the Solvency II Directive and evaluating the potential impact of these changes on the legal environment for the operating business of AGCS SE.

In accordance with the AGCS SE compliance guideline, the Compliance function comprises the compliance department and other organizational units, which (among others) perform tasks of the Compliance function.

These other organizational units are grouped as so-called Governance functions and include actuarial, HR, accounting, risk management, other financial departments and market management.

The Governance functions thus include all departments with a clear responsibility for monitoring and assessing the respectively applicable legal or regular requirements, the implementation of processes and controls and for the introduction of required internal quality assurance measures.

The advisory activities to be performed by the Compliance function or the governance function under Solvency II include advising the Board of Management with respect to the observance of legal and administrative regulations as indicated in the Solvency II framework directive. In AGSC SE, the responsible member of the Board is advised by the head of the department, who – as part of the activities "primary application and control" or "identification, definition and planning" as well as, if applicable, compliance with legal and administrative regulations as indicated in the Solvency II framework directive – is responsible for the respective risk area.

The Compliance function and the Governance function are carried out by the corresponding organizational entities, which define the controlled environment with respect to the assigned risk areas in a structured approach:

- Providing advice
- Risk control
- Early warning
- Monitoring and reporting
- Providing compliance training and communication
- Establishing and complying with compliance principles and processes.

B.1.2.8 Risk Management function

The Risk Management function is headed up by the Chief Risk Officer, who reports to the Chief Financial Officer. Risk Management supports the various bodies responsible for risk control mentioned above through the analysis and communication of risk-management related information;

The Risk Management function is, for example, responsible for monitoring limits and concentrations for certain types of risk such as natural catastrophes and the exposure to the financial markets.

In addition, the Risk Management function independently supports the operating units by developing a common risk management framework and by monitoring compliance with method and process requirements.

The Risk Management function strengthens and facilitates the risk network through regular, close exchanges with the management of the legal entities and local key functions such as local risk management, the local actuarial functions and the local investment departments. A strong risk network within AGCS SE and extending to Allianz SE makes sure that risks are identified early on and management can be made aware of such risks in a timely manner.

B.1.2.9 Internal Audit

Internal Audit forms the Third Line of Defense. Allianz Group Audit and AGCS SE Audit regularly conduct independent reviews of the organizational structure and workflow of the risk management system. In addition, quality reviews of risk processes are conducted and adherence to business standards and compliance, including compliance with the internal control framework, is tested.

The Internal Audit function evaluates and provides recommendations on improving the effectiveness of the internal control system and the organizational structure and workflows by applying systematic audit approaches. The audit spectrum, which covers all risks, including risks arising from outsourcing, is defined and reviewed on an annual basis using risk-based approaches. This audit spectrum is then used to control and prioritize internal audit activities. The entire audit spectrum must be adequately covered within a five-year period.

For every audit conducted, the Internal Audit function produces an audit report, including recommendations based on facts and professional judgement, a summary of the most important results and an overall assessment. Follow-up plans for remedying deficiencies identified in the audit report are drawn up by the audited unit and provided to Internal Audit. The Internal Audit function holds follow-up meetings to ensure that the deficiencies identified are remedied.

B.1.2.10 General

AGCS SE endows the key functions in view of personnel capacities, employee qualifications and organizational infrastructure in such a manner that they can fulfill their mission in an orderly manner. In addition, AGCS SE makes sure that the key functions have comprehensive access to all information relevant to their areas of activity and are not subject to any operating influences, which would interfere with the orderly performance of their tasks. Their activities are regularly reported by the head of the respective unit to the Board of Management of AGCS SE; in case of critical developments, these are reported immediately.

B.1.3. Remuneration

The remuneration policy of AGCS SE is aligned with the business and risk strategy to the extent that it takes into account the inherent risks in the internal organization as well as the nature, scope and complexity of the business activity. Its aim is to recruit highly qualified managers and employees and to have them stay with the company over the long run.

General

Variable and fixed remuneration components are appropriately balanced. The fixed components take into account the position as well as the responsibilities of the individual employee as well as the market context. At the same time, it amounts to a sufficiently high share of total remuneration so that the employee is not dependent on variable compensation. The variable compensation share of total remuneration increases with growing responsibility and ranges from 8 to 70% of total remuneration. Variable remuneration components

are designed to incentivize performance without providing incentives that might be incompatible with the company's risk profile. The amount of the performance-related variable components results from both the evaluation of individual performance and of the corresponding business unit as well as the overall result of the company.

Remuneration of Supervisory Board members

The remuneration of the members of the Supervisory Board of AGCS SE is approved in accordance with our Statutes and German Stock Law by the Annual Shareholders' Assembly. The members of the Supervisory Board receive an annual fixed remuneration as well as a flat attendance fee.

Supervisory Board members that currently hold a Board mandate or a similar position in a company of the Allianz Group regularly waive their Supervisory Board remuneration in a written declaration to the Board of Management.

Remuneration of members of the Board of Management

The remuneration of the Board of Management consists of performance-independent and performance-dependent components. Performance-independent remuneration includes fixed compensation and fringe benefits (essentially a company car and insurance through certain group insurance contracts). The various components of the performance-dependent remuneration are described in a group-wide plan, the Allianz Sustained Performance Plan. The Allianz Sustained Performance Plan includes the three following components:

- Annual bonus: a performance-related cash payment depending on the achievement of objectives in the respective fiscal year.
- A three-year (bonus mid term bonus): a performance -related cash payment that reflects the achievement of objectives over a three-year period .
- Share-based remuneration: a performance-related remuneration in the form of virtual shares, the so-called 'restricted stock units'. The amount of shares granted is based on the achievement of annual objectives. Following expiry of the four-year lock-up period, the participants of the Allianz Sustained Performance Plan receive the equivalent of one Allianz SE share for each restricted stock unit. In this manner, the participants participate in the long-term performance of Allianz Group over a four-year period that reflects the development of the Allianz share price.

The amount of the annual bonus depends on the annual achievement of objectives, which also is the basis for the annual non-binding allocation for the three-year bonus and the annual granting of restricted stock units. The actual payment of the three-year bonus and the share-based remuneration is dependent on the sustainable development over a longer performance period.

The quantitative and qualitative performance targets for the variable remuneration of Board members are annually set by the Supervisory Board.

Remuneration of senior executives

Above a certain hierarchy level, the remuneration system and the remuneration of directors are determined by the AGCS SE Remuneration Committee. The Allianz Sustained Performance Plan also sets the conditions for variable remuneration, which consists of two components: an annual bonus and a share-based remuneration.

Remuneration of all other executives

The remuneration system and the remuneration of all other executives are generally determined by the AGCS SE Remuneration Committee. in this category, the annual bonus is generally the only variable remuneration component. Exceptionally, a share-based compensation component in the form of restricted stock units can be granted.

Remuneration of non-executive employees

The fixed compensation of these employees is based on collective bargaining agreements for the insurance industry as well as supplementary agreements in the employment contract. The objectives relevant to the variable remuneration of non-executive employees are set by the Board of Management of AGCS SE at the beginning of the year. The year-end achievement of objectives results in a factor which, when multiplied with the agreed target

bonus – the product of annual salary and target bonus percentage – determines the individual variable compensation.

Company pensions and similar benefits for members of the Board of Management and the Supervisory Board

- Members of the Board of Management

  The objective is the granting of competitive, cost-effective pension benefits (retirement pension, occupational disability, invalidity, survivors' benefits) through appropriate pension commitments. For this purpose, Board members participate in defined contribution plans. Allianz Versorgungskasse VVaG and Allianz Pensionsverein e. V. provide basic benefits for Board members who joined Allianz prior to December 31, 2014. These defined contribution commitments cover company pension benefits for basic salaries up to the assessment ceiling for statutory pension insurance contributions. Since January 1, 2015, the company pays contributions to an insurance plan "My Allianz Pension" that guarantees the payment of contributions. Taking into account the benefit level to be reached, the Supervisory Board decides every year whether and in which amount a budget for paying contributions is made available. The budget includes an additional risk premium meant to cover loss of life and the risk of occupational disability or invalidity. Upon retirement, the accumulated capital is paid out or converted to lifelong pension benefits. Pension benefits become due at the earliest upon reaching age 62.

- Supervisory Board members

  Supervisory Board members are not granted any pension benefits for their membership in the Supervisory Board.

B.1.4. Evaluation of the appropriateness of the Governance System

As a general rule, the effectiveness and appropriateness of the Governance System is reviewed once per year, additionally on special locations. In 2017, the review was conducted under the auspices of the Global Governance function of AGCS SE, which is embedded in the Legal & Compliance department. The results of the review and the corresponding measures to further strengthen the Governance System were presented for final evaluation to the Board of Management of AGCS SE. The Board found the Governance System to be overall appropriate.

B.2 Fit and Proper Requirement

Requirements for professional qualifications, knowledge and expertise of persons who effectively run the company or have other key functions

The Fit and Proper Policy adopted by AGCS SE defines the requirements for the professional qualification, knowledge and expertise of persons who effectively run the company or hold other key functions as follows:

Members of the Board of Management

The Board of Management as a body must collectively possess at any time the know-how required for managing an insurance enterprise in the following subject areas:

- Insurance and financial markets
- Corporate strategy and business models – risk management and internal control system
- Governance system and business organization
- Finance
- Actuarial as well as
- Supervisory and all framework conditions for the business activity of the company

Every individual Board member must possess the qualifications, knowledge and experience that are required for his concrete area of responsibility within the Board as well as for understanding and controlling the activity of the other Board members. In addition to theoretical and practical knowledge of the insurance business. This also includes adequate senior management experience. Such experience generally exists if the Board member has held for at least three years a senior executive position in an insurance company of comparable kind and size.

Members of the Supervisory Board

The Supervisory Board as a body must collectively possess at any time the know-how and experience that are required for the conscientious and independent execution of its tasks, in particular the supervision and counseling of the Board of Management.

Other key function holders

These must possess the knowledge required for their respective position and – to the extent that their concrete activity includes management tasks – have adequate management experience.

Procedure for the evaluation of the professional qualification and personal propriety of persons who effectively run the company or have other key functions

The required professional qualification and propriety are ensured by means of the following processes:

- In the selection process, the candidates must submit various documents on the basis of which their qualification and propriety can be evaluated (e.g. curriculum vitae, certificate of good conduct, extract from the central craft and trade register, extract from the judicial record). In addition, at least two interviews must be conducted with potential Board members and key function holders – at least one of them with the participation of an HR professional. The employee representatives on the Supervisory Board are elected by the Annual General Meeting upon binding proposal by the employees. Following their election, they, too, must submit the documentation mentioned above.
- The appointment of new members of the Board of Management and the Supervisory Board as well as key function holders must also be notified to the supervisory authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin). This obligation to notify applies to both the members of the Supervisory Board appointed by the General Meeting as well as the employee representatives on the Supervisory Board elected by the employees in accordance with legal regulations. On the basis of the documentation to be submitted, the supervisory authority determines whether the new mandate holders meet all supervisory law requirements with respect to their qualifications and propriety. In case of doubts about the qualification, the supervisory authority has the right to demand participation in professional training programs. In extreme cases, the authority can also demand the dismissal of persons that do not meet the fit and proper requirements.
- During the mandate / the employment relationship, the respect of the fit and proper requirements must be regularly tested. In addition to general measures for all employees (e.g. target-agreement meetings and regular talks with the supervisor), there are special procedures for the members of the Board of Management and the Supervisory Board. The Supervisory Board annually reviews the qualifications and propriety of the individual Board members as well as of the Board as a whole. For this purpose, the Board members submit relevant documentation (e.g. a declaration of fitness and propriety). In additions, the Supervisory Board performs an annual self-evaluation with respect to its own fitness and propriety. Among others, this evaluation is based on the self-assessment of the Supervisory Board members of their knowledge in the areas of investment, underwriting technique and accounting. On the basis of the results, a development plan for the Supervisory Board is established and adopted by the Supervisory Board. The self-assessments of the Supervisory Board members as well as the development plan adopted must be submitted to the BaFin supervisory authority.
- If there are indications that a member of the Board of Management or the Supervisory Board or a holder of another key function no longer meets the fit and proper requirements, an extraordinary review of this particular case will take place.
- Finally, all persons covered by our Fit and Proper Policy have an obligation to keep their knowledge up-to-date at all times, for example by means of appropriate continued education programs. With respect to propriety, the respective compliance departments offer regular training and continued education programs in fair and regulatory conduct of business. These may concern such subjects as combating corruption and antitrust law. For members of the Supervisory Board, the company offers regular training sessions that provide in-depth information on subjects of relevance to the work of the Supervisory Board. In addition, Supervisory Board members have a budget for external continued education programs.

B.3 Risk Management System including the Own Risk and Solvency Assessment

B.3.1. Risk management system

The organizational structure and workflows of the risk management system of AGCS SE make it possible to control risks in an integrated manner and ensure that risks assumed are consistent with the company's risk-bearing capacity and, specifically, with the risk appetite defined in the risk strategy. The organizational structure and workflows of the risk management system follow a top-down approach: The highest control function is that of the Supervisory Board, which, together with the Board of Management, assumes responsibility for the company's risk profile and the required committees.

1. Supervisory Board of AGCS SE

The Supervisory Board of AGCS SE oversees and advises the Board of Management on managing the business. This includes the control of the adequacy and effectiveness of the risk control system. The Supervisory Board is regularly informed about the risk strategy, current solvency, the financial situation and the profitability of AGCS SE. This also includes the results of internal and external audits. To be able to perform its supervisory and control function in an adequate manner, the Supervisory Board also has the right to request the direct transmission of information from the Internal Audit function.

2. Board of Management of AGCS SE

The Board of Management of AGCS SE has the ultimate responsibility for the company's business as well as its organizational structure and work processes. Its responsibilities include:

a. Implementation of the AGCS Risk Policy within the organizational structure and work processes of AGCS SE as well as the business guidelines to the extent that these are adequate for the business and the corresponding risks of AGCS SE.
b. Development and implementation of the risk strategy of AGCS SE, the risk appetite defined therein and the limits, as well as aligning the risk strategy with the business strategy of AGCS SE and the Allianz Group's risk strategy.
c. Setting up a risk management function which is responsible for the independent monitoring of risks under the responsibility of the AGCS SE Chief Finance Officer.
d. Definition and implementation of risk management processes, including processes for assessing the company's solvency.
e. Use of the internal model and its adaptation to the business of AGCS SE.

In case of the delegation of one of the above responsibilities to a committee, it must be ensured that all members of the Board of Management:

a. Are informed about risk management subjects and are aware of the decisions that have to be taken.
b. Have the right to personally participate in the committees to state their opinions or concerns.
c. Are informed completely and in a timely manner about the committee's decisions.

An overarching risk management system is defined by implementing guidelines and standards for the organizational structure, the risk strategy, the system of limits and documentation and reporting requirements. These guidelines ensure that there is prompt and complete communication about risk-relevant developments within the company and the decisions taken, as well as a predefined process for making and implementing decisions.

B.3.2. Risk management approach and risk strategy

B.3.2.1 Risk management approach

For AGCS SE as an international insurance company with industrial and corporate clients, risk management is a core competency and thus an essential component of its business processes.

The purpose of AGCS SE's risk management is to increase the company's value sustainably by considering the risk and earnings situation with respect to each other. The risk capital policy is applied with the objective of protecting the capital base of AGCS SE, reinforcing its financial strength and fulfilling the tasks arising from the insurance business. The risk management system can help to

protect AGCS SE's financial strength in the interest of the shareholders while safeguarding the claims of the policyholder. Our risk management includes the necessary strategies, processes and reports for identifying, assessing, observing and controlling existing and potential risks. Another core element of risk management is translating risk drivers, dependencies and capital requirements for risks into decision templates for management by attributing risks and their capital requirements to segments and regions. AGCS SE supports the company's risk culture with a comprehensive, systematically implemented risk governance structure.

B.3.2.2 Basic Principles of Risk Management

Risk management at AGCS SE assesses the company's risk bearing capacity. It is based on a coherent understanding of the risks assumed and the processes of risk management as well as the corresponding control mechanisms. In this process, risk management applies the following basic principles:

Basic principle 1: Responsibility of the Board of Management for the risk strategy

The Board of Management of AGCS SE establishes and adheres to the risk strategy and complies with the corresponding risk, which is regularly aligned with the business strategy. The risk strategy constitutes a general approach to the management of all material risks that arise in the framework of the business activity and the pursuit of business objectives. The risk tolerance for all material, quantifiable and non-quantifiable risks takes into account shareholder expectations, regulatory requirements and the requirements of rating agencies. Both the risk strategy and the risk tolerance are reviewed at least once per year, and, if necessary, adjusted and communicated to all functions concerned.

Basic principle 2: Risk capital as key control parameter

Risk capital is the key control parameter for defining the risk appetite as part of the company's solvency assessment. It serves as the key indicator for the company's decision-making and risk management processes in view of the allocation of capital and the setting of limits. In this context, capital is considered to be an available financial resource. In essential business decisions, their effect on the risk capital is taken into account.

Calculations and aggregations are performed consistently across all business segments in order to establish a standard for measurements and to be able to compare risks.

Additional stress testing and scenario analyses are performed as part of the Solvency Assessments to ensure adequate risk bearing capacity in case of unexpected, extreme economic losses.

Basic principle 3: Clear definition of the organizational structure and the risk management processes

AGCS SE has established an organizational structure that is clearly defined and covers all risk categories. This organizational structure also defines the roles and responsibilities of all functions involved. This structure is communicated clearly and completely to all functions concerned.

Basic principle 4: Consistent risk assessment

Relevant risks, including both single risks and risk concentrations, are measured across al risk categories using consistent quantitative and qualitative methods. Quantifiable risks are covered by risk capital calculations with the internal model or the standard model. Risk assessments and calculations are clearly defined in the risk capital regulations of AGCS SE and ensure a consistent approach within the Allianz Group. The results are analyzed and evaluated with the help of statistical models and quantitative expert assessments.

Single risks that cannot be quantified with the risk capital model, as well as complex risk structures resulting from a combination of multiple risks from one or more risk categories are assessed with the help of qualitative criteria and partially simplified quantitative methods (e.g. scenario analyses).

If a quantification is not possible, the evaluation is made on the basis of qualitative criteria.

Basic principle 5: (Continued) development and integration of the limit system

AGCS SE has a consistent limit system than ensures compliance with the risk tolerance, defines the handling of concentration risks and – when appropriate – supports capital allocation. The limit system covers all relevant risks sizes and drivers of the risk capital and is supplemented by further operative limits. The limit system is regularly reviewed by the Board of Management in the framework of the risk strategy.

Basic principle 6: Mitigation of risks exceeding the risk appetite

If individual risks exceed their limit or the sum of risks exceeds the risk appetite, risks are appropriately mitigated. To do so, measures are defined to keep the risks again within the limits so as to be able to cover the planned risk appetite. These can be adjusted reinsurance solutions, strengthening of the control context, reduction or hedging of the risk position or an adjustment of the risk appetite.

Risk limitations are only applied in the framework of economically and legally imposed framework conditions.

Basic principle 7: Consistent and effective monitoring

Risk appetite and risk strategy have been integrated into a standardized process for the definition of limits, which comprises all quantifiable risks of AGCS SE and takes into account risk diversification and concentration. Clearly defined and strictly imposed reporting requirements and escalation processes make sure that in case of limit breaches, compliance with the risk appetite is reestablished and required risk limitation measures are taken immediately.

In addition, an early risk warning system, a reporting system for essential risks, an assessments of newly developing risks and a process for new product launches was established to identify new risks and new types of risks. The identified risks are regularly reported and examined.

Basic principle 8: Consistent risk reporting and risk communication

The risk management function of AGCS SE produces regular risk reports and, if necessary, additional ad hoc reports, which cover risk-relevant topics in a focused manner and are regularly submitted to the Risk Committee. These reports are supplemented by risk assessments that are particularly relevant for external stakeholders (supervisory authorities, rating agencies, etc.). The results of the Own Risk and Solvency Assessment (ORSA) are documented in the annual ORSA Report. The data and assumptions on which the information is based are embedded in a comprehensive control environment, which ensures appropriate data quality for complete, consistent and timely reporting to management.

In the ad hoc reporting system covers events that are unexpected with respect to the amount or size of the loss or can have an unexpectedly strong impact on the risk profile of AGCS SE. This impact concerns the income statement, the company's equity capitalization, the reputation, the continuation of business operations as well as non-compliance with regulatory or legal requirements.

The ad hoc and the regular reporting systems are subject to consistent materiality thresholds. Reports to the risk management function of the Allianz Group are made regularly in emails as well as regular or ad hoc meetings.

Basic principle 9: : Integration of risk management into business processes

Wherever possible, risk management processes are embedded directly within business processes, including strategic tactical decisions of the company as well as day-to-day decisions that can impact the risk profile. This comprehensive integration ensures that risk management exists foremost as a forward looking mechanism to steer risk and only secondarily as a reactionary process.

The risk culture fostered by the Board of Management of AGCS SE is essential for the success of this integration. By acting as a role model for a strong risk culture, the Board of Management demonstrates that the management of risks is an important factor for achieving business objectives.

Basic principle 10: Comprehensive and timely documentation

All business decisions that potentially can have a material influence on the risk profile of AGCS SE must be documented in a timely fashion. The documentation must be established in such a manner as to provide a clear understanding of its consideration of material risk implications. The adequate staffing of key functions is essential for the best possible implementation of all processes. For this reason, the Chief Financial Officer of AGSC SE consults with the Group Chief Risk Officer of Allianz SE in case of the hiring or dismissal of the Chief Risk Officer of AGSC SE and makes sure that the professional and personal qualifications of the Chief Risk Officer fully meet the requirements of the AGCS Fit and Proper Policy.

B.3.2.3 Fit and proper requirement

The Chief Risk Officer must have the qualification, experience and knowledge to meet his responsibilities. He must execute his task in a manner commensurate with the complexity of the business as well as the nature and size of the company. In addition, he must distinguish himself through honesty, integrity and a strong reputation and possess the corresponding skills and financial strength.

Essentially, the Chief Risk Officer must have the following knowledge:

- Knowledge of the regulatory framework and applicable requirements.
- Knowledge of financial and insurance markets.
- Knowledge of the business strategy and the business model of AGCS SE.
- Knowledge of the organizational structure and work processes.

B.3.2.4 Resources

The risk management function of AGCS and AGCS SE has sufficient resources to be able to meet its responsibilities properly and in a risk-oriented manner. Once a year, the tasks of the risk management function are discussed and determined for the coming year. In this process, the set priorities and tasks are also aligned with the qualification and number of employees to ensure the feasibility of priorities and tasks. Not only the available resources of AGCS SE are taken into account, but also the regional risk management functions in our subsidiaries.

In addition, reciprocal oversight is established in accordance with regulatory requirements between the key functions. This reciprocal oversight takes place between the Internal Audit, the Compliance function, the Legal Department, the Actuarial function, Accounting and the Risk Management function.

B.3.2.5 Risk strategy

The risk strategy of AGCS SE is the core element of the risk management regulations. It defines the risk tolerance, taking into account all material qualitative and quantitative risks of the company. The regulations are designed to make sure that all obligations with respect to our customers are met while at the same time generating sustainable added value for our shareholders

Our business strategy is determined by the Board of Management of AGCS SE, discussed with the Supervisory Board and coordinated with Allianz Group. In the strategic dialog and the planning dialog, business and risk strategy are coordinated with each other.

B.3.3. Policy framework for the organizational structure and work processes of risk management

AGCS SE has established an effective governance system to promote implementation of the business strategy, to ensure adequate monitoring and control of business risks and to guarantee compliance with legal requirements. This system includes guidelines for the methods used to assess risks, for the risk management structures and for the risk governance processes.

For capital market risks, credit risks, underwriting risks, business risks, liquidity risks, operational risks and reputational risks, additional guidelines define the risks entered into and stipulate the risk appetite for these risk categories. This risk appetite is the foundation for risk-based control of the business. In addition, the guidelines specify responsibilities and the scope of authority and define measures for

minimizing risk and for escalation if limits are exceeded. These guidelines for each risk category are to be regarded as supplements to the requirements and provisions in the overarching ORSA Standard, the Top Risk Scoping and Assessment guideline and Standard on Model Governance.

B.3.4. Specific materials risks for AGCS Global and AGCS SE

Top Risk Assessment policy framework

Top Risk Scoping and Assessment (TRSA) is a periodic analysis of all material quantifiable and non-quantifiable risks to identify and remediate significant threats to financial results, operational viability or the delivery of key strategic objectives. The requirements with respect to Top Risk scoping are documented in the AGCS Risk Scoping and Assessment guideline.

The Top Risk Scoping and Assessment guideline provides consistency and transparency around the identification and management of the top risks of the company. Once the Board of Management has determined the top risks, these risks are assigned to the respective members of the Board of Management. The Board members are responsible for making the risk landscape transparent and for defining actions to mitigate the risk in case the risk tolerance set by the Board is breached. The outcome of this risk assessment is reviewed by the Risk Management function on a quarterly basis or ad hoc if needed and reported to the Risk Committee as well as to the Board of Management. In addition to the quarterly review, all quantifiable top risks are also modeled within the internal risk model.

The TRSA process for AGCS Global and AGCS SE is validated by supplementary risk and control assessments. It actively manages quantitative and non-quantifiable risks relevant to AGCS on a global level and the AGCS SE legal entity. It is a key instrument for the Board of Management to take over ultimate responsibility for these risks. The TRSA process is divided into four phases:

1. Identification (annually)
2. Analysis & evaluation (quarterly)
3. Steering (quarterly)
4. Monitoring (quarterly)

B.3.5. Internal Risk Capital Model

The internal risk capital model of AGCS SE is based on a Value-at-Risk (VaR) approach that uses a Monte Carlo simulation. This approach determines the maximum loss in the portfolio value of our businesses in the scope of the model within a specified timeframe (holding period) and probability of occurrence (confidence level). We assume a confidence level of 99.5% and apply a holding period of one year. The risk simulation considers the risk events of all moderate risk categories (risk sources) and computes the value of the portfolio on the basis of the fair value of the assets minus the fair value of liabilities under potentially unfavorable conditions.

The required internal risk capital is the difference between the portfolio's current value and its value under unfavorable conditions, determined on the basis of a 99.5% confidence level. Since the influence of both favorable and unfavorable events on all risk sources and all business units within the scope of the model is considered simultaneously, diversification effects beyond products and regions are also taken into account. With the results of our Monte Carlo simulation, AGCS SE is able to analyze the risk related to each risk source both separately and in connection with other risk sources. Particularly with respect to market risk, we also analyze several pre-defined stress scenarios, which are based either on historical or hypothetical market movements. The model approach used also makes it possible to identify scenarios that have a positive effect on solvency.

The internal model covers all quantifiable material risks. It takes into account market risk, credit risk, underwriting risk, business risk and operational risk.

Material risks, which are not completely considered in the calculation of the solvency capital requirements, are exclusively non-quantifiable risks such as reputational risk, liquidity risk and strategic risk. Conceptually, these do not fall into the area of application of the internal model and are accounted for in other risk management processes.

Description of Risk Categories

The risk categories relevant for AGCS SE are described in the following table:

Risk category	Definition
Market risk	Unexpected losses arising due to changes in market prices or parameters influencing market prices, as well as the resultant risk from options and guarantees that are embedded in contracts or from changes to the net worth of assets and liabilities in related undertakings driven by market parameters. In particular, these include changes driven by equity prices, interest rates, real estate prices, exchange rates, credit spreads and implied volatilities. Therefore, it also includes changes in market prices due to a worsening of market liquidity.
Credit risk	Unexpected losses in the market value of the portfolio due to deterioration in the credit quality of counterparties including their failure to meet payment obligations or due to non-performing instruments (i.e. overdue payments).
Underwriting risk	Financial losses due to unexpected high future losses, including those due to natural or man-made catastrophes as well as run-off losses from existing claims reserves.
Business risk	Losses due to unexpected high lapse rates in the in-force business and the corresponding loss of income as well as continuing high overhead in the face of declining new business.
Operational risk	Unexpected losses resulting from inadequate or failed internal processes and systems, from human misbehavior or errors or from external events.
Reputational risk	Unexpected drop in the value of Allianz share price, value of in-force business or value of future business caused by a decline in the reputation of Allianz Group or one or more of its specific operating entities from the perspective of its shareholders.
Liquidity risk	Unexpected financial losses due to nonfulfillment of current short-term or future payment obligations or if fulfillment is based on adverse changes in terms and conditions, as well as the risk of refinancing at higher interest rates or through the sale of assets at a discount during a liquidity crisis.
Strategic risk	Unexpected negative changes in the value of an operating entity arising from the adverse effect of management decisions regarding business strategies and their implementation.

Adequacy of internal risk capital model to business profile and model governance

The use of the internal risk capital model is subject to approval by the Board of Management of AGCS SE. The respective operating entities need an initial approval of the model and ongoing confirmation of its appropriateness. According to Solvency II requirements, a set of compulsory model governance and control principles, which, for example, cover the model change process, apply to the whole lifecycle of the internal risk capital model.

In order to ensure that the internal risk capital model reflects the risk profile of AGCS SE and incorporates state-of-the-art risk management practices, all stakeholders are encouraged to submit requests for model changes/improvements, which are then considered in accordance with established model governance processes.

The Allianz Internal Model Governance Framework encompasses the governance rules and principles to ensure the initial and ongoing appropriateness of the internal risk capital model.

The framework covers the whole lifecycle of the internal risk capital model from its development to its implementation and use. The most important topics include: model changes, model updates, validation, approval, implementation and operational use, and the monitoring of ongoing appropriateness for use. The following standards and documents constitute the main model governance building blocks.

AGCS Standard for Model Governance

The AGCS Standard for Model Governance sets the rules and principles for ensuring the appropriateness of the internal risk capital model:

- All elements of the internal risk capital model must go through a structured validation and approval process before the model may be used.
- A validation process takes into account all relevant qualitative and quantitative aspects and ascertains the adequacy of the internal model with regard to the risk profile of the business and its reliability as input for risk decisions.
- There must be controls in place to prevent or detect errors during operative use of the internal model.
- There must be ongoing documentation of all quantitative and qualitative components of the internal model to provide evidence of model appropriateness.

With respect to model validation, the following approaches applied:

- The model owners assess whether the results produced by the model are appropriate and whether the existing documentation is sufficient.
- Independent validation considers model-specific validation topics, such as coverage, methodology, calibration, data, calculation methods, results, and documentation, as well as qualitative aspects including model governance, expert judgment, data quality, and use test.
- At the local level, suitability assessments must be performed to assess where the central model components are appropriate and take into account local specificities.
- Transversal model validation is employed to validate the entire model, taking into consideration the results obtained across all validation areas and the interrelation between them.

Annual validation report

- The annual validation report is produced to document the results of the regular model validation process and confirm the appropriateness of the internal risk capital model overall, as well as its fulfillment of Solvency II regulatory requirements.

Allianz Standard for Model Change

The Allianz Standard for Model Change adopted by AGCS SE sets rules and principles to ensure the appropriateness of internal model changes:

- The internal risk capital model may need to be changed after initial validation and approval to ensure that it remains appropriate after the occurrence of events that require model changes (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 the changed model can be used.
- The decision-making body for approving model changes depends on the materiality and proportionality of the model component.
- The quantitative impact of individual changes, as well as the combined impact of multiple changes are analyzed as an integral part of the model change process.
- Model changes are – in accordance with model governance – subdivided into greater, smaller and non-essential model changes, whereby the sum of several smaller and non-essential model changes can be the equivalent of a greater model change. In the reporting period the process and the quantification of the combined influence of several smaller and non-essential model changes were reconciled and specified with the authorization process for greater model changes.

The responsible governance roles and committees for the internal model are described below:

- The model responsibility lies with the expert functions for the respective risk categories. They develop their own model components and, if necessary, they evaluate central model components with respect to their suitability for AGCS and are responsible for the ongoing suitability of the model for each respective risk.
- The governance and coordination function of the internal model is responsible for overarching validation and coordinates greater model changes, the annual validation report as well as the authorization process with the Board of Management. In accordance with the framework, the Board can delegate authorizations to the AGCS Risk Committee.

B.3.6. Own Risk and Solvency Assessment (ORSA)

Own Risk and Solvency Assessment (ORSA) is the comprehensive term for a multitude of activities that are related to each other and cover the entire annual period. These activities enable AGCS to ensure a sufficient and balanced ratio between own funds and risks assumed on a continuing basis.

The following steps of the ORSA process are of particular importance:

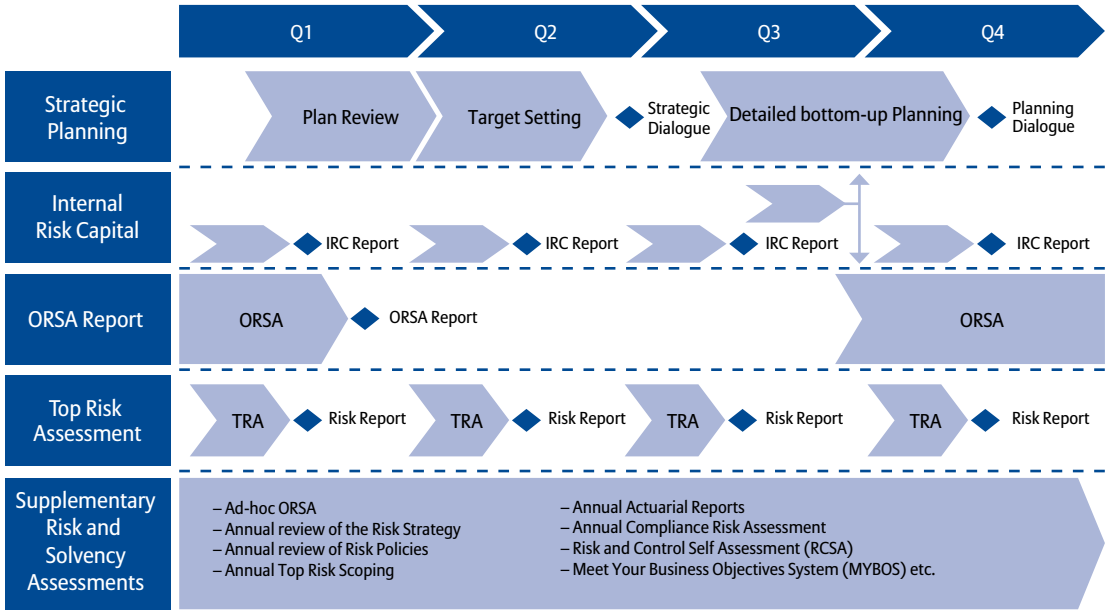
- Ensuring the consistency of business strategy and risk strategy: as part of risk planning, the operative planning result derived from the business strategy is reviewed with respect to the company's risk bearing capacity. In addition, risk tolerances for the planning period are determined from the planning results. The future tolerances and the corresponding concepts are defined in the risk strategy or in documents related to the risk strategy. This process ensures the consistency of business and risk strategy.
- Risk capital calculation: the risk capital is determined in reference to market, credit, underwriting, business and operational risks on the basis of the internal model. The total risk capital corresponds to the sum of the individual categories, reduced for diversification effects and deferred taxes.

- Determination of the sensitivity of the solvency situation with stress scenarios.
- Limit system maintenance: the results of the planning process are analyzed with respect to their effect on capital resources and, if necessary, limit adjustments for the next fiscal year. In the course of the year, compliance with the limits is continually monitored and, if necessary, measures are taken to ensure their utilization within the framework provided. Limits exist for financial, credit and underwriting risks.
- Top Risk Assessment: AGCS SE annually conducts a top risk identification process to identify and evaluate all material risks resulting from the business model. Top risk identification is an expert process that involves all essential stakeholders. There are no specific rules for determining the risks; rather, this depends on expert knowledge and assessments and – if appropriate – the results of the internal model. Each individual risk is evaluated on an estimate of the loss amount and frequency. The frequency selected varies as a function of the scenario chosen by experts and which generally reflects a scenario from the internal model. On a quarterly basis, the risk situation with respect to material risks is reported to the Top Risk Assessments Meetings and – if necessary – risk mitigation decisions are taken.
- Capital management: ensuring at any time an adequate capitalization with respect to regulatory requirements, rating capital requirements and market specific requirements is essential for AGCS SE.
- The calculation of economic and regulatory solvency positions as well as their sensitivity to stress scenarios.
- Examining the appropriateness of the internal model: the internal model for determining the internal risk capital is validated regularly to make sure that the model correctly reflects the company's risk profile. In addition, changes in the model are also examined with respect to their appropriateness for AGSC SE.
- Effectiveness of the internal control system: determination of the effectiveness of the internal control system by taking into account the latest results of control tests, audit reports and reviews and assessment by external providers.
- Ad hoc risk assessments: the regular ORSA processes described above are supplemented, in case of need, with non-regular assessments of the risk profile. The need exists if significant changes in the risk profile of AGCS SE are occurring or are to be expected.

Execution of the ORSA is closely interconnected with business requirements. Some ORSA-related processes are conducted quarterly, e.g. risk reporting, while other processes that are related to strategic decisions, take place annually or on an ad hoc basis.

The findings of the ORSA processes provide support for business decisions. For example, the draft proposal for changes in the reinsurance structure includes the essential potential impact on financial indicators, limit utilization and risk capital.

The most important processes, their timelines and their interconnection are presented in the following chart:



The appropriateness of the ORSA processes is reviewed annually.

The results of each ORSA and the measures decided are summarized in an ORSA report. The production of the ORSA report is coordinated by the risk management function and contains all risk related information that is relevant for the result of the ORSA assessment.

The regular ORSA report is finalized in the second quarter of the fiscal year and approved by the Board of Management.

Annual reporting is adjusted to take into account reviews of prior year ORSA reports (e.g. by Group Audit) or changes in external requirements. In compiling the report, the input from essential stakeholders in the areas of capital management, underwriting, investment management, reinsurance and accounting as well as regulatory changes is taken into account.

The final draft of the ORSA report is submitted to the CRO for review. The AGCS SE Risk Committee discusses the results and decides whether it can recommend approval of the ORSA findings and the corresponding ORSA report or whether the risk management function should coordinate further changes before the report is once again submitted to the Risk Committee.

Following the recommendation by the Risk Committee, the ORSA report is submitted to the Board of Management AGCS SE for approval. As a last step, the ORSA conclusions and the corresponding report are made available to the BaFin supervisory authority and all persons holding a key role in the decision-making processes in connection with company strategy, risk strategy as well as risk and capital management (e.g. the key function owners of AGCS SE).

The ORSA report for fiscal 2017 contains no criticisms or material recommendations to the Board of Management. Rather, the overall risk solvency situation was found to be stable and comfortable at the reporting date of December 31, 2017 as well as over the entire planning period.

B.4 Internal Control System

AGCS SE has implemented an internal control system, the so-called ERIC system ("Enterprise-wide Risk-based Integrated Control System"), to continually control significant operational risks for AGSC SE through control activities and to make sure that the corresponding key controls are effective. This system is defined in a written internal guideline and based on internationally recognized control frameworks such as COSO (Committee of Sponsoring Organizations of the Treadway Commission). In compliance with legal and supervisory requirements as well as Allianz Group regulations, it aims for the following objectives:

- The achievement of strategic business objectives is effectively supported and the business activity of AGCS SE is insured.
- Governance elements and business processes are effective.
- Compliance with applicable laws and regulatory requirements as well the as internal directives of Allianz and AGCS SE.
- The processes for internal and external financial reporting as well as for regulatory reporting produce complete, error-free information to effectively support internal management decisions and at the same time meet the expectations of external stakeholders.

As part of the ERIC system, those key controls are formalized that are required to avoid or mitigate significant operational risks for AGCS SE. The ERIC system provides an overall view of these risks and controls and gives the Board of Management of AGSC SE the appropriate assurance that the above-mentioned objectives can be reached. Since the ERIC system uses a uniform approach to perform assessments of operational risks and controls within different functional areas, it also supports cooperation and the exchange of information between the key functions under Solvency II (Compliance, Risk Management, Actuarial and Internal Audit). The results of the activities in the framework of the ERIC System are stored in a separate database so as to, for example, ensure uniform reporting.

Overall, the ERIC system promotes risk and control awareness within the organization and creates transparency with respect to the responsibilities for risks and controls. The quality of key controls is structured and assessed efficiently. With the additional support of an effective risk management

system for operational risks, potentially significant operational risks are detected early on and the required measures can be taken to avoid or mitigate these risks, so as to comply with the operational risk tolerance set by the Board of Management of AGCS SE.

B.4.1. Essential elements of the ERIC-System

The internal control system concerns operational risks. However, to improve the readability of the following explanations, the word 'operational' been has omitted.

The ERIC system is based on the following principles:

- Focus on significant risks
- Focus on key controls
- Promotion of positive risk and control awareness
- Effectiveness of key controls
- Documentation of risks, controls and business processes
- Use of service providers who are subject to the internal control system
- Control strategies such as the separation of tasks and the four-eyes principle

Risk and control assessment programs constitute the essential procedures to determine which operational risks are scrutinized by the internal control system. They focus on significant risks in view of the objectives defined above. All programs furnish their own view of the risk and control environment of AGCS SE and are mutually complementary. Due to the use of a consistent method in all programs, the available results can be used repeatedly and overlapping assessments can be avoided to the greatest extent. A balanced combination of these programs ensures the comprehensive nature as well as the effectiveness and feasibility of the ERIC system.

Significant risks and key controls are identified and evaluated on four levels:

- Management level (e.g. entity level controls, global operational risk assessment program)
- IT level (e.g. general IT controls and IT application controls)
- Process level (important business processes, financial and regulatory reporting)
- Supplementary level (e.g. programs with local, regional or functional focus)

The core process for the ERIC system follows an annual cycle that consists of four steps:

- Definition of the scope for risks
- Evaluation of risks and review of the control design as well as documentation/adaptation of controls and, if necessary, identification, remediation and re-examination of control weaknesses
- Testing of controls (e.g. testing their operative effectiveness) and, if necessary, identification, remediation and re-examination of control weaknesses
- Oversight and reporting

Testing of controls is particularly important to be able to demonstrate to external stakeholders that the internal controls are effectively applied and to build up and maintain the stakeholders' trust in the reliability of the internal control system. Clear and up-to-date documentation of key controls is a decisive prerequisite for the efficient testing of controls.

Missing key controls or key controls not implemented appropriately or not applied effectively are considered to be a control weakness that must be remedied. In collaboration with the risk management function, the materiality of the control weaknesses is assessed and a realistic, detailed plan for remediation is established. After the measures specified in the plan have been completed, the control must be re-examined once again.

The above steps are accompanied by the so-called ERIC Advisory Committee of AGCS SE in which the following functions are represented as voting members:

- Risk management
- Legal
- Compliance
- Actuarial
- Accounting
- IT-Governance
- IT security

In addition, Internal Audit participates without voting rights. This composition supports the so-called reciprocal oversight between the key functions and thus compliance with the corresponding regulatory requirements. The ERIC Advisory Committee regularly forms an opinion on:

- The completeness and consistency of the ERIC Systems
- The operative execution of the processes under the ERIC system
- The appropriateness and completeness of the scope for risk and control assessments
- The effectiveness of the ERIC systems and in particular the materiality of possible control weaknesses
- The appropriateness and effectiveness of the governance system

Risk Management coordinates and supervises all activities that are required for the ERIC system, in particular the remediation of control weaknesses. It regularly makes available an up-to-date overview to the ERIC Advisory Committee and to the AGCS SE Risk Committee.

At least once a year, the Risk Management function establishes a so-called ERIC report, which is first submitted to the ERIC Advisory Committee for review and then to the AGCS SE Risk Committee for approval and to decide upon the overall effectiveness of the ERIC-System, including the governance system. Finally, the report is submitted to the AGCS SE Board of Management for approval.

B.4.2. Concept and objectives of the Compliance function

The global compliance concept follows the structure of AGCS SE.

The objective of the Compliance function is the mitigation of risks that are related to regulatory and legal requirements and their implementation. In addition, the Compliance function protects the reputation of AGCS SE. The Compliance function also sees itself as an active advisor of the organization in all questions related to compliance.

The Compliance function comprises the Compliance department and other organizational units that (partly) perform tasks of the Compliance function. In addition, the Global Integrity Committee is part of the Compliance function.

The risk areas assigned to the Compliance department include:

- Corruption
- Money-laundering and terror financing
- Economic sanctions
- Capital market compliance
- Sales compliance
- Antitrust compliance
- Internal fraud

The risk areas assigned to other organizational units that (partly) perform a task of the Compliance function include:

- Data privacy
- Foreign Account Tax Compliance Act (FATCA)
- Criminal law

The Governance functions comprise all other departments with a clear responsibility for the monitoring and assessment of the respective applicable legal or regulatory requirements, the implementation of processes and controls and the introduction of required internal quality insurance measures.

The risk areas attributed to the Governance functions (actuarial, financial reporting, other financial areas and market management) include, for example, financial reporting standards, actuarial principles, insurance sales regulations, outsourcing regulations, labor law and complaints management.

The responsibilities of the Compliance and Governance functions areas defined in the AGCS Compliance Policy and the AGCS Governance Policy. These also comprise the respective organizational structures and operating procedures as well as the corresponding risk areas. The framework for a global organization is supplemented by detailed global guidelines and work instructions. In addition, the code of conduct is a central building block of the compliance management system, particularly for fostering a uniform understanding of compliance within AGCS SE.

The Compliance function is organized in such a way that it can act independently and in accordance with the concept of the three lines of defense. Independent in this context means that no undue influence can be brought to bear on the Compliance function.

The Global Compliance Officer has a direct reporting line to the Board of Management of AGCS SE as well as the Global Head of Legal & Compliance. In addition, he has a functional reporting line to the Group Chief Compliance Officer of Allianz Group.

The Global Compliance Officer reports regularly to the Supervisory Board of AGCS SE and to the Board of Management of AGCS SE. Compliance reporting contains the results of the preceding compliance risk assessment, possible changes in the compliance risk profile, overviews of current compliance activities, status of compliance reviews/audits, a summary of reported, relevant violations and/or deficits and recommended correction measures.

The Compliance function has the right of unrestricted access to information in fulfilling its compliance tasks. The right to information includes, for example, the request of relevant information from company-internal units and the communication with employees for the purpose of obtaining information. This unrestricted access can be limited to individual persons from the compliance area.

The Board of Management of AGCS SE is responsible for the organizational and operational structures and procedures for ensuring adherence to the AGCS compliance directive as well as the allocation of the corresponding risk areas to the Compliance function and the Governance function. It establishes and maintains an effective Compliance function that is adequate with respect to the compliance risk exposure of the organizational unit. The Board of Management appoints the Global Compliance Officer.

The Global Compliance Officer is responsible for the implementation of the compliance principles and processes as described in the AGCS Compliance Policy. This also includes the reporting of essential compliance-related incidents to the Global Integrity Committee. In terms of organization, the Compliance function is attached to the AGCS SE Legal & Compliance department. The Compliance function possesses a global network of legal and compliance experts.

The heads of the Governance functions are responsible to an equal extent for the implementation of governance principles and processes within their risk areas. Essential compliance incidents must be reported accordingly.

The AGCS Global Integrity Committee reviews all reported material compliance incidents at AGCS SE and is the decision-making body for all further measures. Other members of this body are the Global Heads of Risk Management, Internal Audit, Legal, Communication and HR.

B.4.3. Fit and proper requirement

The Global Compliance Officer holds the key function of the Compliance function. For this function, the Global Compliance Officer must be adequately qualified and have the requisite practical experience to be able to perform the tasks of the Compliance function in view of the complexity of AGCS SE and the principle of proportionality. He must be able to identify and evaluate the compliance risks of AGCS SE and to monitor compliance with relevant internal and external legal requirements and regulations as well as the corresponding processes. Furthermore, he must be able to detect and manage changes in the regulatory environment in a timely fashion and he must have the following knowledge:

- Knowledge of applicable internal and external legal requirements and regulations.
- Knowledge of insurance markets.
- Knowledge of the business strategy and the business model of AGCS SE.
- Knowledge of the internal operational and organizational setup of AGCS SE.

B.4.4. Resources of the Compliance function

The resources of the AGCS Compliance function are planned and used in such a manner that it can execute its tasks in an appropriate and risk-related fashion. The planning is done within the framework of the annual risk-related Compliance Plan.

In addition, reciprocal oversight is established in accordance with regulatory requirements between the key functions under the auspices of the ERIC Advisory Group. This oversight also considers the availability of appropriate resources for a function as part of the overall assessment.

B.4.5. Tasks of the Compliance function

According to Solvency II, the Compliance function and the Governance functions have the following tasks:

- Consulting activities, in particular advising top-level management on questions relevant to compliance
- Risk monitoring
- Early warning
- Monitoring and reporting

For the implementation of these tasks, the Global Compliance Officer has set up a governance management system at AGCS SE, coordinated with Group Compliance and within AGCS. The essential elements and processes are described in the AGCS Compliance Policy.

This compliance and governance management system comprises the following elements:

- Promoting a culture of integrity and compliance
- Providing training & communication
- Advising top-level management and the operating units
- Establishing and maintaining compliance principles and procedures
- Reviewing reports from employees and investigating incidents of non-compliance
- Interacting with regulatory authorities
- Monitoring observation of compliance rules and reporting

Essential processes of the compliance management system are:

- Performance of risk assessments

  The Compliance function regularly identifies and assesses the compliance risk associated with the business activities for the assigned/attributed risk areas. The results are documented and form the basis for the Compliance Plan. These assessments are coordinated with Risk Management in terms of methodology, timing and procedure.

- Establishment, coordination and updating of the compliance plan

  The Compliance department develops and implements an annual, risk-oriented Compliance Plan. This plan outlines the planned compliance control activities for the individual relevant risk areas including underlying time frames and takes into account the activities of the Allianz Group compliance plan. The annual Compliance Plan is submitted to the member of the Board of Management in charge of compliance and reviewed for necessary changes at least semi-annually.

- Investigation of compliance incidents

  The Compliance department adequately manages compliance breach-related incidents, if necessary by escalating them to the Global Integrity Committee. If required, the Compliance department can request support and assistance by specialists from other functions or request outside specialists to conduct an investigation.

- Monitoring the risk of legal changes

  The Compliance function continually monitors the relevant legal context of AGCS SE. Pertinent legal changes are analyzed at the local and global level with subject-specific focus; the findings are documented and appropriate risk-based measures are introduced. The database-supported process is deployed globally, reporting to the management of AGCS is risk-related and follows the established local and global reporting lines.

- Quality assurance procedures

  The Compliance function performs regular, risk-based monitoring of the adequate implementation and effectiveness of applicable compliance principles and procedures. This may include taking samples, conducting surveys or other analyses.

B.4.6. Material changes

No relevant organizational or procedural changes were made in reporting year.

A review of the Compliance Policy in the reporting year identified a minor need for adjustments and clarification of the general tasks of the governance and compliance functions as well as the underlying processes.

B.5 Internal Audit Function

Internal Audit is a key function within the internal control system of AGCS SE.

Internal Audit is an independent, objective review and advisory function with the aim of creating added value and improving the business processes of the organization. It supports the organization in achieving its objectives by using a systematic, targeted approach to evaluate and help improve the effectiveness of its risk management as well as its controls and its management and monitoring processes.

For this purpose, Internal Audit provides analyses, assessments, recommendations and information in the framework of its audit activities.

Within AGCS SE, Internal Audit has the primary audit responsibility for AGCS SE and all other insurance undertakings of the AGCS Group. At the same time, it is part of the worldwide Audit function of Allianz Group, which is functionally controlled by the Group Audit unit of Allianz SE. As the top-level group audit body, Group Audit monitors and oversees the audit activities of AGCS SE.

Internal Audit works for the Board of Management and reports directly to it. The head of Internal Audit has direct, unrestricted access to the Chairman of the Board of Management and the Supervisory Board, particularly to the Chairman of the Supervisory Board. The head of Internal Audit can also be asked to participate in the meetings of the Supervisory Board. The Chairman of the Supervisory Board can directly request information from the head of Internal Audit. Beyond that, Group Audit as the top-level corporate audit function has a professional surveillance and supervisory role.

In the first half of each fiscal year, the Board of Management receives an activity report that covers the entire AGCS Group for the past year. In addition, the Head of Internal Audit, as part of this annual reporting, confirms to the Board of Management and the Supervisory Board the organizational independence of Internal Audit.

The work of Internal Audit is based on a comprehensive, annually updated Audit Plan that covers all essential activities and business units (audit objects) of AGCS SE and the AGCS Group. As part of the annual planning process of Internal audit, a risk oriented assessment of the audit objects is made. Thereafter, an operating plan, derived from annual planning, is established. On top of this, each audit goes through the phases of audit preparation, execution, reporting and follow-up measures.

The preparation of the audit includes the analysis of the audit subject, appropriate risk assessment, familiarization with the subject of the audit, detailed planning of the audit process and gathering of information.

The audit phase itself comprises the following activities: opening interview, audit activities (field work), documentation of audit activities, determination of audit results, post-audit / final interview. The activities required for the audit are determined and documented in an Audit-internal document – the Audit Plan.

For each audit, Internal Audit immediately establishes an audit report as part of the reporting requirement. This report serves as a targeted, short and concise information about the subject of the audit and the audit results to the Board of Management, the executive management level in charge of the area audited and the audited units.

After having circulated the audit report, Internal Audit monitors the timely implementation of the measures agreed upon to remedy the observations made by the responsible units defined in the audit report (follow-up). In monitoring the progress of the implementation, Internal Audit follows up on all observations, independent of their risk content.

AGCS SE has an obligation to issue company-internal guidelines as part of its business organization. For this purpose, binding guidelines were issued (AGCS Audit Policy).

The AGCS Audit Policy for the Internal Audit is a company-internal guideline. On principle, it is reviewed annually as well as on special occasions. For this purpose, a central process has been established, which is coordinated by the Risk Controlling function. In this process, the unit responsible for the subject area first of all examines the guideline with respect to possibly required adaptations. The revised version is discussed with Risk Controlling and submitted to the Risk Committee for approval. In addition, essential changes are submitted for approval to the Board of Management and subsequently announced within the company.

The organization and proper implementation of the Internal Audit as a key function is executed in accordance with the AGCS Audit Policy approved by the Board of Management, taking into account the VAG supervisory requirements as well as the requirements of Group Audit. This guideline describes the organizational structure and position of the Internal Audit in the company as well as the principles of the audit activity, its tasks, its responsibilities, its essential processes as well as the reporting lines and information rights. The AGCS Audit Policy is based on the provisions of Group Audit Policy.

The AGCS Audit Manual supplements and specifies the AGCS Audit Policy and is reviewed and published

by the head of Internal Audit annually or on special occasions.

Internal Audit has an obligation to immediately report essential observations from its area of responsibility to Group Audit.

Internal Audit performs its tasks autonomously and independently. The Board of Management – within the framework of the AGCS Audit Policy approved by it – guarantees Internal Audit its professional independence in order to protect the functioning of the company's business organization (including information and audit rights). In addition, this independence is insured by the position of Internal Audit within the organizational structure; it is independent of the First and Second Line of Defense functions.

In conducting its audits and in its reporting as well as the evaluation of the audit results, the Internal Audit is not subject to any instructions or other influences. In the framework of its management rights, the Board of Management can order additional reviews, which in no way abrogate the autonomy and independence of the Internal Audit.

Internal auditors perform a balanced evaluation of all relevant circumstances and do not let their own interests or those of others influence their judgment. As a basic rule, employees working in Internal Audit may not take on any assignments that are not commensurate or appear to not be commensurate with the audit activity.

Internal Audit performs its audits with the required expertise and appropriate professional diligence. The members of the Internal Audit staff apply a maximum of expert objectivity in the collection, evaluation and transmission of information about the audited activities or business processes. Findings of the audit must be based on fact and backed up by sufficient proof.

Internal Audit can be asked for its evaluation of subjects that concern the internal control system. In this respect, Internal Audit must preserve its necessary independence and may not be involved in any decisive manner in the development, implementation and execution of processes and work instructions. In addition, this advisory activity should not be designed in such a way that it endangers the fulfillment of the core tasks of Internal Audit and the audit plan.

The resources of the AGCS Internal Audit function are planned and used in such a manner that it can execute its tasks in an appropriate and risk-related fashion. The planning is done within the framework of the annual Audit Plan.

In addition, reciprocal oversight is established in accordance with regulatory requirements between the key functions in the ERIC Advisory Group. As a rule, this oversight also considers the availability of appropriate resources for a function as part of the overall assessment.

B.6 Actuarial Function

The actuarial function (VMF) is embedded in the AGCS SE Actuarial department and headed by its owner, the Chief Actuary. The Chief Actuary reports directly to the CFO. In order to avoid any conflicts of interest, employees who carry out actuarial work for the underwriting department (so-called business actuaries) are not part of AGCS Actuarial.

Actuarial is divided into the following teams:

- Reserving and Analysis
- Actuarial Diagnostics
- Actuarial Risk Modelling

Since 2017, Actuarial Pricing Analytics is reporting to the Chief Underwriting Officer.

The Reserving & Analysis activities of VMF include chairing the meetings of the Claims Reserving Committee that are held at the end of each quarter. The basis for these meetings is the AGCS SE Loss Reserve Committee Charter. VMF makes sure that the technical provisions recommended to the Loss Reserve Committee are appropriate and the calculation processes are adequate, stable and integrated into an effective control system. The details and results of the analyses that led to the technical provisions written are summarized annually in the AGCS Reserve Report. In addition to the appropriate amount of the technical provisions, VMF also measures their uncertainty, which is used for calculating the risk capital. That ensures consistency between the reserving and the risk capital calculation with respect to the methods, data and assumptions used. The results of the analyses are summarized annually in the AGCS Reserve Uncertainty Report.

As part of its Diagnostics activities, VMF analyzes the portfolio development to be able to formulate its opinion of the underwriting and acceptance policy. The appropriateness of the reinsurance structure is supported by the provision of model parameters and benchmarks for all essential placements of obligatory reinsurance.

As part of its Actuarial Risk Modelling activities, VMF is in particular responsible for the modeling of the underwriting risk that is taken into account in the internal model of AGCS SE.

The Actuarial function performs its tasks in accordance with the AGCS Actuarial Policy and the two following functional guidelines:

- AGCS Reserving Guideline
- AGCS P&C Risk Modeling Guideline

The guidelines were issued by VMF and provide orientation for the department's activities in Reserving and Analysis, Actuarial Risk Modelling and Actuarial Pricing Analytics. Parts of the activities of Actuarial Diagnostics are subject to the AGCS P&C Risk Modelling Guideline. The AGCS Actuarial Policy is based on the provisions of the Group Actuarial Policy. Every year, VMF establishes the Actuarial Function Report, which is submitted to the AGCS Board of Management and contain a detailed account of all activities of VMF.

The resources of the VMF are planned and used in such a manner that it can execute its tasks in an appropriate and risk-related fashion.

B.7 Outsourcing

Since 2012, AGCS SE has its own Procurement & Outsourcing Policy to account for the growing importance of outsourcing. The AGCS Procurement & Outsourcing Policy takes into account all requirements of the Allianz Group Outsourcing Policy. Changes in the Group Outsourcing Policy have been reflected by corresponding amendments to the AGCS Procurement & Outsourcing Policy.

The AGCS Procurement & Outsourcing Policy in its currently applicable version 4.2 was approved by the Board of Management of AGCS SE in December 2017. An important change in the AGCS Procurement & Outsourcing Policy in 2017 is the introduction of key controls for important, critical outsourcing contracts.

The scope of application of the AGCS Procurement & Outsourcing Policy is:

1. AGCS SE including all its operating units
2. All legally independent companies subject to management by AGCS SE

Legally independent companies must integrate the AGCS Procurement & Outsourcing Policy by way of ratification into their respective internal systems of governance.

The AGCS Procurement & Outsourcing Policy governs in particular the following aspects:

- Definition of outsourcing
- Criteria for selecting suppliers, placing orders with them and managing them
- Definition of roles, responsibilities and authorizations
- Control rights during outsourcing (including termination)

A particularly important role is that of the Outsourcing function, which makes sure that the processes that are required for the monitoring and supervision of the outsourced functions and services are defined and implemented. This is done in coordination with the locally involved key functions (e.g. Legal, Compliance, Risk Management, Business Continuity Management, Information Security Officer, Allianz Group Functions) and to the persons responsible for the outsourcing contract.

The Outsourcing function is specifically responsible for the following main activities:

- Training the organizations on how to meet requirements from an outsourcing point of view
- Supporting all business owners in their activities to establish compliance with the AGCS Outsourcing Policy
- Central archiving of all outsourcing contracts (inventory) including the corresponding documentation and proofs (e.g. risk assessment, business plan, due diligence)
- Upon demand, reporting of AGCS outsourcing contracts to Allianz Group

The AGCS Outsourcing function uses an Outsourcing Toolkit to provide operative support for the outsourcing process. This toolkit is annually reviewed and adjusted in coordination with the AGCS Key functions.

Important outsourcing agreements of AGCS SE

Service provider to AGCS SE	Country	Description
AIM SE	Germany	Cash & Asset Management Services
PIMCO Deutschland GmbH	Germany	Asset Management Services
Allianz Technology SE[1]	Germany	Data Center Services
Allianz Technology SE[1]	Germany	Network Services
Allianz Technology SE[1]	Germany	Key Application Services

1. In the previous reporting period, Allianz Technology SE was still operating as Allianz Managed Operations & Services SE (AMOS).

B.8 Any Other Information

All material information about the government system has already been described in sections B.1 to B.7.

In the reporting period, there were no material changes of the governance system. There were also no material transactions with shareholders, persons having a decisive influence on the company or members of the Board of Management or the Supervisory Board.

C. Risk Profile

The risk profile of AGCS SE is essentially determined by underwriting and market risks. For the evaluation of risks, the internal model of Allianz Group is used. In addition, Top Risk Assessments establishes a complete risk inventory and evaluates risks that are not mapped out by the internal model.

In the following chapter, the risks for each risk category are described and evaluated. In addition, risk concentrations and risk mitigation techniques are presented to the extent that this is feasible.

C.1 Underwriting Risk

C.1.1. Risk exposure

Underwriting risks refer to risks that are inherent in insurance techniques, i.e. risks related to the development of insurance premiums, claims expenses and technical costs.

The most important technical insurance risk is the underwriting risk, which primarily refers to claims development. A distinction is made between premium risk, i.e., the risk that – due to unexpected future claims –there will not be sufficient premium income to finance them, and reserve risk, i.e., the risk that provisions will be inadequate to cover existing claims due to unexpected run-off losses.

The internal risk model of AGCS SE reflects both reserve and premium risks. In particular, it models the components catastrophe risk – consisting of natural disasters and man-made events – as well as terrorism risks and other (non-catastrophe) risks.

At December 31, 2017, the undiversified risk capital for the sum of these business risks amounted to €1 417 551 thou. The main drivers were the reserve risk and the premium risk for non-catastrophe business. After diversification, the corresponding risk capital for these risks amounts to €1 016 863 thou.

	31/12/2017 € thou	31/12/2016 € thou
Underwriting risk (diversified)	1.016.863	989 355
Non-catastrophe risk	607.631	589 575
Catastrophe risk	242.481	225 300
Terror risk	50.773	57 884
Reserve risk	516.666	523 626
Longevity risk	11.738	13 153
Business risk	76.655	85 358
Lapse risk	28.232	29 638
Cost risk	58.566	65 297

As business risks, the lapse risk and the cost risk are modeled. The undiversified risk capital for the sum of these business risks amounted to €86 798 thou at the end of the reporting year. After diversification, the corresponding risk capital for these risks amounted to €76 655 thou.

For all underwriting risks, AGCS uses models provided by the respective central functions of Allianz Group.

The modeling of underwriting risks is based on information from a number of internal and external sources, among them the accounting, actuarial, risk management, planning and controlling, claims, reinsurance and underwriting departments.

The most important information includes:

- Financial data such as premium income observed
- Loss data in the form of run-off triangles for modeling the reserve risk or individual losses for the modeling of future major losses
- Business planning, for example with respect to planned premium income or costs
- Information about the contract portfolio
- Existing reinsurance programs

For the natural catastrophe risk, detailed inventory data are used – for example the type and usage of the insured objects – to simulate a large number of possible events, including some that have not yet occurred. For this type of risk, detailed modeling on the basis of inventory data is more reliable than on the basis of losses observed, because these primarily cover the history but do not cover the full potential of possible future losses.

No material underwriting risk is transferred to special-purpose entities and there is no material exposure from off-balance sheet positions.

Risk concentration

The concentration risk of AGCS SE is on the one hand driven by man-made catastrophe whose loss potential and probability of occurrence are analyzed by a special work group headed by the risk management function, and on the other hand by natural catastrophes, among which storm and earthquake risks are the main drivers of the overall risk of AGCS SE.

At present, we see no risk concentration in the underwriting risk that could significantly influence the solvency ratio. We cover the risk of natural catastrophes and man-made catastrophes with appropriate reinsurance contracts.

Risk sensitivity

AGCS SE determines changes in the solvency ratio on the basis of sensitivity analyses. The essential stress defined for underwriting risks considers a combined loss of premium, reserve, business and operational risks with a return frequency of 1 to 5 years. If such as stress had occurred at the end of 2017, it would have caused a decrease of AGCS SE's solvency ratio from 174% to 159%. An adjustment of the risk capital after stress is not taken into account in this scenario

Scenario in € thou	Own funds	Risk capital	Solvency ratio
Base	2 851 944	1 635 934	174%
Stress	2 607 503	1 635 934	159%

C.1.1.1 Premium risk

Premium risk is subdivided into natural catastrophe risk, terror risk and non-catastrophe risk , whereby the latter presents the greatest premium risk by far.

The sum of the premium risks of AGCS SE at December 31, 2017, amounted to €900 885 thou before diversification. Compared to the prior year, this was an increase of €28 126 thou (3 percent). This changes is due to the update of the underlying portfolio and the corresponding reinsurance in connection with the updated model parameters. Catastrophe and non-catastrophe risk contributed to this increase to an equal extent, while terror risk declined slightly.

Premium risk is calculated on the basis of actuarial models that are used to derive loss distributions. Premium risk is actively managed by AGCS SE by means of risk assessments and underwriting limits that are part of the underwriting process and through reinsurance coverage that is commensurate with our risk appetite. Risk assessment as part of the underwriting process is a key element of our risk management.

C.1.1.2 Reserve risk

The total reserve risk of AGCS SE at December 31, 2017, amounted to €516 666 thou. Compared to 2016. This is a decline by €6 960 thou (1 percent). The main reason was a decrease of net loss provisions.

Reserve risk concerns the degree of uncertainty in the existing claims provisions. The existing provisions refer to the expected best estimate of the expenses for claims already known but whose actual amount has not yet been determined. The reserve risk is estimated on the basis of the development of claims settlements with mathematical methods consistent with those for determining best estimate provisions and refer to losses that may occur within the coming 12 months.

Our operating entities constantly monitor the development of provisions for insurance claims on a line-of-business level. In addition, the operating entities generally conduct annual reserve uncertainty analyses based on methods that are similar to the ones used for reserve risk calculations. The Allianz Group performs regular independent reviews of these analyses and Group representatives participate in the meetings of the local reserve committees.

C.1.1.3 Business risk

The total business risk of AGCS SE amounted to €86 798 thou at the end of the reporting year, €8 703 thou (10 percent) less than in the prior year, mainly due to the lower cost risk.

For the business risk, lapse and cost risks are modeled. The lapse risk refers to the possibility of unexpectedly high cancellations in the existing business and the corresponding loss of future profits. The cost risk reflects losses from continued overhead in case of a

decline of new business. Business risks are calculated in a simple model that directly takes into account assumptions concerning lapse behavior, new business and cost development.

C.1.1.4 Longevity risk

At December 31, 2017, the longevity risk of AGCS SE amounted to €11 738 thou. Compared to the prior year, this is a decrease of €1 415 thou (11 percent), which is due to the use of a changed yield curve for discounting pension liabilities.

The longevity risk exclusively results from the modeling of the pension liabilities risk.

C.1.2. Management of underwriting risk and risk mitigation

Natural disasters such as earthquakes, storms, and floods represent a significant challenge for risk management due to their accumulation potential and occurrence volatility. In order to measure such risks and better estimate the potential effects of natural disasters, AGCS SE uses special modeling techniques in which we combine portfolio data (such as the geographic distribution and characteristics of insured objects and their values) with simulated natural disaster scenarios to estimate the magnitude and frequency of potential losses. Where such stochastic models do not exist, or where existing models are not suitable for our specific business, we continue to monitor the engagements and cover them appropriately with external reinsurance protection and the internal risk capital model.

An important role in controlling premium risk is played by reinsurance. In accordance with existing underwriting ceilings, limits and retention management principles – which reflect the risk appetite of AGCS SE and are regularly reviewed – peak risks are ceded through facultative and contract reinsurance.

In addition, AGCS SE reinsures the entire German direct and indirect business with a quota reinsurance contract with Allianz SE. In turn, AGCS SE is given material securities through guarantee deposits made by Allianz SE with AGCS SE in the amount of the technical provisions for unearned premiums and loss reserves according to IFRS. At the end of 2017, the corresponding deposit amounted to €2 514 521 thou. The deposit itself was agreed upon to match the IFRS value of the reinsurance assets. In addition, AGCS SE held off-balance sheet guarantees in connection with fronting agreements for captives of about €271 237 thou.

C.2 Market Risk

C.2.1. Risk exposure

AGCS SE defines market risk as the risk of loss due to changes in market prices or parameters resulting in changes in market prices of financial assets and liabilities. This also includes the change in market prices due to a deterioration of market liquidity.

An inherent part of the insurance business is the investment of insurance premiums.

For this purpose, AGCS SE uses a wide range of different financial instruments. These investments back our customers' future claims and benefits. In addition, we invest our equity, which covers the capital requirements resulting from the insurance business.

Market risks are quantified by means of the internal model that is centrally developed by Allianz Group Risk, which also sets the parameters.

The following types of risk are taken into account in calculating market risk:

Equity risk / Equity volatility risk is the possible change of the portfolio value due to changes in the stock markets (price and volatility)

Interest rate risk / Interest volatility risk is the possible change of the portfolio value due to changes of interest rates or volatility

Real estate risk is the possible change of the portfolio value due to changes of real estate market values

Currency risk is the possible change of financial assets or liabilities due to exchange rate fluctuations

Credit spread risk is the possible change of the portfolio value due to changes of the credit spread

Inflation risk is the possible change of the portfolio value due to changes of inflation rates

The undiversified risk capital for the sum of all market risks at the end of the reporting year amounted to €1 852 503 (2 045 399). The main drivers at the end of 2017 were the equity risk, the currency risk and the

credit spread risk. After diversification, the total risk capital for market risks amounted to €900 359 (866 148) thou.

Market risk	31/12/2017 € thou	31/12/2016 € thou
Interest risk	145 337	197 235
Inflation risk	160 374	187 193
Equity risk	671 119	755 349
Crurrency risk	578 437	629 466
Real estate risk	90 184	81 457
Credit spread risk	205 938	185 395
Total market risk	1 852 503	2 045 399
Market risk (diversified)	900 359	866 148

The following sections present the development of each type of market risk over the course of the year, from the end of 2016 to the end of the reporting year. Also shown are the results of the sensitivity analyses derived from the internal model. As assumed, the decline of market value from the shock results in a loss of equity. But at the same time, risk capital is typically also reduced by the lower market value of investments.

C.2.1.1 Equity risk

AGCS SE invests in shares, participations and alternative investments that contribute to the equity risk. The entire investment portfolio is broadly diversified to reduce risks while at the same time benefit from the expected higher long-term return on investments, compared to other forms of investment.

The equity risk of AGCS SE at December 31, 2017, amounted to €671 119 (755 349) thou, a decline of €84 230 thou (11 percent) compared to 2016. This is due to a decrease of the market value of the strategic participations in AGR US and ART AG, which was negatively impacted by natural catastrophes as well as currency losses. On the other hand, there were risk-increasing positive market developments and lower hedging measures for other equity investments as well as new alternative investments (e.g. infrastructure investments).

Risk concentration

The strategic participations in ART AG and AGR US contributed 61 percent to the equity risk of AGCS SE.

In addition to strategic participations, other shares are part of a broadly diversified investment portfolio. The Credit Risk Platform (CRisP) and limits make sure that concentration risks in shares and participations are avoided.

Sensitivity

At December 31, 2017, sensitivity analyses indicated that a 30% decline in share prices (not taking into account strategic participations) would result in a decrease of the solvency ratio from174 percent to 167 percent.

Stocks -30% in € thou	Own funds	Risk capital	Solvency ratio
Base	2 851 944	1 635 934	174%
Stress	2 578 724	1 539 544	167%

C.2.1.2 Interest risk

At the end of the reporting year, the interest risk of AGCS SE amounted to €145 337 (197 236) thou, a decline from 2016 by €51 897 thou (26 percent). The reasons were a reduction of fixed-interest investments on the one hand, and a slight reduction of their maturity on the other hand. The decrease of fixed-interest investments was primarily due to the financing of the transfer of profit to Allianz SE.

AGSC SE controls interest risk in the framework of comprehensive asset liability management. Payment obligations in the property-casualty business are typically shorter in maturity then the investments backing them. AGCS SE bases the target duration on the assumption that it will continue to operate as a going-concern. This results in a longer duration on the asset side than on the liability side. This duration overhang implies interest rate risk. This risk is reported in the risk profile and controlled, among others, by sensitivity limits.

Risk concentration

The main contributing factor to the interest risk of AGCS SE was the change of the yield curve of the US Dollar, which contributed 49 percent, followed by the change of the yield curve of the Singapore dollar (16 percent). The 12 percent risk from the Euro yield curve was relatively small.

Sensitivity

At December 31, 2017, sensitivity analyses indicated that an increase of the interest rate by 100 basis points would result in an increase of the solvency ratio from 174 percent to 175 percent. On the other hand, a decrease of the interest rate by 100 basis points would lower the solvency ratio from 174 percent to 173 percent.

Interest +/-100bp in € thou	Own funds	Risk capital	Solvency ratio
Base	2 851 944	1 635 934	174%
Stress +100 bp	2 795 015	1 597 808	175%
Stress -100 bp	2 915 081	1 680 699	173%

C.2.1.3 Credit spread risk

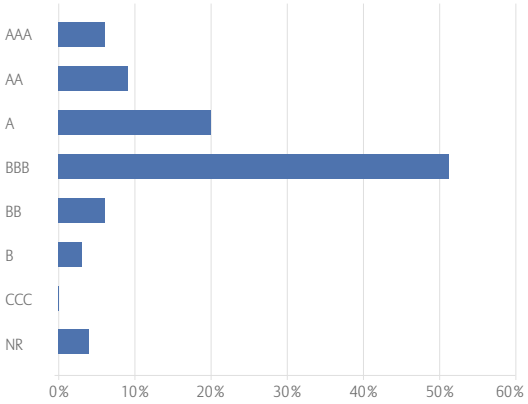
At the end of 2017, the credit spread risk of AGCS SE amounted to €205 938 (185 395) thou. Compared to the prior year, this is an increase of €20 543 thou (11 percent). This was due to two opposing effects: the risk was increased by the fact that the method for calculating the credit spread risk was changed at the beginning of the year, which resulted in a substantial increase of the credit spread risk. In the course of the year, the risk declined again because fixed-interest investments decreased as a result of the transfer of profit to Allianz SE.

Credit spread risk describes the risk of falling market values because of increasing interest rate premiums with respect to the risk-free yield curve. Growing premiums reflect an increasing risk aversion of market participants. The credit risk may also reflect changes in the credit quality of the issuers.

Credit spread risk is modeled completely by the internal model. Changes in market value related to spread changes generally do not result in long-term negative economic effects because as a long-term investor, AGCS can hold investments to maturity and fully realize the spread. This aspect is accounted for in the internal model by volatility adjustments.

Risk concentration

The credit quality of the AGCS SE portfolio is high. The following table provides an overview of the risk contributions to the credit spread risk according to rating classes.



Sensitivity

At the end of the reporting year, sensitivity analyses indicated that a rating-dependent stress scenario (increase of spreads by up to 150 basis points) would result in a decrease of the solvency ratio from 174 percent to 168 percent.

Credit spread stress in € thou	Own funds	Risk capital	Solvency ratio
Base	2 851 944	1 635 934	174%
Stress	2 713 586	1 613 090	168%

C.2.1.4 Inflation risk

Compared to the prior year, the inflation risk of AGCS SE fell by €26 819 thou (14 percent) and amounted to €160 374 (187 193) thou at December 31, 2017. This change mainly resulted from a partial risk transfer of the inflation risks from pension obligations to Allianz SE.

As an insurer, AGCS is exposed to changes of the inflation rate. Since inflation influences future claims expenses and costs, an increase of the inflation rate results in an increase of liabilities.

This is essentially driven by technical provisions and, to a lesser extent, by pension benefit obligations. Inflation assumptions are taken into account in product development, in calculations and in the internal model.

Risk concentration

The biggest share of the inflation risk came from inflation risks in the Euro zone with 54 percent and the US Dollar area with 27 percent.

Sensitivity

At the end of the reporting year, sensitivity analyses showed that an increase of inflation by 100 basis points would result in a reduction of the solvency ratio from 174 percent to 169 percent.

Inflation +100 bp in € thou	Own funds	Risk capital	Solvency ratio
Base	2 851 944	1 635 934	174%
Stress	2 771 397	1 636 114	169%

C.2.1.5 Currency risk

At the end of 2017, the currency risk of AGCS SE amounted to €578 437 (629 466) thou, a decrease from the prior year by €51 029 thou (8 percent). The main reason was the revaluation of the EUR and the corresponding decline of the market value of the strategic participation in AGR US.

As an insurance company with global activities, AGCS has assets and liabilities in many different currencies. AGCS SE has implemented a comprehensive process to identify and control foreign currency risks.

The local own funds of AGCS SE's subsidiaries in Singapore and Hong Kong are invested in the local functional currencies, Singapore dollar (SGD) and Hong Kong Dollar (HKD).

Risk concentration

The main contributor to the currency risk was the US Dollar with a share of 75 percent.

Sensitivity

Sensitivity analyses at December 31, 2017 confirm that a 10% devaluation of foreign currencies with respect to the EUR result in a decrease of the solvency ratio from 174 percent to 162 percent.

Currency -10% in € thou	Own funds	Risk capital	Solvency ratio
Base	2 851 944	1 635 934	174%
Stress	2 564 092	1 581 077	162%

C.2.1.6 Real estate risk

The real estate risk of AGCS SE at December 31 of the reporting year amounted to €90 184 thou – an increase by €8 727 thou (11percent) over 2016, which is attributable to a new investments and higher valuations.

AGSC considers real estate to be a valuable addition to the investment portfolio because it offers long-term stable and predictable cash flows. This and the good diversification characteristics outweighs the risks from a decline in the real estate market.

Risk concentration

In real estate, AGCS SE pursues an investment strategy focused on broad diversification. Therefore, there is no material concentration of the real estate risk.

Sensitivity

At December 31, 2017, sensitivity analyses showed that a decline of market prices by 20% would result in a reduction of the solvency ratio from 174 percent to 171 percent.

Real estate -20% in € thou	Own funds	Risk capital	Solvency ratio
Base	2 851 944	1 635 934	174%
Stress	2 790 604	1 628 263	171%

C.2.2. Market risk management

The Risk Management function of AGCS SE defines the framework conditions for the management of market risk. These comprise the internal guidelines for managing the portfolio as well as the preservation and continued development of market risk methods and models, the limit system and the corresponding reporting system. In addition, the responsibilities for market risk management are defined in detail in the Allianz standards. The corresponding reporting system is designed to provide internal decision makers (Board members or other executive management levels within AGCS SE) and external interested parties with relevant information about the current risk situation.

AGCS SE regularly establishes reports on the development of market risk and related indicators.

The Prudent Person Principle is the guiding principle for the management of the investment risk of AGCS SE (section 124 VAG).

- In accordance with supervisory law, the Prudent Person Principle comprises requirements at the portfolio level as well as the level of individual investments: investments are to be made in such a manner that compliance with basic investment principles – i.e. the desired degree of quality, security, liquidity, yield and availability of the investment portfolio – is insured in all respects. This also includes the necessity to structure the portfolio according to the type and maturity of the liabilities that are covered by these investments.
- Investments are permissible only if the risks are identified, measured, supervised, managed, controlled, reported and suitable to be integrated into the evaluation of solvency.
- In addition, the Prudent Person Principal defines criteria for the investment management function concerning process quality and employee qualifications.

Strategic Asset Allocation (SAA) defines the long-term investment strategy of AGCS SE and the framework for the actual investment portfolio. For this reason, SAA is an important and supplementary instrument for controlling market risk.

SAA is based on a detailed analysis of assets and obligations and takes into account in the risk bearing capacity of AGCS SE.

In the construction of the SSA, great care is taken to ensure an adequate target level for the quality and security of investments. This includes, for example, the analysis of ratings and additional guarantees as well as the preservation of a sustainable return. Adequate liquidity and availability of the complete investment portfolio must also be guaranteed at all times.

The risk management of AGCS SE sets balanced investment risk and the volume limits; these are used for the surveillance of the portfolio and of the sensitivity of market fluctuations from external shocks.

C.2.3. Risk mitigation

AGSC SE has implemented various measures to limit the effects of changes in the financial markets and to ensure that assets adequately back liabilities with respect to policyholders.

Asset liability management takes into account the risks from the internal model. In addition to the corresponding Allianz Group limits, AGCS SE has implemented a comprehensive risk limit framework in order to meet the requirement of the Prudent Person Principle.

AGSC uses derivatives to hedge the portfolio against adverse market movement (e.g. a put hedge on our share portfolio), to reduce the reinvestment risk (e.g. FX forwards) or to execute transactions more efficiently.

Our processes provide for the comprehensive monitoring of investments. For derivatives, in particular, an independent risk function – acting as second line of defense – monitors all open positions at least monthly, including relevant limits and exposures. Derivative strategies are additionally monitored in accordance with the first line of defense. If a limit breach occurs, the responsible local investment management must immediately report it. If required, countermeasures must be implemented. These may include the closing of positions, if this is considered to be necessary.

C.3 Credit Risk

C.3.1. Risk exposure

AGCS SE defines credit risk as the potential loss in portfolio value over a given time horizon due to changes of the credit quality of debtors in the portfolio, including default on or non-fulfillment of financial obligations. Default can either be the result of the deterioration of a counterparty's creditworthiness (migration risk) or the counterparty's inability or unwillingness to fulfill contractual obligations.

The main credit risk drivers for each instrument are default risk, ratings, guarantees and maturities.

Credit risk consists of the following partial risks:

- Counterparty risk, which consists of default and migration risks. It arises from loans and structured transactions like asset backed securities (ABS), over the counter (OTC) derivatives and, in reinsurance, financial guarantees and receivables from agents or other debtors.
- Concentration risk, which arises from the accumulation of credit risks with respect to a counterparty. The corresponding accumulations result in a higher amount of risk capital, contrary to the case that the same item was spread over different counterparties.
- Country risk, which consists of the transfer and foreign exchange risk. Transfer risk refers to the risk that a counterparty will not be able to meet its cross-border payment obligations because capital transfer is prohibited or restricted by currency moratoria. Foreign exchange risk refers to the risk that a counterparty will not be able to meet its payment obligations because currency conversion is prohibited or restricted.

The two following risks types are not included under credit risk at AGCS SE:

- Spread risk – which is caused by changes of the credit spreads while the credit quality remains unchanged – is separately covered in market risk.
- Settlement risk, which occurs when payments are exchanged and an institution makes advance payments without being certain at the time of the payment that the counterparty will make the corresponding payment.

The risk capital for the total undiversified credit risk amounted to €186 821 (235 795) thou at December 31, 2017. The main drivers for total undiversified credit risk were the credit risk from reinsurance and fixed-interest investments. Compared to 2016, this risk declined by €48 974 thou (21 percent). This is attributable to a more precise assessment of risks, particularly in reinsurance captives, by means of internal ratings, which resulted in a reduction of the credit risks calculated.

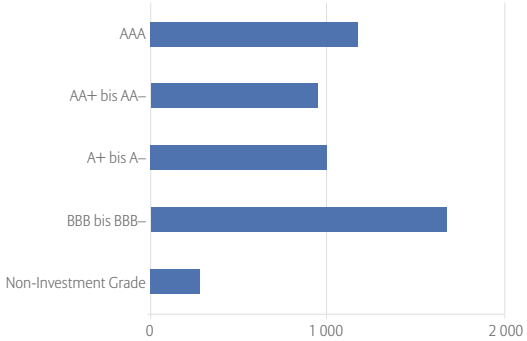
Credit Risk from Investments

Premium income and equity capital which are required to cover the risk underwritten, are to the greatest extent invested in fixed income securities. Typical investments are government bonds, corporate bonds, bearer bonds, promissory notes, mortgage loans, loans as well as derivatives in small volumes.

Due to the nature of our business, fixed income securities in the non-life insurance business are predominantly short-to medium-term which results in a lower credit risk.

The issuers of fixed-income investments of AGCS SE are primarily corporations, governments and banks. Overall, fixed-income investments are for the greatest part bonds from developed countries with investment grade ratings.

Fixed-income investments by rating class as of December 31, 2017, in € million, including fund holdings at fair value:



Credit Risk from reinsurance

Credit risk to external reinsurers arises when AGCS SE transfers insurance risk exposures to external reinsurance companies to mitigate its own insurance risk. Potential losses can arise either from the non-recoverability of receivables already due, or from default on reinsurance contracts.

The reinsurance partners are vetted by the Security-Vetting-Team (SVT). The team's activities include the examination of all cession made by AGCS SE and counselling with respect to the posting of the required guarantees. This makes sure that preference is given to companies with strong credit profiles. To further mitigate the exposure to credit risk, AGCS SE may require letters of credit, cash deposits or other financial guarantees.

Once a year, the financial solidity of reinsurance exposure is examined. This was done for the last time in September 2017 as of December 31, 2016. At that date, 74 percent of the company's reserves were ceded to reinsurers that had been assigned at least an "A" rating by Standard & Poor's. Setting aside captives

and pools, which for the most part have no ratings of their own, 90 percent of the reserves were ceded to reinsurers with at least an A rating.

The total of third-party receivables on December 31, 2017 – with a due date of more than 90 days – amounted to €194 339 thou (without explicit write-offs of receivables). The average default ratio for the last three years was 0.4 percent.

Risk concentration

The following table shows the distribution of the credit risk at year end 2016 and 2017.

% share of risk capital	2016	2017
Investments	33%	44%
Reinsurance	60%	47%
Receivables	7%	9%

The share of credit risk capital from reinsurance decreased in 2017 because of a more precise assessment of the credit risk from reinsurance captives. This resulted in a decrease of the risks calculated. The sum of the ten biggest positions (measured in terms of their contribution to the credit risk) with respect to the counterparty risk from investments and reinsurance amounts to €91 948 thou. This corresponds to 49% of the entire credit risk. The biggest counterparty is Allianz SE because of the group-internal reinsurance structure.

Sensitivity

The following table shows the sensitivity of the credit risk on the assumption that the rating is lowered by two classes[1].

Credit stress in € thou	Own funds	Risk capital	Solvency ratio
Base	2 851 944	1 635 934	174%
Stress	2 836 045	1 673 581	169%

The following table shows the sensitivity of the credit risk before diversification.

Increase of risk capital before diversification in € thou	31/12/2017
Devaluation by 1 rating class[1]	40 077
Devaluation by 2 rating classes	92 133
LGD[2] increase by 10%	16 168

1. Rating class refers to the rating sub categories, e.g. "AA+", "AA", "AA-" at Standard & Poor's or "Aa1", "Aa2", "Aa3" at Moody's.
2. Loss given default (LGD) designates the loss in case of a default on the claim.

C.3.2. Credit risk management

The framework for credit risk management has two essential objectives:

- Review and control of amounts receivables from individual counterparties – a way in which the company wants to reduce the risk of default of individual counterparties while at the same time ensuring adequate diversification across the entire portfolio.
- The guarantee that the capital of AGCS SE is at any time sufficient to reliably bear the credit risk assumed.

These objectives are achieved by mean of the following measures:

- Regular reporting on transparency and the management of the risks assumed
- Setting of limits
- Integration of the credit risk into business planning and capital management
- Taking into account credit risks in the rate calculation of insurance contracts

AGCS SE monitors and manages credit risk exposures and concentrations to ensure it is always able to meet policyholder obligations. This is also the purpose of the internal credit risk model and the CRisP limit system.

Due to the fact that credit risk is actively managed by means of credit limits and credit risk modeling, the company has a well-diversified credit portfolio. The long-term investment strategy – holding until maturity – ensures the stability of our portfolio even under unfavorable market conditions and enables us to generate planned excess yields throughout the entire holding period of the investment.

1. LIR = Liquidity Intensity Ratio

C.3.3. Risk mitigation

AGCS SE predominantly uses the following the risk mitigation techniques to mitigate counterparty risk arising from the following instruments:

Instrument	Risk mitigation
Derivatives	Standards require that remaining exposures (after netting) are collateralized.
Securities lending and repo transactions	Standards require effective netting mechanisms and full collateralization.
Reinsurance	All reinsurance partners are vetted by SVT. Depending on this assessment, we may require letters of credit, cash deposits, or other financial measures to further mitigate our exposure to credit risk.
Fixed-income securities	Standards generally require us to invest predominantly into high quality papers and limit highly concentrated portfolio exposures. When reasonable, collateralized investments are chosen. Good portfolio diversification is mandatory.

For the use of derivatives, the internal guidelines specify comprehensive requirements of the type, volume and management of the guarantees to be posted.

To a limited extent, AGCS SE conducts securities lending and repo operations. While these are not derivative business, detailed requirements with respect to the volume and quality of guarantees to be posted as well as safety mechanisms have also been defined. These risk mitigation measures are taken into account in the calculation of the credit risk. AGCS SE and its service providers regularly review the utilization of the risk mitigation techniques described above, as well as the observation of the corresponding limits (e.g. counterparty concentration limits for investments).

C.4 Liquidity Risk

Liquidity risk is defined as the risk that requirements from current or future payment obligations cannot be met or can only be met on the basis of adversely altered conditions. Liquidity risk can arise primarily if there are mismatches in the timing of cash flows on the asset and liability side.

The main goal of planning and managing the liquidity position of AGCS SE is to ensure that the company is always able to meet its payment obligations. To comply with this objective, the liquidity position of AGCS SE is monitored and forecast on a daily basis. Strategic liquidity planning over the entire fiscal year is regularly reported to all essential decision makers and the Board of Management.

As part of our strategic planning, contingent liquidity requirements and sources of liquidity are taken into account to ensure that AGCS SE is able to meet any future payment obligations even under adverse conditions such as combined market and catastrophe risk scenarios as well as lower-than-expected profits and dividends from subsidiaries.

AGCS SE manages the liquidity risk to make sure that available and required liquidity are adequately matched. The investment strategy ensures the adequate quality and liquidity of the investment portfolio, for example by investing in liquid securities such as highly rated government bonds or covered bonds. This also allows us to meet increased liquidity requirements in the case of unlikely events. We employ actuarial methods for estimating our liabilities arising from insurance contracts. In the course of standard liquidity planning we reconcile the cash flows from our investment portfolio with the estimated liability cash flows.

The liquidity risk is reported in a comprehensive framework to Allianz Group. The objective is a review of the liquidity position of AGCS SE and Allianz and to ensure adequate liquidity, even in stress scenarios.

As part of this framework, every insurance operating entity in scope is required to submit a quarterly liquidity risk report to the Group. Key features comprise a forecast of cash inflows and outflows with different time horizons, an assessment of available countermeasures including the sale of liquid assets, the application of various stress scenarios and an aggregation using KPIs such as the Liquidity Intensity Ratio (LIR). Thresholds for warning levels and limit breaches ensure that group management is able to quickly access the operating entities' liquidity situation under current and hypothetical aggravated market conditions.

Sensitivity

Compared to the prior year, the liquidity intensity ratio remained nearly unchanged. At December 31, 2017, AGCS SE had very good liquidity in all scenarios considered. The following table lists the LRI values for the one-year time horizon.

	31/12/2017			31/12/2016
AGCS SE	Sources € thou	Requirements € thou	LIR[1] %	LIR[1] %
Base scenario	8 738 023	4 002 005	46%	46%
Premium stress	7 164 682	4 002 005	56%	57%
Stress from claims payments	7 808 558	4 885 448	63%	61%
Derivatives stress	7 442 095	4 042 768	54%	54%
Combined stress	6 668 305	4 171 724	63%	62%
Individual stress	7 179 604	3 941 461	55%	55%

3. LIR = Liquidity Intensity Ratio

The total amount of the net profit calculated for future premiums amounts to €40 543 (30 569) thou.

Risk mitigation

Depending on the LIR value, there are different escalation levels, which require the participation of the AGCS Risk Committee.

Risk concentration

Essential components of the investment strategy of AGCS SE are liquid securities, a broad diversification of the portfolio and a limitation of the individual portfolio positions. This ensures the constant availability of liquidity.

Liquidity risks with respect to unexpected liquidity requirements result from the default of reinsurers as well as claims payments that exceed the planned amounts.

C.5 Operational Risk

C.5.1. Risk exposure

The Allianz Group, including AGCS, defines operational risk as unexpected losses resulting from inadequate or failed internal processes or which arise because of human misconduct, human error or external events. This definition includes legal risks, compliance risks and financial reporting risks. But it does not include strategic, reputational and project risks.

Operational risks are inherent in all types of products, activities, processes and systems and cannot be fully avoided. Contrary to most of the other risk types, they materialize suddenly and unexpectedly and can have significant impact on the balance sheet, profits, business objectives, business activities or the reputation of AGCS SE.

Operational risks are subdivided into the following categories:

- Willful misconduct
- Non-permissible actions by external persons
- Employment practices and workplace safety
- Business practices and product characteristics
- Damages to physical assets
- Business disruption and system failures
- Business process risks

The Internal Risk Capital Model of AGCS SE determines the risk capital for operational risks. This capital functions as a buffer that protects the company against extreme financial losses from unexpected operational risk events such as, e.g., the failure of key controls.

The risk capital model for operational risks is a highly automated, integrated stochastic simulation model. In a structured process, the parameters of the model are set in collaboration with experts under the lead of the Risk Management function. Modeling is performed on the basis of those operational risk categories named above, which are relevant for AGCS SE.

Concretely, the corresponding risk frequencies and amounts for each category are determined. To arrive at a meaningful assessment, the experts taken into account the following factors: the results of other activities within the management of operational risks, operational losses that have already occurred within AGCS SE and the Allianz Group and external operational losses.

At the end of the reporting year, the risk capital for operational risk amounted to €211 570 thou. Compared to the prior year, this was a decrease by approximately one third because the allocation factors for the distribution of the globally calculated

risk capital to AGCS companies were adjusted during the annual update of the technical provisions for the various business portfolios.

C.5.2. Management of operational risk

The risk management system for operational risks follows the Three-lines-of-defense model of Allianz Group. The employees of AGCS SE are basically aware of potential operational risks and they support the control and management of these risks by taking them into account in their daily business. In view of the positive risk and control culture, AGCS assumes that particularly the decision-makers are able to make transparent all identified weaknesses and risks so that the required countermeasures can be taken in due time.

Operational risks are principally managed on a cost-benefit basis, whereby the expected incremental value of loss reduction exceeds the associated costs of strengthening the controls. However, their may be exceptions to this cost-benefit approach, for example, when it comes to observing laws and regulations to protect the reputation of AGCS SE or in consideration of other strategic objectives.

For important risks, indicators and limits have been developed to determine the risk tolerance of AGCS.

The AGCS SE risk management system for operational risks was specifically developed to learn from past experience like operational incidents to avoid future surprises from operational risks for AGCS at a global level, i.e. to prevent the occurrence of operational risks outside the risk tolerance of AGCS SE.

First of all, one needs to gain an understanding of what could possibly go wrong. This is done in two ways:

- In retrospective, operational risk events are continually analyzed and their causes are determined. This also takes into account external operational loss data made available by Allianz SE.
- Looking forward – on an annual basis – concrete scenarios with potentially negative effects are analyzed.

With this structural approach, AGCS SE identifies, assesses and manages operational risks and controls weaknesses. Both views help to prioritize and focus efforts for effective operational risk management in order to make processes, systems, governance structures and procedures more robust and to proactively respond to anticipated internal or external changes. The objective is to prevent operational incidents or to reduce their negative impacts on AGCS SE. Since all relevant functions of AGCS SE participate in these analyses, they also help to identify possible structural weaknesses, which in certain cases might indicate a concentration of operational risks.

Even though operational incidents per definition often occur due to failures, the AGCS SE operational risk management framework does not focus on failures. Rather, it fosters a culture of operational risk transparency and considers failures to be opportunities for further improvement. AGCS SE strives to learn from adverse experiences and to identify potential weaknesses early on so as to avoid similar potential losses in the future. This mindset is a prerequisite for the effective management of operational risks.

Important activities supplement and support the risk management system of AGCS SE for operational risks. These are managed by functions other than the Risk Management function and include:

- Compliance initiatives covering anti-fraud, anti-corruption, anti-trust, economic sanctions, regulations for (non-admitted) cross-border business, insider trading, money laundering, sales compliance and data privacy protection.
- The framework for all AGCS SE procurement activities, including outsourcing.
- Information security initiatives.

C.5.3. Risk mitigation

Operational risks are managed through the establishment of a set of adequate and effective mitigation measures (i.e. controls associated with these respective risks). Important controls are defined as "key controls" if the actual risk would be significantly higher in the absence of a key control.

Due to the importance of key controls, their quality is assessed in a structured manner, i.e. key controls are tested in order to ensure that (1) they are properly designed to mitigate the intended risks and (2) they are effectively implemented. This is done within the framework of the Internal Control System of AGCS SE.

C.6 Other Material Risks

Strategic risk

Strategic risk is the risk of an unexpected decrease in the company's value arising from the adverse effect of management decisions on business strategies and their implementation.

In the Top Risk Scoring process, this risk was estimated at up to €20 million with a probability of occurrence of less than 1 in 10 years. The analysis is based on a scenario in which the company is unable to react adequately to changed market conditions. The estimated extent therefore lies within the risk tolerance of AGCS SE.

To ensure proper implementation of strategic goals in the current business plan, strategic controls are carried out by monitoring respective business targets. The company constantly monitors market and competitive conditions, Capital Market requirements, regulatory conditions, etc. to decide if strategic adjustments are necessary. In addition, strategic decisions are discussed in various Board of Management-level committees (e.g. AGCS Risk Committee, Underwriting Committee, Reinsurance Committee). The Chief Risk Officer participates in all strategically relevant committees. The assessment of the associated risks is a fundamental element of these discussions.

Reputational risk

The perception of AGCS SE as a well-respected and conscientious provider of financial services is influenced by our behavior in a range of areas such as product quality, corporate governance, financial performance, customer service, innovation strength, employee management, intellectual property and corporate responsibility. Reputational risk is the risk of a possible decline of the reputation of AGCS SE, which could lead to an unexpected drop in the value of the Allianz SE share price or a decline of future business volume.

In the Top Risk Scoring process, this risk was estimated at up to €40 million with low probability of occurrence. In the analysis, the maximum premium loss to be expected in case of a reputation event is quantified on the basis of possible scenarios. The possible underlying triggers are the Allianz ESG criteria: they define the rules for environmentally aware and socially just business behavior. The risk is actively managed by means of the existing processes that involve a number of different departments. The maximum financial impact to be expected in case of a reputation crisis lies within the risk appetite of AGCS SE.

Single reputational risk management decisions are integrated in the overall risk management framework. In addition, the reputational risk of AGCS SE and Allianz Group is treated by using a clearly defined reporting process on a case-by-case basis.

C.7 Any Other Information

All material information regarding the risk profile of AGCS SE has been addressed in the previous sections.

D. Valuation for Solvency Purposes

The following table shows the differences between the Solvency Overview (Solvency II) and HGB per line item of the Solvency Overview:

31/12/2017	Solvency II € thou	HGB € thou	Difference € thou
ASSETS			
Intangible assets	0	209,677	-209,677
Deferred tax assets	88 053	0	88 053
Pension benefit surplus	0	4,437	-4,437
Property, plant and equipment held for own use	22 291	22 291	0
Investments (other than assets held for index-LinkedIn unit-linked contracts)	8 350 494	7 222 995	1 127 499
Property (other than for own use)	108 603	76 380	32 223
Holdings and related undertakings, including participations	2 522 910	4 789 694	- 2 266 784
Equities	1 553	1 522	31
Equities – not listed	1 553	1 522	31
Bonds	2 381 768	2 280 153	101 615
Government Bonds	1 025 379	981 480	43 899
Corporate Bonds	1 275 925	1 220 709	55 216
Collateralized securities	80 464	77 965	2 499
Collective Investment Undertakings	3 287 061	42 036	3 245 025
Derivatives	44 842	29 453	15 389
Deposits other than cash equivalents	3 756	3 756	0
Loans and mortgages	207 047	178 871	28 176
Other loans and mortgages	207 047	178 871	28 176
Reinsurance receivables from:	5 739 576	6 152 169	- 412 593
Non-life insurance and health insurance similar to non-life	5 739 576	6 152 169	- 412 593
Non-life excluding health	5 732 304	6 144 491	- 412 187
Health similar to life	7 273	7 678	- 405
Deposits to cedants	95 082	95 082	0
Insurance and intermediate receivables	1 043 289	1 043 092	197
Reinsurance receivables	113 847	113 859	- 12
Receivables (trade, not insurance)	321 915	236 882	85 033
Cash and cash equivalents	94 468	94 468	0
Any other assets, not elsewhere shown	5 718	5 718	0
Total assets	**16 081 782**	**15 379 542**	**702 240**

31/12/2017	Solvency II € thou	HGB € thou	Difference € thou
LIABILITIES			
Technical provisions – Non-life	9 265 582	9 719 356	- 453 774
Technical provisions – Non-life (excluding health)	9 237 974	9 691 889	- 453 915
Best estimate	9 060 837	9 691 889	- 631 052
Risk margin	177 136	0	177 136
Technical provisions – Health (similar to life)	27 609	27 467	142
Best estimate	26 601	27 467	- 866
Risk margin	1 008	0	1 008
Other technical provisions	0	703 959	- 703 959
Provisions other than technical provisions	242 084	232 722	9 362
Pension benefit obligations	122 575	4 278	118 297
Deposits from reinsurers	2 518 222	2 518 222	0
Deferred tax liabilities	16 363	0	16 363
Financial liabilities other than debts owed to credit institutions	0	- 25 754	25 754
Insurance and intermediaries payables	90 177	90 177	0
Reinsurance payables	299 913	316 393	- 16 480
Liabilities (trade, not insurance)	95 335	95 371	- 36
Other liabilities, not elsewhere shown	579 636	580 582	- 946
Total liabilities	**13 229 887**	**14 235 305**	**-1 005 418**
Excess of assets over liabilities	**2 851 895**	**1 144 237**	**1 707 658**

Unless indicated otherwise, the Solvency Overview was established in € thou. Due to rounding, there may be minor differences when computing totals and percentages.

In the following chapter, the bases, methods and main assumptions used for the valuation for solvency purposes are described separately for each essential group of assets, technical provisions and other liabilities. Thereafter, the material differences with respect to commercial law are explained. Section D.1 covers the asset side and sections D.2 and D.3 the liability side of the Solvency Overview. If alternative valuation methods are used by AGCS SE for certain assets, these are described in section D.4, Alternative Valuation Methods.

The International Financial Reporting Standards (IFRS) are the framework for the recognition and valuation of assets and liabilities. As a basic rule, IFRS regulations are considered to be a sufficiently close approximation of the valuation according to Solvency II; however, the specific Solvency II regulations in the Omnibus II Directive (Directive 2014/51/EU) and Solvency II CDR shall take precedence.

D.1 Assets

As a general rule, assets are valued at the amount for which they could exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. For part of the assets, the evaluation results from trading activities in an active market.

An active market must meet the following conditions:

- The products traded in the market are homogeneous
- Willing buyers and sellers can be found at any time
- Prices are publicly quoted

A financial instrument is considered to be quoted in an active market when quoted prices are set easily and regularly – by a stock exchange, a trader or a broker, an industry group, a price service agency or a supervisory authority; in addition, these prices must represent actual and regular market transactions as among independent third parties (arm's length principle).

An active market no longer exists if, due to the complete, long-term withdrawal of buyers and/or sellers from this market, no market liquidity can still be determined. In this case, no firm price quotes are

provided over a longer period and no market transactions can be observed. If transactions demonstrably result exclusively from forced trades, involuntary liquidation or distress sales, this is also an indication of a no longer active market.

For the valuation of assets, the valuation hierarchy according to article 10 Solvency II CDR is used.

- AGCS SE values assets on the basis of market prices quoted in active markets for identical assets and liabilities.
- If this is not possible, AGCS SE values the assets on the basis of market prices quoted in active markets for similar assets and liabilities.
- If no quoted market prices in active markets are available, AGCS SE uses alternative valuation methods.

For assets that are valued at amortized cost under IFRS and for which the difference between market value and amortized cost is immaterial, the amount stated under IFRS was used.

Material changes with respect to the prior reporting period

Compared to the prior reporting period, there were neither changes in the methods used nor in the valuation principles or estimates in the area of assets.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. If intangible assets can be sold separately and the insurance undertaking can prove that a fair market exists for these or comparable assets, they can be recognized at market value in the Solvency II Overview. Otherwise, intangible assets must be valued at 0 under Solvency II according to article 12 (2) Solvency II CDR.

Under HGB, intangible assets are valued at the cost of acquisition or production, less depreciation permitted by commercial law.

This balance sheet item essentially comprises the capitalized expenses for the system integration of third-party software (HGB 2017: €148 037 thou; 2016: €106 106 thou) related to the long-term distribution agreement with Standard Chartered Bank (HGB 2017: €61 389 thou; 2016: €0 thou as well as the acquisition cost of the insurance portfolios acquired within the Group, less scheduled depreciation (HGB 2017: €250 thou; 2016: €583 thou). Their market value cannot be determined because no transactions involving comparable assets are observable in the market, and they cannot be sold separately. In accordance with article 12 of Solvency II CDR, they are therefore not recognized under Solvency II.

Deferred tax assets

Deferred tax assets are assets that can be used to reduce income tax expense in future periods. Deferred taxes are not discounted.

They result from deductible temporary differences between Solvency II and the tax base, the carry-forward of unused tax losses or unused tax credits (article 15 Solvency II CDR). Deferred tax assets – except deferred tax assets arising from the carry-forward of unused tax losses or unused tax credits – are valued on the basis of the temporary difference between the Solvency II Solvency Overview and the tax base. The temporary differences between the Solvency II value of the assets and liabilities as well as the corresponding tax values are determined according to IAS 12 on a single-asset or liability basis. In the calculation of deferred tax assets, the respective applicable national tax rates for certain assets and liabilities are taken into account. Deferred tax assets are valued using the tax rates and tax laws that are applicable at the balance sheet date or will be applicable shortly thereafter. The amount of the material difference between the market value balance sheet and the corresponding tax base result from the balance sheet item Shares in Special Funds and Bonds as well as Claims Reserves (technical provisions), which each result in deferred tax assets. In addition, deferred tax assets for tax loss carry-forwards in the amount of €63 811 thou were constituted in the branch offices Hong Kong, France, Sweden, South Korea and Denmark (€43 787). The planning for the coming four years for these branch offices projects profits, which will be able to absorb the losses carried forward. In Germany, deferred taxes are valued with a tax rate of 31% and in other countries according to the respective local tax rates. The capitalization option according to section 274 (1) HGB was not used.

According to IAS 12.72, deferred tax assets and tax liabilities are netted before they are reported to the respective tax authorities. The foreign branch offices of AGCS SE reported both deferred tax assets as well as deferred tax liabilities.

Tax rate changes already adopted by December 31, 2017, are taken into account. In 2017, France adopted a step-by-step reduction of the tax rate to 25.83 percent beginning in 2022. In Belgium, a step-by-step reduction of the tax rate to 25 percent beginning in 2021 was adopted. The impact of tax rate changes is taken into account in the deferred tax expenses of €139 thou.

The following table shows the origin of the recognition of deferred tax assets:

Deferted tax assets at 31/12/2017	€ thou
Investments	134 625
Deferred policy acquisition costs	5 557
Other assets	28 027
Intangible assets	108
Tax losses carried forward	10 984
Technical provisions	17 147
Provisions for pensions and similar obligations	36 801
Other liabilities	100 882
Netting	-246 077
Total after netting	**88 053**

No deferred taxes are constituted for the valuation differences in participations and shares in associated enterprises.

The AGCS SE closing process for deferred tax assets according to Solvency II is integrated, consistent and in line with the IFRS closing process. Deferred tax assets result from the amount of the deferred taxes recognized under IFRS and the deferred taxes on valuation differences of the individual balance sheet items between IFRS and Solvency II. The difference of deferred tax assets with respect to IFRS result from temporary differences due to the re-evaluation of assets and liabilities for the market value balance sheet. The differences are essentially due to the different valuation of technical provisions and intangible assets.

In accordance with section 274 (1) HGB, the company does not use its capitalization option to constitute a deferred tax asset on the temporary difference between the accounting valuation of assets, liabilities and deferred income / prepaid expenses and their tax-based valuation, if these differences will result in tax relief in the following years.

Pension benefit surplus

The pension benefit surplus is the net surplus related to the employee pension scheme, if there are offsettable plan assets that exceed the pension obligations for this plan. If that is not the case, one talks about pension reserves if the obligation exceeds the offsettable plan asset (see "Pension benefit obligations" in section D.3 of this report). Under Solvency II, this item is valued in line with IAS 19. The excess of the plan assets over the present value of the obligations is recognized at fair value. Securities to meet liabilities resulting from retirement provision commitments are valued at fair value in accordance with section 253 (1) HGB and offset against liabilities in accordance with section 246 (2) HGB. An asset overhang resulting under HGB does not exist in the valuation of this item under Solvency II.

For further explanations about the bases, methods and assumptions for the valuation of gross pension obligations according to supervisory law and HGB as well as an explanation of the valuation differences we refer to "Pension benefit obligations" in section D.3 of this report.

Property, plant and equipment held for own use

Under HGB, this item is carried at amortized cost.

According to article 9 (4) of Solvency II CDR, amortized cost is considered to be an appropriate estimate of the fair value.

Investments

Real estate (except for own use)

This balance sheet item (valuation difference €32 223 thou) contains direct investment in six German buildings. The fair value of real estate assets was determined at December 31 of the fiscal year according to IAS 40 and/or art. 16 Solvency II CDR (fair value model / discounted-cash flow method).

Under HGB, real estate is recorded at cost less accumulated scheduled and unscheduled depreciation. Scheduled depreciation is measured

according to ordinary useful life. In case of probable permanent impairment, the values of these items are adjusted through unscheduled write-downs.

The Solvency II value takes into account the valuation reserves that concern for the most part real estate in Berlin and Munich.

Shares in affiliated enterprises, including participations

This item (valuation difference €2 266 784 thou) is valued under Solvency II in accordance with article 13 Solvency II CDR.

Under HGB, these are valued according to the moderate lower-value principle and carried at amortized cost or a lower long-term fair value. Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

In addition, this item also includes Special Funds of €2 739 206 thou under HGB, which according to Solvency II are reported under Collective Investment Undertakings.

Shares in affiliated enterprises and participations as defined in article 13 (20) of the Solvency II Directive (to the extent that a valuation with standard methods is not possible) are valued under Solvency II according to the adjusted equity method (article 13 (1b) Solvency II CDR). Participations are valued with AGCS SE's share in the excess of the assets over the liabilities of the affiliated enterprise. If a valuation according to quoted market prices or by means of the adjusted equity method is not possible, the IFRS equity method (article 13 (5) Solvency II CDR) is used. In this approach, the pro-rated IFRS equity, reduced by possible goodwill as well as intangible assets is used as value. Enterprises, which according to article 214 (2 a) of the Solvency II Directive are excluded from Group supervision or which according to article 229 of the Solvency II Directive are deducted from own funds, are valued at 0.

The following table shows essential shares in affiliated enterprises, including participations and their valuation differences at December 31, 2017:

€ thou	Solvency II	HGB	Difference
AGCS International Holding B.V., Amsterdam	1 958 061	1 618 609	339 452
Allianz Risk Transfer AG, Schaan	1 958 061	1 618 609	106 660
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	0	37 381	-37 381
Allianz Finance VIII S.A., Luxemburg	117 778	96 408	21 370
Others	265 914	2 962 800	-2 696 886
Total	2 522 910	4 789 694	2 266 784

In 2016, this item also included Special Funds. In the current report, these are reported under Collective Investment Undertakings. In addition to the different reporting of Special Funds, there are the following valuation differences:

€ thou	Solvency II	HGB	Difference
Special funds	3 244 965	2 739 206	505 759
Allianz GLR Fonds	1 507 495	1 199 734	307 761
Allianz GLU Fonds	595 384	503 942	91 442
Allianz GLRS Fonds	804 366	719 161	85 205
Allianz GRGB Fonds	337 720	316 369	21 351

Equity

This category comprises non-listed equity[1]; participations are excluded. Under Solvency II, non-listed equity is recognized with price valuations provided by fund and portfolio managers; this alternative valuation method is described in chapter D.4. Under commercial law, stocks are – depending on their nature and the investment strategy (holding period) – valued either in accordance with the strict (current assets) lower-value principle or the moderate (fixed assets) lower-value principle and carried at amortized cost or a lower long-term fair value.

The difference between Solvency II and HGB is due to currently trending higher market values compared to amortized cost, which is the upper valuation limit under HGB.

1. Non-listed equity is that of private equity firms.

Bonds

This item includes a valuation difference of €101 615 thou. Exchange-listed bonds under Solvency II are valued at the stock market price on the last trading day. If there is no active market, the fair value of unquoted securities is made available by brokers or pricing services or determined by means of the discounted cash flow method. The relevant discount rates are based on observable market parameters and take into account the remaining maturity as well as the default profitability of the financial instruments.

Securities held as current assets according to section 341b HGB in conjunction with section 253 (1), (4) and (5) HGB are valued in accordance with the strict lower-value principle and carried at average cost of acquisition or the lower market value. Investments recognized in accordance with the rules applicable to fixed assets are intended to serve the business on a permanent basis. Their purpose is attributed at the time the investment is added. The attribution is reviewed when changes in the investment strategy are made or a divestment is considered. Pursuant to sections 253 (1) and 341 (b) HGB, these securities are valued using the moderate lower-value principle and reported at average acquisition costs or a lower long-term fair value. Permanent impairments are recognized in the Income Statement. For impairments deemed to be temporary, there is a choice with respect to their amortization according to section 253 (3,4) HGB. As in the previous fiscal year, AGCS in the reporting opted to not recognize temporary impairments for economic reasons.

Government bonds (valuation difference €43 899 thou) are bonds issued by public authorities, (e.g. central governments, regional governments or municipal governments). Corporate bonds (valuation difference: €55 216 thou) are bonds issued by companies.

The main driver for higher market prices are the currently low interest level that drive up the market value of the individual bonds. Accordingly, market prices are higher than amortized cost, which is the upper valuation limit under HGB.

Collateralized securities (valuation difference €2 499 thou) include securities whose value and amounts receivable can be derived from a portfolio of underlying assets. They include securities such as asset backed securities, mortgage backed securities as well as collateralized mortgage obligations.

The market values for the Solvency II valuation are supplied by independent merchant banks. These are generally calculated with valuation models which in turn are based on available market data.

Under HGB, these are valued using the lower value principle and recognized at amortized cost in accordance with sections 253 (1) and 341 (b) HGB.

Due to the persistent low-interest phase, the market value exceeds amortized cost.

Collective Investment Undertakings

Under Solvency II, the value of investment funds is identical with the IFRS fair value according to IAS 39. It is communicated by the investment company.

Under HGB, investment funds are valued according to the moderate lower-value principle and carried at average amortized cost or a lower fair value. This corresponds to the value reported to us by the investment companies, wherein the acquisition cost is the upper limit.

Special funds (€3 244 965 thou), which in 2016 were recognized under "Shares in affiliated enterprises, including participations," are in the present report carried under "Collective investment undertakings", while according HGB; they are included under Participations. Their valuation is based on the parent company's pro-rated share of the excess of assets over liabilities from the solvency overview (adjusted equity method). These alternative valuation methods are explained in detail in chapter D.4.

Derivatives

This balance sheet item includes options on Allianz SE shares to eliminate market risks when hedging share-based compensation schemes.

Under Solvency II, these are valued at market value according to IAS 39 while under HGB, their book value according to section 253 (3) HGB is their cost of acquisition or the lower fair value.

Due to the positive development of the capital markets, the fair value of the derivatives exceeds their cost of acquisition according to HGB by €15 389 thou.

Loans and mortgages

This balance sheet item (valuation difference €28 176 thou) contains investments that arise when a lender makes available (secured or unsecured) funds to a borrower, for example a cash pool loan.

Under Solvency II, they are carried at fair value on the basis of valuations by independent data suppliers or according to the discounted cash flow method, using the effective interest rate of similar debt instruments.

Under HGB, loan and mortgages are valued at amortized cost according to section 253 (3, 3) HGB. According to section 341c HGB, the difference between acquisition cost and redemption amount is amortized over the remaining period based on the effective interest method. Write-downs are made if the amortized cost of acquisition at the balance sheet date exceeds the market value or the long-term fair value.

The valuation in the Solvency II balance sheet differs from the commercial balance sheet, which is due to the low-interest phase and the higher market values related to it. In addition, this balance sheet item contains cash pool receivables (€25 754) from Allianz SE, which under HGB are netted against other obligations of Allianz SE and recorded under Liabilities except liabilities to banks.

Reinsurance recoverables

For comments concerning this balance sheet item we refer to chapter D.2.

Deposits to cedants

Deposit to cedants are monetary guarantees that AGCS SE as reinsurer has made available to a cedant.

In application of the principle of materiality, these are carried at face value under Solvency II because the expected future interest payments essentially correspond to market interest.

The valuation at face value corresponds to the valuation according to section 341 (c) HGB.

Insurance and intermediaries receivables

This item includes due, not-yet-paid receivables from insurers, brokers and cedants, essentially from unpaid premiums.

Under Solvency II, these are valued at face value less repayments. In concrete cases with probable default risks, individual value adjustments are made. For receivables from the direct business, additional lump-sum value adjustments are made to account for the general credit risk. This corresponds to the valuation in the commercial balance sheet.

The difference to the commercial balance sheet in the amount of €197 thou results from premiums already paid but not yet due, which are not yet recorded as future cash inflow in the calculation of the technical provisions.

Reinsurance receivables

This item includes receivables from reinsurance ceded, essentially for refunds of paid, insured losses by the reinsurer.

Under Solvency II and HGB, these receivables are carried at face value less repayments. In case of disputes concerning the amount of the reinsurance coverage or probable payment difficulties of the reinsurer, individual value adjustments are made.

The difference to the commercial balance sheet of €-12 thou is due to already paid, not-yet-due reinsurance receivables, which are still recorded as future cash flows in the calculation of reinsurance receivables.

Receivables (trade, not insurance)

Under Solvency II, these items (valuation difference €85 033 thou) are carried at face value less repayments, adjusted for the counterparty default probability.

Under HGB, these are carried at face value less repayments.

Under Solvency II, this balance sheet item contains, among others, the decentral recognition of plan assets as a claim against Allianz SE. Under HGB, pensions are centrally recognized at Allianz SE.

Cash and cash equivalents

These are carried at face value. There is no valuation difference between Solvency II and HGB.

Any other assets, not elsewhere shown

Under Solvency II, they are carried at acquisition cost less cumulated depreciation in accordance with article 9 (4) Solvency II CDR.

Under HGB, they are carried at acquisition cost less cumulated depreciation. Low-value assets worth up to €150 are written off immediately. A compound item for tax purposes is formed in accordance with section 6 (2 a) of the German Income Tax Act (EStG) for assets from €150 to €1,000. This item is released with profit-decreasing effect in the year of formation and in the subsequent four years, by one fifth in each year.

There are no valuation difference between Solvency II and HGB.

D.2 Technical Provisions

Under Solvency II, the technical provisions are made up of three components: premium provision, claims provision and risk margin.

The premium provision is the discounted best estimate of all future cash flows, including claim payments, expenses and premiums related to future exposure arising from policies in force at the evaluation date. The claims provision is the discounted best estimate of all future cash flows, including claim payments, expenses and premiums, related to claim events prior to the valuation date. The risk margin is the amount that another (re) insurer would require over and above the best estimate. It is calculated using a cost-of-capital approach.

At AGSC SE, the valuation of premium and claims provisions is first made on an undiscounted basis. In a second step, an adjustment for the current monetary value of the cash flow is calculated (discounting), based on the future cash flow – separately for premium and claims provisions as well as for gross reverses and reinsurance. The risk margin is calculated as a lump sum including discounting by means of the cost-of-capital approach.

We did not make use of the "Transitional Measure on Risk-Free Interest Rates" according to article 308c of the Solvency II Directive (section 351 VAG - Transitional Interest Measure) or the "Transitional Measure on Technical Provisions" according to article 308d of the Solvency II Directive (section 352 VAG - Transitional Provisions Measure).

In the following sections, the calculation of the respective components is described. The amount calculated in each case is the undiscounted best estimate for the gross premium and claims provisions and, after reinsurance, the corresponding discount and risk margin. The resulting technical provisions according to Solvency II at December 31, 2017, are then presented and the method for calculating the reserve uncertainty is described. Thereafter, the technical provisions according to Solvency II are juxtaposed with the corresponding technical provisions according to HGB. Material differences in valuation are described as well as quantified and presented at December 31, 2017.

Premium provision

The premium provision includes all premiums and commissions expected on the basis of existing contracts, which are due only after the balance sheet date, as well as all expected claims payments from these contracts for future events. This also includes the expected future cost of contract administration, claims adjustment and capital management expenses of these contracts. All payments for premiums and commissions due at the balance sheet date are, in accordance with the Technical Implementation Standard, Appendix II, S02.01, recognized in the balance sheet under receivables and payables and not as part of the incoming and outgoing cash flows of the premium provision.

As a first step for the calculation of gross premium provisions, the exposure is measured by determining all unearned premium components for all active contracts at the balance sheet date, independent of whether the premiums were already due before the balance sheet date (and thus have already been recognized as premiums under HGB) or whether the they are due after the balance sheet date. The correspondingly deferred premium components are hereafter called Solvency II unearned premiums.

The best estimates of the single components as shown in the figure above are calculated separately:

A. Future claims:

   The expected loss ratio (incl. internal and external claims adjustment expenses) are applied to the Solvency II unearned premium provision

B. Future expenses are calculated from the following components:
   i. Shares of intermediary and broker commissions and leading-fees from existing contracts not yet due
   ii. Internal and external claims adjustment expenses: the expected claims adjustment expense ratio is applied to Solvency II unearned premiums
   iii. Administrative costs: the expected administrative cost ratio is applied to Solvency II unearned premiums
   iv. Profit commissions and premium refunds not yet due

C. Future premiums: premiums from existing contracts that are due after the balance sheet date are taken into account on principle. Exceptions are some smaller portfolios and legacy systems, particularly in aviation, for which this approach was not feasible. Assuming a combined ratio of nearly 100% on future premiums, the effect on technical provisions as the sum of A and B is negligible.

D. Other cash-inflows, if applicable.

Claims provisions

The undiscounted best estimates of the single components as shown in the table above are calculated separately. Undiscounted case and IBNR provisions are calculated according to IFRS principles.

a. Claims incurred: these correspond to the sum of case and IBNR provisions (both including claims management costs).
b. Future costs and other cash outflows: the sum of case IBNR for external claims expenses and the provisions for internal claims adjustment expenses .
c. Future premiums: reinstatement premiums for outstanding losses.
d. Future receivables from recourse, claim recoveries and distribution agreements already incurred at the balance sheet date.

The calculation of the undiscounted premium and loss provisions for reinsurance ceded is made analogous to the calculation of gross provisions.

Discounting

Premium and claims provisions are discounted per claims year, insurance line, region and currency – separately for the cash flows described above.

The present value is calculated on the basis of the following parameters:

- Undiscounted premium and loss provisions per claims year, insurance line, region and currency.
- Expected payment pattern per provision type, insurance line and region.
- Risk-free interest rate structure per currency plus volatility adjustment per currency and duration.

The following principles are applied:

- The interest rate structures for the various currencies are provided by EIOPA and made available by Allianz Group to the Group company.
- The discount is separately calculated for premium and claims provisions as well as per claims year, reserving segment and main currency (Euro, US Dollar, British Pound, Australian Dollar, Canadian Dollar, others). Provisions and currencies, which are grouped under the main currency "others", are discounted with the EIOPA interest rate structure for the euro.
- The cash flow forecast is based on payment patterns that have been determined in the course of the annual reserve analysis per reserving segment.
- As a simplification, it is assumed that the payout of loss provisions is made on average in midyear.
- The calculation of recoverables from reinsurance contracts is made analogous to the calculation of gross provisions. In addition, this balance sheet item in Solvency II contains an adjustment for the counterparty default risk.
- For technical provisions and the adjustment for possible defaults on recoverables, the same duration is used.

For discounting, AGCS SE, with the approval of the BaFin supervisory authority, uses a volatility adjustment according to section 82, VAG. Compared

to the use of yield curves without volatility adjustment, this reduces the amount of technical provisions by €13 990 thou, thus increasing basic own funds by €10 952 € thou. This amount is fully eligible for meeting the solvency capital requirement. The solvency capital requirement itself is decreased by the use of the volatility adjustment by €35 094 thou.

In parallel, eligible own funds to meet the minimum capital requirements increase by €12 859 thou and the minimum capital requirement is reduced by €1 539 thou.

Risk margin

There is no observable value for technical provisions. Instead, an amount is estimated that would have to be paid for selling the liabilities to an independent "reference undertaking". For this purpose, the discounted best estimate plus a risk or market value margin (MVM) is used. The MVM represents the cost of the capital the acquiring company would have to provide during run-off.

The starting point for the cost of capital used is the Solvency Capital Requirement (SCR) under Solvency II; however, this amount in each case only covers the capital requirement for a period of one year. Therefore, a time series of future SCRs must be estimated for the MVM. The cost of capital rate to be used is set at 6% according to article 39, Solvency II CDR, estimated as the cost of capital rate of the reference undertaking. Allianz Group has adopted the approach recommended by the CRO Forum, adapted it to its specifics and its model environment and made it available to its subsidiaries in the form of a directive and a calculation tool.

AGCS SE essentially follows this recommendation, but in deviation therefrom updates risk for each quarterly accounting period to account for current risk developments.

The MVM is first of all calculated for AGCS SE as a whole. Thereafter, it is allocated to the lines of business according to Solvency II, using as weights the respective sums of the discounted insurance risk timelines. Within the insurance lines, allocations are made to claims and premium provisions, using the corresponding undiscounted provisions as weights. In the last step, both parts are further allocated to reporting segments and regions, wherein the corresponding IFRS claims provisions are used as weights.

Overview of technical provisions

Since the internal calculations are made at the level of reserving segments, which are different from Solvency II segments, the latter are based on appropriate allocations. The following table shows technical provisions for the non-life segment under Solvency II as per December 31, 2017, in accordance with the Solvency II segmentation:

	Premium provisions		
	Gross	Reinsurance recoverables	Net
Direct insurance business			
General liability insurance	196 671	76 502	120 169
Fire and other damage to property insurance	219 019	100 201	118 818
Marine, aviation and transport insurance	42 165	- 3 379	45 543
Miscellaneous financial loss	39 553	24 935	14 618
Other insurance	12 736	8 753	3 983
Subtotal	510 143	207 012	303 131
Proportional reinsurance accepted			
General liability insurance	130 601	82 321	48 280
Fire and other damage to property insurance	216 394	130 401	85 994
Marine, aviation and transport insurance	54 071	36 537	17 534
Miscellaneous financial loss	60 738	41 403	19 335
Other insurance	5 502	550	4 952
Subtotal	467 306	291 211	176 094
Non-proportional reinsurance accepted			
Non-proportional property reinsurance	37 137	22 863	14 274
Non-proportional liability reinsurance	10 512	7 440	3 072
Non-proportional marine, aviation and transport insurance	4 226	21 839	- 17 613
Subtotal	51 875	52 143	- 268
Total	**1 029 324**	**550 366**	**478 958**

Risk of change in technical provisions

AGCS SE performs an annual review of the risk of change to which the technical claims provisions are exposed. In this review, the technical provisions are calculated on the basis of actuarial principles, methods and assumptions.

The following approaches were applied in the various segments in 2017 to make sure that the analysis of the risk of change and the calculation of the loss provisions use the same bases.

For both the analysis of provisions and the analysis of the risk of change, third-quarter data were used. The run-off triangles used for analyzing the change risk are equal to the total triangles that were also used in the provision analysis. The run-off patterns selected also use the same basis – the gross figure or the gross figure after facultative reinsurance – as in the reserve analysis.

In the context of technical provisions, the designation risk of change describes possible deviations of actual future expenses from those forecast today. In the area of claims provisions, the main drivers for negative deviations are late-reported claims and the retroactive increase of claims expenses for already known losses, particularly in long-tail insurance lines. These effects are modeled as reserve risk in the risk capital calculations. For example, the amount of the actual payout after settlement of claims will with 90% probability not exceed the value of the provision posted (i.e. the actual forecast) by more than 8.1% net. For premium provisions, deviations will arise from the so-called premium risk, i.e., the risk that premiums already agreed upon will in the future not be sufficient to cover the corresponding expenses. For example, a major flood or an unexpected increase of company-internal costs could result in a deviation from the currently forecast expenses that are included in the agreed premiums. These effects are also quantified in risk capital calculations. For example, the actual future expenses linked to the agreed premiums will with 90% probability not exceed the current forecast by more than 15.4% net. There is also the possibility that deviations from the forecast expenses will arise from the delayed payout of claims and the corresponding interest on investments from provision items. For example, internal calculations show that a decrease of market

Claims provisions						
Gross	Reinsurance recoverables	Net	Gross total	Net total	Risk margin	Technical reserves
2 834 378	1 375 142	1 459 236	3 031 050	1 579 405	72 722	1 652 127
694 895	414 890	280 005	913 914	398 823	21 887	420 710
868 618	575 506	293 112	910 783	338 655	10 773	349 429
230 408	178 088	52 319	269 960	66 937	1 101	68 038
26 280	19 203	7 077	39 016	11 060	629	11 689
4 654 579	2 562 829	2 091 749	5 164 722	2 394 881	107 112	2 501 993
1 204 121	854 351	349 770	1 334 722	398 050	33 178	431 229
567 077	433 406	133 670	783 471	219 664	22 519	242 183
591 698	434 912	156 786	645 769	174 320	7 703	182 024
341 234	292 203	49 031	401 972	68 366	1 671	70 037
8 887	3 714	5 174	14 389	10 126	547	10 672
2 713 018	2 018 586	694 432	3 180 323	870 526	65 619	936 145
492 335	426 521	65 814	529 472	80 088	3 926	84 014
98 339	89 818	8 521	108 851	11 593	632	12 225
99 843	91 454	8 388	104 069	- 9 225	854	- 8 371
690 517	607 794	82 723	742 393	82 455	5 413	87 868
8 058 114	**5 189 210**	**2 868 904**	**9 087 438**	**3 347 862**	**178 144**	**3 526 006**

interest rates by 1.0 percentage point would result in an increase of currently stated claims provisions by approximately 3.4 percent, and of claims provisions by approximately 4.0 percent. Another reason for deviations from currently forecast expenses can be future management decisions, for example with respect to reinsurance.

Discussion of material differences between Solvency II and HGB in terms of the valuation of technical provisions and amounts recoverable from reinsurance contracts

While Solvency II and IFRS are based on the best-estimate principle, they are subject to the principle of prudence under HGB. To determine a market value, future cash flows are discounted under Solvency II. The material differences between the valuation of technical provisions under Solvency II and HGB are described in the following section.

Premium provisions

In the determination of premium provisions, there are – other than the fact that these provisions are only discounted under Solvency II - two main differences between Solvency II and HGB: the different treatment of future claims payments not yet due and the different determination of provisions for future claims and costs. In both cases under HGB, the expected share of profit from the insurance contract that refers to the contractual period after the balance sheet date, is not realized but reported as part of premium provisions. Under Solvency II, only the effectively expected future cash flows are taken into account in the premium provisions.

Under HGB, a premium provision is constituted only for the part of expected future claims and costs from existing insurance contracts, for which premiums are already due at the balance sheet date. Therefore, expected future not-yet-due premium income (for example instalments) is also not yet reported in the HGB balance sheet. Under Solvency II, on the other hand, all expected future claims and costs that are part of AGCS SE's payment obligations from existing insurance contracts at the balance sheet date are taken into account. In keeping with this valuation approach, expected contractually agreed future premiums payments less expected not-yet-due closing expenses are deducted from the premium provision.

The provisions for expected future claims and costs (except acquisition expenses) under Solvency II and HGB are based on unearned premiums, i.e. the part of the premiums that concerns insurance coverage after the balance sheet date. In general, premiums are spread out pro rata temporis over the corresponding coverage period. Under Solvency II, the Solvency II unearned premiums are multiplied with the expected loss ratio, the expected loss adjustment expense ratio and the expected administrative expense and cost of capital ratio. Under HGB, on the other hand, premium provisions are based on the full amount of unearned premiums. In comparison to IFRS, the only deduction made from unearned premiums is a large part of commissions paid for which the corresponding premium components may not be transferred (cost deduction of 85 percent for direct business and 92.5 percent for business assumed).

Claims provisions

There are basically no differences between case provisions under IFRS/Solvency II and HGB. However, under Solvency II, reinstatement premium provisions for outstanding claims under excess loss contracts are recorded as negative case provisions, while under HGB they are recognized as reinsurance receivables or, in the case of reinsurance ceded, as reinsurance payables.

Due to the prudence principle, late claims provisions tend to be higher under HGB than under Solvency II. For the relevant lines of business, late claims provisions are calculated using reporting year data in order to separate a claim year's newly reported claims from the development of already known claims. Depending on the insurance line, the methods used are slightly different. Insurance lines for which, because of their limited size, no separate HGB late claims provisions are calculated, or if the HGB amounts calculated are lower than the corresponding IFRS amounts, the IFRS amounts are posted in the Solvency Overview. That is why HGB provisions per line of business and year are always as least as high as the corresponding IFRS amounts.

While HGB requires no discounting except for annuity provisions, the present-value principle applies under Solvency II, i.e. all future cash flows are discounted with the discount curves (including volatility adjustments) specified by EIOPA.

Counterpart default risk

Under HGB, the claims provisions contain an adjustment for possible defaults on reinsurance receivables from already known events, for example in case of a dispute about the extent of coverage.

Under Solvency II, in addition to this provision for events already known, the adjustment for counterparty default risk for events that are not yet known is calculated using the simplified approach in article 61 Solvency II CDR.

Risk margin

Under Solvency II, the risk margin reflects the capital cost that will be incurred as part of the fair value in a theoretical transfer of obligations to a third party due to the uncertainty of the run-off of the technical provisions. Solvency II assumes capital costs of 6%.

HGB requires no risk margin beyond the safety margins implicitly contained in the technical provisions; this role is assigned to the claims equalization reserve.

Special HGB requirements

The following HGB reserves are not used under Solvency II since they are not compatible with a market value balance sheet:

- The equalization reserve according to section 29 RechVersV: this reserve is used to equalize fluctuation in claims expenses over the years. In good years, provisions are made for above-average claims expenses in later years.
- Reserves similar to the equalization reserve according to section 30 RechVersV: these reserves are used to cover potential future losses from certain major risks (e.g. nuclear power plants).

	Technical provisions according to HGB	Reclassification	Reevaluation of premium provisions (undiscounted)
Direct insurance business			
General liability insurance	1 731 794	951	- 31 971
Fire and other damage to property insurance	563 652	1 078	- 50 082
Marine, aviation and transport insurance	419 909	2 875	17 611
Miscellaneous financial loss	67 669	1 407	- 1 329
Other insurance	13 613	0	- 2 328
Subtotal	2 796 637	6 311	- 68 099
Proportional reinsurance accepted			
General liability insurance	660 202	0	- 294
Fire and other damage to property insurance	364 534	- 9 212	- 2 268
Marine, aviation and transport insurance	257 532	1 634	6 376
Miscellaneous financial loss	75 923	1 069	- 4 659
Other insurance	9 928	2	892
Subtotal	1 368 119	- 6 507	47
Non-proportional reinsurance accepted			
Non-proportional property reinsurance	66 900	12 333	1 931
Non-proportional liability reinsurance	12 818	0	- 612
Non-proportional marine, aviation and transport insurance	9 484	892	- 19 240
Subtotal	89 202	13 225	- 17 921
Total	4 253 958	13 029	- 85 973

The equalization reserves that must be constituted under HGB, make the greatest contribution to the difference between the technical provisions under HGB and Solvency II at December 31, 2017. This does not concern all lines of business because equalization reserves for HGB insurance lines must only be constituted under certain conditions.

Material changes with respect to the prior reporting period

The assumptions used for calculating technical provisions are essentially unchanged from the prior reporting period.

D.3 Other Liabilities

Liabilities are valued at the amount for which they could be exchanged or settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. In the following section, the bases, methods and main assumptions used for the valuation for solvency purposes are described separately for each essential group of other liabilities and the essential differences to HGB are explained:

Provisions other than technical provisions

These provisions are uncertain with respect to their duration and their amount. In particular, they include provisions for jubilees, phased-in early retirement, time value accounts, provisions for share-based remuneration plans and provisions for commissions, bonuses and profit participations yet to be settled, expenses for the storage of business documents, cost provisions for the reorganization of the corporate structure as well as provisions for the long-term distribution agreement with Standard Chartered Bank.

"Reevaluation claims provisions (undiscounted)"	Discounting of future cash-flows	Adjustment for counterparty default risk	Risk margin according to Solvency II	Equalization reserves and similar reserves under HGB	Technical provisions under Solvency II	Lower provisions under Solvency II vs HGB
- 4 759	- 62 519	1 134	72 721	- 55 226	1 652 125	79 669
- 753	- 5 628	248	21 887	- 109 691	420 711	142 941
- 8 996	- 7 751	905	10 773	- 85 898	349 428	70 481
- 263	- 541	58	1 101	- 64	68 038	- 369
0	- 256	30	630	0	11 689	1 924
- 14 771	- 76 695	2 375	107 112	- 250 879	2 501 991	294 646
- 1 841	- 18 763	335	33 178	- 241 588	431 229	228 973
- 399	- 5 780	198	22 519	- 127 407	242 185	122 349
- 2 185	- 5 769	270	7 703	- 83 538	182 023	75 509
- 1	- 3 568	150	1 671	- 548	70 037	5 886
0	- 697	0	546	0	10 671	- 743
- 4 426	- 34 577	953	65 617	- 453 081	936 145	431 974
- 97	- 1 250	270	3 926	0	84 013	- 17 113
0	- 643	30	632	0	12 225	593
- 10	- 419	69	854	0	- 8 370	17 854
- 107	- 2 312	369	5 412	0	87 868	1 334
- 19 304	**- 113 584**	**3 697**	**178 141**	**- 703 960**	**3 526 004**	**727 954**

Under supervisory law, they are measured in analogy to IFRS according to IAS 37 at the amount that an entity would rationally pay to settle the obligation at the balance sheet date (best estimate). For provisions with a duration of greater than one year, a present-value approach is advisable if discounting will significantly affect the amount stated. Under Solvency II, these provisions are discounted using a market interest rate, pursuant to IAS 37.

As a general rule, provisions are valued according to commercial law at the settlement amount required on the basis of reasonable commercial assessment.

Provisions with a remaining duration of more than one year must be discounted under commercial law according to section 253 (2) HGB with an average market interest rate corresponding to their remaining duration.

The different types of provisions are described in greater detail below:

€ thou	Solvency II	HGB	Difference
Reorganization of corporate structure	42 110	42 110	0
Salary claims not yet determined	38 120	38 136	-16
Oustanding invoices	33 272	33 272	0
Allianz Equity Incentives	33 441	22 600	10 842
Vacation and flextime	12 060	12 060	0
Employee jubilees	5 598	5 213	386
Phased-in retirement and time value accounts	928	2 829	-1 901
Severance payments	664	613	51
Other	75 890	75 890	0
Total	242 084	232 722	9 362

AGCS SE has obligations resulting from jubilee payments, time value accounts and phased-in early retirement. The provisions for these obligations are netted with possibly existing offsettable plan assets for the respective obligations.

As a general rule, the amounts shown in the Solvency Overview are those according to IFRS. The valuation of the gross obligations mentioned above essentially follows that of the pension obligations and uses the same parameters. The only difference is the actuarial interest rate of 1.40 percent due to the shorter duration.

For the valuation of gross obligations under commercial law, essentially the same bases, methods and assumptions are used as under supervisory law. The only difference is the discount rate of 2.81 percent to be applied under HGB. According to commercial law, it is determined as a 7-year average for a flat residual maturity of 15 years.

For further explanations about the bases, methods and assumptions for the valuation of pension obligations according to supervisory law and HGB we refer to "Pension benefit obligations".

The valuation differences under commercial and supervisory law are due to different discount rates.

Provisions for share-based compensation

The valuation difference in the amount €10 842 thou essentially results from provisions for share-based compensation schemes, which are valued at fair value under Solvency II, while under HGB they are carried for the required settlement amount at the issue date.

Pension benefit obligations

Pension benefit obligations, hereafter called pension provisions, include the net obligations related to the employee pension scheme, i.e. the pension benefit obligations is offset against the offsettable plan assets if such assets exist. To the extent that the offsettable plan assets exceed the pension obligations, this does not result in a pension provision but an excess of pension benefits.

AGCS SE has made pension commitments for which pension provisions are constituted. A part of these pension commitments is secured by a Contractual Trust Arrangement (Methusalem Trust e.V.) and a difference is made between different pension plans. For some of them, there are offsettable plan assets is the form of reinsurance or a capitalization product at Allianz Lebensversicherungs-AG.

In the Solvency Overview, the amounts according to IFRS are shown, whereby all existing pension benefit obligations are to be classified as Defined Benefit Plans according to IAS 19.

Pension benefit obligations under supervisory law are valued according to IAS 19 and, among others, the following actuarial parameters:

	31/12/2017 %
Pension trend	1.50
Assumed salary increase (incl. average career trend)	3.25

The interest rate under supervisory law is, in analogy to IFRS, the market rate for high quality corporate bonds (i.e. AA minimum rating) at the balance sheet date; for pension obligations it is 1.80 percent. In derogation of the above, some of the above pension plans are calculated with the guaranteed rate of pension increase of 1 percent per year. The biometric base for calculations are the current 2005G mortality tables of Dr. Klaus Heubeck, which have been adjusted to reflect company-specific circumstances. The retirement age applied is the contractual age or the legal age according to the RV-Altersgrenzenanpassungsgesetz 2007. The trust assets, which constitute offsettable plan assets, are carried at the asset value/market value.

For the valuation of gross obligations under commercial law, essentially the same bases, methods and assumptions are used as under supervisory law. The only difference is the interest rate to be applied. For the discount rate under HGB, the simplification option set out in section 253 (2, 2) HGB (remaining duration of 15 years) is used.

Due to a change of Law in 2016, the discount rate has since been calculated on the basis of a 10-year average, instead of the 7-year average used previously.

This change only applies to the valuation of pension obligations. At the balance sheet date, a forecast flat interest rate of 3.86 percent was applied.

As opposed to the above rates, part of the pension promises are calculated with the guaranteed interest rate of 2.75% p.a. and – as in supervisory law – the guaranteed pension increase rate of 1% p.a. of these pension commitments.

The valuation difference between commercial law and supervisory law is due to the different discount rates.

In addition, for a pension plan, which under commercial law and in the IFRS balance sheet is recognized centrally at Allianz SE, the Solvency Overview of Allianz SE only shows a pension provision in the amount of the IFRS-DBO and a claim against Allianz SE in the same amount.

However, for other pension plans, no pension provisions are constituted under HGB because these are indirect obligations and the company on principle uses its option according to section 28 (1,2) EGHGB to constitute no provision for uncertain liabilities, even though the plan assets may be less than the pension obligation. In the Solvency Overview, however, the possibly existing insufficient coverage resulting from the adjustment of pensions to the consumer price index required by section 16 of the Company Pensions Act (Betriebsrentengesetz) is shown in accordance with IAS 19.

The alternative method for the valuation of pension benefits is explained in greater detail in section D.4.

Deposits from reinsurers

Deposits from reinsurers include amounts received from a reinsurer as guarantee for reinsurance coverage, which AGCS SE retains or which a reinsurer cedes to AGCS SE. Under Solvency II, deposits from reinsurers are valued at the sum of discounted future interest payments and – depending on the terms of the contract, spread out over contractual period – the nominal value of the deposit.

The deposits from reinsurers held by AGSC are at 99.9 percent attributable to a cash deposit under the terms of a quota reinsurance contract with Allianz SE, which stipulates the regular adjustment of the interest rate to the market rate. In application of the principle of materiality, deposits from reinsurers are therefore valued in application of the principle of materiality under Solvency II at nominal value.

Under HGB, deposits from reinsurers are always valued at their nominal amount.

Deferred tax liabilities

Deferred tax liabilities are the amounts of income tax payable in future periods with respect to taxable temporary differences between the tax base and the respective value in the commercial balance sheet. Deferred tax liabilities under Solvency II in the amount of €16 363 (81 826) thou essentially result from the deferred tax liabilities from Special Funds (€120 453 (160 483) thou) transferred to the Solvency II balance sheet, as well as capitalized valuation reserves from loans and real estate and adjustments to the technical provisions. In the commercial balance sheet, there are no temporary differences that would justify future tax liabilities (section 274 (1) HGB).

The following table show the origin of the recognition of deferred tax liabilities:

Deferred tax liabilities	At 31/12/2017 € thou
Intangible assets	- 49 362
Investments	173 673
Deferred policy acquisition costs	- 13 987
Other assets	107 726
Technical provisions	18 565
Provisions for pensions and similar obligations	6 943
Other liabilities	18 882
Netting	- 246 077
Total after netting	16 363

Financial liabilities other than debts owed to credit institutions

The difference in the amount of €25 754 thou essentially results from the different recognition of cash pool receivables. Under HGB, they are recognized after netting, under Solvency II, they are recognized for their gross amount under Loans and Mortgages.

Insurance and intermediaries payables

Under Solvency II, insurance and intermediaries payables are valued at fair value according to IAS 39 and article 14 Solvency II CDR without taking into account changes in the own default risk. If contractually permitted, receivables and liabilities are netted. Due to the short-term nature of the liabilities, discounting is generally not required, so that

insurance and intermediaries payables are generally recognized at their settlement amount – as under HGB.

Reinsurance payables

Under Solvency II, liabilities to reinsurers are also measured at fair value pursuant to IAS 39 and article 14 Solvency II CDR, without taking into account changes in own default risk. Receivables and payables are netted where permitted by contract. Due to the short-term nature of the liabilities, discounting is generally not required, so that reinsurance payables are generally recognized at their settlement amount – as under HGB.

While provisions for reinstatement premiums under Solvency II are recognized as future payables in the technical provisions, they are recognized as liabilities to reinsurers under HGB. This results in a difference of €16 480 thou.

Payables (trade, not insurance)

Under Solvency II, they are measured at fair value pursuant to IAS 39 and article 14 Solvency II CDR, without taking into account changes in own default risk. Receivables and payables are netted where permitted by contract.

Under HGB, they are recoded at repayment amount.

Any other liabilities, not elsewhere shown

Other liabilities include all liabilities not shown elsewhere and not included in other balance sheet items., particularly liabilities from profit transfers and tax apportionments.

Under Solvency II, they are generally measured at fair value or at nominal value, adjusted for the probability of counterparty default, not talking into account the adjustment of the own default risk.

Under commercial law, other liabilities are recognized at their settlement amount.

Material changes with respect to the prior reporting period

Compared to the prior reporting period, there were neither changes in the methods used nor in the valuation principles or estimates in the area of other liabilities'.

D.4 Alternative Valuation Methods

The fair value of an asset or liability is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The degree of judgment used in measuring the fair value of financial instruments closely correlates with the level of non-market observable inputs. AGCS SE maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observability of input parameters is influenced by various factors such as the type of the financial instrument, whether a market is established for the particular instrument, specific transaction characteristics, liquidity as well as general market conditions.

Estimates and assumptions are particularly significant when determining the fair value of financial assets and liabilities for which at least one significant input is not based on observable market data. The availability of market information is determined by the relative trading levels of identical or similar instruments in the market, with emphasis placed on information that represents actual market activity or binding quotations from brokers or dealers. If no sufficient market information is available, management's best estimate of a particular input is used to determine the value. For its assets and liabilities valued at fair value, which are not quoted in active markets, AGCS SE uses standard valuation methods, which correspond to the three methods listed in Solvency II CDR:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach: Conversion of future amounts such as cash flows or income to a single current amount (present value technique). The fair value reflects current market expectations. The income approach includes, for example, the cash value method and option price models.

Cost approach: Amount that would currently be required to replace the service capacity of an asset (replacement cost).

The appropriateness of the alternative valuation methods was examined.

The fair values of the following AGCS SE balance sheet items are determined by means of valuation models:

The fair value of **real estate used by third parties** is determined by means of the income approach because experience has shown that this is the most suitable method. The valuation is based on the discounted cash flow model.

The essential influencing factors are the leasing situation, contractual rent levels, operating costs as well as the applicable property interest rate. Valuation uncertainties are related to the determination of future cash flows, which are based on estimates of certain parameters such as the leasing situation and locally conditioned rent price changes.

In general, affiliated enterprises are valued at market prices for identical assets in active markets. Since there are no available market price quotes for the **shares in affiliated companies including participations of** AGCS SE, these are valued using the adjusted equity method, the equity method or the book value deduction method in accordance with article 13 Solvency II CDR.

In the adjusted equity method, the market price results from the company's share of the excess of assets over liabilities in the affiliated enterprises. For fully consolidated companies for which a corresponding balance sheet is available, this is a very precise method that is well established in the market.

For affiliated enterprises that are not insurance or reinsurance undertakings, it is also possible to use the equity method if the adjusted equity method is not feasible. In this case, the intangible assets as well as the goodwill must be deducted from the value of the affiliated enterprise.

For participations that are not fully consolidated units and for which a valuation with quoted market prices or by means of the adjusted equity method is not possible, one of the abovementioned alternative valuation methods is used. In general, this is the income approach.

Accordingly, the value of the participation is based on the two main assumptions for the expected excess cash flows as well as the discount rate.

If, when using the adjusted equity method, book values within the participations are in turn valued by means of models, there are uncertainties that are generally present in valuation models. If the participation is valued by means of the income approach, there are uncertainties in determining excess cash flow as well as the discount rate.

For the valuation of **non-listed equity**, price valuations provided by fund and portfolio managers are used. There may be valuation uncertainties due to inactive markets.

For the valuation of exchange-listed **Government bonds, corporate bonds and collateralized securities**, price quotes provided by independent merchants banks are used. There may be valuation uncertainties due to inactive markets.

For non-listed bonds, the income approach is used because experience has shown that this is the most suitable method. The essential inputs for this method are assumptions about yield curves, issuer-specific spread and cash flow. There are valuation uncertainties due to the self-assessment of issuer-specific spreads because of default risks as well as the self-assessment of liquidity risks.

For the real estate funds included in **collective investment undertakings**, market prices are determined by means of the income approach because experience has shown that this is the most suitable method.

The essential influencing factors are the leasing situation, contractual rent levels, operating costs as well as the applicable property interest rate.

There are valuation uncertainties in the determination of future cash flows, which are based on estimates of certain parameters such as the leasing situation and locally conditioned rent price changes.

For the special funds included in collective investment undertakings, the adjusted equity method is applied. This means that the market value results from the pro-rated share of the excess of assets over liabilities in the special funds. If in the adjusted equity method, assets within the special funds must in turn

be valued by means of models, there will be valuation uncertainties that are generally observed when using valuation models.

For the valuation of **loans and mortgages**, the income approach is used because experience has shown that this is the most suitable method. Therefore, the market value is based on the following assumptions: yield curves, issuer-specific spread and cash flow. There are valuation uncertainties due to inactive markets.

The fair value of **derivatives** is determined by means of the income approach, using cash value methods and the Black-Scholes-Merton model. The most important inputs for the valuation are volatilities generally observable in the market, yield curves generally observable in the market and risk premiums observable in the market.

There are valuation uncertainties in the determination of future cash flows. In addition, the use of yield curves has an impact on the calculation of the market value.

The calculation parameters for the carrying value of **pension benefit obligations** are essentially the actuarial interest rate, the pension trend, the salary trend and biometric actuarial principles as long-term assumptions whose validity is regularly reviewed. The calculation assumptions are documented by the Global Actuary at Allianz SE who also sets these parameters. Assets are carried at the faire value of plan assets at the balance sheet date.

The values according to IAS 19 shown in the Solvency Overview are expected values in the sense of best estimates, i.e. they contain no guarantees.

These values are determined by means of a model valuation using a deterministic model on the basis of annual valuation assumptions and a calculation method defined in the standard: the projected unit credit method.

Since there is no active market for **Receivables from insurance companies and intermediaries** and for **Receivables from reinsurers**, they are valued by means of the income approach. As these items essentially contain only short-term receivables, they are not discounted and their value generally corresponds to the nominal value. The only uncertainties are those related to the counterparty default probability.

D.5 Any Other Information

All material information regarding the valuation of AGCS SE for solvency purposes has been addressed in the previous sections.

E. Capital Management

E.1 Own Funds

Objectives, policies and processes

The capital base of AGCS SE is a central resource for sustainable business activity and corporate management. For this reason and in view of legal requirements, AGCS SE has set itself the objective of ensuring at al times an adequate capital base for the company and its branches. At the same time, the company aims for an optimally efficient capital base for optimizing profit in relation to the capital employed.

To reach these objectives, the company manages its capital by means of the risk tolerance defined in the risk strategy and the objectives, management principles and processes defined in the AGCS Global Capital Management Policy. The capital management processes are in turn an integral component of the ORSA process (see chapter B.3.6).

AGCS SE defines its risk tolerance with respect to its capital base in terms of a target capitalization and a minimum capitalization. As a component of the capital and dividend plan, both are reviewed in the annual planning process, redefined if necessary and approved by the Board of Management as a component of the risk strategy. The business plan is established by taking into account its impact on the capital base. The objective is to maintain the target capitalization across the planning horizon in order to ensure an adequate capital base, even in case of the occurrence of defined stress scenarios. The minimum capitalization is a company-internal minimum requirement that exceeds the legal requirements. If the capital base falls below the minimum capitalization, this regularly leads to the consideration of measures to bring the capital base back to the level of the target capitalization.

The integrated capital management approach of the parent company Allianz SE calls for the transfer of excess capital to Allianz SE, which then manages the own funds centrally to maximize their utilization and fungibility.

The capital base of AGCS SE is regularly reviewed and valued at least once a quarter. The valuation is made on the basis of identified drivers of the deviation of the capital base from the target capitalization and/or the plan. It takes into account the expected impact of developments and measures that might influence the future capitalization. All results, valuations and capital control measures are first reported to the Chief Financial Officer of AGCS SE as part of the Top Risk Assessment process (see section B.3.6). Thereafter, the Board of Management is regularly informed and, if necessary, capital control measures are submitted to the Board for approval.

During the reporting period, there were no changes in the methods or objectives of the capital management of AGCS SE.

Reconciliation of the excess of assets over liabilities between HGB and market value balance sheets

The excess of assets over liabilities in the market value balance sheet totals €2 851 895 thou, while the excess of assets over liabilities in the HGB balance sheet (shareholders' equity) amounts to €1 144 237 thou. The differences between the excess of assets over liabilities under Solvency II (basic own funds) compared to HGB shareholders' equity are due to the differing recognition and valuation requirements under the two approaches. Detailed explanations of the main differences in valuations of individual balance sheet items can be found in chapters D of this report. The following overview shows the main items for which the valuation requirements differ under HGB accounting and Solvency II. The table reconciles HGB shareholders' equity with basic own funds under Solvency II.

Reconciliation of the excess of assets over liabilities between HGB and market value balance sheet:

	31/12/2017 € thou
HGB Shareholders equity	1 144 237
Investments	3 394 283
Participations	-2 266 784
Adjustments for technical reserves (net)	219 325
Risk margin	-178 144
Elimination of equalization reserves and similar reserves	703 959
Elimination of intangible assets	-209 677
Revaluation of other asset and liability items	-26 994
Changes in deferred taxes (net)	71 690
Solvency II adjustments total	1 707 658
Solvency II own funds	**2 851 895**

Basic own funds and available own funds

Own funds in the amount of €2 851 895 thou were exclusively composed of basic own funds. The basic own funds were identical with the excess of assets over liabilities from the market value balance sheet. There were no supplementary own funds and no deductions that reduced basic own funds. Basic own funds consisted of €2 763 842 thou of Tier 1 own funds and €88 053 thou Tier 3 own funds. Own funds satisfying the Tier 1 requirements consisted of €36 741 thou of paid-in capital, a share premium related to ordinary share capital of €537 434 thou and a reconciliation reserve of €2 189 667 thou. These funds were unrestricted and could be used without limitations to cover losses. The amount of own funds that meet Tier 3 requirements was identical to the amount of deferred tax assets. The following table shows the basic own fund items and their allocation to the various tiers („quality classes") in detail.

Composition of basic own funds

31/12/2017 € thou	Total	Tier 1 unrestricted	Tier 3
Paid-in share capital	36 741	36 741	
Share premium account related to ordinary share capital	537 434	537 434	
Reconciliation reserve	2 189 667	2 189 667	
Amount equal to the value of deferred tax assets	88 053		88 053
Basic own funds	2 851 895	2 763 842	88 053

AGCS SE has a transfer-of-profit agreement with Allianz SE. The obligations resulting from this agreement are already recognized as liabilities and thus not part of basic own funds. Therefore, no separate deduction for foreseeable dividends is made.

Eligible basic own funds

The items are classified into tiers in accordance with the criteria described in articles 93 to 96 of the Solvency Directive and articles 69 to 78 of Solvency II CDR. The share capital, the statutory reserve, the share premium account related to ordinary share capital and the reconciling balance are classified as Tier 1 non-restricted own funds. The amount equal to the value of deferred tax assets is classified as Tier 3 own funds.

Eligible own funds are calculated by applying the maximum quantitative tier limits to available own funds. At December 31, 2017, application of the maximum tier limits had no effect on the amount or structure of eligible own funds.

This means that the total basic own funds of €2 851 895 thou are available for meeting the solvency capital requirements (SCR). The own funds available for meeting the minimum capital requirements (MCR) consist of the tier 1 basic own funds and amount to €2 763 842 thou.

Composition of basic own funds

31/12/2017 € thou	Total	Tier 1 unrestricted	Tier 2	Tier 3
Eligible own funds to meet the SCR	2 851 895	2 763 842		88 053
Eligible own funds to meet the MCR	2 763 842	2 763 842		

Development of own funds

Eligible own funds decreased from €3 362 499 thou at the end of fiscal 2016 by €510 604 thou (15%) to €2 851 895 thou at the end of fiscal 2017. This is essentially due to changes in the reconciliation reserve. The composition of eligible own funds therefore continues to consist for the greatest part of tier 1 own funds.

€ thou		2017	2016
Tier 1	Ordinary share capital	36 741	36 741
	Share premium account related to ordinary share capital	537 434	537 434
	Reconciliation reserve	2 189 667	2 756 970
Tier 3	An amount equal to the value of net deferred tax assets	88 053	31 355
Total	**Own funds**	**2 851 895**	**3 362 499**

The biggest item in the changes in the reconciliation reserve was a reduction of the participation value in Allianz Risk Transfer (ART AG) and AGCS International Holding B.V. by €406 512 thou. Both participations were valued in the amount of their Solvency II own funds. The main reason for the decrease of the underlying own funds of ART AG was – in addition to exchange rate fluctuations – a dividend payment by the company in 2017, which was higher than the IFRS business performance at the end of the year. The decline of the own funds of AGCS International Holding B.V. was due to the decrease of its participation values in AGR US as well as ART AG. The

underlying own funds of AGR US were impacted by the currency fluctuations between the US Dollar and the Euro and constituted the main reason for the reduction compared to the prior year. At the same time, the own funds of AGR US were affected by a capital repayment as well as a loss-intensive fiscal year.

In addition to a decrease of the participation values, the creation of a provision for the transfer of profit to Allianz SE was also responsible for the decline of own funds. The amount to be transferred, which was based on the HGB result, was €43 385 thou higher than the IFRS amount. This was mainly due to exchange rate gains, which are only realized under HGB.

At the same time, intangible assets were increased in the reporting year by the purchase of distribution rights in the amount of €61 389 thou and an additional software activation in the amount of €41 931. According to Solvency II, these are not taken into account in the market value balance sheet, which resulted in a further decline of own funds in 2017.

Deferred taxes increased by €56 689 thou. This was mainly do to the different valuations in the tax balance sheet and the market value balance sheet, in particular with respect to special funds and bonds.

The asset liability management of AGCS SE enables matching coverage of all underwriting liabilities with assets to the greatest extent. In view of their duration and currency structure, this reduces possible fluctuations in the reconciliation reserve. Detailed explanations about the management of market risks are provided in chapter C.2 of this report. The potential volatility, which can impact the reconciliation reserve, stems for the most part from exchange rate fluctuations in the strategic participations of the company.

E.2 Solvency Capital Requirements and Minimum Capital Requirements

Solvency capital requirements at year end 2017

For the calculation of the Solvency Capital Requirements, AGCS SE uses the internal model of the Allianz Group, which was unconditionally authorized by the BaFin supervisory authority in November 2015.

The diversified risk capital after taxes amounts to €1 635 935 thou at December 31, 2017. The final amount is still being examined by the supervisory authority. The greatest risk contributions resulted from market and underwriting risks. Compared to the prior year, the entire diversified risk capital increased by 3% (€52 673 thou). While the diversification of underwriting risk remained almost unchanged, the decline of diversification within market risks overcompensated the lower undiversified risk capital of the various market risks. Ultimately, this resulted in a slight increase of the risk capital.

€ thou	31/12/2017	31/12/2016
Market risk	1 852 503	2 045 399
Credit risk	186 821	235 795
Longevity	11 738	13 153
Underwriting risk	1 417 551	1 396 385
Business risk	76 655	94 935
Operational risk	211 750	321 896
Capital requirement before diversification	3 766 980	4 107 563
Diversification	-2 096 978	-2 454 888
Diversified capital requirement before taxes	1 670 002	1 652 675
Tax effect	-34 068	-69 414
Diversified capital requirement incl. taxes	**1 635 935**	**1 583 261**

The minimum capital requirement is calculated in accordance with the regulatory requirements as a function of the solvency capital requirement and amounted to €499 170 thou (571 percent) at the end of the reporting period.

During the reporting period, there were no material changes in the calculation of the solvency capital requirement and the minimal capital requirement of AGCS SE. The company's risk bearing capacity was ensured at all times.

E.3 Use of Duration-Based Equity Risk Sub-Module in the Calculation of Solvency Capital Requirement

In transposing the Solvency II directive into national law, Germany did not make use of the option to allow a duration-based equity risk sub-module.

For this reason, the internal model of the Allianz Group, which AGCS SE uses for the calculation of the Solvency Capital Requirement, contains no duration-based equity risk sub-module, which therefore is not relevant for AGCS SE.

E.4 Differences between the Standard Formula and Any Internal Model Used

The internal model is used for various purposes, in particular for the quantification and comparison of different risk categories and segments. It is a fundamental element for risk-based, forward-looking control. In addition, the calculated risk capital better reflects the underlying business when using the internal model and is more suitable in comparison to the standard formula approach of Solvency II.

This section first describes the scope of the internal model and the underlying methodology, followed by the methods used for the aggregation of risk categories as well as an overview of the differences between the internal model and the standard formula.

Our internal risk capital model is based on a Value-at Risk (VaR) approach using a Monte Carlo simulation. Risk calculation begins with the market value balance sheet, attributing each item to relevant risk drivers and associated risk categories. A bond, for example, will be attributed to the respective market risk category such as interest rate risk, credit spread risk or currency risk as well as the credit risk category.

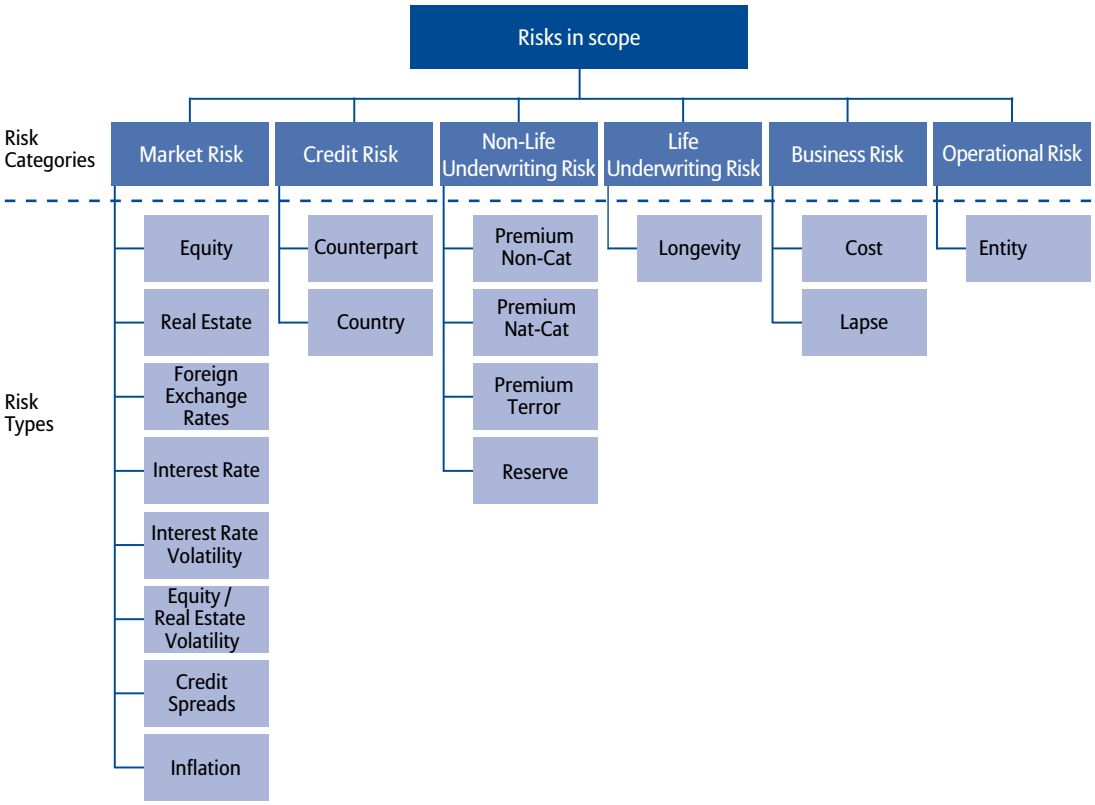
Risk capital is defined as the change in economic net fair value of assets and liabilities over the projected time, based on the underlying distribution assumptions for each risk factor. Whenever possible, distributions are calibrated to market data or our own internal historical data for, e.g., setting actuarial assumptions. In addition, we consider recommendations from the insurance industry, supervisory authorities and actuarial associations.

Following this approach, we determine the maximum loss in the portfolio value of our businesses in the scope of the model in a specified timeframe (holding period) and probability of occurrence (confidence level). Risk capital is computed as the 99.5 Value-at-Risk from the profit and loss distribution for a holding period of one year, where in each scenario the change in economic value is derived from the simultaneous realization of all risk factors. This 200-year event is modeled as immediate loss shock for all balance sheet items.

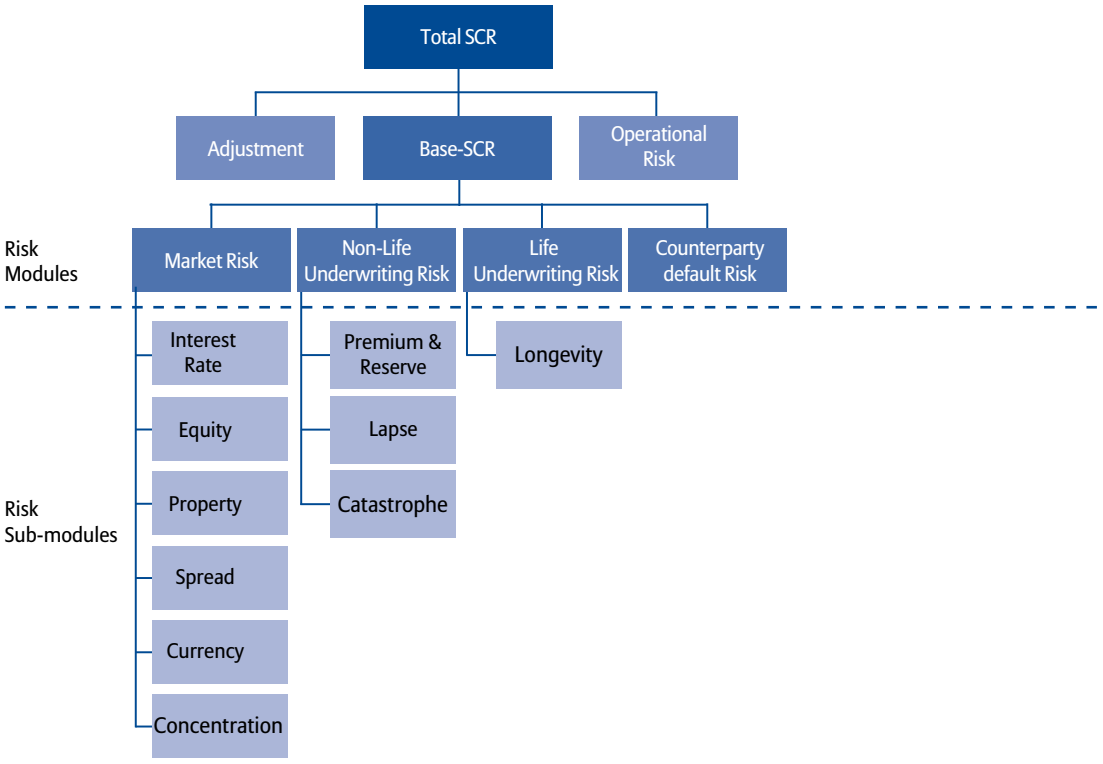
The internal model contains a range of risk categories, which in turn can be subdivided into risk types. For each of those levels, the internal model provides risk figures on a stand-alone basis – i.e. before diversification to other risk types or categories – but also at an aggregated level, taking into account said diversification (see chapter C on aggregation). A more detailed description of each risk category can be found in chapter C. Risk Profile.

The first of the following figures shows the risk categories contained in the internal model. For the sake of comparison, the structure of the standard formula for all essential risk categories of AGCS SE is also presented in the second figure.

Internal model



Standard model



For the aggregation of risks we use an industry-standard approach based on a Gaussian copula. A correlation matrix defines the interdependencies between the risks of the copula. Wherever possible, we derive correlation parameters for each pair of market risks through statistical analysis of historical market data, considering quarterly observations over several years. In case historical market data or other portfolio-specific observations are insufficient or not available, correlations are set according to a well-defined group-wide process. This is done by a dedicated internal committee, the Correlation Settings Committee, which combines the expertise of risk and business experts. We usually define correlation parameters such as they will represent the joint movement of risks under adverse conditions.

To determine our diversified risk capital, the change in economic value is computed for the 200-year event, based on the joint realization of risks, using the methodology described in the previous section.

A fundamental difference between the standard formula and the internal model is that the standard formula uses factor-based shock scenarios while the internal model derives the risk capital by simulating each risk driver (and its corresponding economic P&L impact) based on its assumed distribution and dependence on other risk drivers.

The following table gives an overview of the differences between the standard formula and the internal model by risk module.

Risk nodule	Standard formula[1]	Internal model[1]
Equity	– 39% for type 1 equities (liquid equities) – 49% for type 2 equities (liquid positions e.g. private equity and non-strategic interests) – 22% for strategic interests – No volatility shock	– 35% - 60% for indices – 10% - 80% für private equity, depending on risk classification – Volatility shock – 22% for strategic interests
Interest rate	– Up / down shock as percentage change of the yield curve depending on term to maturity, min. up shock of 100bp (1bp = 0.01%) – No volatility shock	– Changes of the yield curve taken into account as Twist, long-term shock of 65 bp – Volatility shock
Property	– 25% for all properties	– 23% - 32% for country specific real estate indices
Credit Spread	– Changes of the net asset value due to an asset shock, which follow the prescribed method – Bonds, loans and securitizations, shock factors depend on the respective modified duration and credit rating – Credit derivatives: shocks depend on the credit rating of the underlying financial instrument	– EU government bonds, AAA and AA rated non-EU government bonds, supranational bonds, and mortgage loans on residential property are not exempt from the spread risk module – Shocks which under the internal model are calibrated for securitization are lower than those in the standard formula which can be as high as 100%
Risk nodule	Standard formula[1]	Internal model[1]
Currency	– +/- 25% for each currency, except for currencies pegged to the EUR – Worst-case scenario is selected for each currency – No diversification / netting of cross currencies	– 13% - 28% for the various currencies vs. EUR – Diversification/netting of cross currencies
Concentration	– Formula based on volume, rating, and total assets held	– Implicitly covered in the credit risk models
Credit risk/Counterparty default risk	– Parameter and formula assigned in level 2 text – For type 1 positions, the standard formula is based on loss given default, variance of loss distribution and probability of default based on credit quality – For type 2 positions, the standard formula is based on pre-defined assumptions for the value loss of the positions – Delimitation of credit risk positions: Equity and property are part of the concentration risk submodule and the counterparty default risk module does not contain the bond portfolio	– The results of the group credit risk of the internal model are based on current credit risk model parameters and current market and position data – Credit risk capital is calculated for 95.5% loss quantile – Delimitation of credit risk positions: investment portfolio (without equity and property), reinsurance exposures, credit insurance exposures. – Taking into account the differences of the positions, a comparison between the capital requirements of the internal model and the standard formula does not make sense

Risk nodule	Standard formula[1]	Internal model[1]
Underwriting risk Life and Health	– Mortality risk: 15% increase in mortality rates, 0.15% mortality calamity – Longevity risk: 20% decrease of mortality rate – Morbidity risk: 35% increase in the first year, 25% thereafter – Lapse risk: 50% up and down shock and 70% / 40% mass lapse shock depending on business type (retail / non-retail) – Expense risk: 10% increase in expenses + 1% increase in expense inflation	– Mortality risk: based on company experience, 0.15% mortality calamity – Longevity risk: modified Lee-Carter model – Morbidity risk: based on company experience – Lapse risk: shocks are calibrated from historical data. Standard mass lapse shock corresponds to the maximum of twice the annual lapse rate or 20%; country-specific calibration is possible – Expense risk: as in the standard formula but entity-specific calibration possible. In addition, the internal model allows for new-business risk, which is not modeled under the standard formula
Underwriting risk non-life	– Factors are applied to volume – Separate volatility factors defined for premiums and reserves and four different lines of business – Correlation between lines of business defined by EIOPA – Allowance for geographical diversification based on 18 regions – Lapse shock – 40% lapse quota of contracts which are exposed to a lapse risk – Catastrophe risk – factor based, is split in four modules: natural catastrophe, non-proportional property reinsurance, man-made, other – Separate approach for health catastrophe risk (mass accident, accident concentration and pandemic modules)	– Premium and reserve risk is calculated on the basis of actuarial models and reflects the company-specific situation clearly better – Reinsurance application for catastrophe and non-catastrophe risk is more advanced in the internal model – Different aggregation method: Gaussian copula approach for aggregation of the different distributions – Catastrophe risk is calculated using probabilistic models based on scientific modeling techniques – The lapse risk is focused on covering the costs – Expense risk is the risk of not underwriting enough business to cover acquisition costs
Loss-absorbing capacity of tax	– The adjustment is equal to the change in value of deferred taxes that results from an instantaneous loss of an amount equal to the Basic Solvency Capital Requirement + capital requirement for operational risk + adjustment for the loss-absorbing capacity of technical provisions	– The adjustment is calculated with the same approach as in the standard formula, but with a different immediate shock
Loss-absorbing capacity of technical provisions	– Ensures that for participating businesses there is no multiple usage of the future discretionary benefit buffers – BSCR is calculated with and without allowance for FDB and the total relief is limited to the current value of FDB	– Since SCR figures are calculated directly on a net basis, no adjustment is made
Intangible asset risk	– 80% of intangible assets recognized	– Intangible asset risk is not covered by the internal model
Operational risk	– Factor-based approach based on earned premium amount and technical provisions	– Scenario-based risk model – Risk identification within each entity – Aggregation of operational risks based on loss frequency and loss severity distributions
Aggregation	– Simple correlation approach	– Central setting of parameters (correlations/geographic hierarchy, risk capital supplements, risk measurement and aggregation key) – Correlation matrix algorithm (Copula approach) – Aggregation hierarchy

1. The percentages indicated correspond to the respective risk factor.

With regard to market risk, besides the differences listed in the table above, there is a structural difference between the internal model and the standard formula in the way they reflect volatility risk: while the internal model explicitly accounts for interest rate volatility risk and equity volatility risk, the standard formula accounts for this type of risk only implicitly in the calibration of the shock.

For non-life underwriting risk, the difference with respect to the risk covered by the internal model compared to the standard formula is very limited. The main categories are reflected in both models and there is no major risk that is covered by the standard formula but not by the internal model. The decisive difference is in the modeling approach. In addition, the underwriting risk, the longevity risk for employee pension plans and the business risk are covered by the internal model but not by the standard formula. All other internal model risk categories are at least implicitly covered by the standard formula.

The credit risk module of the internal model, contrary to the counterparty default risk of the standard formula, covers the entire bond and loan portfolio as well as credit insurance exposures. This allows us to model diversification and concentration effects across all credit-risk-bearing exposures.

The operational risk capital for the standard formula is calculated with a factor-based approach, which only partially reflects the underlying economic risk profile. The internal model calculation of the operative risk capital is based on our group-wide operative risk management (described in chapter C .5), which does indeed result in inadequate coverage of the underlying risks.

As inputs for the internal model and the calibration of parameters, we use a variety of data sources (as mentioned in the previous sections and chapter B). If appropriate, the input data are identical with the data we use for other purposes, for example for local or IFRS reporting. The suitability of these data is regularly reviewed internally.

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

Monitoring of the compliance of AGCS SE with the Minimum Capital Requirement and the Solvency Capital Requirement is an integral part of our capital management.

Compliance is monitored regularly and reported as part of our regular quarterly reporting or on an ad hoc basis to the Board of Management. AGCS SE complied with the Minimum Capital Requirement and the Solvency Capital Requirement during the entire reporting period.

E.6 Any Other Information

All material information regarding the capital management of AGCS SE has been addressed in the previous sections .

List of abbreviations

ABS	Asset Backed Securities
AEI	Allianz Equity Incentives
AG	Aktiengesellschaft (Share Corporation)
AGCS	AGCS SE and all its subsidiaries
AGCS SE	Allianz Global Corporate & Specialty SE
AGR US	Allianz Global Risks US Insurance Company
ART AG	Allianz Risk Transfer Aktiengesellschaft
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)
BoS	Board of Supervisors
BSCR	Basic Solvency Capital Requirement
CRisP	Credit Risk Platform
CRO	Chief Risk Officer
DBO	Defined Benefit Obligation
ERIC	Enterprise-wide Risk-based Integrated Control
EStG	Einkommensteuergesetz (German Income Tax Law)
EU	European Union
FDB	Future Discretionary Benefits
FX	Foreign Exchange
HGB	Handelsgesetzbuch (German Commercial Code)
HR	Human Resources
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMPC	Investment Management Property/Casualty
LIR	Liquidity Intensity Ratio
MBS	Mortgage Backed Securities
MCR	Minimum Capital Requirement
MVM	Market Value Margin
Net operating expenses (in the narrow sense)	Net operating expenses for the insurance business in the narrow sense (i.e. not including investment management expenses)
Net operating expenses (in the broader sense)	Net operating expenses for the insurance business in the broader sense (i.e. including investment management expenses)
ORSA	Own Risk and Solvency Assessment
OTC	Over The Counter

RechVersV	Verordnung über die Rechnungslegung von Versicherungsunternehmen (German Ordinance on the Financial Reporting of Insurance Undertakings)
RoRC	Return on Risk Capital
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SE	Societas Europaea (European Share Corporation)
SFCR	Solvency Financial Condition Report
Solvency II CDR	Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) including the corrections in Delegated Regulations (EU) 2016/467 of 30 September 2015, 2016/2283 of 22 August 2016 and 2017/1542 of 8 June 2017
Solvency II Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) in the version of 28 April 2015
SPV	Special Purpose Vehicle
SVT	Security Vetting Team
Technical Implementation Standards for Regular Solvency II Reporting	Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council including the corrections in the Official Journal of the European Union, L 347 of 31 December 2015 as well as the amendments and corrections in Implementing Regulation (EU) 2016/1868 of 20 October 2016 and (EU) 2017/2189 of 24 November 2017
Technical Implementation Standards for the SFCR	Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council including the corrections in the Official Journal of the European Union, L 347 of 31 December 2015 as well as the amendments and corrections in Implementing Regulation (EU) 2016/1868 of 20 October 2016 and (EU) 2017/2189 of 24 November 2017
Thou	Thousand
VAG	Versicherungsaufsichtsgesetz (German Law on the Supervision of Insurance Undertakings)
VaR	Value at Risk

Appendices

Appendix 1: Reporting Template SE.02.01.b compressed (in € thou)

Balance sheet

		Solvency II value
		C0010 € thou
Assets		
Goodwill	**R0010**	0
Deferred acquisition costs	**R0020**	0
Intangible assets	**R0030**	0
Deferred tax assets	**R0040**	88 053
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	22 291
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	8 350 494
Property (other than for own use)	**R0080**	108 603
Holdings in related undertakings, including participations	**R0090**	2 522 910
Equities	**R0100**	1 553
Equities - listed	**R0110**	0
Equities - unlisted	**R0120**	1 553
Bonds	**R0130**	2 381 768
Government Bonds	**R0140**	1 025 379
Corporate Bonds	**R0150**	1 275 925
Structured notes	**R0160**	0
Collateralised securities	**R0170**	80 464
Collective Investments Undertakings	**R0180**	3 287 061
Derivatives	**R0190**	44 842
Deposits other than cash equivalents	**R0200**	3 756
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	0
Loans and mortgages	**R0230**	207 047
Loans on policies	**R0240**	0
Loans and mortgages to individuals	**R0250**	0
Other loans and mortgages	**R0260**	207 047
Reinsurance recoverables from:	**R0270**	5 739 576
Non-life and health similar to non-life	**R0280**	5 739 576
Non-life excluding health	**R0290**	5 732 304
Health similar to non-life	**R0300**	7 273
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	0
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	0
Life index-linked and unit-linked	**R0340**	0
Deposits to cedants	**R0350**	95 082
Insurance and intermediaries receivables	**R0360**	1 043 289
Reinsurance receivables	**R0370**	113 847
Receivables (trade, not insurance)	**R0380**	321 915
Own shares	**R0390**	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	0
Cash and cash equivalents	**R0410**	94 468
Any other assets, not elsewhere shown	**R0420**	5 718
Total assets	**R0500**	**16 081 782**

		Solvency II value
		C0010
		€ thou
Liabilities		
Technical provisions – non-life	**R0510**	9 265 582
Technical provisions – non-life (excluding health)	**R0520**	9 237 974
TP calculated as a whole	**R0530**	0
Best Estimate	**R0540**	9 060 837
Risk margin	**R0550**	177 136
Technical provisions - health (similar to non-life)	**R0560**	27 609
TP calculated as a whole	**R0570**	0
Best Estimate	**R0580**	26 601
Risk margin	**R0590**	1 008
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	0
Technical provisions - health (similar to life)	**R0610**	0
TP calculated as a whole	**R0620**	0
Best Estimate	**R0630**	0
Risk margin	**R0640**	0
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	0
TP calculated as a whole	**R0660**	0
Best Estimate	**R0670**	0
Risk margin	**R0680**	0
Technical provisions – index-linked and unit-linked	**R0690**	0
TP calculated as a whole	**R0700**	0
Best Estimate	**R0710**	0
Risk margin	**R0720**	0
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	242 084
Pension benefit obligations	**R0760**	122 575
Deposits from reinsurers	**R0770**	2 518 222
Deferred tax liabilities	**R0780**	16 363
Derivatives	**R0790**	0
Debts owed to credit institutions	**R0800**	0
Financial liabilities other than debts owed to credit institutions	**R0810**	0
Insurance & intermediaries payables	**R0820**	90 177
Reinsurance payables	**R0830**	299 913
Payables (trade, not insurance)	**R0840**	95 335
Subordinated liabilities	**R0850**	0
Subordinated liabilities not in basic own funds	**R0860**	0
Subordinated liabilities in basic own funds	**R0870**	0
Any other liabilities, not elsewhere shown	**R0880**	579 636
Total liabilities	**R0900**	13 229 887
Excess of assets over liabilities	**R1000**	**2 851 895**

Appendix 2: Reporting Template S.05.01.b (in € thou)

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Medical expense insurance	Income protection insurance	Workers' compensation insurance
		C0010	C0020	C0030
Premiums written				
Gross - Direct Business	R0110	5 554	3 490	0
Gross - Proportional reinsurance accepted	R0120	5 388	1 918	0
Gross - Non-proportional reinsurance accepted	R0130			
Reinsurers' share	R0140	3 340	3 884	0
Net	R0200	7 602	1 524	0
Premiums earned				
Gross - Direct Business	R0210	6 002	3 536	0
Gross - Proportional reinsurance accepted	R0220	6 066	2 002	0
Gross - Non-proportional reinsurance accepted	R0230			
Reinsurers' share	R0240	3,488	3 800	0
Net	R0300	8 580	1 738	0
Claims incurred				
Gross - Direct Business	R0310	-325	12	0
Gross - Proportional reinsurance accepted	R0320	-1 715	540	0
Gross - Non-proportional reinsurance accepted	R0330			
Reinsurers' share	R0340	-527	1 145	0
Net	R0400	-1 513	-593	0
Changes in other technical provisions				
Gross - Direct Business	R0410	-9	-9	0
Gross - Proportional reinsurance accepted	R0420	0	0	0
Gross - Non-proportional reinsurance accepted	R0430			
Reinsurers' share	R0440	0	0	0
Net	R0500	-9	-9	0
Expenses incurred	R0550	2 994	684	0
Other expenses	R1200			
Total expenses	R1300			

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
C0040	C0050	C0060	C0070	C0080	C0090
14 494	13 861	407 508	571 474	803 551	0
0	0	340 358	616 953	499 123	0
14 477	13 862	562 016	817 636	789 692	0
17	-1	185 850	370 791	512 982	0
14 823	14 003	415 922	558 915	799 239	0
-12	0	351 100	625 576	463 295	0
14 738	13 986	584 302	835 566	757 985	0
73	17	182 720	348 925	504 549	0
6 874	9 365	380 877	377 382	521 328	0
138	-92	183 287	295 428	366 184	0
7 013	9 008	527 386	469 636	594 760	0
-1	265	36 778	203 174	292 752	0
0	0	-280	240	493	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	-280	240	493	0
1 274	907	104 196	166 377	194 466	0

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0100	C0110	C0120
Premiums written				
Gross - Direct Business	R0110	1	199	138 662
Gross - Proportional reinsurance accepted	R0120	0	0	178 884
Gross - Non-proportional reinsurance accepted	R0130			
Reinsurers' share	R0140	0	199	214 059
Net	R0200	1	0	103 487
Premiums earned				
Gross - Direct Business	R0210	1	159	123 614
Gross - Proportional reinsurance accepted	R0220	0	0	168 644
Gross - Non-proportional reinsurance accepted	R0230			
Reinsurers' share	R0240	0	167	195 928
Net	R0300	1	-8	96 330
Claims incurred				
Gross - Direct Business	R0310	0	12	209 795
Gross - Proportional reinsurance accepted	R0320	0	0	319 084
Gross - Non-proportional reinsurance accepted	R0330			
Reinsurers' share	R0340	0	9	431 767
Net	R0400	0	3	97 112
Changes in other technical provisions				
Gross - Direct Business	R0410	0	0	141
Gross - Proportional reinsurance accepted	R0420	0	0	0
Gross - Non-proportional reinsurance accepted	R0430			
Reinsurers' share	R0440	0	0	0
Net	R0500	0	0	141
Expenses incurred	R0550	0	-13	20,649
Other expenses	R1200			
Total expenses	R1300			

Line of business for: accepted non-proportional reinsurance				Total
Health	Casualty	Marine, aviation, transport	Property	
C0130	C0140	C0150	C0160	C0200
				1 958 794
				1 642 624
0	75 705	66 023	292 032	433,760
0	65 617	58 842	229 144	2 772 768
0	10 088	7 181	62 888	1 262 410
				1 936 214
				1 616 671
0	73 712	61 996	296 418	432 126
0	64 814	55 608	234 903	2 765 285
0	8 898	6 389	61 515	1 219 726
				1 505 320
				1 162 854
0	37 015	94 602	407 683	539 300
0	34 338	91 954	357 206	2 523 695
0	2 677	2 648	50 477	683 779
				576
				0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	576
0	-5 523	-730	5 996	491 277
				0
				491 277

		Line of Business for: life obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance
		C0210	C0220	C0230
Premiums written				
Gross	**R1410**	0	0	0
Reinsurers' share	**R1420**	0	0	0
Net	**R1500**	0	0	0
Premiums earned				
Gross	**R1510**	0	0	0
Reinsurers' share	**R1520**	0	0	0
Net	**R1600**	0	0	0
Claims incurred				
Gross	**R1610**	0	0	0
Reinsurers' share	**R1620**	0	0	0
Net	**R1700**	0	0	0
Changes in other technical provisions				
Gross	**R1710**	0	0	0
Reinsurers' share	**R1720**	0	0	0
Net	**R1800**	0	0	0
Expenses incurred	**R1900**	0	0	0
Total expenses	**R2600**			
Total amount of surrenders	**R2700**			

Line of Business for: life obligations			Life reinsurance obligations		Total
Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
C0240	C0250	C0260	C0270	C0280	C0300
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
					0
					0

Appendix 3: Reporting Template S.05.02.b (in € thou)

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		United States	United Kingdom	France	China	Italy	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	**R0110**	684 329	29 566	452 522	326 758	73 687	78 321	1 645 183
Gross - Proportional reinsurance accepted	**R0120**	179 931	461 630	51 655	37 772	90 238	18 259	839 485
Gross - Non-proportional reinsurance accepted	**R0130**	70 513	201 743	24 981	3 740	2 807	0	303 784
Reinsurers' share	**R0140**	850 443	586 285	245 060	158 529	113 294	34 506	1 988 117
Net	**R0200**	84 330	106 654	284 098	209 741	53 438	62 074	800 335
Premiums earned								
Gross - Direct Business	**R0210**	698 362	30 836	416 168	326 546	73 838	80 946	1 626 696
Gross - Proportional reinsurance accepted	**R0220**	189 378	455 293	48 143	36 081	92 749	18 014	839 658
Gross - Non-proportional reinsurance accepted	**R0230**	59 945	192 380	25 899	3 977	3 162	0	285 363
Reinsurers' share	**R0240**	865 577	568 502	236 033	160 856	115 926	35 188	1 982 082
Net	**R0300**	82 108	110 007	254 177	205 748	53 823	63 772	769 635
Claims incurred								
Gross - Direct Business	**R0310**	763 593	45 710	402 212	153 709	46 161	35 102	1 446 487
Gross - Proportional reinsurance accepted	**R0320**	146 899	410 291	38 630	49 385	42 148	11 153	698 506
Gross - Non-proportional reinsurance accepted	**R0330**	53 514	319 318	61 979	8 182	627	0	443 620
Reinsurers' share	**R0340**	915 454	720 351	285 088	41 560	32 428	8 846	2 003 727
Net	**R0400**	48 552	54 968	217 733	169 716	56 508	37 409	584 886
Changes in other technical provisions								
Gross - Direct Business	**R0410**	5	– 123	668	– 64	– 27	191	650
Gross - Proportional reinsurance accepted	**R0420**	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	**R0430**	0	0	0	0	0	0	0
Reinsurers' share	**R0440**	0	0	0	0	0	0	0
Net	**R0500**	5	– 123	668	– 64	– 27	191	650
Expenses incurred	**R0550**	– 6 723	90 768	99 822	75 953	28 923	19 175	307 918
Other expenses	**R1200**							0
Total expenses	**R1300**							307 918

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R0010		United States	United Kingdom	France	China	Italy	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	**R1410**	0	0	0	0	0	0	0
Reinsurers' share	**R1420**	0	0	0	0	0	0	0
Net	**R1500**	0	0	0	0	0	0	0
Premiums earned								
Gross	**R1510**	0	0	0	0	0	0	0
Reinsurers' share	**R1520**	0	0	0	0	0	0	0
Net	**R1600**	0	0	0	0	0	0	0
Claims incurred								
Gross	**R1610**	0	0	0	0	0	0	0
Reinsurers' share	**R1620**	0	0	0	0	0	0	0
Net	**R1700**	0	0	0	0	0	0	0
Changes in other technical provisions								
Gross	**R1710**	0	0	0	0	0	0	0
Reinsurers' share	**R1720**	0	0	0	0	0	0	0
Net	**R1800**	0	0	0	0	0	0	0
Expenses incurred	**R1900**	0	0	0	0	0	0	0
Other expenses	**R2500**							0
Total expenses	**R2600**							0

Appendix 4: Reporting Template S.12.01.b

Technical reserves in life insurance and health insurance pursued similar to life insurance

This reporting template is not relevant for AGCS SE.

Appendix 5: Reporting Template S.17.01.b (in € thou)

Technical reserves – non-life insurance

		Direct business and accepted proportional reinsurance		
		Medical expense insurance	Income protection insurance	Workers' compensation insurance
		C0020	C0030	C0040
Technical provisions calculated as a whole	**R0010**	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**	0	0	0
Technical provisions calculated as a sum of BE and RM				
Best Estimate				
Premium provisions				
Gross - Total	**R0060**	9 179	1 020	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	1 613	246	0
Net Best Estimate of Premium Provisions	**R0150**	7 566	774	0
Claims provisions				
Gross - Total	**R0160**	11 293	5 108	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	1 739	3 674	0
Net Best Estimate of Claims Provisions	**R0250**	9 554	1 434	0
Total Best estimate - gross	**R0260**	20 472	6 128	0
Total Best estimate - net	**R0270**	17 120	2 208	0
Risk margin	**R0280**	898	110	0
Amount of the transitional on Technical Provisions				
TP as a whole	**R0290**	0	0	0
Best Estimate	**R0300**	0	0	0
Risk margin	**R0310**	0	0	0
Technical provisions - total				
Technical provisions - total	**R0320**	21 370	6 238	0
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	3 352	3 920	0
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**	18 018	2 318	0

Direct business and accepted proportional reinsurance					
Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
C0050	C0060	C0070	C0080	C0090	C0100
0	0	0	0	0	0
0	0	0	0	0	0
4 116	3 861	96 242	438 398	326 498	0
3 805	3 578	59 222	230 612	158 823	0
311	283	37 020	207 786	167 675	0
7 357	11 401	1 460 316	1 261 973	4 038 498	0
8 680	8 814	1 010 418	848 296	2 229 493	0
-1 323	2 587	449 898	413 677	1 809 005	0
11 473	15 262	1 556 558	1 700 371	4 364 996	
-1 012	2 870	486 918	621 463	1 976 680	0
18	150	18 477	44 455	105 886	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
11 491	15 412	1 575 035	1 744 826	4 470 882	0
12 485	12 392	1 069 640	1 078 908	2 388 316	0
-994	3 020	505 395	665 918	2 082 566	0

		Direct business and accepted proportional reinsurance		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0110	C0120	C0130
Technical provisions calculated as a whole	**R0010**	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**			
Technical provisions calculated as a sum of BE and RM				
Best Estimate				
Premium provisions				
Gross - Total	**R0060**	0	61	100 291
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	0	61	66 338
Net Best Estimate of Premium Provisions	**R0150**	0	0	33 953
Claims provisions				
Gross - Total	**R0160**	0	9	571 642
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	0	9	470 292
Net Best Estimate of Claims Provisions	**R0250**	0	0	101 350
Total Best estimate - gross	**R0260**	0	70	671 933
Total Best estimate - net	**R0270**	0	0	135 303
Risk margin	**R0280**	0	0	2 772
Amount of the transitional on Technical Provisions				
TP as a whole	**R0290**	0	0	0
Best Estimate	**R0300**	0	0	0
Risk margin	**R0310**	0	0	0
Technical provisions - total				
Technical provisions - total	**R0320**	0	70	674 705
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	0	70	536 630
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**	0	0	138 075

Accepted non-proportional reinsurance				Total Non-Life obligation
Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
C0140	C0150	C0160	C0170	C0180
0	0	0	0	0
	11 286	4 219	34 152	1 029 323
	7 440	-4 224	22 853	550 367
	3 846	8 443	11 299	478 956
	98 339	99 843	492 335	8 058 114
	89 818	91 454	426 521	5 189 208
	8 521	8 389	65 814	2 868 906
	109 625	104 062	526 487	9 087 437
	12 367	16 832	77 113	3 347 862
	645	854	3 879	178 144
	0	0	0	0
	0	0	0	0
	0	0	0	0
0	110 270	104 916	530 366	9 265 581
0	97 258	87 230	449 374	5 739 575
0	13 012	17 686	80 992	3 526 006

Appendix 6: Reporting Template S.19.01.b (in € thou)

Non-life insurance claims

Non-life Insurance Business Total

		C0010
Accident year / Underwriting year	Z0010	Accident year

Gross Claims Paid (non-cumulative) - (absolute amount)

		Development year										
	Year	0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0010											30 758
N-9	R0160	0	540 730	236 077	117 712	139 843	39 256	32 254	10 553	23 749	7 701	
N-8	R0170	199 207	377 210	223 156	190 601	68 685	70 647	79 971	33 936	26 198		
N-7	R0180	299 553	674 300	271 157	111 959	198 007	34 761	32 926	70 086			
N-6	R0190	442 475	791 511	330 158	228 884	113 134	104 100	53 903				
N-5	R0200	308 634	728 398	303 909	165 596	110 586	83 671					
N-4	R0210	266 462	492 417	297 877	129 487	122 908						
N-3	R0220	320 391	743 333	576 361	118 355							
N-2	R0230	419 195	603 967	379 205								
N-1	R0240	293 230	1 000 996									
N	R0250	356 695										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	30 758	30 758
	R0160	7 701	1 147 875
	R0170	26 198	1 269 611
	R0180	70 086	1 692 749
	R0190	53 903	2 064 165
	R0200	83 671	1 700 794
	R0210	122 908	1 309 151
	R0220	118 355	1 758 440
	R0230	379 205	1 402 367
	R0240	1 000 996	1 294 227
	R0250	356 695	356 695
Total	R0260	2 250 478	14 026 833

Gross undiscounted Best Estimate Claims Provisions - (absolute amount)

		Development year										
	Year	0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0010											585 587
N-9	R0160	1 327 857	1 032 815	823 496	652 788	375 573	236 163	173 726	181 939	141 789	120 983	
N-8	R0170	1 311 052	1 301 670	950 716	721 006	529 739	420 028	253 092	185 438	135 604		
N-7	R0180	2 048 990	1 293 565	965 983	718 055	423 712	317 067	260 467	160 497			
N-6	R0190	2 111 238	1 457 529	955 500	676 107	478 284	323 185	247 220				
N-5	R0200	2 203 773	1 381 746	977 191	700 216	488 762	338 733					
N-4	R0210	1 731 246	1 323 285	942 764	661 299	427 742						
N-3	R0220	2 255 122	1 730 650	904 957	602 996							
N-2	R0230	2 295 642	1 687 327	1 118 636								
N-1	R0240	2 393 913	1 674 636									
N	R0250	2 913 861										

		Year end (discounted data)
		C0360
	R0100	574 058
	R0160	115 186
	R0170	130 889
	R0180	154 160
	R0190	236 809
	R0200	323 112
	R0210	411 963
	R0220	579 939
	R0230	1 075 364
	R0240	1 616 464
	R0250	2 840 170
Total	R0260	8 058 114

Appendix 7: Reporting Template S.22.01.b compressed (in € thou)

Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	3 526 006	0	0	13 990	0
Basic own funds	R0020	2 851 895	0	0	-10 952	0
Eligible own funds to meet Solvency Capital Requirement	R0050	2 851 895	0	0	-10 952	0
Solvency Capital Requirement	R0090	1 635 934	0	0	35 094	0
Eligible own funds to meet Minimum Capital Requirement	R0100	2 763 842	0	0	-12 859	0
Minimum Capital Requirement	R0110	499 170	0	0	1 539	0

Appendix 8: Reporting Template S.23.01.b (in € thou)

Own funds

		Total	Tier 1 - un-restricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	36 741	36 741		0	
Share premium account related to ordinary share capital	R0030	537 434	537 434		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	2 189 667	2 189 667			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	88 053				88 053
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	
Total basic own funds after deductions	R0290	2 851 895	2 763 842	0	0	88 053
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0

		Total	Tier 1 - un-restricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	2 851 895	2 763 842	0	0	88 053
Total available own funds to meet the MCR	R0510	2 763 842	2 763 842	0	0	
Total eligible own funds to meet the SCR	R0540	2 851 895	2 763 842	0	0	88 053
Total eligible own funds to meet the MCR	R0550	2 763 842	2 763 842	0	0	
SCR	R0580	1 635 934				
MCR	R0600	499 170				
Ratio of Eligible own funds to SCR	R0620	1,74				
Ratio of Eligible own funds to MCR	R0640	5,54				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	2 851 895
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	0
Other basic own fund items	R0730	662 228
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Reconciliation reserve	R0760	2 189 667
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	0
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	40 543
Total EPIFP	R0790	40 543

Appendix 9: Reporting Template S.25.03.b (in € thou)

Solvency Capital Requirement – for groups using full internal models

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0020	C0020	C0030
10	IM - Market risk	900 359
11	IM - Underwriting risk	1 016 150
12	IM - Business risk	76 655
13	IM - Credit risk	186 821
14	IM - Operational risk	211 570
15	IM - LAC DT (negative amount)	- 34 068
16	IM - Capital Buffer	0
17	IM - Adjustment due to RFF/MAP nSCR aggregation	0

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	2 357 488
Diversification	R0060	- 721 553
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	1 635 934
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	1 635 934
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 ot deferred taxes	R0310	34 068
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0
Net future discretionary benefits	R0460	0

Appendix 10: Reporting Template S.28.01.b (in € thou)

Minimum capital requirement – only life – or only non-life – or reinsurance

		C0010
MCRNL Result	R0010	499 170

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	17 120	7 294
Income protection insurance and proportional reinsurance	R0030	2 208	1 506
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	0	5
Other motor insurance and proportional reinsurance	R0060	2 869	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	486 919	180 488
Fire and other damage to property insurance and proportional reinsurance	R0080	621 463	354 077
General liability insurance and proportional reinsurance	R0090	1 976 680	503 858
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	1
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	135 303	88 850
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	12 367	9 807
Non-proportional marine, aviation and transport reinsurance	R0160	16 832	6 755
Non-proportional property reinsurance	R0170	77 113	56 468

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	0

		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	0	
Obligations with profit participation - future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	0	
Total capital at risk for all life (re)insurance obligations	R0250		0

Overall MCR calculation

		C0070
Linear MCR	R0210	499 170
SCR	R0220	1 635 934
MCR cap		736 171
MCR floor		408 984
Combined MCR		499 170
Absolute floor of the MCR	R0230	3 700
	R0240	0
Minimum Capital Requirement	R0250	499 170

Allianz Global Corporate & Specialty SE
Königinstraße 28
80802 München
Telephone +49 89 3800 0

www.agcs.allianz.com

The German original of this Annual Report is available upon request.

This is a translation of the German Annual Report of Allianz Global Corporate & Specialty SE.
In case of any divergences, the German original is legally binding.