KEY POINTS OF THE FINANCIAL COMMUNICATION OF LARGE INSURANCE GROUPS

AT 31 DECEMBER 2014

MAZARS

CONTENTS

INTRODUCTION

Over the years, financial communication has become an essential element in promoting the activities of large groups, especially for insurers, with their particular business model.

The exercise is particularly onerous for them as the IFRSs specific to their activities often appear inappropriate or too complex. The persistence of the application of local standards to liabilities ahead of the endorsement of IFRS 4 phase 2 (which is still under discussion) continues to obstruct comparability between different market players.

At the same time, insurance groups must reassure investors of their capacity to comply with the future Solvency II prudential regulation.

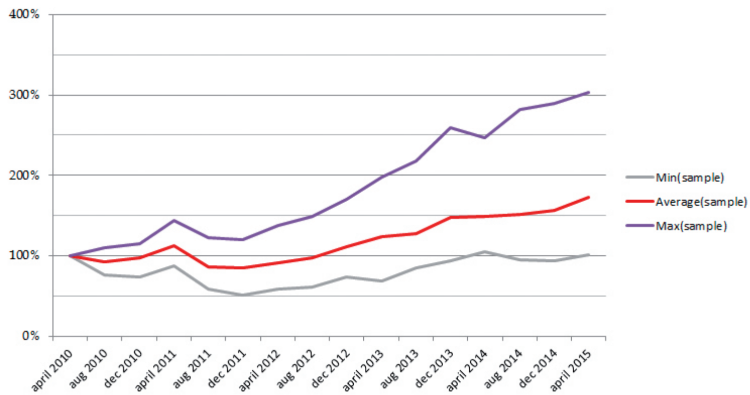
In terms of business, 2014 looks generally positive:

- The sound performance of share markets in 2014 for the second consecutive year;

Eurostoxx 50

- There has been a recovery of share prices for the majority of players. An encouraging sign for these last in their approach to explaining their position and their capacity to create value;

Trend of share prices



- In many countries, non-life insurance technical results are benefiting from a process of price consolidation and from a reasonable or even low claims rate;
- The relaxation in the sovereign debt market.

The general background in 2014 was thus fairly favourable to insurers. But clouds are gathering on the horizon, and some of them may be worrying, for example:

- The introduction of Solvency II is reaching its conclusion and the last difficulties should be resolved by the end of 2015;
- IFRS 4 phase 2, which is still a matter for deliberations, with fundamental issues still under discussion. There is as yet no general consensus on this topic. Transition to phase 2 of IRFS 4 is constantly being postponed, leaving insurers with a body of standards that do not reflect their activities properly and provide no sound basis for comparability;
- A probable end to the cycle of price rises in non-life business in some countries: this will bring about stagnation or a slight worsening of technical margins in comparison with recent years;
- Uncertainties over Greece and more generally regarding the ability of Europe to cope with its problems; and
- The main threat is the persistence of low interest rates which impacts life insurance margins. Players with life or retirement business will inevitably have to address a technical result issue if the existing situation continues.

Trend of long-term rates

Like last year, our survey considers the financial disclosures of a sample of 16 European insurers and re-insurers on the basis of their annual reports and their financial reporting material at 31 December 2014.

The analysis simultaneously addresses:

- accounting issues, when we consider the application of international accounting standards in areas that we perceive as sensitive; and
- financial and regulatory aspects, where we extend the scope of analysis to financial communication on performance indicators and capital management.

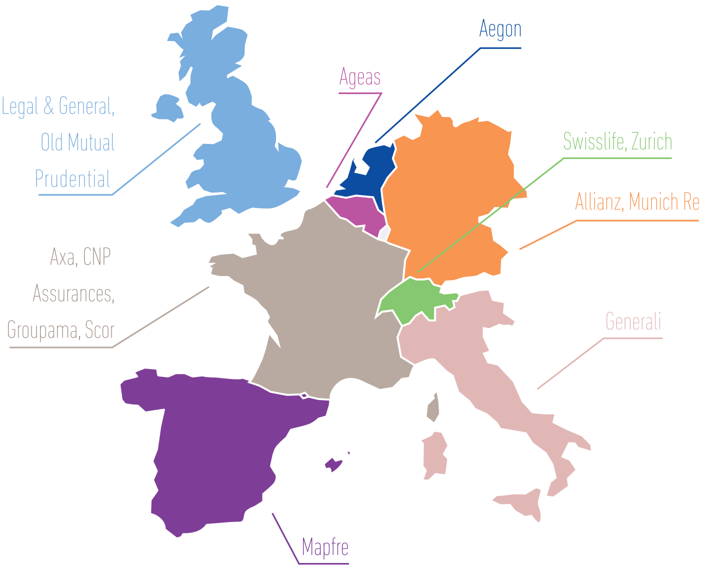
This year we have focused on the following topics:

- the strategic plans of insurance groups: an analysis of the indicators used and the main messages conveyed;
- the impact of the first application of the new standards on the ‘consolidation package’ on financial communication;
- the disclosures provided by insurers on the impact of persistent low interest rates in Europe;
- disclosures on goodwill, the associated recoverability tests and disclosures associated with other intangible assets;
- insurers’ communication on financial instruments, including derivative instruments, and the issues associated with the market environment;
- communication on embedded value and the main performance indicators; and
- disclosures on capital management against a background of regulatory reform.

We have sought to shed light on the comparability, comprehensibility and relevance of disclosures, both under IFRSs and the other conceptual frameworks to which our analysis will refer.

SCOPE OF THE SURVEY AND COMPOSITION OF THE SAMPLE

Our sample consists of the following **16 European insurance and reinsurance groups** that publish their accounts under IFRSs:



We illustrate our analysis of the topics using extracts from reference documents, communication to financial analysts and annual reports issued by the sample entities.

1. THE STRATEGIC PLANS OF INSURANCE GROUPS: AN ANALYSIS OF THE INDICATORS USED AND THE MAIN MESSAGES CONVEYED

Before turning to comparative analyses of the communication of the players in our sample on the sensitive ‘technical’ subjects listed above, we wanted this year to take a look at the way in which major insurance groups report on their strategic plans (the key indicators they use, and the main messages conveyed).

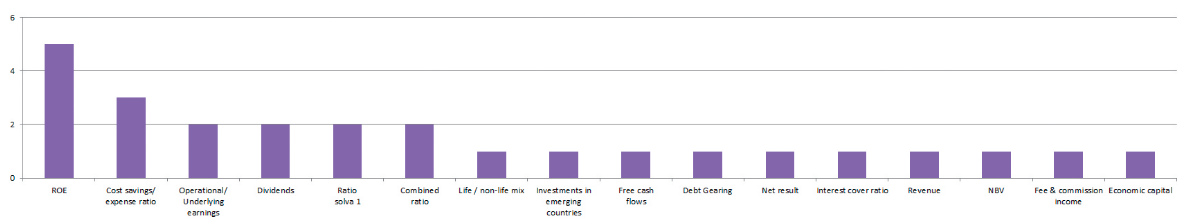
What emerges?

The first finding is somewhat surprising. Although all the large groups say that they have established a strategic plan and provide communication about it, not all of them publish the detailed targets to which they have committed.

The second point arising from the content is that for those that do communicate their detailed targets, the indicators used are usually traditional ones (net result, return on equity, cost reduction plans, etc.) and to a lesser extent indicators that are more technical and particular to the insurance business (embedded value, solvency ratio, new business value, etc.). The indicators frequently used are those which could be encountered in other business sectors. This observation strengthens our messages from prior years on the danger of over-complicating the financial reporting specific to insurers, which can result in a lack of interest from analysts and, more particularly, investors.

We also found that the indicators used were diverse, as illustrated in the graphic below, affecting the comparability of the players’ plans:

Indicators used



We found no particular warnings as to the failure to achieve these plans, apart from the risks associated with the persisting low-interest rate environment. Some insurers introduced a more cautious note in their messages, without in any way casting doubts on their existing plans.

Finally, we found that many plans had been launched several years ago, and had expired or were about to do so during 2015. In our next survey, it will be interesting to follow up any new features in the plans that are now being drawn up.

2. THE IMPACT OF THE APPLICATION OF THE STANDARDS ON CONSOLIDATION (IFRS 10, 11 & 12)

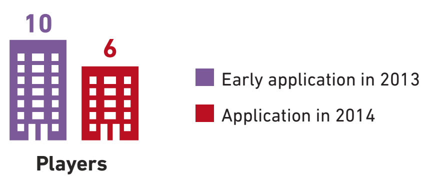
The application of the 'consolidation package' published by the IASB in May 2011 became mandatory in Europe from 1 January 2014, with early application possible from 1 January 2013. This package contains the following new standards:

IFRS 10.11.12

- IFRS 10 *Consolidated financial statements;*
- IFRS 11 *Joint arrangements;* and
- IFRS 12 *Disclosures of interests in other entities.*

Some groups in our sample opted to apply the package early, from the 2013 reporting period, while the majority decided to wait until 2014 before applying the new standards in the package:

Application of consolidation package



Our survey first considers the impacts of the application of IFRS 10 and 11, before turning to the practices of the players in our sample who provided disclosures of the application of IFRS 12.

2.1 The impact of the application of IFRSs 10 and 11

2.1.1 Reminder - IFRSs 10 & 11

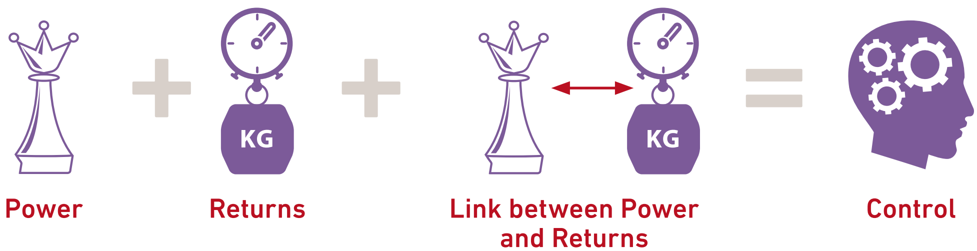
IFRS 10

IFRS 10 (§ 7) introduced a new definition of control that applies both to 'traditional' entities (subsidiaries of industrial and commercial groups) and to structured entities (special purpose and similar entities).

In practice, an investor has control over an entity if the three following conditions are fulfilled:

- the investor has power over the investee;
- the investor has exposure, or rights, to variable returns from its involvement with the investee; and

- the investor has the ability to use its power over the investee to affect the amount of these returns (i.e. there is a link between power and variable returns).



IFRS 11

For interests in jointly controlled entities, IFRS 11 stipulates a consolidation method that depends on the nature of the joint arrangement:

- joint ventures > equity method
- joint operations > line-by-line recognition of assets, liabilities, products and charges (a method close to proportionate consolidation).

The changes likely to be brought about by the first application of IRFS 11, in terms of consolidation methods, depend on the option previous adopted under IAS 31 for the recognition of investments in joint ventures as defined in the former standard: proportionate consolidation (PC) or equity method (EM).

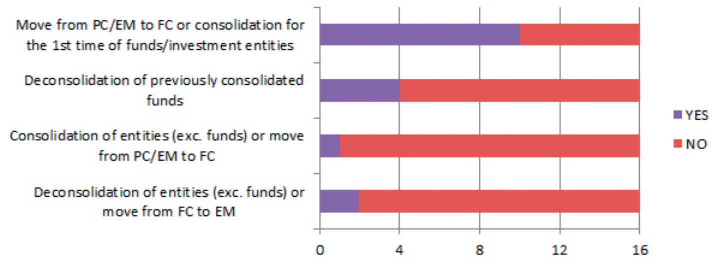
Depending on this choice, the main changes expected in the consolidation method due to the entry in force of IRFS 11 are therefore as follows:

IAS 31	IFRS 11
Jointly controlled entities Option: PC	Joint ventures EM
Jointly controlled entities Option: EM	Line-by-line recognition of assets, liabilities, products and charges [(1)]

(1): Accounting method similar to proportionate consolidation

2.1.2 Impact on the scope of consolidation

The application of IRFS 10 has had an impact on the scope of consolidation for 13 groups in our sample. The main changes brought about by IFRS 10 relate to the change in the method of consolidation for certain fund or investment entities:



None of the groups affected describe the detailed analysis justifying their changes.

The application of IRFS 10 has also raised the question of special treatment in the analysis of control for funds held in respect of unit-linked (UL) contracts. Divergent practices were found in our sample, with some players explicitly stating that UL funds are excluded from the scope of consolidation.

In contrast the application of IRFS 11 has had very little impact on the players in our sample. The main impacts are:

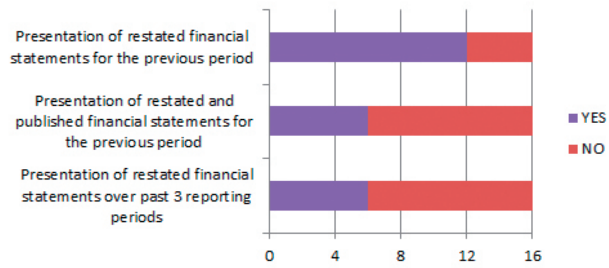
- The review and remeasurement of existing joint arrangements as joint ventures.
- The disappearance of proportionate consolidation (for groups using this method under IAS 31) in favour of the equity method for joint arrangements corresponding to joint ventures.

None of the players in our sample recorded the assessment of joint arrangements as joint operations and the corresponding recognition of a share in the assets, liabilities, revenue and expenses for the entities in question.

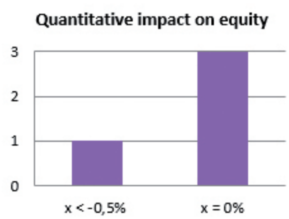
2.1.3 Impact on the accounts and the presentation of financial statements

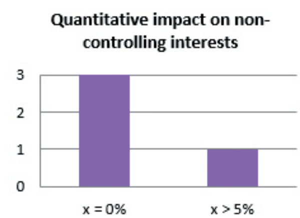
Apart from the changes described above concerning the scope of consolidation of investment funds, the players in our sample had no significant impacts that needed explanation in their financial statements. The groups in our sample were very little affected by the application of IRFS 10 & 11.

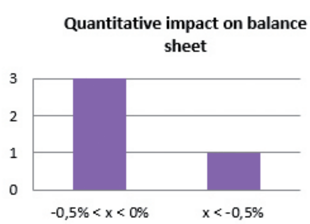
As required by the standard, the consolidation package must be applied retrospectively. The disclosures to be provided on first application correspond generally to those set out in IAS 8. Apart from the information required by IAS 8, it is also necessary to present the information required by IAS 1 in the event of a change of methods.

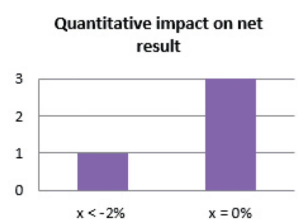


- The four groups presenting no restated comparative information for N-1 explicitly mention the absence of any significant impact on the accounts, thus explaining the failure to restate the information retrospectively.
- Among the 12 groups presenting comparative disclosures by comparison with N-1:
    - Four present the combined impacts of IFRS 10 & 11:

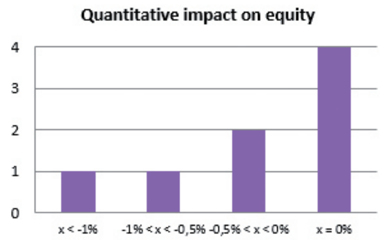


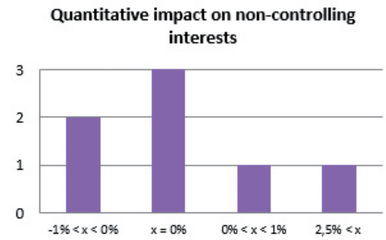


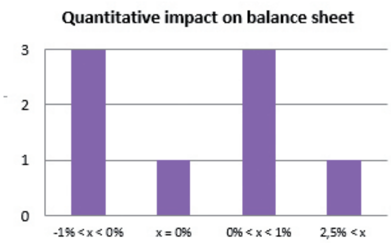


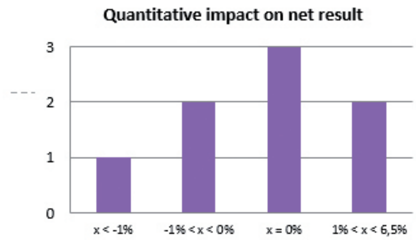


- Eight only present the impacts due to IRFS 10, with an explicit indication of the absence of any significant impacts from IRFS 11:









One of the consequences of the application of IRFS 11 is the reclassification of the contribution to the revenue and the operating result of entities hitherto proportionally consolidated on the line "share of the profit or loss of entities accounted for on an equity basis". As this line is usually presented after the operating result, a debate ensued as to its classification in the consolidated income statement (IAS 1, Presentation of financial statements, is not prescriptive in this respect).

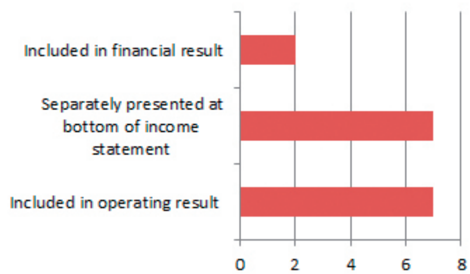
The French Accounting Standards Authority (ANC) and Financial Markets Authority (AMF), and the European Securities and Markets Authority (ESMA) recommend that entities, where this method is considered relevant to their activities (which must be justified in their financial communication), should present the share in consolidated net profit of joint arrangements or associates (in accordance with IFRS 11) which is consistent with the entity's activities, in the operating result:

- after an "Operating result" sub-total; and
- before a sub-total headed "Operating result after share in net profit of equity-consolidated entities".

This presentation should not alter the ratios used by the group.

The analysis of our sample's financial statements shows that the application of IFRS 10 does not seem to have upset the classification of the contribution of entities accounted for on an equity basis in the consolidated result. Nevertheless, we found some divergent practices:

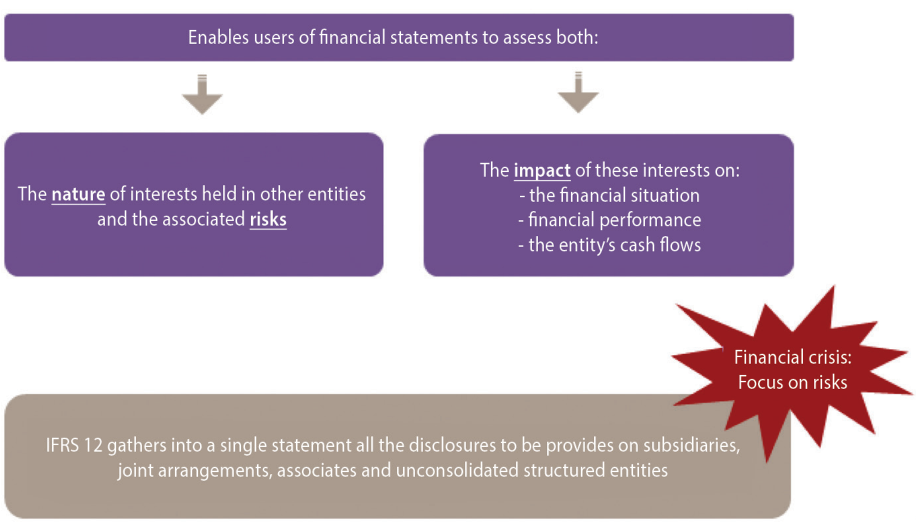
Contribution of entities accounted for



None of the groups opting to consolidate the contribution of entities accounted for on an equity basis in the operating result indicated to what extent these equity-accounted entities were considered to carry out an "operational" activity consistent with the group's activities.

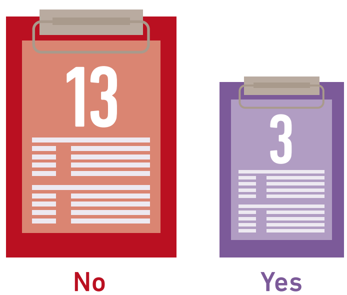
2.2 The impacts of the application of IRFS 12

2.2.1 Reminder of the standard



IFRS 12 requires more disclosures in the notes about entities accounted for on an equity basis, subsidiaries and non-controlling interests. Nonetheless, a not insignificant part of this information was already demanded by the standards before the arrival of IRFS 12. These disclosures were made by the insurers in our sample in various notes to the financial statements. The application of IRFS 12 did not cause the great majority of players to combine the existing information into a single note. It is, therefore, difficult to assess the first application of the standard, as the disclosures are scattered.

Precise indication of which notes to the financial statements have been impacted by the first application of IFRS 12



Our analyses in this part of the survey are not aimed at reminding readers of the full range of disclosures to be made, but at identifying our main findings and suggesting some good practice in respect of the information provided to meet the main requirements of the standard.

2.2.2 Significant judgements and assumptions

An entity should disclose information about significant judgements and assumptions (and about the changes in these judgements and assumptions) it has made in determining (IFRS 12.7):

- (a) that it has control of another entity;
- (b) that it has joint control of an arrangement or significant influence over another entity; and
- (c) the type of joint arrangement (joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

The groups in our sample all provided information on the judgements and assumptions they used in determining control and the type of joint arrangement, but without going into much detail. They merely gave a general description, repeating the terms of the standard and/or stating that it was a consequence of the impact of the first application of IRFS 12 & 11.

IFRS 12 is not prescriptive as to the manner of presenting significant judgements and assumptions. Several approaches are therefore possible.

One good practice consists of providing the significant assumptions and judgments used by management in determining interests of a given type in the note presenting the qualitative and quantitative disclosures required for this or that type of interest in entities. This approach is consistent as IFRS 12 requires separate disclosures on the interests that a parent company has in subsidiaries, joint ventures, joint operations, associates and unconsolidated structured entities.

Another practice adopted by some players consists of presenting the significant assumptions and judgements used in determining the level of control exercised over an entity below the table presenting the scope of consolidation.

An example of the information which we think is relevant concerns the explanation of the circumstances leading to:

- Absence of control over an entity when the group holds more than 50% of the voting rights;

"There are certain funds in which the Group owns more than 50% of the equity but does not consolidate these because of certain management contracts which give other parties the power to control these funds. These management contracts may include that the ability to control is delegated to a third party with no rights of removal on similar types of contractual agreements."

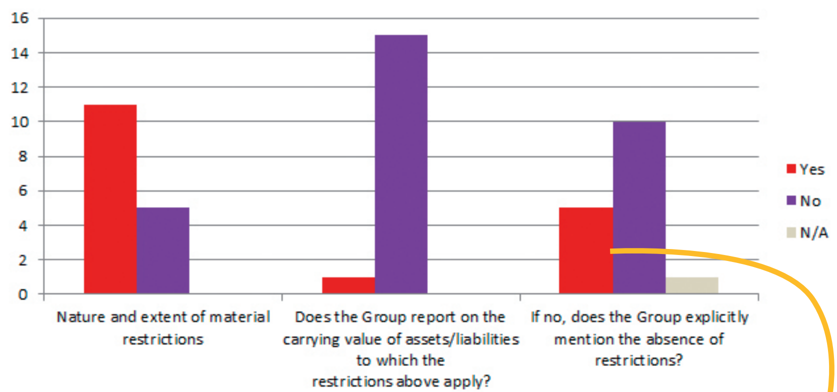
Source – Old Mutual annual report 2014

- Control over an entity when the group holds less than 50% of the voting rights; and
- Significant influence on an entity when the group holds less than 20% of the voting rights.

2.2.3 Interests in subsidiaries

IFRS 12 gives no guidance on the information expected on the composition of a group. The direct result of this is that the great majority of issuers have given no new disclosures that were not published previously.

One of the disclosures listed by the standard is information enabling the reader to assess the nature and extent of material restrictions on the group's ability to access or use assets, and settle liabilities, of the entity (particularly in respect of cash transfers). We have made a particular study of this point and our findings are presented in the graphic below:



Good Practice

3.4 BASIS OF CONSOLIDATION

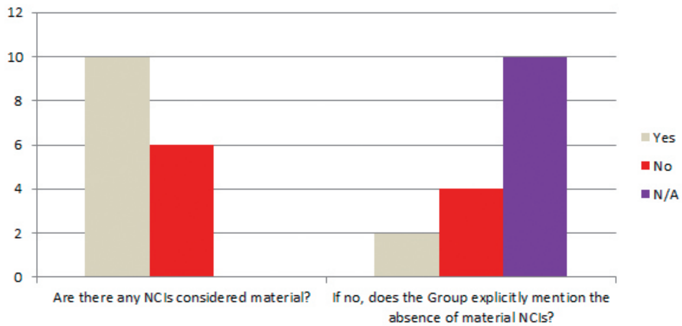
The consolidated financial statements include the financial statements of subsidiaries, jointly-controlled entities and associates. Other than the regulatory capital requirements of the insurance subsidiaries, the Group does not have any restrictions limiting its access to assets or settling the liabilities of the entities within its scope of consolidation.

Source –CNP 2014 registration document

The graphic illustrates that the majority of players make disclosures without giving any detail about the carrying value of the assets and liabilities affected by these restrictions. Where there is no quantitative information, one good practice we found consists of explicitly mentioning the non-material nature of any restrictions to justify the absence of disclosures.

2.2.4 Non-controlling interests (NCIs)

As well as the disclosures required in order to understand interests in subsidiaries, IFRS 12 calls more explicitly for additional disclosures in the case of material non-controlling interests. However, it gives no indication of how to determine whether non-controlling interests are material. We found that few groups explain how non-controlling interests have been assessed in order to materiality (i.e. on the basis of what aggregation), or the threshold applied. This fact hinders comparability.



The graphic above illustrates the fact that only two of the six players that identified no material non-controlling interests explicitly justified this absence.

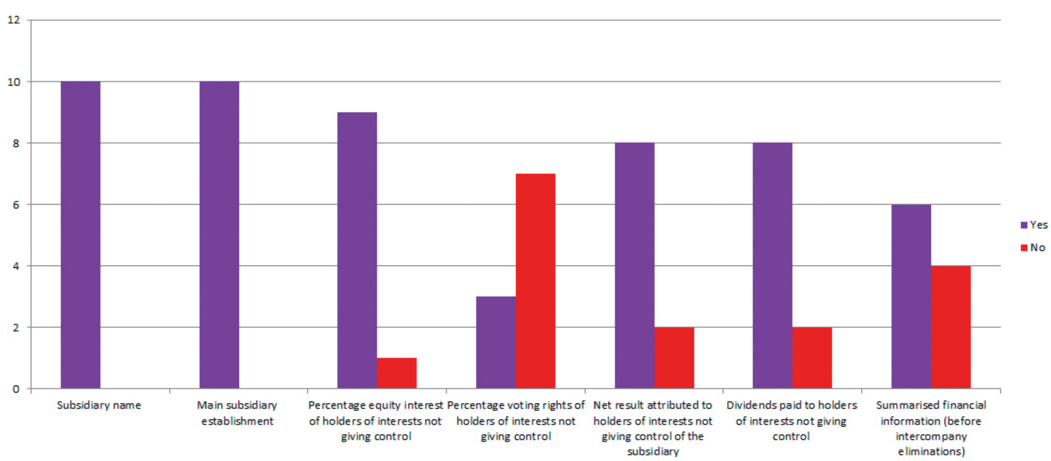
"The Group does not have subsidiaries with a material percentage of non-controlling interests."

Source – Prudential Ltd UK annual report 2014

For the four players providing no justification, it is impossible to know whether this absence of information is due to the fact that the management has assessed the non-controlling interests as immaterial.

For the 10 players identifying material non-controlling interests, we have examined whether they provide the disclosures required by the standard. Overall, we found that a majority of the groups did present the information required by IFRS 12.

Fulfillment of the information requirements



However, as shown by the graphic above, the players in our sample could improve their communication of the percentages of voting rights of holders of interests that do not give control, and of the summarised financial information to be provided.

On the subject of the summarised financial information required, we focused on the data available, insofar as the IFRSs are not prescriptive as to the detail to be provided. The sole restriction is that this financial information should be provided before inter-company eliminations.

An example which seems to us to be a good practice is presented below:

(In Euro million)	December 31, 2014	December 31, 2013
Net consolidated income – Minority Interests	84	82
Minority interests	974	950
Dividends paid to minority interests	(87)	(65)
Cash and cash equivalents	730	558
Total investments	24,850	22,815
Other assets	1,714	1,744
Total assets	**27,295**	**25,117**
Liabilities arising from insurance & investment contracts	24,503	22,384
Other Liabilities	843	833
Total liabilities (excluding shareholders' equity)	**25,346**	**23,217**
Total Revenues	4,334	3,946
Net income	**168**	**164**
Other Comprehensive Income	54	68
Total Comprehensive Income	**221**	**233**

Source – AXA annual report 2014

2.2.5 Interests in associates and joint arrangements

For interests in associates and joint arrangements, as for interests in subsidiaries, the level of disclosures required depends on the significant nature of the joint arrangement or associate. However, once again the standard gives no guidance on how to determine whether an interest in a joint arrangement or an associate is material. None of the groups in our sample communicated the manner in which they had determined the extent to which an interest in a joint arrangement or an associate was material.

A **good practice** might consist of indicating the methodology adopted, or at least the aggregated information examined, when determining the materiality of these interests.

Still on the subject of joint arrangements and associates, IFRS 12 requires the separate presentation of the group's undertakings in this respect. The commitments targeted by IFRS 12, given the clarifications provided by the Application Guidance, include all the undertakings given by the entity (i.e. by the parent or its subsidiaries):

- either directly to the joint venture; and
- or to a third party by acting as surety for the joint venture.

Below we give an example of a group which separately presents any liabilities arising from its joint ventures.

Other commitments and contingencies

	2014	2013
Guarantees	732	662
Standby letters of credit	30	40
Share of contingent liabilities incurred in relation to interests in joint ventures	18	64
Other guarantees	22	27
Other commitments and contingent liabilities	25	22

Source – Aegon annual report 2014

In the event that there are no risks or undertakings, we think it would be appropriate to state this fact explicitly in the annual report.

In general, and for all the groups in our sample, interests in joint arrangements and associates present no major financial issues or have any material impact on their activity.

While additional efforts are needed to justify the material or immaterial nature of these interests, the disclosures made by the players in our sample currently seem adequate to meet the need for understanding of the financial statements and the requirements of the standard.

2.2.6 Interests in unconsolidated structured entities

The last part of our analysis of the application of IRFS 12 relates to interests in unconsolidated structured entities. Readers will remember that IAS 27 (before its revision in 2011) required no information about interests in unconsolidated entities.

Against the background of the financial crisis which erupted in 2008, and under pressure from the G20, in IFRS 12 the IASB has emphasised the disclosures that are necessary to give users of financial statements better information about entities' off-balance sheet activities.

As the graphics below show, the majority of players in our sample report that they have investments in structured entities, but only a quarter of them give all the required information enabling users to:

- understand the nature and extent of these interests; and
- evaluate the nature of, and changes in, the associated risks.

Details of the disclosures required on structured entities are set out in the standard's application guidance. Without entering into the details of the requirement in the guidance, we present two examples from a group in the sample below:

For unconsolidated structured entities in which Aegon has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflects the carrying values recognized in the statement of financial position of Aegon's interests in unconsolidated structured entities. Aegon did not recognize other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

	Total income for the year ended December 31, 2014			December 31, 2014
2014	Interest income	Total gains and losses on sale of assets	**Total**	Investments
Residential mortgage-backed securities	236	181	417	5,601
Commercial mortgage-backed securities	220	191	411	6,042
Asset-backed securities	47	3	50	2,647
ABSs - Other	170	547	717	4,957
Total	**673**	**922**	**1,594**	**19,248**

For the most significant structured entities the following table presents the maximum exposure to loss excluding government guarantees for Aegon by type of structured security and by seniority of interest. Also shown are the amounts of losses that in each case would be absorbed first by investors whose interests rank junior to those of Aegon. If Aegon has interests in multiple tranches of one individual structured entity, Aegon's maximum exposure to loss is excluded from the amount shown as potential losses borne by more junior interests. In each case, the amounts shown reflect the fair value of those interests as at the reporting date. Furthermore, the table presents a comparison of Aegon's interest with the total assets of those unconsolidated structured entities. The amount shown as total assets is based on the most current available information.

	Subordinated interests		Mezzanine interests		Senior interests		Most senior interests		Carrying amount of interest in structured entity		**Total**
2014	Maximum exposure to loss	Potential losses borne by more junior interests	Maximum exposure to loss	Potential losses borne by more junior interests	Maximum exposure to loss	Potential losses borne by more junior interests	Maximum exposure to loss	Potential losses borne by more junior interests	Assets	Liabilities	**Assets of structured entity**
Residential mortgage-backed securities	-	-	-	-	-	-	392	1,742	392	-	8,511
Commercial mortgage-backed securities	-	-	50	166	-	-	383	1,542	433	-	4,644
Asset-backed securities	46	342	42	385	-	-	188	503	277	-	1,302
ABSs - Other	-	-	-	-	-	-	81	-	81	-	2,358
December 31, 2014	**46**	**342**	**92**	**551**	**-**	**-**	**1,045**	**3,786**	**1,183**	**-**	**16,815**

Source – Aegon annual report 2014

2.2.7 Conclusion

To conclude this discussion of IFRS 12, we found that insurers have made significant efforts to reflect the new requirements in this standard. These efforts have contributed to enriching the disclosures, although this is difficult to observe given the scattered nature of the information.

Nevertheless, we draw your attention to the fact that preparers frequently allege that interests are non-material, thereby reducing the volume of disclosures required, without any explanation.

3. WHAT INFORMATION IS DISCLOSED ON THE IMPACT OF CONTINUING LOW RATES

The low interest rate environment is clearly a major source of concern for large European insurance groups with significant life and retirement business. This is illustrated by the fact that the interest rate environment finds its way into all the communications describing their activities and explaining their performance.

The principal messages about this environment are:

- The life insurance business is holding up well
- Impacts on operating results and the behaviour of the insured, but these do not endanger the existing strategy
- Impacts on RoE
- Potential impact on goodwill impairment testing
- Re-allocation towards unit-linked contracts
- Prudence in assumptions and forecasts (no anticipation of a rate rise)
- Growth of investments in corporate bonds
- Greater diversification in investments

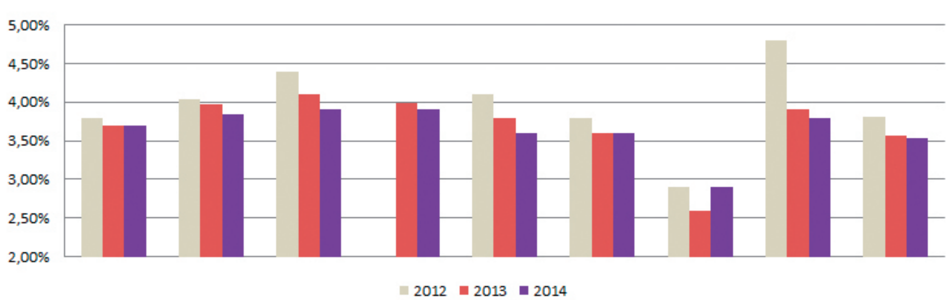
The key finding is that the players stress their capacity to perform despite the current background.

The question, therefore, is how can readers of financial information be convinced, by the public information available?

To answer this question, we have analysed the quantitative information made available on the performance of financial assets and on guaranteed rates on the liability side.

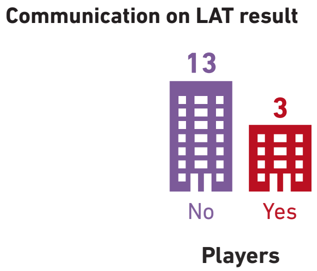
Our finding, in those cases where this information is given, is that the performance of financial investments is eroding while remaining sustainable given the rates guaranteed, as can be seen in the graphics below:

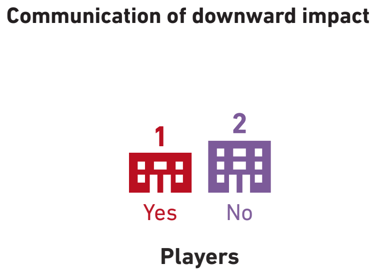
In-force rates of return, 2012-2014



Nonetheless, the level of detail provided varies widely, and does not enable a comparison of the players. Furthermore, the granularity of the disclosures provided is often insufficient (information at group level, or at best by broad geographical area) for any conclusions to be reached.

In reality, for readers of the accounts, it would be most relevant to have the results of liability adequacy tests (LAT) conducted in accordance with IFRS 4. But very few players comment on the results of this test, which must be carried out at least for each entity. Just one player gives quantitative information, reporting that the test revealed inadequate provisioning which caused the group to make an additional allocation to the technical provisions.





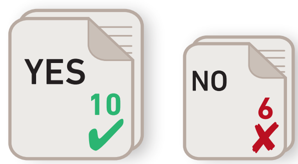
As a general rule, insurers merely report that the test results are satisfactory.

There is currently no precise information on the margin of manœuvre available to insurers as to potential increases in technical provisions in 2015 if interest rates remain at this level.

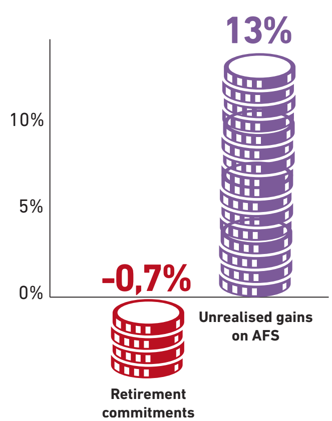
The other quantitative information communicated by insurers, and which provides a little visibility for investors, relates to:

- the reallocation of life business contracts denominated in Euro to unit-linked (UL) contracts;

Communication on redirecting strategy towards UL

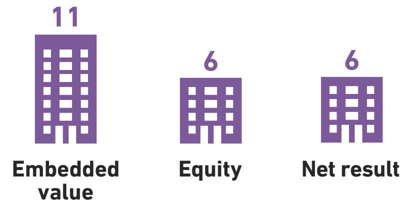


- the positive effects of the lowering of rates on equity;



- the positive effects of the lowering of rates on the solvency margin (under Solvency I); and
- the sensitivity of their activity to rate variations as required under IFRS 7 – some give the impact of a rate variation on the MCEV/EEV while others provide information on the impact on equity and the net result.

Number of entities communicating sensitivity test results



This last information is interesting, because it is prospective. Nonetheless, the calculation methods are not explicit. It is therefore difficult to “back-test” this analysis. Further, the scenario under which rates are maintained at their current level is not envisaged, though this is the likeliest scenario at present.

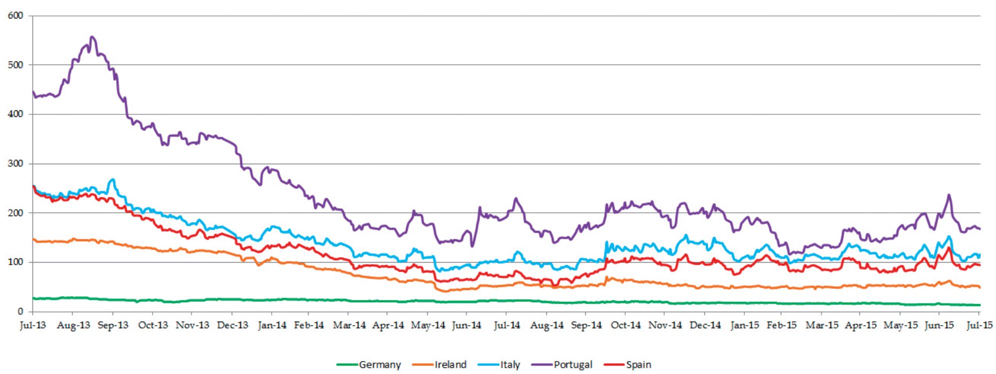
To conclude, the interest rate environment is the topic of the moment, but the disclosures available and required are currently insufficient to predict the future financial impacts.

4. FOLLOW-UP OF ACCOUNTING ISSUES RELATED TO FINANCIAL ASSETS

There are now fewer issues related to financial assets than in 2012 and 2011, due to the sound performance of the global markets, which has resulted in a sharp decline in impairment provisions for equity instruments in the years 2013 and 2014.

There are also fewer debt security issues, due to tightening credit spreads. This trend is illustrated in the graphics below and is reflected in a decline in impairment provision for bond securities.

Evolution of 5 year senior CDS spreads (bps)



***10-year Corporate Spreads* (bp)**

"Bloomberg's investment grade 'A' and 'BBB' rated corporate bond spreads to U.S Treasury securities. This measures the extra yield over Treasuries investors demand for holding corporate debt."

Source – Bloomberg LP, Raymond James

This subject nevertheless remains of interest, given the salience of this item on the balance sheets of European insurers.

4.1 End-2014 market conditions

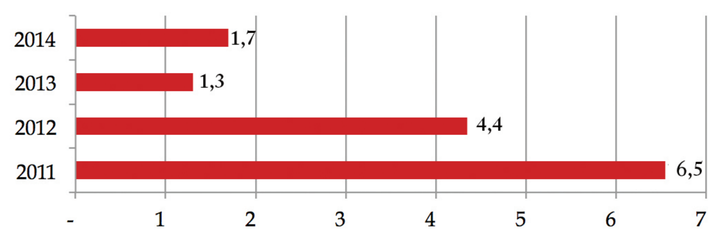
As mentioned in the Introduction, in 2014 European insurers enjoyed more favourable market conditions, which had improved significantly since the end of 2011. Share markets performed well, as the Euro Stoxx 50 figures show:

Source: Stoxx.com

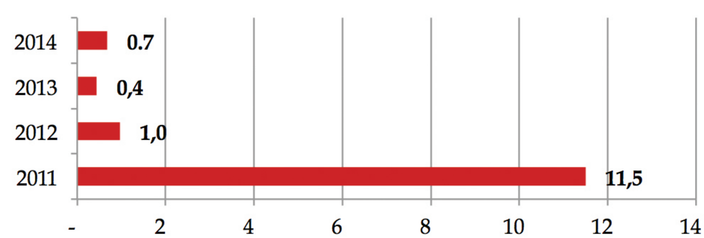
The more favourable context also applied to sovereign debt at the end of 2014, although the situation has deteriorated again since, in particular due to the situation in Greece.

This favourable background has helped to maintain impairment levels for shares and debt instruments at a low level, compared with the years of financial crisis.

Allocations to provisions for shares (€ bn)

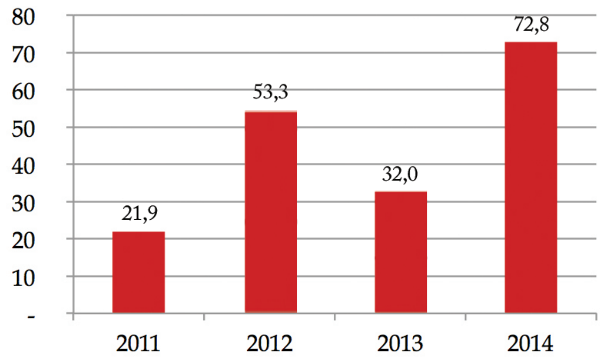


Allocations to provisions for bonds (€ bn)



This favourable background, combined with low interest rates in the bond segment, is also reflected in a significant rise in the stock of unrealised gains recorded in equity.

Stocks of unrealised gains and losses in equity

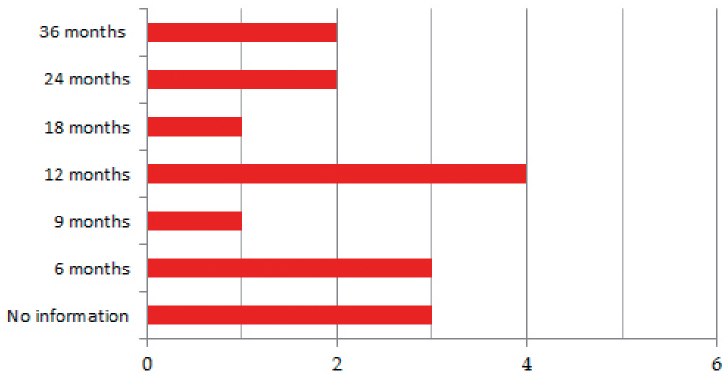


4.1 Focus on equity instruments

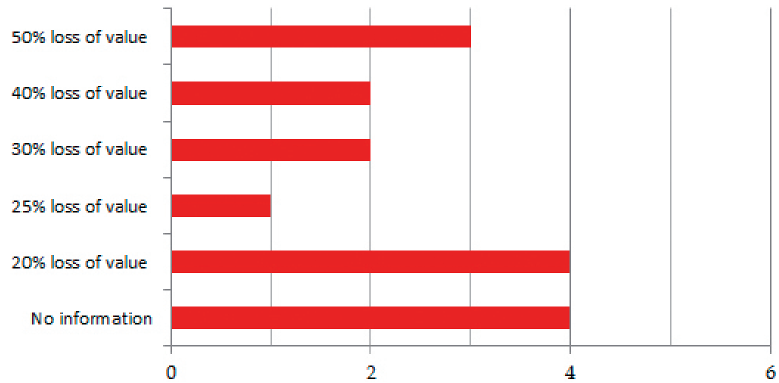
As explained above, we have repeated our analysis of the impairment of equity instruments in order to monitor the difficulties of comparison observed in our previous surveys. This information is used to appreciate how far unrealised losses are reflected in the performance presented by insurance and reinsurance groups.

Readers will recall that an equity instrument must be impaired in the event of 'significant or prolonged' loss of value. Nonetheless, determining the criteria for impairment is left to the judgement of the management, thus providing a source of diversity which leads to the adoption significantly different criteria:

Criterion for prolonged loss of value



Criterion for significant loss of value



The standard does not explicitly exclude changes to these criteria over time. In the past two years, we have seen no such changes.

In conclusion, the diversity of methods used remains, making comparison even more difficult. The arrival of IRFS 9 will remove this difficulty, insofar as shares will be classified either in the fair value through profit or loss category, or in the fair value through equity category, but without the option to recycle in profit or loss (and hence without any impairment issues).

5. THE PRACTICES OF INSURANCE GROUPS WITH REGARD TO DERIVATIVE INSTRUMENTS

The analysis of practices with regard to derivative instruments by insurers was first conducted last year against the background of the publication by the Financial Stability Board (FSB) of its list of systemic insurance groups. This description depends on a multi-criteria analysis that includes size, international activity, non-insurance activities, survival capacity and links with other financial institutions. On this last criterion, the FSB takes account of the more or less substantial recourse to derivative instruments.

Among the insurers described as systemic, there are five European players, all in our survey sample, three American insurers and one Chinese player.

5 Europeans
(all in our sample)

3 Americans

1 Chinese

Allianz, Aviva, Axa, Générali, Prudential	**AIG, MetLife, Prudential Financial**	**PING AN**

In 2014 the FSB did not issue its list of systemic reinsurers, and has not done so to this day. This will only appear in 2016, but the list of insurers established in 2013 has been confirmed.

The main consequences of being listed as a systemic player are as follows:

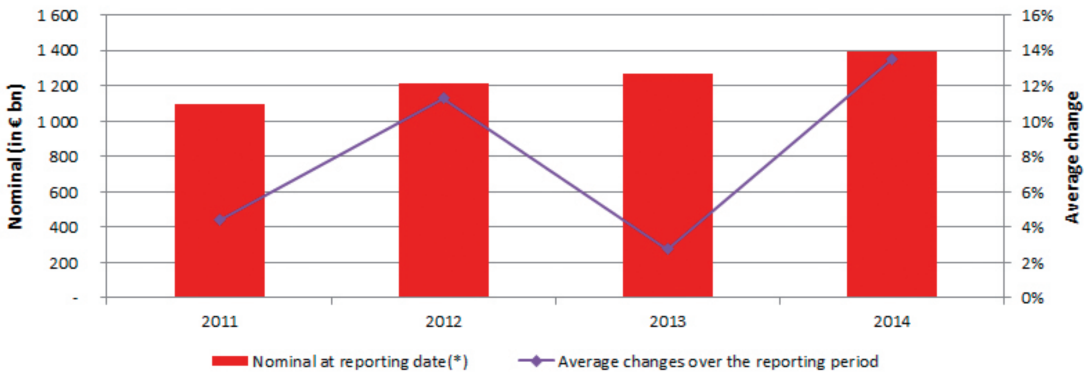
- New requirements for capital and reserves, as yet undefined, on a basis which may be different from the Solvency II regulation;
- Strengthened supervision at group level; and
- An obligation to set up a crisis management group.

Currently, it is still difficult to grasp what impact this new prudential framework will have. It will also be interesting to follow how it will interact with the future Solvency II regulation in terms of capital requirements. Today, the various approaches explored are not aligned with Solvency II and may force the players concerned to adhere to stricter requirements. This is a matter of real concern for the sector in Europe. We found that there was little information from the insurers concerned. Nonetheless some of them report that this is a priority area for their Risk Management departments in 2015.

"Regarding regulatory developments, our second priority is to ensure that we meet the emerging requirements for G-SII (Global Systemically Important Insurers). Therefore, we will continue to participate in the capital field-testing exercise conducted by the IAIS (International Association of Insurance Supervisors)."

Without implying that there is a mechanical causal link, the arrival of the systemic insurer list in 2013 coincided with the stabilisation of our sample's recourse to derivative instruments in 2013. This trend was not confirmed in 2014, as the graphic below shows.

Average changes over the reporting period



The growth in volumes again reflects the preference of insurers for these instruments in order to:

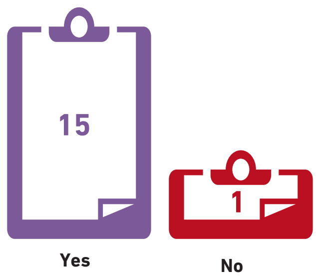
- reduce balance sheet sensitivity ahead of the application of Solvency II in 2016;
- limit the volatility of results and equity to exchange rate variations during this very volatile period;
- improve financial performance against a background of continuing low interest rates; and
- innovate in investment strategies.

These volumes generate a need for information in order to understand the level of exposure to each.

Our analysis of the disclosures provided by the entities in our sample highlights some slight progress in the quality and depth of the information supplied in the notes to the accounts.

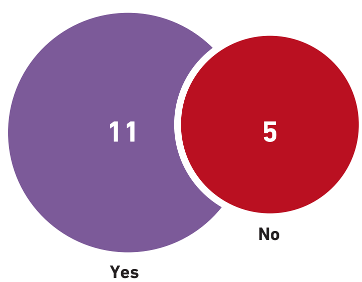
5.1 Diverse use of these instruments

Specific note to the financial statements?



Almost all the players include a note on derivative instruments. The only entity which does not include a specific note on this topic mentions it in the note on investments.

Presentation of nominal amounts?



A large majority of players report the notional amount of these instruments, though there is no obligation to do so in the standard. This confirms that this year again there is wide diversity of exposure to this type of instrument in our sample.

If the standard does not require disclosure of the nominal amounts, it does demand that the fair value of these instruments is entered on the statement of financial position. All the players complied with this presentational requirement, which makes it possible to assess an entity's real exposure to counterparty risk. With the exception of credit derivatives (CDS), the credit risk run by the holder of the derivative is analysed on the basis of the fair value of the exposure where this is positive, and thus recognised as an asset.

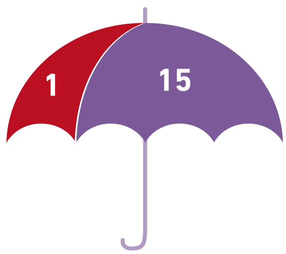
5.2 Managing the counterparty risk

Counterparty risk is a sensitive subject for insurers, not least in the light of Solvency II which will in future take account of this type of risk when determining the capital requirement.

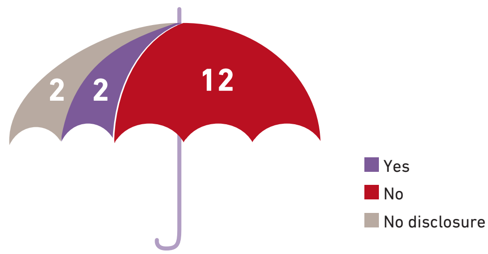
We discussed this topic in our previous survey when analysing the implications of IFRS 13 for fair value. The counterparty risk can have significant accounting impacts, in particular in terms of taking account of the CVA/DVA in determining the fair value of derivatives.

The information on collateralisation policy in place in insurance groups is the most relevant information for appreciating counterparty risk. This information is generally disclosed by players in our sample but only two of them report the existence of a systematic collateralisation process. Nevertheless, the counterparty risk seems under control.

Mention of collateralisation policy



Systematic collateralisation?



5.3 Diverse levels of disclosure

The level of information provided by the players in our sample is very different from one player to another. Like last year, we have compared this information for the following aspects:

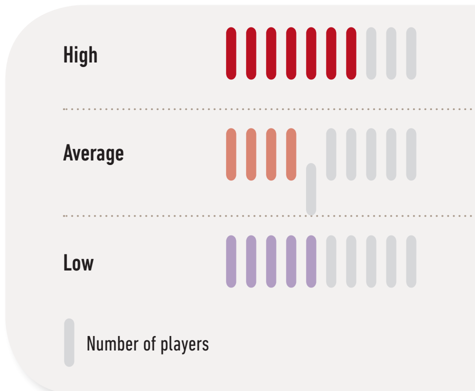
- the description of the objective sought through the use of derivative instruments, and the extent to which entities provide detailed disclosures;
- the depth of information disclosed to understand how strategies are implemented; and
- the extent to which these instruments are used.

On the first aspect, as last year, the objectives - described without exception in general terms - are the same from one player to another and consist mainly of:

- managing financial risks through hedging strategies; and
- establishing investment strategies to compensate for the lack of market depth for some asset types (e.g. high-quality corporate bonds) in a climate of low interest rates encouraging a search for returns via these strategies.

The level of detail provided to explain the measures adopted for these objectives and the strategies used is very different from one player to another, but has increased slightly since 2013:

Level of disclosures on use



The same observation can be made on the last point of comparison: the extent of the use of derivatives varies widely across our sample. The graphic below illustrates this diversity among the players who disclose their level of nominal value:

Nominal volume of derivatives

Unsurprisingly, there is a degree of correlation between the extent of use of derivatives and the depth of information disclosed on strategies.

All four of the players using more than a nominal 100 bn€ in derivatives provide a high level of detail regarding the strategies deployed.

To conclude our look at derivative instruments, this year again we would like to highlight the following main findings:

- Use of these instruments increased again in 2014, mainly because of interest rates and foreign exchange fluctuations, which encourage the adoption of investment strategies including this type of instrument;
- This is currently a topic on which IFRSs provide very little guidance in terms of the specific disclosures required on exposure and the way it is managed; and
- Both the extent of use and the level of information available vary widely from one player to another.

6. GOODWILL AND OTHER INTANGIBLE ASSETS: RECOVERABILITY TESTING AND DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS

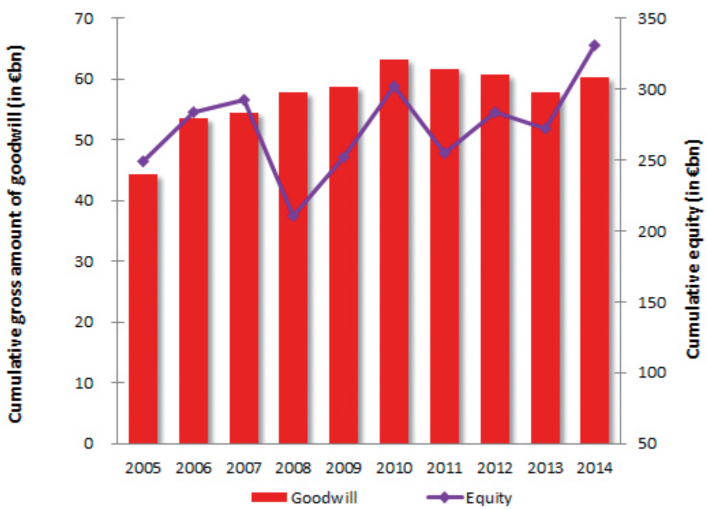
As in prior years, we have looked at information regarding intangible assets on the balance sheet of insurance companies in order to analyse the impact of the improvements of the economic and financial environment on their amounts and impairment tests. This subject is the focus of our attention once again, as:

- the life insurance margins achieved in the "traditional" markets by players in our sample remain low against a background of persistently low interest rates; and
- this item on the financial statements is always a key concern for market regulators and investors.

6.1 The impact of the economic and financial environment on changes to goodwill and its recoverability

Some statistics

Since the end of the financial crisis, the weight of goodwill in equity has been stable, with an average goodwill to equity ratio of 18% at the end 2014 compared with 21% at the end of 2013. The change can be ascribed to the impact of unrealised gains on bond values, which have a beneficial impact on equity.



Increasingly reduced headroom in life insurance activities

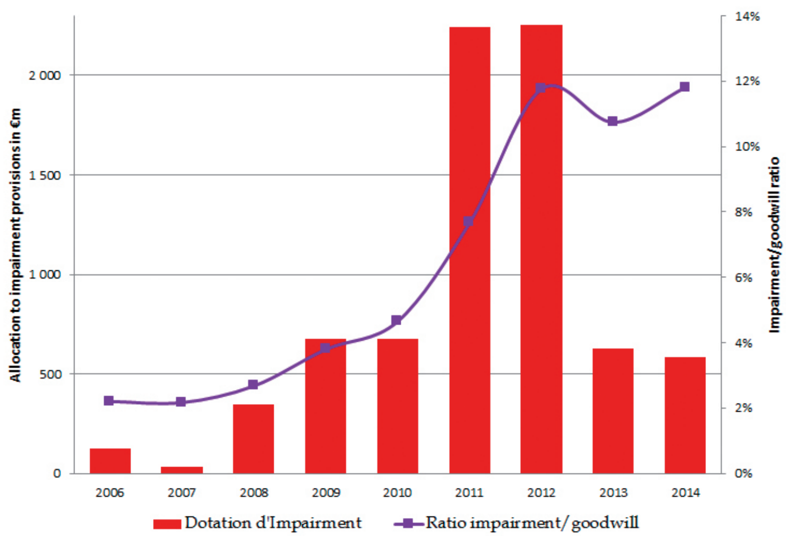
Forecasts of future margins used to justify goodwill are particularly hit by historically low interest rates and weak growth prospects in the Euro area.

In 2011 and 2012, we observed a sharp rise in provision for impairments across the sample, reflecting an erosion in margins of manoeuvre allowing insurers to justify the recoverability of goodwill and confirming the sensitivity of these tests to the lasting nature of the worsened economic conditions.

The financial years 2013 and 2014 were marked by a sharp fall in impairments. Combined with the divestments in activities already impaired in prior financial years, the new impairment provisions do not significantly change the ratio of impairment compared with the amount of goodwill, which remains stable at 11% in 2013 and 12% in 2014.

Impairments in the 2014 financial year stood at €586 million, very close to the 2013 level. The striking feature of 2014 lies in the fact that almost all the impairment comes from just one group in our sample and is due to the low interest rate environment.

Trend of cumulative allocation to impairment provisions



* At constant exchange rates

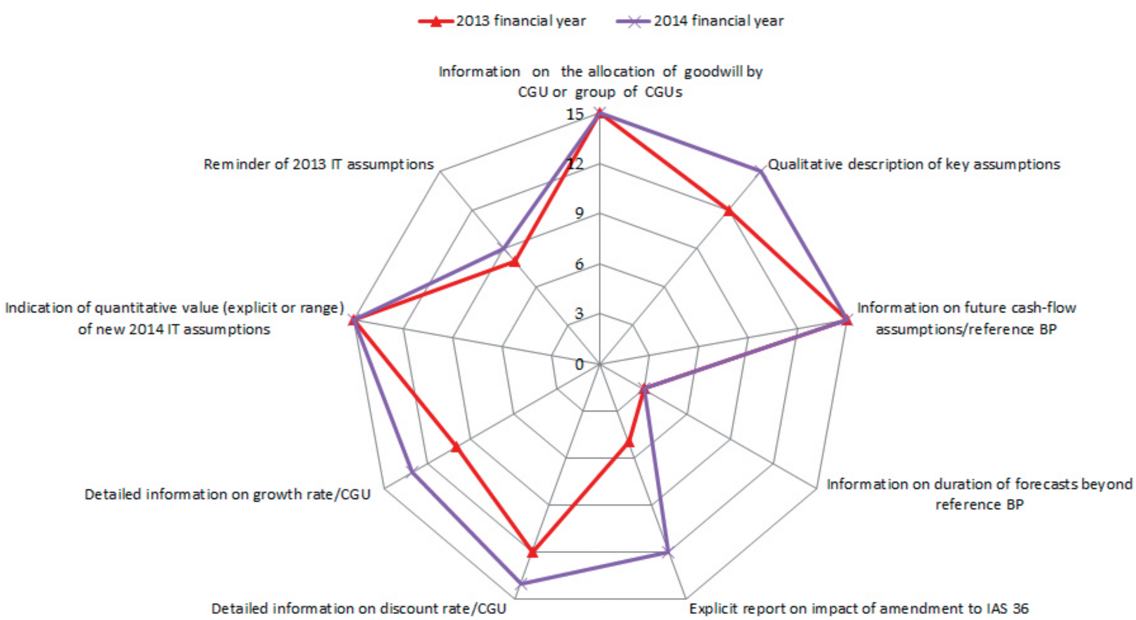
We may well wonder whether the low interest rate environment will affect other players in 2015 if it persists. We do not have enough information to answer this question.

6.2 Are the disclosures provided on impairment tests and their sensitivity to the key assumptions sufficiently relevant?

To answer these two questions, we considered the application of the principles of IAS 36, and the information disclosed by insurers regarding goodwill impairment testing and sensitivity tests.

The graphic below presents the results of our survey for the diverse requirements of IAS 36: it shows that the level of disclosures supplied in 2014 on impairment testing has improved a little since 2014. The main findings are as follows:

- An improvement in the qualitative description of key assumptions (discount rates and growth rates by Cash Generating Unit (CGU));
- No major changes in the information reported in the notes on goodwill impairment testing and sensitivity tests;
- Few players report on the duration of forecasts beyond the reference business plan; and
- Players in the sample are not concerned by the potential impacts of the IAS 36 amendment applicable from 2014.

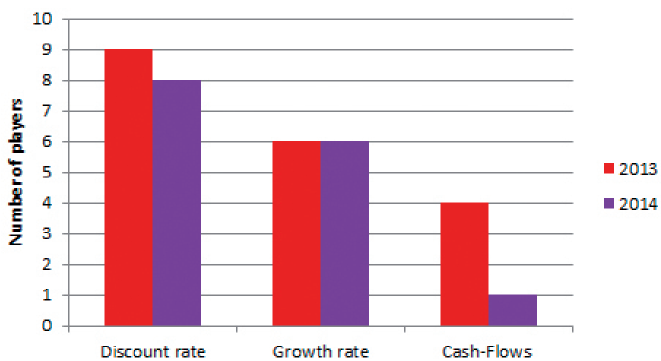


Overall, although the requirements of IAS 36 are respected, we found a wide variety of practices in the choice of methodologies, the level of detail provided and the values allocated to the key assumptions even where a single country and business activity are concerned; the IFRSs allow this diversity.

Disclosures on the sensitivity analysis are required by the standard if a reasonably possible change in a key assumption on which management has based its determination of the recoverable amount of a CGU would cause its carrying amount to exceed its recoverable amount.

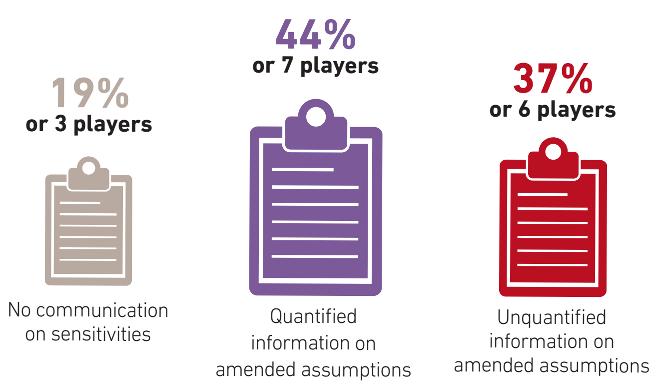
Generally speaking, sensitivity tests are still primarily based on discount and growth rates (consistent with the sensitivity of these assumptions to the current economic environment). There is very little information on cash flows.

Key assumptions amended for sensitivity testing



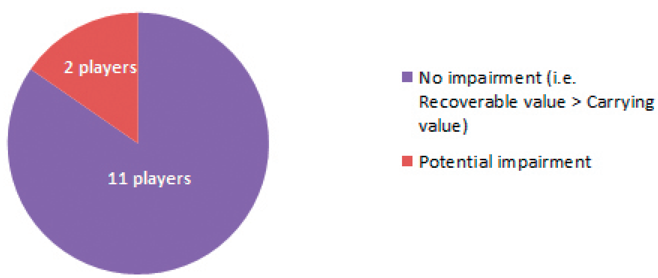
We also note that since 2013 no sensitivity tests have included a combination of shocks.

Communication on sensitivity test assumptions



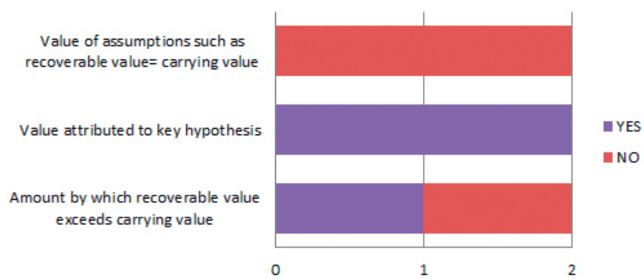
In terms of the information published, the 13 players providing disclosures on their sensitivity tests report as follows:

Sensitivity test impacts reported



- 11 players report the absence of impairment in the event of a reasonably possible change in key assumptions; and
- 2 players report that they have identified potential impairment. These players are therefore subject to IAS 36.134 (f) and must provide certain information (see below). These disclosures are not consistently reported by these players in an explicit manner.

Information required under IAS.134 (f)



Note that two groups in the sample indicate the value of assumptions such as Recoverable value = Net carrying value without this being required (no impairment in the event of reasonably possible change of assumptions).

At this stage, and given the information disclosed, it is difficult for accounts users to predict whether 2015 will see provisions for impairments due to the persistence of low interest rates.

6.3 Disclosures on other intangible assets

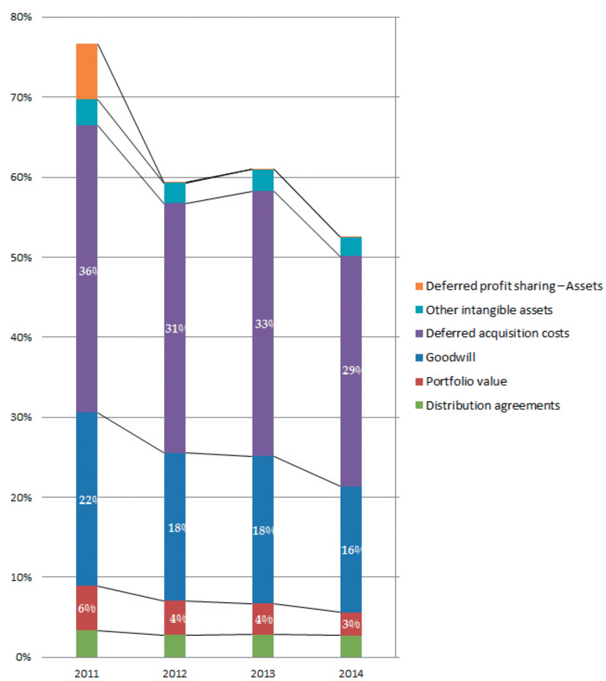
The total of net intangible assets represents 53% of equity in 2014 (61% in 2013). The change in this ratio can be explained by a sharp rise in equity since 2013 (in conjunction with the stock of unrealised gains and losses on AFS in a low interest rate environment) and of course by diminishing portfolio value due to impairment.

The intangible assets on the balance sheet differ greatly from one insurer to another. Nonetheless, the principal intangibles are still:

- Deferred acquisition costs (a very significant amount of stock renewed by new subscriptions); and
- The goodwill discussed above.

Five insurers contributing the most to these two items represent 82% and 63% respectively of the total amount in our sample.

Weight of intangible assets compared to equity



No deferred profit sharing is booked on the asset side of the balance sheet due to strong equity markets, historically low interest rates and the narrowing of credit spreads in European countries, to which several of the groups of our sample have high levels of exposure.

As is the case for goodwill, the recoverability of these assets is a matter of concern to investors The analysis of annual reports issued by the entities in our sample enabled us to establish whether all the asset types presented in the graphic above are subjected to an annual impairment test as required by the standard. This test is either specific to the asset concerned (as for distribution agreements, deferred acquisition costs or portfolio values) or conducted through a liability adequacy test in compliance with IFRS 4 (this is the case for deferred participation assets).

However, as was the case last year, the level of disclosures fail to highlight the headroom on these assets, while at the same time the potential effects of risk-pooling, allowed by IAS 36 when impairment testing goodwill at CGU level, are not possible for these assets which must be tested more closely and at entity level at most.

This lack of visibility is a problem for accounts users insofar as these assets are associated, in the great majority of cases, with the life insurance business, which is particularly affected by the interest rate environment in Europe.

Given their significant weight in the financial statements of insurers, even if there is compliance with the standard the disclosures do not enable users to understand insurers' headroom for the recoverability of these assets.

Conclusion

Despite the stabilisation of the economic environment and the relative stability of impairment allowances on intangible assets compared to previous years, the financial information regarding impairment tests for intangibles remains a major communication issue for insurance groups, in particular because of the materiality of these assets compared to equity and the small headroom above carrying values in the current environment.

Though they meet the majority of the requirements of IAS 36, the disclosures made by the players in our sample remain very diverse, particularly with respect to sensitivity analyses and the justification of assumptions regarding goodwill.

The wide range of practices found for goodwill impairment testing is even more striking for other intangible assets. While these are all subject to an impairment test, whether a specific test or as part of liability adequacy testing, disclosures are more limited although the financial issues are just as significant.

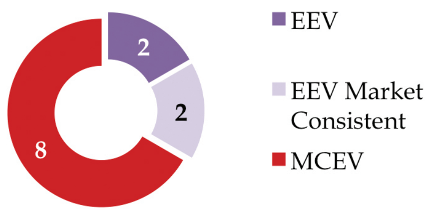
7. UPDATE ON THE PRESENTATION OF EMBEDDED VALUE

In 2014, embedded value remained the main measurement for the performance of life insurance activities observed in the market. This indicator is at the heart of insurers' financial communication for several reasons:

- it remains one of the basic indicators for measuring their ability to generate cash flows;
- it is the indicator that comes closest to the Solvency II prudential balance sheet; and
- a majority of insurers still use it to meet IFRS 7 requirements for disclosures on sensitivity to market risks (IRFS 7 §40 and §41).

In 2014, the large majority of players of our sample, **reduced to 12 for this part,** published an MCEV or market consistent EEV to calculate the time value of options and guarantees.

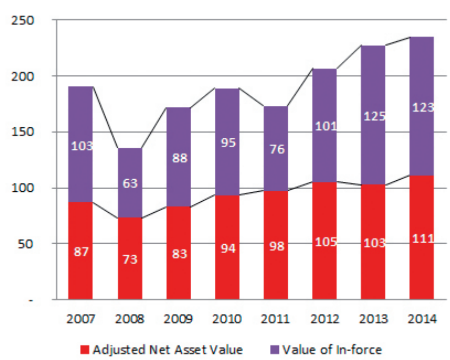
Benchmark used



No major changes in methodology were found in our sample. There was something of a "wait and see" attitude ahead of a potential convergence with the Solvency II prudential balance sheet, when this is finalised.

The indicator rose more slowly 2014, with 3% growth compared with 10% in 2013. This slow-down was mainly due to interest rate movements in 2014 and to the fact that 2013 saw a sharp improvement in market conditions (share markets and tightening sovereign spreads).

Embedded Value (€bn)

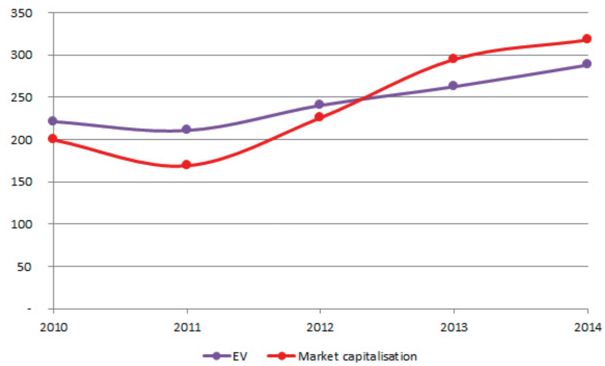


As in prior years, we have also considered the correlation between the value of this indicator and the stock market valuation of the insurance companies in our sample.

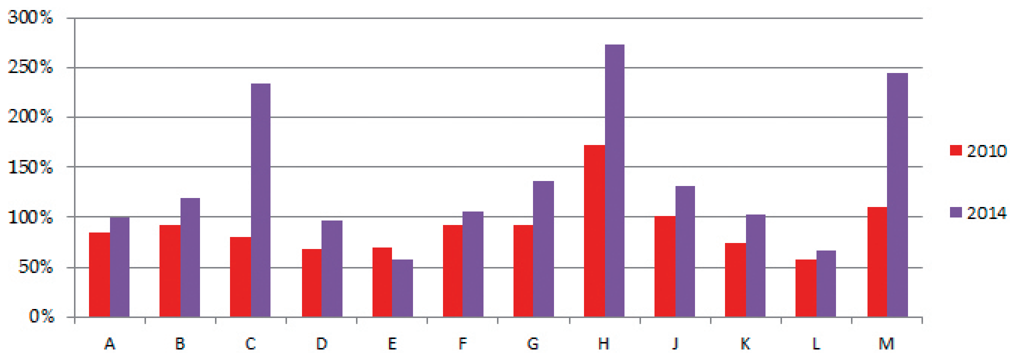
In 2014, valuation movements are more in line with the growth of the EEV:

- Overall, the market capitalisation of companies in the sample increased by 31% in 2013, which was something of a catch-up year after the financial crisis; and
- On average, the market capitalisation remains higher than the EEV, as in 2013.

EV/Market capitalisation comparison (cumulative amounts in € bn.)

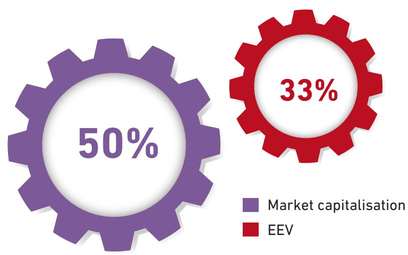


Evolution of EV/Market capitalisation ratio, 2010-1014



The ratio presented above is not consistent across our sample. Eight of the twelve players present a market capitalisation higher than the EV. This observation is difficult to interpret, given that the different groups have varying levels on non-life activities whose value is not completely captured by the group EEV. This indicator includes the value of non-life and asset management activities at their revalued net asset level, which does not necessarily reflect their market value.

Movement 2010 - 2014



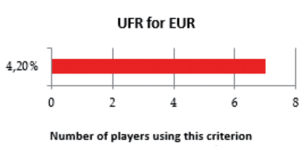
As in previous years, we have compared the structuring assumptions and calculation parameters used in establishing this indicator.

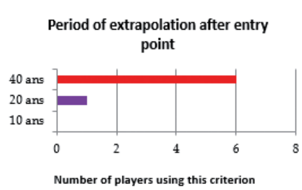
For discount rates, we found that the players overall use the same approach to estimate the liquidity premium. The trend towards harmonisation recorded in 2013 is confirmed in 2014.

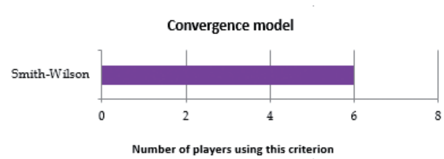
What is more, as in 2013, the majority of the players in the sample reporting on their convergence period have chosen a period of 40 years (10 years in 2012) to be consistent with the approach used in Solvency II.

There are few notable changes in 2014.

Divergences remain across the sample in the case of some assumptions, particular the yield curve (starting point, speed of convergence to the ultimate forward rate).







An indicator still focused on cash flows.

The focus of financial communication on cash flows increases the importance of the determination of the required capital and the free surplus.

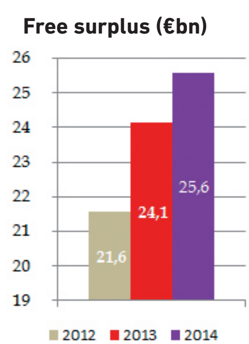
The free surplus corresponds to capital in excess of the required capital. However, the understanding of required capital varies between market players:

- compliance with regulatory requirements;
- maintaining a minimum rating; and
- respect of economic capital.

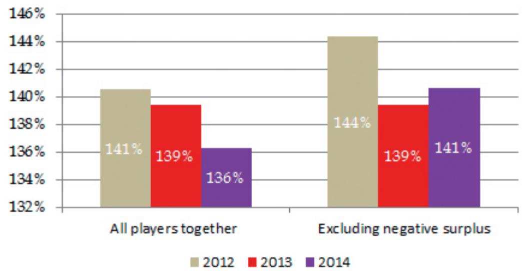
In 2014, the required capital definition remains diverse, as the table below indicates:

Player	Required capital
A	150% of regulatory requirement
B	Regulatory requirement
C	The higher of economic capital and regulatory capital requirement
D	The highest of economic capital, regulatory capital requirement and target capital level
E	110% of regulatory requirement
F	Regulatory requirement
G	Regulatory requirement, 160% of regulatory requirement
H	Capital required to maintain the regulatory requirement or an internal objective (rating, economic capital, etc.) Share capital adjusted to IFRS restatements on pension liabilities Regulatory requirement
I	Regulatory requirement The higher of regulatory requirement and target capital level 250% of regulatory capital The higher of Pillar I and Pillar II requirements
J	Regulatory requirement
K	150% of regulatory requirement
L	Regulatory requirement

For covering the required capital, the surplus has increased in 2014 despite a background of persistently low interest rates that has caused some insurers to post a negative surplus.



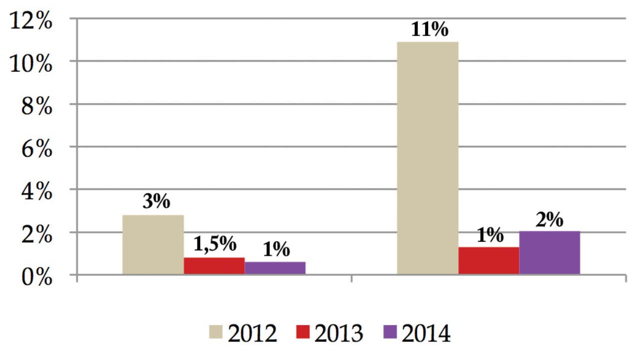
Ratio of surplus capital to required capital



Stability of calculations

Since 2013 there has been a reduction in the importance of the impact on the opening financial statements of changes in model. This trend, presented in the graphics below, illustrates the increasing stability of the calculations and shows a greater maturity in the construction of the indicator.

Impact of changes to model on opening EV

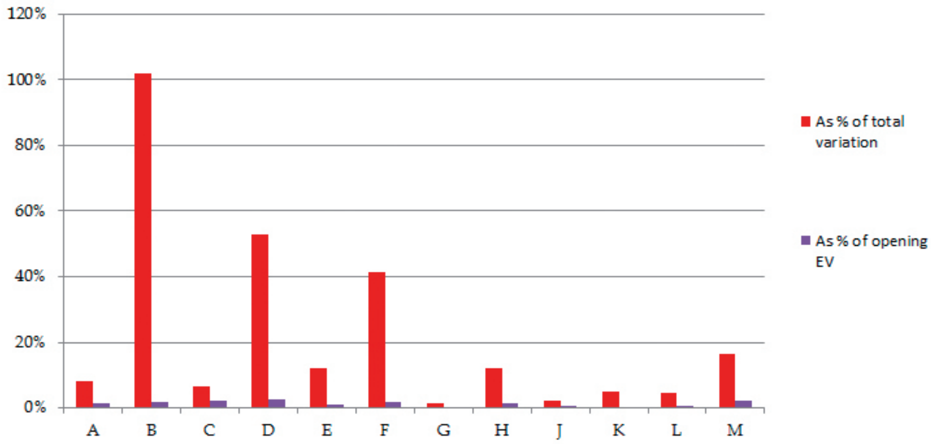


This diminution of impact can be seen overall, but also individually, thus confirming the maturity of the models used by all the players in our sample.

The absence of methodological changes in 2014 can be explained as the insurers are awaiting the Solvency II framework. The majority of players acknowledge that their methodology will have to be aligned with Solvency II without specifying what changes will have to be made.

For the impact of changes in the assumptions, the findings are more varied. The sensitivity of embedded value and its annual performance to changes in operational assumptions (excluding financial assumptions) is illustrated below:

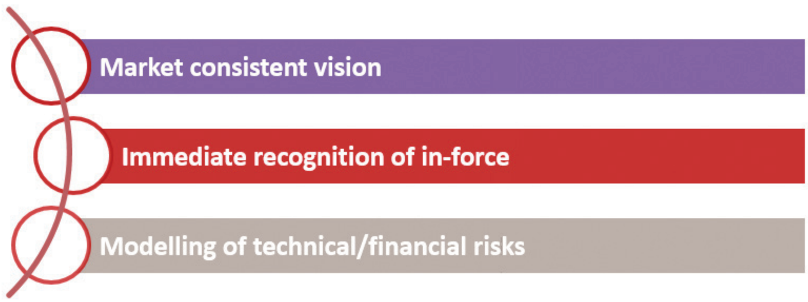
Impact of changes to assumptions in 2014 (in absolute values)



Changes in operational assumptions (excluding financial assumptions) are still significant for some players. For players reporting significant impacts arising from variations in the indicator over the financial period, the reasons and the nature of these changes have been explained.

What does the future hold for this indicator?

A few months ahead of the implementation of Solvency II, we can legitimately query the continuing pertinence of the MCEV/EEV indicator, given the conceptual similarities the most important of which are summarised below:



Increasingly, the players in our sample are mentioning an alignment of methodologies at least with Solvency II. This scenario would lead to more operational efficiency, particularly for production times and costs.

Merging of the indicators represents a significant transitional step, given that there are still significant differences, not least on the following aspects:

- discount rate;
- contract borders; and
- cost of capital.

Maintaining both metrics while aligning them to minimise the differences seems the most realistic scenario today. Nonetheless, none of our players has stated what changes are expected once Solvency II takes effect.

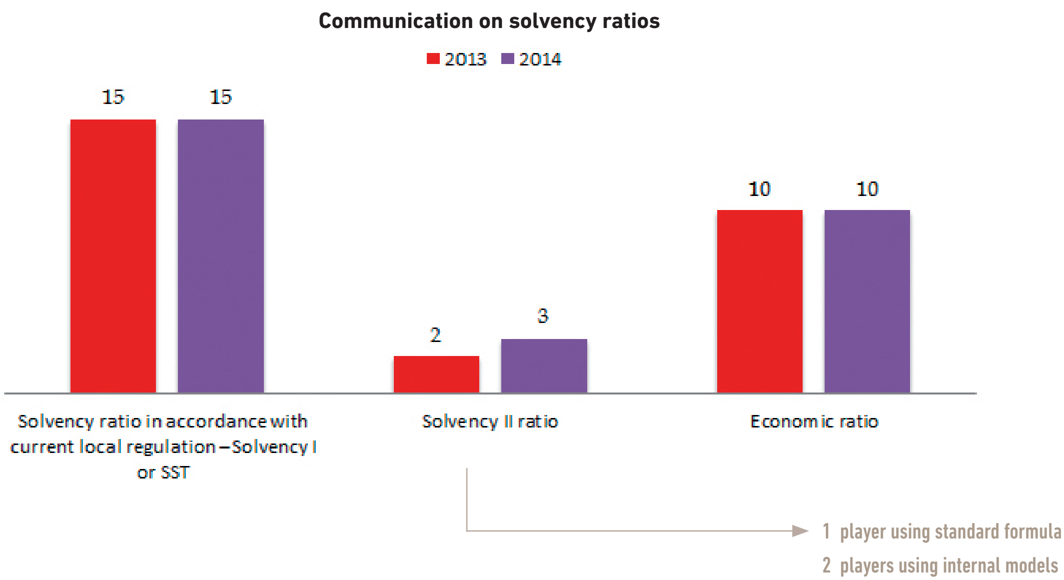
8. SOLVENCY AND CAPITAL MANAGEMENT INDICATORS - WHAT DISCLOSURES ARE RELEVANT, JUST MONTHS BEFORE THE DIRECTIVE COMES INTO FORCE?

Just a few months ahead of the regulatory change Solvency II, the information disclosed by players in our sample on capital management and solvency indicators has been of critical interest to analysts and more generally to the readers of accounts.

Against this background, our attention has focused on the information available in annual reports and performance indicator presentations on the following topics:

- What are the different solvency ratios reported? Is the Solvency II ratio presented?
- Is there an internal model? What information is disclosed on this model? Is there any information on its approval by the regulators?
- What information is given on 2014 projects? What is the level of preparation a year ahead of the application of the Solvency II directive? Is there a trend towards using subordinated debt in order to take advantage of the grandfathering rules?

8.1 Solvency indicators



The different solvency ratios reported

Solvency I

The solvency ratio calculated according to the current regulation remains a safe bet for the market. Its simplicity and robustness give it regulatory credibility on which almost all the players in our sample rely. The disclosures mainly relate to the level of margin coverage. Not all the players give a detailed account of the calculation, particularly of the components of equity eligible for this cover.

Nonetheless, it should again be noted that this indicator does not allow a sound comparison of the solvency of the players in our sample, given the wide range of approaches practiced from one country to another in determining it, particularly in respect of asset admissibility under different local regulations.

Ratio of economic capital

Within our sample, the majority of insurers report an 'economic' ratio based on internal models developed ahead of the application of Solvency II.

As in the case of Solvency I, the comparability of this indicator is weak insofar as little information is supplied about the methodology and assumptions applied.

Solvency II

Three players in our sample provide a Solvency II ratio. One of them uses the standard formula. Only one of these three players has given detailed information about the internal model used to calculate the Solvency II ratio. We shall return to this later.

We found that, a few months short of the mandatory application of the directive, the Solvency II ratio remains impossible to communicate for the great majority of players. Uncertainties persist over certain aspects of the calculation.

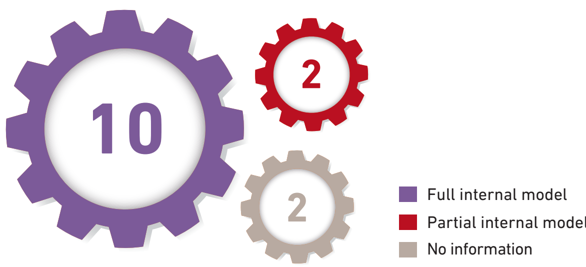
The message below is a typical example:

" Solvency II will be effective in EU member states as per January 1, 2006 and Aegon is still of uncertainties on a range of important topics where specific details need to be addresses. For Aegon there are a number of important topics, including internal model approval and the supervisory assessment and confirmation of equivalence and regimes that are determined to be equivalent or temporarily or transitionally equivalent. For entities where Solvency II quantitative requirements apply to ensure adequate capitalization, outstanding items include the specific calibration of the discount curve for insurance liabilities. These calibrations may include Volatility or Matching Adjustments which are countercyclical measures that ensure that the long term and illiquid nature of insurance or reinsurance obligations is reflected appropriately in the valuation. The full details around the calibration and application of these adjustments are not yet available, which makes it difficult to assess the impact on Aegon's solvency ratio."

Source – Aegon annual report 2014

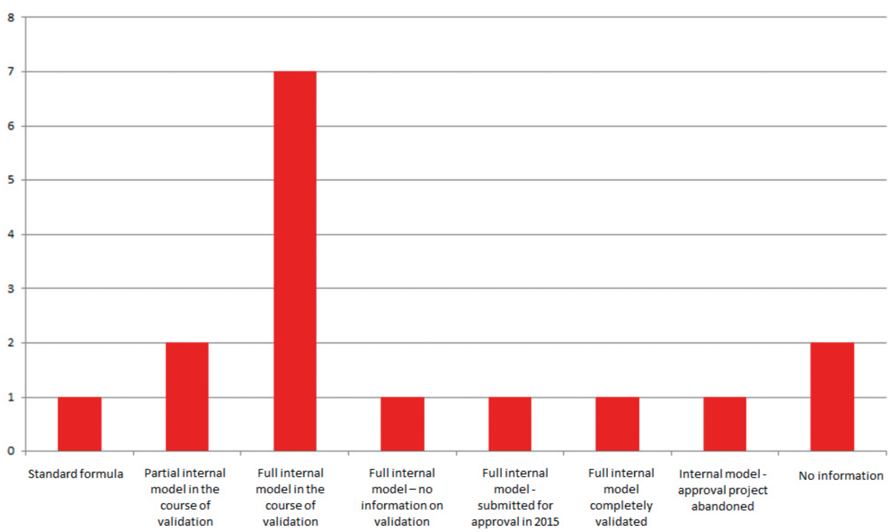
As we understand it from the information available, most of the players surveyed are tending towards the introduction of an internal model for the application of Solvency II.

Model used



The internal model approval processes are all in progress. None had been finalised at 31 December 2014, as the graphic below shows.

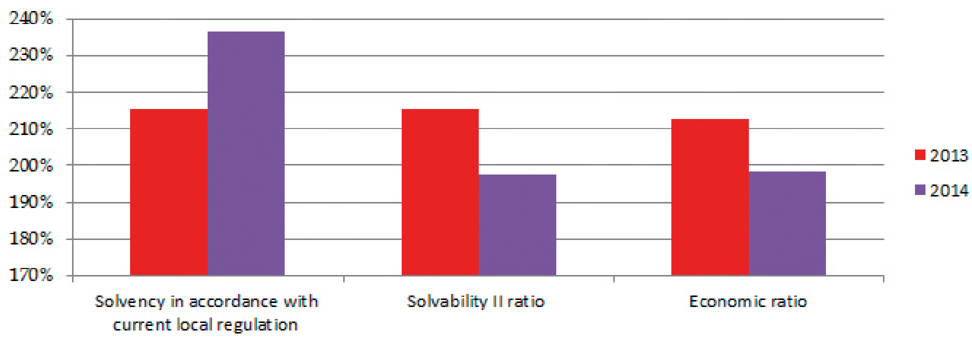
Method for determining the capital requirement



8.2 Comparison of quantitative disclosures

Changes in the ratios are presented as follows:

Average cover ratios

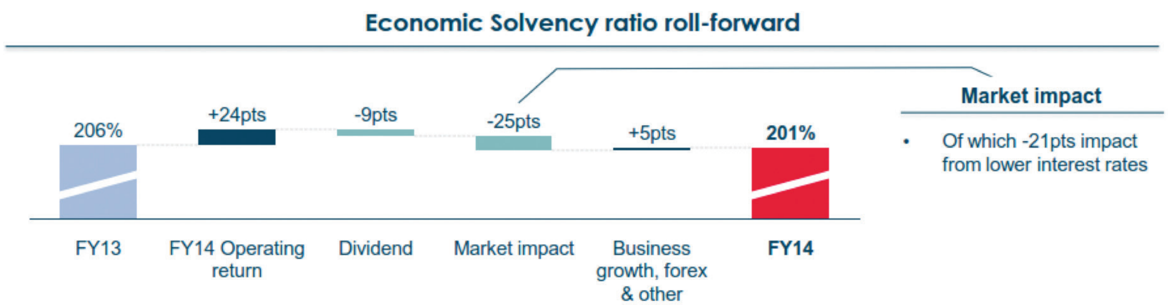


Average unweighted ratio in the sample

The average level of the coverage ratios reported is generally up for Solvency I and down for Solvency II and the economic ratio.

The rise in Solvency I ratios can be mainly ascribed to increasing unrealised bond gains due to the persisting low interest rates in Europe.

The Solvency II and economic ratios report adverse changes. Little detailed information on the reasons for these changes is available in the documentation provided by the players in our sample. We frequently found this type of analysis when information was given:



A few months ahead of the introduction of the new prudential regulation, we found that the ‘economic’ capital ratios published by most entities are satisfactory at first sight (around 198% on average). Nonetheless, it would be premature to forecast their compliance with the final framework of Solvency II insofar as the majority are based on an economic capital model some of the assumptions of which may be different from those required by the definitive text. The removal of the last remaining uncertainties will make it possible to determine the key methodologies and to see a greater number of players report a Solvency II ratio in 2015.

One player stands out, publishing extensive information on the application of the internal model as presented to the regulator for the approval process.

This player provides quantitative disclosures by type of risk as outlined in its internal model.

ALLIANZ GROUP: ALLOCATED RISK ACCORDING TO INTERNAL RISK PROFILE (TOTAL PORTFOLIO BEFORE NON-CONTROLLING INTERESTS)

€ MN	Market risk		Credit risk		Underwriting risk		Business risk		Operational risk		Diversification		Total	
as of 31 December	2014	2013[1]	2014	2013[1]	2014	2013[1]	2014	2013[1]	2014	2013[1]	2014	2013[1]	2014	2013[1]
Property-Casualty	6,120	5,388	2,374	2,067	9,619	8,811	917	909	1,797	1,833	(7,246)	(6,729)	13,582	12,278
Life/Health	18,569	14,098	7,817	5,589	1,626	1,063	4,404	3,630	2,035	1,975	(10,161)	(7,651)	24,291	18,703
Asset Management	521	621	128	152	–	–	–	–	668	586	–	–	1,317	1,359
Corporate and Other	2,891	2,591	699	555	65	94	–	–	645	679	(883)	(829)	3,417	3,090
Total Group	**28,102**	**22,698**	**11,018**	**8,363**	**11,311**	**9,967**	**5,321**	**4,538**	**5,146**	**5,073**	**(18,291)**	**(15,209)**	**42,607**	**35,430**
											Tax		(4,180)	(5,820)
											Total Group		**38,427**	**29,610**

ALLIANZ GROUP: INTERNAL RISK PROFILE – MARKET RISK BY BUSINESS SEGMENT AND SOURCE OF RISK (TOTAL PORTFOLIO BEFORE TAX AND NON-CONTROLLING INTERESTS)

pre-diversified, € MN	Interest rate		Inflation		Credit spread		Equity		Real estate		Currency		Total	
as of 31 December	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Property-Casualty	497	372	3,466	2,834	574	503	929	942	596	635	57	103	6,120	5,388
Life/Health	6,038	3,432	481	321	5,016	4,314	5,484	4,730	1,420	1,035	129	266	18,569	14,098
Asset Management	1	1	–	–	–	–	24	29	5	6	491	585	521	621
Corporate and Other	469	548	228	282	447	265	1,352	1,034	99	130	297	332	2,891	2,591
Total Group	**7,005**	**4,353**	**4,175**	**3,437**	**6,038**	**5,082**	**7,789**	**6,735**	**2,119**	**1,806**	**975**	**1,286**	**28,102**	**22,698**
								Share of total Group pre-diversified internal risk					46.2%	44.8%

Further, the same player gives a number of qualitative proposals, including:

- he general description of the model and the approach;
- the construction of certain key assumptions such as the rate curve, volatility adjustment, correlation and diversification assumptions;
- the techniques used, for example the replicating portfolio;
- the scope covered by the model; and
- the main limitations.

Updates to the model to take account of Solvency II as perceived are explained. This player also provides an outline of its risk governance.

Nevertheless it also notes that uncertainties remain and can affect the figures presented.

The model used at the year-end 2014 will also be the basis for our internal model application under Solvency II. Nevertheless, any further regulatory guidance may still impact our future internal model results. In addition, the internal model still needs to be approved by regulatory authorities.

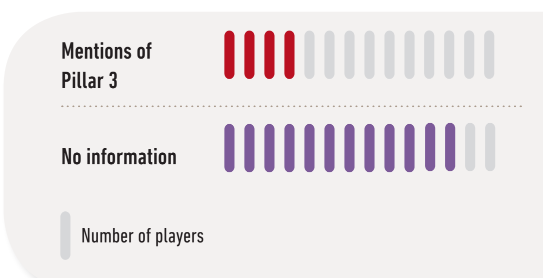
Source – Allianz annual report 2014

This publication currently represents a benchmark, and foreshadows the level of disclosures that we could obtain from the players in our sample at the end of 2015.

8.4 The finishing straight

As for pillar 3, the players in our sample give little information on the progress made in setting up reporting processes and on their capacity to meet the reporting requirements as from the first quarter of 2016.

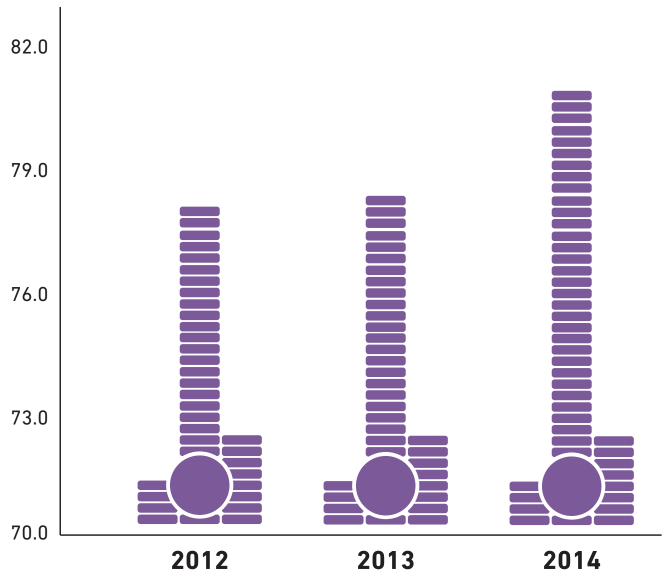
Level of information on introduction of Pillar 3



The main concerns of management in European insurance groups relate to the uncertainties that persist regarding computational aspects of pillar 1 and the process of approval for internal models by the regulator.

The players have also sought to benefit from the grandfathering rules to optimise the equity admissible at 1 January 2016. Substantial subordinated debt has been issued in recent years (mainly perpetual subordinated debt admissible in Tier 1):

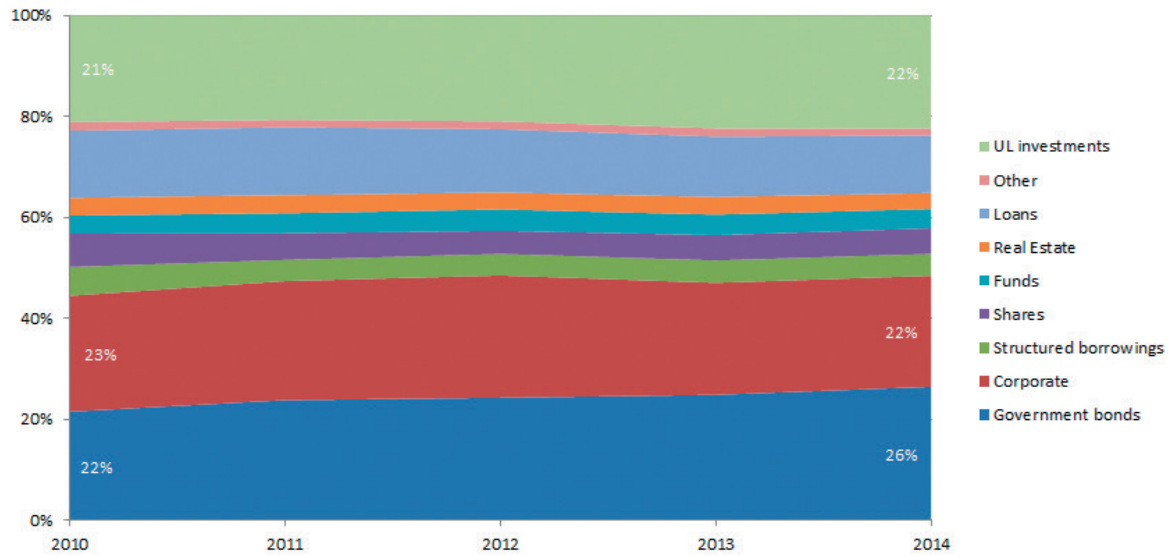
Evolution of stocks of subordinated debt in the sample (in € bn).



Practices in this matter are not standardised from one country to another. For example, we found a reluctance among some regulators regarding the possibility of constituting Tier 1 capital and reserves of this kind. These divergences between countries pose the question of equal treatment in a European framework which has as one of its main objectives the standardisation of prudential rules.

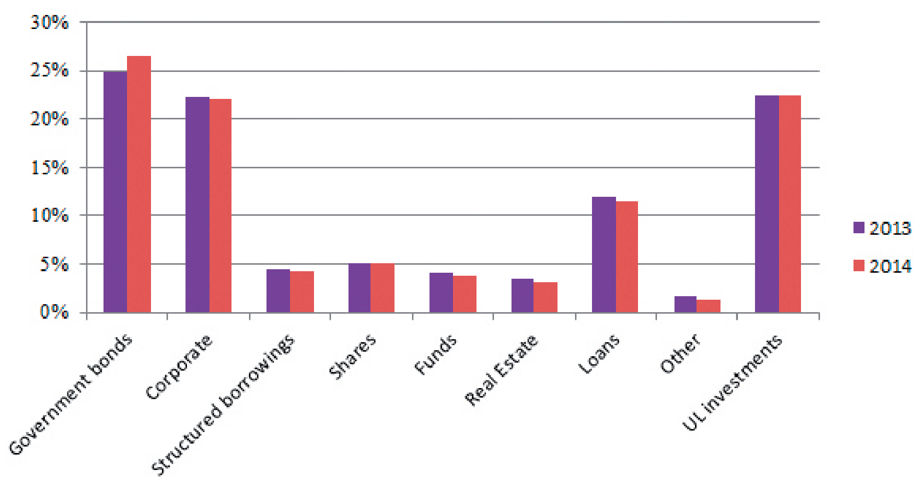
Given the regulatory and financial background (Solvency II and historically low interest rates), we wanted to renew our analysis of changes in the average asset allocation in our sample:

Changes in average investment allocation (inc. UL), 2010-2014



The period 2010 - 2013 was marked by a rise in the proportion of state bonds in the portfolios of players in our sample, accompanied by a reduction in the proportion of structured shares and bonds which are more demanding in terms of capital.

The stability of the allocation in 2014 signals the end of the strategic allocation process launched by groups in the previous period.



8.5 Conclusion

With the exception of one player in our sample, there are few significant changes in insurers' disclosures regarding capital management.

However, the inclusion of the economic capital indicator in the strategies of various groups is increasingly evident in their financial disclosures. Groups are trying to reassure investors about the impact of the Solvency II ratio. The implementation of risk and capital management measures therefore seems to be at the heart of their concerns. Disclosures made by the large groups suggest that Pillar 2 is in place. However, Pillar 3 is not among the subjects addressed by management.

CONCLUSION

There have been few structural changes in the information published this year by insurers, with the exception of the application of the consolidation package, which has very little quantitative impact on the accounts.

In terms of accounting issues, the findings of our previous surveys are still relevant – the methods and the accounting principles applied appear to differ structurally across European insurance groups.

These findings have failed to create anxiety for readers, given that 2014 was a vintage year in terms of activity. Nonetheless the prospect that the interest rate environment might remain at its historically low level will be a key issue for the 2015 accounts.

Insurers are still taking a wait-and-see approach to the publication of quantitative indicators (embedded value, economic capital) with the first effective application of Solvency II reform. Qualitative and quantitative disclosures on capital management have generally improved in recent years; it is predominantly quantitative, with the exception of one player that has taken a pioneering approach to providing quantitative and qualitative disclosures relating to Solvency II.

The industry is now in the finishing straight in terms of implementing the directive, and the finalisation of the approval process for internal models is a point of attention for management.

From an accounting perspective, insurers must begin to get ready for major changes, firstly caused IFRS 9, and secondly introduced by IFRS 4 phase 2. It is unlikely that the effective date of IRFS 9 will be postponed for insurers. Preparations should therefore start right away. As to IFRS 4 phase 2, there have been further deliberations on structuring aspects, but the final shape of the standard is now clear.


KEY POINTS OF THE FINANCIAL COMMUNICATION OF INSURANCE GROUPS

AS AT 31 DECEMBER 2013

MAZARS

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