Regulations for Defining the Policy on Provisions

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Contents

1. General provisions

Article 1 Terms and general principles

1 Pursuant to Article 48e BVV 2 and taking into account Article 65b BVG, the Board of Trustees of Allianz Pension Invest - Semi-Autonomous Collective Occupational Pension Foundation (hereinafter “the Foundation”) has drawn up regulations for the creation of the technical provisions and reserves which are required to secure the fulfilment of its obligations towards active insured persons and pension recipients.

2 In accordance with Article 47 BVV 2, pension funds must draw up and structure their annual financial statements in compliance with the accounting and reporting recommendations of Swiss GAAP ARR 26. The liabilities reported in the Foundation’s annual financial statements accordingly consist of the following positions (a distinction can be drawn between actuarial pension capital and provisions (letters a to c), additional reserves required to secure the obligations (letter d) and free funds (letter e):

a) Pension capital of the active insured persons
b) Pension capital of the pension recipients
c) Technical provisions
d) Reserves
e) Free funds

3 The pension capital of the active insured persons and the pension recipients is the amounts calculated by the occupational pensions actuary to preserve the insured persons’ and pension recipients’ acquired rights.

4 The term “technical provisions” refers to an amount of money set aside to cover a known or foreseeable obligation which has a negative impact on the Foundation’s financial situation in accordance with Article 44 BVV 2. Their purpose is to ensure that the obligations acquired vis-à-vis active insured persons and pension recipients can be fulfilled. Technical provisions shall be created irrespective of the Foundation’s financial situation. When calculating the funding ratio pursuant to Article 44 BVV 2, provisions shall be treated as a liability.

5 In order to further strengthen its financial situation, the Foundation may also accumulate reserves in addition to the technical provisions. In this context, the term “reserves” (e.g. the fluctuation reserve) refers to amounts set aside specifically to cover any liabilities which arise after the balance sheet date. Reserves may be created from the entire income for the year ended or part thereof.

6 The amount of the pension capital and the technical provisions shall be calculated by the occupational pensions actuary in accordance with the law, applicable regulations and recognised principles, taking into account the guidelines of the Swiss Chamber of Pension Actuaries and on the basis of generally available actuarial principles. In the process, the principle of consistency must also be adhered to.

7 The Foundation’s initial assets are CHF 800,000.00 (eight hundred thousand). At the same time as the initial assets, the Founder transferred an additional contribution of CHF 2,500,000 (two-and-a-half million) to the Foundation.

2. Policy on provisions

Article. 2 Actuarial principles

1 The Foundation uses the BVG 2010 actuarial principles as a generation table.

2 The collective method is used to calculate the net present value of prospective future benefits.

Article 3 Technical interest rate

1 The occupational pensions actuary shall base his or her recommendation for the technical interest rate on the reference technical interest rate provided in the FRP 4 guideline published by the Swiss Chamber of Pension Actuaries. The reference technical interest rate is based on the average performance over the last 20 investment years of the Pictet 2005 BVG index BVG-25 Plus and the return on 10-year Swiss government bonds. The Foundation’s structural and financial risk capacity and the current economic environment should also be taken into account in the calculation of the technical interest rate.

[2] If the Foundation's technical interest rate exceeds the reference interest rate by up to 0.25 percentage points, the occupational pensions actuary must notify the Board of Trustees in writing. If the reference interest rate is exceeded by more than 0.25 percentage points, the occupational pensions actuary must provide a justification for this. If it is not possible to give an objective justification, the occupational pensions actuary must provide the Board of Trustees with a proposal of measures to reduce the Foundation's technical interest rate to the level of the reference interest rate within five to seven years.

[3] The Foundation currently applies a technical interest rate of 2.00%.

Article 4 Technical provisions

[1] The actuarial pension capital (= pension capital and technical provisions) must be recognised at its target value irrespective of the annual result.

[2] In the event of a positive annual result (= income surplus prior to creation of fluctuation reserve), any income surplus shall be added to the fluctuation reserve until the reserve reaches the pre-defined target size. Any further income surplus may be used to accumulate additional reserves; otherwise it shall be regarded as free funds.

[3] In the event of a negative annual result (= expense surplus prior to creation of fluctuation reserve), first the free funds and then the fluctuation reserve shall be reduced to zero. Any additional expense surplus shall lead to or increase underfunding pursuant to Article 44 BVV 2.

[4] The amount of the technical provisions shall be set in consultation with the occupational pensions actuary or shall be based on the actuarial report. The Foundation's technical provisions comprise:

a) Provisions for losses on retirement
b) Provisions for a small portfolio of pensioners

[5] In the case of unforeseen or special events, the Foundation may create additional provisions, fully or partially reverse existing provisions, accumulate provisions to a level below their target size or build up provisions progressively. Such actions must be backed up by a justified written recommendation from the occupational pensions actuary and must comply with recognised principles.

Article 5 Interest on retirement assets

The Board of Trustees shall set the interest rate applicable to the retirement assets annually, in accordance with Section 2.4.5 of the General Terms and Conditions (GTC). In doing so, it shall take account of the Foundation's current financial situation.

2.1 Technical provisions for the active insured persons

Article 6 Provisions for losses on retirement

[1] Retirement occurs on a flexible basis between the ages of 58 and 70. The conversion rate for early retirement before the age of 65 and also for ordinary and deferred retirement shall be set at a more favourable rate than the actuarially correct conversion rate.

[2] The target value of the provisions for losses on retirement shall take into account the expected annual expenses resulting from retirements. The basis for the calculation is the difference between the conversion rates under the Pension Rules and the calculated actuarially correct conversion rates and the insured persons' retirement assets from the age of 58, weighted according to presumed retirement probabilities. The amount of the provisions and their target value shall be reviewed periodically by the occupational pensions actuary and adapted to current circumstances.

2.2 Technical provisions for pension recipients

Article 7 Provisions for a small portfolio of pensioners

When pensioner portfolios are small, the experience values for life expectancy and the probability of marriage can deviate considerably from the actuarial principles. For this reason, corresponding provisions shall be created to finance the deviations from the expected values in the actuarial principles. The occupational pensions actuary shall periodically review the target value and amount of the provisions and adapt them to current circumstances. The provisions (P) are calculated according to the following formula: $\boldsymbol{P} = \frac{\boldsymbol{PC}}{\boldsymbol{m}\cdot\sqrt{\boldsymbol{n}}}$ Consequently, the amount of the provisions is dependent on the pensioners' pension capital (PC), the factor m and the number of pensioners (n).

2.3 Additional provisions

Article 8 Additional provisions

1 Any additional technical provisions (e.g. for pending disability claims, hardship cases, partial liquidation, reduction in the technical interest rate, etc.) must be created in accordance with professional principles. The assessment of the amount or the need to create or reverse provisions shall be carried out together with the occupational pensions actuary.

2 The creation of additional provisions must be explained in the notes to the annual financial statements. If such provisions are created on a permanent basis, they must be laid down specially in the Provisions on Regulations.

3 The initial assets in accordance with Articles 15 and 17 BVV 1 of CHF 800,000 are intended to cover the administration costs that arise during the first two years. For this reason, they are reserved as non-technical provisions in the balance sheet.

4 The additional contributions from the Founder can be used to avoid diluting effects of future enrolments, to create technical provisions and reserves or for other purposes that serve the Foundation as a whole, provided that the Board of Trustees expressly decides on such use. The contributions not used for these purposes will be reserved as non-technical provisions in the balance sheet.

3. Fluctuation reserve

Article 9 Fluctuation reserve

1 To offset value fluctuations on the assets side and guarantee the required interest payments on obligations, fluctuation reserves shall be created on the liabilities side of the commercial balance sheet.

2 The required target value of the fluctuation reserve shall be calculated by the independent external investment expert using the value-at-risk method. This procedure involves calculating – on the basis of the risk/return profiles of the asset classes used in the investment strategy – the amount of the fluctuation reserve needed to be able to pay a required minimum interest rate on restricted pension capital with a sufficient degree of certainty.

3 The target value of the fluctuation reserve is expressed as a percentage of the liabilities. The Foundation targets a collateral level of 99% over three years.

4. Surpluses from insurance contracts

Article 10 Surpluses from insurance contracts

1 If surpluses become due from any insurance contracts which the Foundation has concluded with insurance companies, the Board of Trustees shall define a general percentage share to be allocated to the technical provisions and the reserves.

2 The share which is not allocated to the technical provisions and the reserves shall be distributed among the pension schemes in accordance with Section 6.1 (5) GTC.

5. Creation of provisions

Article 11 Order of priority

1 In general, provisions shall be created in the following order of priority, taking into account the setting of the interest rate on retirement assets:

2 Priority shall be given to the creation of provisions for losses on retirement and for a small portfolio of pensioners.

3 The other provisions shall be created on the basis of a decision by the Board of Trustees and, if required, in consultation with the occupational pensions actuary.

[4] Any positive annual result that remains after the interest rate has been set and provisions created shall be used to build up the fluctuation reserve until it reaches the target value. Wherever possible, any remaining negative annual result shall be offset with funds from the fluctuation reserve.

6. Free funds

Article 12 Creation

Free funds may be recognised if all technical provisions (Section 2) and the fluctuation reserve (Section 3) have been accumulated up to their respective target amounts. The contributions from the Founder do not form part of the free funds.

Article 13 Appropriation

[1] The Board of Trustees shall decide how to appropriate the Foundation's free funds in line with the Foundation's financial capacity. Pensions shall be adjusted in line with inflation according to the Foundation's financial capacity, with the Board of Trustees deciding on an annual basis whether and to what extent this is possible.

[2] The principle of equal treatment of all beneficiaries shall be adhered to, irrespective of the intended use of the free funds. Both the insured persons and the pension recipients must be treated appropriately and according to objective criteria.

[3] Potential uses for the free funds include in particular the following:

a) Benefit increases for insured persons through individual credits to their retirement assets
b) Benefit increases for pension recipients through adjustments to current pensions or one-off pension supplements
c) Creation of additional provisions
d) Allocation to the pension schemes

7. Final provisions

Article 14 Changes to the Regulations on Provisions

The provisions of the Regulations for Defining the Policy on Provisions shall be reviewed by the occupational pensions actuary at least every three years or in the event of changes to the structure of the pensioner portfolio or the liability structure and amended by the Board of Trustees if required.

Article 15 Entry into force

The Regulations on Provisions were approved by the Board of Trustees on 21 March 2017 and entered into force on 31 December 2016. Consequently, the policy on provisions shall first take effect in the annual financial statements for 2016. The Regulations on Provisions may be amended by the Board of Trustees at any time.