Allianz Global Corporate & Specialty

2014

Allianz Global Corporate & Specialty SE

# Annual Report 2014

Allianz

# Contents

# Foreword

A rise in geopolitical tensions and sluggish economic realities especially in Europe turned 2014 into another challenging year for many businesses. For Allianz Global Corporate & Specialty (AGCS) it also has been a year of change, with new strategic projects initiated to sustain our leading market position, underpinned once more by a successful business performance in 2014.

AGCS achieved positive results in the past year despite the 'new normal' conditions of hyper-competition, price pressure and low interest rates in the corporate insurance segment. AGCS generated a premium income of €5.4 billion, an increase of 8 percent compared to the previous year (€5.0 billion). This positive top line development which has been driven by both new business in emerging markets and growth in mature markets translated into a growth in net premium earned of €235 million to €3.2 billion. An operating profit of €506 million (€483 million in 2013) further demonstrates our strong profitability and the strength of our global business model. This result was underpinned by proactive investment management, maintaining asset yields in challenging market conditions.

AGCS's 2014 combined ratio of 95 percent increased from the prior year's result of 93 percent. This is mainly the result of higher large losses primarily in Property and Engineering, which could only partly be mitigated by lower losses from natural catastrophes.

For AGCS, the past year was marked by the most significant strategic change after the marine insurance business of Fireman's Fund Insurance Company (FFIC) transferred to AGCS in 2009. In September 2014, Allianz SE announced the integration of the commercial P&C business of FFIC into the unit AGCS.

This integration, effective from January 1, 2015, further strengthens the Allianz brand and also AGCS's market position in the important US market – the combined AGCS North America and Fireman's Fund commercial P&C business in the US is expected to total €2.4 billion, based on gross written premiums in 2014. We will also benefit from strong distribution and resource synergies in the US broker segment. Last but not least, AGCS can leverage FFIC's specialist knowledge of entertainment and mid-corporate insurance in new markets beyond the US, as well as introducing internationally established AGCS products such as Financial Lines coverage into the US market. After the announcement of this transaction, both Standard & Poor's (S&P) and A.M. Best kept the strong ratings unchanged for our AGCS core entities at AA (S&P) and A+ (A.M. Best) as well as for FFIC at A (S&P) and A (A.M. Best).

Beyond the further diversification of our product portfolio with two new global lines of business, "Mid-Corporate" and "Entertainment", AGCS aims to play a proactive role in developing innovative insurance products reflecting changing risk scenarios and client needs. With Allianz Cyber Protect we have been strongly contributing to the fast-evolving market for cyber insurance in Europe and Asia in the past 18 months. We are also responding to the current rise in political tensions and violence in many parts of the world which are affecting our clients' staff, business and balance sheets. In a new competence center "Crisis Management" as part of the global Liability team, we bundle both existing and new covers in the area of product recall and contamination as well as terrorism and political violence.

Globalizing our footprint remains a key imperative for AGCS. In growth markets such as South America, South Africa and the rest of the Sub-Saharan region, the Nordic region, China and India, we have further strengthened our market position and expanded our business. For another year, we have also seen strong demand for International Insurance Solutions (IIS). The number of IIS managed by AGCS increased to 2,300, with more than 16,000 local policies recorded.

As from January 1, 2015, with a newly expanded Board which reflects the growth of AGCS, I have taken over the role as CEO from my predecessor Dr. Axel Theis, who is now a Board Member at Allianz SE and also chairs the Supervisory Board of Allianz Global Corporate & Specialty SE. In close cooperation with Clement B. Booth, the former Chair of the Supervisory Board of Allianz Global Corporate & Specialty SE, who retired last year, Dr. Axel Theis developed AGCS as Allianz SE's dedicated carrier for corporate and special risks into one of the leading insurers in this segment. From 2006 to 2014, AGCS has almost doubled its premium income from €2.8 billion, increased staff numbers from 1,660 to more than 3,600 and expanded its global footprint from 9 to 28 countries.

On behalf of all at AGCS, I would like to thank them both for their important contributions to this company, and we look forward to continuing to work with Dr. Axel Theis in his new role on the Management Board of Allianz SE.

The strategic priorities under the new leadership team remain unchanged: AGCS will focus on optimizing profitability in mature markets and seeking profitable growth in emerging markets. As entrepreneurs we will continue to further improve and harmonize processes and platforms and explore new opportunities to optimize our capital structure to increase our return on capital. We will also focus on strengthening our client focus by enhancing our services across all teams and applying our underwriting expertise to a growing diversified portfolio.

2014 was a year of success for AGCS, but also one of many challenges and changes. On behalf of AGCS's Board of Management, I would like to extend my very sincere thanks to each and every one of our staff for their tremendous commitment in reaching beyond 'business as usual' over what was a truly exceptional year. We are also looking forward to joining forces with our new colleagues from Fireman's Fund. The profound expertise and strong commitment of our staff along with our proven global business model will help us in turning opportunities into profitable business in a challenging market environment in 2015.

**Chris Fischer Hirs,**
CEO Allianz Global Corporate & Specialty SE

# AGCS Global Structure

Allianz Global Corporate & Specialty SE (AGCS SE) is a globally operating company registered in Munich, Germany. The company is embedded in a network of various companies in Europe, America, Asia and South Africa which reflect the global needs of its corporate and specialty insurance customers. The Allianz Group has decided to serve these global needs by implementing global business structures within one segment. AGCS operates through a network of branch offices and local insurance companies within and outside the Allianz Group who cede business to AGCS SE.

AGCS SE has a headquarter function within this segment. It has established branch offices in the UK, France, Denmark (for the Nordic region), Sweden, Austria, Italy, Belgium, Spain, the Netherlands, Hong Kong and Singapore.

AGCS SE operates in about 70 countries and works with additional network partners in many more across the globe. In addition, decades of rich experience as a corporate insurer put unique tools at our disposal to benefit our clients.

To serve the needs of the North American market Allianz Global Risks US Insurance Company (AGR US), an indirect subsidiary of Allianz SE, operates in the US with a Canadian branch office in Toronto.

The specific needs of the Swiss market and special insurance solutions for international clients are serviced by Allianz Risk Transfer AG, Zurich/Switzerland, a fully owned subsidiary of AGCS SE.

To accommodate the economic and regulatory requirements in the Brazilian market, Allianz Risk Transfer AG has established a local reinsurance company.

Beside the two Asian branch offices in Hong Kong and Singapore, AGCS SE covers the Asian Pacific region by its Japanese subsidiary, Allianz Fire and Marine Insurance Japan Ltd., Tokyo.

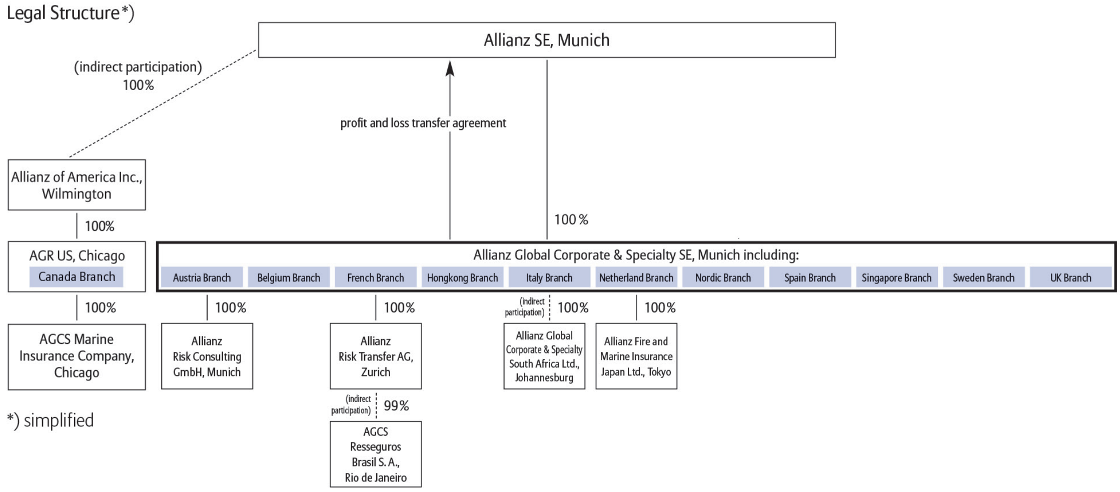
AGCS SE's subsidiary Allianz Risk Consulting GmbH, Munich/Germany, provides supplemental loss control engineering services in the form of risk analysis and claims expertise.

Furthermore, AGCS SE fully owns Allianz Global Corporate & Specialty of Africa (Proprietary) Limited, Johannesburg / South Africa, a holding company which holds 100% of the shares in Allianz Global Corporate & Specialty South Africa Limited, Johannesburg / South Africa.

The following section refers to AGCS as a segment, i.e. the figures reflect a consolidated view of all AGCS companies. The legal part of this Annual Report refers to AGCS SE only.

## Allianz Global Corporate & Specialty SE

Legal Structure*)




*) simplified

# AGCS Global by Line of Business

AGCS global business consists of various legal entities that are under AGCS management responsibility. Total global gross consolidated premiums written amounted to € 5,389 million, an increase of 8% relative to 2013 (€ 4,999 million) as a result of new business and upsells following expansion of geographic footprint and product offer and more captive accounts. Growth was accompanied by a satisfactory combined ratio of 94.8% that exceeds prior year's by 1.7%-p due to higher large losses primarily in Property, Engineering and Aviation partly mitigated by favorable prior year development, particularly for Liability, Aviation and Engineering, and low CAT losses. Despite the slight profitability decrease in technical underwriting, AGCS' operating profit of € 506 million (€ 483 million) was supported by robust investment results performance.

Gross premiums written for Aviation amounted to € 571.1 (574.4) million which is 0.6 % below the prior year mainly driven by the competitive market environment that has continued even after large market losses due to several years of favorable loss experience. The decrease was mainly on inwards treaty and general aviation business covering smaller aircrafts, offset in part by growth with smaller airlines. The calendar year loss ratio of 62.9% was well below last year (71.3 %) due to favorable prior year development for all sublines, particularly for products, offsetting the impact of current year large losses for the Airlines, Space and Treaty business. The combined ratio improved to 89.7 % (96.2 %).

Gross premiums written for Energy amounted to € 216.3 (225.6) million, a 4.1 % decrease compared to last year. The reduction is mainly attributable to lower Onshore premium from rate decreases. Growth in Asia partially offsets lower premium in the US and UK. In 2014, Energy was impacted by large onshore losses in the UK, US and Asia. However, the calendar year loss ratio was again very strong at 50.0 % (54.3 %) as the size of the book and positive portfolio loss development, particularly for onshore, supported strong profitability, resulting in a combined ratio of 71.9 % (75.3 %).

Gross premiums written for Engineering amounted to € 558.4 (489.4) million, an increase of 14.1 % versus prior year driven by North America, infrastructure projects in growth markets and higher captive business. From a product perspective, our presence in the London IDI (Inherent Defect Insurance) market enjoyed noteworthy strengthening. Overall significant growth was achieved despite challenging market conditions on construction business as a result of difficult economic situation and a marginally negative FX impact. The calendar year loss ratio of 69.8 % was above that of last year (65.3 %) primarily driven by higher large losses compared to absence of those in 2013. The combined ratio increased to 98.1% (93.0 %).

Gross premiums written for Financial Lines amounted to € 401.3 (343.1) million, an increase of 17.0 % compared to prior year. This was driven by increase of captive and fronting business notably in France and Brazil, as well as two large facility contracts in the UK. The calendar year loss ratio of 85.2 % increased versus last year (83.2 %) mainly due to reserve strengthening of the Professional Indemnity book in the UK and severity of large losses. As a result, the combined ratio increased to 113.4 % (110.3 %).

Gross premiums written for Liability amounted to € 844.2 (756.6) million, a growth compared to prior year of 11.6 %. This was driven by new and upsell on captive business in mature markets and 35 % growth across emerging markets. The extraordinary calendar year loss ratio of 47.8 % improved significantly versus last year (61.7 %) impacted by one-off reserve releases after an IBNR review in Germany as well as favorable review of Asbestos reserves, positive claims development, and a change in ULAE reserve parameters. The combined ratio improved even further to 68.7 % (82.5 %).

Gross premiums written in Marine amounted to € 1.078.7 (1,023.7) million. The 5.4 % increase results in large part from continued expansion in Brazil, including assumed treaty business, as well as growth from new Cargo accounts in the US and growth in Inland Marine including program business. The calendar year loss ratio improved to 64.5 % (66.6 %) due to favorable prior year development for Hull and Cargo, low CAT losses and the continued effectiveness of specific initiatives to increase profitability, including rate initiatives. Therefore in total the combined ratio improved to 95.9 % (97.4 %).

Gross premium written in MidCorp amounted to € 51.5 (21.5) million. The significant growth of 140 % is primarily driven by successful launch of new program business written in Canada as well as satisfying organic growth in Asia and Africa. The calendar year loss ratio of 46.1 % (70.9 %) is positively impacted by favorable prior year portfolio development in Asia as well as by a benign cat year in contrast to 2013 when the portfolio was hit by flood losses in Canada. The combined ratio improved to 91.5 % (103.8 %).

Gross premium written in Property amounted to € 910.6 (848.6) million. An increase compared to prior year of 7.3 % driven by higher fronting and captive business in France, Germany and UK, higher volume of flow-through business and new business wins in growth markets. The calendar year loss ratio deteriorated to 91.2 % (54.7 %) due to severe large losses. The combined ratio increased to 118.3 % (85.9 %).

Gross premium written in Allianz Risk Transfer (LoB ART) amounted to € 685.0 (675.9) million. The 1.3 % increase is driven by positive development in the Corporate and Reinsurance Solutions portfolio, triggered by new business. Insurance Linked Market premiums remained relatively stable. The calendar year loss ratio of 69.9 % was above last year (54.9 %) due to higher IBNRs in some Corporate and Reinsurance Solutions deals. The combined ratio increased to 60.3 % (44.6 %).

# Supervisory Board

**Clement Booth**
Member of the Board of Management
Allianz SE
Chairman
until December 31, 2014

**Dr. Axel Theis**
Member of the Board of Management
Allianz SE
Chairman
since January 1, 2015

**Dr. Helga Jung**
Member of the Board of Management
Allianz SE
Deputy Chairman

**Robert Franssen**
Chairman of the Board of Management,
Allianz Belgium

**Dr. Hermann Jörissen**
Former member of the Board of Management
AGCS AG

**Caroline Krief**
Lawyer
Employee representative

**Bernadette Ziegler**
Personnel Officer
Employee representative

# Board of Management

**Dr. Axel Theis**
CEO
Chairman
until December 31, 2014

**Chris Fischer Hirs**
CFO
until December 31, 2014
CEO
Chairman
since January 1, 2015

**Andreas Berger**
CRMO – Region 1

**Sinéad Browne**
COO

**Nina Klingspor**
CFO
since January 1, 2015

**Alexander Mack**
CCO
since April 1, 2014

**Hartmut Mai**
CUO Corporate

**Arthur Moossmann**
CRMO – Region 2

**William Scaldaferri**
CUO Specialty & ART

**Carsten Scheffel**
CRMO – Region 3
since January 1, 2015

# General Managers

**Branch Office United Kingdom**

**Carsten Scheffel**
Chief Executive

**Branch Office France**

**Thierry van Santen**
Chief Executive

**Branch Office Austria**

**Ole Ohlmeyer**
Chief Executive
since January 1, 2014

**Branch Office Nordic Region**

**Stig Jensen**
Chief Executive

**Branch Office Sweden**

**Stig Jensen**
Chief Executive

**Branch Office Italy**

**Giorgio Bidoli**
Chief Executive

**Branch Office Belgium**

**Eric Pani**
Chief Executive
until January 12, 2014

**Patrick Thiels**
Chief Executive
since April 10, 2014

**Branch Office Spain**

**Agustin Martin Martin**
Chief Executive
until December 31, 2014

**Juan Manuel Negro**
Chief Executive
since January 1, 2015

**Branch Office Netherlands**

**Arthur van Essen**
Chief Executive

**Singapore Branch Office**

**Alexander Ankel**
Chief Executive
until September 30, 2014

**Mark Mitchell**
Chief Executive
since October 1, 2014

**Hong Kong Branch Office**

**Mark Mitchell**
Chief Executive
until October 31, 2014

**Chi Feng**
Chief Executive
since November 1, 2014

# Report of the Supervisory Board

We continuously monitored the Board of Management's conduct of business on the basis of regular reports and we informed ourselves about the state of affairs in several meetings. We have examined the Annual Financial Statements and the Management Report and we concur with the findings of KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, which issued an unqualified auditor's certificate for the Annual Financial Statements for fiscal 2014 and the Management Report presented to it. In its meeting on May 4, 2015, the Supervisory Board approved the Annual Financial Statements prepared by the Board of Management, which are hereby confirmed.

Effective April 1, 2014, the Supervisory Board appointed Mr. Alexander Mack to the Board of Management. Mr. Mack is responsible for Claims. Effective January 1, 2015, the Supervisory Board appointed Mrs. Nina Klingspor and Mr. Carsten Scheffel to the Board of Management. Mrs. Klingspor is responsible for Finance and Mr. Scheffel is responsible for Regions & Markets – Region 3 (London, Nordic Region & CEE, South America)

Effective December 31, 2014, Dr. Axel Theis stepped down from his mandate as a member of the Board of Management with the consent of the Supervisory Board since Mr. Theis was appointed to the Board of Management of Allianz SE. The Supervisory Board appointed Mr. Fischer Hirs as new Chairman of the Board of Management, effective January 1, 2015.

We thanked Dr. Theis for his work as Chairman of the Board of Management.

Effective December 31, 2014, Mr. Clement Booth stepped down from his mandate as Chairman of the Supervisory Board since Mr. Booth went into retirement. Effective January 1, 2015, the Annual General Meeting of Allianz Global Corporate & Specialty SE appointed Dr. Theis to the company's Supervisory Board. The members of the Supervisory Board then appointed Dr. Theis as its Chairman.

Based on the results of his examination, the responsible actuary granted unqualified actuarial certification as provided for by section 11 e in conjunction with section 11 a 3 (2) of the German Insurance Supervision Law (VAG).

Munich, May 4, 2015

For the Supervisory Board:

Theis

**Dr. Axel Theis**
Chairman

# Management report

The strength of the business model of Allianz Global Corporate & Specialty SE, which is the worldwide underwriting of international industrial insurance as well as aviation and marine risk, was proven once again in 2014. In a continuing difficult market context the company succeeded in ending the year with a high two-digit million profit.

Gross premiums written as well as net premiums earned were substantially higher than the previous year. At the same time, claims expenses increased because of the growing business volume. While we registered a strong increase of major losses, few losses from natural catastrophes were incurred and the run-off developed very positively. The group-internal aviation reinsurance contract concluded the previous year was terminated in the reporting year.

Investment income substantially increased, which is mainly due to currency-related appreciation, following depreciation in the previous year. While re-investment interest marked a historic low, dividend distributions from our participations were down only slightly. Our investments continue to have high valuation reserves.

The profit transferred by Allianz Global Corporate & Specialty SE to Allianz SE amounted to € 76 million and was thus substantially lower than last year's record result, which was impacted by positive special effects. Since the founding of the company in 2006, a total of over € 2.2 billion has been transferred to Allianz SE.

## Development overview

The business of Allianz Global Corporate & Specialty SE includes the national and International Corporate Business, as well as the specialty insurance lines Marine, Aviation and Energy, in both the direct and the indirect insurance business. The bundling of our activities and the diversification of insurance risks enable us to continually strengthen our offer of insurance solutions for specific needs as well as our comprehensive service. In a market context characterized by competitive pressures, the company steadfastly pursued its risk-adequate and selective underwriting and reinsurance policy. In the past year, the company continued to invest in the global harmonization and optimization of business processes in all business units

It should be noted that our sales figures and underwriting results are impacted by currency effects stemming primarily from the US Dollar and the British Pound, which are not commented individually.

Premium income in the reporting year rose by € 230.1 million and reached a total of € 3.59 (3.36) billion. In Germany, premium income increased by € 68.9 million to € 1.58 (1.51) billion. The increase was essentially recorded in the indirect business (€ 67.6 million).

In the branch offices, premium income rose by a total of € 161.2 million from € 1.85 billion in the previous year to € 2.01 billion in the reporting year. All branch offices were able to report premium growth in the reporting year. The UK branch office posted an increase by € 73.5 million to € 707.3 (633.8) million, the Spanish branch office an increase by € 32,8 million to € 153.1 (120.2) million, the Singapore branch office an increase by € 18,4 million to € 128,3 (109,9) million, the Danish branch office an increase by € 10,9 million to € 66,5 (55,6) million and the Hong Kong branch office an increase by € 10,8 million to € 68,9 (58,1) million. Premium income was slightly above the prior year level in France with € 553.3 (549.1) million, in the Netherlands with € 89.3 (86.8) million, in Austria with € 28.8 (27.9) million, in Belgium with € 95.6 (94.8) million and in Italy with € 116.1 (116.0) million. The Swedish branch office, which was opened in the second half of the previous year, generated premium income of € 6.5 (0.2) million.

Gross premiums written increased by € 228.2 million to € 3.53 (3.30) billion. Reinsurance cessions rose slightly to € 1.46 (1.44) billion, due in part to the general increase of facultative reinsurance cessions as a result of gross premium growth, which was to some extent compensated by the termination of a group internal proportional reinsurance contract in the aviation business. Net premiums earned of € 2.07 (1.86) billion thus exceeded the prior year figure by € 208.4 million.

Claims expenses due to natural catastrophes in the reporting year decreased by € 27.7 million from the prior year to € 66.8 (94.5) million gross. At the same time, claims expenses due to major losses increased substantially by € 427.0 million to € 606.5 million gross.

As a result, the gross loss ratio increased from 62.9 percent in the previous year to 72.6 percent in the reporting year. The positive run-off of prior-year claims was more favorable than in the previous year and increased by € 229.6 million to € 526.6 (297.0) million. Overall, gross claims expenses for insurance losses increased by € 256.6 million from the previous year to a total of € 2.04 (1.78) billion. With respect to the overall portfolio, the gross loss ratio thus increased by 3.8 percent from 53.9 percent in the previous year to 57.7 percent in the reporting year.

Gross expenditures for the insurance business rose by € 55.5 million to € 763.4 (707.9) million, corresponding to premium growth. The gross cost ratio remained at the prior year level of 21.7 (21.6) percent. Of the expenditures for the insurance business, € 705.1 (664.1) million are attributable to closing expenses and € 58.3 (43.8) million to administrative expenses.

The claims equalization and similar reserves, which by law must be recognized in the balance sheet, required allocations of € 116.1 million, compared to withdrawals of € 23.8 million in the prior year. In the reporting year, the active reinsurance in Marine XL treaty business, which had been in run-off since the complete termination of our underwriting activities in this line in 2005, was sold to a group-external reinsurer following approval by BaFin and the corresponding claims history was no longer taken into account in calculating the claims equalization reserve. This resulted in a significant reduction of the amount of the equalization reserve and a withdrawal in the amount of € 33.7 million in marine reinsurance assumed.

Overall, this led to an underwriting result for own account of € +114.4 (+209.8) million

Due to the international orientation of our business segment, direct insurance and reinsurance business assumed must be considered together to be able to evaluate their development. While gross premium income in the direct insurance business increased slightly in the reporting year by € 33.9 million from € 1.96 billion to € 1.99 billion, premiums in the indirect insurance business rose by € 196.3 million from € 1.40 billion to € 1.60 billion. The increase in the indirect business is in particular driven by the growth markets in Asia and Latin America, in which Allianz Global Corporate & Specialty SE has no branch offices but lets the business be pre-written by local Allianz companies and subsequently assumes it in reinsurance.

In direct insurance, the fiscal year's loss ratio rose to 77.3 (67.9) percent. Taking into account the run-off of prior-year losses of € +246.2 (+227.7) million, the gross loss ratio in the direct insurance business was 64.8 (56.1) percent. The fiscal year loss ratio in the indirect insurance business increased from 55.8 percent to 66.8 percent. The run-off of prior-year claims increased from € +69.3 million to € +280.4 million, thus reducing the gross loss ratio in the indirect business from 50.7 percent to 48.9 percent, despite the increase of the fiscal year loss ratio.

The following comments on the development of our business are based on gross sales figures, and the underwriting results are stated for own account.

## Direct insurance business

In Personal Accident Insurance premium income this year increased by € 0.4 million to € 11.8 (11.4) million. Claims expenses of € 5.0 (1.8) million were higher than in the previous year, which resulted in a gross loss ratio of 43.2 (15.3) percent. After an allocation to the equalization reserve of € 0.1 (allocation of 0.1) million, the underwriting profit of € 2.5 (5.7) million was below the prior-year level.

In Liability Insurance premium income in the reporting year grew by € 54.1 million to € 757.6 (703.5) million. Claims expenses increased by € 92.3 million to € 568.8 (476.5) million, which is due to both an increase of the fiscal year's losses and lower gains from the run-off of prior year losses of +€ 2.6 (+56.5) million. The loss ratio therefore rose to 76.2 (70.2) percent. After an allocation of € 2.2 (allocation of 9.9) million to the equalization reserve, an underwriting loss of € 3.2 (profit of 12.9) million was posted.

Premium income in the insurance branch groups Automotive Liability Insurance and Other Automotive Insurance Increased by € 0.9 million from the prior year to € 22.3 (21.4) million. As in the previous years, the Hong Kong branch office is the only branch office of Allianz Global Corporate & Specialty SE to write this type of insurance. Claims expenses declined from € 18.7 million to € 14.7 million, which resulted in a loss ratio of 64.2 (97.0) percent. The insurance branch groups reported a profit of € 0.9 (loss of 1.7) million in the reporting year.

Gross premium income in the insurance branch groups Fire Insurance and other Property Insurance decreased by € 10.6 million, resulting in a total premium volume of € 508.0 (518.6) million. Premium income in Fire Insurance decreased by € 17.7 million to € 206.8 (224.5) million. Gross claims expenses of € 50.1 (32.1) million exceeded the prior-year level and the loss ratio increased to 24.5 (14.3) percent. € 34.7 million were allocated to the equalization reserve (allocation of € 64.3 million in the previous year), resulting in an underwriting loss of € 16.4 (loss of 15.6) million. Premium income from Other Property Insurance was slightly higher than in the previous year and amounted to € 301.2 (294.1) million. Claims expenses decreased by € 73.2 million to € 117.4 (190.6) million and resulted in an improved loss ratio of 41.1 (66.5) percent. While the payout for losses in the reporting year increased slightly, the substantially better run-off of prior-year losses led to a reduction of the loss ratio. After an allocation to the equalization reserve of € 0.1 (allocation of 0.6) million, Other Property Insurance posted a profit of € 9.3 (loss of 17.7) million. Overall, the insurance branch group Fire Insurance and other Property Insurance ended the year with an underwriting loss of € 7.1 (loss of 33.3) million. The allocation to the equalization reserve amounted to € 34.8 (allocation of 64.9) million.

Premium income in Marine and Aviation Insurance decreased to € 577.5 (582.5) million in the reporting year. In Marine insurance, gross premium income decreased by € 16.2 million to € 324.3 (340.5) million. Due to lower claims expenses of € 192.3 (234.6) million, the gross loss ratio improved to 58.7 (68.9) percent. Overall, this insurance line reported an underwriting loss of € 23.6 (loss of 2.6) million after an allocation of € 29.1 (withdrawal of 0.0) million to the equalization reserve. Aviation Insurance recorded an increase in premium income by € 11.2 million to € 253.2 (242.0) million. Gross claims expenses increased by € 42.7 million to € 157.9 (115.2) million and the loss ratio increased by 16.9 percent to 60.9 (44.0) percent. After an allocation of € 7.4 (withdrawal of 30.1) million to the equalization reserve an underwriting profit of € 8.2

(profit of 46.4) million was posted. Overall, the insurance branch group's underwriting result came to a loss of € 15.4 (profit of 43.9) million after an allocation of € 36.5 million to the equalization reserve.

In the insurance branch Other Insurance, gross premium income decreased by € 5.9 million to € 111.3 (117.2) million. Gross claims expenses increased by € 143.2 million to € 164.4 (21.2) million, which was mainly due to a € 112.9 million increase in the fiscal year's claims expenses in business interruption insurance. Accordingly, the loss ratio increased to 150.4 (17.8) percent. After a withdrawal from the equalization reserve of € 4.9 (allocation of 0.7) million, the branch group posted an underwriting loss of € 61.3 (profit of 23.1) million.

## Reinsurance business assumed

Premium income in Personal Accident Insurance increased by € 1.0 million to € 9.8 (8.8) million. Claims expenses rose by € 1.1 million to € 3.6 (2.5) million. This insurance line ended the year with an underwriting profit of € 1.9 (profit of 2.7) million.

Gross premium income in Liability Insurance came to € 355.4 (327.1) million in the reporting year, which was € 28.3 million above the prior-year level. Gross claims expenses decreased by € 77.0 million to € 19.9 (96.9) million due to the better run-off of prior year losses, which brought down the total loss ratio to 5.8 (31.3) percent. € 74.1 (allocation of 11.3) million were allocated to the claims equalization reserve. An underwriting profit of € 87.9 (profit of 13.5) million was reported, higher than in the previous year.

Premium income in the insurance branch groups Automotive Liability Insurance and Other Automotive Insurance decreased by € 1.5 million from the prior year to € 0.2 (1.7) million. Due to higher claims expenses of € 3.6 (0.4) million, the equalization reserve of € 2.3 million constituted for the first time in the prior year, was completely dissolved again. The insurance branch groups ended the year with an underwriting loss of € 1.4 (loss of 0.7) million.

Gross premium income in the insurance branch groups Fire Insurance and other Property Insurance increased by € 137.0 million to € 727.4 (590.4) million. Premium income in Fire Insurance rose to € 365.0 (317.2) million. Gross claims expenses increased by € 56.5 million to 193.0 (136.5) million. Accordingly, the loss ratio rose to 55.1 (44.5) percent. After cessions for insurance business ceded and a withdrawal of € 4.3 (withdrawal of 12.7) million from the equalization reserve, an underwriting profit of € 34.9 (profit of 49.3) million was recorded. Premium income from Other Property Insurance increased to € 362.4 (273.2) million, which was in particular due to the growth of engineering insurance and extended coverage insurance in the UK branch office. Despite an increase in claims expenses by € 107.8 million to € 133.9 million, higher premium income resulted in a decrease of the loss ratio from 42.6 percent to 37.5 percent. After an allocation to the equalization reserve of € 3.8 (allocation of 0.1) million, the insurance line posted a profit of € 61.3 (profit of 26.8) million. Overall, the insurance branch group Fire Insurance and other Property Insurance ended the year with an underwriting profit of € 96.2 (profit of 76.1) million, after a withdrawal of € 0.5 (withdrawal of 12.5) million from the equalization reserve.

Premium income in Marine and Aviation Insurance amounted to € 383.1 (364.3) million. In Marine Insurance, gross premium income of € 188.0 (168.6) million exceeded the prior year level. Claims expenses fell to € 82.1 (159.5) million, which was essentially attributable to the better run-off of prior year losses. After a withdrawal of € 32.2 (allocation of € 19.6) million from the claims equalization reserve, an underwriting profit of € 55.9 (loss of 44.9) million was reported. In Aviation Insurance, gross premium income amounted to € 195.1 (195.7) million. Due to several major losses in the reporting year, gross claims expenses increased by € 62.5 million to € 188.7 (126.2) million, which resulted in an increase of the loss ratio to 94.8 (64.2) percent. After an allocation of € 8.3 (withdrawal of 90.0) million to the equalization reserve, an underwriting loss of € 6.7 (profit of € 77.5) million was posted. Overall, the insurance branch group reported an underwriting profit of € 53.2 (32.6) million after a withdrawal of € 23.9 million from the equalization reserve.

Gross premiums written in Other Insurance rose to € 121.5 (111.6) million in the reporting year. Due to an increase of claims expenses by € 80.8 million to

€ 139.7 (58.9) million, the loss ratio increased to 116.5 (53.0) percent. This increase is due to higher claims in business interruption insurance, which increased by € 113.3 million in the reporting year. Overall, the branch group closed the year with an underwriting loss of € 38.0 (profit of 35.2) million.

## Reinsurance business ceded

In the reporting year, the company once again ceded its insurance business in part to various Group companies and in part to external reinsurers. In keeping with the reinsurance strategy pursued in the previous years, non-proportional reinsurance contracts in the form of a global coverage program were concluded with a number of reinsurers. Reinsurance ceded covers maximum risks and natural disasters to a limited extent on a quota-share basis and selectively in most insurance lines. In the previous year, the company had concluded two proportional reinsurance contracts, one of which was not renewed in the reporting year.

The largest part of the business ceded to other Group companies is assumed by Allianz Risk Transfer AG, Zurich, while Swiss Re AG in Zurich is the company's leading external reinsurer. Premiums ceded to reinsurers increased by a total of € 29.5 million to € 1.47 (1.44) billion. This is essentially due to higher facultative reinsurance cessions, which increased by € 108.0 million to € 929.6 (821.6) million, while the total of reinsurance contacts ceded declined, which in turn is essentially due to the termination of the contract for aviation insurance mentioned above. With respect to premiums written, the retention ratio increased from 57 percent to 59 percent. Passive reinsurance posted a result of € 496.2 (621.6) million from the perspective of the reinsurers. This decline was due to higher claims expenses of the reinsurers in the reporting year.

## Supplementary information to the Management Report

The various insurance lines and types offered are presented in detail on page 50.

## Investment strategy

Allianz Global Corporate & Specialty SE continued its safety-oriented investment strategy in 2014. Our objective is to generate as high a return as possible while limiting our risk. By spreading our investments over many different investment segments and currencies, we were able cushion the effects of historically low interest rates this year as well.

Due to our financial obligations from the insurance business, the by far greatest part of our portfolio is invested in fixed-interest securities. The average maturity of the fixed-interest investments increased slightly in the course of the reporting year.

Our fixed-income investments continue to be concentrated on mortgage bonds and international government bonds as well as bonds from sub-sovereign issuers. For mortgage bonds, we focus on German mortgage bonds as well as mortgage bonds from other Euro zone issuers. Mortgage bonds are backed by valuable securities such as communal loans or senior mortgage loans, which makes them highly secure investments. A large part of the government bonds as well as bonds from sub-sovereign issuers are concentrated on the Euro zone core countries.

To ensure an attractive return on its investment portfolio over the log-term, the company continues to adhere to a broad diversification of its portfolio. At the end of the year, the share of corporate bonds in the overall portfolio was 24.8 percent (based on market values). 5.3 percent were invested in bonds from emerging countries. In addition, 5.6 percent of the portfolio was invested in government bonds in Singapore and Hong Kong to cover liabilities of the local branch offices. Our new investments in the area of direct loans amounted to € 16.5 million. € 230 million net were invested in shares through investment funds, putting the emphasis on regional diversification. Real estate investments amounted to € 31 million net. At the end of fiscal 2014, the share of stocks in our portfolio was 9.0 percent (based on market value). All stock investments are hedged with put options for an average 81 percent of current market values.

We assess the risk situation with respect to our capital base as well as the coverage of our financial obligations with qualified investments from two perspectives: external and regulatory requirements on the one hand and internal risk capital requirements on the other. For both areas we use stress test models as well as an early warning system and a risk capital model. These tests are performed on an ongoing basis and our investments passed all of them without exception in the reporting year.

The percentage of investments held in foreign currencies as matching cover for underwriting liabilities came to 89.9 percent in US Dollar and to 84.7 percent in British Pounds. Investments in Singapore dollars were increased slightly. In the course of the year, the value of all major currencies increased with respect to the euro.

## Investments

The book value of the investments of Allianz Global Corporate & Specialty SE remained nearly unchanged at € 7,350.7 (7,360.1) million in the reporting year.

Investments in associated enterprises and participations rose to € 496.1 (463.7) million.

The book value of directly held real estate increased to € 78.7 (57.1) million.

The book value of shares, investment certificates and other variable-income securities amounted to € 3,207.0 (3,051.2) million at the end of the year. The increase is in particular due to new investments in stocks.

The book value of bearer bonds decreased slightly to € 2.416.7 (2,463.1) million; other loans also decreased slightly to € 981.6 (1,145.7) million.

Bank deposits fell slightly to € 51.4 (54.9) million in the course of the year, while funds held by others amounted to € 119.1 (124.3) million at the end of the year.

## Investment income

Current income from investments was down from the prior year and amounted to € 231.1 (260.3) million. The decline is essentially due to lower dividend distributions of the associated enterprises.

The disposal of investments produced income of € 65.5 (22.6) million and losses of € 2.6 (16.7) million. The gains were for the most part generated from the sale of bearer bonds and fixed-income investments.

Gains from write-ups in 2014 amounted to € 27.8 (0.1) million and were entirely attributable to foreign currency bearer bonds, which had to be depreciated in the previous years because of the strong euro. Due to the devaluation of the European currency, these depreciations were now revised.

Depreciation of investments in the reporting year amounted to € 5.3 (63.5) million, of which € 3.3 million were attributable to write-downs on associated enterprises and participations.

Investment management and interest expenses came to € 9.9 (11.3) million.

Due to the effects stated above, total investment income of € 306.8 (191.4) million was clearly above the prior-year figure.

Valuation reserves on investments increased to a total of € 1,463.0 (964.3) million. The valuation reserves include undisclosed assets of € 1,467.9 (967.8) million and undisclosed liabilities of € 4.9 (3.6) million. The valuation reserves on investments in associated enterprises and participations increased to € 538.0 (512.2) million. The reserves for directly held real estate amounted to € 3.3 (3.5) million. The valuation reserves on investment certificates increased to € 586.0 (273.8) million, those on bearer bonds to € 230.2 (99.5) million. For other loans, the valuation reserves amounted to € 105.5 (75.3) million.

The reserve ratio, i.e. the percentage of valuation reserves in relation to the book value of total investments, stood at 20.2 (13.1) percent at the end of the year.

### Other non-underwriting business

Other non-underwriting business produced a loss of € 191.6 (profit of 82.5) million, which was primarily due to currency exchange losses and the revaluation of the US Dollar and the British Pound with respect to the euro.

The overall result of the non-underwriting business thus amounted to € 115.2 (273.9) million.

### Extraordinary result

The extraordinary result includes the full recognition of all still outstanding instalments from the initial application of the German Accounting Law Modernization Act (BilMoG), which were recorded in 2014 as extraordinary expense of € 7.1 million.

### Overall result

Tax charges for the reporting year (including intra-group charges) came to € 146.5 (104.7) million.

The overall result after taxes was a profit of € 76.0 (541.8) million. Under the terms of the existing management control and transfer-of-profit agreement, this profit was transferred to Allianz SE.

### Corporate agreements

The sole shareholder of Allianz Global Corporate & Specialty SE is Allianz SE. Both companies are linked by a management control and transfer-of-profit agreement.

### Branch offices

Allianz Global Corporate & Specialty SE maintains branch offices in London (UK), Paris (France), Vienna (Austria), Copenhagen (Denmark), Milan (Italy), Antwerp (Belgium), Madrid (Spain), Rotterdam (Netherlands), Stockholm (Sweden), Singapore and Hong Kong (China).

## Outsourcing of functions

### Transfer of responsibilities

Accounting and collection functions are provided to the company by the CFO - Accounting units in Munich and Hamburg. The accounting functions of the foreign affiliates are in part handled locally and in part centrally in Munich or the branch offices in London, Paris and Antwerp. For the Italian branch office this service is provided by the local Allianz company.

### Investments and asset management

On the basis of group-internal service contracts, Investments and asset management are handled by Allianz Deutschland AG, Munich, Allianz Investment Management SE, Munich, and for partial areas by, among others, PIMCO Deutschland GmbH Munich, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/Main and Allianz Real Estate GmbH, Munich.

### Information Technology

Computing center services as well as printing and IT services are provided to Allianz Global Corporate & Specialty SE by Allianz Managed Operations & Services SE, Munich.

## Employees

Personnel management at Allianz Global Corporate & Specialty SE is strictly aligned with the strategic objectives of the Allianz Group.

Essential for us is a performance-oriented corporate culture based on fairness and trust. In this, the continuous development of our employees plays a central role.

Allianz Global Corporate & Specialty SE relies on management by objective and performance-based remuneration. By combining company objectives with individual annual objectives which are fixed in a personal interview by the employee with his/her supervisor at the beginning of the year, all employees and managers take direct responsibility for the contribution they make to the success of the company.

The continued education and professional development of our employees was at the center of our work. One example of our efforts to enhance the professional qualifications of our people is the Underwriting Academy, which was opened in 2014 and provides comprehensive practice-oriented training in this area. Among the strategic key areas of our HR efforts is Well Being, i.e. the creation of a working environment that promotes the work-life balance.

Even before the General Act on Equal Treatment came into force in Germany, Allianz Group – in its Code of Conduct and its worldwide HR Diversity Policy – decreed that nobody was to be discriminated against, particularly not for reasons of origin, religion, gender, disability, age or sexual orientation. Under the motto "Diversity of Minds", we promote diversity throughout Allianz Global Corporate & Specialty SE. In view of the high priority of this subject, Diversity Councils were created in the regions in 2014.

Another key area of our HR effort in 2014 was the continued implementation of the group-wide Allianz Grading System (AGS). The AGS accounts for the continuing globalization of Allianz Global Corporate & Specialty SE and ensures better comparability of positions across regions and thus enhanced employee mobility.

In addition, we worked on the continued optimization of essential HR processes. The strategic expansion of our recruiting activities and the continued focus on digital media also played an important role in 2014.

Allianz Global Corporate & Specialty SE continues to use the instrument of regular surveys of all employees and managers worldwide (Allianz Engagement Survey) to identify the need for optimization and define the corresponding measures.

At the end of 2014, Allianz Global Corporate & Specialty SE had a total of 2,448 in-house employees.

**Facts and figures**

| | | 12/31/2014 | 12/31/2013 |
|---|---|---|---|
| Employees [1] | | 2,448 | 2,415 |
| of which full-time staff | | 2,407 | 2,380 |
| of which other employees (temps and interns) | | 41 | 35 |
| | | | |
| Share of women | % | 47 | 46 |
| Share of men | % | 53 | 54 |
| | | | |
| Share of full-time staff | % | 86 | 86 |
| Share of part-time staff | % | 14 | 14 |
| | | | |
| Age (average in years) | | 42.7 | 42.5 |
| Time with the Group (average in years) | | 11.9 | 11.7 |

1 including dormant employee contracts

## Thanks to our employees

The Board of Management would like to take this opportunity to thank all employees for their extraordinary personal commitment in the past year. In addition, we thank those employees who are members of the employee representative bodies for their constructive and fruitful cooperation.

# Risk Report

Assuming and managing risk is part of the business model of Allianz Global Corporate & Specialty SE. Well-developed risk awareness and the weighing of chances and risks are therefore an integral part of our business processes. The key elements of our risk management are:

- A strong risk management culture, promoted by a solid risk organization and effective risk governance.

- Comprehensive risk capital calculations with the objective of protecting our capital base and supporting effective capital management.

- The integration of capital needs and risk considerations into the decision-making and management process.

This comprehensive approach makes sure that risks are adequately identified, analyzed and evaluated. Our risk propensity is described by a clear risk strategy and a system of limits. Strict risk control and the corresponding reports enable us to detect early on any possible deviations from our risk tolerance.

## Risk organization

The responsibility for risk management within the Board of Management lies with the Chief Financial Officer (CFO). The Chief Risk Officer, who is reporting to the CFO, monitors the risks assumed and regularly informs the Board of Management of Allianz Global Corporate & Specialty SE about risk-relevant developments, the current risk profile and capital adequacy. In addition, the Chief Risk Officer makes sure that appropriate measures are taken, for instance in cases where the reduction or avoidance of a risk position is required, and the CRO is responsible for the continued development of the risk management processes.

As an independent risk control function, the Risk Management Department systematically monitors identified risks by means of qualitative and quantitative risk analyses and evaluations and ensures the regular or – in case of need – spontaneous reporting of essential risks to the Board of Management and to Allianz SE.

Headed by the Chief Financial Officer, the Allianz Global Corporate & Specialty SE Risk Committee examines all relevant risks on a quarterly basis and agrees on measures for risk mitigation and the continued development of our risk management processes. The Chief Executive Officer, the Chief Financial Officer, the Chief Underwriting Officer Corporate, the Chief Underwriting Officer Specialty & Allianz Risk Transfer, the Chief Operating Officer as well as the Chief Claims Officer who are members of the Board of Management, are also members of the Allianz Global Corporate & Specialty SE Risk Committee, which ensures close cooperation and interaction between risk control and the Board as a whole. The Chief Risk Officer is a member of all of the company's key committees: the Finance Committee, the Loss Reserve Committee, the Underwriting Committee as well as the Reinsurance Committee.

The risk management of Allianz Global Corporate & Specialty SE is tied into the risk control system of Allianz SE. Its binding guidelines are the Group Risk Strategy and the Group Risk Policy set down by Allianz SE as well as additional directives for risk management and the modeling of internal risk capital requirements. The controlling body for the risk management of AGCS SE is the Group Risk unit of Allianz SE. Other internal and external control functions are vested in the Supervisory Board, Legal & Compliance, the Internal Audit and the Independent Auditors.

## Risk strategy and risk reporting

The risk strategy defines the core risks of Allianz Global Corporate & Specialty SE, the risk bearing capacity of the company as well as the risk tolerance of the Board of Management of Allianz Global Corporate & Specialty SE.

The quarterly risk report contains risk indicators with specified fixed threshold values and is used by management for the systematic control of the current risk profile. On the basis of this report the Risk Committee decides on the implementation of risk mitigation measures. After review by the Risk Committee, the risk report is circulated to the Board of Management, senior management and Allianz SE.

## Risk categories and control measures

In its circular 3/2009, the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) set mandatory minimum requirements for Risk Management in Insurance Undertakings (MA Risk [VA]). For grouping its risks, Allianz Global Corporate & Specialty SE uses internal categories which are comparable to those of Ma Risk (VA) guidelines. In particular, we monitor and control:

- Underwriting risk is subdivided into premium and reserve risk, i.e. the risk that insurance premiums will not be sufficient to cover future losses or that existing losses will result in run-off losses with respect to the loss reserves constituted. Premium risk is further subdivided into event losses, which concern more than one insured risk and may be caused, for example, by natural catastrophes, as well as risk due to other losses.

- Market risk: The risk of potential losses in the portfolio value of fixed-income investments or stocks as well as the foreign currency and interest risk. In this context we also monitor the liquidity risk in order to ensure our ability to meet our financial obligations whenever they become due.

- Credit risks (including country risks) such as the counterparty risk arising from the insolvency or liquidity shortages of reinsurers, policy holders, insurance brokers and security issuers, as well as reliability risks due to losses stemming from debtors' impaired creditworthiness.

- Operational risk: Risk that arises from inadequate or failed internal processes and controls. It may be caused by technology, employees, the organization or by external influences and legal risks.

Other, non-quantifiable risks are monitored by means of structured identification and evaluation processes. These risks are:

- Strategic risk: Risk resulting from strategic business decisions. This includes risks caused by business decisions that are not adapted to a changed economic environment.

- Reputational risk: The risk that arises from possible damage to an undertaking's reputation as a consequence of negative public perception.

Premium risks are controlled by means of underwriting guidelines, among others. These underwriting guidelines limit the insurance or liability amount per contract. To take into account the volatility of the different insurance lines, the underwriting guidelines vary as a function of the insurance line concerned. In addition, premiums are based on specially developed rates, which make use of current experience and actuarial methods.

In the risk model for premium risk we distinguish between event risks, which are further subdivided into natural catastrophes, terrorism, man-made catastrophes and other losses. In the case of natural catastrophes and terrorism, the internal model is based on probabilistic models and reflects the currently underwritten exposure of Allianz Global Corporate & Specialty SE. For man-made and other losses the model is bases on expected business volumes and proprietary loss models. It takes into account underwriting ceilings and the existing reinsurance protection.

Event losses, which can occur as part of the concentration risk, represent a special challenge for risk management. To control such risks and estimate their potential impact, we use special modeling techniques based on probability. These involve the correlation of information on our portfolios – for example the geographic risk distribution as well as the value and nature of the insured objects – with simulated natural disaster scenarios to estimate potential damages. The level of detail of the underlying data is being continually improved. For example, flood protection measures are incorporated into the models. With this approach, the possible effects and concentration of such events can be determined. Where such models do not exist, we use scenario-based deterministic approaches. We control our exposure to natural catastrophes by means of a global limit system, the visualization of accumulations and the control of possible damages. The insights gained this way are used to optimize our portfolios and, if possible, to limit the risks we underwrite or to calculate the capital efficiency of a risk transfer toward the reinsurance market.

Reserve risks concern the settlement of already existing claims. This includes both the settlement of claims already known as well as late claims not yet known. By means of actuarial models based on the claims history observed, which are also used to determine expected payouts, the degree of insecurity in the reserves estimate is determined.

Market risks The investments of Allianz Global Corporate & Specialty SE are centrally managed by the specialists of Allianz Investment Management SE (AIM SE). The investment strategy is aligned with the needs of the asset-liability management of Allianz Global Corporate & Specialty SE. The investment strategy is implemented by AIM SE within the framework of an investment risk and limit system established by Allianz Global Corporate & Specialty SE. This risk and limit system is adjusted annually and adopted by the Allianz Global Corporate & Specialty SE Risk Committee and the Finance Committee.

The efficient implementation of the investment strategy also involves the use of derivatives and structured products.

Our investments are broadly diversified according to type of investment (shareholdings, stocks, fixed-income securities), solvency and geographic location. A continuous risk analysis is performed by our investment management. Allianz Global Corporate & Specialty SE holds a well-diversified investment portfolio within clearly defined risk limits. In the course of the year, the stock portfolio was built up continually. At the end of the year, the share of stocks (based on market prices) amounted to 9.0 percent, taking into account hedging provisions. By means of various stress scenarios we regularly monitor the sensitivity of the portfolio with respect to market changes.

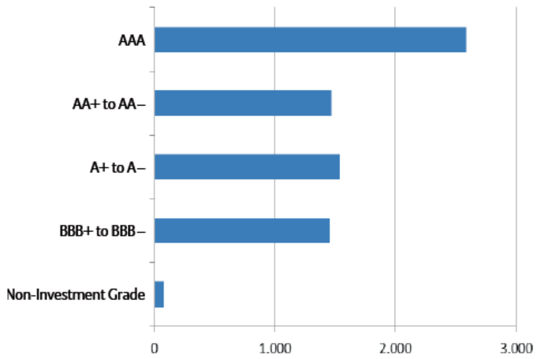
Market risks from derivatives are assessed and controlled by means of up-to-date value-at-risk calculations, stress tests and the setting of limits.

Due to the international orientation of the business of Allianz Global Corporate & Specialty SE, large parts of the reserves are constituted in foreign currencies. Overall, the currencies of the insurance reserves including unearned premiums amounts to approximately 38 percent. Our primary exposures are in USD (20 percent) and GBP (10 percent). Allianz Global Corporate & Specialty SE actively controls the currency risks resulting from this situation. This process takes into account all balance sheet items subject to currency conversion. This includes provisions as well as all receivables and liabilities and investments in foreign currencies. In addition to using foreign investments to hedge our currency exposure, we also use FX derivatives within precisely defined limits to obtain an effective and timely minimization of currency risks. Currency risks are controlled on the basis of monthly data.

In fiscal 2014, the current premium and investment income of Allianz Global Corporate & Specialty SE exceeded claims payouts and expenses. To be able to cope with possible liquidity risks that might arise nonetheless, a large part of our investments are in highly liquid government bonds, and our insurance commitments are to the greatest extent backed by funds with matching maturities. Constant surveillance is ensured through rolling wave planning of short-, medium- and long-term liquidities and by continuous liquidity and cash flow analyses.

Credit risks The issuers of our fixed-income investments are predominantly governments and banks. We have set limits with respect to minimum rating classes and in view of concentration risks. Of our total investments approximately 42 percent are fixed-income investments with banks; of these, about 77 percent are secured as German or other covered bonds, while 19 percent are investments with sub-sovereign issuers. Overall, the great majority of our fixed-income securities are issued in Germany or the euro zone.

**Fixed-income investments by rating class as of December 31, 2014, in € million, including fund holdings at fair value:**




Credit limits are centrally controlled by Allianz SE, and the compliance with them is monitored by Allianz Global Corporate & Specialty SE.

To cope with the continuing crisis of the financial markets which entails growing solvency risks, particularly for banks, additional risk management processes were implemented:

- Special surveillance of the exposure to financial service providers, particularly banks.

- Specific scenario calculations for the overall portfolio.

At the end of 2014, 1.4 percent (based on market value) of our investments were in Italian and 0.2 percent in Spanish government bonds. Our holdings in government bonds from Greece, Ireland and Portugal were already completely divested in 2010.

For the quantification of the credit risk resulting from reinsurance we use information on ceded reserves compiled Group-wide. To control the credit risk with respect to our reinsurance partners, we consider only companies that offer excellent collateral. At December 31, 2014, approximately one fifth of our reserves were ceded to reinsurers within the Allianz Group, and the rest to external reinsurers. The solvency of our reinsurance exposure is tested at least once a year; the most recent test was performed in June 2014 as of December 31, 2013. It showed that 71 percent of our reserves were ceded to reinsurers that had been assigned at least an "A" rating by Standard & Poor's. Setting aside captives and pools, which for the most part have no ratings of their own, 95 percent of the reserves were ceded to reinsurers with at least an A rating. Since pools have no ratings of their own, cessions are made only after a special investigation has determined that the participating reinsurers meet the Allianz-internal minimum requirements for reinsurance partners and explicit approval by a team of experts has been obtained. In addition, letters of credit, deposits and other financial measures to further minimize the credit risk may be requested.

At December 31, 2014, total third-party receivables with due dates exceeding 90 days amounted to € 223.4 million (not including write-offs for impairment). The average default rate for the past three years was 1 percent.

**Operational risks** refer to losses which arise because business processes, employees or systems are inappropriate and entail unfavorable developments, or because external events such as power failures or flooding cause a business interruption. Also considered in this respect are losses incurred through employee fraud as well as losses stemming from law suits.

We identify and evaluate possible operational risks by means of a scenario-based structured self-assessment. In addition, we analyze substantial operating losses incurred. If high losses are incurred, we analyze the causes with the objective of avoiding or at least reducing such losses in the future. The measures taken may involve a review of existing operating procedures, improving failed or insufficient controls, setting up comprehensive security systems and improving emergency plans.

Operational risks are controlled by a comprehensive system of internal security measures and checks as well as a multitude of technical and organizational measures. Among others, these include IT safety such as backup systems and firewalls, as well as internal control systems (for example the four-eye principle). The independent Internal Audit regularly examines our internal control processes. In particular, all processes that can have an impact on financial reporting are documented and examined. Possible risks are minimized by controls. The implementation and internal testing of the corresponding controls was applied to the entire fiscal year 2014.

We meet the requirements of our expanding business as an industrial insurer by continually integrating and upgrading our IT system landscape.

Limiting our **legal risks** is an essential task that is carried out by our legal department with the support of the other specialized departments. The objective is to ensure that laws are observed, to react appropriately to all impending legislative changes or new court rulings, attend to legal disputes and litigation, and provide legally suitable solutions for transactions and business processes. Other, non-quantifiable risks such as **strategic** and **reputational risks** are assessed and evaluated in qualitative terms as part of a Top Risk Assessment at least once a year. Special attention was given to risks arising from the current macro-economic situation in the European currency area. In addition to monitoring risks stemming from the present economic context we also made sure that strategic business decisions were effectively implemented.

**Reputational risks** are controlled by including all potentially concerned functions such as investments, underwriting, human resources, communication and the legal department. To avoid risks resulting from a possible damage to the company's reputation because of the negative public perception of our actions, certain critical decisions are subject to a rigorous review process that actively involves the communication department as well as risk management, if required.

## Risk and solvency assessment

Allianz Global Corporate & Specialty SE has made all necessary preparations for compliance with the future regulatory requirements according to Solvency II as of January 1, 2016. These requirements concern the governance system, the determination of available and required capital, but also the regulatory reporting and disclosure obligations. In particular, Allianz Global Corporate & Specialty SE already regularly undertakes an Own Risk and Solvency Assessment (FLAOR/ORSA) and reports the results to both the Board of Management and the BaFin. In addition, Allianz Global Corporate & Specialty SE as a company of the Allianz Group plans to submit an application for approval of the solvency capital requirement in accordance with the company's internal model.

## Risk bearing capacity

The solvency test in the fourth quarter of 2014 was passed with 255 percent. In addition, the stress tests required by the German Federal Financial Supervisory Authority were passed with a wide safety margin. Due to our systematic planning and implementation of the requirements of the European Solvency II Project we are also well prepared for future regulatory requirements. The actual risk situation, which – by means of stress tests – also tests the risk of future developments, thus remains largely within the company's risk bearing capacity.

In planning the future development of the company, Allianz Global Corporate & Specialty SE takes into account a three-year time horizon. The current planning for the time horizon 2015 to 2017, with a focus on 2015, is based on the assumption that our business results will continue their positive development.

# Outlook

In 2014, premium growth developed considerably more positively than forecast in the previous year. The increase of close to 7 percent significantly exceeded the 3 percent growth expected. The key driver of this development was the increase of new business in growth markets, particularly in Asia. But above all, growth in mature markets was greater than expected. This was to great extent driven by a higher volume in the Captive and Fronting business, including, among others, business for Allianz Risk Transfer AG, a subsidiary of Allianz Global Corporate & Specialty SE, as well as by growth initiatives, particularly in Financial Lines. In view of a market environment strained by rapidly expanding new competitors and additional capital pushing into the insurance market during the low-interest phase, we expect a further decline of rates across all markets and insurance lines in the coming year.

Therefore, and in view of the significant premium increase in 2014, Allianz Global Corporate & Specialty SE expects a moderate decline in premium income for the overall portfolio in 2015. But this does not affect the forecasts for the growth markets of Asia, Africa and the Russian Federation. However, these markets may be exposed to imponderable geopolitical risks. As before, any type of premium growth must be profitable growth.

In 2014, the combined ratio of close to 89 percent was considerably below the 97 percent forecast last year. This is primarily due to the positive development of reserves constituted for prior year losses.

A new proportional reinsurance agreement is effective as of January 1, 2015. This new quota share has an agreed cession rate of 100 % of the total net portfolio of Allianz Global Corporate & Specialty SE's head office Munich and of its business that is reinsured in Germany. Due to the commission payments stipulated in this agreement, we assume that the combined ratio will improve substantially. At the same time we expect Allianz Global Corporate & Specialty SE's loss ratio to increase significantly, because the very positive development of reserves for prior year losses observed in 2014 is not likely to reoccur in 2015. Overall, we are aiming for a combined ratio of approximately 95 percent for 2015, which would be about 2 percent lower than the 97 percent we had expected for 2015 in the previous year.

Compared to 2014 and with the exception mentioned above, the reinsurance structure will remain essentially unchanged in 2015. Favored by the strong competition in the reinsurance market, we were able to renew contracts for 2015 with the same reinsurance premiums; in some cases it was even possible to obtain lower premiums.

Allianz Global Corporate & Specialty SE is going to pursue its safety-oriented investment strategy. In this respect the company will continue to rely on the Allianz Group's wealth of experience with investments in Germany and other countries.

To reduce our dependence on capital market developments and to further diversify the investment portfolio of Allianz Global Corporate & Specialty SE, we are planning a further increase of our investments in infrastructure and renewable energies and to further expand direct credits and loans. We continue to consider real estate as an interesting investment class that offers risk-adjusted attractive return and a certain degree of protection against inflation.

The investment income plans of Allianz Global Corporate & Specialty SE are based on the assumption that the capital markets will be stable.

Safety-oriented investments in connection with the development of interest rates in the past years lead to a slight decline of interest income in the coming year. Last year's forecast in this area materialized to a great extent. The uncertainty about the further development of the capital markets can produce the corresponding negative but also positive effects on the investment income of Allianz Global Corporate & Specialty SE in the following year.

The proportional reinsurance contract with Allianz SE will lead to a significant dissolution of claims equalization reserves. We therefore assume that the profit transfer of Allianz Global Corporate & Specialty SE will be clearly higher in fiscal 2015.

The above statements are subject to the proviso that natural disasters, adverse developments in the capital markets or other factors may undermine the validity of our forecasts to a greater or lesser extent.

Munich, February 27, 2015

Allianz Global Corporate & Specialty SE
The Board of Management

Fischer Hirs — Berger

Browne — Klingspor

Mack — Mai

Moossmann — Scaldaferri

Scheffel

# Annual Financial Statements

# Balance sheet as of December 31, 2014

| | | 12/31/2014 € thou | 12/31/2014 € thou | 12/31/2014 € thou | 12/31/2013 € thou |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| A | Intangible assets | | | | |
| | Licenses acquired against payment, industrial property rights and similar rights and assets as well as licenses for such rights and assets | | | 62,993 | 46,082 |
| B | Investments | | | | |
| I | Real estate, real property and equivalent rights including buildings on land not owned by AGCS | | 78,708 | | 57,105 |
| II | Investments in affiliated and associated enterprises | | 496,056 | | 463,734 |
| III | Other investments | | 6,656,727 | | 6,714,937 |
| IV | Funds held by others under reinsurance business assumed | | 119,179 | | 124,329 |
| | | | | 7,350,670 | 7,360,105 |
| C | Receivables | | | | |
| I | Accounts receivable from direct insurance business | | | | |
| | 1 Policy holders | 58,972 | | | 44,581 |
| | 2 Insurance brokers | 443,841 | | | 391,180 |
| | including from affiliated enterprises: € thou 2,528 (653) | | | | |
| | | | 502,813 | | 435,761 |
| II | Accounts receivable on reinsurance business | | 490,432 | | 492,086 |
| | including from affiliated enterprises: € thou 175,614 (137,504) | | | | |
| III | Other receivables | | 235,362 | | 249,458 |
| | including taxes of: € thou 43,282 (27,844) | | | | |
| | including from affiliated enterprises: € thou 33,249 (50,691) | | | | |
| | | | | 1,228,607 | 1,177,305 |
| D | Other assets | | | | |
| I | Cash with banks, checks and cash on hand | | 165,332 | | 74,831 |
| II | Miscellaneous assets | | 65,849 | | 66,025 |
| | | | | 231,181 | 140,856 |
| E | Deferred income and prepaid expenses | | | | |
| I | Accrued interest and rent | | 53,410 | | 65,552 |
| II | Other prepaid expenses and deferred income | | 1,902 | | – |
| | | | | 55,312 | 65,552 |
| F | Excess of plan assets over pension liabilities/pension provisions | | | 3,144 | 419 |
| Total assets | | | | 8,931,907 | 8,790,319 |

| | | 12/31/2014 € thou | 12/31/2014 € thou | 12/31/2014 € thou | 12/31/2013 € thou |
|---|---|---|---|---|---|
| Equity and liabilities | | | | | |
| A | Shareholders' equity | | | | |
| I | Capital stock | | 36,740 | | 36,740 |
| II | Additional paid-in capital | | 1,099,141 | | 1,099,141 |
| III | Appropriated retained earnings | | | | |
| | other retained earnings | | 8,355 | | 8,355 |
| | | | | 1,144,236 | 1,144,236 |
| B | Insurance reserves | | | | |
| I | Unearned premiums | | | | |
| | 1 Gross | 1,128,828 | | | 999,682 |
| | 2 Less: amounts ceded | 384,430 | | | 339,539 |
| | | | 744,398 | | 660,143 |
| II | Reserve for loss and loss adjustment expenses | | | | |
| | 1 Gross | 7,306,756 | | | 6,812,333 |
| | 2 Less: share in reinsured insurance business | 2,431,622 | | | 2,428,955 |
| | | | 4,875,134 | | 4,383,378 |
| III | Claims equalization reserve and similar reserves | | 1,116,060 | | 999,977 |
| IV | Other insurance reserves | | | | |
| | 1 Gross | 35,412 | | | 36,264 |
| | 2 Less: share in reinsured insurance business | 3,099 | | | 4,257 |
| | | | 32,313 | | 32,007 |
| | | | | 6,767,905 | 6,075,505 |
| C | Other accrued liabilities | | | 175,967 | 166,248 |
| D | Funds held under reinsurance business ceded | | | 39,339 | 280,094 |
| E | Other liabilities | | | | |
| I | Accounts payable on direct insurance business to: | | | | |
| | 1 Policy holders | 5,499 | | | 3,560 |
| | including residual term of up to one year: € thou 5,499 (3,560) | | | | |
| | 2 Agents | 66,322 | | | 50,247 |
| | including to affiliated enterprises: € thou 12,427 (9,338) | | | | |
| | including residual term of up to one year: € thou 66,322 (50,247) | | | | |
| | | | 71,821 | | 53,807 |
| II | Accounts payable on reinsurance business | | 332,280 | | 253,889 |
| | including to affiliated enterprises: € thou 52,592 (65,272) | | | | |
| | including residual term of up to one year: € thou 332,280 (253,889) | | | | |
| III | Miscellaneous liabilities | | 379,989 | | 792,300 |
| | including from taxes: € thou 32,191 (61,858) | | | | |
| | including to affiliated enterprises: € thou 159,121 (606,328) | | | | |
| | including residual term of up to one year: € thou 379,989 (792,300) | | | | |
| | | | | 784,090 | 1,099,996 |
| F | Deferred income | | | 20,370 | 24,240 |
| Total equity and liability | | | | 8,931,907 | 8,790,319 |

I herewith confirm that the cover provisions stated in the balance sheet under item B. II of equity and liabilities have been calculated in compliance with sections 341f and 341g HGB as well as the statutory orders issued on the basis of section 65 1 VAG [Law on the Supervision of Insurance Companies].

Munich, January 27, 2015

**Klaus-Peter Mangold**
The Responsible Actuary

# Income statement
# For the period from January 1 to December 31, 2014

| | | | 2014 € thou | 2014 € thou | 2014 € thou | 2013 € thou |
|---|---|---|---|---|---|---|
| I | Technical account | | | | | |
| | | | | | | |
| 1 | Premiums earned - net | | | | | |
| | a | Gross premiums written | 3,588,639 | | | 3,358,509 |
| | b | Premiums ceded | – 1,471 ,993 | | | – 1,442,491 |
| | | | | 2,116,646 | | 1,916,018 |
| | c | Change in unearned premiums - gross | – 60,510 | | | – 58,590 |
| | d | Change in unearned premiums ceded - gross | 15,378 | | | 5,719 |
| | | | | – 45,132 | | – 52,871 |
| | | | | | 2,071,514 | 1,863,147 |
| | | | | | | |
| 2 | Allocated interest return - net | | | | 1 | – |
| | | | | | | |
| 3 | Other underwriting income - net | | | | – | 1,180 |
| 4 | Loss and loss adjustment expenses - net | | | | | |
| | a | Claims paid | | | | |
| | | aa Gross | – 1,864,807 | | | – 1,820,423 |
| | | bb Amounts ceded in reinsurance | 943,485 | | | 457,269 |
| | | | | – 921,322 | | – 1,363,154 |
| | b | Change in reserves for loss and loss adjustment expenses | | | | |
| | | aa Gross | – 171,064 | | | 41,188 |
| | | bb Amounts ceded in reinsurance | – 131,508 | | | 194,178 |
| | | | | – 302,572 | | 235,366 |
| | | | | | – 1,223,894 | – 1,127,788 |
| | | | | | | |
| 5 | Change in other insurance reserves - net | | | | 1,032 | – 1,048 |
| | | | | | | |
| 6 | Underwriting expenses -net | | | | – 615,367 | – 544,433 |
| | | | | | | |
| 7 | Other underwriting expenses - net | | | | – 2,807 | – 4,962 |
| | | | | | | |
| 8 | Subtotal | | | | 230,479 | 186,096 |
| | | | | | | |
| 9 | Change in claims equalization and similar reserves | | | | – 116,083 | 23,751 |
| | | | | | | |
| 10 | Net technical result | | | | 114,396 | 209,847 |

| | | 2014 € thou | 2014 € thou | 2013 € thou |
|---|---|---|---|---|
| II | Non-technical account | | | |
| | | | | |
| 1 | Investment income | 324,469 | | 283,014 |
| 2 | Investment expenses | – 17,714 | | – 91,632 |
| | | | 306,755 | 191,382 |
| | | | | |
| 3 | Allocated interest return | – 13 | | – 14 |
| | | | 306,742 | 191,368 |
| | | | | |
| 4 | Other income | 81,167 | | 204,070 |
| 5 | Other expenses | – 272 ,730 | | – 121,517 |
| | | | – 191,563 | 82,553 |
| | | | | |
| 6 | Non-technical result | | 115,179 | 273,921 |
| | | | | |
| 7 | Earnings from ordinary activities before taxes | | 229,575 | 483,768 |
| | | | | |
| 8 | Extraordinary income | – | | 163,383 |
| 9 | Extraordinary expenses | – 7,059 | | – 647 |
| 10 | Extraordinary result | | – 7,059 | 162,736 |
| | | | | |
| 11 | Income taxes, including amounts charged to other group companies: € thou 85,111 (61,756) | – 145,674 | | – 103,092 |
| 12 | Other taxes | – 840 | | – 1,568 |
| | | | – 146,514 | – 104,660 |
| | | | 76,002 | 541,844 |
| | | | | |
| 13 | Profits transferred because of a profit pool, a transfer-of-profit or transfer-of-partial profit agreement | | – 76,002 | – 541,844 |
| | | | | |
| 14 | Net income | | – | – |

# Notes to the Financial Statements

## Applicable legal regulations

The company's Financial Statements and the Management Report are prepared in accordance with the regulations contained in the German Commercial Code (HGB), taking into account the Corporation Law (AktG), the Law on the Supervision of Insurance Enterprises (VAG), and the Government Order on the External Accounting Requirements of Insurance Enterprises (RechVersV).

The amounts in the financial statements are stated in Euro thousand (€ thou).

## Accounting, valuation and calculation methods

### Intangible assets

These are recorded at their acquisition cost less tax-allowable depreciation.

### Real estate, real property and equivalent rights including buildings on land not owned by AGCS

These items are recorded at cost less accumulated scheduled and unscheduled depreciation. Scheduled depreciation is measured according to ordinary useful life. In case of probable permanent impairment, the values of these items are adjusted through unscheduled write-downs.

### Shares in affiliated enterprises, loans to affiliated enterprises, participations

These are valued according to the moderate lower-value principle and carried at amortized cost or a lower long-term fair value.

Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

### Other investments

**Stocks, interests in funds, debt securities, and other fixed and variable income securities**
Securities held as current assets according to section 341b HGB in conjunction with section 253 (1), (4) and (5) HGB are valued in accordance with the strict lower-value principle and carried at average cost of acquisition or the lower market value.

Investments recognized in accordance with the rules applicable to fixed assets are intended to serve the business on a permanent basis. Their purpose is attributed at the time the investment is added. The attribution is reviewed when changes in the investment strategy are made or a divestment is considered. These securities are valued in accordance with the moderate lower-value principle and reported at average acquisition costs or a lower long-term fair value. Permanent impairments are recognized in the Income Statement. For impairments deemed to be temporary there is a choice with respect to their amortization. As in the previous fiscal year, AGCS in the reporting opted to not recognize temporary impairments for economic reasons. This results in undisclosed liabilities.

**Registered bonds, debentures and loans**
These are valued according to the moderate lower-value principle and carried at amortized cost.

For registered bonds, debentures and loans the difference between acquisition cost and redemption amount is amortized over the remaining period based on the effective interest method.

Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

### Bank deposits

These are recorded at face value.

### Requirement to reinstate original values and write-ups

The requirement to reinstate original values applies to assets that were written down to a lower market value in past years. If their value at the balance sheet date is higher than the book value, they must be written up again. The write-up is made either up to amortized cost or to a lower long-term or market value.

## Funds held by others under reinsurance business assumed

In accordance with section 341c HGB these items are recorded at face value

## Receivables and other assets

These include the following:

a) accounts receivable on direct insurance business
b) accounts receivable on reinsurance business
c) other receivables
d) cash with banks, checks and cash on hand
e) other assets

These are recorded at face value less repayments.

For accounts receivable from direct insurance business, general loss allowances are made to account for the credit risk.

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

## Plan assets

Securities to meet liabilities resulting from retirement provision commitments are valued at fair value in accordance with section 253 (1) HGB and offset against the liabilities in accordance with section 246 (2) HGB.

## Deferred tax assets

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

## Insurance reserves

**Unearned premiums**
In the direct insurance business, unearned premiums are predominantly determined according to the daily calculation method. In engineering insurance, unearned premiums are accrued as a function of the risk experience for each contract. Payments to agents were deducted as non-transferable portions according to tax guidelines. Flat rates were applied to a limited extent.

For reinsurance business assumed, unearned premiums were determined on the basis of the information provided by the ceding insurers. The reinsurers' share deducted from the gross unearned premiums was calculated according to the same principles as the gross premiums, likewise with deduction of non-transferable portions.

In respect of quota charges with participation in the original costs, the proportional unearned premiums were accordingly deducted from the quota share of the reinsurer.

**Reserve for loss and loss adjustment expenses**
The gross reserve for direct insurance business consists of the following partial reserves:

Reserves for known insured losses (not including annuities) are generally determined individually on a per case basis according to the probable payout.

Aggregate policy reserves for annuities in the direct insurance business are calculated for each annuity on the basis of actuarial principles, taking into account mortality according to the DAV 2006 HUR mortality table.

For already incurred or caused but not yet reported losses, late claims reserves are set up on the basis of the experience from previous years.

For loss adjustment expenses to be expected in settling outstanding losses, reserves are constituted in accordance with section 341g (1, 2) HGB.

Receivables from recourse, salvages and apportionment agreements are recognized for the amounts to which they could be expected to be materialized.

For reinsurance business accepted the reserves are set up according to information provided by the ceding insurers.

For reinsurance ceded the reinsurers' shares of the reserves are calculated in accordance with the reinsurance contracts.

**Claims equalization reserve and reserves similar to the claims equalization reserve**

The claims equalization reserve and the reserves for nuclear, pharmaceutical and terrorist risks are calculated for the net retention portion according to section 341 h HGB in conjunction with sections 29 and 30 of the Government Order on the External Accounting Requirements of Insurance Enterprises (RechVersV).

For the equalization reserve in the "other insurance" line, Allianz Global Corporate & Specialty SE makes use of the possibility of a further sub-division according to the type of insurance.

**Other insurance reserves**

Direct insurance business:

**Reserve for cancellations**

The reserve for cancellations is determined on the basis of the previous years' experience.

**Reserve for anticipated losses**

The assessment is based on expected premium income as well as loss and cost developments for the respective line of business. The reserve is calculated taking into account proportional interest income from the underwriting reserves for the deductible portion only. The reserve is calculated for both the direct insurance business and for reinsurance assumed. It was not necessary to set up such a reserve during the reporting year.

**Reserve for contractual subsequent premium settlement**

This reserve is set up by way of precaution for possible return premiums, which only become due after the expiry of an observation period of a number of years.

## Other accrued liabilities

In principle, other accrued liabilities are stated in the required amounts payable on maturity.

Pension reserves are calculated on the basis of actuarial principles. The conversion expenses resulting from the first-time application of the Accounting Law Modernization Act (BilMoG) in 2010 can be distributed over a period of up to fifteen years. In the years up to and including fiscal 2013, the company made use of this distribution option and essentially recognized one fifteenth of this amount as an extraordinary expense. In fiscal 2014, all outstanding instalments were recognized in full as an extraordinary expense. This expense results from the retirement commitments, which are centrally recorded at Allianz SE (see section on "Contingent Liabilities"). The provisions for jubilee payments, phased-in early retirement and early retirement benefits are also calculated on the basis of actuarial principles and recognized as a liability in the full amount. With respect to the discount rate, the simplification option set out in section 253 (2, 2) HGB has been applied (remaining duration of fifteen years), but contrary to the prior year, an interest rate forecast as of the balance sheet was applied. This was done in view of the significant drop of the discount rate in fiscal 2014. The effect resulting from the change in the discount rate is reported under other non-technical result. Additional information on the accounting of company pension commitments and similar commitments is provided under "Supplementary information on Equity and Liabilities" and "Contingent Liabilities" below.

## Liabilities

These include the following:

a) funds held under reinsurance business ceded
b) liabilities from direct insurance business

c) accounts payable on reinsurance business
d) liabilities to banks
e) other liabilities

These liabilities are stated at the amounts payable on maturity.

## Approximation and simplification methods

To the extent that calculations from ceding insurers are not received in time for the fiscal year, the corresponding amounts are estimated on the basis of past experience, taking into account current developments.

## Currency translation

Transactions are generally recorded in the original currency and converted into Euro at the relevant daily rate (middle forex spot rate) on the day of the transaction.

Investments denominated in foreign currencies are valued at the middle forex spot rate at the balance sheet date. This is done by means of the acquisition cost principle. For fixed asset investments the moderate lower-value principle is used while for current asset investments the strict lower-value principle is used.

As a result of this valuation method, currency gains and losses are not separately determined and shown as foreign exchange gains/losses in the other non-technical result.

Instead, the net effect of both change of currency exchange rates and value in original currency is reflected in the impairments/reversals of impairments and realized gains/losses calculated for these asset classes and disclosed in the investment result.

All receivables and liabilities recorded in foreign currencies are valued with the middle forex spot rate at the balance sheet date. Exchange rate differences resulting from this valuation of foreign currency positions are recorded as income according to section 256a (1 and 2) HGB.

Provisions are valued at the settlement amount at the balance sheet date in accordance with section 253 (1 and 2) and section 341e (1) HGB and converted with the middle forex spot rate. Prepaid expenses and deferred income are converted with the middle forex spot rate.

The resulting exchange rate differences are recorded as income.

## Bar on dividend distribution

The amount barred from dividend distribution is determined according to section 268 (8) HGB and taken into account in the calculation of the profit to be transferred in accordance with section 301 AktG.

# Supplementary information on assets

## Change of assets A., B.I. through B.III in fiscal year 2014

| | | Balance sheet value 12/31/2013 € thou | % |
|---|---|---|---|
| A | Intangible assets | | |
| | Licenses acquired against payment, industrial property rightsand similar rights and assets as well as licenses for such rights and assets | 46,082 | – |
| | | | |
| B.I | Real estate, real property and equivalent rights includinging buildings on land not owned by AGSC | 57,105 | 0.8 |
| | | | |
| B.II | Investments in affiliated and associated enterprises | | |
| | 1 Shares in affiliated and associated enterprises | 371,094 | 5.1 |
| | 2 Loans to affiliated enterprises | 89,670 | 1.2 |
| | **Subtotal B.I** | 2,970 | – |
| | **Subtotal B.II** | **463,734** | **6.4** |
| | | | |
| B.III | Other investments | | |
| | 1 Stocks, investment fund units and other variable income securities | 3,051,181 | 42.2 |
| | 2 Bearer bonds an other fixed-income securities | 2,463,127 | 34.0 |
| | 3 Other loans | | |
| | a Registered bonds | 847,744 | 11.7 |
| | b Note loans and loans | 297,951 | 4.1 |
| | 4 Bank deposits | 54,934 | 0.8 |
| | **Subtotal B.III** | **6,714,937** | **92.8** |
| | **Subtotal B.I bis B.III** | **7,235,776** | **100.0** |
| | | | |
| Total | | **7,281,858** | |

## Intangible assets (Assets A.)

This balance sheet position essentially comprises the acquisition cost of the insurance portfolios acquired within the Group, less scheduled depreciation and capitalized own and third-party expenses for the system integration of purchased software.

## Investments in affiliated and associated enterprises (Assets B.II.)

Shares in affiliated and associated enterprises were composed as follows in fiscal 2014:

| | 12/31/2014 € thou | 12/312013 € thou |
|---|---|---|
| Shares in affiliated enterprises | | |
| Allianz Risk Transfer AG, Zürich | 186,242 | 186,242 |
| Allianz Fire and Marine Insurance Japan Ltd., Tokio | 37,381 | 37,381 |
| Sirius S.A., Luxemburg | 32,332 | 31,747 |
| Allianz Finance VIII S.A., Luxemburg | 24,264 | 22,147 |
| AGR Services Pte Ltd, Singapur | 22,000 | 22,000 |
| Infrastructure Lux HoldCo II, Luxemburg | 19,651 | – |
| Alida Grundstücksgesellschaft mbH & Co. KG, Hamburg | 17,398 | 17,965 |
| Allianz Insurance (Hong Kong) Ltd., Hongkong | 15,400 | 15,400 |
| Q 207 S.C.S., Luxemburg | 12,794 | 12,793 |
| SpaceCo, Paris | 7,486 | 10,770 |
| Others | 14,653 | 14,649 |
| **Subtotal** | **389,601** | **371,094** |
| | | |
| Loans to affiliated enterprises | | |
| Allianz SE, München | 64,000 | 64,000 |
| Allianz Finance VII S.A., Luxemburg | 29,651 | 25,670 |
| Allianz Fund Investments S.A., Luxemburg | 9,834 | – |
| **Subtotal** | **103,485** | **89,670** |
| | | |
| Participations | | |
| National Insurance Company Berhad, Brunei | 2,970 | 2,970 |
| **Subtotal** | **2,970** | **2,970** |
| | | |
| **Total investments in affiliated enterprises** | **496,056** | **463,734** |

| Additions | Disposals | Revaluation | Depreciation | Net change | Balance sheet value 12/31/2014 | |
|---|---|---|---|---|---|---|
| € thou | € thou | € thou | € thou | € thou | € thou | % |
| | | | | | | |
| 29,463 | | | 12,552 | 16,911 | 62,993 | |
| | | | | | | |
| 23,026 | 32 | | 1,391 | 21,603 | 78 708 | 1.1 |
| | | | | | | |
| | | | | | | |
| 33,499 | 11,708 | | 3,284 | 18,507 | 389,601 | 5.4 |
| 14,131 | 251 | | 65 | 13,815 | 103,485 | 1.4 |
| | | | | | 2,970 | |
| **47,630** | **11,959** | | **3,349** | **32,322** | **496,056** | **6.9** |
| | | | | | | |
| | | | | | | |
| 318,450 | 162,595 | | | 155,855 | 3,207,036 | 44.3 |
| 1,121,635 | 1,195,314 | 27,810 | 526 | – 46,395 | 2,416,732 | 33.4 |
| | | | | | | |
| 146,766 | 267,384 | | | – 120,618 | 727,126 | 10.1 |
| 40,755 | 84,267 | | | – 43,512 | 254,439 | 3.5 |
| | 3,540 | | | – 3,540 | 51,394 | 0.7 |
| **1,627,606** | **1,713,100** | **27,810** | **526** | **– 58,210** | **6,656,727** | **92.1** |
| **1,698,262** | **1,725,091** | **27,810** | **5,266** | **– 4,285** | **7,231,491** | **100.0** |
| | | | | | | |
| **1 ,727,725** | **1,725,091** | **27,810** | **17,818** | **12,626** | **7,294,484** | |

## Interests in investment funds in accordance with section 285 (26) HGB

| Name of fund | Investment goal | Redemption of fund shares | Balance sheet value 12/31/2014 € thou | Fair value 12/31/2014 € thou | Valuation reserve 12/31/2014 € thou | Dividend distribution fiscal € thou |
|---|---|---|---|---|---|---|
| Mixed funds | | | | | | |
| ALLIANZ GLR FONDS | Mixed funds | each trading day | 1,315,951 | 1,462,678 | 146,727 | 9,482 |
| Subtotal | | | 1,315,951 | 1,462,678 | 146,727 | 9,482 |
| | | | | | | |
| Bond funds | | | | | | |
| ALLIANZ GLU FONDS | Bond fund | each trading day | 536,707 | 614,640 | 77,933 | 4,838 |
| ALLIANZ GRGB FONDS | Bond fund | each trading day | 255,250 | 301,807 | 46,557 | 1,982 |
| ALLIANZ GLRS FONDS | Bond fund | each trading day | 1,098,687 | 1,413,425 | 314,738 | 12,862 |
| Subtotal | | | 1,890,644 | 2,329,872 | 439,228 | 19,682 |
| | | | | | | |
| Total | | | 3,206,595 | 3,792,550 | 585,955 | 29,164 |

## List of participations in accordance with section 285 (11) HGB

| Name and location | Interest in % | Equity in € thou | Net income in € thou |
|---|---|---|---|
| AGR Services Pte Ltd, Singapur[8] | 100.00 | 39,309 | – 7 |
| Allianz Finance VIII Luxembourg SA, Luxemburg | 20.00 | 110,639 | – 36 |
| Allianz Fire and Marine Insurance Japan Ltd., Tokyo[1, 6] | 100.00 | 15,218 | – 252 |
| Allianz Global Corporate & Specialty AG, Escritorio de Representacao no Brasil Ltda., Sao Paulo[9] | 99.99 | 7 | 6 |
| Allianz Global Corporate & Specialty do Brasil Participações Ltda., Rio de Janeiro[9] | 100.00 | 39,377 | – 7,676 |
| Allianz Global Corporate & Specialty of Africa (Proprietary) Ltd., Johannesburg[5, 11] | 100.00 | 7,141 | – 40 |
| Allianz Global Corporate & Specialty Resseguros Brasil S.A., Rio de Janeiro[9] | 100.00 | 36,418 | – 5,285 |
| Allianz Global Corporate & Specialty South Africa Ltd., Johannesburg[5] | 100.00 | 7,303 | – 41 |
| Allianz Insurance (Hong Kong) Ltd, Hong Kong[7] | 100.00 | 28,542 | 0 |
| Allianz Marine (UK) Ltd., London[2] | 100.00 | 12,038 | 59 |
| Allianz Risk Consultants B.V., Rotterdam | 100.00 | 135 | – 5 |
| Allianz Risk Consulting GmbH, Munich | 100.00 | 1,600 | 49 |
| Allianz Risk Transfer AG, Zurich[4] | 100.00 | 523,464 | 58,732 |
| Allianz Risk Transfer (Bermuda) Ltd., Bermuda[3] | 100.00 | 42,804 | 890 |
| Allianz Risk Transfer Inc., New York[3] | 100.00 | 69,905 | 3,594 |
| Allianz Risk Transfer N.V., Amsterdam | 100.00 | 31,244 | 190 |
| Allianz Risk Transfer (UK) Ltd., London[2] | 100.00 | 1,676 | – 22 |
| Allianz Services (UK) Ltd., London[2] | 100.00 | 18,410 | – 135 |
| Assurance France Aviation S.A., Paris | 99.88 | 2,987 | – 131 |
| Brunei National Insurance Company Berhad Ltd., Brunei[10] | 25.00 | 8,944 | 1,415 |
| EF Solutions LLC, New York[3] | 100.00 | – 8,298 | 1,651 |
| SpaceCo, Paris | 100.00 | 9,138 | 3,689 |

All figures from 2013
1 Fiscal year from April to March figures from March 2014
2 Converted from GBP to EUR closing rate 12/31/2014: 0.77605
3 Converted from USD to EUR closing rate 12/31/2014: 1.21005
4 Converted from CHF to EUR closing rate 12/31/2014: 1.20235
5 Converted from ZAR to EUR closing rate 12/31/2014: 13.99875
6 Converted from JPY to EUR closing rate 12/31/2014: 145.07895
7 Converted from HKD to EUR closing rate 12/31/2014: 9.38375
8 Converted from SGD to EUR closing rate 12/31/2014: 1.60345
9 Converted from BRL to EUR closing rate 12/31/2014: 3.21655
10 Converted from BND to EUR closing rate 12/31/2014: 1.60345
11 Formerly Allianz of South Africa (Proprietary) Limited, Johannesburg

## Fair value of investments

| | **Market value 12/31/2014** € thou | Market value 12/31/2013 € thou |
|---|---|---|
| **B.I Real estate, real property and equivalent rights including buildings on land not owned by AGCS** | 82,034 | 60,574 |
| | | |
| **B.II Investments in affiliated and associated enterprises** | | |
| 1 Shares in affliated and associated enterprises | 925,381 | 880,754 |
| 2 Loans to affliated and associated enterprises | 105,417 | 92,228 |
| 3 Participations | 3,223 | 2,970 |
| | | |
| **B.III Other investments** | | |
| 1 **Shares, investment fund units and other variable interest securities** | 3,793,061 | 3,325,029 |
| 2 Bearer bonds and other fixed-interest securities | 2,646,929 | 2,562,605 |
| 3 **Other loans** | | |
| a Registered bonds | 809,564 | 913,860 |
| b Promissory notes and loans | 277,464 | 307,088 |
| 4 Overnight and fixed-term funds | 51,394 | 54,934 |
| | | |
| **B.IV Funds held by others under reinsurance business assumed** | 119,179 | 124,329 |
| | | |
| Total investments | **8,813,646** | **8,324,371** |

**The following valuation methods were used to determine fair values:**
The fair value of land and buildings is valued at September 30 of the fiscal year, using the discounted cash flow method.

The fair value of shares in affiliated enterprises and participations are determined by different methods depending on the purpose and the size of the enterprise. Insurance companies and similar enterprises are valued by means of the German income approach or based on proportional equity. For asset holdings, the look-through principle is used to determine the fair value. In this method, those assets that are used to determine net assets are valued by different valuation methods such as the net-asset value method, stock values and the discounted cash-flow method. Individual shares in associated enterprises were carried at acquisition cost in the first year of investment. Non-essential companies are valued at book value.

The fair values of stocks, interests in investment funds and other variable-rate securities were determined on the basis of the stock exchange price quoted on the last trading day of the year, if available. For special funds, the value communicated by the investment company was used.

The fair values of exchange-listed fixed-term securities such as bearer bonds and other fixed-rate securities were determined on the basis of the stock exchange price quoted on the last trading day of the year, if available.

For non-quoted fixed-term investments (other loans) the fair value was determined on the basis of evaluations by independent pricing services or according to the discounted cash-flow method. For this, the effective interest rate was used.

For Asset Backed Securities (ABS) the market values are supplied by independent commercial banks. With the exception of a small number of cases, these were calculated with valuation models based on readily observable market data.

## Undisclosed liabilities

The fixed asset investments carried at acquisition cost less cumulated depreciation include undisclosed liabilities in the amount of € 4,920 thou. The book value amounts to € 57,032 thou, the fair value to € 52,112 thou. No write-down to fair value was made because an analysis according to standardized methods found that the long-term market value of the investments concerned exceeded their fair value.

## Miscellaneous assets (Assets D.II.)

This position mainly involves options on Allianz SE shares, which are used to hedge company risks in connection with Allianz Equity Incentives. The book value of the Allianz Long Call is valued at acquisition cost or at the lower fair value, according to section 253 (3) HGB.

## Excess of plan assets over pension liability/pension provisions (Assets F.)

Assets used to cover debt from pension liabilities or similar long-term liabilities and which are inaccessible to all other creditors must mandatorily be offset against the reserves for these obligations. If the fair value of these assets exceeds the value of the corresponding reserves, the excess must be recognized as "Excess of plan assets over pension liability/pension provisions" on the asset side of the balance sheet. This item amounts to € 3,144 (419) thou.

## Deferred tax assets

Based on the capitalization option of section 274 (1) sentence 2 HGB the surplus of deferred tax assets over deferred tax liabilities will not be recognized.

The main differences between accounting and tax-based valuation arise from the balance sheet items investments and reserve for loss and loss adjustment expenses, which result in deferred tax assets.

Deferred tax assets in Germany are valued with a tax rate of 31 percent and in other countries with the applicable local tax rate

## Bar on dividend distribution

The amount barred from dividend distribution according to section 268 (8) HGB in connection with section 301 AktG amounts to € 424 (359) thou and exclusively concerns the valuation of plan assets at fair value according to section 246 (2) HGB. The amount barred from dividend distribution is completely covered by unappropriated reserves and is thus transferred in full.

## Valuation units

Option rights and equity swaps acquired for hedging Allianz Equity Incentive plans are combined with the corresponding underlying transactions in valuation units if they are linked by a direct hedging relationship. The underlying transactions are recorded under other reserves while the hedging transactions are recorded under miscellaneous assets.

For the valuation units formed, a micro-hedge approach is used to completely exclude price fluctuation risks stemming from market price fluctuations.

The prospective and retrospective effectiveness of the valuation units for the equity-based remunerations plans which will expire at the latest in 2017 is determined by means of the critical term match method.

At the balance sheet date, the underlying transactions, which consist of benefits to be provided at a future date, amounted to a total of € 47,879 thou. Valuation units are accounted for by means of the "freezing" method.

### Nominal values and fair values of open derivatives positions

**Share option trades**

| Class | Number | Fair value<br>€ | Valuation method | Significant assumptions | Reported in item | Book value<br>€ |
|---|---|---|---|---|---|---|
| Allianz Long Call<br>117,38 €<br>March 2015<br>(Hedge-Sar 2008) | 82,823 | 1,596,827 | Binominal Model | Discount rate 0,0%<br>Volatility 28,6%<br>Dividend yield 0,0%<br>Share price 137,35 €<br>Cap 293,45 € | Assets D.II Miscellaneous Assets | 1,144,889 |
| Allianz Long Call<br>51,95 €<br>March 2016<br>(Hedge-Sar 2009) | 4,861 | 378,817 | Binominal Model | Discount rate – 0,1%<br>Volatility 38,4%<br>Dividend yield 5,1%<br>Share price 137,35 €<br>Cap 129,88 € | Assets D.II Miscellaneous Assets | 99,601 |
| Allianz Long Call<br>87,36 €<br>March 2017<br>(Hedge-Sar 2010) | 61,575 | 3,078,134 | Binominal Model | Discount rate – 0,1%<br>Volatility 23,4%<br>Dividend yield 5,1%<br>Share price 137,35 €<br>Cap 218,40 € | Assets D.II Miscellaneous Assets | 631,693 |

# Supplementary information on equity and liabilities

## Shareholders' equity (Equity and Liabilities A.I.)

At December 31, 2014, the issued capital of € 36,740 thou is divided into 36,740,661 fully-paid in registered shares.

These shares can be transferred only with the company's consent.

Allianz SE is the sole shareholder of Allianz Global Corporate & Specialty SE.

## Gross insurance reserves (included in Assets & Liabilities B)

**according to insurance branch groups, insurance branches and types of insurance**

| | Total | | Including:Gross reserves for loss and loss adjustment expenses | | Including: Claims equalization reserve and similar reserves | |
|---|---|---|---|---|---|---|
| | **12/31/2014** € thou | 12/31/2013 € thou | **12/31/2014** € thou | 12/31/2013 € thou | **12/31/2014** € thou | 12/31/2013 € thou |
| Direct insurance business written | | | | | | |
| Personal accident | 21,000 | 17,413 | 11,772 | 8,778 | 2,064 | 1,940 |
| 3rd party liability | 2,994,222 | 2,857,126 | 2,607,925 | 2,498,632 | 132,614 | 130,419 |
| Automotive liability | 10,382 | 9,454 | 7,310 | 5,720 | – | – |
| Other automotive | 23,397 | 22,121 | 17,978 | 17,631 | – | – |
| Fire and property | 855,785 | 853,097 | 504,149 | 563,949 | 99,891 | 65,080 |
| including: | | | | | | |
| Fire insurance | 294,198 | 276,840 | 132,067 | 155,745 | 98,993 | 64,326 |
| Other property insurance | 561,587 | 576,257 | 372,082 | 408,204 | 898 | 754 |
| Transport and aviation insurance | 1,420,612 | 1,262,743 | 1,230,105 | 1,106,172 | 90,440 | 53,894 |
| Other insurance | 244,418 | 171,707 | 200,886 | 125,042 | 8,515 | 13,431 |
| **Total [1]** | **5,569,819** | **5,193,668** | **4,580,129** | **4,325,931** | **333,524** | **264,764** |
| Reinsurance business assumed Total | 4,017,237 | 3,654,588 | 2,726,627 | 2,486,402 | 782,536 | 735,213 |
| **Insurance business total** | **9,587,056** | **8,848,256** | **7,306,756** | **6,812,333** | **1,116,060** | **999,977** |

1 This amount cannot be derived from the insurance branches listed above because according to RechVersV, non-essential branch groups do not have to be

## Other accrued liabilities

(Equity and Liabilities C.)

### Pension reserves and similar commitments

Allianz Global Corporate & Specialty SE has made pension commitments for which pension reserves are constituted. A part of these pension reserves is secured by a Contractual Trust Arrangement (Methusalem Trust e.V.). These trust assets constitute offsettable plan assets, with the asset value/market value being used as the fair value. The settlement amount is calculated on the basis of the projected unit credit method and/or stated as the present value of the entitlement acquired

| | **12/31/2014** % | 12/31/2013 % |
|---|---|---|
| Discount rate | 4.50 | 4.90 |
| Rate of assumed pension increase | 1.70 | 1.90 |
| Rate of assumed salary increase (incl. average career trend) | 3.25 | 3.25 |

In derogation of the above, the contribution-based pension plan is calculated with the guaranteed interest rate of 2.75 percent per year and the guaranteed rate of pension increase of 1 percent per year of these pension promises.

The biometric base for calculations are the current RT2005G mortality tables of Dr. Klaus Heubeck, which have been adjusted with respect to mortality, disability and fluctuation to reflect company-specific circumstances. The retirement age applied is the contractual age or the legal age according to the RV-Altersgrenzenanpassungsgesetz 2007.

In fiscal 2014, reserves in the amount of € 771 (3,019) thou were constituted for pension reserves and similar commitments.

## Other reserves

### Jubilee and phased-in early retirement commitments and Allianz value accounts

Allianz Global Corporate & Specialty SE has obligations resulting from jubilee payments, a long-term credit account and phased-in early retirement, which are reported under other provisions. The assets held as a reserve to secure the phased-in early retirement and long-term credit account obligations at Methusalem Trust e.V. constitute offsettable plan assets, with the asset value/market value being used as the fair value. These obligations are essentially calculated in the same way as the pension obligations by using the same actuarial assumptions.

### Plan assets

The historical cost of the offset assets amounts to € 68,637 (56,879) thou and the fair value of these assets is € 69,322 (57,473). The settlement amount of the offset liabilities is € 70,564 (61,213) thou.

### Other reserves

Other reserves for fiscal 2014 include the following positions:

| | 12/31/2014 € thou | 12/31/2013 € thou |
|---|---|---|
| Provisions for: | | |
| Remunerations not yet definitely determined | 64,058 | 52,223 |
| Allianz Equity Incentives | 28,410 | 25,617 |
| Invoices not yet received | 15,057 | 15,218 |
| Holidays and flexible working hours | 11,218 | 10,005 |
| Employee jubilees | 5,535 | 5,342 |
| Severance payments | 1,371 | 482 |
| Restructuring | 738 | 1,800 |
| Phased-in retirement and value account model | 608 | 721 |
| Other | 7,854 | 3,577 |
| Total other provisions | 134,849 | 114,984 |

### Tax reserves

In the reporting year tax reserves were constituted for the following branch offices: France €24,835 (18,322) thou, Italy €6,656 (7,240) thou, UK €2,668 (18,764) thou, Singapore €2,614 (861) thou, Spain €302 (0) thou, Hong Kong €119 (105) thou, Austria €37 (455) thou, Netherlands €12 (2,067) thou, Denmark €0 (8) thou.

## Deferred income (Equity and Liabilities F)

This item essentially contains a compensation payment from the previous tenant on the leasing contract for the building in which the UK branch office is housed. The remaining period is 4 years.

# Supplementary information on the income statement

## Supplementary information on insurance branch groups, insurance branches and types of insurance

| | Gross premiums written | | Gross earned premiums | | Net earned premiums | |
|---|---|---|---|---|---|---|
| | 2014 € thou | 2013 € thou | 2014 € thou | 2013 € thou | 2014 € thou | 2013 € thou |
| Direct insurance business written | | | | | | |
| Personal accident | 11,840 | 11,437 | 11,627 | 11,980 | 8,819 | 9,477 |
| 3rd party liability | 757,592 | 703,512 | 741,274 | 678,996 | 541,663 | 490,239 |
| Automotive liability | 9,485 | 9,258 | 10,382 | 8,050 | – 16 | – 253 |
| Other automotive | 12,826 | 12,185 | 12,521 | 11,240 | 34 | – 240 |
| Fire and property | 508,015 | 518,605 | 489,698 | 510,768 | 236,274 | 266,497 |
| including: | | | | | | |
| Fire insurance | 206,796 | 224,483 | 204,250 | 224,010 | 82,362 | 91,171 |
| Other property insurance | 301,219 | 294,122 | 285,448 | 286,758 | 153,912 | 175,326 |
| Transport and aviation insurance | 577,550 | 582,538 | 587,219 | 602,699 | 380,876 | 386,057 |
| Other insurance | 111,251 | 117,151 | 109,254 | 118,923 | 50,544 | 51,731 |
| Total [1] | 1,988,561 | 1,954,686 | 1 961,975 | 1,942,656 | 1,218,194 | 1,203,508 |
| Reinsurance business assumed | 1,600,078 | 1,403,823 | 1,566,154 | 1,357,263 | 853,320 | 659,639 |
| Insurance business total | 3,588,639 | 3,358,509 | 3,528,129 | 3,299,919 | 2,071,514 | 1 863,147 |

1 This amount cannot be derived from the insurance branches listed above because according to RechVersV, non-essential branch groups do not have to be listed.

## Gross premiums incurred for direct insurance business according to area of origin

| | Germany | | EU | | Other countries | |
|---|---|---|---|---|---|---|
| | 2014 € thou | 2013 € thou | 2014 € thou | 2013 € thou | 2014 € thou | 2013 € thou |
| Personal accident | 5,509 | 6,139 | 2,797 | 2,860 | 3,534 | 2,439 |
| 3rd party liability | 317,853 | 306,102 | 372,383 | 335,547 | 67,356 | 61,705 |
| Automotive liability | – 9 | – 18 | – | – | 9,494 | 9,276 |
| Other automotive | 8 | – 85 | – | – | 12,818 | 12,270 |
| Fire and property | 191,695 | 194,825 | 268,509 | 279,573 | 47,811 | 40,593 |
| including: | | | | | | |
| Fire insurance | 76,066 | 80,574 | 98,877 | 116,993 | 31,853 | 26,900 |
| Other property insurance | 115,629 | 114,252 | 169,632 | 162,580 | 15,958 | 13,693 |
| Transport and aviation insurance | 210,534 | 202,043 | 296,184 | 310,691 | 70,832 | 69,805 |
| Other insurance | 49,208 | 51,680 | 48,775 | 55,453 | 13,268 | 13,789 |
| Total | 774,798 | 760,686 | 988,648 | 984,124 | 225,115 | 209,876 |

## Allocated interest return - net (Income Statement I.2.)

Allocated interest return is calculated and transferred from the non-underwriting section to the underwriting section in accordance with section 38 RechVersV.

## Run-off

The run-off in direct insurance amounted to € 146,923 (114,960) thou net; in business assumed it was € 293,761 (94,356) thou.

| Gross expenditure for insurance claims | | Gross expenditure for insurance business | | Reinsurance balance | | Net underwriting result. | | Number of insurance contracts with at least a 1-year period | |
|---|---|---|---|---|---|---|---|---|---|
| **2014** € thou | 2013 € thou | **2014** € thou | 2013 € thou | **2014** € thou | 2013 € thou | **2014** € thou | 2013 € thou | **2014** | 2013 |
| | | | | | | | | | |
| 5,017 | 1,838 | 3,964 | 3,133 | – 42 | – 1,209 | 2,482 | 5,666 | 6,471 | 6,819 |
| 568,745 | 476,454 | 158,702 | 126,026 | – 14,683 | – 52,578 | – 3,214 | 12,860 | 19,692 | 17,598 |
| 6,110 | 6,336 | 3,753 | 3,067 | – 666 | 1,898 | – 148 | 545 | 36,009 | 33,458 |
| 8,601 | 12,366 | 4,359 | 6,353 | 1,468 | 5,228 | 1,030 | – 2,251 | – | – |
| 167,506 | 222,673 | 93,267 | 92,351 | – 199,477 | – 161,701 | – 7,092 | – 33,271 | 27,911 | 26,581 |
| | | | | | | | | | |
| 50,107 | 32,085 | 36,604 | 34,161 | – 97,430 | – 107,833 | – 16,348 | – 15,556 | 9,733 | 9,503 |
| 117,399 | 190,588 | 56,663 | 58,190 | – 102,047 | – 53,868 | 9,256 | – 17,715 | 18,178 | 17,078 |
| 350,185 | 349,778 | 142,248 | 121,434 | – 74,116 | – 119,153 | – 15,398 | 43,893 | 22,551 | 24,063 |
| 164,365 | 21,216 | 13,602 | 12,272 | 2,917 | – 61,171 | – 61,297 | 23,057 | 4,726 | 4,555 |
| **1,270,525** | **1,090,659** | **419,895** | **364,636** | **– 284,599** | **– 388,686** | **– 83,634** | **50,502** | **117,360** | **113,074** |
| | | | | | | | | | |
| 765,346 | 688,576 | 343,460 | 343,305 | – 212,051 | – 232,913 | 198,030 | 159,345 | | |
| | | | | | | | | | |
| **2,035,871** | **1 779,235** | **763,355** | **707,941** | **– 496,650** | **– 621,599** | **114,396** | **209,847** | | |

## Underwriting expenses - net (Income Statement I.6.)

| | | **2014** € thou | 2013 € thou |
|---|---|---|---|
| a | Gross expenditure for insurance business | 763,355 | 707,941 |
| b | Less: received provisions and profit sharing from reinsurance ceded | 147,988 | 163,508 |
| | | | |
| Total | | **615,367** | **544,433** |

Of the gross expenditures for insurance business, € 705,077 (664,172) thou are attributable to closing expenses and € 58,278 (43,769) thou to adminstrative expenses.

## Commissions and other remuneration for insurance agents, payroll costs

| | | **2014** € thou | 2013 € thou |
|---|---|---|---|
| a | Commission of any kind for insurance agents within the meaning of clause 92 HGB for direct insurance business | 199,696 | 182,515 |
| b | Other remuneration of insurance agents within the meaning of section 92 HGB | 10 | 14 |
| c | Wages and salaries | 244,154 | 221,070 |
| d | Social security contributions and other social contributions | 41,209 | 38,500 |
| e | Pension costs | 23,282 | 22,883 |
| | | | |
| Total | | **508,351** | **464,982** |

## Investment income (Income Statement II.1.)

| | | 2014 € thou | 2013 € thou |
|---|---|---|---|
| a | Income from investments | 231,130 | 260,333 |
| ai | Income from participations including in affiliated enterprises € thou 77,934 (101,380) | 78,020 | 101,440 |
| aii | Income from other investments | 153,110 | 158,893 |
| | aa income form real estate, real property and equivalent rights including buildings on land not owned by AGCS | 4,387 | 3,556 |
| | bb Income from other investments | 148,723 | 155,336 |
| b | Income from write-ups | 27,810 | 103 |
| c | Gains from disposals | 65,529 | 22,578 |
| | | | |
| Total | | 324,469 | 283,014 |

## Investment expenses (Income Statement II.1.)

| | | 2014 € thou | 2013 € thou |
|---|---|---|---|
| a | Investment management, interest, charges and other investment expenses | 9,897 | 11,343 |
| b | Depreciation and write-downs on investments | 5,266 | 63,550 |
| c | Losses from disposals | 2,551 | 16,739 |
| | | | |
| Total | | 17,714 | 91,632 |

## Write-downs on intangible assets

According to section 253 (3) HGB, scheduled write-downs on intangible assets, taking into accounts their respective useful lives, were made in the reporting year for a total of € 12,552 (14,441) thou.

## Depreciation of investments

Unscheduled write-downs in accordance with section 253 (3) HGB were made on participations in affiliated enterprises in the amount of 3,284 (0) thou.

Unscheduled write-downs in accordance with section 253 (4) HGB were made on bearer bonds in the amount of € 526 (62,404) thou.

## Other income and other expenses (Income Statement II.4/5.)

Other income and other expenses include:

| | Pensions and similar obligations 2014 € thou | Other obligations 2014 € thou |
|---|---|---|
| Actual return from the fair value of the offset assets | – 2,183 | – 59 |
| Imputed interest cost for the settlement amount of the offset liabilities | 2,369 | 189 |
| Effect resulting from the change in the discount rate for the settlement amount | 195 | 13 |
| | | |
| Net amount of the offset income and expenses | 381 | 143 |

In addition, other income includes currency losses in the amount of € 185,786 (gains of 102,593) thou.

## Extraordinary result (Income Statement II.10.)

The extraordinary result includes the full recognition of all outstanding instalments resulting from the initial application of the German Accounting Law Modernization Act (BilMoG), which in 2014 were recognized as extraordinary expenses in the amount of € 7,059 thou.

## Income taxes (Income Statement II.11.)

The higher income taxes for Allianz Global Corporate & Specialty SE of € 145,674 thou – compared to € 103,092 thou in the prior year – are essentially due to higher taxable income in Germany and in the French branch office.

# Other information

## Contingent liabilities from company pension commitments and similar commitments

**Pension commitments**
Guarantee obligations exist within the framework of pension plans. The basis for the pension plans of the employees of Allianz Group companies is generally the membership in the Allianz Versorgungskasse VVaG (AVK), which, as a legally independent pension fund, is subject to the supervision of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleitungsaufsicht). The benefits provided by AVK are financed according to the lump-sum contribution system under which the member companies make payments to the fund based on salary conversion. In addition to Allianz SE, the member companies include Allianz Deutschland AG, Allianz Versicherungs-AG, Allianz Lebensversicherungs-AG and, among others, Allianz Global Corporate & Specialty SE.

Allianz Global Corporate & Specialty SE has a legal obligation to make employer contributions and to cover the administrative costs of AVK on a pro-rated basis if required. The member companies also make contributions to the Allianz Pensionsverein e.V. (APV), an insurance-backed Group support fund. In addition, Allianz SE has assumed joint and several liability for part of the company's pension commitments. The company reimburses expenses while Allianz SE has assumed responsibility for settlement. For this reason, these pension commitments are recorded in the financial statements of Allianz SE and not those of Allianz Global Corporate & Specialty SE. Allianz Global Corporate & Specialty SE's joint and several liability from these pension commitments and the corresponding liability matched by rights of relief against Allianz SE amount to:

| | 12/31/2014 € thou | 12/31/2013 € thou |
|---|---|---|
| Settlement amount of the offset liabilities | 58,590 | 54,836 |
| Provision amount that has not yet been recognized (article 67 (2) EGHGB) | – | 7 059 |
| Joint liability and/or rights of relief against Allianz SE | 58,590 | 47,777 |

**Changes in the financing of the Pensions-Sicherungs-Verein VVaG pension fund in 2006**
As a result of changes in the financing of the Pensions-Sicherungs-Verein VVaG pension fund in 2006 there is a joint and several liability of € 83 (93) thou, which is not shown in the company's balance sheet because this liability is matched by rights of relief for the same amount against Allianz SE.

## Other obligations

At the balance sheet date (12/31/2014), liens on capital investments in the amount of € 0 (493,879) thou were granted in connection with group-internal cessions. Liens in the amount of € 0 (480,894) thou were granted to affiliated enterprises. € 331,112 (256,951) thou were deposited in trust accounts, including € 314,090 (240,630) thou in favor of affiliated enterprises. These contingent liabilities will only be claimed if Allianz Global Corporate & Specialty SE is unable to fulfill its obligations from the reinsurance business. In view of the solid capitalization and the adequate reserves of Allianz Global Corporate & Specialty SE the risk of such a claim is considered to be very low. Other liabilities from loans amount to € 5,957 (0) thou.

## Remuneration of the Board of Management and the Supervisory Board

The total remuneration of the Board of Management amounted to € 10,106 thou in the reporting year.

Pension reserves for former members of the Board of Management and their surviving dependents were as follows:

| | 12/31/2014 € thou | 12/31/2013 € thou |
|---|---|---|
| Historical costs of the offset assets | 3,964 | 4,217 |
| Fair value of the offset assets | 3,964 | 4,217 |
| Settlement amount of the offset liabilities | 5,221 | 5,496 |
| Provision amount that has not yet been recognized (Article 67 (2) EGHGB) | – | 243 |
| Excess of plan assets over pension liability/Pension provisions | 1,257 | 1,036 |

The cash surrender value of the reinsurance policies is taken as a basis for the fair value of the offset assets.

A total of 24,083 restricted stock units were issued to the members of the Board of Management. The fair value of these instruments at the date of grant amounts to € 2,475 thou.

The total remuneration of the Supervisory Board of Allianz Global Corporate & Specialty SE amounted to € 46 thou.

The members of the Supervisory Board and the Board of Management are listed on page 7.

## Number of employees (annual average)

The average number of employees of Allianz Global Corporate & Specialty SE for the reporting year was 2,431 (2,415) (not including members of the Board of Management, trainees, interns and employees on parental leave or in basic military / civil service).

| | 2014 | 2013 |
|---|---|---|
| Full-time employees | 2,098 | 2,091 |
| Part-time employees | 333 | 324 |
| Total | 2,431 | 2,415 |

## Total remuneration of the auditor according to section 285 (17) HGB

The total remuneration of the auditor is reported in the corporate financial statements of Allianz SE, Munich.

## Group affiliation

Global Corporate & Specialty SE is a member of the Allianz Group headed by Allianz SE, Munich. The Allianz SE Consolidated Financial Statements and the Management Report are published in that company's Annual Report in March and published in the German Electronic Federal Gazette subsequent to the Allianz SE Annual General Meeting in May. They can be consulted there or are available upon request from our company. The Annual Report is also available on the website of Allianz SE.

Allianz Global Corporate & Specialty SE is incorporated into Allianz SE's Consolidated Financial Statements and Management Report. The Consolidated Financial Statements and the Management Report legally dispense our company from any other reporting obligations so that Allianz Global Corporate & Specialty SE does not establish Consolidated Financial Statements and a Management Report of its own.

Munich, January 27, 2015

Allianz Global Corporate & Specialty SE
The Board of Management

Fischer Hirs
Berger
Browne
Klingspor
Mack
Mai
Moosmann
Scaldaferri
Scheffel

# Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Allianz Global Corporate & Specialty SE, Munich, for the business year from January 1 to December 31, 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, March 20, 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| **Zeitler** | **Dielehner** |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (Independent Auditor) | (Independent Auditor) |

# INSURANCE LINES COVERED

## Direct insurance business:

**General personal accident insurance**
Test persons, aviation personal accident, automobile personal accident

**3rd party liability**
Private liability, public and professional liability, environmental liability, financial loss liability, radiation and nuclear liability, neighbor's liability fire, liability for terrestrial vehicles without mandatory coverage, other liability insurance

**Automobile insurance**
Automobile third party liability insurance, other automobile insurance

**Aviation insurance**
Comprehensive aircraft insurance, comprehensive spacecraft insurance

**Fire insurance**
Industrial fire, other fire

**Burglary, theft and robbery insurance**

**Water damage insurance**

**Glass insurance**

**Storm insurance**

**Homeowners insurance**

**Engineering insurance**
Plant and equipment, electronic equipment, erection all risks, contractor's all risks, other engineering insurance

**Marine insurance**
Hull (including hulls of sea-going, inland waterway and river-going vessels, building risk), goods in transit, valuables (commercial), film property, liability in traffic cases, risk of war, other transport

**Extended-Coverage (EC) insurance, insurance of additional risks in conjunction with fire or fire business interruption insurance**

**Business interruption insurance**
Fire business interruption, technical business interruption, other business interruption

**Aviation and aerospace liability insurance**
Aviation liability, aerospace liability

**Other property and casualty insurance**
Other property damage (including nuclear plant property), other economic loss (including machine guarantee, loss of license, check cards), as well as other combined insurance (including dynamic property insurance), other types of other property and casualty insurance

## Reinsurance business assumed:

**General personal accident insurance**

**3rd party liability**

**Automobile insurance**

**Aviation insurance**

**Fire and property**

**Burglary, theft and robbery insurance**

**Water damage insurance**

**Glass insurance**

**Storm insurance**

**Homeowners insurance**

**Engineering insurance**

**Marine insurance**

**Extended Coverage insurance for fire and interruption to business**

**Business interruption insurance**

**Aviation and aerospace liability insurance**

**Other property and casualty insurance**

# Advisory council

**Klaus Eberhardt**
(Chairman)
former Chairman of the Board of Management
Rheinmetall AG

**Wolfgang Faden**
Deputy Chairman of the
AGCS Advisory Council

**Dominik Asam**
Member of the Board of Management
Infineon Technologies AG

**Georg Bauer**
former CEO
BMW Financial Services

**Werner Baumann**
Member of the Board of Management
Bayer AG

**Georg Denoke**
Member of the Board of Management
Linde AG

**Klaus Entenmann**
Chairman of the Board of Management
Daimler Financial Services AG

**Dr. Jürgen M. Geißinger**
former Chairman of the Board of Management
Schaeffler AG

**Stephan Gemkow**
Chairman of the Board of Management
Franz Haniel & Cie. GmbH

**Dr. Frank Heinricht**
Chairman of the Board of Management
Schott AG

**Dr. Michael Kerkloh**
Chairman of the Board of Management
Flughafen München GmbH

**Carsten Knobel**
Member of the Board of Management
Henkel AG & Co. KGaA

**Harald Kroener**
Chairman of the Board of Management
Wieland-Werke AG

**Christoph Kübel**
Managing Partner
Robert Bosch GmbH

**Robert Lorenz-Meyer**
Chairman
Ernst Russ GmbH & Co. KG

**Simone Menne**
Member of the Board of Management
Deutsche Lufthansa AG

**Joachim Müller**
CFO
Bilfinger Berger SE

**Jürg Oleas**
Chairman of the Board of Management
GEA Group AG

**Dr. Eberhart von Rantzau**
Managing Partner
Deutsche Afrika-Linien GmbH & Co. KG

**Prof. Klaus-Dieter Scheurle**
Managing Partner
DFS Deutsche Flugsicherung GmbH

**Andreas Schmid**
Chairman of the Board of Administration
Oettinger Davidoff Group

**Dr. Wolfgang Schmitt**
Chairman of the Board of Management
KSB Aktiengesellschaft

**Eckhard Schulte**
Member of the Managing Board
SMS Holding GmbH

**Dr. Stefan Sommer**
Chairman of the Board of Management
ZF Friedrichshafen AG

# Advisory council

**Thomas Unger**
CEO
Constantia Flexibles GmbH

**Ulrich Weber**
Member of the Board of Management
Personnel
Deutsche Bahn AG

**Frank Witter**
Chairman of the Board of Management
Volkswagen Financial Services AG

**Michel Wurth**
Member of the Board of Directors
ArcelorMittal SA

**Dr. Matthias Zieschang**
Member of the Board of Management, Controlling and Finance
Fraport AG

**Dr. Reinhard Zinkann**
Managing Partner
Miele & Cie. KG

# HEAD OFFICE

**Allianz Global Corporate & Specialty SE**
**Head Office Germany**
**and company headquarter**

Business address:
Königinstraße 28
80802 München

Postal and visitor's address:
Fritz-Schäffer-Str. 9
81737 München

Telephone +49 89 3800-0
Fax +49 89 3800-3927

## BRANCH OFFICES

**Branch Office United Kingdom**
Allianz House
60 Gracechurch Street
London, EC3V 0HR

Telephone + 44 (0)20 3451 3000
Fax + 44 (0)20 3283 7862

**Branch Office France**
Tour Opus[12], 77 Esplanade du Général de Gaulle
La Défense 92076

Telephone +33 1 5300 1600
Fax +33 1 5300 1710

**Branch Office Austria**
Linzer Straße 221, Bauteil 1
1140 Wien

Telephone +43 1 87 807
Fax +43 1 87 807 40214

**Branch Office Nordic Region**
Pilestraede 58, 1
1112 Copenhagen K.

Telephone +45 7020 0661
Fax +45 3374 3301

**Branch Office Sweden**
Stureplan 4C
114 35 Stockholm

Telephone +46 08 210614

**Branch Office Italy**
Corso Italia 23
20122 Mailo

Telephone +39 02 7216 2125
Fax +39 02 7216 5676

**Branch Office Belgium**
Uitbreidingstraat 86
2600 Berchem

Telephone +32 3 241 5300
Fax +32 3 237 4358

**Branch Office Netherlands**
Coolsingel 139
3012 AG Rotterdam

Telephone +31 10 454 1922
Fax +31 10 454 1199

**Branch Office Spain**
Avenida General Perón, 27
28020 Madrid

Telephone +34 91 5960 014
Fax +34 91 5968 852

**Singapore Branch Office**
12 Marina View
#14-01 Asia Square Tower 2
018961 Singapore

Telephone +65 6297 8801
Fax +65 6297 4174

**Hong Kong Branch Office**
Suites 403-11, 4/F, Cityplaza Four,
12 Taikoo Wan Road, Taikoo Shing
Hong Kong

Telephone +852 256 700 33
Fax +852 2901 6754

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Allianz Global Corporate & Specialty SE
Königinstraße 28
80802 München
Telephone + 49 89 3800 0

www.agcs.allianz.com

This is a translation of the German Annual Report of Allianz Global Corporate & Specialty SE. In case of any divergences, the German original is legally binding.