Allianz Global Corporate & Specialty

2017

# Allianz Global Corporate & Specialty SE
# Annual Report 2017

Allianz

# Contents

# Foreword

2017 has been a reminder of how significant the impact of natural catastrophes can be, both socially and economically, as well as highlighting the role of our industry in protecting individuals and businesses against such disasters. Overall losses from natural catastrophes are estimated[1] at $330 billion, with around $135 billion in insured losses, the second-highest figure ever recorded for natural disasters. Hurricanes Harvey, Irma and Maria, the earthquakes in Mexico, several wildfires in California, but also many other natural hazards and extreme weather events globally will make 2017 one of the costliest years on record.

The competitive environment was equally challenging. Global insurance rates have continued to decrease further in many segments, while alternative insurance capital is still abundant. The transformation of the insurance industry is progressing faster than expected, creating a new „digital divide" of companies that successfully manage to digitalize their value chains and create value from data – and those who don't.

Allianz Global Corporate & Specialty (AGCS) maintained a position of strength and competitive edge in times of disasters and disruption. Our underwriting, exposure management and portfolio diversification again proved their value and robustness, protecting our capital base while continuing to ensure that we deliver for our clients in their times of need. At the same time we delivered on our strategic priorities to prepare our business for the future and to leverage new data, technologies and partnerships for new customer solutions and services.

In 2017, AGCS generated gross premiums written (GPW) of €7.4 billion, which is €186 million lower than the previous year. The decline of GWP is largely driven by the discontinuation of the Crop business in the United States, but also reflects adjusted portfolio strategies in selected Specialty segments which could not be fully compensated by growth in the Corporate segment and fronting business. The Operating Profit (OP) declined by €226 million to €156 million compared to €382 million in 2016 as both underwriting result and investment income have been lower than the previous year. AGCS Combined Ratio rose by 3.7 percentage points to 105.2% (2016: 101.6%) suffering from a high claims activity caused by the US hurricanes and wildfires, D&O claims in Australia as well as other man-made large losses in different industries.

Extreme weather events have allowed us once more to live up to our claims promise and we are increasingly making use of modern technology and special crisis services to improve our disaster response for our clients' benefits – from employing private fire brigades to early loss estimates of impacted areas by drones and satellite imagery. These initiatives underline our long-term strategic journey, focusing on delivering a superior customer experience for our clients.

In support of this, AGCS will transform its business in the coming years to become truly „digital by default" and deliver better and more comprehensive solutions to our clients. Many projects, proof of concepts and pilots are running in parallel in an agile delivery mode, and if successful, can be scaled-up and launched. To highlight just a few lighthouse examples from 2017: Targeting the SME segment in various markets globally, we have launched a range of online distribution platforms that enable our customers and brokers to quote, bind and renew business online in a few clicks. We have successfully trialed Blockchain technology for an existing global captive insurance program significantly improving speed, transparency and traceability of transactions. We teamed up with InsurTechs such as Praedicat and Cyence to boost our traditional approach in underwriting and portfolio management by advanced data analytics and predictive modelling. The partnership with Praedicat will help clients understand potential emerging liability risks impacting their company, whereas with Cyence AGCS will be able to tailor Cyber underwriting to better fit the needs of our clients from SMEs to the largest multinationals.

[1]Munich Re

Digitalization drives higher productivity and efficiency gains, too. In our „Fit for Future" program we have looked at how we can reduce complexity and improve productivity and expenses while enhancing customer service delivery and finding the best possible set-up and processes for the future, so we can continue to grow successfully as in the past ten years. The program is well advanced having started implementation from early 2017. It focuses on several levers such as the transfer of tasks to centers of competence, robotics and automation, restructuring and process reengineering. In addition to „Fit for Future", we have continued to drive a comprehensive portfolio of change and growth projects in 2017 across all major business functions and regions.

Our geographical expansion in 2017 focused mainly on Asia, which represents the fastest growing region in the global AGCS network. We opened a new branch office in South Korea, extended our China operations together with Allianz SE and established a new presence in Indonesia. In addition, we built on the Allianz network in other continents such as Africa and South America, targeting growth in countries such as Nigeria, Kenya and Argentina, by taking advantage of the presence of Allianz Group companies in these markets.

In parallel, we continued to successfully expand our portfolio of new solutions for clients, including in Cyber Risk, Product Recall, Crisis Management, and Environmental Liability, amongst others. Additionally, our program of international expansion of growth products such as Allianz Multinational, Entertainment, Financial Lines and Liability has been welcomed by clients. This expansion is in response to the needs of our global corporate clients and their growing demand for specialist solutions and for global programs, but also reflects local growth opportunities across various Lines of Business.

We are a leader in our industry and our aspiration remains high: We aim to be recognized as the best in our business by our target customers, our shareholder and our employees. We are committed to deliver ambitious growth and profitability targets while making productivity and expense optimization our everyday entrepreneurial discipline. And we want to lead the transformation of our industry: Our future competitive advantage will rely on embracing insights provided by data and technology and transforming them into valuable product and services ahead of competition.

2017 has been a tough year, but we have taken the right steps to address challenges, deliver progress, drive change and trial technologies. It has been a true team effort. All of what we have achieved was only possible because each of our employees has embraced our company as a place to be, an opportunity to unfold one's skills and for making a difference. On behalf of the AGCS Board of Management, I extend our very sincere thanks to each and every one of our people for their commitment and for the many extra miles they have put in 2017 to keep AGCS moving and evolving

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

# Supervisory Board

**Dr. Axel Theis**
Member of the Board of Management
Allianz SE
Chairman

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

**Dr. Brigitte Bovermann**
former Executive Vice President Allianz SE,
since May 9, 2017

**Judith Doyle**
Underwriter
Employee representative
since May 9, 2017

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

**Dr. Hermann Jörissen**
Former member of the
Board of Management AGCS AG
until May 9, 2017

**Caroline Krief**
Lawyer
Employee representative
until May 9, 2017

**Bernadette Ziegler**
Personnel Officer
Employee representative

# Board of Management

**Chris Fischer Hirs**
CEO
Chairman

**Andreas Berger**
CRMO – Region 1

**Sinéad Browne**
COO

**Nina Klingspor**
CFO

**Alexander Mack**
CCO

**Hartmut Mai**
CUO Corporate & ART

**Paul O’Neill**
CUO Specialty

**William Scaldaferri**
CRMO – Region 2

**Carsten Scheffel**
CRMO – Region 3

# General Managers

**Branch Office United Kingdom**

**Brian Kirwan**
Chief Executive

**Branch Office France**

**Thierry van Santen**
Chief Executive
until July 14, 2017

**Corinne Cipière**
Chief Executive
since July 15, 2017

**Branch Office Austria**

**Ole Ohlmeyer**
Chief Executive

**Branch Office Nordic Region**

**Peter Hecht-Hansen**
Chief Executive

**Branch Office Sweden**

**Peter Hecht-Hansen**
Chief Executive

**Branch Office Italy**

**Nicola Mancino**
Chief Executive

**Branch Office Belgium**

**Patrick Thiels**
Chief Executive

**Branch Office Spain**

**Juan Manuel Negro**
Chief Executive

**Branch Office Netherlands**

**Arthur van Essen**
Chief Executive

**Branch Office Singapore**

**Mark Mitchell**
Chief Executive

**Branch Office Hong Kong**

**Chi Feng**
Chief Executive
until July 31, 2017

**Patrick Zeng**
Chief Executive
since August 1, 2017

**Branch Office South Korea**

**Chang Tae Noh**
Chief Executive
Since June 14, 2017

# Report of the Supervisory Board

## Dear Sir or Madam,

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 year 2017 and the Management Report presented to it. In its meeting on April 9, 2018, the Supervisory Board approved the Annual Financial Statements prepared by the Board of Management, which are hereby confirmed.

Munich, April 9, 2018

For the Supervisory Board:

Dr. Axel Theis
Chairman

# Management report

In a persistently difficult market environment, 2017 was marked by the strong impact of natural catastrophes on our underwriting result. Nonetheless, we succeeded in closing the year with a profit in the three digit million range, mainly due to the non-underwriting result.

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

The significant decrease of investment income mainly resulted from high one-time effects in 2016 when the corporate shareholdings were restructured. In a context of persistently low re-investment interest rates, our investments continue to have high valuation reserves.

Allianz Global Corporate & Specialty SE ends the year 2017 with a profit transfer of € 331 million to Allianz SE. Since the founding of the company in 2006, a total of more than € 3.9 billion has thus 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, Energy and Entertainment, in both the direct and the indirect insurance business.

With our global positioning and our extensive product range we are at any time in a position to offer appropriate insurance solutions in combination with comprehensive customer service. This includes competent worldwide service in the case of loss events, cross-country solutions in the framework of international insurance programs, captive and fronting services, risk consulting and structured risk transfer solutions. In a market context characterized by competitive pressures, the company steadfastly pursued its risk-adequate and selective underwriting and reinsurance policy and it continued to invest in the global harmonization and optimization of business processes in all business units and will pursue this effort in the future.

The company's gross premium income in the reporting year decreased by 0.9 percent to € 4.04 (4.07) billion. Adjusted for foreign currency effects, in particular from the British Pound and the US Dollar, there was a slight increase in gross premium income that was particularly noticeable in Germany and the UK. But these foreign currency effects are not reported in detail in the following account of premium developments. In Germany, premium income decreased by € 86.5 million to € 1.84 (1.92) billion. This decrease was essentially recorded in the insurance lines Marine, Fire and Aviation, which, as in the prior year, were subject to a selective underwriting policy and strong competitive pressures. In the branch offices, premium income increased from € 2.16 billion to € 2.20 billion in the reporting year. The UK branch office reported a continued increase of gross premiums, by € 43.8 million to € 868.6 (824.8) million. In Singapore, gross premiums increased by € 22.0 million to € 142.7 (120.7) million, in the Netherlands by € 12.7 to € 94.1 (81.4) million, in Sweden to € 16.5 (13.2) million and in Hong Kong to € 97.9 (94.9) million. The Korea branch office, which was opened in June of the reporting year, was able to report a premium volume of € 9.8 million. On the other hand, premium income in Spain fell by € 19.3 million to 155.6 (174.9) million, in Denmark by € 11.8 million to € 65.9 (77.7) million, in Italy to € 99.8 (107.3) million, in the French branch office to € 484.7 (490.0) million, in Austria to € 33.9 (35.0) million and in Belgium to € 134.7 (135.6) million.

Gross premiums written, which decreased by € 85.12 million from the prior year, came to € 3.99 (4.07) billion. Taking into account reinsurance cessions of € 2.77 (2.87) billion, net premiums earned remained at the prior year level of € 1.22 (1.20) billion.

Gross expenses for insurance claims increased from the prior year by € 1.20 billion to € 3.36 (2.16) million. This increase was characterized by an increase of gross claims expenses from fiscal year losses by € 682.3 million to € 3.4 (2.7) billion as well as a decrease of the run-off profit by € 517.8 million to € 32.6 (profit of 550.4) million. This resulted in a 31.2 percentage points higher loss ratio of 84.4 (53.2) percent for the fiscal year.

Gross claims expenses due to natural catastrophes and other accumulation losses in the reporting year increased by € 706.6 million from the prior year to € 820.8 (114.2) million. This was due to losses from hurricanes Harvey, Irma and Maria as well as wildfires in California. Hardest hit was the underwriting result from business assumed in Other Property Insurance and Other Insurance. On the other hand, claims expenses due to major losses decreased by € 192.3 million to € 438.8 (631.1) million gross.

Gross expenditures for the insurance business rose by € 26.0 million to € 916.4 (890.4) million. The gross cost ratio of 23.4 percent was above the prior year level of 21.9 percent. Of the gross expenditures for the insurance business, € 771.1 (820.8) million are attributable to acquisition expenses and € 145.4 (69.6) million to administrative expenses. The increase in administrative costs resulted from a revision of the allocation for personnel and material costs to functional areas in accordance with section 43 (1) RechVersV. that was performed in 2017. Overall gross expenditures for the insurance business, i.e. including personnel and material expenses for claims adjustments, remained at the prior year level.

The claims equalization reserves and similar reserves, which by law must be recognized in the balance sheet, required withdrawals of € 33.5 (withdrawals of 25.2) million. Overall, this led to an underwriting profit for own account of € 71.8 (161.5) 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.

Gross premium income in the direct insurance business decreased in the reporting year by € 75.1 million to € 1.96 (2.03 billion) while premiums in the indirect insurance business rose by € 37.6 million to € 2.08 (2.04) billion. The decrease in direct insurance was due to the lower premium volume in Marine, Fire and Aviation insurance, particularly in our German branch office, but the decline was partially compensated by the higher premium volume in Liability insurance in our UK branch office. The higher premium volume in Indirect Insurance was mainly due to the Financial Loss Liability insurance business of our US subsidiary that was assumed by our German branch office.

In Direct Insurance, the fiscal year's loss ratio rose to 83.3 (79.8) percent. Taking into account the run-off loss of € 11.9 (run-off profit of 351.8) million, the gross loss ratio in the Direct Insurance business was 83.9 (62.5) percent.

In Indirect Insurance, the company also recorded an increase of the fiscal year loss ratio to 87.1 (53.6) percent. The run-off of prior-year claims decreased by € 154.2 to € 44.4 (198.6) million, which resulted in an increase of the gross loss ratio to 84.9 (43.9) percent.

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

## Direct insurance business

In Personal Accident Insurance premium income fell by € 1.9 million to € 8.7 (10.6) million. The run-off profit of € 3.9 (profit of 4.4) million, which was lower than in the previous year, and higher claims expenses of € 3.8 (3.2) million resulted in gains of € 0.1 (gains of € 1.2) million in payouts. This corresponds to a gross loss ratio of -1.4 (-11.2) percent. The claims equalization reserve and similar reserves (withdrawal of € 2.3 million) remained unchanged. The underwriting profit of € 4.0 (profit of 8.2) million was below the prior-year level.

In Liability Insurance premium income in the reporting year increased by € 36.1 million to € 803.6 (767,5) million. Gross claims expenses increased by € 115.0 million to € 584.2 (469.2) million, which resulted in an increase of the loss ratio to 73.1 (61.4) percent. After a withdrawal of € 3.5 (withdrawal of 52.6) million from the equalization reserve and similar reserves, an underwriting profit of € 12.9 (profit of € 21.8) million was recorded.

Premium income in the insurance branch groups Automotive Liability Insurance and Other Automotive Insurance decreased by € 1.4 million from the prior year to € 28.4 (29.8) million. As in the previous years, this business was mainly written by the Hong Kong branch office. Claims expenses increased from € 13.3 million in the prior year to € 17.9 million, thus increasing the loss ratio to 62.3 (44.9) percent. Overall, the insurance branch group automotive ended the year with a loss of € 2.3 (profit of 0.1) million.

Gross premium income in the insurance branch groups Fire Insurance and Other Property Insurance fell by € 36.8 million, resulting in a total premium volume of € 571.5 (608.3) million. Premium income in Fire Insurance decreased to € 191.8 (220.3) million. Due to fiscal year losses, gross claims expenses increased by € 149.4 million to € 248.0 (98.6) million. As a result, the loss ratio rose to 118.4 (46.4) percent. After a withdrawal of € 13.7 million (allocation of 25.2 million) from the equalization reserve and similar reserves, an underwriting loss of € 25.1 (loss of 8.3) million was reported. Premium income from Other Property Insurance decreased by € 8.3 million to € 379.7 (388.0) million. Claims expenses of € 158.6 million (257.3) million were € 98.7 lower than in the prior year, which resulted in an lower loss ratio of 45.4 (69.7) percent. After a withdrawal from the equalization reserve and similar reserves of € 7.8 (allocation of 0.9) million, Other Property Insurance posted a profit of € 26.6 (loss of 11.9) million.

Overall, the insurance branch group Fire Insurance and Other Property Insurance ended the year with an underwriting profit of € 1.5 (loss of 20.2) million. The withdrawal from the equalization reserve and similar reserves amounted to € 21.5 (allocation of 26.1) million.

Premium income in Marine and Aviation Insurance decreased to € 407.5 (519.0) million in the reporting year. In Marine insurance, gross premium income of € 209.9 million was below the prior year level of € 289.4 million. Lower gross claims expenses of € 136.8 (170.8) million resulted in particular from a decrease of fiscal year losses to € 172.7 (211.8) million. The gross loss ratio came to 64.0 (56.4) percent. Overall, this insurance line reported an underwriting loss of € 23.2 (loss of 12.4) million after an allocation of € 2.5 (allocation of 44.3) million to the equalization reserve and similar reserves.

Aviation Insurance recorded a decrease in premium income by € 32.0 million to € 197.6 (229.6) million. Gross claims expenses for fiscal year losses decreased to € 150.3 (267.9) million. The run-off of prior year losses resulted in a loss of € 113.0 (profit of 109.4) million. Therefore, the loss ratio increased by 63.2 percentage points to 130.0 (66.8) percent. After a withdrawal of € 4.0 (allocation of 3.7) million from the equalization reserve and similar reserves, an underwriting profit of € 41.9 (profit of 11.0) million was posted.

Overall, the insurance branch group's underwriting result came to a profit of € 18.7 (loss of € 1.3) million after a withdrawal of € 1.5 (allocation of 48.0) million from the equalization reserve and similar reserves.

In the insurance branch Other Insurance, gross premium income increased by € 40.1 million to € 138.7 (98.6) million. Gross claims expenses increased by € 113.8 million to € 215.1 (101.3) million, which resulted in an increase of the loss ratio to 174.1 (98.5) percent. After a withdrawal from the equalization reserve and similar reserves of € 0.5) (withdrawal of 0.2) million, the branch group posted an underwriting loss of € 37.0 (profit of 23.6) million.

## Reinsurance business assumed

Premium income in Personal Accident Insurance decreased by € 1.3 million to € 7.3 (8.6) million. As in the prior year, a run-off profit of € 3.4 (6.3) million resulted in income from claims expenses of € 1.2 (income of 3.5) million. This led to a loss ratio of -15.2 (-38.6) percent. The insurance branch group ended the year with an underwriting profit of € 4.8 (profit of 6.4) million.

Gross premium income in Liability Insurance came to € 574.8 (516.0) million in the reporting year, which was € 58.8 million above the prior-year level. The increase of gross claims expenses by € 53.8 million to € 418.5 (364.7) million drove up the loss ratio to 77.9 (71.7) percent. After an allocation to the claims equalization reserve and similar reserves of € 37.8 (withdrawal of 20.0) million, this insurance line reported an underwriting loss of € 12.6 (loss of 10.3) million.

Gross premium income in Fire Insurance and Other Property Insurance decreased by € 26.6 million to € 851.9 (878.5) million. Premium income in Fire Insurance dropped by € 18.0 million to € 370.4 (388.4) million. Gross claims expenses increased by € 57.9 million to € 218.7 (160.8) million, which resulted in an increase of the loss ratio to 58.3 (40.5) percent. After an allocation of € 6.9 (withdrawal of 3.7) million to the equalization reserve and similar reserves, an underwriting loss of € 0.4 (profit of 8.9) million was recorded.

Premium income from Other Property Insurance decreased to €481.5 (490.1) million. Due an increase in claims expenses by € 128.4 million to € 280.8 (152.4) million, the loss ratio rose to 59.1 (30.1) percent. After a withdrawal from the equalization reserve and similar reserves of € 4.7 (allocation of 17.2) million, the insurance branch group posted an underwriting loss of € 9.4 (profit of 32.7) million.

Overall, the insurance branch group Fire Insurance and Other Property Insurance ended the year with an underwriting loss of € 9.8 (profit of 41.6) million, after an allocation of € 2.2 (allocation of 13.5) million to the equalization reserve and similar reserves.

Premium income in Marine and Aviation Insurance amounted to € 406.4 (447.8) million.

In Marine Insurance, gross premium income of € 220.7 (250.9) million was € 30.2 million below the prior year level, while gross claims expenses increased to € 198.4 (101.1) million. € 4.3 (withdrawal of 14.7) million were withdrawn from the claims equalization reserve and similar reserves. Due to the reinsurers' high participation in declining premium income and increased gross claims expenses, an underwriting profit of € 15.1 (profit of 13.1) million was reported.

In Aviation Insurance, gross premium income amounted to € 185.7 (196.9) million. Gross claims expenses amounted to € 87.0 (88.6) million and were mainly due to fiscal year losses of € 109.5 (137.6) million. The loss ratio increased to 45.9 (44.1) percent. After a withdrawal of € 42.8 (withdrawal of 23.0) million from the equalization reserve and similar reserves, an underwriting profit of € 62.8 (profit of 40.8) million was posted.

Overall, the insurance branch group reported an underwriting profit of € 77.9 (profit of 53.9) million, after a withdrawal of € 47.1 (withdrawal of 37.7) million from the equalization reserve and similar reserves.

Gross premiums written in Other Insurance rose above the prior year level to € 236.0 (187.9) million. Due to the increase of gross claims expenses by € 505.6 million to € 537.5 (31.9) million, the loss ratio increased to 223.7 (19.3) percent. But since a substantial part of the gross claims expenses could be passed on to the reinsurers, net claims expenses only increased to € 37.2 (0.2) million. Overall, the branch group closed the year with an underwriting profit of € 13.6 (profit of 37.5) million, after an allocation of € 0.5 (withdrawal of 0.2) million to the equalization reserve and similar reserves.

## Reinsurance business ceded

In the reporting year, the company once again ceded parts of its insurance business to external reinsurers.

Depending on risk tolerance or available capacity, the reinsurance strategy calls for the placement of part or all of individual risks in the reinsurance market through facultative reinsurance. The business remaining with Allianz Global Corporate & Specialty SE after these facultative cessions is protected by a global coverage program that consists of various proportional and non-proportional contractual reinsurance covers based on individual risks as well as cumulative cover. Compared to the prior year, a growing number of quota reinsurance contracts were newly concluded or increased, particularly in Aviation and Marine insurance.

In addition, the entire German direct and assumed insurance business has been covered since January 1, 2015, by a quota reinsurance contract under the terms of which 100 percent of this business is ceded to Allianz SE.

The largest part of the business ceded to other Group companies is assumed by Allianz SE, Munich, while Swiss Re AG in Zurich is the company's leading external reinsurer. The reinsurers' share of premiums written was slightly below the prior year level and came to a total of €2.77 (2.87) billion.

With respect to premiums written, the retention ratio increased to 30.6 (29.5) percent. Ceded reinsurance posted a loss of € 350.3 (profit of 885.3) million from the perspective of the reinsurers. This was mainly due to the reinsurers' participation in hurricane losses Harvey, Irma and Maria as well as the wildfires in California.

## Supplementary information to the Management Report

The various insurance lines and types offered are presented in detail on page 55.

## Investment strategy

Allianz Global Corporate & Specialty SE continued its safety-oriented investment strategy in 2017. The company's objective is to generate as high a return as possible while limiting the risk. By spreading investments over many different investment segments and currencies, it was possible to cushion the effects of historically low interest rates this year as well.

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

Fixed-income investments are concentrated on corporate bonds as well as international government and bank bonds. In accordance with the obligations from the insurance business, these are broadly diversified internationally.

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 36.7 (35.2) percent (based on market values). 9.1 (6.2) percent were invested in bonds from emerging countries. In addition, 8.9 (7.4) percent of the portfolio were invested in government bonds in Singapore and Hong Kong to cover liabilities of the local branch offices. New investments in the area of direct loans amounted to € 47.8 million. Real estate investments increased by € 49.8 million net. At the end of fiscal 2017, the share of stocks in the portfolio was 13.5 (11.2) percent (based on market value), taking into account hedging provisions and stock futures.

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

AGCS SE pursues a matching-cover investment strategy in foreign currencies. In the course of the year, all major currencies were devalued with respect to the Euro.

## Development of investments

The book value of the investments of Allianz Global Corporate & Specialty SE decreased to € 7,453.8 (8,017.6) million in the reporting year. The decrease is essentially due to the transfer of profit to Allianz SE and currency losses due to the revaluation of the Euro.

Investments in associated enterprises and participations rose slightly to € 2,165.0 (2,116.5) million.

The book value of directly held real estate increased slightly to € 77.1 (76.2) million.

The book value of stocks, shares or investment certificates and other variable-income securities amounted to € 2,781.2 (2,996.8) million at the end of the year.

The book value of bearer bonds decreased to € 2,049.2 (2,428.6) million. Mortgage loans increased to € 76.2 (64.6) million and other loans decreased to € 194.9 (249.0) million.

Bank deposits increased to € 15.0 (5.7) million in the course of the year and funds held by others amounted to € 95.1 (80.2) million at the end of the year.

## Investment income

Current income from investments in 2017 amounted to € 203.6 (198.0) million.

The disposal of investments produced income of € 107.7 (487.6) million and losses of € 18.5 (7.0) million. The lower income from the disposal of investments was essentially due to the fact that the significant one-time effects from the restructuring of shareholdings in 2016 did not reoccur in 2017.

Gains from write-ups on investments amounted to € 0.6 (11.0) million.

Depreciation of investments in the reporting year amounted to € 84.2 (31.7) million, of which € 65.5 (23.6) million were attributable to write-downs on bearer bonds.

Investment management and interest expenses came to €10.3 ( 9.6) million.

Due to the effects stated above, total investment income of € 198.6 (648.3) million was clearly below the prior-year figure.

Valuation reserves on investments decreased to a total of € 1,036.6 (1,050.8) million. The valuation reserves include undisclosed assets of € 1,039.9 (1,052.1) million and undisclosed liabilities of € 3.3 (1.3) million. The valuation reserves on investments in associated enterprises and participations increased to € 392.1 (262.0) million. The reserves for directly held real estate amounted to € 32.4 (17.9) million. The valuation reserves on investment certificates decreased to € 512.9 (586.7) million. The valuation reserves on bearer bonds decreased to € 85.1 (162.3) million. The reserve for mortgage bonds amounted to € 0.8 (1.1) million, and for other loans the valuation reserves amounted to € 13.3 (20.7) million.

The reserve ratio, i.e. the percentage of valuation reserves in relation to the book value of total investments, stood at 14.1 (13.2) percent at the end of the year.

## Other non-underwriting business

Other non-underwriting business produced a profit of € 175.5 (5.1) million, which was primarily due to exchange rate developments of the US Dollar and the British Pound with respect to the Euro.

On the other hand, there were expenses for restructuring measures in the amount of € 54.5 million.

The overall result of the non-underwriting business thus amounted to € 374.0 (653.4) million.

## Overall result

Tax charges for the reporting year (including intragroup charges) came to € 114.4 (131.2) million.

On the whole, business developed less favorably in 2017 than in the prior year, even without considering special effects in 2016. The overall result after taxes was a profit of € 331.4 (700.2) 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, Hong Kong (China) and Seoul (South Korea).

# 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, Antwerp and in Asia. 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, PIMCO, Newport Beach, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/Main, Allianz Global Investors Singapore Ltd, Singapore, Robeco Institutional Asset Management B.V., Rotterdam, Allianz Real Estate GmbH, Munich, and Allianz Capital Partners GmbH, Munich.

## Information Technology

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

# Employees

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

Essential for the company is a performance-oriented corporate culture based on fairness and trust.

Allianz Global Corporate & Specialty SE relies on management by objective and performance-based remuneration. By combining company objectives with individual annual objectives, all employees and managers take direct responsibility for the contribution they make to the success of the company.

As before, one of the strategic core areas in human resources remains the subject of „wellbeing", i.e. the creation of a working environment that favors the balance between private and work life. In 2017, we expanded the test field for flexible working hours with the objective of concluding an agreement on this subject in 2018. This year, the resilience training offer was used particularly in the context of team development measures to make employees aware of the mindful use of their personal resources.

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.

As in previous years, the AGCS training program offers training sessions on the subject of diversity, for example „Working with different Cultures".

The company used the implementation of the German Act on the Equal Participation of Women and Men in Management Positions in the Private and Public Sector as an occasion to further expand its existing initiatives.

In addition to the already existing global Talent Management with sponsorship and mentoring programs, cooperation with the SYNK Business School was continued in 2017 to support young high potential women in leadership positions or on their way to such positions. In addition, the annual regional Career Development Committees identified talents on several levels and named them for the newly created Talent Mentoring Program.

The optimization of essential global HR processes was further advanced. In addition to the worldwide adaptation of the processes in 2016, special emphasis was put on their continued simplification.

The strategic expansion of recruiting activities and the continued focus on digital media and social networks continued to play an important role in 2017.

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

At the end of 2017, Allianz Global Corporate & Specialty SE had a total of 2,543 in-house employees.

**Facts and Figures**

| | | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| Employees [1] | | 2 543 | 2 569 |
| of which full-time staff | | 2 490 | 2 501 |
| of which other employees (temps and interns) | | 53 | 68 |
| | | | |
| Share of women | % | 48 | 47 |
| Share of men | % | 52 | 53 |
| | | | |
| Share of full-time staff | % | 86 | 85 |
| Share of part-time staff | % | 14 | 15 |
| | | | |
| Age (average in years) | | 43,1 | 42.6 |
| Time with the Group (average in years) | | 12.0 | 12.0 |

[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.

# Statement on Corporate Management pursuant to section 289a (4) in conjunction with (2, no. 4) HGB

To implement the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector, Allianz Global Corporate & Specialty SE has set the following objectives for the proportion of women. The deadline for achieving all of these objectives has been set uniformly at June 30, 2017.

- The objective for the proportion of women on the Supervisory Board is 30 percent (actual proportion at December 31, 2017: 67 percent).
- The objective for the proportion of women on the Board of Management is 22 percent (actual proportion at December 31, 2017: 22 percent).
- The objective for the proportion of women on the first management level below the Board of Management is 20 percent (actual proportion at December 31, 2017: 14 percent).
- At June 30, 2017, the objective of 20 percent could not be reached; the actual proportion was 15 percent. The number of people at this level is very limited and a single change already has a substantial impact on the quota. Staffing of these positions is very stable and changes occur only rarely. For this reason, the possibilities for actively influencing the quota are limited. When making possible new appointments in the future, care will be taken to take appropriate steps to reach the quota.
- The objective for the proportion of women on the second management level below the Board of Management is 20 percent (actual proportion at December 31, 2017: 22 percent).

The primary concern of Allianz Global Corporate & Specialty SE in this respect is not just meeting statutory requirements. The company can be successful only if it provides equal career opportunities to women and promotes women to leadership positions based on their performance. Allianz Global Corporate & Specialty SE made a commitment to promoting diversity within the company early on. It has been working on putting a corresponding framework in place, adjusting HR processes and implementing targeted measures. Besides measures to allow employees to strike a better balance between work and family life, these schemes range from a global talent management initiative featuring sponsorship and mentoring programs to training sessions on „unconscious bias".

# Risk Report

Assuming and managing risk is part of the business model of Allianz Global Corporate & Specialty SE. Well-developed risk awareness and the careful weighing of opportunities and risks are therefore an integral part of the company's business processes. The key elements of the risk management of Allianz Global Corporate & Specialty SE 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 the 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. The risk propensity is described in the risk strategy and made operational by the limit system contained therein. In addition, further limits are substantiated and detailed in specific standards and directives. Strict risk control and the corresponding reports ensure the early detection of any possible deviations from the 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 (CRO), who reports 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 CRO 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 the 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 and the Chief Claims Officer as well as the Chief Regions and Market Officer Region 1 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 and 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 Allianz Global Corporate & Specialty SE is the Group Risk unit of Allianz SE. Other internal and external control functions are vested in the Supervisory Board, Legal & Compliance, Internal Audit and the Independent Auditors.

## Risk strategy and risk reporting

The AGCS Risk Policy defines the risk categories of Allianz Global Corporate & Specialty SE that must be monitored. The risk strategy based on this policy describes the company's risk tolerance, which is quantified by means of target capitalization ratios. Detailed separate limits for each risk category are then set in further guidelines to which the risk strategy refers.

The quarterly risk report provides information about risk indicators defined within the framework of the limit system and the corresponding threshold values and is used by management for the systematic control of the current risk profile. On the basis of this information, the AGCS Risk Committee decides on the implementation of risk mitigation measures. After its review by the Risk Committee, the risk report is circulated to the Board of Management, senior management and Allianz SE.

At the beginning of 2016, the regulatory reporting requirements according to Solvency II have replaced the Solvency I supervision system. To determine the risk capital requirements according to Solvency II, Allianz Global Corporate & Specialty SE uses the Allianz Group's internal model, which was approved by the German Supervisory Authorities on November 18, 2015.

At the end of 2017, the Solvency II solvency ratio of AGCS SE according to the internal model is 174 percent. The solvency capital requirement is € 1,636 million and eligible equity amounts to € 2,852 million.

**Breakdown of Solvency II capital requirements by risk categories at December 31, 2017:**

| Risk category | Risk capital Mn € |
|---|---|
| Market risk | 1 852,5 |
| Credit risk | 186,8 |
| Underwriting risk | 1 429,3 |
| Business risk | 86,8 |
| Operational risk | 211,6 |
| Diversification | – 2 097,0 |
| | |
| Total of individual risks (before taxes) | **1 670,0** |
| Tax relief | – 34,1 |
| | |
| Total of individual risks (after taxes) | **1 635,9** |

The sensitivity of this ratio is tested by means of stress tests at every quarterly balance sheet date. Taking into account the effects of the stress tests, the Solvency II solvency ratio at the end of 2017 is at least 140 percent. This means that the company's risk bearing capacity is stable and comfortable.

The solvency ratio remains comfortably within the company's risk propensity throughout the entire planning period. In planning the future development of the company, Allianz Global Corporate & Specialty SE takes into account a three-year time horizon.

## Risk categories and control measures

The German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) sets mandatory requirements for risk management. For grouping its risks, Allianz Global Corporate & Specialty SE uses internal categories which comply with the requirements within the framework of Solvency II, which apply since January 1, 2016. In particular, Allianz Global Corporate & Specialty SE monitors and controls:

- Underwriting risk, which 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 risk of natural catastrophes, terror risk as well as risk due to other losses and other premium risks.
- Market risks, i.e. the risk of market value fluctuations differentiated by type of investment. The essential risks are interest risk, currency risk, stock risk and credit spread risk.
- 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 as well as legal and compliance risks.

Non-quantifiable risks are monitored by means of a structured identification and evaluation process. These risks are:

- Liquidity risk, which is defined as the risk that payment obligations cannot be met when they become due.
- 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. Reinsurance plays an important role in controlling the premium risk. In accordance with existing underwriting ceiling, limits and retention management principles, which reflect the risk tolerance of Allianz Global Corporate & Specialty SE and are regularly reviewed, peak risks are ceded by way of facultative reinsurance and contract reinsurance. 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. All models take into account underwriting ceilings and the existing reinsurance protection.

Event losses caused by natural catastrophes, which concern several risks, 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 the 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. This approach makes it possible to determine possible damage impacts and frequencies. The underlying models, which are mainly supplied by external providers, are regularly upgraded, while AGSC internally extends the coverage of modeled scenarios to the extent possible and continually improves the level of detail and the quality of the underlying data. Where such models do not yet exist or are not licensed, risk model assumptions are made on the basis of the ensured exposures or the existing loss experience. The exposure to natural catastrophes is controlled 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 the portfolios and, if possible, to limit the underwritten risk or to calculate the capital efficiency of a risk transfer toward the reinsurance market.

Other event risks caused by humans as well as the terrorism risk are modeled with the help of scenarios on the basis of existing exposures, while the model for other losses is based on the expected business volumes in combination with the company's own loss models.

**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. 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 Allianz Investment Management 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.

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

The investments of Allianz Global Corporate & Specialty SE are broadly diversified according to type of investment (shareholdings, stocks, fixed-income securities, real estate), solvency and geographic location. A continuous risk analysis is performed by 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 13.6 percent, taking into account hedging provisions and stock futures. By means of various stress scenarios we regularly monitor the sensitivity of the portfolio with respect to market changes.

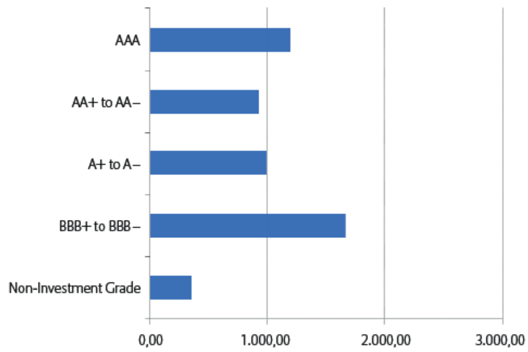
Market risks from derivatives are assessed and controlled by means of up-to-date value-at-risk calculations, stress tests and the setting of limits.

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 amount to approximately 43.9 percent. The primary exposures are in USD (23.9 percent) and GBP (14.1 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 currency exposure, the company also uses 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 year 2017, 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, Allianz Global Corporate & Specialty SE invests a large part of its investments in highly liquid government bonds, and the 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 the fixed-income investments Allianz Global Corporate & Specialty SE are predominantly governments and banks. The company has set limits with respect to minimum rating classes and in view of concentration risks. Of the total investments, 40.0 percent are fixed-income investments with banks and government bonds. Corporate bonds account for 46.5 percent. Investments in different currency areas are determined by the structure of the liabilities.

**Fixed-income investments by rating class as of December 31, 2017, 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. Allianz Global Corporate & Specialty SE assigns credit limits on the basis of the economic capital, taking into account the risk bearing capacity.

If necessary, Allianz Global Corporate & Specialty SE assigns more restrictive credit limits, taking into account the own risk bearing capacity on the basis of eligible capital in the market value balance sheet.

For the quantification of the credit risk resulting from reinsurance, the company uses information on ceded reserves compiled Group-wide. To control the credit risk with respect to reinsurance partners, only companies that offer excellent collateral are considered. At December 31, 2017, approximately 54 percent of the reserves of Allianz Global Corporate & Specialty SE were ceded to reinsurers within the Allianz Group, and the rest to external reinsurers. The increase from the prior year is mainly due to the quota share agreement with Allianz SE. The solvency of the reinsurance exposure is tested once a year; the most recent test was performed in September 2017 as of December 31, 2016. It showed that 74 percent of the company's reserves were ceded to reinsurers that had been assigned at least an "A" rating by Standard & Poor's. Setting aside captives and pools, which for the most part have no ratings of their own, 90 percent of the reserves were ceded to reinsurers with at least an A rating. 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, 2017, total third-party receivables with due dates exceeding 90 days amounted to € 194.3 million (not including explicit write-offs for impairment). The average default rate for the past three years was 0.4 percent.

Operational risks refer to „unexpected losses for Allianz Global Corporate & Specialty SE, which arise because of inadequate or faulty internal business processes, inappropriate human behavior or errors, or because of external events." This definition includes legal and compliance risks but excludes strategic and reputational risks.

The risk management system for operational risk is based on the Allianz Group's „three lines of defense" model. The employees of AGCS must be made aware of possible operational risks and control these by scrutinizing the management of operational risk for all daily business activities. In the framework of a positive risk and control culture it is assumed that specifically the decision makers will make transparent all identified weaknesses and risks so that the necessary countermeasures can be taken in due time.

Operational risks are inherent in all types of products, activities, processes and systems and cannot be completely avoided. Unlike most other kinds of risk, they occur suddenly and unexpectedly and can have a substantial impact on the balance sheets, profits, corporate objectives, business activities or the reputation of Allianz Global Corporate & Specialty SE. Operational risks are controlled by taking a number of appropriate and effective countermeasures, e.g. through controls of the respective risks. Such controls are defined as „key controls" if the actual risk were significantly greater without the key controls.

Due to their importance, the quality of key controls is evaluated in a structured form, i.e. it is verified whether (1) the design of the key controls is adequate to mitigate the targeted risks and (2) whether they have been implemented effectively.

In a larger context, operational risks are controlled from a global perspective through the AGCS Top Risk Assessment (TRA) program and supplemented by risk and control assessment programs at the local, regional and functional level or the business line level. Indicators and limits were developed for important risks to determine the risk tolerance of AGCS at the global level.

The risk management system of Allianz Global Corporate & Specialty SE for operational risks was specifically developed to learn from operational risks that occurred in the past and to avoid unexpected effects of operational risks on AGCS at the global level in the future, i.e. to prevent the occurrence of operational risks outside the risk tolerance of Allianz Global Corporate & Specialty SE

For this purpose, one needs to gain an understanding of what could possibly happen. This is done in two respects:

- In retrospect, operational risks that occurred in the past are continually analyzed and their causes are determined. This process also takes into account external operational events that are made available by Allianz SE.
- Looking forward, concrete scenarios with potentially negative effects are analyzed on an annual basis.

Important activities supplement and support the AGCS risk management for operational risks. These are controlled by functions outside of risk management and include:

- Compliance initiatives in the areas of fighting fraud or corruption, antitrust law, economic sanctions, (non-permissible) cross-border business, insider trading, money laundering, distribution compliance and data protection.
- Framework for Business Continuity Management (BCM).
- Framework for all procurement processes of Allianz Global Corporate & Specialty SE, including outsourcing
- Initiatives to ensure security of information

Operational risk capital, which is determined by the internal risk capital model of Allianz Global Corporate & Specialty SE, is used as a cushion to protect the company against extreme operating losses from unexpected operational risk events, such as, e.g., the unexpected failure of key controls.

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, the assessment also made sure that strategic business decisions were effectively implemented.

**Reputational risks** are controlled by Allianz Global Corporate & Specialty SE by including all potentially concerned functions such as 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 the company's actions, isolated critical cases are subject to a rigorous review process that actively involves the Communication Department as well as Risk Management, if required.

## Risk and solvency assessment

An essential component of the risk management system of Allianz Global Corporate & Specialty SE is the company's own risk and solvency assessment.

The company's risk and solvency situation is summarized as least once per year in a separate report, which, in addition to the results of the regular risk reporting, includes in particular the company's assessment of the:

- Appropriateness of the risk strategy for the business strategy
- Permanent assurance of solvency
- Sensitivity of the solvency quota to external shocks
- Suitability of the internal model for determining solvency capital requirements
- Efficiency of the internal control system
- Capitalization of subsidiaries subject to separate reporting requirements

The risk and solvency situation is not only assessed at the end of the year but the assessment also covers the entire three-year planning period. The overall evaluation from the company's own risk and solvency assessment is positive. The AGCS risk management function saw need to issue a recommendation to take measures to the Board of Management.

In addition, an extraordinary report must be established if individual events substantially alter the risk situation. In 2017, there was no cause to establish a corresponding separate report.

As decided by the Board of Management, the regular report on the risk and solvency situation was submitted on time to the BaFin supervisory authority and made available to the Allianz Group Risk Unit.

## Outlook

Due to the continued weak rate development, premiums remained under heavy pressure. As expected in the prior year forecast, gross premium income in 2017 was slightly below the 2016 level. In Liability, Aviation and Property, existing business relations were expanded and new business was written. In addition, premium development was sustained by an increase of the Captive and Fronting business, in particular at Allianz Risk Transfer AG. The still young Entertainment business once again reported significant growth from the prior year. To maintain profitability despite the difficult market context and to further strengthen our good competitive position, portfolio optimization measures were continued, particularly in Marine insurance. At the same time, we started the implementation of measures to boost productivity as part of the Fit for Future program.

Allianz Global Corporate & Specialty SE expects that the marketing environment will continue to be shaped by intensive competition and overcapacities in the coming years. But there are first indications that the pressure on rate developments is subsiding, among others because of the exceptionally high worldwide claims burden from natural catastrophes in 2017. Allianz Global Corporate & Specialty SE expects a slight overall decline of its premium income in 2018. This is essentially due to the exchange rate assumptions underlying the forecast as well as a decrease of the Fronting business.

With a net combined ratio of 97 percent in 2017, profitability was lower than in 2016 (89 percent) and somewhat below the prior year forecast of 96 percent. This is primarily due to higher net payouts from natural catastrophes and major loss events, wherein property had the biggest share.

For 2018, we expect a continuation of the positive business development and combined ratio of 95 percent.

The quota reinsurance contract of Allianz Global Corporate & Specialty SE with Allianz SE for the German direct insurance business and reinsurance assumed, which took effect in 2015, was renewed for 2018.

For 2018, the reinsurance structure introduced in 2016 was renewed to a large extent. A large part of the non-proportional contract reinsurance is being placed with Allianz Re Dublin dac. Due to the claims burden from natural catastrophes, there was a slight increase of some reinsurance premiums.

Allianz Global Corporate & Specialty SE is going to pursue its safety-oriented investment strategy. In this respect, Allianz Global Corporate & Specialty SE 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 to continue the expansion of investments in infrastructure and renewable energies as well as the granting of direct credits and loans.

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 lower reinvestment interest rates will lead to a decline of expected interest income in the coming year. The uncertainty about the further development of the capital markets can produce the corresponding negative but also positive effects on the market values and investment income of Allianz Global Corporate & Specialty SE in the following year.

In view of the United Kingdom's pending departure from the EU, Allianz Global Corporate & Specialty SE is in direct talks with the British supervisory authorities, Prudential Regulation Authority and the Financial Conduct Authority, to ensure the seamless continuation of the UK business.

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 the forecasts to a greater or lesser extent.

Munich, February 23, 2018

Allianz Global Corporate & Specialty SE
The Board of Management

| | |
|---|---|
| Fischer Hirs | Berger |
| Browne | Klingspor |
| Mack | Mai |
| O'Neill | Scaldaferri |
| Scheffel | |

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Cautionary note regarding forward-looking statements

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements. Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events) (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. No duty to update The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.

# Annual Financial Statements

# Balance sheet as of 31 December 2017

| | | 31.12.2017 € thou | 31.12.2017 € thou | 31.12.2017 € thou | 31.12.2016 € thou |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **A** | **Intangible assets** | | | | |
| I | Self-produced industrial property rights and similar rights and assets | | 43 434 | | 15 496 |
| II | Licenses acquired against payment, industrial property rights and similar rights and assets as well as licenses for such rights and assets | | 166 243 | | 91 193 |
| | | | | 209 677 | 106 689 |
| | | | | | |
| **B** | **Investments** | | | | |
| I | Real estate, real property and equivalent rights including buildings on land not owned by AGCS | | 77 149 | | 76 211 |
| II | Investments in affiliated and associated enterprises | | 2 164 967 | | 2 116 507 |
| III | Other investments | | 5 116 559 | | 5 744 631 |
| IV | Funds held by others under reinsurance business assumed | | 95 083 | | 80 206 |
| | | | | 7 453 758 | 8 017 555 |
| | | | | | |
| **C** | **Receivables** | | | | |
| I | Accounts receivable from direct insurance business | | | | |
| | 1 Policy holders | 27 725 | | | 15 014 |
| | 2 Insurance brokers | 441 929 | | | 421 866 |
| | including from affiliated enterprises: € thou 640 (595) | | | | |
| | | | 469 654 | | 436 880 |
| II | Accounts receivable on reinsurance business | | 687 297 | | 714 314 |
| | including from affiliated enterprises: € thou 209 344 (265 371) | | | | |
| III | Other receivables | | 236 756 | | 192 532 |
| | including taxes of: € thou 63 920 (28 897) | | | | |
| | including from affiliated enterprises: € thou 50 493 (48 788) | | | | |
| | | | | 1 393 707 | 1 343 726 |
| | | | | | |
| **D** | **Other assets** | | | | |
| I | Cash with banks, checks and cash on hand | | 83 183 | | 62 879 |
| II | Miscellaneous assets | | 54 610 | | 52 028 |
| | | | | 137 793 | 114 907 |
| | | | | | |
| **E** | **Deferred income and prepaid expenses** | | | | |
| I | Accrued interest and rent | | 26 091 | | 41 147 |
| II | Other prepaid expenses and deferred income | | 1 910 | | 2 741 |
| | | | | 28 001 | 43 888 |
| | | | | | |
| **F** | **Excess of plan assets over pension liabilities/pension provisions** | | | 4 437 | 2 737 |
| | | | | | |
| Total assets | | | | 9 227 373 | 9 629 502 |

| | | 31.12.2017 € thou | 31.12.2017 € thou | 31.12.2017 € thou | 31.12.2016 € thou |
|---|---|---|---|---|---|
| Equity and liabilities | | | | | |
| A | Shareholders' equity | | | | |
| I | Capital stock | | 36 741 | | 36 741 |
| II | Additional paid-in capital | | 1 099 141 | | 1 099 141 |
| III | Appropriated retained earnings | | | | |
| | other retained earnings | | 8 355 | | 8 355 |
| | | | | 1 144 237 | 1 144 237 |
| B | Insurance reserves | | | | |
| I | Unearned premiums | | | | |
| | 1 Gross | 1 202 050 | | | 1 232 598 |
| | 2 Less: amounts ceded | 624 305 | | | 665 468 |
| | | | 577 745 | | 567 130 |
| II | Reserve for loss and loss adjustment expenses | | | | |
| | 1 Gross | 8 477 367 | | | 7 934 385 |
| | 2 Less: share in reinsured insurance business | 5 515 815 | | | 4 929 841 |
| | | | 2 961 552 | | 3 004 544 |
| III | Claims equalization reserve and similar reserves | | 703 959 | | 737 467 |
| IV | Other insurance reserves | | | | |
| | 1 Gross | 39 939 | | | 27 663 |
| | 2 Less: share in reinsured insurance business | 12 049 | | | 13 209 |
| | | | 27 890 | | 14 454 |
| | | | | 4 271 146 | 4 323 595 |
| C | Other accrued liabilities | | | 295 168 | 203 897 |
| D | Funds held under reinsurance | | | 2 518 222 | 2 654 615 |
| E | Other liabilities | | | | |
| I | Accounts payable on direct insurance business to: | | | | |
| | 1 Policy holders | 2 516 | | | 1 275 |
| | including residual term of up to one year: € thou 2 516 (1 275) | | | | |
| | 2 Agents | 21 722 | | | 29 763 |
| | including to affiliated enterprises: € thou 4 332 (1 973) | | | | |
| | including residual term of up to one year: € thou 21 722 (29 763) | | | | |
| | | | 24 238 | | 31 038 |
| II | Accounts payable on reinsurance business | | 382 332 | | 389 402 |
| | including to affiliated enterprises: € thou 107 423 (91 971) | | | | |
| | including residual term of up to one year: € thou 382 332 (389 402) | | | | |
| III | Amounts payable to banks | | - | | 9 671 |
| | including residual term of up to one year: € thou 0 (9 671) | | | | |
| IV | Miscellaneous liabilities | | 588 610 | | 864 683 |
| | including from taxes: € thou 36 790 (31 421) | | | | |
| | including to affiliated enterprises: € thou 354 645 (693 835) | | | | |
| | including residual term of up to one year: € thou 588 610 (864 683) | | | | |
| | | | | 995 180 | 1 294 794 |
| F | Deferred income | | | 3 420 | 8 364 |
| Total equity and liability | | | | 9 227 373 | 9 629 502 |

# Income statement
# For the period from 1 January to 31 December 2017

| | 2017 € thou | 2017 € thou | 2017 € thou | 2016 € thou |
|---|---|---|---|---|
| I Technical account | | | | |
| | | | | |
| 1 Premiums earned - net | | | | |
| a Gross premiums written | 4 035 180 | | | 4 072 676 |
| b Premiums ceded | – 2 772 770 | | | – 2 865 968 |
| | | 1 262 410 | | 1 206 708 |
| c Change in unearned premiums - gross | – 50 170 | | | – 2 541 |
| d Change in unearned premiums ceded – gross | 7 485 | | | – 1 731 |
| | | – 42 685 | | – 4 272 |
| | | | 1 219 725 | 1 202 436 |
| | | | | |
| 2 Loss and loss adjustment expenses - net | | | | |
| a Claims paid | | | | |
| aa Gross | – 2 404 846 | | | – 2 108 995 |
| bb Amounts ceded in reinsurance | 1 730 539 | | | 1 427 348 |
| | | – 674 307 | | – 681 647 |
| b Change in reserves for loss and loss adjustment expenses | | | | |
| aa Gross | – 958 716 | | | – 54 359 |
| bb Amounts ceded in reinsurance | 861 733 | | | 17 507 |
| | | – 96 983 | | – 36 852 |
| | | | – 771 290 | – 718 499 |
| | | | | |
| 3 Change in other insurance reserves - net | | | | |
| | | | – 577 | 14 173 |
| 4 Expenses for profit-dependent and profit-independent premium rebates for own account | | | – 13 670 | – 1 805 |
| | | | | |
| 5 Underwriting expenses -net | | | – 393 521 | – 355 189 |
| | | | | |
| 6 Other underwriting expenses - net | | | – 2 394 | – 4 797 |
| | | | | |
| 7 Subtotal | | | 38 273 | 136 319 |
| | | | | |
| 8 Change in claims equalization and similar reserves | | | 33 508 | 25 224 |
| | | | | |
| 9 Net technical result | | | 71 781 | 161 543 |

| | | 2017 € thou | 2017 € thou | 2016 € thou |
|---|---|---|---|---|
| II | Non-technical account | | | |
| | | | | |
| 1 | Investment income | 312 110 | | 696 621 |
| 2 | Investment expenses | – 113 540 | | – 48 323 |
| | | | 198 570 | 648 298 |
| | | | | |
| 3 | Other income | 409 910 | | 149 776 |
| 4 | Other expenses | – 234 458 | | – 144 684 |
| | | | 175 452 | 5 092 |
| | | | | |
| 5 | Non-technical result | | 374 023 | 653 390 |
| | | | | |
| 6 | Earnings from ordinary activities before taxes | | 445 804 | 814 933 |
| | | | | |
| 7 | Extraordinary income | - | | 16 456 |
| 8 | Extraordinary result | | - | 16 456 |
| | | | | |
| 9 | Income taxes, including amounts charged to | – 111 115 | | – 130 029 |
| | other group companies: € thou 52 708 (44 361) | | | |
| 10 | Other taxes | – 3 279 | | – 1 185 |
| | | | – 114 393 | – 131 214 |
| | | | 331 411 | 700 175 |
| | | | | |
| 11 | Profits transferred because of a profit pool, a transfer-of-profit or transfer-of-partial profit agreement | | – 331 411 | – 700 175 |
| | | | | |
| 12 | Unappropriated retained earnings | | – | – |

# 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.

**Mortgages, land charges and annuity land charges, registered bonds, promissory notes 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; mortgages and land charges are amortized on a linear basis over the remaining period.

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.

**Structured products**
The portfolio contains structured products in the form of registered bonds, loans, participatory notes and bearer bonds, which are posted uniformly in the balance sheet. They are valued and recognized according to the balance sheet item under which they are recorded.

## 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.

Since 2015, accounts receivable on reinsurance business are accounted for separately under reinsurance assumed and reinsurance ceded for each contracting party.

## 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 are determined on the basis of the information provided by the ceding insurers. The reinsurers' share deducted from the gross unearned premiums are predominantly determined according to the daily calculation method, 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.

There were no more Aggregate policy reserves for annuities according to section 342h HGB at the end of fiscal 2016. The responsible actuary's certification of the corresponding policy reserves is therefore no longer required.

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.

## 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 were already recognized in full as an extraordinary expense in the past. 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. In 2016, the „Law to implement the Mortgage Credit Directive and amend provisions of commercial code" took effect. Among others, this law includes a revised version of section 253 HGB on the valuation of pension liabilities. In the future, the discount rate for pension is to be derived from a 10-year average rather than the previous 7-year average, while the positive difference that results from the valuation of pension liabilities on a 10-year average instead of the 7-year-average is subject to a distribution ban (section 253 (6, 2) HGB). This distribution ban does not block the transfer of profits if there is a transfer-of-profit agreement. The abovementioned changes apply to pension liabilities but not to personnel liabilities such as phased-in early retirement, value account model, jubilee payments and early retirement benefits. 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); as in the prior year, an interest rate forecast as of the balance sheet was applied. 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.

Since 2015, accounts payable on reinsurance business are accounted for separately under reinsurance assumed and reinsurance ceded for each contracting party.

## 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 2017

| | | Balance sheet value 31.12.2017 € thou | % |
|---|---|---|---|
| A | Intangible assets | | |
| I | Self-produced industrial property rights and similar rights and assets | 15 496 | – |
| II | Licenses acquired against payment, industrial property rights and similar rights and assets as well as licenses for such rights and assets | 91 193 | – |
| B.I | Real estate, real property and equivalent rights including buildings on land not owned by AGSC | 76 211 | 1,0 |
| B.II | Investments in affiliated and associated enterprises | | |
| | 1 Shares in affiliated and associated enterprises | 1 938 211 | 24,4 |
| | 2 Loans to affiliated enterprises | 111 817 | 1,4 |
| | 3 Participations | 44 372 | 0,6 |
| | 4 Loans to companies in which participations are held | 22 107 | 0,3 |
| | **Subtotal B.II.** | **2 116 507** | **26,7** |
| B.III | Other investments | | |
| | 1 Stocks, investment fund units and other variable income securities | 2 996 783 | 37,8 |
| | 2 Bearer bonds an other fixed-income securities | 2 428 582 | 30,6 |
| | 3 Mortgages, land charges and annuity land charges | 64 606 | 0,8 |
| | 4 Other loans | | |
| | a Registered bonds | 78 829 | 1,0 |
| | b Note loans and loans | 170 179 | 2,1 |
| | 5 Bank deposits | 5 652 | 0,1 |
| | **Subtotal B.III.** | **5 744 632** | **72,4** |
| | **Subtotal B.I. through B.III.** | **7 937 349** | **100,0** |
| Total | | 8 044 038 | |

## Intangible assets (Assets A.)

This balance sheet position essentially comprises the capitalized expenses in connection with a long-term distribution agreement with Standard Chartered Bank (€ 61,389 thou). In addition, it mainly comprises capitalized expenses for the system integration of own and third-party software as well as the acquisition cost of the insurance portfolios acquired within the Group, less scheduled depreciation. The total amount of the research and development costs for self-generated immaterial assets in fiscal 2017 is € 27,865 thou, of which € 25,166 thou were capitalized.

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

Shares in affiliated and associated enterprises were composed as follows in fiscal 2017:

| | 31.12.2017 € thou | 31.12.2016 € thou |
|---|---|---|
| Shares in affiliated enterprises | | |
| AGCS International Holding B.V., Amsterdam | 1 618 609 | 1 624 045 |
| Allianz Finance VIII S.A., Luxemburg | 96 408 | 67 991 |
| Allianz Risk Transfer AG, Schaan | 74 497 | 74 497 |
| Infrastructure Lux HoldCo II, Luxemburg | 49 068 | 23 976 |
| Allianz Fire and Marine Insurance Japan Ltd., Tokyo | 37 381 | 37 381 |
| Sirius S.A., Luxemburg | 32 328 | 32 328 |
| Alida Grundstücksgesellschaft mbH & Co. KG, Hamburg | 16 727 | 16 727 |
| Allianz EM Loans S.C.S., Luxemburg | 14 494 | 4 862 |
| Q 207 S.C.S., Luxemburg | 12 024 | 12 224 |
| Allianz Jewel Fund ICAV, Dublin | 9 325 | 9 325 |
| AGCS-Argos 76 Vermögensverwaltungsgesellschaft mbH, Munich | 8 088 | 25 |
| Caroline Berlin S.C.S., Luxemburg | 7 436 | 7 816 |
| AGCS Infrastrukturfonds GmbH, Munich | 7 377 | 2 377 |
| AGCS-Argos 86 Vermögensverwaltungsgesellschaft mbH, Munich | 6 505 | – |
| Allianz Marine (UK) Ltd., London | 6 408 | 6 408 |
| AGCS Vermögensverwaltungsgesellschaft mbH & Co. KG, Munich | – | 6 480 |
| Others | 8 084 | 11 749 |
| **Subtotal** | **2 004 758** | **1 938 211** |

| Additions € thou | Reclassifications € thou | Disposals € thou | Revaluation € thou | Depreciation € thou | Net change € thou | Balance sheet value 31.12.2016 € thou | % |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 25 165 | 4 917 | | | 2 144 | 27 938 | 43 434 | |
| 102 254 | – 4 917 | | | 22 287 | 75 050 | 166 243 | |
| | | | | | | | |
| 2 583 | | 3 | | 1 642 | 938 | 77 149 | 1,0 |
| | | | | | | | |
| | | | | | | | |
| 157 833 | | 89 142 | | 2 144 | 66 547 | 2 004 758 | 27,2 |
| 12 108 | | 33 250 | | 988 | – 22 130 | 89 688 | 1,2 |
| 7 010 | | 4 130 | | | 2 880 | 47 251 | 0,6 |
| 1 164 | | | | | 1 164 | 23 270 | 0,3 |
| **178 114** | | **126 521** | | **3 132** | **48 460** | **2 164 967** | **29,4** |
| | | | | | | | |
| | | | | | | | |
| 48 654 | | 253 934 | | 10 260 | – 215 540 | 2 781 242 | 37,8 |
| 809 913 | | 1 124 439 | 611 | 65 476 | – 379 391 | 2 049 192 | 27,8 |
| 11 860 | | 283 | | | 11 578 | 76 183 | 1,0 |
| | | | | | | | |
| 1 450 | | 6 561 | | 3 648 | – 8 759 | 70 071 | 1,0 |
| | | 45 349 | | | – 45 349 | 124 830 | 1,7 |
| 11 285 | | 1 896 | | | 9 389 | 15 041 | 0,2 |
| **883 163** | | **1 432 462** | **611** | **79 385** | **– 628 072** | **5 116 559** | **69,5** |
| **1 063 860** | | **1 558 987** | **611** | **84 158** | **– 578 674** | **7 358 676** | **100,0** |
| | | | | | | | |
| **1 191 279** | | **1 558 987** | **611** | **108 589** | **– 475 686** | **7 568 353** | |

| | 31.12.2017 € thou | 31.12.2016 € thou |
|---|---|---|
| **Loans to affiliated enterprises** | | |
| Allianz Finance VII S.A., Luxemburg | 34 689 | 31 223 |
| Allianz Managed Operations & Services SE, Munich | 17 600 | 17 600 |
| Allianz Jewel Fund ICAV, Dublin | 16 705 | 37 335 |
| Allianz Fund Investments S.A., Luxemburg | 13 148 | 23 867 |
| Allianz Fund Investments 2 S.A. (Compartment), Luxemburg | 7 545 | 1 792 |
| **Subtotal** | **89 688** | **111 817** |
| | | |
| **Participations** | | |
| AS Gasinfrastruktur Beteiligung GmbH, Vienna | 29 982 | 33 914 |
| The FIZZ Student Housing, Luxemburg | 6 239 | – |
| T&R Investment GmbH & Co. KG, Frankfurt/Main | 5 038 | 5 039 |
| National Insurance Company Berhad, Brunei | 2 970 | 2 970 |
| PIMCO Corporate Opportunities Fund II Lux Feeder SCS, Luxemburg | 1 522 | 949 |
| T&R Real estate GmbH, Bonn | 1 500 | 1 500 |
| **Subtotal** | **47 251** | **44 372** |

| | 31.12.2017 € thou | 31.12.2016 € thou |
|---|---|---|
| **Loans to companies in which participations are held** | | |
| T&R Investment GmbH & Co. KG, Frankfurt/Main | 23 270 | 22 107 |
| **Subtotal** | **23 270** | **22 107** |
| | | |
| **Total investments in affiliated enterprises** | **2 164 967** | **2 116 507** |

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

| Name of fund | Investment goal | Redemption of fund shares | Balance sheet value 31.12.2017 € thou | Fair value 31.12.2017 € thou | Valuation reserve 31.12.2017 € thou | Dividend distribution for the fiscal year € thou |
|---|---|---|---|---|---|---|
| Mixed funds | | | | | | |
| ALLIANZ GLR FONDS | Mixed funds | each trading day | 1 199 734 | 1 512 097 | 312 363 | 16 654 |
| Allianz Renewable Energy Fund II, S.A.S | Mixed funds | each trading day | 20 294 | 20 294 | – | 522 |
| Subtotal | | | 1 220 028 | 1 532 391 | 312 363 | 17 176 |
| Bond funds | | | | | | |
| ALLIANZ GLRS FONDS | Bond fund | each trading day | 719 161 | 804 814 | 85 653 | 7 955 |
| ALLIANZ GLU FONDS | Bond fund | each trading day | 503 942 | 596 775 | 92 833 | 7 027 |
| ALLIANZ GRGB FONDS | Bond fund | each trading day | 316 369 | 338 337 | 21 968 | 2 826 |
| Subtotal | | | 1 539 472 | 1 739 926 | 200 454 | 17 808 |
| Total | | | 2 759 500 | 3 272 317 | 512 817 | 34 984 |

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

| Name and location | Interest % | Equity € thou | Net income € thou |
|---|---|---|---|
| AGCS-Argos 76 Vermögenverwaltungsgesellschaften mbH, Munich | 100.00 | 24 | 1 |
| AGCS-Argos 86 Vermögensverwaltungsgesellschaft mbH, Munich | 100.00 | - | - |
| AGCS Infrastrukturfonds GmbH, Munich | 100.00 | 2,393 | 18 |
| AGCS International Holding B.V., Amsterdam[3] | 100.00 | 1,169,714 | -104 |
| AGCS Marine Insurance Company, Chicago[3] | 92.00 | 156,710 | 4,092 |
| AGCS of Bermuda, Hamilton[8] | 92.00 | - | - |
| AGR US, Chicago[3] | 92.00 | 1,608,801 | -223,663 |
| AIM Underwriting Limited, Toronto[8] | 92.00 | - | - |
| Alida Grundstücksgesellschaft mbH & Co. KG, Hamburg | 4.73 | 405,963 | 11,133 |
| Allianz Aviation Managers LLC, New York[8] | 92.00 | - | - |
| Allianz EM Loans S.C.S., Luxemburg | 11.11 | 43,812 | 426 |
| Allianz Finance VII Luxembourg S.A., Luxemburg | 6.00 | 1,120,680 | 6,230 |
| Allianz Finance VIII Luxembourg S.A., Luxemburg | 20.00 | 339,732 | -60 |
| Allianz Fund Investment 2 S.A., Luxemburg | 100.00 | 6,616 | -3,652 |
| Allianz Fund Investments S.A., Luxemburg | 100.00 | 35 | 16 |
| Allianz Fire and Marine Insurance Japan Ltd., Tokio[1 5] | 100.00 | 27,139 | 4,004 |
| Allianz Global Corporate & Specialty do Brasil Participações Ltda., Sao Paulo[6] | 100.00 | 56,421 | 440 |
| Allianz Global Corporate & Specialty of Africa (Proprietary) Ltd., Johannesburg[4] | 100.00 | 7,589 | 334 |
| Allianz Global Corporate & Specialty Resseguros Brasil S.A., Sao Paulo[6] | 100.00 | 56,170 | 451 |
| Allianz Global Corporate & Specialty SE, Escritorio de Representacao no Brasil Ltda., Sao Paulo[6] | 99.99 | 10 | 1 |
| Allianz Global Corporate & Specialty South Africa Ltd., Johannesburg[4] | 100.00 | 7,739 | 333 |
| Allianz Jewel Fund ICAV, Dublin | 5.00 | 179,726 | 6,778 |
| Allianz Marine (UK) Ltd., London[2] | 100.00 | 10,704 | 59 |
| Allianz Renewable Energy Fund II S.A. SICAV-SIF, Luxemburg | 10.78 | - | - |
| Allianz Renewable Energy Partners of America LLC, Wilmington[8] | 30.66 | - | - |
| Allianz Risk Consulting GmbH, Munich | 100.00 | 1,921 | 232 |
| Allianz Risk Consulting LLC, Petaluma[8] | 92.00 | - | - |
| Allianz Risk Transfer AG, Schaan | 100.00 | 547,489 | 66,080 |
| Allianz Risk Transfer (Bermuda) Ltd., Hamilton[3] | 100.00 | 53,597 | 928 |
| Allianz Risk Transfer Inc., New York[8] | 100.00 | - | - |
| Allianz Risk Transfer (UK) Ltd., London[2] | 100.00 | 1,497 | 13 |
| Allianz Services (UK) Ltd., London[2] | 100.00 | 41 | 2 |
| Allianz Underwriters Insurance Company, Chicago[3] | 92.00 | 58,890 | 884 |
| American Automobile Insurance Company, O'Fallon[3] | 92.00 | 63,209 | 950 |
| AS Gasinfrastruktur Beteiligung GmbH, Vienna | 10.00 | 338,770 | -11 |
| Associated Indemnity Corporation, Petaluma[3] | 92.00 | 73,769 | 1,007 |
| Assurance France Aviation S.A., Paris | 99.88 | 2,724 | -62 |
| AZ Infrastructure Luxembourg I, Luxemburg | 15.12 | 1,681,393 | 187,804 |

| Name, Ort | Anteil % | Eigenkapital Tsd € | Jahresergebnis Tsd € |
|---|---|---|---|
| Brunei National Insurance Company Berhad Ltd., Brunei[7] | 25.00 | 10,444 | 1,810 |
| Caroline Berlin S.C.S., Luxemburg | 3.80 | 196,540 | 2,482 |
| Chicago Insurance Company, Chicago[3] | 92.00 | 54,633 | 234 |
| Fireman´s Fund Financial Services, LLC, Wilmington[8] | 92.00 | - | - |
| Fireman´s Fund Insurance Company, Petaluma[3] | 92.00 | 1,391,204 | 324,211 |
| Fireman´s Fund Insurance Company of Hawaii, Honolulu[3] | 92.00 | 7,659 | 53 |
| Fireman´s Fund Insurance Indemnity Corporation, Liberty Corner[3] | 92.00 | 12,601 | 125 |
| Infrastructure Lux HoldCo II, Luxemburg | 10.10 | 232,207 | 4,307 |
| Interstate Fire & Casualty Company, Chicago[3] | 92.00 | 56,766 | 564 |
| National Surety Corporation, Chicago[3] | 92.00 | 59,557 | 339 |
| Par Holdings Ltd., Hamilton[8] | 20.22 | - | - |
| Q207 S.C.S., Luxemburg | 10.00 | 89,229 | 3,235 |
| Sirius S.A., Luxemburg | 10.32 | 314,003 | 6,888 |
| SpaceCo S.A., Paris | 100.00 | 3,703 | 593 |
| The American Insurance Company, Columbus[3] | 92.00 | 53,265 | -1,431 |
| Wm. H. McGee & Co. Inc., New York[8] | 92.00 | - | - |
| Wm. H. McGee & Co. Ltd., Hamilton[8] | 92.00 | - | - |
| 1739908 Ontario Inc., Toronto[8] | 92.00 | - | - |

All figures from 2017
1 Fiscal year from April to March figures from March 2017
2 Converted from GBP to EUR closing rate 12/31/2017: 0,88765
3 Converted from USD to EUR closing rate 12/31/2017: 1,2008
4 Converted from ZAR to EUR closing rate 12/31/2017: 14,8659
5 Converted from JPY to EUR closing rate 12/31/2017: 135,2701
6 Converted from BRL to EUR closing rate 12/31/2017: 3,9832
7 Converted from BND to EUR closing rate 12/31/2017: 1,60475
8 Due to local regulations no annual financial statements are made

## Fair value of investments

| | Market value 31.12.2017 € thou | Market value 31.12.2016 € thou |
|---|---|---|
| **B.I Real estate, real property and equivalent rights including buildings on land not owned by AGCS** | 109 549 | 94 104 |
| | | |
| **B.II Investments in affiliated and associated enterprises** | | |
| 1 Shares in affiliated and associated enterprises | 2 388 276 | 2 196 132 |
| 2 Loans to affiliated and associated enterprises | 94 506 | 115 224 |
| 3 Participations | 50 990 | 45 112 |
| 4 Loans to companies in which participations are held | 23 270 | 22 107 |
| | | |
| **B.III Other investments** | | |
| 1 Shares, investment fund units and other variable interest securities | 3 294 121 | 3 583 488 |
| 2 Bearer bonds and other fixed-interest securities | 2 134 311 | 2 590 892 |
| 3 Mortgages, land charges and annuity land charges | 77 011 | 65 728 |
| 4 Other loans | | |
| a Registered bonds | 75 267 | 86 121 |
| b Promissory notes and loans | 132 905 | 183 632 |
| 5 Bank deposits | 15 041 | 5 652 |
| | | |
| **B.IV Funds held by others under reinsurance business assumed** | 95 082 | 80 206 |
| | | |
| **Total investments** | 8 490 329 | 9 068 398 |

**The following valuation methods were used to determine fair values:**
The fair value of land and buildings is valued at December 31 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. In certain individual cases, the net asset valuation model is used.

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.

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 € 3,341 thou. The book value amounts to € 72,531 thou, the fair value to € 69,190 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.

## 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.

## 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 € 4,437 ( 2,737) thou.

## Bar on dividend distribution

The amount barred from dividend distribution according to section 268 (8) HGB in connection with section 301 AktG amounts to € 45,069 (15,646) thou and concerns the recognition of self-generated intangible assets in the amount of € 43,434 (15,496) thou and the valuation of plan assets at fair value according to section 253 (1) HGB in the amount of € 1,635 (150) thou. The amount barred from dividend distribution is completely covered by unappropriated reserves and is thus transferred in full.

## Valuation units

To hedge stock-based compensation plans (Allianz equity incentive plans), forward transactions (hedge RSUs) are contracted with Allianz SE. These forward transaction are combined with the corresponding underlying transactions 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 2021 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 € 29,453 (30,777) thou. Valuation units are accounted for by means of the „freezing" method. The valuation units are used to hedge risks in the form of changes in value in the amount of € 15,564 (11,332) thou.

# Supplementary information on equity and liabilities

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

At December 31, 2017, the issued capital of € 36,741 thou is divided into 36,740,661 fully-paid in bearer shares with a nominal value of 1 EUR each.

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 | | Gross reserves for loss and loss adjustment expenses | | Claims equalization reserve and similar reserves | |
|---|---|---|---|---|---|---|
| | **31.12.2017** € thou | 31.12.2016 € thou | **31.12.2017** € thou | 31.12.2016 € thou | **31.12.2017** € thou | 31.12.2016 € thou |
| Direct insurance business written | | | | | | |
| Personal accident | 13 168 | 16 145 | 7 875 | 9 933 | - | - |
| 3rd party liability | 3 298 591 | 3 173 056 | 2 989 701 | 2 855 996 | 55 225 | 58 736 |
| Automotive liability | 11 249 | 14 583 | 7 290 | 9 667 | - | - |
| Other automotive | 15 502 | 16 728 | 11 264 | 11 745 | - | - |
| Fire and property | 1 127 544 | 1 103 651 | 724 964 | 681 562 | 109 691 | 131 198 |
| including: | | | | | | |
| Fire insurance | 465 028 | 402 027 | 307 638 | 211 355 | 109 446 | 123 191 |
| Other property insurance | 662 516 | 701 624 | 417 326 | 470 207 | 245 | 8 007 |
| Transport and aviation insurance | 1 063 030 | 1 406 281 | 915 197 | 1 241 040 | 85 898 | 87 406 |
| Other insurance | 279 510 | 195 232 | 232 929 | 162 706 | 64 | 525 |
| Total* | 5 808 824 | 5 925 677 | 4 889 229 | 4 972 649 | 250 877 | 277 866 |
| Reinsurance business assumed Total | 4 614 491 | 4 006 436 | 3 588 138 | 2 961 736 | 453 082 | 459 601 |
| Insurance business total | 10 423 315 | 9 932 113 | 8 477 367 | 7 934 385 | 703 959 | 737 467 |

* In addition to the insurance branch groups, insurance branches and types of insurance listed above individually, the total also includes amounts for the insurance branches Health, Assistance and Legal Protection with gross premiums of less than € 500 thou each that are not essential for the overall business of Allians Global Corporate and Specialties SE.

## 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 commitments 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. For securities-linked commitments, the fair value of the underlying assets is used.

| | **31.12.2017** % | 31.12.2016 % |
|---|---|---|
| Discount rate (10-year average)*: | 3.68 | 4.01 |
| Discount rate (7-year average)*: | 2.81 | 3.23 |
| Rate of assumed pension increase | 1.50 | 1.50 |
| 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 reporting year, reserves in the amount of € 4,278 (3,704) thou were constituted for pension reserves and similar commitments.

The settlement amount calculated at December 31, 2017 with the 7-year discount rate of the offset debt amounts to € 89.273 thou. This means that according to section 253 (2, 6) HGB, the amount of € 421 thou is barred from distribution.

## 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 (with the exception of the interest rate).

### Plan assets

The historical cost of the offset assets amounts to € 90,435 (80,883) thou and the fair value of these assets is € 93,862 (76,281). The settlement amount of the offset liabilities is € 96,315 (83,356) thou.

### Tax reserves

In the reporting year tax reserves in the amount of € 58,169 (60,704) thou were constituted essentially in the branch offices in the UK and Belgium.

### Other reserves

Other reserves for fiscal 2017 include the following positions:

| | 31.12.2017<br>€ thou | 31.12.2016<br>€ thou |
|---|---|---|
| Provisions for: | | |
| Long-term distribution agreement with Standard Chartered Bank | 65 017 | - |
| Restructuring | 42 110 | - |
| Remunerations not yet definitely determined | 38 136 | 59 009 |
| Invoices not yet received | 33 272 | 30 346 |
| Allianz Equity Incentives | 22 600 | 22 225 |
| Holidays and flexible working hours | 12 060 | 12 704 |
| Employee jubilees | 5 213 | 5 433 |
| Phased-in retirement and value account model | 2 829 | 573 |
| Severance payments | 613 | 755 |
| Other | 5 647 | 8 085 |
| | | |
| Total other provisions | 162 479 | 139 130 |

## Funds held under reinsurance business ceded (Equity and Liabilities D)

This item essentially contains premiums from the net quota share agreement with Allianz SE.

## 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 1 year.

# 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 | |
|---|---|---|---|---|---|---|
| | **2017** € thou | 2016 € thou | **2017** € thou | 2016 € thou | **2017** € thou | 2016 € thou |
| **Direct insurance business written** | | | | | | |
| Personal accident | 8 717 | 10 622 | 9 388 | 10 990 | 5 245 | 6 741 |
| 3rd party liability | 803 551 | 767 539 | 799 239 | 764 255 | 370 594 | 343 279 |
| Automotive liability | 14 494 | 15 848 | 14 823 | 15 025 | 76 | - 262 |
| Other automotive | 13 861 | 13 927 | 14 003 | 14 660 | 17 | - 17 |
| Fire and property | 571 473 | 608 334 | 558 915 | 581 580 | 179 167 | 166 901 |
| including: | | | | | | |
| Fire insurance | 191 833 | 220 305 | 209 511 | 212 362 | 75 337 | 60 497 |
| Other property insurance | 379 640 | 388 029 | 349 404 | 369 218 | 103 830 | 106 404 |
| Transport and aviation insurance | 407 508 | 518 984 | 415 922 | 539 892 | 130 699 | 174 337 |
| Other insurance | 138 662 | 98 604 | 123 614 | 102 848 | 32 021 | 24 916 |
| **Total [1]** | **1 958 795** | **2 033 861** | **1 936 214** | **2 029 252** | **717 803** | **715 897** |
| | | | | | | |
| **Reinsurance business assumed** | 2 076 385 | 2 038 815 | 2 048 796 | 2 040 883 | 501 922 | 486 539 |
| | | | | | | |
| **Insurance business total** | **4 035 180** | **4 072 676** | **3 985 010** | **4 070 135** | **1 219 725** | **1 202 436** |

1 This total cannot be derived from the insurance branches listed above because it also contains non-essential amounts for the insurance branches Health, Assistance and Legal Protection with gross premiums of less than € 500 thou each that are not listed individuall.

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

| | Germany | | EU | | Other countries | |
|---|---|---|---|---|---|---|
| | **2017** € thou | 2016 € thou | **2017** € thou | 2016 € thou | **2017** € thou | 2016 € thou |
| Personal accident | 2 189 | 4 789 | 3 255 | 3 208 | 3 273 | 2 625 |
| 3rd party liability | 273 993 | 333 468 | 432 328 | 348 814 | 97 230 | 85 257 |
| Automotive liability | - | 38 | - | - | 14 494 | 15 810 |
| Other automotive | - | - | - | - | 13 861 | 13 927 |
| Fire and property | 154 553 | 214 249 | 354 272 | 309 400 | 62 648 | 84 685 |
| Including: | | | | | | |
| Fire insurance | 45 004 | 80 733 | 116 521 | 111 133 | 30 308 | 28 439 |
| Other property insurance | 109 549 | 133 516 | 237 751 | 198 267 | 32 340 | 56 246 |
| Transport and aviation insurance | 133 436 | 204 905 | 225 918 | 249 953 | 48 154 | 64 127 |
| Other insurance | 51 657 | 38 976 | 55 983 | 45 201 | 31 023 | 14 427 |
| | | | | | | |
| **Total [1]** | **615 829** | **796 425** | **1 071 757** | **956 578** | **271 209** | **280 858** |

1 This total cannot be derived from the insurance branches listed above because it also contains non-essential amounts for the insurance branches Health, Assistance and Legal Protection with gross premiums of less than € 500 thou each that are not listed individually.

## Run-off

The run-off in direct insurance amounted to € 118,472 (133,914) thou net; in business assumed it was € 59,954 (71,099) 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 € thou | 2016 € thou | 2017 € thou | 2016 € thou | 2017 € thou | 2016 € thou | 2017 € thou | 2016 € thou | 2017 | 2016 |
| | | | | | | | | | | |
| | - 133 | - 1 231 | 2 562 | 2 862 | - 2 973 | - 3 504 | 4 002 | 8 157 | 8 752 | 5 990 |
| | 584 186 | 469 246 | 160 616 | 155 651 | - 44 432 | - 174 549 | 12 905 | 21 773 | 25 665 | 22 858 |
| | 7 799 | 7 422 | 7 203 | 6 500 | - 1 017 | - 1 442 | - 1 196 | - 339 | 46 444 | 47 000 |
| | 10 145 | 5 891 | 4 030 | 4 776 | - 906 | - 3 535 | - 1 077 | 458 | - | - |
| | 406 590 | 355 855 | 115 558 | 112 659 | - 54 725 | - 109 383 | 1 546 | - 20 169 | 24 164 | 28 632 |
| | | | | | | | | | | |
| | 247 991 | 98 571 | 45 978 | 39 876 | 46 833 | - 57 706 | - 25 061 | - 8 264 | 6 984 | 9 601 |
| | 158 599 | 257 284 | 69 580 | 72 783 | - 101 558 | - 51 677 | 26 607 | - 11 905 | 17 180 | 19 031 |
| | 400 090 | 329 272 | 110 685 | 131 019 | 111 778 | - 37 108 | 18 677 | - 1 327 | 38 209 | 15 520 |
| | 215 147 | 101 339 | 19 682 | 14 637 | 73 734 | 36 243 | - 36 990 | 23 616 | 4 591 | 4 805 |
| | **1 623 902** | **1 267 792** | **420 487** | **428 104** | **81 386** | **- 293 278** | **- 2 128** | **32 174** | **147 883** | **124 805** |
| | | | | | | | | | | |
| | 1 739 660 | 895 562 | 495 892 | 462 246 | 268 460 | - 594 404 | 73 909 | 129 369 | | |
| | | | | | | | | | | |
| | **3 363 562** | **2 163 354** | **916 379** | **890 350** | **349 846** | **- 887 682** | **71 781** | **161 543** | | |

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

| | | 2017 € thou | 2016 € thou |
|---|---|---|---|
| a | Gross expenditure for insurance business | 916 379 | 890 350 |
| b | Less: received provisions and profit sharing from reinsurance ceded | 522 858 | 535 161 |
| | | | |
| **Total** | | **393 521** | **355 189** |

Of the gross expenditures for insurance business, € thou 770 986 (820 740) are attributable to acquisition expenses and € thou 145 392 (69 611) to administrative expenses.

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

| | | 2017 € thou | 2016 € thou |
|---|---|---|---|
| a | Commission of any kind for insurance agents within the meaning of clause 92 HGB for direct insurance business | 200 610 | 195 193 |
| b | Other remuneration of insurance agents within the meaning of section 92 HGB | 9 | 31 |
| c | Wages and salaries | 230 871 | 256 320 |
| d | Social security contributions and other social contributions | 41 564 | 43 942 |
| e | Pension costs | 23 118 | 23 387 |
| | | | |
| **Total** | | **496 172** | **518 873** |

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

| | | 2017 € thou | 2016 € thou |
|---|---|---|---|
| a | Income from investments | 203 617 | 198 043 |
| ai | Income from participations including in affiliated enterprises € thou 74 612 (68 880) | 75 052 | 69 147 |
| aii | Income from other investments | 128 565 | 128 895 |
| | aa income form real estate, real property and equivalent rights including buildings on land not owned by AGCS | 4 973 | 5 100 |
| | bb Income from other investments | 123 592 | 123 795 |
| b | Income from write-ups | 617 | 11 005 |
| c | Gains from disposals | 107 670 | 487 573 |
| d | Income from transfer of profit agreements | 207 | - |
| | | | |
| Total | | 312 110 | 696 621 |

## Investment expenses (Income Statement II.2)

| | | 2017 € thou | 2016 € thou |
|---|---|---|---|
| a | Investment management, interest, charges and other investment expenses | 10 276 | 9 609 |
| b | Depreciation and write-downs on investments | 84 154 | 31 714 |
| c | Losses from disposals | 18 538 | 6 999 |
| d | Expenses from transfer of losses | 572 | - |
| | | | |
| Total | | 113 540 | 48 322 |

## 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 €24,431 (16,751) thou.

## Depreciation of investments

Unscheduled write-downs in accordance with section 253 (3) HGB were made on investments and participations in affiliated enterprises in the amount of € 3,132 (6,509) thou.

Unscheduled write-downs in accordance with section 253 (4) HGB were made on bearer bonds in the amount of € 65,476 (23,593) thou.

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

Other income and other expenses include:

| | Pensions and similar obligations 2017 € thou | Other obligations 2017 € thou |
|---|---|---|
| Actual return from the fair value of the offset assets | – 2 509 | – 57 |
| Imputed interest cost for the settlement amount of the offset liabilities | 2 895 | 140 |
| Effect resulting from the change in the discount rate for the settlement amount | 154 | 22 |
| | | |
| Net amount of the offset income and expenses | 540 | 105 |

In addition, other income includes currency gains in the amount of € 251,527 (37,425) thou as well as expenses from the implementation of restructuring measures in the amount of € 54,509 thou.

## Extraordinary result (Income Statement II.10)

The extraordinary result for 2016 included an extraordinary profit of € 16,456 thou from the liquidation of AGR Services Pte Ltd., Singapore.

## Income taxes (Income Statement II.11)

The lower income taxes for Allianz Global Corporate & Specialty SE of € 111,115 (130,029) thou essentially result from lower taxable income in the French branch office compared to the prior year.

## Appropriation of earnings

Before the transfer of profit, the profit for fiscal 2017 amounts to € 331,411 thou, which was transferred to Allianz SE under the terms of the existing transfer-of-profit agreement.

# 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 Global Corporate & Specialty SE who entered until December 31, 2014 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. For employees who joined by December 31, 2014, the member companies also make contributions to the Allianz Pensionsverein e.V. (APV), an insurance-backed Group support fund.

Due to the substantially lower discount rate, the plan assets of APV at December 31, 2017 are lower than its pension commitments. The missing amount at December 31, 2017 is € 5,750 (3,519) thou.

The company made use of its option right according to section 28 (1,1) EGHGB to not constitute a provision for contingent liabilities in this respect because the legally required adjustment of pensions to the consumer price index is financed by means of additional contributions to APV. Both AVK and APV were closed to new entrants effective January 1, 2015.

For new entrants since January 1, 2015, the company pension plan was uniformly reorganized. For new entrants since January 1, 2015, the company pays a monthly contribution to a direct insurance plan with Allianz Lebensversicherungs-AG, which is financed by the employee in the framework of deferred compensation. In addition, a monthly employer contribution is granted as a direct commitment.

SE has assumed joint and several liability for part of the pension commitments of Allianz Global Corporate & Specialty SE. The latter reimburses the cost, and Allianz SE has undertaken to fulfill these commitments. For this reason, the pension commitments are reported by Allianz SE and not by Allianz Global Corporate & Specialty. In 2015, the contract governing the reimbursement was amended to the extent that Allianz SE will bear the interest risk in the future. Effective January 1, 2017 Allianz Global Corporate & Specialty SE only reimburses its employees for work service costs while risks from interest rates, inflation and biometry are no longer reimbursed.

Allianz Global Corporate & Specialty SE's joint and several liability from these pension commitments and the corresponding liability, which are matched by rights of relief against Allianz SE, amount to:

| | 31.12.2017 € thou | 31.12.2016 € thou |
|---|---|---|
| Settlement amount of the offset liabilities | 64 250 | 60 294 |
| Provision amount that has not yet been recognized (article 67 (2) EGHGB) | – | – |
| Joint liability and/or rights of relief against Allianz SE | 64 250 | 60 294 |

### 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 € 49 (61) 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 (December 31, 2017), no liens on capital investments were granted in connection with group-internal cessions, and no such liens were granted to affiliated enterprises. € 283,060 (340,377) thou were deposited in trust accounts, including € 262,029 (321,013) 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 purchasing contracts amount to € 54,590 (77,304) thou and in particular from real estate purchasing contracts in the amount of € 26,720 (15,750) thou.

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

The total remuneration of the Board of Management amounted to € 5,691 thou in the reporting year.

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

| | 31.12.2017 € thou | 31.12.2016 € thou |
|---|---|---|
| Cost of acquisition of the offset assets | 4 174 | 4 074 |
| Fair value of the offset assets | 4 174 | 4 074 |
| Settlement amount of the offset liabilities | 5 549 | 5 415 |
| Provision amount that has not yet been recognized (article 67 (2) EGHGB) | - | - |
| Pension reserves/Excess of plan assets over pension liability | 1 375 | 1 341 |

The settlement amount calculated at December 31, 2017 with the 7-year average discount rate of the offset debt amounts to € 5 814 thou. This means that according to section 252 (2, 6) HGB, the amount of € 265 thou would be barred from distribution. The fair value of the offset assets is based on the asset value of the reinsurance.

A total of 23,981 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 € 3,201 thou.

The total remuneration of the Supervisory Board of Allianz Global Corporate & Specialty SE amounted to € 45 thou.

The members of the Supervisory Board and the Board of Management are listed on page 4.

## Number of employees (annual average)

The average number of employees of Allianz Global Corporate & Specialty SE for the reporting year was 2,550 (2,560) (not including trainees, interns and employees on parental leave).

| | 2017 | 2016 |
|---|---|---|
| Full-time employees | 2 187 | 2 194 |
| Part-time employees | 363 | 365 |
| Total | 2 550 | 2 560 |

## Services provided by the auditors

KPMG AG WPG audited the annual financial statements and the solvency overview of Allianz Global Corporate & Specialty SE as well as the annual financial statements of various subsidiaries. As part of the higher-level group audit and the audit of the group solvency overview, audit reviews of half-yearly financial statements as well as audits of group packages were performed. In addition, legal and contractual audits such as assurance services for individual items were performed.

Furthermore, KPMG AG WPG provided consulting services in connection with the introduction of new financial reporting standards such as IFRS 17 (the future international accounting standard for insurance contracts).

## 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

Allianz 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.

Allianz Global Corporate & Specialty SE is incorporated into the non-financial statement according to section 389b HGB of Allianz SE. This dispenses our company from any other reporting obligations so that Allianz Global Corporate & Specialty SE does not establish a non-financial statement of its own. The non-financial statement of Allianz SE is available on its website

## Registration

Allianz Global Corporate & Specialty SE is headquartered at Königinstraße 28 in Munich and is listed in the Commercial Register B of the Munich District Court under the number HRB 208312.

## Significant events after the end of the fiscal year

There were no significant events after the end of the fiscal year.

Munich, 23 February 2018

Allianz Global Corporate & Specialty SE
The Board of Management

Fischer Hirs

Berger

Browne

Klingspor

Mack

Mai

O'Neill

Scaldaferri

Scheffel

# INDEPENDENT AUDITOR'S REPORT

To Allianz Global Corporate & Specialty SE, Munich

## Report on the Audit of the Annual Financial Statements and of the Management Report

### Opinions

We have audited the annual financial statements of Allianz Global Corporate & Specialty SE, Munich, which comprise the balance sheet as at 31 December 2017, and the statement of profit and loss for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Allianz Global Corporate & Specialty SE for the financial year from 1 January to 31 December 2017. In accordance with the German legal requirements we have not audited the content of the Statement on Corporate Management pursuant to Section 289 f of the German Commercial Code [HGB] which is included in the management report.

In our opinion, on the basis of the knowledge obtained in the audit.

- The accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to insurance companies and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- The accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the Statement on Corporate Management mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

### Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as „EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the „Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

### Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of shares in affiliated enterprises

With regard to the accounting policies applied, please refer to the Company's explanations in the notes to the financial statements in the section „Accounting, valuation and calculation methods" under „Shares in affiliated enterprises, loans to affiliated enterprises, participations". Risk disclosures can be found in the management report in the „Risk Report" under section „Risk categories and control measures" under „Market risks".

## FINANCIAL STATEMENT RISK

As at the reporting date shares in affiliated enterprises amount to EUR 2,005 million. This represents 21.7% of total assets. Shares in affiliated enterprises represent a significant part of the investments.

Shares in affiliated enterprises are measured at the lower of cost or fair value. This fair value is generally determined on the basis of internal valuations and corresponding documentation. For all significant subsidiaries with operating activities, the fair value is determined on the basis of a dividend discount method according to IDW Standard S 1 of the German Institute of Public Auditors [IDW S 1]. The fair value of asset management companies is determined from the fair value of the assets held less liabilities.

The cash flows used for the dividend discount method are based on income or cash flow projections for the next three years, and are extrapolated based on assumptions for long-term growth rates. This involves determining both expected business development and sustainable returns on investments. The applied discount rate is derived in each case from the return of a risk-adequate alternative investment and requires judgement to determine the risk premium and the beta factor; this applies also for the growth rate. If the fair value is lower than the book value, qualitative and quantitative criteria are used to assess whether or not the impairment is expected to be permanent.

The calculation of the fair value according to the dividend discount method is complex and, as regards the assumptions made, based largely on estimations and assessments of the Company. A set of parameters that are subject to judgement have to be determined for the purposes of valuation.

## OUR AUDIT APPROACH

To audit the shares in affiliated enterprises, we engaged valuation experts as part of the audit team. In particular, we performed the following significant audit procedures:

- We used a risk-based audit approach. First, we used the information obtained during our audit to assess which shares in affiliated enterprises indicated a need for impairment. We also evaluated the shares in affiliated enterprises in terms of their size and significance for the financial statements of AGCS.
- With the involvement of our valuation specialists, we assessed the appropriateness of the significant assumptions and the valuation model of the Company. For this purpose we discussed the expected cash flows and the assumed long-term growth rates with those responsible for planning. We also reconciled this information with other internally available forecasts. Furthermore, we evaluated the consistency of assumptions with external market assessments.
- We also confirmed the accuracy of the Company's previous forecasts by comparing the estimations in previous financial years with actual results and analysed the deviations.
- We compared the assumptions and parameters underlying the capitalisation rate, in particular the risk-free rate, the market risk premium and the beta factor, with our own assumptions and publicly available data. In order to take account of the uncertainty of estimates, we also investigated the impact of potential changes to the long-term growth rate and the combined ratio on the fair value (sensitivity analysis) by calculating alternative scenarios and comparing these with the Company's valuations. To ensure the computa-tional accuracy of the valuation model used, we verified the Company's calculations on the basis of a risk-based sample.
- We assessed whether impairments or reversals had been appropriately made based on the valuation results.

## OUR OBSERVATIONS

The approach used for impairment testing of shares in affiliated enterprises is appropriate and in line with the accounting policies. The assumptions and parameters used by the Company are appropriate as a whole.

**Valuation of the gross reserves for reported losses and incurred but not reported losses**

With regard to the accounting policies applied, please refer to the Company´s explanations in the notes to the financial statements under section „Accounting, valuation and calculation methods" under „Reserve for loss and loss adjustment expenses". Risk disclosures can be found in the management report in the „Risk Report" under section „Risk categories and control measures" under „Reserve risks".

## FINANCIAL STATEMENT RISK

The gross reserves for loss and loss adjustment expenses amount to EUR 8,477 million. This represents 91.9 % of the balance sheet total.

The gross reserve for loss and loss adjustment expenses consists of several components. A significant part of the gross reserve for loss and loss adjustment expenses is attributable to the reserves for reported losses and incurred but not reported (IBNR) losses.

The valuation of the gross reserves for reported losses and incurred but not reported losses is subject to uncertainty and therefore based on judgements. Estimation uncertainties arise particularly in respect of the amount of the ultimate loss and the run-off dynamics, particularly in the Liability business.

In accordance with German GAAP, this estimation must be made in accordance with the prudence principle under German commercial law (Section 252 (1) no. 4 HGB, Sec-tion 341e (1) sentence 1 HGB) and may not be a risk-neutral equal weighting of opportunities and risks.

The risk concerning reported losses is that outstanding claims payments are not sufficiently reserved as at the reporting date. For incurred but not reported losses, there is the additional risk that these losses are not, or not sufficiently, taken into account.

## OUR AUDIT APPROACH

For the audit of the reserve for loss and loss adjustment expenses, we engaged actuaries as part of the audit team. In particular, we performed the following significant audit procedures:

- We recorded the process for determining the gross reserve for loss and loss adjustment expenses, identified key controls and tested them for their appropriateness and effectiveness. We verified that the controls which aim at ensuring the processing of insured losses and thus a correct valuation were designed appropriately and had been performed effectively.
- On the basis of risk considerations, we retraced the amount of single reported losses, considering the records for several lines of business and types of insurance.
- We assessed the appropriateness of significant assumptions used, including loss ratios and assumptions about the run-off behaviour of claims.
- We carried out our own actuarial reserve calculations for selected segments, which we selected on the basis of risk considerations. In doing so, for the ultimate loss expense, we determined a point estimate and an appropriate range using statistical probabilities in each case and compared these with the Company's calculations. Further, we audited the Company's calculations for determining the reserve for incurred but not reported losses.
- We compared the level of reserving as at the reporting date with that of the prior year. To do this, we particularly assessed the appropriateness of the way in which management, using reasonable business judgement, made adjustments to the estimates that had been calculated by actuarial methods. We did this by inspecting and assessing the documentation of the underlying calculations or qualitative explanations.
- We used the run-off results to analyse the actual development in the reserves for loss and loss adjustment expenses recognised in the prior year (including the IBNR reserve) for their retrospective appropriateness.

# OUR OBSERVATIONS

The Company's approach for the valuation of the gross reserve for loss and loss adjustment expenses is appropriate and suitable. The methods used as well as the underlying assumptions are appropriate as a whole.

## Other Information

Management is responsible for the other information. The other information comprises:

- The Statement on Corporate Management and
- The remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

- Is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- Otherwise appears to be materially misstated.

**Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report**

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to insurance companies, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

**Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other Legal and Regulatory Requirements

## Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the supervisory board in the meeting on 9 May 2017. We were engaged by the chairman of the supervisory board on 13 June 2017. We have been the auditor of Allianz Global Corporate & Specialty SE without interruption for more than 25 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the supervisory board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Andreas Dielehner.

Munich, 19 March 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

| | |
|---|---|
| **Dielehner:** | Dr. Hübel |
| **Wirtschaftsprüfer:**<br>**[German Public Auditor]:** | Wirtschaftsprüfer<br>[German Public Auditor] |

# INSURANCE LINES COVERED

## Direct insurance business:

**Health insurance**
Health insurance written on a non-life basis

**General personal accident insurance**
Aviation personal accident, test persons, 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

### Legal protection insurance

**Fire insurance**
Industrial fire, other fire

**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

### Assistance insurance

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

**Other property insurance**
Burglary insurance, water pipe insurance, glass breakage insurance, storm insurance, engineering insurance, extended coverage insurance for fire and interruption to business, business interruption insurance.

**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

### Marine insurance

### Aviation and aerospace liability insurance

### Other property insurance

### Other casualty insurance

# ADVISORY COUNCIL

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

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

**Georg Bauer**
President
Fair

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

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

**Dr. Jürgen M. Geißinger**
CEO
Senvion

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

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

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

**Hans-Georg Krabbe**
Chairman of the Board of Management
ABB AG

**Christoph Kübel**
Managing Partner
Robert Bosch GmbH

**Robert Lorenz-Meyer**
Member of the Supervisory Board
Ernst Russ GmbH & Co. KG

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

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

**Lars Henner Santelmann**
Chairman of the Board of Management Volkswagen
Financial Services AG

**Petra Scharner-Wolff**
CFO
Otto (GmbH & Co.KG)

**Prof. Klaus-Dieter Scheurle**
Chairman of the Board of Management
DFS Deutsche Flugsicherung GmbH

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

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

**Reiner Winkler**
Chairman of the Board of Management
MTU Aero Engines AG

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

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

# Important addresses

## HEAD OFFICE

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

Business address:
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Until January 19, 2018

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since January 20, 2018

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The German original of this Annual Report is available upon request.

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