Allianz Global Corporate & Specialty

2016

Allianz Global Corporate & Specialty SE
Annual Report 2016

Allianz

Contents

Foreword

2016 may be remembered as a year of disruption. With Brexit, the Trump presidency and the Italian referendum, political risks and economic uncertainty have returned to the corporate agenda. 'Intangible' threats such as cyber or non-damage forms of business interruption increasingly worry companies. From autonomous mobility to artificial intelligence, a range of new technologies are on the verge of breakthrough, transforming customer expectations and business models in many industries, insurance being no exception.

Companies require sophisticated risk management solutions more than ever. However, market conditions in the commercial insurance sector remain challenging and are unlikely to ease for insurers in the near future, as alternative reinsurance capital reached new heights in 2016. The low-interest environment, ongoing consolidation of the industry and new Insurtech players further fuel the new normal of 'hyper competition'.

In this challenging environment, Allianz Global Corporate & Specialty (AGCS) delivered a solid performance in 2016, generating gross premiums written (GPW) of €7.6 billion, which is €515 million lower than the previous year. The operating profit (OP) remained generally steady reaching €376 million compared to €423 million in 2015. The decline of GPW is largely driven by special effects from the sale of the Personal Lines portfolio of Fireman's Fund Insurance Company (FFIC) in 2015, but also reflects profitability initiatives across our Specialty lines of business. AGCS combined ratio improved by 1.4 percentage points to 101.6% mainly due to lower expenses and losses in 2016 compared to the previous year. However claims activity was higher than expected, especially in some long tail lines, as well as from a few large man-made industry accidents and from several natural catastrophes such as hailstorms in the US and wildfires in Canada.

The integration of FFIC into AGCS has further progressed as we continue to enhance our market presence and distribution network and seize new attractive business opportunities in North America: In 2016, we established dedicated teams for Cyber and Professional Indemnity Insurance, Environmental Liability and Transactional Liability. On the other hand, we leveraged FFIC expertise across our global network. AGCS now offers a truly global Entertainment product suite in Film, Live Entertainment and Contingency with newly built or enhanced teams in the US, Australia, France, Germany and the UK, and a fast developing presence in the Motorsports sector. We also have seen strong demand globally for cyber or crisis management solutions that combine financial compensation with risk consulting and crisis response services.

In addition to growth with new products and solutions, we plan to further extend our global network in Asia. This is in response to the needs of our global corporate clients who require a strong international network with local representation. AGCS managed 2,500 global insurance programs in 2016, with more than 19,000 local policies recorded.

In 2016, AGCS realized several major legal, financial and IT system initiatives. We released significant amounts of capital for the benefit of our shareholder by creating a joint capital base for AGCS SE and our US operating company "Allianz Global Risks US" while maintaining the financial strength required to sustainably run our business under the Solvency II regime. In parallel, we invested over €90 million to improve business processes and systems in order to maximize efficiency and service delivery. We fully embrace new digital technologies and increasingly utilize data analytics and predictive modelling to improve our risk assessment, claims handling or portfolio management. At Allianz Risk Transfer, we successfully piloted Blockchain technology in a bond transaction.

Our industry is facing an era of unprecedented change – not just a downturn in the cycle. From a position of strength, we are looking at how we can optimize our productivity and reduce expenses, tap new growth opportunities and prepare our global business model for the years ahead with a sustainable strategy.

Our ambition is clear: We aim to be recognized as an industry leader as well as a flagship company in Allianz Group representing technical excellence in underwriting and being a major financial contributor. We aim to be recognized as loyalty leaders in our key markets – a target we have already achieved in 11 out of 22 surveyed countries in 2016 in our True Customer Centricity program. Last but not least, we aim to be recognized as employer of choice. It is our staff, our underwriters, risk engineers, loss adjusters and many other specialists in our 30 countries around the globe, who bring customer centricity to life each and every day, and who foster a culture centered around our clients and their needs.

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 passion in serving our clients and truly responding to their needs throughout the past year, and in positioning the company strongly for the future. Close internal collaboration and effective partnership with our clients will help us to navigate AGCS successfully through the current stormy waters of soft markets, industry transformation, economic uncertainty and political turmoil.

Chris Fischer Hirs,
CEO Allianz Global Corporate & Specialty SE

AGCS Global Structure

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

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

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

To serve the needs of the North American market Allianz Global Risks US Insurance Company (AGR US), since December 2016 an indirect subsidiary of AGCS SE, operates in the US with a Canadian branch office in Toronto. Fireman's Fund Insurance Company (FFIC) including its subsidiaries is fully owned by AGR US.

The specific needs of the Swiss market and special insurance solutions for international clients are serviced by Allianz Risk Transfer AG, a fully owned indirect subsidiary of AGCS SE. As of 3 October 2016 the official registered seat of Allianz Risk Transfer AG is Schaan/Liechtenstein with a Swiss branch office in Zurich.

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

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

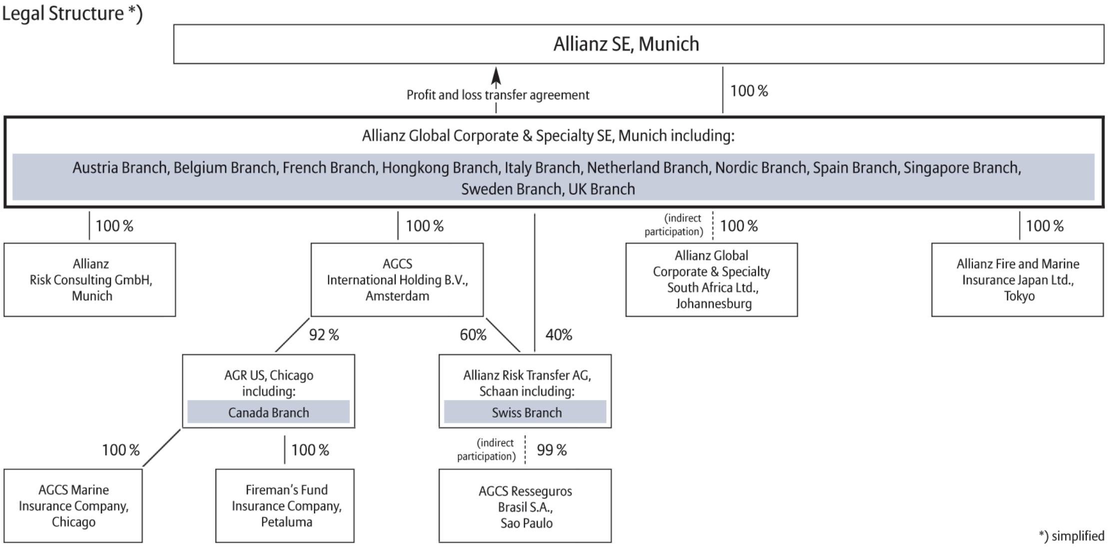
AGCS SE's subsidiary Allianz Risk Consulting GmbH, Munich/Germany, provides supplemental loss control engineering services in the form of risk analysis and claims expertise.

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

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

Allianz Global Corporate & Specialty SE

Legal Structure *)



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AGCS Global by Line of Business

AGCS global business consists of various legal entities that are under AGCS management responsibility. The lines of business summaries for ART Crop, Entertainment, Financial Lines, Liability, and MidCorp are on a 'like-for-like' basis, fully reflecting the contributions from the former Fireman's Fund Insurance Company (FFIC) business, which was successfully integrated into AGCS in 2015.

Total global gross consolidated premiums written amounted to € 7,588 million, an decrease of 6% relative to 2015 (€ 8,112 million) as a result of re-underwriting actions in Marine and Aviation and a challenging market environment, in particular in Energy and Engineering. This more than offsets the expansion in e.g. Liability and Financial Lines. This selective topline strategy was accompanied by a slight improvement of the combined ratio to 101.6 % (102.9 %) which is driven by favorable developments of the expense ratio and the calendar year loss ratio (despite unfavorable impacts from the post integration strengthening of ULAE reserves in the U.S.).

Gross premiums written for Aviation amounted to € 523.6 (587.0) million which is 10.8 % below the prior year incl. a marginal positive FX effect. Corrected for FX, gross premiums written are 11.2% below prior year levels due to a continued challenging market environment, re-underwriting initiatives, including an adjustment in the underwriting strategy, in particular for the 'Space' segment and fronting arrangements. The calendar year loss ratio of 58.7 % is slightly above last year (54.3 %) due to a less favorable prior year development, offsetting the impact of current year attritional losses for the Airlines and General Aviation business. The combined ratio continued to improve to 82.4 % (84.0 %).

Gross premiums written for Energy of € 181.7 (233.9) million represents an 22.3 % decrease compared to last year with a negligible FX effect. The Energy sector challenges continued for all geographies with reductions to both rates and activity as a result of declining crude prices. Regardless, a strong underwriting profit was achieved primarily as a result of a continued high level of favorable prior year development, partially offset by a normalization of the claims activity in Onshore. The calendar year loss ratio of 41.9 % (30.8%) generated an impressive 70.2 % (52.6 %) combined ratio.

Gross premiums written for Engineering amounted to € 614.6 (663.4) million, a decrease of 7.3 % versus prior year largely driven by difficult economic environment across all regions and an exposure review in operational mining. The calendar year loss ratio of 50.7 % was lower than in 2015 (56.1 %) reflecting both, lower medium losses compared to 2015 and further increased favorable prior year development. The combined ratio improved to 76.3 % (82.2 %).

Gross premiums written for Entertainment amounted to € 143.8 (135.6) million, an increase of 6.1 % compared to prior year. This reflects the successful launch of the U.S. Motorsports business and the international expansion outside the U.S.. The calendar year loss ratio of 71.6 % increased versus last year (60.6 %) mainly due to an unfavorable large loss experience and post integration strengthening of ULAE reserves in the U.S.. As a result, the combined ratio increased to 106.9 % (101.1 %).

Gross premiums written for Financial Lines amounted to € 621.4 (577.9) million, an increase of 7.5 % compared to prior year. This reflects solid growth across most regions, in particular in North America, partially offset by lower facilities business and an unfavorable FX effect in London as well as lower fronting business in South America. The calendar year loss ratio of 96.0 % remained at last year's level (94.9 %) mainly continued unfavorable prior year development (incl. a post integration strengthening of ULAE reserves in the U.S.). The current accident year loss ratio of 73.9 % slightly improved compared to 2015 (74.6 %). As a result, the combined ratio remained largely unchanged at 126.2 % (125.7 %).

Gross premiums written for Liability amounted to € 1,169.3 (1,073.1) million, a growth compared to prior year of 9.0 %. This was driven by solid new business growth in Germany, North America and Asia, also driven by the successful launch of the new Crisis Management and Environment Impairment Liability product globally. The calendar year loss ratio increased to 75.1 % compared to the exceptionally low level of 55.8 % in 2015, driven by large loss activity in the Mediterranean region and the absence of strong favorable prior accident year development. The combined ratio increased to 99.0 % compared to last year's extraordinarily low level (81.0 %).

Gross premiums written in Marine amounted to € 1,059.0 (1,224.2) million. The 13.5 % decrease (incl. a negligible FX effect) is reflecting the impacts from the re-underwriting initiatives across all regions and business segments. The calendar year loss ratio decreased significantly to 61.9% (84.6 %) due to an improved calendar year loss experience in the 'Hull' and 'Cargo' segments, and favorable prior year development. The combined ratio at 94.9% (117.1 %) reflects the return to profitability.

Gross premium written in MidCorp amounted to € 729.6 (707.7) million. This 3.1% increase was driven by strong growth in the North American 'Programs' and 'Highly Protected Risks' business, which more than offset the effects from further portfolio cleaning in "Packages & Small Business" and 'Farm & Ranch'. The calendar year loss ratio of 87.2 % (81.0 %) is driven by the unfavorable CAT and large loss experience as well as the post integration strengthening of ULAE reserves in the U.S., partially offset by an improved prior accident year development, strongly diluted by the positive premium effect mentioned above. Benefitting from an improved expenses ratio, the overall combined ratio remained largely stable at 130.9% (129.3 %).

Gross premium written in Property amounted to € 979.6 (997.7) million. The 1.8 % decrease over prior year is driven by lower volumes in North America and the Mediterranean region, partially offset favorable developments in Germany. The calendar year loss ratio decreased further to 55.2 % (66.4 %) largely driven by an improved CAT loss experience compared to 2015 with continued favorable prior year development. The combined ratio improved further to 85.5 % (96.7 %).

Gross premium written in Allianz Risk Transfer (LoB ART Traditional) amounted to € 1,225.6 (1,050.7) million. The 16.6 % increase is driven by strong new business in the 'Highly Structured' segment. The calendar year loss ratio deteriorated to 81.7 % (69.5 %) due to unfavorable prior year development. In addition, the combined ratio increase to 85.6 % (56.8 %) also reflects a renegotiated margin income structure in the ILM/Highly Structured segment.

Gross premium written in Crop (LoB ART Crop) amounted to € 256.4 (273.5) million. The 6.3 % decrease is driven by the non-renewal of Winter/Autumn Crop business as well as lower rates from lower commodity prices. The calendar year loss ratio improved to 76.4 % (89.6 %) largely driven by favorable prior year development. The combined ratio improved to 91.1 % (99.3 %).

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

Robert Franssen
Chairman of the Board of Management,
Allianz Belgium

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

Caroline Krief
Lawyer
Employee representative

Bernadette Ziegler
Personnel Officer
Employee representative

Board of Management

Chris Fischer Hirs
CEO
Chairman

Andreas Berger
CRMO – Region 1

Sinéad Browne
COO

Nina Klingspor
CFO

Alexander Mack
CCO

Hartmut Mai
CUO Corporate

Arthur Moossmann
CRMO
Until 31 December 2016

Paul O'Neill
CUO Specialty
Since 1 October 2016

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

Branch Office Austria

Ole Ohlmeyer
Chief Executive

Branch Office Nordic Region

Carsten Scheffel
Chief Executive
until 30 January 2016

Peter Hecht-Hansen
Chief Executive
since 1 February 2016

Branch Office Sweden

Carsten Scheffel
Chief Executive
until 30 January 2016

Peter Hecht-Hansen
Chief Executive
since 1 February 2016

Branch Office Italy

Giorgio Bidoli
Chief Executive
until 30 January 2016

Nicola Mancino
Chief Executive
since 1 February 2016

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

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 2016 and the Management Report presented to it. In its meeting on 9 May 2017, the Supervisory Board approved the Annual Financial Statements prepared by the Board of Management, which are hereby confirmed.

Effective 1 October 2016, The Supervisory Board appointed Mr. Paul O'Neill to the Board of Management. Mr. O'Neill is responsible for Underwriting Specialty Lines.

Effective 31 December 2016, Mr. Art Moossmann stepped down from his mandate as a member of the Board of Management with the consent of the Supervisory Board. Mr. Moossmann had reached the age of retirement.

We thanked Mr. Moossmann for his work as member of the Board of Management.

Munich, 9 May 2017

For the Supervisory Board:

Theis

Dr. Axel Theis
Chairman

Management report

The strength of the business model of Allianz Global Corporate & Specialty SE, which is the worldwide underwriting of international industrial insurance as well as aviation and marine risk, was proven once again in 2016. In a continuing difficult market context, the company succeeded in ending the year with a new record profit, mainly due to the non-technical result.

While gross premiums written were slightly higher than in the previous year, net premiums earned were substantially lower. This is essentially due to the profitability initiatives taken in the course of the year as well as newly concluded proportional reinsurance contracts, particularly in marine insurance. At the same time, claims expenses remained at the prior-year level while operating expenses for own account were slightly lower, which together resulted in an increase of the combined ratio.

The significant increase of investment income is primarily attributable to the restructuring of corporate shareholdings in the course of the fiscal year. 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 2016 with a profit transfer of € 700 million to Allianz SE. Since the founding of the company in 2006, a total of more than € 3.6 billion has thus been transferred to Allianz SE.

Restructuring of shareholdings

As part of the restructuring of Allianz Group's AGCS segment, Allianz Global Corporate & Specialty SE in December 2016 made a payment of € 1.2 billion into the capital reserve of its Dutch subsidiary Allianz Risk Consultants B.V., which the latter used for the group internal acquisition of 92 percent of the share capital of AGR US from Allianz Europe B.V. The sale of securities to finance this acquisition produced gains of € 105.7 million. At the same time, the company name of Allianz Risk Consultants B.V. was changed to AGCS International Holding B.V. In addition, Allianz Global Corporate & Specialty SE in December 2016 transferred 60 percent of the share capital of its subsidiary Allianz Risk Transfer AG to AGCS International Holding B.V. Since the contribution was made at fair value, it produced gains of € 307.9 million for Allianz Global Corporate & Specialty SE.

Development overview

The business of Allianz Global Corporate & Specialty SE includes the national and International Corporate Business, as well as the specialty insurance lines Marine, Aviation and Energy, in both the direct and the indirect insurance business.

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 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.

Premium income in the reporting year rose slightly and reached a total of € 4.07 (4.06) billion. In Germany, premium income increased by € 114.2 million to € 1.92 (1.80) billion. The increase was essentially recorded in reinsurance assumed (€ 75.7 million) and was due in particular to the fact that the amounts were recognized faster than in the previous years.

In the branch offices, premium income decreased from € 2.26 billion to € 2.16 billion the reporting year. Even though premium income rose in the UK by € 18.0 million to € 824.8 (806.8) million, in Austria by € 3.3 to 35.0 (31.7) million, in Sweden to € 13.2 (11.0) million, in Hong Kong to € 94.9 (94.0) million and in Denmark to € 77.7 (77.0) million, this could not compensate for the decline of premium income in the other branches. The French branch office reported a decrease by € 49.8 to 490.0 (539.8) million and the Singapore branch a decrease by € 20.3 to 120.7 (141.0) million. Premium income also fell in Spain by € 16.8 to 174.9 (191.7) million, in Belgium by € 16,0 to 135.6 (151.6) million, in the Netherlands by € 14.8 to 81.4 (96.2) million and in Italy by € 11.6 to 107.3 (118.9) million.

Gross premiums written increased by € 61.6 million to € 4.07 (4.01) billion. Due to new quota share agreements, reinsurance cessions, mainly from marine insurance, rose to € 2.87 (2.73) billion. On balance, net premiums earned of € 1.20 (1.28) billion thus fell below the prior year figure.

Gross expenses for insurance claims decreased from the prior year by € 192.0 million to € 2.16 (2.36) billion. This resulted in a 5.6 percentage points lower balance sheet loss ratio of 53.2 (58.8) percent for the fiscal year.

The overall decline is characterized by a reduction of gross claims expenses from fiscal year losses by € 94.4 million to € 2.7 (2.8) billion as well as an increase of the run-off profit by € 97.6 million to € 550.4 (452.8) million.

Claims expenses due to natural catastrophes in the reporting year decreased by € 122.6 million from the prior year to € 114.2 (236.8) million gross. At the same time, claims expenses due to major losses increased by € 78.2 million to € 631.1 (552.9) million gross.

Gross expenditures for the insurance business rose by € 29.8 million to € 890.4 (860.6) million. The gross expense ratio of 21.9 percent was slightly above the prior year level of 21.5 percent. Of the expenditures for the insurance business, € 820.8 (799.3) million are attributable to closing expenses and € 69.6 (61.3) million to administrative expenses.

The claims equalization reserves and similar reserves, which by law must be recognized in the balance sheet, required withdrawals of € 25.2 (withdrawals of 353.4) million.

Overall, this led to an underwriting profit for own account of € 161.5 (551.7) 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 € 55.2 million to € 2.03 (2.09 billion) while premiums in the indirect insurance business rose by € 65.1 million to € 2.04 (1.97) billion. The greatest part of the increase in the indirect business results from a one-time catch-up effect due to process improvements to ensure consistent, more timely recognition of premiums across all branch offices.

In direct insurance, the fiscal year's loss ratio fell to 79.8 (84.4) percent. Taking into account the run-off profit of € 351.8 (220.4) million, the gross loss ratio in the direct insurance business was 62.5 (73.8) percent.

The fiscal year loss ratio in the indirect insurance business decreased to 53.6 (54.7) percent. The run-off of prior-year claims decreased by € 33.8 to € 198.6 (232.4) million, which resulted in an increase of the gross loss ratio to 43.9 (42.8) 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 € 1.7 million to € 10.6 (12.3) million. The run-off of € 4.4 (3.0) million, which was higher than in the previous year, and lower claims expenses of € 3.2 (5.8) million resulted in gains of € -1.2 (expenses of 2.8) million in payouts. This corresponds to a gross loss ratio of -11.2 (21.6) percent. After a withdrawal from the equalization reserve and similar reserves of € 2.3 (allocation of 0.2) million, the underwriting profit of € 8.2 (profit of 2.8) million was above the prior-year level.

In Liability Insurance premium income in the reporting year fell by € 51.1 million to € 767.5 (818.6) million. Claims expenses decreased by € 75.8 million to € 469.2 (545.1) million. This development was essentially due to lower calendar year losses, which decreased by € 63.9 million to € 573.0 (636.9) million. The loss ratio therefore fell to 61.4 (66.8) percent. After a withdrawal of € 52.6 (withdrawal of 21.3) million from the equalization reserve and similar reserves, an underwriting profit of € 21.8 (loss of 1.3) million was posted.

Premium income in the insurance branch groups Automotive Liability Insurance and Other Automotive Insurance increased by € 1.5 million from the prior year to € 29.8 (28.3) million. As in the previous years, the Hong Kong branch office is the only branch office of Allianz Global Corporate & Specialty SE to write this type of insurance. Claims expenses decreased from € 17.2 million in the prior year to € 13.3 million, thus lowering the loss ratio to 44.9 (61.3) percent. The two insurance branch groups ended the year with a profit of € 0.1 (loss of 0.1) million.

Gross premium income in the insurance branch groups Fire Insurance and Other Property Insurance increased by € 69.3 million, resulting in a total premium volume of € 608.3 (539.0) million. Premium income in Fire Insurance increased to € 220.3 (209.0) million. Due to lower fiscal year losses, gross claims expenses decreased by € 43.4 million to € 98.6 (142.0) million. The loss ratio fell to 46.4 (66.0) percent. After an allocation of € 25.2 million (withdrawal of € 1.0 million) from the equalization reserve and similar reserves, an underwriting loss of € 8.3 (loss of 23.6) million was reported.

Premium income from Other Property Insurance increased by € 58.1 million to € 388 (329.9) million. Claims expenses increased by € 89.3 million to € 257.3 (168.0) million and resulted in an increased loss ratio of 69.7 (54.8) percent. After an allocation to the equalization reserve and similar reserves of € 0.9 (allocation of 6.2) million, Other Property Insurance posted a loss of € 11.9 (profit of 0.3) million.

Overall, the insurance branch group Fire Insurance and Other Property Insurance ended the year with an underwriting loss of € 20.2 (loss of 23.3) million. The allocation to the equalization reserve and similar reserves amounted to € 26.1 (allocation of 5.2) million.

Premium income in Marine and Aviation Insurance decreased to € 519.0 (585.8) million in the reporting year. In Marine insurance, gross premium income was below the prior year level of € 289.4 (325.2) million. Due to lower gross claims expenses of € 170.8 (275.9) million, which resulted in particular from lower calendar year losses, the gross loss ratio dropped to 56.4 (84.5) percent. Overall, this insurance line reported an underwriting loss of € 12.4 (loss of 29.2) million after an allocation of € 44.3 (withdrawal of 29.1) million to the equalization reserve and similar reserves.

Aviation Insurance recorded a decrease in premium income by € 31.0 million to € 229.6 (260.6) million. Gross claims expenses for fiscal year losses decreased to € 267.9 (337.3) million. The run-off of prior year losses resulted in a profit of € 109.4 (loss of 8.6) million. Therefore, the loss ratio dropped substantially by 65.4 percentage points to 66.8 (132.2) percent. After an allocation of € 3.7 (withdrawal of 21.9) million to the equalization reserve and similar reserves, an underwriting profit of € 11.0 (profit of 56.8) million was posted.

Overall, the insurance branch group's underwriting result came to a loss of € 1.3 (profit of € 27.6) million after an allocation of € 48.0 (withdrawal of 51.0) million to the equalization reserve and similar reserves.

In the insurance branch **Other Insurance**, gross premium income decreased by € 6.5 million to € 98.6 (105.1) million. Gross claims expenses increased by € 72.2 million to € 101.3 (29.1) million, which resulted in an increase of the loss ratio to 98.5 (28.7) percent. After a withdrawal from the equalization reserve and similar reserves of € 0.2 (withdrawal of 7.8) million, the branch group posted an underwriting profit of € 23.6 (profit of 25.2) million.

Reinsurance business assumed

Premium income in **Personal Accident Insurance** decreased by € 1.2 million to € 8.6 (9.8) million. The increase of the run-off profit by € 5.2 million to € 6.3 (1.1) million resulted in income from claims expenses of € -3.5 (expenses of 2.5) million and a loss ratio of -38.6 (24.3) percent. The insurance line ended the year with an underwriting profit of € 6.4 (profit of 2.9) million.

Gross premium income in **Liability Insurance** came to € 516.0 (456.8) million in the reporting year, which was € 59.2 million above the prior-year level. The increase of gross claims expenses by € 146.9 million to € 364.7 (217.8) million drove up the loss ratio to 71.7 (49.0) percent. After a withdrawal from the claims equalization reserve and similar reserves of € 20.0 (withdrawal of 123.0) million, this insurance line reported an underwriting loss of € 10.3 (profit of 175.7) million.

Gross premium income in **Fire Insurance** and **Other Property Insurance** decreased by € 82.5 million to € 878.5 (961.0) million. Premium income in Fire Insurance dropped by € 50.0 million to € 388.4 (438.4) million. Due to the less favorable run-off of prior-year claims, gross claims expenses increased by € 98.3 million to € 160.8 (62.5) million, which resulted in an increase of the loss ratio to 40.5 (14.3) percent. After a withdrawal of € 3.7 (withdrawal of 34.9) million from the equalization reserve and similar reserves, an underwriting profit of € 8.9 (profit of 91.4) million was recorded.

Premium income from Other Property Insurance decreased to € 490.1 (522.5) million. Due to the decrease in claims expenses by € 133.9 million to € 152.4 (286.3) million, the loss ratio dropped to 30.1 (56.5) percent. After an allocation to the equalization reserve and similar reserves of € 17.2 (withdrawal of 2.8) million, the insurance line posted an underwriting profit of € 32.7 (profit of 36.4) million.

Overall, the insurance branch group Fire Insurance and Other Property Insurance ended the year with an underwriting profit of € 41.6 (profit of 127.8) million, after an allocation of € 13.5 (withdrawal of 37.7) million to the equalization reserve and similar reserves.

Premium income in **Marine and Aviation Insurance** amounted to € 447.8 (443.3) million.

In Marine Insurance, gross premium income of € 250.9 (236.6) million exceeded the prior year level by € 14.3 million. At the same time, gross claims expenses fell to € 101.1 (173.9) million. After a withdrawal of € 14.7 (withdrawal of 87.7) million from the claims equalization reserve and similar reserves, an underwriting profit of € 13.1 (profit of 95.5) million was reported.

In Aviation Insurance, gross premium income amounted to € 196.9 (206.6) million. Gross claims expenses rose to € 8.4 million to € 88.6 (80.1) million, which was mainly due to higher fiscal year losses of € 137.6 (117.8) million. This increase was partially compensated by a higher run-off profit of € 49.0 (profit of 37.8) million. The loss ratio increased to 44.1 (38.3) percent. After an allocation of € 23.0 (withdrawal of 30.3) million to the equalization reserve and similar reserves, an underwriting profit of € 40.8 (profit of 72.1) million was posted.

Overall, the insurance branch group reported an underwriting profit of € 53.9 (profit of 167.6) million, after a withdrawal of € 37.7 (withdrawal of 117.9) million from the equalization reserve and similar reserves.

Gross premiums written in Other Insurance rose above the prior year level to € 187.9 (102.1) million. Due to the increase of gross claims expenses by € 25.7 million to € 31.9 (6.2) million, the loss ratio increased to 19.3 (6.3) percent. Overall, the branch group closed the year with an underwriting profit of € 37.5 (profit of 46.3) million.

Reinsurance business ceded

In the reporting year, the company once again ceded parts of its insurance business to external reinsurers. As in the previous years, non-proportional reinsurance contracts in the form of a global coverage program were concluded with a number of reinsurers. The German parent company concluded on 1 January 2015, a quota share reinsurance contract under the terms of which 100 percent of its German business after deduction of facultative and obligatory reinsurance are ceded to Allianz SE. In addition, a growing number of new proportional reinsurance contracts were concluded, particularly in aviation and marine insurance.

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. Premiums ceded to reinsurers decreased slightly from the prior year to a total of € 2.87 (2.98) billion. With respect to premiums written, the retention ratio decreased to 29.5 (32.0) percent. Passive reinsurance posted a profit of € 885.3 (profit of 595.0) million from the perspective of the reinsurers.

Supplementary information to the Management Report

The various insurance lines and types offered are presented in detail on page 53.

Investment strategy

Allianz Global Corporate & Specialty SE continued its safety-oriented investment strategy in 2016. 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. A large part of the government bonds as well as bonds from sub-sovereign issuers are concentrated on the Euro zone core countries.

To ensure an attractive return on its investment portfolio over the long-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 35.2 (24.4) percent (based on market values). 6.2 (4.7) percent were invested in bonds from emerging countries. In addition, 7.4 (4.7) percent of the portfolio was 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 € 94.2 (105) million. Real estate investments increased by € 17.6 (75) million net. At the end of fiscal 2016, the share of stocks in the portfolio was 12.1 (8.3) percent (based on market value). Most stock investments are hedged with put options for an average strike level of 80 percent of current market values.

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, with the exception of the British Pound, strengthened against the euro.

Development of investments

The book value of the investments of Allianz Global Corporate & Specialty SE increased to € 8,017.6 (7,973.9) million in the reporting year.

Due to the restructuring of the company's shareholdings, investments in associated enterprises and participations rose significantly to € 2,116.5 (543.5) million.

The book value of directly held real estate fell slightly to € 76.2 (77.3) million.

The book value of stocks, shares or investment certificates and other variable-income securities amounted to € 2,996.8 (3,446.7) million at the end of the year.

The book value of bearer bonds decreased to € 2,428.6 (2,668.5) million. Mortgage loans increased to € 64.6 (21.8) million and other loans fell to € 249.0 (1,022.0) million.

Bank deposits decreased to € 5.7 (97.5) million in the course of the year, while funds held by others fell to € 80.2 (96.6) million at the end of the year.

Investment income

Current income from investments was down from the prior year and amounted to € 198.0 (450.2) million. The decrease is essentially due to lower income from investment funds and to lower dividends from associated companies.

The disposal of investments produced income of € 487.6 (133.3) million and losses of € 7.0 (12.4) million. The gains were for the most part generated from the recognition of hidden reserves resulting from the transfer of part of the registered capital of Allianz Risk Transfer AG to AGCS International Holding B.V. Additional income was generated by the sale of bearer bonds and other fixed-income investments.

Gains from write-ups on investments amounted to € 11.0 (0.2) million.

Depreciation of investments in the reporting year amounted to € 31.7 (36.0) million, of which € 23.6 (33.9) million were attributable to write-downs on bearer bonds.

Investment management and interest expenses came to € 9.6 (12.2) million.

Due to the effects stated above, total investment income of € 648.3 (523.0) million was clearly above the prior-year figure.

Valuation reserves on investments decreased to a total of € 1,050.8 (1,856.9) million. The valuation reserves include undisclosed assets of € 1,052.1 (1,863.0) million and undisclosed liabilities of € 1.3 (6.1) million. The valuation reserves on investments in associated enterprises and participations decreased to € 262.0 (1,111.3) million. The reserves for directly held real estate increased to € 17.9 (9.8) million. The valuation reserves on investment certificates increased to € 586.7 (460.8) million. The valuation reserves on bearer bonds decreased to € 162.3 (201.1) million. The reserve for mortgage bonds amounted to € 1.1 million, and for other loans the valuation reserves decreased to € 20.7 (73.8) million.

The reserve ratio, i.e. the percentage of valuation reserves in relation to the book value of total investments, stood at 13.2 (23.6) percent at the end of the year.

Other non-underwriting business

Other non-underwriting business produced a profit of € 5.1 (profit of 235.8) million, which was primarily due to exchange rate developments of the US Dollar and the British Pound with respect to the euro.

The overall result of the non-underwriting business thus amounted to € 653.4 (287.1) million.

Extraordinary result

The extraordinary result in fiscal year 2016 includes the profit from the liquidation of AGR Services Pte Ltd, Singapore, in the amount of € 16.5 million. The extraordinary result in fiscal 2015 had included the profit from the liquidation of Allianz Insurance (Hong Kong) Ltd., Hong Kong, in the amount of € 12.1 million.

Overall result

Tax charges for the reporting year (including intragroup charges) came to € 131.2 (165.3) million.

On the whole, business developed somewhat less favorably in 2016 than in the prior year, even without considering special effects in 2015. The overall result after taxes was a profit of € 700.2 (685.7) million. Under the terms of the existing management control and transfer-of-profit agreement, this profit was transferred to Allianz SE.

Corporate agreements

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

Branch offices

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

Outsourcing of functions

Transfer of responsibilities

Accounting and collection functions are provided to the company by the CFO - Accounting units in Munich and Hamburg. The accounting functions of the foreign affiliates are in part handled locally and in part centrally in Munich or the branch offices in London, Paris, 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, Cordiant Capital Inc, Luxemburg, 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 Managed Operations & Services SE, Munich.

Employees

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

Essential for 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.

The continued training and development of the employees remained at the center of the company's efforts in 2016. In the past year, career development paths were implemented in all activities. These paths systematically outline the development possibilities from the different positions within the company.

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 2016, we conducted a test with flexible working hours in which several departments participated. In numerous workshops designed to strengthen resilience, managers and employees were made aware of the mindful use of their personal resources. These workshops were extended up to the Board level.

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.

The subject of Diversity has become a reality at AGCS in many respects. For example, the existing AGCS training program started emphasizing the subject "Unconscious Bias". All trainers of the relevant programs were individually briefed to raise the employee's awareness and gradually lay the foundation for a common understanding of these issues.

Diversity Days in the regions helped to get a better understanding of the different aspects of diversity.

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.

The corresponding framework has already been put in place, HR processes have been adjusted and a number of measures have been implemented. In addition to the already existing global Talent Management with sponsorship and mentoring programs, a new cooperation program with the SYNK Business School was launched in 2016 to support young high potential women in leadership positions or on their way to such positions.

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 2016.

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 2016, Allianz Global Corporate & Specialty SE had a total of 2,569 in-house employees.

Facts and Figures

		31.12.2016	31.12.2015
Employees [1]		2 569	2 521
of which full-time staff		2 501	2 470
of which other employees (temps and interns)		68	51
Share of women	%	47	47
Share of men	%	53	53
Share of full-time staff	%	85	86
Share of part-time staff	%	15	14
Age (average in years)		42.6	42.8
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 30 June 2017.

- The objective for the proportion of women on the Supervisory Board is 30 percent (actual proportion at 31 December 2016: 50 percent).
- The objective for the proportion of women on the Board of Management is 22 percent (actual proportion at 21 December 2016: 20 percent). Since the law does not allow the implementation period to go beyond 30 June 2017 and since no immediate changes can be expected, the objective is based on the status quo.
- The objective for the proportion of women on the first management level below the Board of Management is 20 percent (actual proportion at 31 December 2016: 14 percent).
- The objective for the proportion of women on the second management level below the Board of Management is 20 percent (actual proportion at 31 December 2016: 19 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 is reporting to the CFO, monitors the risks assumed and regularly informs the Board of Management of Allianz Global Corporate & Specialty SE about risk-relevant developments, the current risk profile and capital adequacy. In addition, the 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 18 November 2015.

At the end of 2016, the Solvency II solvency ratio of AGCS SE according to the internal model is 212 percent. The solvency capital requirement is € 1,583 million and eligible equity amounts to € 3,363 million.

Breakdown of solvency capital requirements by risk categories at 31 December 2016:

Risk category	Risk capital Mn €
Market risk	2 045,4
Credit risk	235,8
Underwriting risk	1 409,6
Business risk	94,9
Operational risk	321,9
Diversification	– 2 454,9
Total of individual risks (before taxes)	**1 652,7**
Tax relief	– 69,4
Total of individual risks (after taxes)	**1 583,3**

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 2016 is at least 173 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 as of 1 January 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 event losses, which concern more than one insured risk and may be caused, for example, by natural catastrophes, as well as risk due to other losses.

– Market 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 structured identification and evaluation processes. 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. 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 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 AGCS 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 not caused by natural catastrophes 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), 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. At the end of the year, the share of equities (based on market prices) amounted to 11.2 percent, taking into account hedging provisions. By means of various stress scenarios we regularly monitor the sensitivity of the portfolio with respect to market changes.

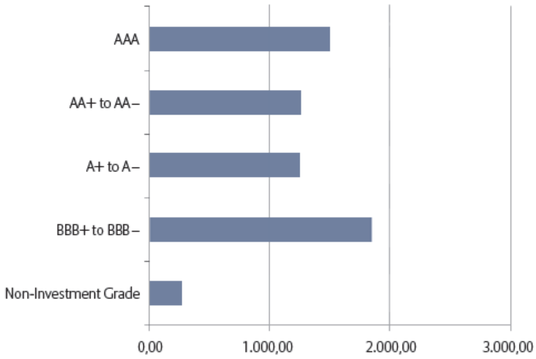
Market risks from derivatives are assessed and controlled by means of up-to-date value-at-risk calculations, stress tests and the setting of limits.

Due to the international orientation of the business of Allianz Global Corporate & Specialty SE, large parts of the reserves are constituted in foreign currencies. Overall, the currencies of the insurance reserves including unearned premiums amount to approximately 44.4 percent. The primary exposures are in USD (24.5 percent) and GBP (14.6 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 2016, 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 holds 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 approximately 44.2 percent are fixed-income investments with banks and government bonds. Corporate bonds account for 43.4 percent. Overall, the great majority of the fixed-income securities are issued in the euro zone.

Fixed-income investments by rating class as of 31 December 2016, 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 security are considered. At 31 December 2016, 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 2016 as of 31 December 2015. 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, 95 percent of the reserves were ceded to reinsurers with at least an A rating. Since pools have no ratings of their own, cessions are made only after a special investigation has determined that the participating reinsurers meet the Allianz-internal minimum requirements for reinsurance partners and explicit approval by a team of experts has been obtained. In addition, letters of credit, deposits and other financial measures to further minimize the credit risk may be requested.

At 31 December 2016, total third-party receivables with due dates exceeding 90 days amounted to € 157.9 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 AGCS. 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 key controls are in the right place within the business processes, (2) whether their design is adequate to mitigate the targeted risks and (3) whether they have been implemented effectively.

Operational risk capital, which is determined by the internal risk capital model of AGCS, is used as a cushion to protect the company against extreme operating losses from the unexpected failure of key controls.

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 Allianz Global Corporate & Specialty SE at the global level in the future, i.e. to prevent the occurrence of operational risks outside the risk tolerance of AGCS. For this purpose, one needs to gain an understand 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).

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 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 at 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
– The suitability of the internal model for determining solvency capital requirements
– The efficiency of the internal control system
– The capitalization of subsidiaries subject to separate reporting requirements

This assessment includes the latest available reporting data as well as the entire three-year reporting period. The overall evaluation from the company's own risk and solvency assessment is positive. The AGCS risk management function does not see a need to issue a recommendation to take measures to the Board.

In addition to the regular reports on the risk situation, a separate report must be established if individual events substantially alter the risk situation. To optimize the capital efficiency of AGCS, the corporate structure of AGCS was changed in 2016. This project prompted the risk management function to issue a separate report on the impact of these changes on the risk situation. The result was positive as well, i.e. the company's lasting risk bearing capacity is ensured.

The final reports were submitted to the BaFin supervisory authority and made available to the Allianz Group Risk Unit.

In planning the future development of the company, Allianz Global Corporate & Specialty SE takes into account a three-year time horizon.

Outlook

Despite the difficult market environment, premium growth in 2016 slightly exceeded the prior year forecast, driven primarily by growth in the Captive and Fronting business, particularly at Allianz Risk Transfer AG. In addition, there was an increase in new Property and Liability business, mainly in Germany and the London branch office. The recently added Entertainment business reported substantial growth from the prior year. Due to the continued weak rate environment, premiums remained under heavy pressure. To maintain profitability despite the difficult market context, portfolio optimization measures were taken, mainly in aviation and marine insurance.

It is expected that premium development in the coming years will continue to be impacted by continually growing competition as more and more primary and reinsurers will expand into the industrial insurance market to counteract diminishing growth opportunities in their core business. Based on current prognoses, the pressure on rate developments will therefore continue unabated. Since profitability is the key objective, Allianz Global Corporate & Specialty SE expects a slight overall decline of its premium growth in 2017.

With a net combined ratio of 89 percent in 2016, profitability was lower than in 2015 (85 percent), but the prior year forecast of 95 percent was clearly exceeded. This is primarily due to the positive development of reserves constituted for prior year losses. Compared to 2015, Allianz Global Corporate & Specialty SE in 2016 made higher net payouts, primarily for losses in the current fiscal year.

For 2017, a combined ratio of slightly over 96 percent is expected.

The proportional reinsurance contract of Allianz Global Corporate & Specialty SE with Allianz SE, which took effect in 2015, has been renewed for 2017.

For 2017, the reinsurance structure introduced in 2016 was renewed to the greatest extent. A large part of the non-proportional contract reinsurance is being placed with Allianz Re. Favored by the strong competition in the reinsurance market, it was possible to renew contracts for 2017 with the same reinsurance premiums; in some cases, even lower premiums were obtained.

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. We continue to consider real estate as an interesting investment class that offers risk-adjusted attractive return and a certain degree of protection against inflation.

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

Safety-oriented investments in connection with 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.

The current planning with focus on 2017 is based on the assumption that the development of business results will continue to be positive.

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, 28 February 2017

Allianz Global Corporate & Specialty SE
The Board of Management

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

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 2016

		31.12.2016 € thou	31.12.2016 € thou	31.12.2016 € thou	31.12.2015 € thou
Assets					
A	Intangible assets				
I	Self-produced industrial property rights and similar rights and assets		15 496		9 162
II	Licenses acquired against payment, industrial property rights and similar rights and assets as well as licenses for such rights and assets		91 193		71 364
				106 689	80 526
B	Investments				
I	Real estate, real property and equivalent rights including buildings on land not owned by AGCS		76 211		77 295
II	Investments in affiliated and associated enterprises		2 116 507		543 542
III	Other investments		5 744 631		7 256 506
IV	Funds held by others under reinsurance business assumed		80 206		96 592
				8 017 555	7 973 935
C	Receivables				
I	Accounts receivable from direct insurance business				
	1 Policy holders	15 014			34 725
	2 Insurance brokers	421 866			421 255
	including from affiliated enterprises: € thou 595 (2 564)				
			436 880		455 980
II	Accounts receivable on reinsurance business		714 314		650 960
	including from affiliated enterprises: € thou 265 371 (205 652)				
III	Other receivables		192 532		231 441
	including taxes of: € thou 28 897 (36 740)				
	including from affiliated enterprises: € thou 48 788 (42 954)				
				1 343 726	1 338 381
D	Other assets				
I	Cash with banks, checks and cash on hand		62 879		83 033
II	Miscellaneous assets		52 028		55 168
				114 907	138 201
E	Deferred income and prepaid expenses				
I	Accrued interest and rent		41 147		57 433
II	Other prepaid expenses and deferred income		2 741		2 001
				43 888	59 434
F	Excess of plan assets over pension liabilities/pension provisions			2 737	128
Total assets				9 629 502	9 590 605

		31.12.2016 € thou	31.12.2016 € thou	31.12.2016 € thou	31.12.2015 € 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	1 232 598			1 237 182
	2 Less: amounts ceded	665 468			661 250
			567 130		575 932
II	Reserve for loss and loss adjustment expenses				
	1 Gross	7 934 385			7 892 002
	2 Less: share in reinsured insurance business	4 929 841			4 871 692
			3 004 544		3 020 310
III	Claims equalization reserve and similar reserves		737 467		762 692
IV	Other insurance reserves				
	1 Gross	27 663			36 972
	2 Less: share in reinsured insurance business	13 209			9 239
			14 454		27 733
				4 323 595	4 386 667
C	Other accrued liabilities			203 897	170 634
D	Funds held under reinsurance			2 654 615	2 467 902
E	Other liabilities				
I	Accounts payable on direct insurance business to:				
	1 Policy holders	1 275			2 112
	including residual term of up to one year: € thou 1 275 (2 112)				
	2 Agents	29 763			47 797
	including to affiliated enterprises: € thou 1 973 (10 618)				
	including residual term of up to one year: € thou 29 763 (47 797)				
			31 038		49 909
II	Accounts payable on reinsurance business		389 402		407 038
	including to affiliated enterprises: € thou 91 971 (124 996)				
	including residual term of up to one year: € thou 389 402 (407 038)				
III	Amounts payable to banks		9 671		–
	including residual term of up to one year: € thou 9 671 (0)				
IV	Miscellaneous liabilities		864 683		948 965
	including from taxes: € thou 31 421 (40 146)				
	including to affiliated enterprises: € thou 693 835 (799 410)				
	including residual term of up to one year: € thou 864 683 (948 965)				
				1 294 794	1 405 912
F	Deferred income			8 364	15 254
Total equity and liability				9 629 502	9 590 605

Income statement
For the period from 1 January to 31 December 2016

		2016 € thou	2016 € thou	2016 € thou	2015 € thou
I	Technical account				
1	Premiums earned - net				
	a Gross premiums written	4 072 676			4 062 808
	b Premiums ceded	– 2 865 968			– 2 979 106
			1 206 708		1 083 702
	c Change in unearned premiums - gross	– 2 541			– 54 224
	d Change in unearned premiums ceded – gross	– 1 731			253 954
			– 4 272		199 730
				1 202 436	1 283 432
2	Allocated interest return - net			–	1
3	Loss and loss adjustment expenses - net				
	a Claims paid				
	aa Gross	– 2 108 995			– 2 049 014
	bb Amounts ceded in reinsurance	1 427 348			– 683 207
			– 681 647		– 2 732 221
	b Change in reserves for loss and loss adjustment expenses				
	aa Gross	– 54 359			– 306 334
	bb Amounts ceded in reinsurance	17 507			2 317 880
			– 36 852		2 011 546
				– 718 499	– 720 675
4	Change in other insurance reserves - net			14 173	5 637
5	Expenses for profit-dependent and profit-independent premium rebates for own account			– 1 805	
6	Underwriting expenses -net			– 355 189	– 365 409
7	Other underwriting expenses - net			– 4 797	– 4 615
8	Subtotal			136 319	198 371
9	Change in claims equalization and similar reserves			25 224	353 368
10	Net technical result			161 543	551 739

		2016 € thou	2016 € thou	2015 € thou
II	Non-technical account			
1	Investment income	696 621		583 642
2	Investment expenses	– 48 323		– 60 678
			648 298	522 964
3	Allocated interest return		–	– 14
			648 298	522 950
4	Other income	149 776		101 600
5	Other expenses	– 144 684		– 337 414
			5 092	– 235 814
6	Non-technical result		653 390	287 136
7	Earnings from ordinary activities before taxes		814 933	838 875
8	Extraordinary income	16 456		12 117
9	Extraordinary result		16 456	12 117
10	Income taxes, including amounts charged to	– 130 029		– 164 652
	other group companies: € thou 44 361 (97 686)			
11	Other taxes	– 1 185		– 684
			– 131 214	– 165 336
			700 175	685 656
12	Profits transferred because of a profit pool, a transfer-of-profit or transfer-of-partial profit agreement		– 700 175	– 685 656
13	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 341g 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 2016

		Balance sheet value 31.12.2015 € thou	%
A	Intangible assets		
I	Self-produced industrial property rights and similar rights and assets	9 162	–
II	Licenses acquired against payment, industrial property rights and similar rights and assets as well as licenses for such rights and assets	71 364	–
B.I	Real estate, real property and equivalent rights including buildings on land not owned by AGSC	77 295	1,0
B.II	Investments in affiliated and associated enterprises		
	1 Shares in affiliated and associated enterprises	409 769	5,2
	2 Loans to affiliated enterprises	64 803	0,8
	3 Participations	8 239	0,1
	4 Loans to companies in which participations are held	60 731	0,8
	Subtotal B.II.	**543 542**	**6,9**
B.III	Other investments		
	1 Stocks, investment fund units and other variable income securities	3 446 711	43,8
	2 Bearer bonds an other fixed-income securities	2 668 477	33,9
	3 Mortgages, land charges and annuity land charges	21 843	0,3
	4 Other loans		
	a Registered bonds	722 063	9,2
	b Note loans and loans	299 894	3,8
	5 Bank deposits	97 518	1,2
	Subtotal B.III.	**7 256 506**	**92,2**
	Subtotal B.I. through B.III.	**7 877 343**	**100,0**
Total		7 957 869	

Intangible assets (Assets A.)

This balance sheet position essentially comprises the 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 intangible assets in fiscal 2016 is € 9,398 thou, of which € 7,192 thou were capitalized.

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

Shares in affiliated and associated enterprises were composed as follows in fiscal 2016:

	31.12.2016 € thou	31.12.2015 € thou
Shares in affiliated enterprises		
AGCS International Holding B.V., Amsterdam	1 624 045	200
Allianz Risk Transfer AG, Schaan	74 497	186 242
Allianz Finance VIII S.A., Luxemburg	67 991	48 122
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	37 381	37 381
Sirius S.A., Luxemburg	32 328	32 328
Infrastructure Lux HoldCo II, Luxemburg	23 976	22 663
AGR Services Pte Ltd, Singapore	–	22 000
Alida Grundstücksgesellschaft mbH & Co. KG, Hamburg	16 727	17 133
Q 207 S.C.S., Luxemburg	12 224	12 474
Allianz Jewel Fund ICAV, Dublin	9 325	–
Caroline Berlin S.C.S., Luxemburg	7 816	8 332
AGCS Vermögensverwaltungsgesellschaft mbH & Co. KG, Munich	6 480	955
Allianz Marine (UK) Ltd., London	6 408	6 408
Others	19 014	15 531
Subtotal	**1 938 211**	**409 769**

Additions € thou	Reclasses € thou	Disposals € thou	Revaluation € thou	Depreciation € thou	Net change € thou	Balance sheet value 31.12.2016 € thou	%
7 192				858	6 334	15 496	
35 722				15 893	19 829	91 193	
547		19		1 612	– 1 084	76 211	1,0
1 667 143		134 918	482	4 264	1 528 442	1 938 211	24,4
57 485		8 287		2 184	47 014	111 817	1,4
36 719		526		60	36 133	44 372	0,6
8 225		46 849			– 38 624	22 107	0,3
1 769 571		**190 580**	**482**	**6 509**	**1 572 965**	**2 116 507**	**26,7**
125 056		574 984			– 449 928	2 996 783	37,8
1 104 441		1 331 266	10 523	23 593	– 239 895	2 428 582	30,6
42 963		200			42 763	64 606	0,8
45 450	12 224	700 908			– 643 234	78 829	1,0
32 051	– 12 224	149 542			– 129 715	170 179	2,1
		91 866			– 91 866	5 652	0,1
1 349 961		**2 848 765**	**10 523**	**23 593**	**– 1 511 874**	**5 744 632**	**72,4**
3 120 080		**3 039 364**	**11 005**	**31 714**	**60 006**	**7 937 349**	**100,0**
3 162 994		**3 039 364**	**11 005**	**48 465**	**86 169**	**8 044 038**	

	31.12.2016 € thou	31.12.2015 € thou
Loans to affiliated enterprises		
Allianz Jewel Fund ICAV, Dublin	37 335	–
Allianz Finance VII S.A., Luxemburg	31 223	26 906
Allianz Fund Investments S.A., Luxemburg	23 867	20 297
Allianz Managed Operations & Services SE, Munich	17 600	17 600
Allianz Fund Investments 2 S.A. (Compartment), Luxemburg	1 792	–
Subtotal	**111 817**	**64 803**
Participations		
AS Gasinfrastruktur Beteiligung GmbH, Vienna	33 914	–
T&R Investment GmbH & Co. KG, Frankfurt/Main	5 039	3 732
National Insurance Company Berhad, Brunei	2 970	2 970
T&R Real estate GmbH, Bonn	1 500	1 500
PIMCO Corporate Opportunities Fund II Lux Feeder SCS, Luxemburg	949	–
Triskelion Property Holding Designated Activity Company, Dublin	–	37
Subtotal	**44 372**	**8 239**

	31.12.2016 € thou	31.12.2015 € thou
Loans to companies in which participations are held		
Triskelion Property Holding Designated Activity Company, Dublin	–	45 826
T&R Investment GmbH & Co. KG, Frankfurt/Main	22 107	14 905
Subtotal	**22 107**	**60 731**
Total investments in affiliated enterprises	**2 116 507**	**543 542**

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

Name of fund	Investment goal	Redemption of fund shares	Balance sheet value 31.12.2016 € thou	Fair value 31.12.2016 € thou	Valuation reserve 31.12.2016 € thou	Dividend distribution for the fiscal year € thou
Mixed funds						
ALLIANZ GLR FONDS	Mixed funds	each trading day	1 223 417	1 486 083	262 666	11 399
ALLIANZ GLU FONDS	Mixed funds	each trading day	694 122	907 072	212 949	5 959
Allianz Renewable Energy Fund II, S.A.S	Mixed funds	each trading day	4 299	4 299	–	–
Subtotal			1 921 838	2 397 453	475 616	17 358
Bond funds						
ALLIANZ GRGB FONDS	Bond fund	each trading day	316 327	346 474	30 146	2 905
ALLIANZ GLRS FONDS	Bond fund	each trading day	746 312	827 191	80 879	463
Subtotal			1 062 639	1 173 664	111 025	3 368
Total			2 984 477	3 571 118	586 641	20 726

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

Name and location	Interest %	Equity € thou	Net income € thou
AGCS Argos 76 Vermögenverwaltungsgesellschaften mbH, München	100,00	–	–
AGCS Infrastrukturfonds GmbH, München	100,00	–	–
AGCS International Holding B.V., Amsterdam[10]	100,00	124	–6
AGCS Marine Insurance Company, Chicago[3]	92,00	138 725	636
AGCS of Bermuda, Hamilton[9]	92,00	–	–
AGCS Vermögensverwaltungsgesellschaft mbH & Co. KG, München	100,00	950	–5
AGR US, Chicago[3]	92,00	1 765 502	31 134
AIM Underwriting Limited, Toronto[9]	92,00	–	–
Alida Grundstücksgesellschaft mbH & Co. KG, Hamburg	4,73	414 041	10 612
Allianz Aviation Managers LLC, New York[9]	92,00	–	–
Allianz EM Loans S.C.S., Luxemburg	11,11	–	–
Allianz Finance VII Luxembourg S.A., Luxemburg	6,00	783 534	– 8 153
Allianz Finance VIII Luxembourg S.A., Luxemburg	20,00	240 448	–53
Allianz Fund Investment 2 S.A., Luxemburg	100,00	–	–
Allianz Fund Investments S.A., Luxemburg	100,00	19	0
Allianz Fire and Marine Insurance Japan Ltd., Tokio[1,6]	100,00	28 613	7 882
Allianz Global Corporate & Specialty do Brasil Participações Ltda., Sao Paulo[7]	100,00	61 201	4 152
Allianz Global Corporate & Specialty of Africa (Proprietary) Ltd., Johannesburg[5]	100,00	7 478	289
Allianz Global Corporate & Specialty Resseguros Brasil S.A., Sao Paulo[7]	100,00	55 609	4 175
Allianz Global Corporate & Specialty SE, Escritorio de Representacao no Brasil Ltda., Sao Paulo[7]	99,99	39	20
Allianz Global Corporate & Specialty South Africa Ltd., Johannesburg[5]	100,00	7 633	292
Allianz Marine (UK) Ltd., London[2]	100,00	11 069	68
Allianz Renewable Energy Partners of America LLC, Wilmington[9]	30,66	–	–
Allianz Risk Consulting GmbH, München	100,00	1 688	264
Allianz Risk Consulting LLC, Petaluma[9]	92,00	–	–
Allianz Risk Transfer AG, Schaan[4]	100,00	712 664	59 678
Allianz Risk Transfer (Bermuda) Ltd., Hamilton[3]	100,00	54 792	5 155
Allianz Risk Transfer Inc., New York[3]	100,00	53 759	–69
Allianz Risk Transfer N.V., Amsterdam	100,00	31 871	207
Allianz Risk Transfer (UK) Ltd., London[2]	100,00	1 543	10
Allianz Services (UK) Ltd., London[2]	100,00	6 099	96
Allianz Underwriters Insurance Company, Chicago[3]	92,00	64 798	1 471
American Automobile Insurance Company, O'Fallon[3]	92,00	165 539	18 591
Associated Indemnity Corporation, Petaluma[3]	92,00	82 577	2 433
Assurance France Aviation S.A., Paris	99,84	2 785	–122
AZ Infrastructure Luxembourg I, Luxemburg	15,12	1 436 338	30 286
Brunei National Insurance Company Berhad Ltd., Brunei[8]	25,00	10 142	1 712
Chicago Insurance Company, Chicago[3]	92,00	58 008	3 978

Name, Ort	Anteil %	Eigenkapital Tsd €	Jahresergebnis Tsd €
EF Solutions LLC, Wilmington [3]	100,00	474	–7 969
Fireman's Fund Financial Services, LLC, Wilmington [9]	92,00	–	–
Fireman's Fund Insurance Company, Petaluma [3]	92,00	1 229 031	277 069
Fireman's Fund Insurance Company of Ohio, Columbus [3]	92,00	47 374	915
Fireman's Fund Insurance Company of Hawaii, Honolulu [3]	92,00	8 623	57
Fireman's Fund Insurance Indemnity Corporation, Liberty Corner [3]	92,00	14 203	319
Infrastructure Lux HoldCo II, Luxemburg	10,10	218 895	– 13
International Film Guarantors LTD, Santa Monica [9]	92,00	–	–
International Film Guarantors LTD, London [9]	92,00	–	–
Interstate Fire & Casualty Company, Chicago [3]	92,00	158 277	10 690
National Surety Corporation, Chicago [3]	92,00	132 827	11 371
Par Holdings LTD, Hamilton [9]	20,22	–	–
The American Insurance Company, Columbus [3]	92,00	210 711	33 634
Sirius S.A., Luxemburg	10,32	312 900	5 785
SpaceCo, Paris	100,00	4 611	747
Standard General Agency Inc., Dallas [9]	92,00	–	–
Wm. H. McGee & Co. Inc., New York [9]	92,00	–	–
Wm. H. McGee & Co. Ltd, Hamilton [9]	92,00	–	–
1739908 Ontario Inc., Toronto [9]	92,00	–	–

All figures from 2016
1 Fiscal year from April to March figures from March 2016
2 Converted from GBP to EUR closing rate 31.12.2016: 0,85360
3 Converted from USD to EUR closing rate 31.12.2016: 1,05475
4 Converted from CHF to EUR closing rate 31.12.2016: 1,07200
5 Converted from ZAR to EUR closing rate 31.12.2016: 14,42370
6 Converted from JPY to EUR closing rate 31.12.2016: 123,02080
7 Converted from BRL to EUR closing rate 31.12.2016: 3,43290
8 Converted from BND to EUR closing rate 31.12.2016: 1,52380
9 Due to local regulations no annual financial statements are made
10 2015 under the company name Allianz Risk Consultants B.V., Rotterdam.

In December 2016, AGCS International Holding B.V. acquired group internally from Allianz Europe B.V 92 percent of AGR US and with it the respective interests held by the latter. This was done by a payment by Allianz Global Corporate & Specialty SE into the capital reserve of AGCS International Holding B.V. in the amount of € 1,204,216 thou.

Fair value of investments

	Market value 31.12.2016 € thou	Market value 31.12.2015 € thou
B.I Real estate, real property and equivalent rights including buildings on land not owned by AGCS	94 104	87 110
B.II Investments in affiliated and associated enterprises		
1 Shares in affiliated and associated enterprises	2 196 132	1 518 408
2 Loans to affiliated and associated enterprises	115 224	66 716
3 Participations	45 112	9 035
4 Loans to companies in which participations are held	22 107	60 731
B.III Other investments		
1 Shares, investment fund units and other variable interest securities	3 583 488	3 907 520
2 Bearer bonds and other fixed-interest securities	2 590 892	2 869 620
3 Mortgages, land charges and annuity land charges	65 728	21 851
4 Other loans		
a Registered bonds	86 121	777 629
b Promissory notes and loans	183 632	318 118
5 Bank deposits	5 652	97 518
B.IV Funds held by others under reinsurance business assumed	80 206	96 592
Total investments	**9 068 398**	**9 830 848**

The following valuation methods were used to determine fair values:
The fair value of land and buildings is valued at 30 September 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 € 1 thou. The book value amounts to € 1,660 thou, the fair value to € 1,659 thou. No write-down to fair value was made because an analysis according to standardized methods found that the long-term market value of the investments concerned exceeded their fair value.

Miscellaneous assets (Assets D.II.)

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

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 € 2,737 (128) 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 € 15,646 (9,258) thou and concerns the recognition of self-generated intangible assets in the amount of € 15,496 (9,162) thou and the valuation of plan assets at fair value according to section 253 (1) HGB in the amount of € 150 (96) thou. The amount barred from dividend distribution is completely covered by unappropriated reserves and is thus transferred in full.

Valuation units

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

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

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

At the balance sheet date, the underlying transactions, which consist of benefits to be provided at a future date, amounted to a total of € 31,685 thou. Valuation units are accounted for by means of the "freezing" method.

Nominal values and fair values of open derivatives positions

Share option trades

Class	Number	Fair value €	Valuation method	Significant assumptions	Reported in item	Book value €
Allianz Long Call 87,36 € March 2017 (Hedge-Sar 2010)	18 022	1 255 052	Binomial-Model	Discount rate – 0,34% Volatility 41,9% Dividend yield 0,0% Share price 157,00 € Cap 218,40 €	Assets D.II. Miscellaneous Assets	270 690

Supplementary information on equity and liabilities

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

At 31 December 2016, the issued capital of € 36,741 thou is divided into 36,740,661 fully-paid in registered shares.

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

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

Gross insurance reserves (included in Assets & Liabilities B) **according to insurance branch groups, insurance branches and types of insurance**

	Total		Gross reserves for loss and loss adjustment expenses		Claims equalization reserve and similar reserves	
	31.12.2016 € thou	31.12.2015 € thou	**31.12.2016** € thou	31.12.2015 € thou	**31.12.2016** € thou	31.12.2015 € thou
Direct insurance business written						
Personal accident	16 145	21 142	9 933	12 169	–	2 288
3rd party liability	3 173 056	3 253 205	2 855 996	2 878 453	58 736	111 341
Automotive liability	14 583	12 217	9 667	8 582	–	–
Other automotive	16 728	22 534	11 745	17 112	–	–
Fire and property	1 103 651	955 081	681 562	571 117	131 198	105 045
including:						
Fire insurance	402 027	361 064	211 355	201 087	123 191	97 958
Other property insurance	701 624	594 017	470 207	370 030	8 007	7 087
Transport and aviation insurance	1 406 281	1 648 284	1 241 040	1 502 693	87 406	39 394
Other insurance	195 232	182 697	162 706	144 660	525	754
Total*	5 925 677	6 095 163	4 972 649	5 134 789	277 866	258 822
Reinsurance business assumed Total	4 006 436	3 833 684	2 961 736	2 757 213	459 601	503 870
Insurance business total	9 932 113	9 928 847	7 934 385	7 892 002	737 467	762 692

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

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.

	31.12.2016 %	31.12.2015 %
Discount rate (10-year average)*	4,01	–
Discount rate (7-year average)*	3,23	3,89
Rate of assumed pension increase	1,50	1,70
Rate of assumed salary increase (incl. average career trend)	3,25	3,25

* The discount rate was derived at 31 December 2015, on the basis of the German regulation on the discounting of provisions as a 7-year-average, which was applicable until 31 December 2015. Due to a change of the law for the discounting of pension liabilities these were derived on a 10-year average at 31 December 2016, while other personnel liabilities continue to be derived as a 7-year average.

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

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

In fiscal year 2016, reserves in the amount of € 3,704 (5,112) thou were constituted for pension reserves and similar commitments.

The settlement amount calculated at 31 December 2016 with the 7-year discount rate of the offset debt amounts to € 79.862 thou. This means that according to section 253 (6, 2) HGB, the amount of € 451 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.

Plan assets

The historical cost of the offset assets amounts to € 80,883 (70,601) thou and the fair value of these assets is € 81,882 (70,758). The settlement amount of the offset liabilities is € 83,356 (76,477) thou.

Tax reserves

In the reporting year tax reserves in the amount of € 60,704 (30,159) thou were constituted essentially in the branch offices in France, Italy and the Netherlands.

Other reserves

Other reserves for fiscal year 2016 include the following positions:

	31.12.2016 € thou	31.12.2015 € thou
Provisions for:		
Remunerations not yet		
definitely determined	59 009	61 102
Invoices not yet received	30 346	23 333
Allianz Equity Incentives	22 225	22 141
Holidays and flexible working hours	12 704	12 160
Employee jubilees	5 433	5 504
Severance payments	755	753
Phased-in retirement and value account model	573	735
Restructuring	–	561
Other	8 085	9 070
Total other provisions	139 130	135 359

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

This item essentially contains premiums from the 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 2 years.

Supplementary information on the income statement

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

	Gross premiums written		Gross earned premiums		Net earned premiums	
	2016 € thou	2015 € thou	**2016** € thou	2015 € thou	**2016** € thou	2015 € thou
Direct insurance business written						
Personal accident	10 622	12 271	10 990	12 871	6 741	8 410
3rd party liability	767 539	818 626	764 255	816 528	343 279	426 354
Automotive liability	15 848	12 610	15 025	12 404	– 262	– 82
Other automotive	13 927	15 671	14 660	15 688	– 17	– 27
Fire and property	608 334	538 966	581 580	521 380	166 901	150 482
including:						
Fire insurance	220 305	209 048	212 362	215 096	60 497	78 337
Other property insurance	388 029	329 918	369 218	306 284	106 404	72 145
Transport and aviation insurance	518 984	585 808	539 892	588 052	174 337	223 697
Other insurance	98 604	105 093	102 848	101 426	24 916	24 807
Total [1]	2 033 861	2 089 046	2 029 252	2 068 351	715 897	833 643
Reinsurance business assumed	2 038 815	1 973 762	2 040 883	1 940 233	486 539	449 789
Insurance business total	4 072 676	4 062 808	4 070 135	4 008 583	1 202 436	1 283 432

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

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

	Germany		EU		Other countries	
	2016 € thou	2015 € thou	**2016** € thou	2015 € thou	**2016** € thou	2015 € thou
Personal accident	4 789	4 223	3 208	4 806	2 625	3 242
3rd party liability	333 468	290 783	348 814	445 493	85 257	82 350
Automotive liability	38	– 11	–	–	15 810	12 621
Other automotive	–	–	–	–	13 927	15 671
Fire and property	214 249	190 109	309 400	297 577	84 685	51 280
Including:						
Fire insurance	80 733	70 117	111 133	110 173	28 439	28 758
Other property insurance	133 516	119 992	198 267	187 404	56 246	22 522
Transport and aviation insurance	204 905	178 863	249 953	321 818	64 127	85 127
Other insurance	38 976	44 243	45 201	46 807	14 427	14 043
Total	796 425	708 210	956 578	1 116 502	280 858	264 334

Allocated interest return - net

(Income Statement I.2.)

The calculation and transfer of allocated interest return from the non-underwriting section to the underwriting section is no longer required since 2016 because the underlying pension obligations no longer exist.

Run-off

The run-off in direct insurance amounted to € 133,914 (112,430) thou net; for business assumed it was € 71,099 (112,357) 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	
2016 € thou	2015 € thou	**2016** € thou	2015 € thou	**2016** € thou	2015 € thou	**2016** € thou	2015 € thou	**2016**	2015
– 1 231	2 781	2 862	3 154	– 3 504	– 3 922	8 157	2 802	5 990	5 970
469 246	545 117	155 651	174 070	– 174 549	– 121 707	21 773	– 1 317	22 858	20 217
7 422	7 230	6 500	5 111	– 1 442	– 42	– 339	21	47 000	38 321
5 891	10 003	4 776	5 727	– 3 535	– 62	458	– 105	–	–
355 855	309 989	112 659	108 432	– 109 383	– 120 758	– 20 169	– 23 254	28 632	27 475
98 571	142 038	39 876	49 751	– 57 706	– 46 864	– 8 264	– 23 580	9 601	9 400
257 284	167 951	72 783	58 681	– 51 677	– 73 894	– 11 905	326	19 031	18 075
329 272	621 772	131 019	147 041	– 37 108	155 171	– 1 327	27 611	15 520	20 354
101 339	29 062	14 637	12 595	36 243	– 42 211	23 616	25 158	4 805	4 952
1 267 792	**1 525 954**	**428 104**	**456 130**	**– 293 278**	**– 133 531**	**32 174**	**30 918**	**124 805**	**117 289**
895 562	829 394	462 246	404 432	– 594 404	– 461 794	129 369	520 820		
2 163 354	**2 355 348**	**890 350**	**860 563**	**– 887 682**	**– 595 325**	**161 543**	**551 739**		

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

		2016 € thou	2015 € thou
a	Gross expenditure for insurance business	890 350	860 563
b	Less: received provisions and profit sharing from reinsurance ceded	535 161	495 154
Total		**355 189**	**365 409**

Of the gross expenditures for insurance business, € 820,740 (799,288) thou are attributable to closing expenses and € 69,610 (61,275) thou to administrative expenses.

Commissions and other remuneration for insurance agents, payroll costs

		2016 € thou	2015 € thou
a	Commission of any kind for insurance agents within the meaning of clause 92 HGB for direct insurance business	195 193	224 845
b	Other remuneration of insurance agents within the meaning of section 92 HGB	31	14
c	Wages and salaries	256 320	263 112
d	Social security contributions and other social contributions	43 942	41 454
e	Pension costs	23 387	22 700
Total		**518 873**	**552 125**

Investment income (Income Statement II.1.)

	2016 € thou	2015 € thou
a Income from investments	198 043	450 157
ai Income from participations including in affiliated enterprises € thou 68 880 (80 914)	69 147	81 073
aii Income from other investments	128 895	369 084
aa income form real estate, real property and equivalent rights including buildings on land not owned by AGCS	5 100	5 027
bb Income from other investments	123 795	364 057
b Income from write-ups	11 005	228
c Gains from disposals	487 573	133 257
Total	696 621	583 642

Investment income includes disposal gains in the amount of € 307,884 thou from the contribution of 60 percent of Allianz Risk Transfer AG to AGCS International Holding B.V. and € 105,719 thou from the sale of securities to finance the acquisition of AGR US shares by AGCS International Holding B.V.

Investment expenses (Income Statement II.2)

	2016 € thou	2015 € thou
a Investment management, interest, charges and other investment expenses	9 609	12 244
b Depreciation and write-downs on investments	31 714	36 032
c Losses from disposals	6 999	12 402
Total	48 322	60 678

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 € 16,751 (11,559) 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 € 6,509 (497) thou. Unscheduled write-downs in accordance with section 253 (4) HGB were made on bearer bonds in the amount of € 23,593 (33,923) thou.

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

Other income and other expenses include:

	Pensions and similar obligations 2016 € thou	Other obligations 2016 € thou
Actual return from the fair value of the offset assets	– 1 844	– 39
Imputed interest cost for the settlement amount of the offset liabilities	2 798	111
Effect resulting from the change in the discount rate for the settlement amount	– 67	17
Net amount of the offset income and expenses	887	89

In addition, other income includes currency gains in the amount of € 37,425 (currency losses of 203,072) thou.

Extraordinary result (Income Statement II.9)

The liquidation of AGR Services Pte Ltd., Singapore in 2016 produced an extraordinary profit of € 16,456 thou. The extraordinary result for 2015 included an extraordinary profit of € 12,117 thou from the liquidation von Allianz Insurance (Hong Kong) Ltd., Hong Kong.

Income taxes (Income Statement II.10)

The lower income taxes for Allianz Global Corporate & Specialty SE of € 130,029 (164,652) thou essentially resulted from lower taxable income in Germany compared to the prior year, which was partially balanced by higher taxable income in the foreign branches.

Appropriation of earnings

Before the transfer of profit, the profit for fiscal year 2016 amounts to € 700,175 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 31 December 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 31 December 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 31 December 2016 are lower than its pension commitments. The deficit at 31 December 2016 is € 3,519 (8,212) thou.

The company made use of its option right according to section 28 (1,2) EGHGB to not setup 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 1 January 2015.

For new entrants since 1 January 2015, the company pension plan was uniformly reorganized. For new entrants since 1 January 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.

Allianz 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 SE. 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:

	31.12.2016 € thou	31.12.2015 € thou
Settlement amount of the offset liabilities	60 294	62 086
Provision amount that has not yet been recognized (article 67 (2) EGHGB)	–	–
Joint liability and/or rights of relief against Allianz SE	60 294	62 086

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 € 61 (72) 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 (31 December 2016), no liens on capital investments were granted in connection with group-internal cessions, and no such liens were granted to affiliated enterprises. € 340,377 (276,510) thou were deposited in trust accounts, including € 321,013 (258,818) 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 from purchasing contracts amount to € 77,304 (10,795) thou and in particular from real estate purchasing contracts in the amount of € 15,750 (10,652) thou.

Remuneration of the Board of Management and the Supervisory Board

The total remuneration of the Board of Management amounted to € 8,703 thou in the reporting year.

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

	31.12.2016 € thou	31.12.2015 € thou
Historical costs of the offset assets	4 074	4 039
Fair value of the offset assets	4 074	4 039
Settlement amount of the offset liabilities	5 415	5 450
Provision amount that has not yet been recognized (Article 67 (2) EGHGB)	–	–
Excess of plan assets over pension liability/P ension provisions	1 341	1 411

The settlement amount calculated at 31 December 2016 with the 7-year discount rate of the offset debt amounts to € 5.639 thou. This means that according to section 253 (6,2) HGB, the amount of € 225 thou is barred from distribution.
The cash surrender value of the reinsurance policies is taken as a basis for the fair value of the offset assets.

A total of 28,350 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 € 3,045 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 7.

Number of employees (annual average)

The average number of employees of Allianz Global Corporate & Specialty SE for the reporting year was 2,560 (2,509) (not including members of the Board of Management, trainees, interns and employees on parental leave or in basic military/civil service).

	2016	2015
Full-time employees	2 194	2 158
Part-time employees	365	351
Total	2 560	2 509

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

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

Group affiliation

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

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

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

We would like to point out that the implementation of the "Fit for Future" efficiency program was launched in the beginning of 2017 to further improve the competitiveness of Allianz Global Corporate & Specialty SE. Among others, the measures taken include: streamlining of complex business processes, digitization of processes by means of "Rapid Automation", transfer of routine tasks to „Shared-Service-Centers" as well as organizational adjustments.

Munich, 24 January 2017

Allianz Global Corporate & Specialty SE
The Board of Management

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

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Allianz Global Corporate & Specialty SE, Munich, for the business year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 17 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dielehner	**Dr. Hübel**
Wirtschaftsprüfer	Wirtschaftsprüfer
(Independent Auditor)	(Independent Auditor)

INSURANCE LINES COVERED

Direct insurance business:

Health insurance
Health insurance in the fashion of casualty insurance

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

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

Georg Denoke
former Member of the Board of Management
Linde 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
Member 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

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

Christoph Kübel
Managing Partner
Robert Bosch GmbH

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

Simone Menne
Member of the Board of Management
Deutsche Lufthansa AG

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

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