Allianz Global Corporate & Specialty AG

# Annual Report 2009

Allianz

# Contents

# Foreword

As we expected, 2009 was very challenging. As the financial crisis bottomed out, our market stayed soft and competition was fierce. Despite this unfriendly environment, Allianz Global Corporate & Specialty posted another successful year. It also maintained its course of profitability, growth and the constant evolution of its business model while attracting positive public attention.

As a group, all AGCS units (segment view) posted € 3.806 billion in gross written premiums. This represents major growth since 2008 which ended with a result of € 2.859 billion. This growth is due to both the ongoing process of integrating Allianz Group's corporate and specialty business into AGCS and strong underwriting results in several areas. The combined ratio for the year was 87%, a further drop from last year's 90%, demonstrating once again that amid all our growth, sustainable profitability still remains our first priority.

In a year when financial markets struggled to find the "new normal", AGCS kept its "old normal" stability. S&P confirmed our rating AA (very strong) in July, while AM Best also reiterated its financial strength rating A+ (superior) for AGCS in October. Thus, we remained a safe haven for our customers in this tough environment.

In Aviation, significant losses due to major airline crashes were outweighed by major premium growth in that line and strong net results from other businesses. Other factors impacted our results only mildly this year. The 2009 wind storm season was comparatively mild, and D&O claims generated by the financial crisis appear to have leveled off and are within our expected range. The message is clear: we will maintain a course of profitable underwriting in a diverse portfolio so that we are not surprised by large losses.

It was not only our steady course but also our dynamic development that drew attention. The integration of the Fireman's Fund Marine business reached the next stage at the beginning of 2009 with the founding of a new entity in the United States under the control of AGCS. In France, the integration of the corporate and specialty business came to completion in the fall with the launch of the dedicated AGCS entity there. We also launched AGCS offices in Mexico, Hong Kong and Brazil and announced the integration of Allianz Fire and Marine Insurance Japan Ltd. To close the year, AGCS launched a new automotive division to coordinate car manufacturer insurance concepts across the Allianz Group.

Our clients and our shareholders are putting their faith in us because we have been delivering on our promise. We have listened to our customers to provide tailored solutions to their unique needs in these challenging times while managing our risks professionally.

One of the main reasons for our success is the over 2,800 women and men at AGCS around the world. They are both the faces familiar to our clients and the many people behind the scenes who make our company what it is. I thank them for their professionalism and hard work.

Allianz Global Corporate & Specialty is a partner for change in a rapidly evolving world. As the economy slowly rebuilds itself, I am looking forward to entering into the next chapter of the AGCS story, taking part in that process and helping guide our clients into a stronger tomorrow.

Theis

Axel Theis, CEO Allianz Global Corporate & Specialty AG

# AGCS Structure

Allianz Global Corporate & Specialty AG (AGCS AG) is a globally operating company registered in Munich, Germany. The company is embedded in a network of various companies in Europe, North America 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 AG.

AGCS AG has a headquarter function within this segment. It has established branch offices in the UK, France, Denmark (for the Nordic region), Austria and Italy. Additional branches in Spain, Belgium and the Netherlands will become operative in 2010.

AGCS AG 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 uniques tool at our disposal to benefit our clients.

In 2009 Allianz IARD and Allianz SE have transferred their shares in Allianz Global Corporate & Specialty (France) (AGCS France) in AGCS AG by means of capital increase by contribution in kind.

In a second step Allianz SE has transferred all its shares in AGCS AG to AZ-Argos 45 Vermögensverwaltungsgesellschaft mbH (AZ-Argos 45), a fully owned subsidiary of Allianz SE, by means of a capital increase by contribution in kind. After this restructuring the shareholders of AGCS AG are AZ-Argos 45 (86%) and Allianz IARD (14%).

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

French customers are either served by the French branch of AGCS AG or by AGCS (France), since November 9 direct subsidiary of AGCS AG.

The special needs of the Swiss market are serviced by Allianz Risk Transfer AG, Zurich/Switzerland, a fully owned subsidiary of AGCS AG.

AGCS AG subsidiary AZT Risk & Technology GmbH, Munich/Germany, provides supplemental loss control engineering services in the form of risk analyses and claims expertise.

Allianz Services (UK) Limited, London/UK, provides all relevant services for the business operations of the UK branch of AGCS AG.

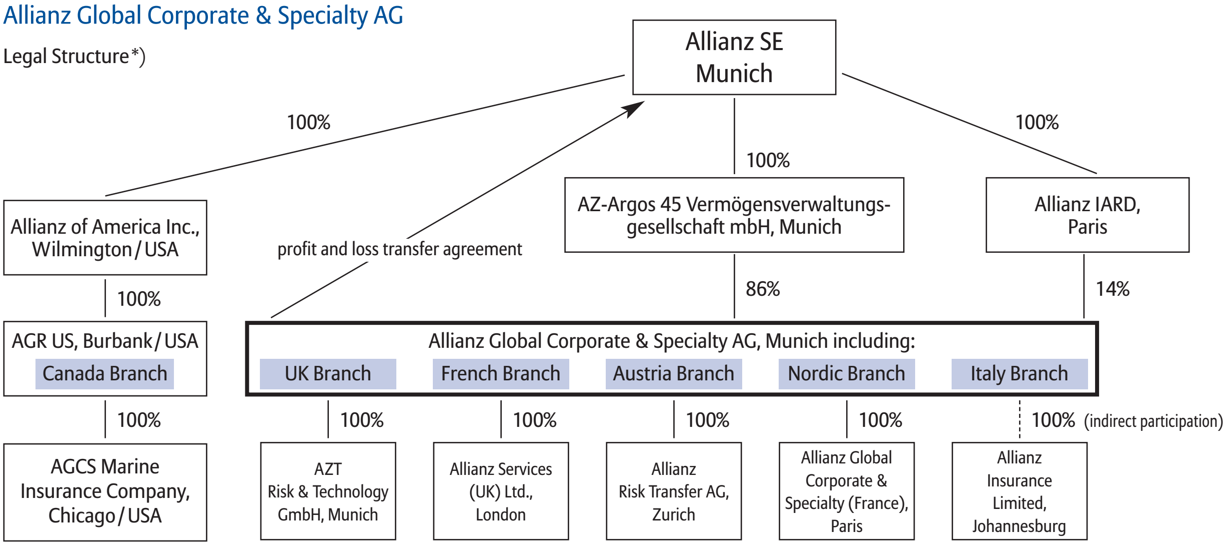
Furthermore, in 2009 AGCS AG has acquired Allianz of South Africa (Proprietary) Limited, Johannesburg/South Africa, a holding company which holds 100% of the shares in Allianz Insurance Limited, Johannesburg/South Africa.

Additionally, in 2009 AGCS AG gained a license as admitted reinsurer in Brazil.

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

## Allianz Global Corporate & Specialty AG

Legal Structure*)




*) simplified

# AGCS Global by Line of Business

AGCS global business consists of the entities AGCS AG, AGCS (France), AGR US, AMIC, ARAP, AZ Re Dublin and ART AG. Gross figures per Line of Business are shown on a non-consolidated basis as consolidation between legal entities is not performed at the Line of Business level. The consolidation effect of gross premiums written amounts to € 500.8 million, leading to gross consolidated premiums written of € 3,805.6 million.

Gross premiums written of **Aviation** amounted to € 652.2 (517.0) million which is 26.2% higher than prior year. The increase mainly stemmed from UK Branch and US as well as the new Space division and Italy Branch. Aviation was impacted in 2009 by a significant number of large losses which were the main driver for the calendar year loss ratio of 87.9% (64.8%) and significantly exceeded prior year. The full combined ratio amounted to 112.5% (88.1%).

Gross premiums written of **Energy** amounted to € 125.1 (182.9) million, which is 31.6% lower compared to last year. The main reason for this was that a major account was not fronted anymore. Claims activity remained below expectations and combined with the strong positive run-off for prior years translated into a calendar year loss ratio of 2.4% (62.5%) and a very favourable full combined ratio of 29.8% (75.6%).

Further growing versus prior year, gross premiums written in **Engineering** reached € 486.8 (423.0) million, exceeding prior-year level by 15.1%. This was caused by the incorporation of former AGF business into AGCS France which added EUR 84 mn to the top-line. The calendar year loss ratio of 50.4% (61.8%) improved further compared to 2008 mainly due to the absence of large losses. Backed up by the favourable loss experience, Engineering managed to lower its full combined ratio to 74.6% (83.8%).

**Financial Lines** showed considerable growth in gross premiums written and reached € 163.7 (96.8) million. A considerable part of the increase stemmed from UK due to the realisation of new business opportunities in Professional indemnity and good overall performance. On the claims side, additional IBNRs in connection with the financial crisis have been set up in Germany, UK and Switzerland leading to a calendar year loss ratio of 174.8% (110.2%). As a result, the full combined ratio went up to 198.8% (134.5%).

In 2009, gross premiums written in **Liability** increased to € 781.9 (545.4) million. The PharmChem segment belonging to Liability contributed to this result with gross premiums written of € 77.1 (52.9) million. Furthermore, the incorporation of former AGF business into AGCS France added EUR 181.3 million to the top-line. In addition to this, the top-line in North America grew compared to prior year. The calendar year loss ratio of 58.0% (58.7%) was positively impacted by a positive run-off for prior years. The full combined ratio of 78.1% (84.0%) showed a further improvement versus 2008.

Gross premiums written in **Marine** amounted to € 835.3 (423.1) million. The significant increase versus prior year is explained by the inclusion of former Fireman's Fund Marine business (legal entity AMIC) from North America in AGCS totalling € 380 million. The calendar year loss ratio of 71.5% (75.0%) exceeded plan expectations due to unfavourable loss experience and negative run-off. The full combined ratio of 102.5% (102.5%) remained stable compared to prior year.

AGCS' largest line, **Property**, generated gross premiums written of € 1,235.4 (924.2) million. The incorporation of former AGF business into AGCS (France) added EUR 248.1 million to the top-line. In addition, favourable business development in North America contributed to this. Loss experience in 2009 was favourable and combined with a significant positive run-off for prior years stemming from both AGCS AG and North America resulted in a calendar year loss ratio of 28.1% (52.3%) and a full combined ratio of 49.1% (87.8%).

The gross premiums written of **Other lines** amounted to € 26.0 (26.2) million.

## Supervisory Board

Clement Booth
Member of the Board
of Management, Allianz SE
Chairman

Dr. Helmut Perlet
Member of the Board
of Management, Allianz SE
Deputy Chairman
until August 31, 2009

Oliver Bäte
Member of the Board
of Management, Allianz SE
Deputy Chairman
since September 1, 2009

Dr. Stefan Jentzsch
Member of the Board
of Management,
Dresdner Bank AG
until January 12, 2009

Jacques Richier
Chairman of the Board
of Management, Allianz IARD
since January 13, 2009

Jay Ralph
Member of the Board
of Management, Allianz SE

Bernadette Ziegler
Personnel Officer
Employee representative

Senol Sabah
IT department
Employee representative

## Board of Management

Dr. Axel Theis
CEO
Chairman

Klaus Otto Bick
CRO

Chris Fischer Hirs
CFO

Dr. Hermann Jörissen
CUO Corporate

Robert Tartaglia
COO

Wilfried Verstraete
CFO
until March 31, 2009

Douglas Pennycuick
CRM
since July 1, 2009

Arthur Moossmann
CUO Specialty
since November 1, 2009

Karsten Crede
Global Automotive
since November 9, 2009

## General Managers

Branch office
UK

Andreas Berger
Chief Executive
since July 1, 2009

Branch office
France

Gilles Mareuse
Chief Executive

Branch office
Austria

Robert Korn
Chief Executive

Branch office
Nordic Region

Stig Jensen
Chief Executive

Branch office
Italy

Giorgio Bidoli
Chief Executive

# Report of the Supervisory Board

We continually 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. We concur with the findings of KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, which issued an unqualified auditor's certificate for the Annual Financial Statements for fiscal 2009 and the Management Report presented to it. In its meeting of April 13, 2010, the Supervisory Board approved the Annual Financial Statements prepared by the Board of Management, which are herby confirmed.

Effective March 31, 2009, Mr. Wilfried Verstraete resigned from his position as member of the Board of Management with the consent of the Supervisory Board. We thanked Mr. Verstraete for his contribution to the work of the Board of Management.

Effective July 1, 2009, Mr. Douglas Pennycuick was appointed to the company's Board of Management. As the successor of Mr. Chris Fischer Hirs, Mr. Pennycuick heads the Regions & Markets unit. Mr. Fischer Hirs is now in charge of Finance.

Effective November 1, 2009, Mr. Arthur Moossmann was appointed to the Board of Management of Allianz Global Corporate & Specialty AG as CUO Specialty.

Effective November 9, 2009, Mr. Carsten Crede was appointed to the Board of Management. Mr. Crede heads the Global Automotive unit, a new automotive branch that coordinates insurance sales in worldwide cooperation with automakers.

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

Munich, April 13, 2010

For the Supervisory Board

Clement Booth

# Management Report

Global International Industrial Insurance, which constitutes the core business of our company within the Allianz Group, was once again exposed to difficult market conditions in the reporting year. At the same time, the widespread absence of elementary losses and natural catastrophes had a beneficial effect on the claims situation. While last year's high volatility in the capital markets continued into the reporting year, world markets returned to a positive trend towards the end of the year. Exchange rate fluctuations, particularly of the US dollar and the British pound, once again heavily impacted our results and investment valuations. But the company managed to master this situation through appropriate controls of its foreign currency positions and the continuation of its safety-oriented investment policy. The long-term orientation of the business model of Allianz Global Corporate & Specialty AG, which is aimed at maintaining continuity, stability and solid earnings performance in a difficult market environment, is based on the diversification of our insurance business and our asset liability management. Among others, this is reflected in our strong ratings from Standard & Poor's und A.M. Best. In 2008, we continued the expansion of our direct underwriting activities by setting up branches in the neighboring European countries with the opening of offices in Denmark for the Nordic Region and in Italy. And in 2009, we concentrated on the legal integration of our French company AGCS France S.A. with the acquisition of the shares of this company and we prepared the further expansion of our activities by setting up branches in Spain, Belgium and the Netherlands. These branches will become operative in the course of 2010.

## Development Overview

The business of Allianz Global Corporate & Specialty AG includes the German and International Corporate Business (ICB), as well as the specialty insurance lines Marine, Aviation and Energy, in both the direct and the indirect insurance business. From our branch offices in London, Paris, Vienna, Milan, Copenhagen and our headquarters in Munich we were able to continue the expansion of the direct insurance business with our customers and thus meet their international needs to an ever growing extent.

The bundling of our activities, the increasing share of direct business and the further diversification of insurance risks has also enabled us to strengthen our offer of insurance solutions for specific needs as well as our comprehensive service. Within the framework of our projects we continually invested in the further expansion of the cross-border harmonization and optimization of business processes in all business areas.

Our sales figures and underwriting results are impacted by currency effects stemming primarily from the US Dollar and the British pound. Premium income in the reporting year reached € 2.3 (2.2) billion, an increase of € 106.0 million over the prior year figure. With respect to Germany and the European branch offices, premium income in Germany declined by € 57.1 million to € 1.5 (1.6) billion, while the UK posted an increase by a total of € 75.8 million to € 612.4 (536.6) million. This very positive development resulted mainly from the expansion of our direct insurance business in Financial Lines, Marine and Aviation. In the other branch offices overall premium income grew by € 87.2 million to € 179.9 million, compared to € 92.7 million in the prior year. Strong contributions came from the Italian branch office, which posted a substantial increase by € 74.5 million to € 95.1 (20.6) million, the Nordic branch office, which also reported solid growth by € 15.6 million to € 26.3 (10.7) million and the Austrian branch office where premium income rose by € 2.9 million to € 27.7 (24.8) million.

The French branch office posted a decline by € 5.8 million to € 30.8 (36.6) million. The noticeable decline of our gross premium income in Germany is primarily attributable to the transfer of insurance business from the US and Canada as a result of lower underwriting volumes. In a business environment marked by strong competitive pressures we pursued our risk-adequate and selective underwriting and reinsurance policy. Once again, elementary losses had a very limited impact on claims expenses in the reporting year, and only a small number of major losses influenced claims expenses. Total gross claims expenses remained at essentially the same level as in the prior year and declined by only € 23.7 million to € 1.3 (1.3) billion. With respect to the overall portfolio, this corresponds to a reduction of the gross loss ratio by 5.8 percentage points to 54.7 percent, compared to 60.5 percent in the previous year. Gross underwriting expenses declined by € 7.4 million to € 470.0 (477.4) million. Together with the premium effect this resulted in a lower gross cost ratio of 19.9 (21.9) percent.

The equalization reserves and reserves similar to equalization reserves, whose recognition in the balance sheet is required by law, required total allocations of € 159.5 (62.4) million.

This led to an underwriting profit for own account of € 90.0 (115.4) million. In the previous year, the result for own account had been substantially boosted by the quota share cessions of certain business segments to Allianz Risk Transfer AG and to Allianz Reinsurance in Dublin. These agreements were phased out at the beginning of the reporting year.

To be able to evaluate the development of our business segment, the International Corporate Business must be evaluated in its totality. The impact of the AGCS business model of being closer to the client through direct underwriting by local offices is characterized by the fact that insurance business that was previously written as reinsurance assumed and reported as indirect business is since 2007 increasingly reported as direct business. But basically, this is still the same insurance business. In the year under review, the shift of our premium income from the indirect insurance business to the direct insurance business as a result of the activities of our European branch offices continued. This effect – the reduction of the indirect business volume – was further amplified by the reduction of business assumed from our ceding in the North American market, Allianz Global Risks US. While the direct insurance business registered a clear increase of the claims volume as a result of the global financial crisis, the claims development in the indirect insurance business was very favorable in the reporting year. This was due to the absence of major losses which resulted in substantially lower total claims payouts. The gross loss ratio was 77.7 (62.8) percent in the direct insurance business and 33.1 (58.6) percent in reinsurance assumed.

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

## Direct Insurance Business

- Premium income in Personal Accident Insurance rose to € 8.6 (3.8) million, mainly from new business in Italy. While claims expenses increased by € 2.4 million to € 3.2 (0.8) million, they still remained at a moderate level with a gross loss ratio of 43.0 (24.5) percent. After a moderate allocation to the claims equalization reserve of € 0.3 (0.1) million, the underwriting profit of € 2.0 (0.4) million was above the prior-year level because of lower reinsurance cessions.

- In Liability Insurance, premium income in the reporting year grew substantially by € 89.0 million to € 474.6 (385.6) million, which corresponds to an increase of 23.1 (7.1) percent. This increase is primarily attributable to the growth market in Germany and in the UK in financial lines, which essentially means D&O insurance. During the same period, this insurance line reported disproportionally higher gross claims, which are due to the financial crisis and resulted in an increase by € 158.1 million to € 382.4 (224.3) million. In view of the subprime crisis the company had to further strengthen the provisions made for D&O insurance in its German insurance business and therefore adjusted the expected claims payout for this year on the basis of current developments. In view of the overall portfolio, this development was anticipated accordingly for the German branch office as a whole. Before allocation to the claims equalization reserve, this insurance line reported a loss of € – 57.1 (profit of € 29.8) million. After a withdrawal of € 55.1 (allocation of 10.9) million from the claims equalization reserve, an underwriting loss of – 2.0 (profit of 18.9) million was reported.

- Fire Insurance and other Property Insurance generated a further increase of € 58.3 million in premium income in fiscal 2009 and thus contributed to the growth of the direct insurance business with an overall premium volume of € 345.2 (286.9) million. Fire Insurance posted premium income of € 88.9 million for the reporting year, clearly above the prior-year level of € 32.8 million. Due to higher gross claims expenses of € 69.5 (26.3) million and an increase of the gross loss ratio by 3.4 percentage points to 88.8 (85.4) percent, the underwriting result of € – 12.2 (– 12.0) before allocations to the claims equalization reserve was once again negative. This was due to major individual gross losses which had remained in the retained portfolio of the company and were not covered by reinsurance. After a withdrawal from the equalization reserve of € 3.0 (7.4) million, an underwriting loss of € – 9.2 (– 4.6) million was reported. Premium income from Other Property Insurance increased slightly to € 256.3 (254.1) million. In absolute terms, the claims situation in the reporting year was more favorable and resulted in a reduction of claims expenses by € 16.0 million to € 117.5 (133.5) million. Due to higher premiums earned, this trend is amplified in the loss ratio which fell to 47.6 (55.2) percent. The resulting underwriting profit of € 38.7 (16.7) million was clearly above the prior-year level. Overall, Fire Insurance and other Property Insurance reported an underwriting profit of € 29.5 (12.1) million.

- Premium income in Marine and Aviation Insurance grew by a total of € 42.8 million to € 310.9 (268.0) million in the reporting year. In Marine Insurance, gross premiums increased by € 23.2 million to € 257.1 (233.9) million. The loss experience was similar to the previous year and resulted in claims expenses of € 208.3 (188.3) million. After the release of the claims equalization reserve of € 1.8 (15.9) million this insurance line posted a loss of € – 24.7 (profit of 3.4) million. Contrary to the previous year, Aviation Insurance reported an increase of premium income by 57.6 (decrease of 35.9) percent to € 53.8 (34.1) million. The loss experience in the reporting was unfavorable because of several major losses, reported mainly by the French branch office, which led to an increase of gross claims expenses by € 30.0 million to € 66.9 (36.9) million. This resulted in a negative underwriting result before changes to the claims equalization reserve of € – 14.8 (– 9.3) million. After a withdrawal of € 4.8 (8.2) million from the claims equalization reserve, the underwriting result amounted to a loss of € – 10.0 (– 1.1) million. Overall, the underwriting result of this segment before changes in the claims equalization reserve deteriorated to a loss of € – 41.2 (– 21.8) million. After the withdrawal of € 6.6 (24.1) million from the claims equalization reserve, a loss of € – 34.6 (profit of 2.3) million was reported.
- Gross premiums written in Other Insurance fell by € 32.3 million to € 55.6 (87.9) million in the reporting year, which is due to the reduced underwriting business of the London branch office. But due to the very unfavorable claims development in the reporting year, which was the result of a higher number of mid-sized major losses, gross claims expenses registered substantial growth and rose to € 44.0 (7.8) million. After the withdrawal of € 9.9 (allocation of 1.5) million from the claims equalization reserve, the insurance line posted a loss of € – 25.4 (profit of 27.8) million.

### Reinsurance Business Assumed

- In Property/Casualty Insurance premium income increased substantially to € 12.1 (4.0) million. But the less favorable claims development drove up claims expenses to € 5.3 (0.9) million, which slightly reduced the underwriting profit to € 1.1 (1.2) million.
- Gross premium income in Liability Insurance came to € 373.1 (334.9) million in the reporting year, which was € 38.2 million above the prior-year level. While gross claims expenses were impacted by a clearly less favorable claims development and registered a substantial increase of € 53.8 million to € 178.8 (125.0) million, they still remained at a moderate level with a loss ratio of 47.9 (39.2) percent. Before allocations to the claims equalization reserve a result at the prior-year level of € 54.0 (55.2) million was reported. After allocations to the claims equalization reserve in the amount of € 46.6 (87.3) million, this insurance line posted a profit of € 7.4 (loss of -32.1) million.
- Premium income in the Fire Insurance and Other Property Insurance line in the reporting year remained below the prior-year level and fell by € 33.6 million from € 596.8 to € 563.2 million. In this insurance line as well, the direct underwriting by the European branch offices resulted in a decrease of premiums in the indirect business. This was counteracted by an increase of premiums in the direct business in other property insurance and other insurance.
  In Fire Insurance, premium income amounted to € 356.3 (368.3) million. In parallel to this moderate decline, claims expenses registered a disproportionate drop due to the absence of major losses and fell by € 228.3 million to € 53.2 (281.5) million. This brought down the gross loss ratio from 69.7 percent in fiscal 2008 to 13.4 percent in the reporting year. After cessions for protective covers to the reinsurers, a clearly improved underwriting result of € 183.3 (56.8) million before changes in the claims equalization reserve was posted. In the reporting year it was possible to allocate € 142.8 (withdrawal of 12.9) million to the claims equalization reserve, which resulted in an underwriting result of € 40.5 (69.7) million after changes in the claims equalization reserve. Other Property Insurance reported lower gross premium income of € 206.9 (228.4) million. Due to the absence of major losses in this insurance line as well, claims expenses fell by € 30.4 million to € 91.0 (121.4) million. The prior-year effect of the two elementary losses Gustav and Ike amounted to € 68.2 million. It was thus possible to generate a clearly improved underwriting result before changes to the claims equalization reserve of € 45.0 (38.1) million. After minor changes to the claims equalization reserve and similar reserves, this line reported a profit of € 44.8 (38.6) million. Overall, this segment posted an underwriting profit of € 85.3 (108.3) million.

- Marine and Aviation Insurance generated gross premiums of € 147.3 (132.9) million. In Marine Insurance, premium income of € 74.7 (67.2) was slightly higher than in the previous year. The claims situation, which in the prior year had been negatively impacted by the settlement of claims from the previous year, developed very favorably and resulted in gross claims expenses of € 19.3 million, which was clearly below the prior-year level of € 63.2 million. After allocations of € 32.6 (3.4) million to the claims equalization reserve an underwriting loss of € – 20.2 (– 14.4) million was reported.
  In Aviation Insurance, gross premium income came to € 72.6 (65.7) million. The claims development was negatively impacted by a higher number of losses in the reporting year and resulted in claims expenses of € 66.0 (37.9) million. After an allocation to the claims equalization reserve of € 15.4 (4.2) million, this insurance line reported a negative underwriting result of € – 31.8 (– 6.1) million. Overall, the segment ended the year with an underwriting loss of € – 52.0 (– 20.6) million after changes to the claims equalization reserve.
- Other Insurance reported substantially a lower gross premium volume of € 48.1 (132.0) million in the reporting year, which is partially attributable to the transfer of business through direct underwriting in the branch offices and party to the reduction of premiums written in the London branch office. Contrary to the prior year, the very favorable gross claims development in the reporting year and the positive settlement of claims carried over from the previous year reduced claims expenses and resulted in a gain of € 10.4 (loss of € 70.8) million. After a withdrawal of € 3.7 (allocation of 0.1) million from the claims equalization reserve, this insurance line posted an underwriting profit of € 78.7 (loss of – 2.6) million.

## Reinsurance Business Ceded

In the reporting year, the company once again ceded its insurance business in part to the various Group companies and in part to external reinsurers. The quota share reinsurance agreements with Allianz Risk Transfer AG, Zürich, and Allianz Re, Dublin Ltd. which were concluded in fiscal 2007 and 2008 and provided for the cession and retrocession of individual lines from the direct and indirect insurance business were phased out in the beginning of the fiscal year. In the framework of a restructuring of the reinsurance coverage program a greater number of non-proportional reinsurance contracts were concluded with the reinsurers.
Reinsurance ceded now covers maximum risks and natural disasters to a limited extent on a quota-share basis and selectively in all insurance lines. The largest part of the business ceded to Group companies is assumed by Allianz SE, while Munich Re (Münchener Rückversicherungs-Gesellschaft AG) in Munich is the leading external reinsurer for Allianz Global Corporate & Specialty AG. As a result of the changes in the reinsurance structure of business ceded, the amount of premiums ceded to reinsurers was reduced by a total of € 434.6 million to € 575.5 (1,010.1). Passive reinsurance closed the year with a loss of € – 344.3 (– 198.2) million.

## Supplementary Information to the Management Report

The various insurance lines and types offered are presented in detail on page 43.

## Developments in the capital markets and their impact on investments

AGCS AG pursued its successful, safety-oriented investment strategy in 2009. Our objective was to achieve high returns with limited risk. For safety reasons we broadly diversify our investments and spread them widely. Out investment strategy is also designed to ensure sufficient liquidity at any time.

The effects of the recession triggered by the global financial crisis in 2009 were particularly noticeable in the development of the stock markets in the first quarter. At the beginning of March, the Dow Jones EURO STOXX 50 hit its lowest point since 1996. Following the low in March, first signals of an economic recovery brought about a steady upward trend in the stock market that drove up the Dow Jones EURO STOXX 50 by 21 percent. Premiums for corporate debt with A ratings dropped in the course of the year from approximately 500 basis points to less than 150 basis points. In the currency markets the euro gained 3 percent with respect to the US dollar while losing 8 percent against the British pound and 12 percent against the Canadian dollar.

In 2009, AGCS AG benefitted to a substantial degree from the recovery of the stock and credit markets. The positive development of the capital markets led to considerably lower write-offs affecting our profit and loss account than in the previous year. At the same time, valuation reserves were increased in the reporting year.

We evaluate the risk situation with respect to our capital base as well as the coverage of our financial obligations with qualified investments from two perspectives: external and regulatory requirements on the one hand and internal risk capital requirements on the other. For both areas we use a stress test model as well as an early warning system and a risk capital model. These test are performed on an ongoing basis and our investments have passed all of them in the reporting year.

## Investments

The book value of investments grew to € 5,374.9 (4,784.3) million in the reporting year.

Investments in affiliated enterprises and participations increased to € 610.2 (298.3) million, which is essentially due to the acquisition of Allianz Global Corporate & Specialty France S.A. with a book value of € 375.6 million. Loans to affiliated enterprises fell to € 37.0 (104.3) million as a result of repayments.

The book value of shares, investment certificates and other variable-income securities amounted to € 2,431.4 (2,163.8) million at the end of the year. The increase is essentially attributable to allocations of investment certificates. The main area for new investments were annuities.

The book value of bearer bonds and other fixed-interest securities rose to € 875.4 (845.3) million, while other loans showed a substantial increase to € 1,342.6 (1,165.6) million, which is mainly due to the purchase of registered mortgage bonds.

Bank deposits were clearly lower than in the previous year and amounted to € 77.0 (262.5) million, while funds held by others declined to € 38.3 (48.8) million.

## Investment income

Current income form investments was down from the prior year and amounted to € 127.3 (255.0) million. The decline is essentially due to lower distributions from investment funds and the lower dividend distribution of the affiliated enterprise Allianz Risk Transfer, Zurich, to Allianz Global Corporate & Specialty AG.

The disposal of investments resulted in earnings of € 40.1 (10.9) million. The gains were mainly generated from the sale of bearer bonds. Gains from write-ups in 2009 amounted to € (31.2) (22.8) million, of which € 7.3 million were attributable to bearer bonds and € 23.9 to investment funds. This is due to the positive developments in the capital markets and the development of the exchange rate of the British pound with respect to the euro.
Losses from the disposal of investments amounted to € 14.4 (18.6) million and were incurred from the sale of bearer bonds.

Write-downs on investments in the reporting year amounted to € 7.1 (89.2) million and were thus clearly lower than in the previous year.
Contrary to prior year, the possibility provided by paragraph 341 b HGB of making write-offs on investments only if the decrease in value is deemed to be permanent, was not used.

Investment management and interest expenses amounted to € 7.5 (4.7) million. This increase is essentially due to a change in cost allocations.

Total investment income reached € 169.6 (176.2) million and was thus slightly below the prior-year level.

Valuation reserves on investments (less undisclosed liabilities) increased to € 960.9 (516.7) million. Of this amount, € 605.1 (384.8) million are related to shares in affiliated and associated enterprises. The increase is essentially due to the additions of shares of Allianz Global Corporate & Specialty France S.A. at book values. The valuation reserves on investment certificates also registered a significant increase to € 265.3 (62.2) million, as did other loans with € 61.2 (38.9) million. The valuation reserves on bearer bonds came to € 28.1 (30.8) million and thus remained essentially at the prior year level.
The valuation reserves of investments recognized at nominal value take into account premiums and discounts.

The reserve ratio, i.e. the percentage of valuation reserves in relation to the book value of total investments, reached 17.8 (10.8) percent at the end of the year.

### Other non-underwriting business

Other non-underwriting business generated a loss of € 12.5 (13.0) million, which mainly resulted from scheduled write-downs on insurance portfolios acquired within the Group and from scheduled allocations to the reserves for Group Equity Incentive plans.

The overall result of the non-underwriting business therefore amounted to € 157.1 (163.1) million.

### Overall result

Tax charges for the reporting year came to € 98.3 (89.5) million.

The overall result after taxes was a profit of € 148.8 (190.9) million. Under the terms of the existing management control and transfer-of-profit agreement, this profit was transferred to Allianz SE.

### Corporate agreements

The control and transfer-of-profit agreement that existed between Allianz SE as controlling company and Allianz Global Corporate & Specialty AG ended on 31/12/2009 as a result of the change in the company's shareholder structure. The shareholders are now Allianz IARD S.A. and AZ-Argos 45 Vermögensverwaltungsgesellschaft mbH. AZ-Argos 45 Vermögensverwaltungsgesellschaft mbH and Allianz Global Corporate & Specialty AG will conclude a control and transfer-of-profit agreement in 2010.

### Branch offices

Allianz Global Corporate & Specialty AG maintains branch offices in London, UK, Paris, France, Vienna, Austria, Copenhagen, Denmark, and Milan, Italy.

## Outsourcing of functions

### Transfer of responsibilities

Accounting and collection functions are provided to the company by the CFO-Accounting unit in Munich and Hamburg. The accounting functions of the foreign affiliates are in part handled locally and in part centrally in Munich. 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, these functions are handled by Allianz Deutschland AG, Munich, and by Allianz Investment Management SE, Munich. The portfolio management is handled by Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/Main.

### Information Technology

Computing center services as well as printing and IT services are, depending on the system concerned, provided to Allianz Global Corporate & Specialty AG either by Allianz Shared Infrastructure Services SE, Munich, or by Allianz Service Ltd., London, UK.

### Events after the balance sheet days

There were no additional events which would have been of special importance for the evaluation of the treasury, financial and earnings situation of Allianz Global Corporate & Specialty AG that occurred between the end of the fiscal year and the Supervisory Board's balance sheet meeting.

## Employees

Personnel management at Allianz Global Corporate & Specialty AG is strictly aligned with the strategic objectives of the Allianz Group. We promote a performance-oriented corporate culture based on fairness and trust. Allianz Global Corporate & Specialty AG relies on management by objective, performance-based remuneration and the continuous development of its employees. By combining company objectives with individual annual objectives which are fixed in a personal interview by the employee with his/her supervisor at the beginning of the year, all employees and managers take direct responsibility for the contribution they make to the success of the company.

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.

We also offer our employees an exemplary company pension scheme and a group-wide employee stock purchase plan.

In addition to the ongoing implementation of eleven world-wide HR guidelines and the operative support of the line managers in all personnel-related questions, one of the key priorities of personnel management in 2009 was the implementation of a worldwide bonus plan and of an electronic system for agreeing on individual objectives, which can now also be used for all non-management employees in Germany. Its purpose is to lend further support to Allianz Global Corporate & Specialty AG on its way towards a high-performance organization.

In addition, development assessments and individual development programs based on uniform standards have been systematically introduced at all locations worldwide.

The AGCS Academy gives all employees access to individually designed training programs. With these resources Allianz Global Corporate & Specialty AG makes an important contribution to the ongoing in-house qualification of our workforce.

### Objectives for 2010

Our main focus continues to be on targeted training of our employees and on the implementation of global career paths on the basis of uniform job profiles. The basis for structured talent management is also the ongoing work of our Career Development Committees.

Another key area is the strengthening and optimization of the operative implementation of the global HR strategy and the definition of a uniform corporate culture. For this, Allianz Global Corporate & Specialty AG will continue to use the instrument of regular surveys of all employees and managers worldwide. These surveys enable us to build a worldwide corporate culture; they help us to identify the need for optimization, to define the corresponding measures and to come together as a global company.

At the end of 2009, Allianz Global Corporate & Specialty AG had a total of 1,129 in-house employees.

### Figures and Facts

| | 2009 | 2008 |
|---|---|---|
| **Employees** [1] | **1,129** | **1,061** |
| Full-time staff | 1,091 | 1,053 |
| Part-time staff (temps and interns) | 38 | 8 |
| Share of women | 43% | 45% |
| Share of men | 57% | 55% |
| Share of full-time staff | 85% | 83% |
| Share of part-time staff | 15% | 17% |
| Age (average in years) | 42.6 | 41.8 |
| Time with the group (average in years) | 14.0 | 14.8 |

[1] As of 12/31; including dormant employment contracts

### Thanks to our employees

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

# Risk Report

Controlling risks is an integral part of the management of Allianz Global Corporate & Specialty AG. The key elements of our risk management are a strong risk management culture, comprehensive risk capital calculations and the integration of risk considerations and capital needs into the decision-making process.

## Organizational embedding of risk management

The responsibility for risk management within the Board of Management lies with the Chief Risk Officer (CRO) who is responsible for actuarials, reinsurance, cumulation control and risk management, as well as for a unit in change of unwinding discontinued business activities. The Chief Risk Officer oversees the risks assumed and regularly informs the Board of Management of Allianz Global Corporate & Specialty AG about risk-relevant developments, the current risk profile and capital adequacy. In addition, the Chief Risk Officer makes sure that appropriate measures are taken, for instance in cases where a withdrawal from a high-risk situation is required, and he is responsible for the continued development of the risk management processes.
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 Risk Officer, the AGSC Risk Committee examines all relevant risks on a quarterly basis and agrees on measures for risk mitigation and the continued development of our risk management processes. The Chief Executive Officer, the Chief Financial Officer, the Chief Underwriting Officer as well as the Chief Operating Officer, who are members of the Board of Management, are also members of the AGCS Risk Committee, which ensures close cooperation and interaction between risk control and the Board as a whole. In addition to being represented in the AGCS Finance Commission, Risk Management is also involved in current investment topics of concern to the company.

The risk management of Allianz Global Corporate & Specialty AG is tied into the risk control system of Allianz SE. Its binding guidelines are the Group Risk Policy set down by Allianz SE as well as the minimum standards and modeling directives for internal risk capital. The controlling body for the risk management of Allianz Global Corporate & Specialty AG is the Group Risk unit of Allianz SE, which is in charge of risk control throughout the Group. Other internal and external control functions are vested in the Supervisory Board, the CRO, the Responsible Actuary, Legal & Compliance as well as the Internal Audit.

## Risk strategy and risk reporting

The risk strategy defines the core risks of Allianz Global Corporate & Specialty AG and describes the risk management and controlling process used to control these risks. The current risk profile is controlled by means of the risk report. It provides directives for indicators and specified threshold values and is submitted to the Risk Committee on a quarterly basis.
The Risk Committee decides on the implementation of risk mitigation measures.

## Risk categories and control measures

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

- Underwriting risk: Premium risk from insufficient premiums charged and reserve risk from insufficient reserves.
- Concentration risk: Risk from natural catastrophes and other highly correlated risks with significant loss exposure or default potential.
- Market risk: The risk of potential losses in the portfolio value of fixed-income investments or stocks as well as the foreign currency and interest risk. In this context we also monitor the liquidity risk in order to ensure our ability to meet our financial obligations whenever they become due.
- Credit risk (including country risk): The risk arising from the insolvency or liquidity shortages of reinsurers, insurance companies, insurance brokers and security issuers, as well as reliability risks due to losses stemming from debtors' impaired creditworthiness.
- Operational risk: Risk that arises from inadequate or failed internal processes and controls. It may be caused by technology, employees, the organization or by external influences and legal risks.
- 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 primarily with the help of actuarial models used to calculate premiums and monitor claim patterns. In addition, we issue guidelines for concluding insurance contracts and underwriting insurance risks. In pricing the risks we underwrite we also aim to control the combined ratio within clearly defined limits, and we continually test our expectations for the development of the combined ratio by means of regular analyses of the claims development.

**The gross loss ratios of the company's entire insurance business since 2007 developed as follows:**

| Loss ratio in % | Property/ casualty insurance | Liability insurance | Fire insurance | Other property insurance | Marine insurance | Aviation insurance | Other insurance |
|---|---|---|---|---|---|---|---|
| 2007 | 11.0 | 68.8 | 45.7 | 48.3 | 85.4 | 76.0 | 89.1 |
| 2008 | 23.4 | 50.8 | 70.8 | 55.8 | 85.4 | 76.0 | 40.6 |
| 2009 | 48.1 | 68.4 | 25.8 | 44.1 | 69.1 | 109.8 | 26.2 |

Natural catastrophes such as earthquakes, storms and floods represent a special challenge for risk management. In order to manage such risks and to better estimate the potential effects of natural disasters, we use special modeling techniques based on probability. These involve the correlation of information on our portfolios – for example the geographic distribution of the amounts covered – with simulated natural disaster scenarios to estimate potential damages. This approach makes it possible to determine the possible effects and concentration of these events. Where such models do not exist, for example for the storm risk in Asia, we use scenario-based deterministic approaches. We control our exposure to natural catastrophes by means of a limit system and the monthly monitoring of possible damages caused. The insights gained this way are used to limit the risks we underwrite and to calculate the capital efficiency of a risk transfer toward the reinsurance market.

We control **reserve risks** by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending these provisions if necessary. For this we use various actuarial methods. In business lines with comparably shorter claims history, such as financial lines, we have developed factor-based approaches that enable us to continually monitor the adequacy of the provisions made.

**Market risks.** The investments of Allianz Global Corporate & Specialty AG are centrally managed by the specialists of Allianz Investment Management SE (AIM SE). The investment strategy is aligned with the needs of the asset-liability management of Allianz Global Corporate & Specialty AG. Derivatives, structured products and foreign exchange transactions are not used as such to generate capital gains but only as instruments of the investment strategy, for purposes of risk control or on the basis of special authorizations.

Our investments are broadly diversified according to type of investment (shareholdings, stocks, fixed-income securities), issuers and situs. A continuous risk analysis is performed by our investment management. This analysis is supplemented by an independent quantification in risk controlling. Existing market risks are regularly quantified by means of stress tests and sensitivity analyses. Allianz Global Corporate & Specialty AG holds a conservative investment portfolio in which stocks (not including participations) have a share of approximately 4 percent at present values.

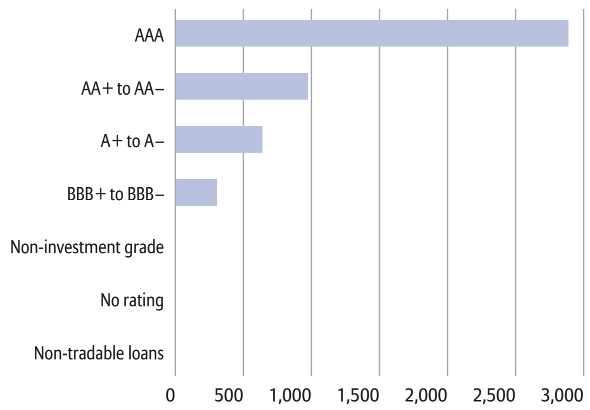
Insurance reserves are to a great extent hedged by investments in matching currencies and with matching maturities. Interest and currency risks are examined and reported on a monthly basis. If necessary, adjustments are made in the portfolio. The stress tests of our bearer bonds and other fixed-income securities regularly examine the decline of the present value of these securities if interest rates increase by 100 basis points. 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.

In fiscal year 2009, the current premium and investment income of Allianz Global Corporate & Specialty AG exceeded claims payouts and expenses. To be able to cope with possible liquidity risks that might arise nonetheless, a large part of our investments are in highly liquid government bonds, and our insurance commitments are to the greatest extent backed by funds with matching maturities. Constant surveillance is ensured through rolling wave planning of short-, medium- and long-term liquidities and by continuous liquidity and cash flow analyses.

**Credit risks.** The issuers of our fixed-income investments are predominantly governments and banks. We have set limits with respect to minimum rating classes and in view of concentration risks. Of our total investments approximately 57 percent are fixed-income investments with banks; of these, about 84 percent are secured as German or other covered bonds. Overall, the great majority of our fixed-income securities are issued in Germany or the Euro zone.

The following chart shows the distribution of the fixed-income investments of Allianz Global Corporate & Specialty AG at the end of 2009 by rating class.

Fixed-income investments by rating class as of December 31, 2009, in € million, incl. funds balances at fair value:




Credit risks and concentration risks are monitored and controlled by means of a limit system.

To cope with the continuing financial market crisis which entails growing solvency risks, particularly for banks, and the heavy fluctuations in the stock market, additional risk management processes were implemented:

- Special surveillance of the exposure to financial service providers, particularly banks,
- Specific scenario calculations for the overall portfolio,
- Analyses of individual securities for selected issuers.

The respect of both regulatory and internal limits was ensured at all times. This demonstrated that even in such an extreme crisis our internals models and risk control processes were up to the task.

For the quantification of the credit risk resulting from reinsurance we use information on ceded reserves compiled group-wide. To control the credit risk with respect to our reinsurance partners, we consider only companies that offer excellent collateral. At December 31, 2009, approximately 13 percent of our reserves were ceded to reinsurers within the Allianz Group. Approximately 87 percent of our reserves were ceded to external reinsurers that had, for example, been assigned at least an "A" rating by Standard & Poor's. In addition, letters of credit, deposits and other financial measures to further minimize the credit risk may be required. At December 31, 2009, total third-party receivables with due dates exceeding 90 days amounted to € 203.5 million (not including write-offs for impairment). The average default rate for the past three years was 1 percent.

**Operational risks** are controlled by a comprehensive system of internal security measures and checks as well as a multitude or technical and organizational measures. Among others, these include IT safety such as backup systems and firewalls, as well as internal control systems (for example the four-eye principle). The independent Internal Audit regularly examines our internal control processes. In addition, all processes that can have an impact on financial reporting are documented and examined in the framework of the requirements of the Sarbanes Oxley Act. Possible risks are minimized by controls. The implementation and internal testing of the corresponding controls was applied to the full fiscal year 2009. We meet the requirements of our expanding business as industrial insurer by continually integrating and upgrading our IT system landscape, for example through the introduction of Global Genius, a system for the worldwide uniform administration of our insurance contracts.

Limiting our **legal risks** is an essential task that is carried out by our legal department with the support from the operating departments. The objective is to insure that laws are observed, to react appropriately to all impending legislative changes or new court rulings, attend to legal disputes and litigation, and provide legally suitable solutions for transactions and business processes. **Strategic** and **reputational risks** are assessed and evaluated in qualitative terms as part of a Top Risk Assessment at least once a year.

### Risk bearing capacity

The solvency tests at the end of the fiscal year were passed with very good results. In addition, the stress tests required by the Federal Financial Supervisory Authority were passed with a wide safety margin. Through the active participation of Allianz Global Corporate & Specialty AG in the European Solvency II Project we are also well prepared for future regulatory requirements. The actual risk situation which, with the help of stress tests, also tests the risk of future developments, thus remains largely within the company's risk bearing capacity.
In planning the future development of the company, Allianz Global Corporate & Specialty AG takes into account a three-year time horizon. The current planning for the time horizon 2010 to 2012 is based on the assumption that our business results will continue their positive development.

## Outlook

For 2010, Allianz Global Corporate & Specialty AG expects premium growth of well over 2 percent. The determining factors for this assessment are the general economic climate on the one hand and our reorganization measures on the other.
In the current market situation, clear rate increases can be imposed mainly in those insurance lines which were impacted by higher losses in 2009, for example Aviation and D&O. For volume based contracts we expect a trend towards lower rates.

Beginning in 2010, the Allianz Group company in France will cease its quota share cessions to Allianz Global Corporate & Specialty AG because the French industrial and specialty business was integrated into Allianz Global Corporate & Specialty AG France S.A. in the fourth quarter of 2009 when this company became a fully owned subsidiary of Allianz Global Corporate & Specialty AG.
Premium growth for Allianz Global Corporate & Specialty AG in 2010 will come mainly from the opening of branch offices that will enable us to directly underwrite business which we previously assumed in reinsurance and to expand our market presence as a primary insurer. The Spanish branch office will become operative in the first quarter of 2010, and the branches in Belgium and the Netherlands will follow in the course of the year.
In addition, we are planning to expand our business with professional indemnity contracts that were first written in 2009, mainly in the UK.
Additional growth potential in 2010 and the following years will come from our entry in the Brazilian market, which the country's regulatory authorities did not open to outside insurers until the end of 2008. In the summer of 2009, Allianz Global Corporate & Specialty AG obtained its reinsurance license, as did other competitors who have also prepared their market entry.

The combined ratio should be stable at about 94 percent over the medium term. By 2011 we should have reached the peak of our investments in worldwide standardized information technology.

Over the medium term, Allianz Global Corporate & Specialty AG is striving for a market-leading position in industry and specialty insurance, driven by profitability rather than sales volume. The highest objective of sustainable profitability is anchored in our underwriting guidelines. The strict adherence to these guidelines is regularly ascertained by our risk management, and the existing control systems are continually improved and adapted to the changing market environment.

The existing reinsurance concept of AGCS will be continued unchanged in 2010 to the greatest possible extent.

From its investments, Allianz Global Corporate & Specialty AG expects a return at about the level of 2009 for the next two fiscal years.

This expectation is based on the assumptions that the capital markets will be stable. Because of the persistent insecurity with respect to future economic developments there could be a decline of the capital markets in the years to come, with the corresponding negative impact on the market value and the results of the investments of Allianz Global Corporate & Specialty AG.

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

# Annual Financial Statements
# Allianz Global Corporate & Specialty AG

# Balance sheet as of December 31, 2009

## Assets

| | 2009<br>€ thou | 2009<br>€ thou | 2009<br>€ thou | 2008<br>€ thou |
|---|---|---|---|---|
| **A. Intangible assets** | | | 30,500 | 42,148 |
| | | | | |
| **B. Investments** | | | | |
| I. Investments in affiliated and associated enterprises | | 610,237 | | 298,292 |
| II. Other investments | | 4,726,394 | | 4,437,202 |
| III. Funds held by others under reinsurance business assumed | | 38,304 | | 48,807 |
| | | | 5,374,935 | 4,784,301 |
| | | | | |
| **C. Receivables** | | | | |
| I. Accounts receivable from direct insurance business | | | | |
| 1. Policy holders | 72,242 | | | 29,376 |
| 2. Insurance brokers | 198,403 | | | 179,463 |
| including from affiliated enterprises: € thou – (py: 0) | | | | |
| | | 270,645 | | 208,839 |
| II. Accounts receivable on reinsurance business | | 238,362 | | 394,790 |
| including from affiliated enterprises: € thou 117,706 (106,078) | | | | |
| III. Other receivables | | 124,775 | | 65,650 |
| including taxes of: € thou 9,112 (7,506) | | | | |
| including from affiliated enterprises: € thou 41,030 (21,288) | | | | |
| | | | 633,782 | 669,279 |
| | | | | |
| **D. Other assets** | | | | |
| I. Cash with banks, checks and cash on hand | | 16,658 | | 23,802 |
| II. Miscellaneous assets | | 18,419 | | 15,072 |
| | | | 35,077 | 38,874 |
| | | | | |
| **E. Deferred income and prepaid expenses** | | | | |
| I. Accrued interest and rent | | 42,901 | | 38,056 |
| II. Other prepaid expenses and deferred income | | 15,205 | | 10,125 |
| | | | 58,106 | 48,181 |
| | | | | |
| **Total assets** | | | 6,132,400 | 5,582,783 |

# Equity and liabilities

| | 2009 € thou | 2009 € thou | 2009 € thou | 2008 € thou |
|---|---|---|---|---|
| **A. Shareholders' equity** | | | | |
| I. Capital stock | | 36,740 | | 27,793 |
| II. Additional paid-in capital | | 1,108,296 | | 741,608 |
| III. Appropriated retained earnings | | | | |
| other retained earnings | | 8,355 | | 8,355 |
| | | | 1,153,391 | 777,756 |
| **B. Insurance reserves** | | | | |
| I. Unearned premiums | | | | |
| 1. Gross | 572,858 | | | 594,844 |
| 2. Less: amounts ceded | 189,890 | | | 280,231 |
| | | 382,968 | | 314,613 |
| II. Claims reserve | | | | |
| 1. Gross | 4,395,555 | | | 4,364,758 |
| 2. Less: share in reinsured insurance business | 1,213,139 | | | 1,567,318 |
| | | 3,182,416 | | 2,797,440 |
| III. Claims equalization reserve | | 742,671 | | 583,161 |
| IV. Other insurance reserves | | | | |
| 1. Gross | 28,288 | | | 23,870 |
| 2. Less: share in reinsured insurance business | 2,665 | | | 1,991 |
| | | 25,623 | | 21,879 |
| | | | 4,333,678 | 3,717,093 |
| **C. Other accrued liabilities** | | | 97,349 | 93,482 |
| **D. Funds held under reinsurance business ceded** | | | 3,130 | 4,820 |
| **E. Other liabilities** | | | | |
| I. Accounts payable on direct insurance business to | | | | |
| 1. Policy holders | 1,787 | | | 2,435 |
| 2. Agents | 30,519 | | | 26,000 |
| including to affiliated enterprises: € thou – (0) | | | | |
| | | 32,306 | | 28,435 |
| II. Accounts payable on reinsurance business | | 140,501 | | 396,582 |
| including to affiliated enterprises: € thou 27,970 (42,448) | | | | |
| III. Other liabilities | | 368,146 | | 559,681 |
| including taxes of: € thou 43,074 (11,408) | | | | |
| including to affiliated enterprises: € thou 233,121 (525,037) | | | | |
| | | | 540,953 | 984,698 |
| **F. Other accrued liabilities** | | | 3,899 | 4,934 |
| **Total equity and liabilities** | | | 6,132,400 | 5,582,783 |

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

Munich, January 22, 2010
The Responsible Actuary

Klaus-Peter Mangold

# Income Statement

## For the period from January 1 to December 31, 2009

| | 2009<br>€ thou | 2009<br>€ thou | 2009<br>€ thou | 2008<br>€ thou |
|---|---|---|---|---|
| **I. Underwriting account** | | | | |
| 1. Premiums earned – net | | | | |
| a) Gross premiums written | 2,338 664 | | | 2,232,700 |
| b) Premiums ceded | – 575,537 | | | – 1,010,070 |
| | | 1,763,127 | | 1,222,630 |
| c) Change in unearned premiums – gross | 27,273 | | | – 53,508 |
| d) Change in unearned premiums ceded – gross | – 91,109 | | | 6,592 |
| | | – 63,836 | | – 46,916 |
| | | | 1,699,291 | 1,175,714 |
| 2. Allocated interest return – net | | | 12 | 47 |
| 3. Other underwriting income – net | | | 28 | 451 |
| 4. Loss and loss adjustment expenses – net | | | | |
| a) Claims paid | | | | |
| aa) Gross | – 1,254,001 | | | – 1,277,010 |
| bb) Amounts ceded in reinsurance | 608,849 | | | 461,148 |
| | | – 645,152 | | – 815,862 |
| b) Change in reserves for loss and loss adjustment expenses | | | | |
| aa) Gross | – 41,068 | | | – 41,780 |
| bb) Amounts ceded in reinsurance | – 341,557 | | | 163,310 |
| | | – 382,625 | | 121,530 |
| | | | – 1,027,777 | – 694,332 |
| 5. Change in other insurance reserves – net | | | – 3,483 | – 3,600 |
| 6. Underwriting expenses – net | | | – 415,821 | – 296,939 |
| 7. Other underwriting expenses – net | | | – 2,728 | – 3,497 |
| 8. Subtotal | | | 249,522 | 177,844 |
| 9. Change in claims equalization and similar reserves | | | – 159,510 | – 62,408 |
| 10. Net underwriting result | | | 90,012 | 115,436 |

| | 2009<br>€ thou | 2009<br>€ thou | 2008<br>€ thou |
|---|---|---|---|
| **II. Non-underwriting account** | | | |
| 1. Investment income | 198,621 | | 288,652 |
| 2. Investment expenses | – 29,030 | | – 112,471 |
| | 169,591 | | 176,181 |
| 3. Allocated interest return | – 15 | | – 84 |
| | | 169,576 | 176,097 |
| 4. Other income | 11,923 | | 35,471 |
| 5. Other expenses | – 24,378 | | – 48,512 |
| | | – 12,455 | – 13,041 |
| 6. Non-underwriting result | | 157,121 | 163,056 |
| 7. Earnings from ordinary activities before taxes | | 247,133 | 278,492 |
| 8. Income taxes | – 98,309 | | – 89,464 |
| less amounts charged to other group companies: € thou – 93,155 (– 88,989) | | | |
| 9. Other taxes | | | 1,915 |
| less amounts charged to other group companies: € thou – (– 51) | | | |
| | | 148,824 | 190,943 |
| 10. Expense from transfer of profits / Income from transfer of losses | | – 148,824 | – 190,943 |
| 11. Unappropriated retained earnings | | – | – |

# Notes

## Applicable legal regulations

The financial statements and the Management Report have been prepared in accordance with the regulations contained in the German Commercial Code (HGB), 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 (€ thousand).

## Accounting, valuation and calculation methods

### 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 market or stock exchange value. In the reporting year, write-ups were made on investment certificates and bearer bonds. They were recorded as income in the income statement.

### Intangible assets

These are recorded at their acquisition cost minus tax-allowable depreciation. Assets of low cost are written off immediately in full.

### Investments in affiliated enterprises and participating interests

These are valued at cost, less amortization, according to the German Commercial Code (section 253 (2) HGB).

### Stocks, bearer bonds, other fixed-income securities and variable-income securities

These are valued at whichever is lower, the acquisition cost or fair market value at the balance sheet date, in accordance with section 341 b (2) HGB and with section 253 (1 and 3) HGB.

Different acquisition costs for similar securities are averaged.

### Investment fund units

These are valued at acquisition cost in accordance with applicable regulations for fixed assets as defined by section 341 (2) HGB. Write-downs are made only in case of permanent impairment.

### Receivables and other assets

These include the following:
a) loans to affiliated enterprises
b) bearer bonds
c) debentures and loans
d) other loans
e) bank deposits
f) funds held by others under reinsurance business accepted
g) accounts receivable on direct insurance business
h) accounts receivable on reinsurance business
i) other receivables
j) cash with banks, checks and cash on hand
k) other assets

These have been recorded at face value less repayments. For accounts receivable on direct insurance business, general loss allowances are made to account for the credit risk.

### Prepaid expenses

Accrued interest and rent are valued at nominal amounts. Premiums and discounts carried forward as prepaid income and expenses are amortized over the remaining life of the related loans.

### Insurance reserves

#### Unearned premiums

In the direct insurance business, these were predominantly determined according to the daily calculation method. Payments to agents were deducted as non-transferable portions according to tax guidelines.
Flat rates were applied to a limited extent.
For reinsurance business assumed, unearned premiums were determined on the basis of the information provided by the ceding insurers. The reinsurers' share deducted from the gross unearned premiums was calculated according to the same principles as the gross premiums, likewise with deduction of non-transferable portions.
In respect of quota charges with participation in the original costs, the proportional unearned premiums were accordingly deducted from the quota share of the reinsurer.

#### Reserve for loss and loss adjustment expenses

The gross reserve for direct insurance business consists of the following partial reserves:

**Reserves for known insured losses** (excluding annuities) are generally determined individually on a per case basis according to the probable payout. In liability insurance in Germany, average provisions are used for losses of up to € 50 thousand in the first year.

**Pro rata unearned premium reserves for annuities** the direct insurance business were calculated according to actuarial principles for each individual annuity. The mortality was based on the DAV 2006 HUR mortality.

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

For **loss adjustment expenses** to be expected in settling outstanding losses, reserves were constituted in accordance with the decree of the Federal Ministry of Finance of February 2, 1973.

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

For **reinsurance business accepted**, the reserves were set up according to information provided by the ceding insurers, estimated to a certain extent.

The reinsurers' shares of the reserves were calculated in accordance with the reinsurance contracts.

To account for the reinsurers' default risk, individual reinsurers' shares for claims not yet settled were curtailed.

#### Equalization reserve and reserves similar to the equalization reserve

The equalization reserve and the reserves for nuclear, pharmaceutical and terrorist risks were calculated for the net retention portion according to section 341 h of the German Code of Commerce 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 AG has availed itself 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 was 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 fiscal year.

### Reserve for contractual subsequent premium settlement

This reserve is set up by way of precaution for possible return premiums which only become due after the expiry of an observation period of a number of years. This reserve was determined on the basis of the reimbursements which have actually become payable on expiry of observation periods.

Reinsurance business accepted:
These reserves were constituted according to information provided by the ceding insurers.

Reinsurance business ceded:
The reinsurers' shares were calculated in accordance with the reinsurance contracts.

## Other reserves

Other reserves are calculated as a function of foreseeable requirements. For this purpose, pension accruals and reserves for birthday gratifications, early retirement benefits, phased-in retirement and employee long-service awards are calculated according to actuarial principles. The amounts recognized are the respective present values of the entitlements acquired. These are calculated on the basis of the mortality tables RT2005G by K. Heubeck with an actuarial interest rate of 2.75%. An exception applies to "pension commitments based on salary conversion", which are secured by pledged pension plan reinsurance contracts and were made before January 1, 2004; these are valued with an actuarial interest rate of 6.0 percent. For "pension commitments based on salary conversion" secured by funds, an actuarial interest rate of 0.0 percent is generally applied.

For phased-in retirement contracts beginning on or after July 1, 2004, the new legally required insolvency insurance for phased-in retirement accounts was implemented by means of a Contractual Trust Arrangement, which is coordinated by Allianz SE and provides for the transfer of the guarantee assets to a trustee. Agreements taking effect before July 1, 2004 are secured by a guarantee declaration provided by Allianz SE. Additional explanations on the reporting of pension accruals and birthday gifts are provided in the notes under "Contingent liabilities from company pension commitments and similar commitments".

## Liabilities

They include the following:
a) funds held under reinsurance business ceded
b) liabilities from direct insurance business
c) accounts payable on reinsurance business
d) other liabilities

These liabilities are stated at the amounts payable on maturity.

### Approximation and simplification methods

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

### Currency translation

Investments denominated in foreign currencies are stated at an amount based on the local currency and the exchange rate on the balance sheet date. The moderate or strict lower of either cost or market principle is used. The other balance sheet items are valued in accordance with established principles for currency translation for open and – where applicable – closed positions.

## Change of assets A., B.I. through B.II in fiscal year 2009

| | Values stated as Of 12/31/2008 | | Additions | Disposals |
|---|---|---|---|---|
| | € thou | % | € thou | € thou |
| **A. Intangible assets** | | | | |
| Other intangible assets | 42,148 | – | 1,698 | 2,311 |
| | | | | |
| **B.I. Investments in affiliated and associated enterprises** | | | | |
| 1. Shares in affiliated and associated enterprises | 193,992 | 4.1 | 379,245 | – |
| 2. Loans to affiliated enterprises | 104,300 | 2.2 | – | 65,000 |
| Subtotal B.I. | 298,292 | 6.3 | 379,245 | 65,000 |
| | | | | |
| **B.II. Other investments** | | | | |
| 1. Stocks, investment fund units and other variable income securities | 2,163,796 | 45.7 | 286,272 | 42,535 |
| 2. Bearer bonds an other fixed-income securities | 845,323 | 17.9 | 832,240 | 802,407 |
| 3. Other loans | | | | |
| a) registered bonds | 764,577 | 16.1 | 360,500 | 112,839 |
| b) note loans and loans | 401,000 | 8.5 | 45,000 | 118,000 |
| c) other loans | 22 | 0.0 | 1 | – |
| 4. Bank deposit | 262,484 | 5.5 | – | 185,471 |
| Subtotal B.II. | 4,437,202 | 93.7 | 1,524,013 | 1,261,252 |
| Subtotal B.I. through B.II. | 4,735,494 | 100.0 | 1,903,258 | 1,326,252 |
| | | | | |
| **Total** | 4,777,642 | | 1,904,956 | 1,328,563 |

### Intangible assets (Assets A.)

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

### Shares in affiliated and associated enterprises (Assets B.I.)

The amounts stated at the end of the year essentially concern the book value of the shares of Allianz Global Corporate & Specialty France S.A. (€ 375,635 thousand) and Allianz Risk Transfer AG, Zurich (€ 186,242 thousand) as well as loans to Allianz SE. Of the outstanding loans to Allianz SE at 31/12/2008 in the amount of € 102,000 thousand € 65,000 thousand were repaid in 2009.

### Disclosure of equity investments

The information required by the German Code of Commerce (section 285 (11) HGB) is published in a special listing in the German Electronic Federal Gazette.

| Revaluation | Depreciation | Transfers | Net additions (+) disposals (–) | Values stated as of 12/31/2009 | |
|---|---|---|---|---|---|
| € thou | € thou | € thou | € thou | € thou | % |
| – | 11,035 | – | – 11,648 | 30,500 | |
| | | | | | |
| | | | | | |
| – | – | – | 379,245 | 573,237 | 10.7 |
| – | – | – 2,300 | – 67,300 | 37,000 | 0.7 |
| **–** | **–** | **– 2,300** | **311,945** | **610,237** | **11.4** |
| | | | | | |
| | | | | | |
| 23,914 | 31 | – | 267,620 | 2,431,416 | 45.6 |
| 7,324 | 7,076 | – | 30,081 | 875,404 | 16.4 |
| | | | | | |
| – | – | – | 247,661 | 1,012,238 | 19.0 |
| – | – | 2,300 | – 70,700 | 330,300 | 6.2 |
| – | – | – | 1 | 23 | 0.0 |
| – | – | – | – 185,471 | 77,013 | 1.4 |
| **31,238** | **7,107** | **2,300** | **289,192** | **4,726,394** | **88.6** |
| **31,238** | **7,107** | **–** | **601,137** | **5,336,631** | **100.0** |
| | | | | | |
| **31,238** | **18,142** | **–** | **589,489** | **5,367,131** | |

## Market value of investments

| | Market value 12/31/2009 € thou | Market value 12/31/2008 € thou |
|---|---|---|
| **B.I. Investments in affiliated and associated enterprises** | | |
| 1. Shares in affliated and associated enterprises | 1,178,360 | 578,750 |
| 2. Loans to affliated and associated enterprises | 38,094 | 104,380 |
| | | |
| **B.II. Other investments** | | |
| 1. Shares, investment fund units and other variable interest securities | 2,696,703 | 2,225,991 |
| 2. Bearer bonds and other fixed-interest securities | 903,505 | 876,090 |
| 3. Other loans | | |
| a) Registered bonds | 1,067,312 | 795,543 |
| b) Promissory notes and loans | 347,792 | 414,156 |
| c) Other loans | 26 | 24 |
| 4. Overnight and fixed-term funds | 77,013 | 262,484 |
| | | |
| **B.III. Funds held by others under reinsurance business assumed** | 38,304 | 48,807 |
| | | |
| **Total investments** | 6,347,109 | 5,306,225 |

The following valuation methods were used to determine the market value:

### Dividend-bearing securities

Exchange-listed companies are valued at the share price value of the last trading day of 2009. Unlisted companies are valued at their net worth calculated by the DVFA method, or, in the more recent past, on principle at acquisition costs. An exception are companies with an acquisition cost of less than € 10 million, which are on principle valued at their historic acquisition cost.

### Bearer bonds

Bearer bonds are valued at the share price value on the last trading day of 2009 or the indicative pricing of investment banks.

## Nominal bonds

Loans are valued on the basis of maturity- and risk-adequate yield curves.

## Undisclosed liabilities

Investment fund units with a book value € 2,431,416 thousand, which are part of other investments, include undisclosed liabilities of € 2 thousand. Due to the permanent decrease in value, write-downs were required in the amount of € 31 thousand.

## Miscellaneous assets (Assets D.II.)

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

## Other prepaid expenses and deferred income (Assets E.II.)

This amount concerns discounts on bearer bonds as well as debentures and loans.

## Derivative financial instruments

Share option trades

| Class | Number | Fair value € | Valuation method | Significant assumptions | Reported in item | Book value € |
|---|---|---|---|---|---|---|
| Allianz Long Call | 5,653 | 120,069 | Binomial model | Discount rate 0.8 % | Assets D.II. | 120,069 |
| €65,91 | | | | Volatility 31.8 % | Miscellaneous | |
| May 2010 | | | | Dividend yield 4.5 % | Assets | |
| (Hedge-Sar 2003) | | | | Share price €87.15 | | |
| | | | | Cap €164.78 | | |
| Allianz Long Call | 23,023 | 254,404 | Binomial model | Disount rate 1.2 % | Assets D.II. | 253,772 |
| €83,47 | | | | Volatility 32.1 % | Miscellaneous | |
| May 2011 | | | | Dividend yield 4.7 % | Assets | |
| (Hedge-Sar 2004) | | | | Share price €87.15 | | |
| | | | | Cap €208.68 | | |
| Allianz Long Call | 45,094 | 507,758 | Binomial model | Discount rate 1.7 % | Assets D.II. | 503,145 |
| €92,87 | | | | Volatility 33.4 % | Miscellaneous | |
| May 2012 | | | | Dividend yield 5.0 % | Assets | |
| (Hedge-Sar 2005) | | | | Share price €87.15 | | |
| | | | | Cap €232.18 | | |
| Allianz Long Call | 25,891 | 69,387 | Binomial model | Discount rate 2.1 % | Assets D.II. | 69,387 |
| €132,41 | | | | Volatility 25.9 % | Miscellaneous | |
| May 2013 | | | | Dividend yield 5.2 % | Assets | |
| (Hedge-Sar 2006) | | | | Share price €87.15 | | |
| | | | | Cap €331.03 | | |
| Allianz Long Call | 51,581 | 106,772 | Binomial model | Discount rate 2.3 % | Assets D.II. | 106,772 |
| €160,13 | | | | Volatility 26.8 % | Miscellaneous | |
| March 2014 | | | | Dividend yield 5.2 % | Assets | |
| (Hedge-Sar 2007) | | | | Share price €87,15 | | |
| | | | | Cap €400,33 | | |
| Allianz Long Call | 81,491 | 569,622 | Binomial model | Discount rate 2.6 % | Assets D.II. | 560,881 |
| €117,38 | | | | Volatility 27.1 % | Miscellaneous | |
| March 2015 | | | | Dividend yield 5.3 % | Assets | |
| (Hedge-Sar 2008) | | | | Share price €87.15 | | |
| | | | | Cap €293.45 | | |
| Allianz Long Call | 113,244 | 4,026,956 | Binomial model | Discount rate 2.8 % | Assets D.II. | 2,295,157 |
| €51,59 | | | | Volatility 35.0 % | Miscellaneous | |
| March 2016 | | | | Dividend yield 5.3 % | Assets | |
| (Hedge-Sar 2009) | | | | Share price €87.15 | | |
| | | | | Cap €128.98 | | |
| Allianz Equity Swap | 25,715 | – 51,944 | DCF model | Discount rate 0.8 % | | – *) |
| May 2010 | | | | Dividend yield 4.5 % | | |
| (Hedge-RSU 2005) | | | | Share price €87.15 | | |
| Allianz Equity Swap | 13,680 | – 609,033 | DCF model | Discount rate 1.0 % | | – *) |
| May 2011 | | | | Dividend yield 4.7 % | | |
| (Hedge-RSU 2006) | | | | Share price €87.15 | | |
| Allianz Equity Swap | 25,961 | – 1,442,133 | DCF model | Discount rate 1.0 % | | – *) |
| March 2012 | | | | Dividend yield 4.7 % | | |
| (Hedge-RSU 2007) | | | | Share price €87.15 | | |
| Allianz Equity Swap | 40,631 | – 350,239 | DCF model | Discount rate 1.2 % | | – *) |
| March 2013 | | | | Dividend yield 5.0 % | | |
| (Hedge-RSU 2008) | | | | Share price €87.15 | | |
| Allianz Equity Swap | 57,017 | 1,900,376 | DCF model | Discount rate 1.4 % | | – *) |
| March 2014 | | | | Dividend yield 5.2 % | | |
| (Hedge-RSU 2009) | | | | Share price €87,15 | | |

*) There are no separate acquisition costs for the Allianz Equity Swap, which is therefore considered as a valuation unit.

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

The share capital of Allianz Global Corporate & Specialty AG, which originally amounted to € 27,793 thousand, was increased by € 8,948 thousand by means of a capital increase by contribution in kind as a result of the share transfer agreement between Allianz SE and Allianz IARD, S.A. of October 19, 2009. The capital increase took effect with the entry in the Register of Commerce on December 1, 2009.

At December 31, 2009, the issued capital of € 36,740 thousand is divided into 36,740,661 fully-paid in registered shares.

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

Since then, Allianz SE has transferred all its shares in Allianz Global Corporate & Specialty AG to AZ-Argos 45 Vermögensverwaltungsgesellschaft mbH, Munich, by means of a capital increase in kind. This capital increase in kind was also recorded in the Register of Commerce on December 1, 2009.

AZ-Argos 45 Vermögensverwaltungsgesellschaft mbH thus holds an 86 percent interest in Allianz Global Corporate & Specialty AG and Allianz IARD, S.A. a 14 percent interest.

### The additions to the issued capital were made by contribution in kind

| | Values stated as of 01/01/2009 € thou | Additions Allianz SE € thou | Additions Allianz IARD S.A. € thou | Values stated as of 12/31/2009 € thou |
|---|---|---|---|---|
| Issued capital | 27,793 | 3,681 | 5,266 | **36,740** |

## Additional paid-in capital (Equity and Liabilities A. II.)

| | Values stated as of 01/01/2009 € thou | Additions Allianz SE € thou | Additions Allianz IARD S.A. € thou | Values stated as of 12/31/2009 € thou |
|---|---|---|---|---|
| Additional paid-in capital – section 272 (2) 1 HGB | 537,434 | – | – | **537,434** |
| Additional paid-in capital – section 272 (2) 4 HGB | 204,174 | 76,248 | 290,440 | **570,862** |

## Other accrued liabilities (Equity and liabilities C.)

### Pension reserves and similar commitments

Allianz Global Corporate & Specialty AG has made pension commitments in the framework of a defined contribution pension agreement. To cover these commitments, reserves for pension entitlements based on contributions are constituted. These pension contributions are secured in the framework of a so-called "Contractual Trust Agreement" (CTA), which is coordinated by Allianz SE. In addition, employees who convert part of their salary into additional retirement benefits, receive "pension commitments based on salary conversion" which are secured by pledged pension plan reinsurance contracts or funds.

Provisions for phased-in retirement obligations are determined on the basis of the actuarial present value for the top-up payments as well as the time-adjusted present value for the outstanding settlement amount from wages/salary (for the block model) with an actuarial interest rate of 3 percent. For long-term service awards the present value of the past-service entitlement is calculated with an actuarial interest rate of 3 percent for salary-dependent awards and an actuarial interest rate of 5.5 percent for salary-independent awards. If required by tax regulations, this is replaced by the adjusted tax base with an actuarial interest rate of 5.5 percent. The total amount of the pension reserves constituted at Allianz Global Corporate & Specialty AG is € 24,872 (19,523) thousand.

## Gross underwriting reserves according to insurance branch groups, insurance branches and types of insurance in € thou

| | total | | of which: | | | |
|---|---|---|---|---|---|---|
| | | | Gross reserves for unsettled claims | | Equalization reserve and similar reserves | |
| | 12/31/2009 | 12/31/2008 | 12/31/2009 | 12/31/2008 | 12/31/2009 | 12/31/2008 |
| Direct insurance business written | | | | | | |
| Personal accident | 7,535 | 3,245 | 3,750 | 1,111 | 1,198 | 922 |
| 3rd party liability | 1,513,479 | 1,249,855 | 1,282,421 | 993,013 | 111,158 | 166,256 |
| Fire and property | 395,609 | 336,148 | 277,083 | 243,148 | 1,060 | 4,068 |
| of which fire insurance | 105,004 | 39,000 | 74,002 | 26,032 | 1,060 | 4,058 |
| of which other property insurance | 290,605 | 297,148 | 203,081 | 217,116 | – | 10 |
| Marine and aviation insurance | 324,189 | 277,475 | 284,152 | 236,186 | 1,656 | 8,276 |
| Other insurance | 80,905 | 68,195 | 56,892 | 23,647 | 4,392 | 14,336 |
| Total*) | 2,321,717 | 1,934,918 | 1,904,298 | 1,497,105 | 119,464 | 193,858 |
| Reinsurance business assumed | | | | | | |
| Total | 3,417,656 | 3,631,716 | 2,491,257 | 2,867,653 | 623,207 | 389,303 |
| Insurance business total | 5,739,373 | 5,566,633 | 4,395,555 | 4,364,758 | 742,671 | 583,161 |

*) 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.

In addition, pension commitments and grants for birthday gratifications were made, which, because of the existing joint and several liability, are recorded in the financial statement of Allianz SE.

### Tax reserves

In the reporting year tax reserves in the amount of € 3,982 (0) thousand were constituted for the Italian branch office. The tax reserve for France and for the Austrian and Nordic Region branch offices were fully dissolved in the fiscal year.

### Other reserves

The largest item under other reserves concerns the reserve for commissions and other remunerations that have not yet been definitely determined, which amounted to € 20,711 (18,220) thousand, the reserve for invoices not yet received of € 11,992 (11,751) thousand, the reserve for Group Equity Incentives of € 9,364 (6,636) thousand, the reserve for entitlements relating to holidays and flexible working hours amounting to € 5,013 (3,877), the reserve for phased-in retirement and the value account model amounting to € 4,741 (5,761) thousand, the reserve for employee long-service awards amounting to € 4,364 (4,188) thousand, the profit sharing reserve amounting to € 4,063 (3,880) thousand, the reserve for severance pay of € 3,811 (9,868) thousand and the company restructuring reserve of € 2,979 (7,238) thousand.

### Deferred income (Equity and liabilities F.)

These amount to € 3,899 (4,934) thousand and concern discounts on registered bonds, promissory notes and loans.

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

| | Gross premiums written | | Gross earned premiums | | Net earned premiums | |
|---|---|---|---|---|---|---|
| | 2009<br>€ thou | 2008<br>€ thou | 2009<br>€ thou | 2008<br>€ thou | 2009<br>€ thou | 2008<br>€ thou |
| Direct insurance business written | | | | | | |
| Personal accident | 8,606 | 3,758 | 7,424 | 3,133 | 6,870 | 1,939 |
| 3rd party liability | 474,606 | 385,558 | 447,799 | 368,586 | 298,492 | 192,795 |
| Fire and property | 345,163 | 286,888 | 325,379 | 272,632 | 222,140 | 187,067 |
| of which fire insurance | 88,886 | 32,779 | 78,355 | 30,791 | 35,628 | 8,121 |
| of which other insurance | 256,277 | 254,109 | 247,024 | 241,841 | 186,512 | 178,946 |
| Marine and aviation insurance | 310,923 | 268,051 | 306,960 | 262,781 | 273,770 | 183,022 |
| Other insurance | 55,617 | 87,927 | 60,221 | 76,100 | 31,591 | 47,790 |
| Total *) | 1,194,914 | 1,032,183 | 1,147,783 | 983,233 | 832,863 | 612,613 |
| Reinsurance business assumed | | | | | | |
| Total | 1,143,749 | 1,200,518 | 1,218,154 | 1,195,959 | 866,428 | 563,102 |
| Insurance business total | 2,338,664 | 2,232,700 | 2,365,936 | 2,179,192 | 1,699,291 | 1,175,715 |

*) 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 | |
|---|---|---|---|---|---|---|
| | 2009<br>€ thou | 2008<br>€ thou | 2009<br>€ thou | 2008<br>€ thou | 2009<br>€ thou | 2008<br>€ thou |
| Personal accident | 4,229 | 3,202 | 4,018 | 486 | 358 | 25 |
| 3rd party liability | 206,653 | 276,149 | 238,910 | 40,404 | 29,043 | 22,917 |
| Fire and property | 166,736 | 218,087 | 149,317 | 49,119 | 29,110 | 26,170 |
| of which fire insurance | 11,562 | 21,486 | 67,232 | 12,289 | 10,092 | 6,661 |
| of which other property insurance | 155,174 | 196,601 | 82,085 | 36,829 | 19,018 | 19,508 |
| Marine and aviation insurance | 156,356 | 262,685 | 112,427 | 17,879 | 42,140 | 35,615 |
| Other insurance | 2,865 | 68,263 | 47,973 | 6,779 | 4,779 | 3,480 |
| Total | 536,839 | 828,386 | 552,645 | 114,667 | 105,430 | 88,207 |

## Allocated interest return (Income statement I.2.)

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

## Run-off

The run-off in direct insurance amounted to € 16,091 thousand net; in business assumed it was € 198,549 thousand.

| | 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 € thou | 2008 € thou | 2009 € thou | 2008 € thou | 2009 € thou | 2008 € thou | 2009 € thou | 2008 € thou | 2009 | 2008 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | 3,190 | 767 | 1,353 | 889 | – 535 | – 1,024 | 2,041 | 353 | 2,681 | 4,691 |
| | 382,423 | 224,292 | 86,335 | 60,489 | – 34,217 | – 53,169 | – 1,966 | 18,917 | 12,272 | 15,569 |
| | 186,998 | 159,847 | 63,544 | 56,555 | – 44,878 | – 46,968 | 29,516 | 12,117 | 6,295 | 5,916 |
| | 69,539 | 26,294 | 17,144 | 7,371 | – 2,110 | – 7,658 | – 9,152 | – 4,607 | 1,327 | 601 |
| | 117,459 | 133,550 | 46,400 | 49,184 | – 42,768 | – 39,310 | 38,668 | 16,724 | 4,968 | 5,315 |
| | 275,185 | 225,121 | 75,381 | 63,588 | 3,797 | 4,301 | – 34,625 | 2,281 | 10,761 | 12,990 |
| | 44,011 | 7,840 | 24,595 | 11,873 | – 27,067 | – 25,276 | – 25,402 | 27,801 | 705 | 572 |
| | **891,807** | **617,861** | **251,208** | **193,394** | **– 102,900** | **– 122,136** | **– 30,436** | **61,471** | **32,714** | **39,738** |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | **403,262** | **700,929** | **218,784** | **283,977** | **– 241,400** | **– 76,021** | **120,448** | **53,966** | | |
| | | | | | | | | | | |
| | **1,295,069** | **1,318,790** | **469,992** | **477,371** | **– 344,300** | **– 198,157** | **90,012** | **115,437** | | |

## Expenditure for own-account insurance business (Income Statement I.6.)

| | 2009 € thou | 2008 € thou |
|---|---|---|
| a) gross expenditure for insurance business | 469,992 | 477,371 |
| b) less: received provisions and profit sharing | | |
| from reinsurance ceded | 54,171 | 180,432 |
| Total | 415,821 | 296,939 |

Of the gross expenditures for insurance business, € thou 429,985 are attributable to closing expenses and € thou 39,978 to administrative expenses.

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

| | 2009 € thou | 2008 € thou |
|---|---|---|
| a) Commission of any kind for insurance agents within the meaning of clause 92 HGB for direct insurance business | 119,211 | 100,171 |
| b) other remuneration of insurance agents the meaning of section 92 HGB | 963 | 181 |
| c) wages and salaries | 88,945 | 69,715 |
| d) social security contributions and other social contributions | 11,789 | 4,766 |
| e) pensions costs | 9,212 | 6,694 |
| Total | 230,120 | 181,527 |

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

| | 2009<br>€ thou | 2008<br>€ thou |
|---|---|---|
| a) Income from investments | 127,298 | 254,989 |
| including in affiliated enterprises: € thou 8,318 (previous year: 48,556) | | |
| b) Income from write-ups | 31,238 | 22,773 |
| c) Gains from disposals | 40,085 | 10,890 |
| Total | 198,621 | 288,652 |

## Investment expenses (Income Statement II.2.)

| | 2009<br>€ thou | 2008<br>€ thou |
|---|---|---|
| a) Investment management, interest, charges | | |
| and other investment expenses | 7,502 | 4,714 |
| b) Depreciation and write-downs on investments | 7,107 | 89,169 |
| c) Losses from disposals | 14,421 | 18,588 |
| Total | 29,030 | 112,471 |

### Write-downs on intangible assets

The acquired insurance portfolios, which are recognized as intangible assets, were subject to scheduled write-downs in fiscal 2008, according to section 255 4 (2) of the German code of Commerce, taking into accounts their respective useful lives. Scheduled write-downs were made for a total of € 11,035 (8,113) thousand.

### Write-offs on investments

Unscheduled write-offs in accordance with paragraph 253 (3) HGB were made on bearer bonds in the amount of € 7,076 thousand. Unscheduled write-offs in accordance with paragraph 253 (2) HGB were made on investment unit shares in the amount of € 31 thousand.

### Income taxes (Income statement II.8.)

Germany and the Italian branch office reported higher taxable income than in the previous year which increased the tax burden of AGCS AG by € 8,845 thousand.

# Other information

## Contingent liabilities from company pension commitments and similar commitments

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

Allianz Global Corporate & Specialty AG has a legal obligation to make employer contributions and to cover the administrative costs of AVK on a pro-rated basis. Payments are made through Allianz SE.

The member companies also make contributions to the Allianz Pensionsverein e.V. (APV), an insurance-backed Group support fund.

In addition to the pension commitments for supplementary pension benefits form the defined contribution pension agreement and the pension commitments based on salary conversion, for which Allianz Global Corporate & Specialty AG constitutes its own reserves (Assets and liabilities E.I.), supplementary pension commitments and commitments for granting birthday gratifications were made to the members of the Board of Management and to employees. For these commitments, Allianz Global Corporate & Specialty AG and Allianz SE have assumed joint and several liability. Internally, Allianz SE has assumed responsibility for settlement.

The corresponding pension reserves are recorded in the financial statements of Allianz SE and have been fully constituted for their partial value according to the German Income Tax Act (Sec. 6 a EstG). The commitments for birthday gratifications are also recorded at Allianz SE and recognized under “other reserves”. They were calculated with an actuarial interest rate of 5.5 percent by the partial value method according to sec. 6 a EstG and constituted in the full amount.

At 31/12/2009 the joint and several liability of Allianz Global Corporate & Specialty AG from these pension commitments and the commitments for birthday gratifications amounted to a total of € 35,550 thousand. This liability is matched by rights of relief for the same amount against Allianz SE.

As a result of changes in the financing of the Pensions-SicherungsVereins VVaG pension fund, there is a liability of € 132 (141) thousand at December 31, 2009, 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.

The same applies to the contributions to the Pensions-SicherungsVereins VVaG pension fund for fiscal 2009, which are payable in the years 2010 to 2013. These also result in a joint and several liability in the amount of € 481 (0), which is not recognized in the balance sheet of Allianz Global Corporate & Specialty AG because it is matched by rights of relief for the same amount against Allianz SE.

## Other financial commitments

At the balance sheet date, liens in the amount of € 405,248 thousand were granted in connection with group-internal cessions and € 191,723 thousand were deposited in trust accounts.

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

The total remuneration of the Board of Management amounted to € 5,661 thousand in the reporting year.

Pension reserves for former members of the Board of Management and their surviving dependents amounted to € 2,152 thousand at 12/31/2009.

A total of 16,981 restricted stock units and 34,577 stock appreciation rights were issued to the members of the Board of Management. The fair value of these instruments at the date of grant amounts to € 2,678 thousand.

The total remuneration of the Supervisory Board of Allianz Global Corporate & Specialty AG amounted to € 31 thousand.

The member of the Supervisory Board and the Board of Management are listed on page 6.

## Number of employees (annual average)

The average number of employees of Allianz Global Corporate & Specialty AG for the reporting year was 1,025 (not including member of the Board of Management, trainees, interns and employees on parental leave or on basic military / civil service).

| | 2009 Number | 2008 Number |
|---|---|---|
| Full-time employees | 873 | 809 |
| Part-time employees | 152 | 166 |
| Total | 1,025 | 975 |

## Group affiliation

Allianz Global Corporate & Specialty AG 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 April and published in the German Electronic Federal Gazette subsequent to the Allianz 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 AG 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 AG does not establish Consolidated Financial Statements and a Management Report of its own.

Munich, January 28, 2010
Allianz Global Corporate & Specialty AG

The Board of Management

| | | | |
|---|---|---|---|
| Dr. Theis | Bick | Fischer Hirs | Dr. Jörissen |
| Tartaglia | Moossmann | Pennycuick | Crede |

# Independent Auditor's Report

We have audited the Annual Financial Statements, including the accounting records and Management Report, of Allianz Global Corporate & Specialty AG for the fiscal year from January 1 to December 31, 2009. The Board of Management of the company is responsible for the accounting policies and the preparation of the Annual Financial Statements and Management Report in accordance with German commercial law and the supplementary provisions laid down in the company's statutes. It is our responsibility to form an independent opinion, based on the audit carried out by us, on the Annual Financial Statements, including the accounting records, and on the Management Report.

We conducted our audit of the Annual Financial Statements in accordance with section 317 HGB (German Commercial Code) and with the generally accepted German auditing standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors). Those standards require that we plan and perform our audit so as to obtain all the information and explanations necessary in order to provide us with sufficient evidence to give reasonable assurance that misstatements and irregularities materially affecting the presentation of the net worth, financial position and the results presented in the Annual Financial Statements in accordance with generally accepted accounting principles and in the Management Report are identified. Knowledge of the business activities and the economic and legal environment of the company and expectations of possible errors are taken into account in the determination of audit procedures. The audit includes an examination, on the basis of sample checks, of the effectiveness of the internal control system for rendering accounts and the evidence supporting the disclosures in the accounting records, the Annual Financial Statements and Management Report. The audit also includes an assessment of the significant estimates and judgments made by the Board of Management of the company, and whether the accounting policies are appropriate to the Group's circumstances. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Annual Financial Statements and Management Report. We believe that the audit we have conducted provides an adequate basis for the formation of our opinion.

Our audit has revealed no grounds for objection.

In our opinion, based on the findings of the audit, the annual financial statements comply with the legal requirements and supplemental 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 compliance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides an appropriate view of the company's position and suitably presents the opportunities and risks of future development.

Munich, March 29, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Johannes Pastor<br>Auditor | Dr. Peter Ott<br>Auditor |

# Insurance lines covered

## Direct insurance business written:

### General personal accident insurance
Test persons, aviation personal accident

### Liability insurance
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

### Aviation insurance
Comprehensive aircraft insurance, comprehensive spacecraft insurance

### Fire insurance
Industrial fire, other fire

### Burglary, theft and robbery insurance

### Water damage insurance

### Glass insurance

### Storm insurance

### Homeowners insurance

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

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

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

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

### Aviation and aerospace liability insurance
Aviation liability, aerospace liability

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

## Reinsurance business accepted:

### Personal accident insurance

### Liability insurance

### Automobile insurance

### Aviation insurance

### Fire and property insurance

### Burglary, theft and robbery insurance

### Water damage insurance

### Glass insurance

### Storm insurance

### Homeowners insurance

### Engineering insurance

### Marine insurance

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

### Business interruption insurance

### Aviation and aerospace liability insurance

### Other property and casualty insurance

# Advisory council of Allianz Global Corporate & Specialty AG

Dr. Heinrich Weiss
(Chairman)
Chairman of the Board of Management
SMS GmbH

Georg Bauer
CEO
BMW Financial Services

Prof. Dr. Wilhelm Bender
Chairman of the Board of Management (1993 – 2009)
Fraport AG

Dipl.-Ing. Herbert Bodner
Chairman of the Board of Management
Bilfinger Berger AG

Dr. Rudolf Colm
Member of the Board of Management
Robert Bosch GmbH

Georg Denoke
Member of the Board of Management
Linde AG

Klaus Eberhardt
Chairman of the Board of Management
Rheinmetall AG

Hans-Georg Härter
Chairman of the Board of Management
ZF Friedrichshafen AG

Dr. Alan Hippe
Member of the Board of Management
ThyssenKrupp AG

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

Baldwin Knauf
Managing Partner
Knauf Gips KG

Dipl.-Kfm. Thomas Kölbl
CFO
Südzucker AG

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

Klaus Kühn
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Bayer AG

Robert Lorenz-Meyer
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Ernst Russ GmbH & Co.

Wolfgang Mayrhuber
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Deutsche Lufthansa AG

Prof. Dr. Ulrich Middelmann
Deputy Chairman
of the Board of Management
ThyssenKrupp AG

Jürg Oleas
Chairman of the Board of Management
GEA Group AG

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

Dr. Lothar Steinebach
Executive Vice President/CFO
Henkel KGaA

Prof. Dr.-Ing. Udo Ungeheuer
Chairman of the Board of Management
Schott AG

Thomas Unger
Member of the Board of Management
Metro AG

Jürgen Heinz Walker
Chairman of the Board of Management
Daimler Financial Services AG

Ulrich Weber
Member of the Board of Management
RAG-Stiftung

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

Michel Wurth
Member of the
Group Management Board
Arcelor SA

Dr. Reinhard Zinkann
Managing Partner
Miele & Cie. KG

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**and company headquarter**

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