Individual remuneration: 2017 and 2016
€ thou (total might not sum up due to rounding)

Members of the Supervisory Board	Committees[1]							Fixed remunera-tion	Committee remunera-tion	Attendance fees	Total remunera-tion
	A	N	P	R	S	T					
Michael Diekmann[2]	M	C	C	C	C	M	2017	133.3	120.0	3.7	257.0
(Chairman)							2016	-	-	-	-
Dr. Helmut Perlet[3]	M	C	C	C	C		2017	83.3	66.6	2.3	152.2
(Chairman)	M	C	C	C	C		2016	200.0	160.0	6.7	366.7
Dr. Wulf H. Bernotat[4]	C				M		2017	62.5	41.7	2.2	106.4
(Vice Chairman)	C				M		2016	150.0	100.0	4.5	254.5
Jim Hagemann Snabe	M[5]	M			M[6]	C	2017	133.3	56.7	4.5	194.5
(Vice Chairman)	M	M					2016	100.0	40.0	5.2	145.2
Rolf Zimmermann			M		M[7]	M	2017	150.0	41.7	4.5	196.2
(Vice Chairman)			M		M		2016	150.0	40.0	4.5	194.5
Dante Barban[8]				M			2017	41.7	8.3	3.0	53.0
				M			2016	100.0	20.0	4.5	124.5
Sophie Boissard[9]	M						2017	66.7	26.7	3.7	97.1
							2016	-	-	-	-
Christine Bosse		M[10]		M[11]			2017	100.0	28.3	4.5	132.8
			M	M			2016	100.0	40.0	4.5	144.5
Gabriele Burkhardt-Berg					M	M	2017	100.0	33.3	3.8	137.1
					M		2016	100.0	20.0	4.5	124.5
Jean Jacques Cette	M						2017	100.0	40.0	5.3	145.3
	M						2016	100.0	40.0	6.0	146.0
Dr. Friedrich Eichiner[12]	C[13]			M		M	2017	100.0	86.7	6.0	192.7
				M			2016	66.6	13.3	2.2	82.1
Martina Grundler[14]	M						2017	100.0	40.0	5.3	145.3
	M						2016	75.0	26.6	4.5	106.1
Herbert Hainer[15]			M		M		2017	66.7	26.7	3.0	96.4
							2016	-	-	-	-
Godfrey Robert Hayward[16]				M			2017	66.7	13.3	3.0	83.0
							2016	-	-	-	-
Prof. Dr. Renate Köcher[17]		M			M		2017	41.7	8.3	2.2	52.2
		M			M		2016	100.0	20.0	3.7	123.7
Jürgen Lawrenz				M	M[18]		2017	100.0	33.3	4.5	137.8
				M			2016	100.0	20.0	4.5	124.5
Total[19]							**2017**	**1,445.9**	**671.7**	**61.5**	**2,179.0**
							2016	**1,408.2**	**558.2**	**58.5**	**2,025.2**

Legend: C = Chairperson of the respective committee, M = Member of the respective committee
1_Abbreviations: A - Audit, N - Nomination, P - Personnel, R - Risk, S - Standing, T - Technology
2_Since 7 May 2017
3_Until 6 May 2017
4_Until 3 May 2017
5_Until 3 May 2017
6_Since 3 May 2017
7_Until 3 May 2017
8_Until 3 May 2017
9_Since 3 May 2017
10_Since 3 May 2017
11_Until 3 May 2017
12_Since 4 May 2016
13_Since 3 May 2017
14_Since 1 April 2016
15_Since 3 May 2017
16_Since 3 May 2017
17_Until 3 May 2017
18_Since 3 May 2017
19_The total reflects the remuneration of the full Supervisory Board in the respective year.

REMUNERATION FOR MANDATES IN OTHER ALLIANZ COMPANIES AND FOR OTHER FUNCTIONS

As remuneration for her membership in the Supervisory Board of Allianz Deutschland AG, Ms. Gabriele Burkhardt-Berg received € 61.8 thou for the financial year 2017. Mr. Jürgen Lawrenz did not receive any remuneration for his service on the Supervisory Board of Allianz Technology SE. All current employee representatives of the Supervisory Board except for Ms. Martina Grundler are employed by Allianz Group companies and receive a market-based remuneration for their services.

LOANS TO MEMBERS OF THE SUPERVISORY BOARD

As of 31 December 2017, there was one outstanding loan granted to a member of the Allianz SE Supervisory Board by an Allianz Group company: It is an € 80 thou mortgage loan from Allianz Bank, granted at the normal market interest rate in 2010, with an overall duration of ten years.

GROUP MANAGEMENT REPORT

C

BUSINESS OPERATIONS

Allianz Group structure

Allianz SE and its subsidiaries (the Allianz Group) offer property-casualty insurance, life/health insurance, and asset management products and services in over 70 countries, with the largest of our operations located in Europe. The Allianz Group insures 88.0 million customers. Allianz SE, the parent company of the Allianz Group, has its headquarters in Munich, Germany.

The Allianz Group's structure reflects both our business segments and geographical regions. Business activities are organized by product and type of service, based on how these are strategically managed: insurance activities, asset management activities, and corporate and other activities. Due to differences in the nature of products, risks, and capital allocation, insurance activities are further divided into property-casualty and life/health categories. In accordance with the responsibilities of the Board of Management, each of the insurance categories is grouped into regional reportable segments. Corporate and other activities are divided into three different reportable segments in order to differentiate between the respective products, risks, and capital allocation. In 2017, the Allianz Group had 14 reportable segments.

Allianz Group structure – business segments and reportable segments[1]

PROPERTY-CASUALTY	LIFE/HEALTH
– German Speaking Countries and Central & Eastern Europe – Western & Southern Europe, Middle East, Africa, Asia Pacific – Iberia & Latin America – Global Insurance Lines & Anglo Markets – Allianz Partners	– German Speaking Countries and Central & Eastern Europe – Western & Southern Europe, Middle East, Africa, Asia Pacific – Iberia & Latin America – USA – Global Insurance Lines & Anglo Markets
ASSET MANAGEMENT	CORPORATE AND OTHER
– Asset Management	– Holding & Treasury – Banking – Alternative Investments

Insurance operations

We offer a wide range of property-casualty and life/health insurance products to both retail and corporate customers. For the Property-Casualty business segment, these include motor, accident, property, general liability, travel insurance and assistance services; the Life/Health business segment offers savings and investment-oriented products in addition to life and health insurance. We are the leading property-casualty insurer worldwide and rank among the top five in the life/health insurance business[2]. Our key markets (in terms of premiums) for both property-casualty and life/health are Germany, France, Italy, and the United States.

Most of our insurance markets are served by local Allianz companies. However, some business lines – such as Allianz Global Corporate & Specialty (AGCS), Allianz Partners (AP) (formerly Allianz Worldwide Partners) and Credit Insurance – are run globally.

Asset Management

Our two major investment management businesses, PIMCO and AllianzGI, operate under Allianz Asset Management (AAM). We are one of the largest asset managers in the world that actively manage assets. Our offerings cover a wide range of equity, fixed income, and alternative investment products and solutions. Our core markets here are the United States, Germany, France, Italy, the United Kingdom, and the Asia-Pacific region.

Corporate and Other

The Corporate and Other business segment's activities include the management and support of the Allianz Group's businesses through its central holding functions, as well as Banking and Alternative Investments.

HOLDING & TREASURY

Holding & Treasury manages and supports the Group's businesses through its strategy, risk, corporate finance, treasury, financial reporting, controlling, communication, legal, human resources, technology, and other functions.

BANKING

Our banking operations, which place a primary focus on retail clients, support our insurance business and complement the products we offer in Germany, Italy, France, and Bulgaria. The sale of Oldenburgische Landesbank AG was closed on 7 February 2018. Hence, we now no longer have banking operations in Germany.

ALTERNATIVE INVESTMENTS

Alternative Investments provides global alternative investment management services in the private equity, real estate, renewable energy, and infrastructure sectors, mostly on behalf of our insurance operations.

1_For further information on organizational changes, please refer to the Executive Summary of 2017 Results.
2_Based on currently available peer data. Final peer analysis not available until after publication of this Annual Report.

Worldwide presence and business segments

Market presence of our business operations[1]

Insurance Western & Southern Europe, Insurance Middle East, Africa, Asia Pacific	
Europe	
■ ■ ■	Italy
■ ■	Greece
■ ■	Turkey
■ ■ ■	France
■ ■	Belgium
■ ■	The Netherlands
■ ■	Luxembourg
Middle East, North Africa & India	
■ ■	Egypt
■ ■	Lebanon
■ ■	Saudi Arabia
Africa	
■	Benin
■ ■	Burkina Faso
■ ■	Cameroon
■	Central Africa
■	Congo Brazzaville
■	Ghana
■ ■	Ivory Coast
■ ■	Kenya
■ ■	Madagascar
■	Mali
■	Morocco
■ ■	Senegal
■	Togo
India	
■ ■	India
Asia Pacific	
■ ■	China
■	Hong Kong[3]
■ ■	Indonesia
■	Japan[3]
■	Laos
■ ■	Malaysia
■	Pakistan
■	Philippines
■	Singapore[3]
■ ■	Sri Lanka
■	Taiwan
■ ■	Thailand
Insurance Iberia & Latin America	
Iberia	
■ ■	Spain
■ ■	Portugal
Latin America	
■	Argentina
■	Brazil
■ ■	Colombia
■ ■	Mexico

Insurance German Speaking Countries, Insurance Central & Eastern Europe	
German Speaking Countries	
■ ■ ■	Germany[2]
■ ■	Austria
■ ■	Switzerland
Central & Eastern Europe	
■ ■ ■	Bulgaria
■ ■	Croatia
■ ■	Czech Republic
■ ■	Hungary
■ ■	Poland
■ ■	Romania
■ ■	Slovakia
US life insurance	
■	United States
Global insurance lines & Anglo markets	
■	United Kingdom
■ ■	Australia
■	Ireland
■	Allianz Global Corporate & Specialty
■	Credit Insurance
■ ■	Reinsurance
■ ■	Russia
■	Ukraine
Allianz Partners	
■ ■	Allianz Partners
Asset Management	
North and Latin America	
■ ■	United States
■ ■	Canada
■ ■	Brazil
Europe	
■ ■	Germany
■ ■	Austria
■ ■	France
■ ■	Italy
■ ■	Ireland
■ ■	Luxembourg
■ ■	Spain
■ ■	Switzerland
■ ■	Belgium
■ ■	The Netherlands
■ ■	United Kingdom
■ ■	Sweden
Asia Pacific	
■ ■	Japan
■ ■	Hong Kong
■ ■	Taiwan
■ ■	Singapore
■ ■	China
■ ■	Australia

■ Property-Casualty ■ Life/Health ■ Banking ■ Retail Asset Management ■ Institutional Asset Management

1_This overview is based on our organizational structure as of 31 December 2017.
2_Oldenburgische Landesbank AG in Germany is classified as "held for sale".
3_Property-Casualty business belongs to Allianz Global Corporate & Specialty.

Our steering

BOARD OF MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Allianz SE has a divisional Board structure based on functional and business responsibilities. Business-related divisions reflect our business segments Property-Casualty, Life/Health, Asset Management, and Corporate and Other. In 2017 they were overseen by five Board members. The remaining four divisions (i.e. Chairman of the Board of Management, Finance, Investments, and Operations[1]) focus on Group functions, along with business-related responsibilities.

For further information on Board of Management members and their responsibilities, please refer to Mandates of the Members of the Board of Management on page 10.

TARGET SETTING AND MONITORING

The Allianz Group steers its operating entities and business segments via an integrated management and control process. It begins with the definition of a business-specific strategy and goals, which are discussed and agreed upon between the Holding and operating entities. Based on this strategy, our operating entities prepare three-year plans which are then aggregated to form the financial plans for the business divisions and for the Allianz Group as a whole. This plan also forms the basis for our capital management. The Supervisory Board approves the plan and sets corresponding targets for the Board of Management. The performance-based remuneration of the Board of Management is linked to short-term, mid-term, and long-term targets to ensure effectiveness and emphasize sustainability. For further details about our remuneration structure, including target setting and performance assessment, please refer to the Remuneration Report starting on page 23.

We continuously monitor our business performance against these targets through monthly reviews – which cover key operational and financial metrics – to ensure we can move quickly and take appropriate measures in the event of negative developments. The Allianz Group uses operating profit and net income as key financial performance indicators across all its business segments. Other indicators include segment-specific figures, such as the combined ratio for Property-Casualty, return on equity[2] for Life/Health, and the cost-income ratio for Asset Management. To steer and control new business in our business segments Property-Casualty and Life/Health, we use Return on Risk Capital (RoRC). We also use new business margins for Life/Health. For a comprehensive view of our business segment performance, please refer to the chapters from page 39 onwards.

Besides performance steering, we also have a risk steering process in place, which is described in the Risk and Opportunity Report starting on page 62.

Non-financial key performance indicators (KPIs) are mainly used for the sustainability assessment that we conduct when determining mid-term bonus levels. In line with our Renewal Agenda, KPIs mainly represent three key levers: True Customer Centricity, Digital by Default, and Inclusive Meritocracy. Examples include the Allianz En-

1_This member of the Board of Management also oversees Allianz Partners.
2_Excluding unrealized gains/losses on bonds net of shadow accounting.

gagement Survey and Net Promoter Score (NPS[1]) results, diversity development, and the share of digital retail products/digital client communication.

Our Corporate Responsibility approach

Allianz seeks to position itself as the world's most trusted financial services provider and a global sustainability leader. As such, we strive to create sustainable economic value through a long-term approach to corporate governance, social responsibility, and environmental stewardship.

In 2017, we took the leading position among all rated insurance companies in the Dow Jones Sustainability Index (DJSI) ranking, scoring 87 out of 100 points. The DJSI ranks companies according to environmental, social, and governance (ESG) criteria, assessing their strategy and performance.

CORPORATE RESPONSIBILITY GOVERNANCE

Strong corporate governance is pivotal to our sustainability approach and features among our most important material issues.

Established in 2012, the Group ESG Board is the highest governing body for sustainability-related issues. It consists of three Allianz SE Board members and several department heads. They meet quarterly and are responsible for ensuring ESG integration across all business lines as well as all core processes dealing with insurance and investment decisions. Key topics of focus in 2017 included implementation of the recommendations of the Taskforce of Climate-related Financial Disclosures and development of a more systematic approach to investor engagement.

The Group ESG Board is in charge of corporate responsibility and climate-related topics, and leads on associated stakeholder engagement. Functional departments provide regular updates on sustainability issues directly to the Group ESG Board.

CORPORATE RESPONSIBILITY APPROACH

We want our stakeholders to know that Allianz is a financially solid and trustworthy company that embraces sustainable business as good business. To achieve this, we also need to understand our stakeholders' needs and concerns, which is why we engage with a broad range of social and political players and organizations. The insight they provide enables us to focus our Corporate Responsibility strategy, activities, and reporting on the right areas.

We organize our Corporate Responsibility strategy around three focus areas in which we address the relevant material issues that our stakeholders perceive as vital for business success and sustainability:

Low-carbon economy: supporting renewable energy and decarbonization through our investments; providing sustainable insurance solutions; reducing our environmental footprint.

Social inclusion: supporting the social inclusion of children and youth through our Future Generations program; developing solutions for customers in emerging markets; promoting diversity and wellbeing among our employees.

Business integration: integrating environmental, social, and governance (ESG) issues across our investment and insurance businesses; building trust through transparency, responsible sales, and data privacy.

For reporting purposes, we organize our approach around Allianz's five key roles as a sustainable insurer, responsible investor, trusted company, attractive employer, and committed corporate citizen.

Allianz SE and Allianz Group comply with the legal requirements to provide a non-financial statement and a non-financial Group statement according to §§ 289b (1), 315b (1) of the HGB by issuing a combined separate non-financial report for Allianz Group and Allianz SE according to §§ 289b (3), 315b (3), sentence 1, sentence 2 in conjunction with § 298(2) of the HGB. This report can be found on our website at: **www.allianz.com/nf-report.**

Please also refer to our 2017 Group Sustainability Report (to be published in April 2018) for full details of our corporate responsibility strategy, approach, and performance: **www.allianz.com/sustainability.**

1_NPS is a measurement of customers' willingness to recommend Allianz. Top-down NPS is measured regularly according to global cross-industry standards and allows benchmarking against competitors in the respective markets.

BUSINESS ENVIRONMENT

Economic environment 2017[1]

In terms of real economic growth, 2017 has been the best year for the global economy since 2011. Around the globe, many countries experienced a fairly strong cyclical upswing. Two factors drove much of last year´s positive development: the comeback of global trade and the expansionary credit cycle. In the United States, economic momentum increased in the course of 2017. Given the upturn in business investment as well as the rebound in exports, economic activity was on a broader footing than it had been in 2016. All in all, the U.S. economy expanded by about 2.3%. With an increase of 2.5%, growth in the Eurozone was slightly stronger than in the United States. The recovery gained more breadth both in terms of countries and demand components. The German economy expanded by 2.5% (in calendar-adjusted terms), increasingly supported by rising investment activity. In the emerging markets, growth finally reaccelerated in 2017, not least owing to continued stabilization in former recession countries such as Brazil and Russia. Overall, the global economy grew by an estimated 3.2%, considerably stronger than in 2016, when global output rose by 2.6%.

World economy and financial markets appeared to overlook the elevated global political uncertainties, at least in part. Stock market volatility was low. On the monetary policy front, in October the European Central Bank announced that it would extend its monthly bond purchasing program at least until the end of September 2018. In the United States, the Federal Reserve continued to normalize its monetary policy stance. It increased the federal funds rate range three times by 25 basis points, bringing it to 1.25% – 1.5%. Moreover, in October the Federal Reserve started a balance sheet normalization program. Yields on 10-year German government bonds reached 0.4% at year-end 2017, 20 basis points higher than at the end of 2016. Spreads on Eurozone government bonds ended the year more or less unchanged – with two major exceptions, Greece and Portugal, where bond spreads tightened substantially. The performance of major stock markets was clearly positive around the globe, with a number of indices reaching new all-time highs. Supported by improving economic conditions in the Eurozone, the Euro appreciated considerably against the U.S. Dollar in the course of 2017. The U.S. Dollar-to-Euro exchange rate was 1.20 at year-end (end of 2016: 1.05).

Business environment 2017 for the insurance industry

2017 was a mixed year for the insurance industry. On the one hand, the global economy gained momentum, supporting top-line growth across almost all regions and business lines. On the other hand, interest rates remained low, putting relentless pressure on investment returns. Above all, however, 2017 was a year of extreme natural catastrophes: Insured losses from natural catastrophes reached a new peak, almost tripling the previous year's figure. Losses were heavily concentrated in North America, however, where we experienced hurricanes (both in the United States and the Caribbean), wildfires in the United States, and earthquakes in Mexico, while in other regions, notably Asia and Europe, losses from natural catastrophes were less severe.

At the same time, the deep transformation of the business environment, much of which is driven by the digital revolution, continued unabatedly. For the insurance industry, it brings enormous challenges but also new opportunities. While overhauling the current business model requires sizeable resources, new technologies have helped insurers achieve quantum leaps in terms of customer centricity, product accessibility, and ease of doing business. Moreover, harnessing new technologies expanded the scope of insurance solutions offered to a wider range of threats, from cyber-attacks to health protection in emerging countries.

In the **property-casualty sector,** premium growth accelerated slightly in almost all markets, reflecting the broad-based recovery of the global economy. This general uptick in growth did not, however, change the growth differentials between regions: While Western Europe lagged, Emerging Asia powered ahead, with the two biggest markets, China and India, registering double-digit growth. Overall and at a global scale, premiums rose by an estimated 5% in 2017, after a 4% gain in 2016 (in nominal terms and adjusted for foreign currency translation effects). Global industry profitability declined in 2017, mainly due to the large losses from natural catastrophes experienced in the United States; but soft underwriting conditions in many business lines and low investment yields did not help either.

In the **life sector,** performance in the different regions was more mixed. While, for example, the U.S. market had to cope with lower premium growth, growth in Western Europe was on the up (albeit from a low base). Emerging markets, too, showed diverging growth trends: Eastern Europe experienced a rebound, Latin America a decline. Meanwhile, Emerging Asia remained unfazed and simply continued to show double-digit growth, with China leading the pack, clocking premium growth of around 20%. Government policies boosting demand played a quite significant role in this growth story. Overall and at a global scale, premiums rose by an estimated 5% in 2017 (in nominal terms and adjusted for foreign currency translation effects). Global industry profitability remained challenging as the low yield environment continued in 2017. On the other hand, market volatility was generally low and stock markets performed very well. Against this backdrop, insurers aligned their business model in several ways: by reallocating assets (towards riskier and/or less liquid asset classes), restructuring insurance portfolios (towards less capital intensive business lines) and through in-force management actions (such as life book disposals).

1_At the date of the publication of this report, not all general market data for the year 2017 used in the chapter Business Environment was final. Also, please note that the information provided in this chapter is based on our estimates.

Business environment 2017 for the asset management industry

As the global economy continued growing, 2017 also was an excellent year for equity markets. Leading indices showed a very strong performance. Especially U.S. equities rallied toward year-end, fueled by the anticipation of a corporate tax reform.

The global fixed-income market also enjoyed strong returns in 2017, driven by the U.S. bond market. The U.S. Federal Reserve Bank continued to gradually move away from its accommodative monetary policy and increased the federal funds rate in three steps. At the same time, the difference between short- and longer-dated U.S. Treasury yields declined significantly. In Europe, yields for 10-year German government bonds increased slightly in the course of the year, while the European Central Bank maintained its accommodative monetary policy.

The favorable developments in global capital markets also stimulated fund flows in the asset management industry. This was particularly true for the United States, where the long-term inflows for the year strongly outweighed the outflows. Taxable bond funds – both actively and passively managed – profited most from these U.S. net inflows, reflecting a shift from equities into fixed-income products. Strong net inflows were also recorded for international equities in the United States (both active and passive). Finally, U.S. equities also saw net inflows – largely due to passively managed funds, while actively managed equities experienced net outflows for the year. Overall, investor preference continued to show a trend towards passive products in 2017; active managers, however, did well in several market segments. In Europe, long-term net flows for 2017 reached a record high. In Germany, net inflows to mutual funds mainly went into multi-asset funds, followed by fixed-income products and equities.

EXECUTIVE SUMMARY OF 2017 RESULTS

KEY FIGURES

Key figures Allianz Group[1]

		2017	2016	Delta
Total revenues[2]	€ mn	126,149	122,416	3,733
Operating profit[3,4,5]	€ mn	11,097	11,056	41
Net income[3,4]	€ mn	7,207	7,329	(122)
Thereof: attributable to shareholders[4]	€ mn	6,803	6,962	(158)
Solvency II capitalization ratio[6,7]	%	229	218	11 %-p
Return on equity[4,8]	%	11.8	12.3	(0.4) %-p
Earnings per share[4]	€	15.24	15.31	(0.07)
Diluted earnings per share[4]	€	15.23	15.18	0.05

Earnings summary

MANAGEMENT'S ASSESSMENT OF 2017 RESULTS

Our total revenues increased by 5.0% on an internal basis[9], compared to 2016. A large part of the increase came from our Life/Health business segment; it was due to both stronger sales of capital-efficient products in Germany and higher unit-linked premiums in Italy and Taiwan. Internal premium growth in our Property-Casualty business segment was largely driven by Allianz Partners, Germany, and Brazil. Revenue growth in our Asset Management business segment was driven by higher third-party assets under management (AuM) driven fees.

Our operating investment result decreased by € 1,352 mn to € 23,923 mn, mainly due to lower realized gains on debt securities. This was partly offset by lower impairments.

Our operating profit increased by 0.4% compared to 2016 and was in the upper half of our 2017 target range. Our Asset Management business segment saw a strong increase in operating profit, mostly due to higher AuM-driven fees thanks to third-party net inflows. The operating profit in our Life/Health business segment increased due to a number of factors, including an improved technical margin in France and higher unit-linked management fees in Italy. The operating result in our Corporate and Other business segment also improved across all three reportable segments. Our Property-Casualty business segment experienced higher claims from natural catastrophes, resulting in a decline in operating profit. A lower investment result also contributed to the decrease.

Our non-operating result decreased by € 306 mn to a loss of € 949 mn. Non-operating realized gains (net) declined as a result of portfolio rebalancing actions in 2016. Impairments decreased as the prior year had included impairment losses on the South Korean Life/Health business and on the Oldenburgische Landesbank AG upon classification as held for sale. The 2017 impairment result includes the recognition of a liability in connection with the expected loss from the sale of Oldenburgische Landesbank AG[10].

Income taxes decreased by € 144 mn to € 2,941 mn, mostly due to tax benefits related to previous years and a lower valuation allowance of deferred tax assets. These effects were partly offset by a one-time expense that resulted from the revaluation of deferred taxes following U.S. tax reform. The effective tax rate fell to 29.0% (2016: 29.6%).

The lower non-operating result could only be partly offset by the lower income taxes, resulting in an overall decrease in net income.

Our shareholders' equity[11] fell by € 1.5 bn to € 65.6 bn. During 2017, Allianz SE purchased approximately 16.8 million own shares as part of its share-buy-back program announced in February 2017 with a total volume of € 3.0 bn.[12] Over the same period, our Solvency II capitalization ratio increased to 229% (includes share buy-back).

For a more detailed description of the results generated by our business segments – specifically, Property-Casualty insurance operations, Life/Health insurance operations, Asset Management, and Corporate and Other – please consult the respective chapters on the following pages.

Other information

RECENT ORGANIZATIONAL CHANGES

Effective 1 January 2017, the Allianz Group reorganized the structure of its insurance activities to reflect the changes in the Board of Management responsibilities. The former reportable segment Asia Pacific was allocated to the reportable segment Western & Southern Europe, Middle East, Africa, Asia Pacific. Any previously reported information has been adjusted to reflect this change in reportable segments.

In addition, there were some minor reallocations between the reportable segments.

1_For further information on Allianz Group figures, please refer to note 4 to the consolidated financial statements.
2_Total revenues comprise statutory gross premiums written in Property-Casualty and Life/Health, operating revenues in Asset Management, and total revenues in Corporate and Other (Banking).
3_The Allianz Group uses operating profit and net income as key financial indicators to assess the performance of its business segments and of the Group as a whole.
4_Prior year figures have been adjusted in order to reflect the impact resulting from an accounting policy change to measure the Guaranteed Minimum Income Benefit (GMIB) liability at fair value for our life business. For further information, please refer to note 2 to the consolidated financial statements.
5_In light of the new operating profit definition, restructuring charges are reported outside of operating profit unless shared with policyholders. Prior year figures have been adjusted accordingly.
6_Figures as of 31 December.
7_Risk capital figures are group diversified at 99.5 % confidence level. Allianz Life US included based on third country equivalence with 150 % of "Risk Based Capital Company Action Level" since 30 September 2015. The Solvency II capitalization ratio as of 31 December 2017 includes share buy-back.
8_Represents the ratio of net income attributable to shareholders to the average shareholders' equity excluding unrealized gains/losses on bonds, net of shadow accounting, at the beginning of the year and at the end of the year.
9_Internal total revenue growth excludes the effects of foreign currency translation as well as acquisitions and disposals. Please refer to page 60 for a reconciliation of nominal total revenue growth to internal total revenue growth for each of our business segments and the Allianz Group as a whole.
10_As of 31 December 2017, all requirements were still fulfilled to present Oldenburgische Landesbank AG, Oldenburg, allocated to the reportable segment Banking (Corporate and Other) as a disposal group classified as held for sale. The closing of the transaction was nearly completed as of 31 December 2017. Therefore, an impairment and a liability of € 233 mn were recognized in connection with the expected loss from the sale of the Oldenburgische Landesbank AG. The Allianz shares in Oldenburgische Landesbank AG were transferred to the buyer on 7 February 2018. For further information, please refer to note 3 to the consolidated financial statements
11_For further information on shareholders' equity, please refer to page 55 of the Balance Sheet Review chapter.
12_For further information on the share buy-back program, please refer to note 19 to the consolidated financial statements.

Other parts of the Group Management Report

The following information also forms part of the Group Management Report:

- Statement on Corporate Management pursuant to § 315d and § 289f of the HGB starting on page 17,
- Takeover-related Statements and Explanations starting on page 20, and the
- Remuneration Report starting on page 23.

PROPERTY-CASUALTY INSURANCE OPERATIONS

KEY FIGURES

Key Figures Property-Casualty[1]

		2017	2016	Delta
Gross premiums written	€ mn	52,262	51,535	727
Operating profit[2]	€ mn	5,053	5,464	(411)
Net income	€ mn	3,807	4,158	(350)
Loss ratio[3]	%	66.5	65.6	0.9 %-p
Expense ratio[4]	%	28.7	28.7	0.0 %-p
Combined ratio[5]	%	95.2	94.3	0.9 %-p

Gross premiums written[6]

On a nominal basis, we recorded an increase in **gross premiums written** compared to the previous year.

This includes unfavorable foreign currency translation effects of € 693 mn[7] and positive (de)consolidation effects of € 225 mn. On an internal basis, our premiums went up 2.3 %, driven by a positive price effect of 1.2 % and a positive volume effect of 1.1 %.

The following operations contributed positively to internal growth:

Allianz Partners: Gross premiums grew to € 4,608 mn – an increase of 10.8 % on an internal basis. It was driven by our U.S. travel business and our health insurance business in Dubai.

Germany: Gross premiums amounted to € 10,074 mn. This internal growth of 1.7 % was mainly due to positive price effects in our motor and commercial property insurance business.

Brazil: Gross premiums went up 16.8 % on an internal basis and reached € 1,029 mn. This was mainly driven by our motor insurance business.

Spain: Gross premiums increased to € 2,376 mn – up 4.4 % on an internal basis. This was driven by positive volume and price effects across the portfolio.

The following operations weighed on internal growth:

Turkey: Gross premiums decreased to € 1,222 mn. This decrease – 11.2 % on an internal basis – largely resulted from our strategic reduction in market share in the motor third-party liability insurance business following a regulatory change.

Italy: Gross premiums amounted to € 4,512 mn. The decline of 1.3 % on an internal basis resulted from unfavorable price effects in our motor insurance business.

1_For further information on Allianz Property-Casualty figures, please refer to note 4 to the consolidated financial statements.
2_In light of the new operating profit definition, restructuring charges are reported outside of operating profit unless shared with policyholders. Prior year figures have been adjusted accordingly.
3_Represents claims and insurance benefits incurred (net) divided by premiums earned (net).
4_Represents acquisition and administrative expenses (net) divided by premiums earned (net).
5_Represents the total of acquisition and administrative expenses (net) and claims and insurance benefits incurred (net) divided by premiums earned (net).
6_We comment on the development of our gross premium written on an internal basis, which means figures have been adjusted for foreign currency translation and (de-)consolidation effects in order to provide more comparable information.
7_Based on the average exchange rates in 2017 compared to 2016.

AGCS: Gross premiums fell to € 7,406 mn – a decrease of 0.6 % on an internal basis. It was largely due to negative price impacts across both our corporate and specialty lines of business.

Operating profit

Operating Profit
€ mn

	2017	2016	Delta
Underwriting result	2,011	2,354	(344)
Operating investment income (net)	2,905	2,971	(66)
Other result[1,2]	138	139	(1)
Operating profit[2]	**5,053**	**5,464**	**(411)**

1_Consists of fee and commission income/expenses and other income/expenses.
2_In light of the new operating profit definition, restructuring charges are reported outside of operating profit unless shared with policyholders. Prior year figures have been adjusted accordingly.

The decrease in **operating profit** was mainly driven by the fact that our underwriting result suffered from higher losses from natural catastrophes. Furthermore, our investment result declined mainly due to negative foreign currency translation effects net of hedging.

The **underwriting result** decrease was driven by an increase in losses from natural catastrophes such as the storms Harvey, Maria, and Irma in the third quarter, and the California wildfires in the fourth quarter of 2017. A lower contribution from run-off compared to the previous year also aggravated this development. As a consequence our **combined ratio** deteriorated by 0.9 percentage points to 95.2 %.

Underwriting result
€ mn

	2017	2016	Delta
Premiums earned (net)	47,242	46,588	653
Accident year claims	(33,351)	(32,661)	(691)
Previous year claims (run-off)	1,927	2,084	(158)
Claims and insurance benefits incurred (net)	(31,425)	(30,576)	(848)
Acquisition and administrative expenses (net)	(13,537)	(13,352)	(185)
Change in reserves for insurance and investment contracts (net) (without expenses for premium refunds)[1]	(270)	(306)	36
Underwriting result	**2,011**	**2,354**	**(344)**

1_Consists of the underwriting-related part (aggregate policy reserves and other insurance reserves) of "change in reserves for insurance and investment contracts (net)". For further information, please refer to note 26 to the consolidated financial statements.

Our **accident year loss ratio**[8] was 70.6 % – a 0.5 percentage point deterioration compared to the previous year. This was driven by an increase in losses from natural catastrophes from € 689 mn to € 1,111 mn, representing an adverse impact on our combined ratio, which increased from 1.5 percentage points in 2016 to 2.4 percentage points in 2017.

8_Represents claims and insurance benefits incurred (net) less previous year claims (run-off), divided by premiums earned (net).

Excluding losses from natural catastrophes, our accident year loss ratio improved by 0.4 percentage points to 68.2 %. This was predominantly due to profitability improvements across the Allianz Group.

The following operation contributed positively to the development of our accident year loss ratio:

Benelux: 0.2 percentage points. The improvement was due to the absence of natural catastrophes in 2017 whereas 2016 had been impacted by storms, floods, and hail. Underwriting performance measures improved our accident year loss ratio further.

The following operations weighed on the development of our accident year loss ratio:

Reinsurance: 0.6 percentage points. The accident year loss ratio suffered from natural catastrophes such as the California wildfires in October and the storms in the third quarter of 2017.

Germany: 0.2 percentage points. The deterioration was driven by a heavy storm year. Storms Xavier, Paul, Herwart, and several smaller events burdened the result throughout the year.

Credit Insurance: 0.1 percentage points. This was driven by several medium sized large losses.

Our run-off result amounted to € 1,927 mn – after € 2,084 mn in 2016 – leading to a decreased run-off ratio of 4.1 %, which was mainly driven by our operations Reinsurance, Germany, and United Kingdom. Furthermore, we saw a negative impact in the beginning of 2017, a result of the Ogden rate change which affected our operating entities Reinsurance, United Kingdom, and Ireland.

Total expenses amounted to € 13,537 mn in 2017, compared to € 13,352 mn in the previous year. Our expense ratio remained stable at 28.7 % as a higher administrative expense ratio was offset by a lower acquisition ratio.

Operating investment income (net)
€ mn

	2017	2016	Delta
Interest and similar income (net of interest expenses)	3,371	3,391	(20)
Operating income from financial assets and liabilities carried at fair value through income (net)	(78)	(23)	(56)
Operating realized gains (net)	248	285	(37)
Operating impairments of investments (net)	(22)	(51)	29
Investment expenses	(399)	(376)	(23)
Expenses for premiums refunds (net)[1]	(215)	(255)	40
Operating investment income (net)[2]	**2,905**	**2,971**	**(66)**

1_Refers to policyholder participation, mainly from APR business (accident insurance with premium refunds), and consists of the investment-related part of "change in reserves for insurance and investment contracts (net)". For further information, please refer to note 26 to the consolidated financial statements.
2_The operating investment income (net) of our Property-Casualty business segment consists of the operating investment result - as shown in note 4 to the consolidated financial statements - and expenses for premium refunds (net) (policyholder participation).

Our operating investment income (net) decreased slightly, mainly due to an unfavorable foreign currency translation result net of hedging.

The negative development of the net interest and similar income resulted from lower income on debt securities, largely offset by a higher income from equities.

Other result
€ mn

	2017	2016	Delta
Fee and commission income	1,616	1,527	89
Other income	33	21	11
Fee and commission expenses	(1,509)	(1,407)	(101)
Other expenses	(2)	(3)	-
Other result[1]	**138**	**139**	**(1)**

1_In light of the new operating profit definition, restructuring charges are reported outside of operating profit unless shared with policyholders. Prior year figures have been adjusted accordingly.

Our other result remained stable compared to the previous year.

Net income

Net income decreased, which was driven by the decline in operating profit and a lower non-operating result that was partially offset by a decline in income taxes.

LIFE/HEALTH INSURANCE OPERATIONS

KEY FIGURES

Key figures life/Health[1]

		2017	2016	Delta
Statutory premiums[2]	€ mn	67,277	64,636	2,642
Operating profit[3,4,5]	€ mn	4,412	4,277	134
Net income[3]	€ mn	2,968	2,660	308
Return on equity[3,6]	%	12.1	10.7	1.4 %-p

Our South Korean business was disposed of at the end of 2016. In order to best reflect the actual underlying drivers, operating profit was reported in 2016 excluding South Korea, and the South Korean operating loss specified as a separate item. Similarly, the figures for present value of new business premiums are shown without effects from the South Korean business. To ensure consistency with the Group income statement, however, prior year statutory premiums are presented including premiums collected from our South Korean business.

Statutory premiums[7]

On a nominal basis, statutory premiums increased by 4.1 %. This includes unfavorable foreign currency translation effects of € 494 mn and negative (de-)consolidation effects of € 1,293 mn. On an internal basis, statutory premiums went up by € 4,429 mn – or 7.0 % – to € 67,277 mn.

Statutory premiums in the German life business rose to € 21,124 mn, translating into 11.9 % growth on an internal basis – which was largely due to higher sales of capital-efficient products. Statutory premiums in the German health business climbed to € 3,360 mn – a 2.2 % increase on an internal basis –, much of which resulted from the acquisition of new customers in the supplementary health care coverage.

In the United States, statutory premiums amounted to € 9,720 mn, down 16.3 % on an internal basis. This was caused by a decrease in sales of fixed-indexed annuities. Increased sales of traditional variable annuities partly compensated for this development.

In Italy, statutory premiums grew to € 11,160 mn. This increase – 17.1 % on an internal basis – resulted mainly from higher unit-linked single-premium sales, and was partially offset by a decrease in traditional life business.

In France, statutory premiums went up to € 8,457 mn, an increase of 6.3 % on an internal basis. This was predominantly due to higher sales of capital-efficient products and a growth in our protection and health business.

In the Asia-Pacific region, statutory premiums stood at € 5,170 mn, a 26.4 % rise on an internal basis. It was largely due to an increase in unit-linked sales in Taiwan. Statutory premiums in South Korea amounted to € 1,307 mn in 2016.

Present value of new business premiums (PVNBP)[8,9,10]

Our PVNBP increased by € 2,267 mn to € 59,469 mn, largely because our business with unit-linked insurance products without guarantees generated higher sales in Italy and the Asia-Pacific region, as did our capital-efficient products in the German life business. This was partly offset by a sales decline in our business with fixed-indexed annuities in the United States.

Present value of new business premiums (PVNBP) by lines of business
%

	2017	2016	Delta
Guaranteed savings & annuities	23.9	28.5	(4.6)
Protection & health	14.4	14.4	(0.1)
Unit-linked without guarantee	25.6	20.1	5.5
Capital-efficient products	36.1	37.0	(0.9)
Total	**100.0**	**100.0**	-

1_For further information on Allianz Life/Health figures, please refer to note 4 to the consolidated financial statements.
2_Statutory premiums are gross premiums written from sales of life and health insurance policies, as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
3_Prior year figures have been adjusted in order to reflect the impact resulting from an accounting policy change to measure the Guaranteed Minimum Income Benefit (GMIB) liability at fair value for our life business. For further information please refer to note 2 to the consolidated financial statements.
4_In light of the new operating profit definition, restructuring charges are reported outside of operating profit unless shared with policyholders. Prior year figures have been adjusted accordingly.
5_From the classification of our Korean life business as "held for sale" in the second quarter of 2016 until its disposal in the fourth quarter of 2016, the total result of € (204) mn was considered as non-operating.
6_Represents the ratio of net income to the average total equity, excluding unrealized gains/losses on bonds, net of shadow accounting, at the beginning of the year and at the end of the year.
7_Our comments in the following section on the development of our statutory gross premiums written refer to figures determined "on an internal basis", i.e. adjusted for foreign currency translation and (de-) consolidation effects, in order to provide more comparable information.
8_PVNBP before non-controlling interests.
9_Prior year figures changed in order to reflect the roll-out of profit source reporting to Turkey.
10_Prior year figures are presented excluding effects from the South Korean business.

Operating profit[1,2]

OPERATING PROFIT BY PROFIT SOURCES[3,4]

Operating profit by profit sources

€ mn

	2017	2016	Delta
Loadings and fees	5,989	5,726	264
Investment margin	4,112	4,487	(375)
Expenses	(6,860)	(6,821)	(38)
Technical margin	1,238	1,015	223
Impact of changes in DAC	(68)	(47)	(21)
Operating loss – South Korea[1]	-	(82)	82
Operating profit	**4,412**	**4,277**	**134**

1_The 2016 figure represents the operating loss of the first quarter only, as the negative result for the rest of 2016 was considered as non-operating.

Our operating profit rose, supported by an improved technical margin in France and higher unit-linked management fees in Italy.

LOADINGS AND FEES[5]

Loadings and fees

€ mn

	2017	2016	Delta
Loadings from premiums	3,871	3,793	78
Loadings from reserves	1,462	1,345	117
Unit-linked management fees	657	588	69
Loadings and fees[1]	**5,989**	**5,726**	**264**
Loadings from premiums as % of statutory premiums	5.8	6.0	(0.2)
Loadings from reserves as % of average reserves[2,3]	0.3	0.3	-
Unit-linked management fees as % of average unit-linked reserves[3,4]	0.5	0.4	-

1_Prior year figures are presented excluding the effects from the South Korean business.
2_Aggregate policy reserves and unit-linked reserves.
3_Yields are pro rata.
4_Unit-linked management fees, excluding asset management fees, divided by unit-linked reserves.

Loadings from premiums went up along with sales, much of which was driven by the Asia-Pacific region. The increase in loadings from reserves was largely attributable to a higher reserve volume in France as well as to higher product fee income stemming from the growth in our non-traditional variable-annuity business in the United States, due to favorable market movements. Unit-linked management fees rose, mainly in Italy, as a result of both higher performance fees and increased assets under management.

1_Prior year figures have been adjusted in order to reflect the impact resulting from an accounting policy change to measure the Guaranteed Minimum Income Benefit (GMIB) liability at fair value for our life business. For further information please refer to note 2 to the consolidated financial statements.
2_In light of the new operating profit definition, restructuring charges are reported outside of operating profit unless shared with policyholders. Prior year figures have been adjusted accordingly.
3_Prior year figures changed in order to reflect the roll-out of profit source reporting to Turkey.
4_The purpose of the Life/Health operating profit sources analysis is to explain movements in IFRS results by analyzing underlying drivers of performance on a Life/Health business segment consolidated basis.
5_Loadings and fees include premium and reserve based fees, unit-linked management fees, and policyholder participation in expenses.

INVESTMENT MARGIN[6]

Investment margin

€ mn

	2017	2016	Delta
Interest and similar income	17,856	17,749	107
Operating income from financial assets and liabilities carried at fair value through income (net)	(1,149)	(864)	(286)
Operating realized gains/losses (net)	5,333	6,610	(1,278)
Interest expenses	(102)	(105)	3
Operating impairments of investments (net)	(634)	(1,208)	574
Investment expenses	(1,332)	(1,192)	(140)
Other[1]	405	384	21
Technical interest	(8,745)	(8,757)	12
Policyholder participation	(7,519)	(8,130)	611
Investment margin[2]	**4,112**	**4,487**	**(375)**
Investment margin in basis points[3,4]	97	109	(12)

1_Other comprises the delta of out-of-scope entities, on the one hand, which are added here with their respective operating profit and different line item definitions compared to the financial statements, such as interest paid on deposits for reinsurance, fee and commission income and expenses excluding unit-linked management fees on the other hand.
2_Prior year figures are presented excluding the effects from the South Korean business.
3_Investment margin divided by the average of current end-of-period and previous end-of-period aggregate policy reserves.
4_Yields are pro rata.

Our investment margin declined, mainly due to much lower realizations in the German life business after the sale of Italian government bonds has resulted in an elevated level in 2016. A lower investment result in the United States driven by our business with fixed-indexed annuities due to a swing in the hedging result and unlocking has also contributed to this development. It was, however, partly compensated by decreased impairments in Germany, following a better performance of the equity market.

EXPENSES[7]

Expenses

€ mn

	2017	2016	Delta
Acquisition expenses and commissions	(4,963)	(5,029)	66
Administrative and other expenses	(1,897)	(1,793)	(104)
Expenses[1]	**(6,860)**	**(6,821)**	**(38)**
Acquisition expenses and commissions as % of PVNBP[2]	(8.3)	(8.8)	0.4
Administrative and other expenses as % of average reserves[3,4]	(0.4)	(0.3)	-

1_Prior year figures are presented excluding the effects from the South Korean business.
2_PVNBP before non-controlling interests.
3_Aggregate policy reserves and unit-linked reserves.
4_Yields are pro rata.

We recorded lower acquisition expenses and commissions, predominantly due to declined sales in the fixed-indexed annuities business in

6_The investment margin is defined as IFRS investment income net of expenses, less interest credited to IFRS reserves and policyholder participation (including policyholder participation beyond contractual and regulatory requirements mainly for the German life business).
7_Expenses include acquisition expenses and commissions (excluding commission clawbacks, which are allocated to the technical margin) as well as administrative and other expenses.

the United States. This was partly offset by higher expenses due to sales growth in the Asia-Pacific region, in our German life business, and in Italy.

Administrative and other expenses increased, mainly due to legal accruals for non-recurring items in the United States and Asia-Pacific region, but remained stable in relation to reserves.

TECHNICAL MARGIN[1]

Our technical margin increased, driven by one-off reserve adjustments both in 2017 and 2016 in the United States as well as improved loss ratios due to repricing and positive run-off in our protection and health business in France.

IMPACT OF CHANGE IN DEFERRED ACQUISITION COSTS (DAC)[2]

Impact of change in DAC
€ mn

	2017	2016	Delta
Capitalization of DAC	1,711	1,877	(166)
Amortization, unlocking and true-up of DAC	(1,779)	(1,924)	145
Impact of change in DAC[1]	**(68)**	**(47)**	**(21)**

1_Prior year figures are presented excluding the effects from the South Korean business.

The higher negative impact of change in DAC was due to lower capitalization of DAC, mainly resulting from decreased sales in fixed-indexed annuities in the United States. This was partly compensated by favorable unlocking effects in our business with fixed-indexed annuities in the United States.

OPERATING PROFIT BY LINES OF BUSINESS[3]

Operating profit by lines of business
€ mn

	2017	2016	Delta
Guaranteed savings & annuities	2,375	2,365	10
Protection & health	927	730	197
Unit-linked without guarantee	367	351	16
Capital-efficient products	743	913	(171)
Operating loss – South Korea[1]	-	(82)	82
Operating profit	**4,412**	**4,277**	**134**

1_The 2016 figure represents the operating loss of the first quarter only, as the negative result for the rest of 2016 was considered as non-operating.

The operating profit in our guaranteed savings & annuities line of business went up. Much of this increase was contributed by our traditional variable-annuity business in the United States, which benefited from favorable market movements. The higher operating profit in our protection & health line of business was largely driven by an improved technical margin in France and the United States. Our operating profit in the unit-linked without guarantee line of business increased, primarily due to higher unit-linked management fees in Italy. A decrease in operating profit in the capital-efficient products line was largely attributable to a lower investment margin in the United States.

Return on equity

Our return on equity increased by 1.4 percentage points to 12.1%. Among other reasons, this is due to the fact that the 2016 figure had been negatively impacted by the unfavorable development of our South Korean business.

Net income

We registered an increase in our net income, which was largely due to our operating performance and the fact that the prior year's net income had been negatively affected by our business in South Korea.

1_Technical margin comprises risk result (risk premiums less benefits in excess of reserves less policyholder participation), lapse result (surrender charges and commission clawbacks) and reinsurance result.
2_Impact of change in DAC includes effects of change in DAC, unearned revenue reserves (URR) and value of business acquired (VOBA). It represents the net impact of deferral and amortization of acquisition costs and front-end loadings on operating profit and therefore deviates from the IFRS financial statements.
3_Prior year figures changed in order to reflect the roll-out of profit source reporting to Turkey.

ASSET MANAGEMENT

KEY FIGURES

Key figures Asset Management[1]

		2017	2016	Delta
Operating revenues	€ mn	6,408	6,022	385
Operating profit[2]	€ mn	2,440	2,206	234
Cost-income ratio[3]	%	61.9	63.4	(1.5) %-p
Net income	€ mn	1,546	1,411	136
Total assets under management as of 31 December	€ bn	1,960	1,871	89
thereof: Third-party assets under management as of 31 December	€ bn	1,448	1,361	87

Assets under management

Composition of total assets under management
€ bn

Type of asset class	as of 31 December 2017	as of 31 December 2016	Delta
Fixed income	1,553	1,489	64
Equities	164	166	(2)
Multi-assets[1]	163	153	10
Other[2]	81	63	17
Total	**1,960**	**1,871**	**89**

1_Multi-assets is a combination of several asset classes (e.g. bonds, stocks, cash and real property) used as an investment. Multi-assets class investments increase the diversification of an overall portfolio by distributing investments throughout several asset classes.
2_Other is composed of other asset classes than equity, fixed income and multi-assets, e.g. money markets, commodities, real estate investment trusts, infrastructure investments, private equity investments, hedge funds, etc.

Net inflows[4] of **total assets under management** (AuM) amounted to € 147 bn in 2017. € 150 bn were attributable to third-party AuM net inflows (2016: € 20 bn net outflows), marking the highest yearly third-party AuM net inflows ever. The majority of this year's inflows were PIMCO's third-party AuM net inflows (€ 144 bn) – mainly in the United States and Europe. Strong third-party AuM net inflows were recorded in each quarter. AllianzGI also recorded third-party AuM net inflows (€ 6 bn), primarily in Europe.

Favorable effects from Market and Other[5] amounted to € 73 bn. € 50 bn were due to PIMCO and mainly related to fixed-income assets. The remaining € 23 bn stemmed from AllianzGI's equities and from multi-assets, albeit to a lesser extent.

Effects from consolidation, deconsolidation, and other adjustments added € 4 bn to total AuM.

Negative foreign currency translation effects amounted to € 135 bn and were primarily driven by the depreciation of the U.S. Dollar against the Euro. Despite these negative effects, total AuM increased by 4.8 %.

In the following section we focus on the development of **third-party assets under management**.

As of 31 December 2017, the shares of third-party AuM by business unit were 76.8 % (31 December 2016: 76.1 %) attributable to PIMCO and 23.2 % (31 December 2016: 23.9 %) attributable to AllianzGI.

The share of fixed-income assets rose from 75.5 % at the beginning of the year to 76.4 %. This was mainly due to the high third-party AuM net inflows and – to a lesser extent – to positive effects from Market and Other, which outweighed the negative foreign currency translation effects. The share of equities declined from 10.3 % to 9.4 %. Hereby, positive effects from equity markets could not offset third-party AuM net outflows in combination with negative foreign currency translation effects as well as deconsolidation effects. The shares of multi-assets and other were roughly stable at 10.2 % and 4.0 % (31 December 2016: 10.0 % and 4.2 %, respectively).

Mutual funds[6] had a 59.4 % share in third-party assets (31 December 2016: 57.8 %), while separate accounts[6] were at 40.6 % (31 December 2016: 42.2 %).

The regional allocation[7] of third-party AuM shifted as follows: America 53.4 %, Europe 35.1 % and the Asia-Pacific region 11.5 % (31 December 2016: 55.3 %, 32.8 % and 11.9 %, respectively). This development was due to strong growth in Europe, whereas the U.S. share was affected by negative foreign currency translation effects. The share of the Asia-Pacific region declined as positive effects, mostly from third-party AuM net inflows, were dampened by negative foreign currency translation effects as well as the deconsolidation of AllianzGI Korea.

The overall three-year rolling investment performance[8] of our Asset Management business improved significantly, with 91 % of third-party assets outperforming their respective benchmarks (31 December 2016: 83 %). The increase was driven by both PIMCO and AllianzGI, improving from 88 % to 95 % and from 63 % to 75 %, respectively.

1_For further information about our Asset Management business segment, please refer to note 4 to the consolidated financial statements.
2_In light of the new operating-profit definition, restructuring charges are reported outside of operating profit. Prior-year figures have been adjusted accordingly.
3_Represents operating expenses divided by operating revenues.
4_Net flows represent the sum of new client assets, additional contributions from existing clients – including dividend reinvestment –, withdrawals of assets from and termination of client accounts, and distributions to investors.
5_Market and Other represents current income earned on, and changes in the fair value of, securities held in client accounts. It also includes dividends from net investment income and from net realized capital gains to investors of open ended mutual funds and of closed end funds.
6_Mutual funds are investment vehicles (in the United States, investment companies subject to the U.S. code; in Germany, vehicles subject to the "Standard-Anlagerichtlinien des Fonds" Investmentgesetz) where the money of several individual investors is pooled into one account to be managed by the asset manager, e.g. open-end funds, closed-end funds. Separate accounts are investment vehicles where the money of a single investor is directly managed by the asset manager in a separate dedicated account (e.g. public or private institutions, high net worth individuals, and corporates).
7_Based on the location of the asset management company.
8_Three-year rolling investment performance reflects the mandate-based and volume-weighted three-year investment success of all third-party assets that are managed by Allianz Asset Management's portfolio-management units. For separate accounts and mutual funds, the investment success (valued on the basis of the closing prices) is compared with the investment success prior to cost deduction of the respective benchmark, based on various metrics. For some mutual funds, the investment success, reduced by fees, is compared with the investment success of the median of the respective Morningstar peer group (a position in the first and second quartile is equivalent to outperformance).

Operating revenues

Our operating revenues increased by 6.4% on a nominal basis and 7.8% on an internal basis[1].

We recorded lower performance fees, due to a decrease in PIMCO's fees, where carried interest declined due to the phasing out of one large private fund. AllianzGI's performance fees went up significantly, driven by positive developments in all business regions, especially in the United States.

Other net fee and commission income rose, driven by increased average third-party AuM, mostly at PIMCO. Third-party AuM-driven margins declined mainly at AllianzGI.

Other operating revenues increased largely due to positive foreign currency translation effects on financial assets and liabilities carried at fair value through profit and loss.

Operating profit

Our operating profit increased by a strong 10.6% on a nominal basis and 12.7% on an internal basis[1]. This was mainly due to strong growth in operating revenues, which was only partly offset by increased administrative expenses.

The increase in administrative expenses was mainly driven by higher personnel expenses at both PIMCO and AllianzGI. This development was mainly due to a rise in variable compensation going along with the overall positive business performance. To a lesser extent, an increase in non-personnel expenses contributed to the rise in administrative expenses.

Our cost-income ratio improved significantly, as revenue growth outpaced the increase in expenses.

Asset Management business segment information
€ mn

	2017	2016	Delta
Performance fees	437	474	(37)
Other net fee and commission income	5,938	5,545	393
Other operating revenues	33	3	30
Operating revenues	6,408	6,022	385
Administrative expenses (net), excluding acquisition-related expenses	3,968	3,817	(151)
Operating expenses	3,968	3,817	(151)
Operating profit	**2,440**	**2,206**	**234**

Net income

The increase in our net income corresponds to the positive development of our operating profit.

1_Operating revenues/operating profit adjusted for foreign currency translation and (de-)consolidation effects.

CORPORATE AND OTHER

KEY FIGURES

Key figures Corporate and Other[1]
€ mn

	2017	2016	Delta
Operating revenues	3,235	1,951	1,285
Operating expenses	(4,018)	(2,818)	(1,200)
Operating result[2]	(783)	(868)	85
Net income (loss)	(1,293)	(994)	(299)

Key figures reportable segments[2]
€ mn

	2017	2016	Delta
HOLDING & TREASURY			
Operating revenues	1,831	683	1,148
Operating expenses	(2,767)	(1,664)	(1,104)
Operating result	(936)	(981)	45
BANKING			
Operating revenues	1,018	1,029	(11)
Operating expenses	(922)	(955)	33
Operating result	96	74	22
ALTERNATIVE INVESTMENTS			
Operating revenues	398	245	153
Operating expenses	(341)	(206)	(135)
Operating result	57	39	18

Earnings summary

Our **operating result** improved in 2017, due to the positive developments in all our reportable segments.

Our **net loss** widened, which primarily resulted from the impairment driven by the recognition of a liability in connection with the expected loss from the sale of Oldenburgische Landesbank AG.[3]

In **Holding & Treasury,** we saw an improvement of our operating result. It was largely driven by a higher net interest result, as well as by lower administrative expenses caused by a decline in pension costs.

Banking's operating result increased, driven by both a higher net fee and commission result and lower loan loss provisions. The positive development was partly offset by a lower net interest result.

The operating result generated by **Alternative Investments** increased, due to a higher net fee and commission result that was only partially offset by higher administrative expenses.

1_Consolidation included. For further information about our Corporate and Other business segment, please refer to note 4 to the consolidated financial statements.
2_In light of the new operating profit definition, restructuring charges are reported outside of operating profit. Prior year figures have been adjusted accordingly.

3_As of 31 December 2017, all requirements were still fulfilled to present Oldenburgische Landesbank AG, Oldenburg, allocated to the reportable segment Banking (Corporate and Other), as a disposal group classified as held for sale. The closing of the transaction was nearly completed as of 31 December 2017. Therefore, an impairment and a liability of € 233 mn were recognized in connection with the expected loss from the sale of Oldenburgische Landesbank AG. The Allianz shares in Oldenburgische Landesbank AG were transferred to the buyer on 7 February 2018. For further information, please refer to note 3 to the consolidated financial statements.

OUTLOOK 2018

Overview: 2017 results versus previous year's outlook[1]

2017 results versus previous year outlook for 2017

	Outlook 2017 – as per Annual Report 2016	Results 2017
Allianz Group	Operating profit of € 10.8 bn, plus or minus € 0.5 bn.	Operating profit of € 11.1 bn.
	Protection of shareholders' investments, while continuing to provide attractive returns and dividends.	Return on equity (RoE)[1] amounted to 11.8 % (2016: 12.3 %). Proposed dividend at € 8.00 (2016: € 7.60) per share. Stable payout ratio of 50 %, based on expected number of eligible shares at the Annual General Meeting.
	Selective profitable growth.	Property-Casualty with continued sound risk selection and solid internal growth, Life/Health with growing asset base and strong new business margins, and Asset Management with strong net inflows.
Property-Casualty	Growth in gross premiums written: approximately 2 % on a nominal basis.	Gross premiums written increased by 1.4 %. Internal growth of 2.3 % was mainly driven by Allianz Partners, Germany and Brazil.
	Operating profit in the range of € 5.0 bn to € 5.6 bn.	Operating profit of € 5.1 bn is in the lower half of our target range. Despite improvements in our underwriting result a high burden from natural catastrophes impacted our results.
	Progress towards our combined ratio ambition of 94 % or better by 2018.	Combined ratio was at 95.2 % and above our expectations. The shortfall in profitability was driven by the development of natural catastrophes.
	Pressure on operating investment income (net) to continue due to reinvestments in a consistently low interest rate environment.	Operating investment income (net) decreased slightly, mainly due to an unfavorable foreign currency translation result net of hedging.
Life/Health	Continue with selective focus on profitable growth and further shift new business mix towards capital efficient, unit-linked, and protection products. Considering the disposal of our South Korean business, revenues are expected to be in the range of € 60.0 bn to € 66.0 bn.	Revenues of € 67.3 bn above our outlook range of € 60.0 bn to € 66.0 bn. Strong growth from capital-efficient products in Germany and from unit-linked sales in Italy and Taiwan.
	Operating profit between € 3.7 bn and € 4.3 bn.	Operating profit of € 4.4 bn is above target range, driven by investments with a net harvesting result above normalized level and a higher technical margin.
	RoE between 10.0 % and 12.0 %.	RoE[1] of 12.1 % above outlook range.
	Pressure on investment income due to low interest rates and continued capital market uncertainty.	Operating investment result reached favorable € 20.0 bn, which is slightly lower than 2016, as the previous year had been supported by a high level of realized gains from our portfolio de-risking actions.
Asset Management	Slight increase in total AuM due to positive market return, supported by moderate net inflows at PIMCO and at AllianzGI.	Total AuM grew by € 89 bn to € 1,960 bn as of 31 December 2017. The increase was driven by strong net inflows and positive market returns, together more than offsetting negative foreign currency translation effects. In the course of 2017, our Asset Management business segment saw outstanding third-party AuM net inflows of € 150 bn mainly due to PIMCO, but supported by AllianzGI.
	Operating profit in the range of € 2.0 bn to € 2.6 bn.	Operating profit amounted to € 2.4 bn, exceeding the mid-point of the target range.
	Cost-income ratio well below 65 %.	With a cost-income ratio of 61.9 % our Asset Management business segment came in well below 65 %.

1_Represents the ratio of net income against the average total equity, excluding unrealized gains/losses on bonds, net of shadow accounting, at the beginning of the year and at the end of the year. Prior year figures have been adjusted in order to reflect the impact resulting from an accounting policy change to measure the Guaranteed Minimum Income Benefit (GMIB) liability at fair value for our life business.

Economic outlook[2]

Although political uncertainties linger, the global economic outlook for 2018 is favorable. The U.S. economy is expected to grow by 2.6 %. The recently adopted tax reform package should contribute to higher growth. The net tax reductions will underpin companies' propensity to invest and support solid consumption growth. In the Eurozone, growth is likely to exceed 2 % again in 2018. In particular, apart from the favorable global backdrop, the fact that the loose European Central Bank monetary policy continues to provide support, coupled with broadly neutral fiscal policy, points to an ongoing recovery. As in 2017, the emerging market economies are expected to grow by close to 5 %. Asian emerging markets continue to benefit from the revival of world trade and stable growth in China. The Eastern European countries capitalize on the continuing upturn in the Eurozone. We are currently faced with a rather high degree of synchronization, and for the world economy it is the strongest expansion period since 2011. Global output is expected to increase by 3.2 % in 2018.

The uncertain global political environment bears the potential for higher financial market volatility. Monetary policy also contributes to this. As the U.S. economy is expected to expand solidly and inflation rates continue to move up, the Federal Reserve will carry on normalizing its monetary policy stance. Three further rate hikes in the course of 2018 look realistic. In addition, the Federal Reserve will rein in its balance sheet moderately. In the Eurozone, the European Central Bank is expected to terminate its monthly bond purchasing program in October, having halved the monthly volume to € 30 bn as of January 2018. No key interest rate hikes are expected before 2019. Modestly rising yields on 10-year U.S. government bonds, the good economic situation in the Eurozone, and gradually rising inflation rates are likely to influence investors´ interest rate expectations and exert upward pressure on European benchmark bond yields. For 10-year German government bonds, we see yields climbing modestly to about 1 % in the course of 2018; yields on 10-year U.S. government bonds may end the year at close to 3 %. While the ongoing Federal Reserve rate-hiking cycle will weigh on the Euro, a number of other factors will support it, among them the solid recovery in the Eurozone. We expect the Dollar-to-Euro exchange rate to close the year at about 1.15 (2017: 1.20).

1_For more detailed information on the previous year's outlook for 2017, please see the Annual Report 2016 from page 51 onward.

2_The information presented in the sections "Economic outlook", "Insurance industry outlook", and "Asset management industry outlook" is based on our own estimates.

Insurance industry outlook

The insurance industry can look towards 2018 with some optimism, mainly for three reasons: Firstly, premium growth is set to increase as the stronger economic momentum bolsters demand for insurance. Secondly, the expected gradual rise in interest rates and yields can be seen as the harbinger of the end of the long and cold "yield winter", although it will still take some time until higher yields are reflected in higher investment incomes. Finally, after the increase in financial regulation in recent years, the insurance industry might enjoy a sort of respite in 2018, a breathing space for better coping with the new rules.

However, even if the macroeconomic and regulatory environment looks more favorable in 2018, it is by no means plain sailing for the insurance industry. New technologies, from digitalization to Artificial Intelligence, continue to change the industry profoundly: Business models need to be transformed, new skills to be learned, new partnerships to be built and new competition to be fended off. Furthermore, the ongoing digitalization of our lives will usher in a new era of regulation, governing the use of data – the oil of the 21st century. On the other hand, the upsides of the new technologies, in particular in terms of simplicity and accessibility, should become more visible in 2018, too.

In the **property-casualty sector,** premium growth is expected to accelerate in 2018, reflecting higher inflation and the ongoing broad-based recovery of the global economy. As in previous years, emerging markets are the main driver of growth: All regions, from Latin America over Africa to Asia, should continue their recovery; in Emerging Asia, premium growth could top 10%. In contrast, growth in advanced markets will be much slower, at around 3%. Overall, we expect global premium growth of about 5% in 2018 (in nominal terms and adjusted for foreign currency translation effects). Assuming average losses from natural catastrophes and more positive rate dynamics – particularly in business lines affected by last year's losses – overall profitability is likely to increase, although investment income might remain a drag.

In the **life sector,** the overall picture is quite similar – with one exception: The growth lead of Emerging Asia over the rest of the world is even more pronounced. While the advanced markets' recovery proceeds at a snail's pace and other emerging markets show robust but more or less stable growth, many of Asia's emerging markets are expected to clock growth rates of 15% or more. A rising middle class, urbanization, aging societies, and last but not least a favorable policy environment underpin the continued growth story. Overall, we expect global premium growth to increase by about 6% in 2018 (in nominal terms and adjusted for foreign currency translation effects) compared to 2017. Global industry profitability could also improve in 2018, albeit only modestly. This change for the better has not so much to do with the slight rise in interest rates; it is mainly a result of recent management actions which steered insurance portfolios towards less capital intensive business lines (such as protection) and investment portfolios towards riskier but higher-yielding asset classes (such as infrastructure).

Asset management industry outlook

For the asset management industry, 2018 might bring higher financial market volatility due to the geopolitical uncertainty. While the positive economic outlook generally supports stock markets, we believe that current valuation levels are very high already. In addition, central banks are increasingly likely to move further away from accommodative monetary policies. We therefore expect a more modest capital market contribution to AuM growth. This may weigh down on net inflows in certain asset classes, while it might create opportunities in other areas. Investors may look to further de-risk into bonds as yields become more attractive. Furthermore, bonds continue to be particularly interesting for the growing number of retirees in developed countries as well as for liability-driven investors looking for a stable stream of income.

The industry's profitability remains under pressure from both continuous flows into passive products and rising distribution costs, so the trend towards industry consolidation will continue. At the same time, digital channels are expected to continue gaining prominence. Measures aimed at strengthening regulatory oversight and reporting could also affect profitability in the asset management sector. In order to continue growing, it is vital for asset managers to keep sufficient business volumes, ensure efficient operations, and maintain strong investment performance.

Overview: outlook and assumptions 2018 for the Allianz Group

Outlook 2018	
ALLIANZ GROUP	Operating profit of € 11.1 bn, plus or minus € 0.5 bn.
	Protection of shareholders' value, while continuing to provide attractive returns and dividends.
	Selective profitable growth.
PROPERTY-CASUALTY	Growth in gross premiums written: approximately 2 % on an internal basis.
	Operating profit in the range of € 5.1 bn to € 5.7 bn.
	Achievement of our combined ratio target of 94 % or better.
	Pressure on operating investment income (net) to continue, due to reinvestments in a consistently low interest rate environment.
LIFE/HEALTH	Continue with focus on profitable growth and further shift new business mix towards capital efficient, unit-linked, and protection products. Revenues are expected to be in the range of € 62.0 bn to € 68.0 bn.
	Operating profit between € 3.9 bn and € 4.5 bn.
	RoE between 10.0 % and 12.0%.
	Pressure on investment income due to low interest rates and continued capital market uncertainty.
ASSET MANAGEMENT	We expect a moderate increase in total AuM due to solid third-party net inflows at both AllianzGI and PIMCO in 2018, supported by a slightly positive market return.
	Operating profit in the range of € 2.1 bn to € 2.7 bn.
	Cost-income ratio between 60% and 65%.

ASSUMPTIONS

Our outlook assumes no significant deviations from the following underlying assumptions:

- Global economic growth is set to continue.
- Modest rise in interest rates expected.
  - A 100 basis point increase or decrease in interest rates would, respectively, either raise or lower expected operating profit by approximately € 0.1 bn in the first year following the rate change.
- No major disruptions of capital markets.
- No disruptive fiscal or regulatory interference.
- Level of claims from natural catastrophes at expected average levels.
- Average U.S. Dollar to Euro exchange rate of 1.22.
  - A 10 % weakening or strengthening of the U.S. Dollar compared to our planned exchange rate of 1.22 to the Euro would have a negative or positive impact on operating profits of approximately € 0.3 bn, respectively.

Management's assessment of expected revenues and earnings for 2018

In 2017, our total revenues amounted to € 126.1 bn, a 3.0 % increase on a nominal and a 5.0 % increase on an internal basis[1] compared to 2016. For 2018, we envisage relatively stable total revenues, with Property-Casualty and Asset Management revenues showing an upward trend, while Life/Health revenues remaining rather stable due to our selective focus on profitable growth.

Our operating profit was in the upper half of our target range in 2017, hitting € 11.1 bn. For 2018, we envisage an operating profit of € 11.1 bn, plus or minus € 0.5 bn, as we expect a favorable development in the Property-Casualty business segment, rather stable results in the Asset Management business segment, and a slightly negative development in the Life/Health and Corporate and Other business segments.

Our net income attributable to shareholders decreased slightly this past year, amounting to € 6.8 bn. Consistent with our disclosure practice in the past, and given the susceptibility of our non-operating results to adverse capital market developments, we refrain from providing a precise outlook for net income. That said, following the negative impact from the U.S. tax reform 2017 we expect a positive annual impact of approximately € 0.3 bn from the U.S. tax reform starting in 2018. As a consequence, and assuming no major disruptions to occur in the capital markets, we anticipate an increase in net income for 2018.

PROPERTY-CASUALTY INSURANCE

We expect our revenues to increase by approximately 2% in 2018 (2017: + 1.4%), supported by favorable volume and price effects.

Premium growth in 2018 is expected mainly from our Global Lines such as Allianz Partners, where our B2B2C business activities are bundled. Further growth is expected in our core European markets such as Germany, Spain and Italy, as well as in Turkey.

We believe the overall slow rise in prices we witnessed in a number of markets in 2017 will continue in 2018. However, as in previous years we will keep our focus on achieving strong underwriting results by adhering to our strict underwriting discipline, and will be willing to accept a lower top line if target margins cannot be achieved.

In 2017, our combined ratio was at 95.2%, falling short of our expectation. This shortfall in profitability was driven by a number of natural catastrophes. In 2018, we expect to achieve our target combined ratio of 94%. The underlying assumption is that the aggregate effect of improvements in pricing, claims management, and productivity will compensate for any underlying claims inflation. Despite the high volatility of natural catastrophes in recent years, we assume impacts to revert back to our historic claims experience.

As the low-interest-rate environment is likely to persist, investment income will remain under pressure due to the rather short duration of investments in the Property-Casualty business segment. Going forward, we will continue to take measures to adapt our investment strategy to changing market conditions.

Overall, we expect our 2018 operating profit to be in the range of € 5.1 bn to € 5.7 bn (2017: € 5.1 bn).

LIFE/HEALTH INSURANCE

In 2017, our Life/Health operating profit was € 4.4 bn, thus exceeding the target range, mainly because of a higher net harvesting result and a higher technical margin. For 2018, we expect operating profit in our Life/Health business segment to be between € 3.9 bn and € 4.5 bn.

As pointed out in 2015, RoE is one of the key performance indicators for the steering of our Life/Health business. In 2018, we expect the RoE of the Life/Health business segment to be between 10.0% and 12.0%.

We will remain focused on shifting our new business mix towards capital-efficient, unit-linked, and protection products – which, in view of the prolonged low-yield environment, also match customer needs – while maintaining strong shareholder returns and building on our strong track record of product innovation. In addition, we will continue to actively manage both our new and in-force business through continuous repricing, expense management, asset/liability management, and crediting strategies, which should allow us to further mitigate the impacts of difficult market conditions – particularly the low interest rates – and maintain our profitability targets.

It must be noted, however, that market volatility, along with the level of net harvesting, can significantly affect the Life/Health business segment results.

1_Operating revenues adjusted for foreign currency translation and (de)consolidation effects.

ASSET MANAGEMENT

While we expect continued strong inflows in 2018 at both PIMCO and AllianzGI, a moderation of the exceptionally high inflows of 2017 is likely to occur. Another growth opportunity should result from the integration of Allianz Capital Partners into AllianzGI on 1 January 2018, with the opportunity to leverage this platform for external growth in the future. While we expect performance fees to decrease slightly, growth in AuM should drive an increase in management and loading fees, and thus a slight increase in operating revenues, which should more than offset the moderate increase of operating expenses we envisage. Pressure on profit growth is likely to come from a weaker U.S. Dollar compared to 2017. All in all, we envisage our operating profit to range between € 2.1 bn and € 2.7 bn in 2018 (2017: € 2.4 bn).

In 2018, we continue to expect a cost-income ratio of well below 65% (2017: 61.9%) despite the slightly negative impact on the cost-income ratio related to the consolidation of Allianz Capital Partners into AllianzGI, supported by our focus on expense discipline and operational excellence. In the mid-term we expect our cost-income ratio to reach 60%.

CORPORATE AND OTHER

Our Corporate and Other business segment recorded an operating loss of € 0.8 bn in 2017. We predict an operating loss in the range of € 0.8 bn to € 1.0 bn for Corporate and Other (consolidation included) in 2018, as the positive impact in 2017, related to the cost allocation scheme for pension provisions, will not recur in 2018.

Financing and liquidity development and capitalization

The Allianz Group benefits from a very healthy liquidity position and excellent financial strength with a capitalization well above regulatory requirements.

As a result, we have full access to financial markets and are in a position to raise financing at low cost. We are committed to maintaining our strong financial flexibility, which is supported by both a prudent steering of our liquidity resources and a well-balanced debt maturity profile.

We also monitor the capital position of the Group, as well as at each of our operating entities, very closely. In addition, we will continue to optimize the sensitivity of our solvency ratio to changes of interest rates and spreads through asset/liability management and life product design.

Expected dividend development[1]

For 2017, the Allianz SE Board of Management and Supervisory Board propose a dividend of € 8.00 per share.

In addition, Allianz SE has decided to launch a share buy-back program with a volume of up to € 2.0 bn as part of a previously announced policy to return capital to its shareholders on a flexible basis. The share buy-back program is based on the authorization granted by the Annual General Meeting on 7 May 2014. The buy-back program, which started in January 2018, is envisaged to be executed in the first six months of 2018. Allianz SE will cancel all repurchased shares.

Through prudent capital management, Allianz Group aims to maintain a healthy balance between an attractive yield and investment in profitable growth. We will continue to return 50% of Allianz Group's net income (attributable to shareholders) to shareholders in the form of a regular dividend.

Allianz also aims to keep the regular dividend per share at least at the level paid in the previous year. Allianz will also continue to return capital to its shareholders on a flexible basis.

All of the above remains subject to a sustainable Solvency II ratio above 160%, which is substantially below our current level of 229%[2] and 20 percentage points lower than our target range for the Solvency II ratio of 180 to 220%.

Management's overall assessment of the current economic situation of the Allianz Group

At the date of issuance of this Annual Report, and based on current information regarding natural catastrophes and capital market trends – in particular foreign currency, interest rates, and equities –, the Board of Management has no indication that the Allianz Group is facing any major adverse developments.

Cautionary note regarding forward-looking statements

The statements contained herein may include prospects, statements of future expectations, and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance, or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates, including the Euro/U.S. Dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national, and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

No duty to update

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.

1_This represents the management's current intention and may be revised in the future. Also, the decision regarding dividend payments in any given year is subject to specific dividend proposals by the Management and Supervisory Boards, each of which may elect to deviate if appropriate under the then prevailing circumstances, as well as to the approval of the Annual General Meeting.

2_Includes share buy-back.

BALANCE SHEET REVIEW

Shareholders' equity[1]

Shareholders' equity
€ mn

	As of 31 December 2017	As of 31 December 2016	Delta
Shareholders' equity			
Paid-in capital	28,928	28,928	-
Retained earnings	27,199	27,087	112
Foreign currency translation adjustment	(2,749)	(762)	(1,986)
Unrealized gains and losses (net)	12,175	11,830	344
Total[1]	**65,553**	**67,083**	**(1,530)**

1_Prior year figures have been adjusted in order to reflect the impact resulting from an accounting policy change to measure the Guaranteed Minimum Income Benefit (GMIB) liability at fair value for our life business. For further information, please refer to note 2 to the consolidated financial statements.

The decrease in **shareholders' equity** was largely due to the dividend pay-out in May 2017 (€ 3,410 mn) and the share buy-back program[2] which started in February 2017 (€ 2,998 mn). Negative impacts from foreign currency translation further contributed to the decline. Net income attributable to shareholders of € 6,803 mn had a partly offsetting effect.

Total assets and total liabilities

As of 31 December 2017, total assets amounted to € 901.3 bn and total liabilities were € 832.7 bn. Compared to year-end 2016, total assets and total liabilities increased by € 17.5 bn and by € 19.0 bn, respectively.

The following section focuses on our financial investments in debt instruments, equities, real estate, and cash, as these reflect the major developments in our asset base.

STRUCTURE OF INVESTMENTS – PORTFOLIO OVERVIEW

The following portfolio overview covers the Allianz Group's assets held for investment, which are largely driven by our insurance businesses.

Asset allocation and fixed income portfolio overview

	As of 31 December 2017	As of 31 December 2016	Delta	As of 31 December 2017	As of 31 December 2016	Delta
Type of investment	€ bn	€ bn	€ bn	%	%	%-p
Debt instruments, thereof:	**576.1**	**577.3**	**(1.1)**	**86.7**	**88.4**	**(1.7)**
Government bonds	213.6	213.6	-	37.1	37.0	0.1
Covered bonds	83.0	89.9	(6.9)	14.4	15.6	(1.2)
Corporate bonds (excl. banks)	195.6	189.5	6.1	34.0	32.8	1.1
Banks	30.6	32.9	(2.3)	5.3	5.7	(0.4)
Other	53.4	51.4	2.0	9.3	8.9	0.4
Equities	**60.2**	**49.9**	**10.2**	**9.1**	**7.6**	**1.4**
Real estate	**11.4**	**11.7**	**(0.3)**	**1.7**	**1.8**	**(0.1)**
Cash/other	**16.7**	**14.2**	**2.5**	**2.5**	**2.2**	**0.3**
Total	**664.4**	**653.1**	**11.3**	**100.0**	**100.0**	**-**

Compared to year-end 2016, our overall asset allocation slightly changed towards equities, where we recorded inflows supported by higher unrealized gains.

Our well-diversified exposure to **debt instruments** slightly decreased, primarily due to negative currency impacts mainly related to U.S. Dollar. About 94% of this portfolio was invested in investment-grade bonds and loans.[3] Our **government bonds** portfolio contained, amongst others, bonds from Italy and Spain that represented 3.9%, and 1.9% shares of our debt instruments portfolio with unrealized gains (gross) of € 2,647 mn and € 842 mn. Of our **covered bonds** portfolio, 41.6% (31 December 2016: 41.3%) were German Pfandbriefe backed by either public-sector loans or mortgage loans. French, Spanish and Italian covered bonds had portfolio shares of 16.3%, 9.2% and 7.5%, respectively (31 December 2016: 16.0%, 9.4% and 7.5%).

Our exposure to **equities** increased due to strong performance on major equity markets. Our equity gearing[4] remained almost unchanged at 24% (31 December 2016: 23%).

1_This does not include non-controlling interests of € 3,049 mn and € 3,052 mn as of 31 December 2017 and 31 December 2016, respectively. For further information, please refer to note 19 to the consolidated financial statements.
2_For further information, please refer to note 19 to the consolidated financial statements
3_Excluding self-originated German private retail mortgage loans. For 3%, no ratings were available.
4_Equity gearing is defined as the ratio of our equity holdings allocated to the shareholder after policyholder participation and hedges to shareholders' equity plus off-balance sheet reverses less goodwill.

LIABILITIES

PROPERTY-CASUALTY LIABILITIES

As of 31 December 2017, the business segment's gross reserves for loss and loss adjustment expenses as well as discounted loss reserves amounted to € 66.2 bn, compared to € 65.7 bn at year-end 2016. On a net basis, our reserves, including discounted loss reserves, decreased slightly from € 57.3 bn to € 56.3 bn.[1]

LIFE/HEALTH LIABILITIES

Life/Health reserves for insurance and investment contracts increased by € 8.3 bn to € 499.1 bn. An € 20.4 bn increase (before foreign currency translation effects) in aggregate policy reserves was mainly driven by our operations in Germany (€ 12.6 bn) and the United States (€ 7.3 bn before foreign currency translation effects). Reserves for premium refunds increased slightly by € 1.3 bn (before foreign currency translation effects), due to higher unrealized gains to be shared with policyholders. Foreign currency translation effects reduced the balance sheet value by € 13.3 bn, mainly due to the weaker U.S. Dollar (€ (11.3) bn).

Off-balance sheet arrangements

In the normal course of business, the Allianz Group may enter into arrangements that do not lead to the recognition of assets and liabilities in the consolidated financial statements under IFRS. Since the Allianz Group does not rely on off-balance sheet arrangements as a significant source of revenue or financing, our off-balance sheet exposure to loss is immaterial relative to our financial position.

The Allianz Group enters into various commitments including loan and leasing commitments, purchase obligations, and other commitments. For more details please refer to note 37 to the consolidated financial statements.

The Allianz Group has also entered into contractual relationships with various types of structured entities. They have been designed in such a way that their relevant activities are directed by means of contractual arrangements rather than voting or similar rights. Typically, structured entities have been set up in connection with asset-backed financings and certain investment fund products. For more details on our involvement with structured entities, please refer to note 35 to the consolidated financial statements.

Please refer to the Risk and Opportunity Report from **page 62** onwards for a description of the main concentrations of risk and other relevant risk positions.

Regulatory capital adequacy

For details on the regulatory capitalization of the Allianz Group, please refer to the Risk and Opportunity Report from **page 62** onwards.

1_For further information about changes in the reserves for loss and loss adjustment expenses for the Property-Casualty business segment, please refer to note 14 to the consolidated financial statements.

LIQUIDITY AND FUNDING RESOURCES

Organization

The Allianz Group's liquidity management is based on policies and guidelines approved by the Allianz SE Board of Management. Allianz SE and each of the operating entities are responsible for managing their respective liquidity positions, while Allianz SE provides central cash pooling for the Group. Capital allocation is managed by Allianz SE for the entire Group. This structure allows the efficient use of liquidity and capital resources and enables Allianz SE to achieve the desired liquidity and capitalization levels for the Group and its operating entities.

Liquidity management of our operating entities

INSURANCE OPERATIONS

The major sources of liquidity for our operational activities are primary and reinsurance premiums received, reinsurance receivables collected, investment income, and proceeds generated from the maturity or sale of investments. These funds are mainly used to pay claims arising from the Property-Casualty insurance business and related expenses, life policy benefits, surrenders and cancellations, acquisition costs, and operating costs.

We receive a large part of premiums before payments of claims or policy benefits are required, generating solid cash flows from our insurance operations. This allows us to invest the funds in the interim to create investment income.

Our insurance operations also carry a high proportion of liquid investments, which can be converted into cash to pay for claims. Generally, our investments in fixed income securities are sequenced to mature when funds are expected to be needed.

The overall liquidity of our insurance operations depends on capital market developments, interest rate levels, and our ability to realize the market value of our investment portfolio to meet insurance claims and policyholder benefits. Other factors affecting the liquidity of our Property-Casualty insurance operations include the timing, frequency, and severity of losses underlying our policies and policy renewal rates. In our Life operations, liquidity needs are generally influenced by trends in actual mortality rates compared to the assumptions underlying our life insurance reserves. Market returns, crediting rates, and the behavior of our life insurance clients – for example, regarding the level of surrenders and withdrawals – can also have significant impacts.

ASSET MANAGEMENT OPERATIONS

Within our Asset Management operations, the most important sources of liquidity are fees generated from asset management activities. These are primarily used to cover operating expenses.

BANKING OPERATIONS

Major sources of liquidity in our Banking operations include customer deposits, interbank loans, and interest and similar income from our lending transactions. The most important uses of funds are the issuance of new loans and investments in fixed income securities. The liquidity of our Banking operations is largely dependent on the ability of our private and corporate customers to meet their payment obligations arising from loans and other outstanding commitments. Our ability to retain our customers' deposits is equally important to us.

Liquidity management and funding of Allianz SE

The responsibility for managing the funding needs within the Group, maximizing access to liquidity sources, and minimizing borrowing costs lies with Allianz SE. We therefore comment on the liquidity and funding resources of Allianz SE in the following sections. Restrictions on the transferability of capital within the Group mainly result from the capital maintenance rules under applicable company laws, as well as from the regulatory solvency capital requirements for regulated Group companies.

LIQUIDITY RESOURCES AND USES

Allianz SE ensures adequate access to liquidity and capital for our operating subsidiaries. The main sources of liquidity available for Allianz SE are dividends received from subsidiaries and funding provided by capital markets. Liquidity resources are defined as readily available assets – specifically cash, money market investments, and highly liquid government bonds. Our funds are primarily used for interest payments on our debt funding, operating costs, internal and external growth investments, and dividends to our shareholders.

FUNDING SOURCES

Allianz SE's access to external funds depends on various factors such as capital market conditions, access to credit facilities, credit ratings, and credit capacity. The financial resources available to Allianz SE in the capital markets for short-, mid- and long-term funding needs are described below. In general, mid- to long-term financing is covered by issuing senior or subordinated bonds or ordinary shares.

EQUITY FUNDING

As of 31 December 2017, the issued capital registered at the Commercial Register was € 1,169,920,000. This was divided into 440,249,646 registered shares with restricted transferability. As of 31 December 2017, the Allianz Group held 1,369,717 (2016: 1,932,263) own shares.

Allianz SE has the option to increase its equity capital base according to authorizations provided by our shareholders. The following table outlines Allianz SE's capital authorizations as of 31 December 2017:

Capital authorizations of Allianz SE

Capital authorization	Nominal amount	Expiry date of the authorization
Authorized Capital 2014/I	€ 550,000,000	6 May 2019
Authorized Capital 2014/II	€ 13,720,000	6 May 2019
Authorization to issue bonds carrying conversion and/or option rights	€ 10,000,000,000 (nominal bond value)	6 May 2019 (issuance of bonds)
Conditional Capital 2010/2014	€ 250,000,000	No expiry date for Conditional Capital 2010/2014 (issuance in case option or conversion rights are exercised)

For further information on our share capital and regarding authorizations to issue and repurchase shares, please refer to the chapter Takeover-related Statements and Explanations (part of the Group Management Report) starting on page 20.

LONG-TERM DEBT FUNDING

As of 31 December 2017, Allianz SE had senior and subordinated bonds with a variety of maturities outstanding, reflecting our focus on long-term financing. As the cost and availability of external funding may be negatively affected by general market conditions or by matters specific to the financial services industry or the Allianz Group, we seek to reduce refinancing risk by actively steering the maturity profile of our funding structure.

Maturity structure of Allianz SE's senior and subordinated bonds[1]
€ mn

As of 31 December	Contractual maturity date Up to 1 year	1 - 5 years	Over 5 years
2017			
Senior bonds	500	4,237	3,801
Subordinated bonds	-	-	13,250
Total	**500**	**4,237**	**17,051**
2016			
Senior bonds	-	2,734	3,840
Subordinated bonds	1,400[2]	-	12,086
Total	**1,400**	**2,734**	**15,925**

1_Based on carrying value.
2_€ 1.4 bn subordinated bond called for redemption effective 17 February 2017.

Interest expenses on senior bonds decreased, mainly due to lower funding costs on average in 2017. For subordinated bonds, the increase of interest expenses was primarily driven by higher outstanding volumes on average in 2017.

Senior and subordinated bonds issued or guaranteed by Allianz SE[1]

As of 31 December	Nominal value € mn	Carrying value € mn	Interest expenses € mn	Weighted average interest rate[2] %
2017				
Senior bonds	8,595	8,538	209	3.1
Subordinated bonds	13,309	13,250	613	4.6
Total	**21,904**	**21,789**	**822**	**4.1**
2016				
Senior bonds	6,629	6,574	262	3.5
Subordinated bonds	13,537	13,485	584	4.6
Total	**20,165**	**20,059**	**845**	**4.2**

1_For further information on Allianz SE debt (issued or guaranteed) as of 31 December 2017, please refer to note 18 to the consolidated financial statements.
2_Based on nominal value.

The table below details the long-term debt issuances and redemptions of Allianz SE during 2017 and 2016:

Issuances and redemptions of Allianz SE's senior and subordinated bonds
€ mn

As of 31 December	Issuances[1]	Redemptions[1]	Issuance net of redemptions
2017			
Senior bonds	2,000	-	2,000
Subordinated bonds	1,500	1,400	100
2016			
Senior bonds	1,500	1,500	-
Subordinated bonds	1,422	-	1,422

1_Based on nominal value.

Funding in non-Euro currencies enables us to diversify our investor base or to take advantage of favorable funding costs in those markets. Funds raised in non-Euro currencies are incorporated in our general hedging strategy. As of 31 December 2017, approximately 17.6% (2016: 18.4%) of long-term debt was issued or guaranteed by Allianz SE in currencies other than the Euro.

Currency allocation of Allianz SE's senior and subordinated bonds[1]
€ mn

As of 31 December	Euro	Non-Euro	Total
2017			
Senior and subordinated bonds	18,050	3,854	21,904
2016			
Senior and subordinated bonds	16,450	3,715	20,165

1_Based on nominal value.

SHORT-TERM DEBT FUNDING

Short-term funding sources available are the Medium-Term Note Program and the Commercial Paper Program. Money market securities increased in the use of commercial paper, compared to the previous year-end. Interest expenses on money market securities increased mainly due to higher funding costs on average in 2017.

Money market securities of Allianz SE

	Carrying value	Interest expense	Average interest rate
As of 31 December	€ mn	€ mn	%
2017			
Money market securities	1,058	13	1.2
2016			
Money market securities	1,041	9	0.7

The Group maintained its A-1+/Prime-1 ratings for short-term issuances. Thus we can continue funding our liquidity under the Euro Commercial Paper Program at an average rate for each tranche below Euribor, and under the U.S. Dollar Commercial Paper Program at an average rate for each tranche below U.S. Libor.

Further potential sources of short-term funding allowing the Allianz Group to fine-tune its capital structure are letter of credit facilities and bank credit lines.

Allianz Group consolidated cash flows

Annual changes in cash and cash equivalents
€ mn

	2017	2016	Delta
Net cash flow provided by operating activities	33,188	21,461	11,727
Net cash flow used in investing activities	(24,755)	(19,765)	(4,990)
Net cash flow used in financing activities	(5,027)	(1,732)	(3,295)
Change in cash and cash equivalents [1]	2,656	16	2,640

1_ Includes effects of exchange rate changes on cash and cash equivalents of € (749) mn and € 52 mn in 2017 and 2016, respectively.

Net cash flow provided by operating activities increased by € 11.7 bn to € 33.2 bn in 2017. This consists of net income plus adjustments for non-cash charges, credits and other items included in net earnings, and cash flows related to the net change in operating assets and liabilities. Net income after adding back non-cash charges and similar items increased by € 1.5 bn to € 10.6 bn in 2017. Furthermore, operating cash flows from net changes in operating assets and liabilities, including other items, rose by € 10.2 bn to € 22.6 bn. The development of assets and liabilities held for trading, particularly in our Life/Health business segment in Germany, resulted in a net cash inflow. In addition, higher reserves for loss and loss adjustment expenses were recorded, driven by the property-casualty insurance business mainly in Germany and France.

Net cash outflow used in investing activities increased by € 5.0 bn to € 24.8 bn. The main drivers were higher net cash outflows from available-for-sale investments, particularly in Life/Health business segment in Germany. Moreover, new investments in associates and joint ventures required cash investments. Finally, the development of our position in loans and advances to banks and customers, mainly in our Life/Health business segment in Germany, led to net cash outflows.

Net cash outflow used in financing activities was higher in 2017 by € 3.3 bn and amounted to € 5.0 bn. The main reasons for this were transactions between equity holders, in particular the Allianz SE share buy-back program as well as the share purchase agreement with minority-shareholders of Euler Hermes. Those effects were partly compensated by higher net cash inflows from our refinancing activities, especially due to an increase in certificated liabilities.

Cash and cash equivalents amounted to € 17.1 bn, reflecting a € 2.7 bn increase compared to 2016. This resulted from higher cash on current accounts balances, mainly in investment funds, and higher balances with central banks in the reportable segment Banking (Corporate and Other).

For further information on the consolidated statements of cash flows, please refer to **page 84.**

RECONCILIATIONS

The previous analysis is based on our consolidated financial statements and should be read in conjunction with them. In addition to our figures stated in accordance with the International Financial Reporting Standards (IFRS), the Allianz Group uses operating profit and internal growth to enhance the understanding of our results. These additional measures should be viewed as complementary to, rather than a substitute for, our figures determined according to IFRS.

For further information, please refer to note 4 to the consolidated financial statements.

Composition of total revenues

Total revenues comprise statutory gross premiums written in Property-Casualty and Life/Health, operating revenues in Asset Management, and total revenues in Corporate and Other (Banking).

Composition of total revenues
€ mn

	2017	2016
Property-Casualty		
Gross premiums written	**52,262**	**51,535**
Life/Health		
Statutory premiums	**67,277**	**64,636**
Asset Management		
Operating revenues	**6,408**	**6,022**
consisting of:		
Net fee and commission income	6,374	6,019
Net interest income[1]	8	(5)
Income from financial assets and liabilities carried at fair value through income (net)	25	6
Other income	1	3
Corporate and Other		
thereof: Total revenues (Banking)	**562**	**551**
consisting of:		
Interest and similar income	419	474
Income from financial assets and liabilities carried at fair value through income (net)[2]	20	14
Fee and commission income	576	540
Interest expenses, excluding interest expenses from external debt	(133)	(172)
Fee and commission expenses	(325)	(308)
Other income	4	-
Consolidation effects within Corporate and Other	2	2
Consolidation	**(360)**	**(328)**
Allianz Group total revenues	**126,149**	**122,416**

1_Represents interest and similar income less interest expenses.
2_Includes trading income.

Composition of total revenue growth

We believe that an understanding of our total revenue performance is enhanced when the effects of foreign currency translation as well as acquisitions, disposals, and transfers (or "changes in scope of consolidation") are analyzed separately. Accordingly, in addition to presenting nominal total revenue growth, we also present internal growth, which excludes these effects.

Reconciliation of nominal total revenue growth to internal total revenue growth
%

	Internal Growth	Changes in scope of consolidation	Foreign currency translation	Nominal Growth
2017				
Property-Casualty	2.3	0.4	(1.3)	1.4
Life/Health	7.0	(2.0)	(0.8)	4.1
Asset Management	7.8	0.2	(1.6)	6.4
Corporate and Other	1.9	-	-	1.9
Allianz Group	**5.0**	**(0.9)**	**(1.0)**	**3.0**
2016				
Property-Casualty	3.1	(1.0)	(2.2)	(0.1)
Life/Health	(3.1)	0.2	(0.5)	(3.4)
Asset Management	(7.5)	0.3	0.1	(7.1)
Corporate and Other	(4.4)	-	-	(4.4)
Allianz Group	**(0.8)**	**(0.3)**	**(1.2)**	**(2.2)**

Life/Health Insurance Operations

OPERATING PROFIT[1]

The reconciling item scope comprises the effects from out-of-scope entities in the profit sources reporting compilation. Operating profit from operating entities that are not in-scope entities is included in the investment margin. Currently, 21 entities comprising 99.1% of Life/Health total statutory premiums are in scope.

EXPENSES

Expenses comprise acquisition expenses and commissions as well as administrative and other expenses.

The delta shown as definitions in acquisition expenses and commissions represents commission clawbacks, which are allocated to the technical margin. The delta shown as definitions in administrative and other expenses mainly represents restructuring charges, which are stated in a separate line item in the group income statement.[2]

Acquisition, administrative, capitalization, and amortization of DAC[1]
€ mn

	2017	2016
Acquisition expenses and commissions[2]	(4,963)	(5,029)
Definitions	14	14
Scope	(143)	(289)
Acquisition costs incurred	(5,092)	(5,304)
Capitalization of DAC[2]	1,711	1,877
Definition: URR capitalized	526	509
Definition: policyholder participation[3]	996	1,022
Scope	31	178
Capitalization of DAC	3,265	3,586
Amortization, unlocking, and true-up of DAC[2]	(1,779)	(1,924)
Definition: URR amortized	(47)	64
Definition: policyholder participation[3]	(1,117)	(881)
Scope	(32)	(401)
Amortization, unlocking, and true-up of DAC	(2,975)	(3,142)
Commissions and profit received on reinsurance business ceded	95	77
Acquisition costs[4]	**(4,707)**	**(4,782)**
Administrative and other expenses[2]	(1,897)	(1,793)
Definitions	148	148
Scope	(123)	(189)
Administrative expenses on reinsurance business ceded	13	4
Administrative expenses[4]	**(1,858)**	**(1,829)**

1_Prior year figures changed in order to reflect the roll-out of profit source reporting to Turkey.
2_As per Group Management Report.
3_For German Speaking Countries, policyholder participation on revaluation of DAC/URR capitalization/amortization.
4_As per notes to the consolidated financial statements.

IMPACT OF CHANGE IN DEFERRED ACQUISITION COSTS (DAC)

Impact of change in DAC includes the effects of changes in DAC, unearned revenue reserves (URR), and value of business acquired (VOBA). As such, it is the net impact of the deferral and amortization of acquisition costs and front-end loadings on operating profit.

URR capitalized: Capitalization amount of unearned revenue reserves (URR) and deferred profit liabilities (DPL) for FAS 97 LP.

URR amortized: Total amount of URR amortized includes scheduled URR amortization, true-up and unlocking.

Both capitalization and amortization are included in the line item premiums earned (net) in the group income statement.

Policyholder participation is included within change in our reserves for insurance and investment contracts (net) in the group income statement.

Reconciliation to Notes[1]
€ mn

	2017	2016
Acquisition expenses and commissions[2]	(4,963)	(5,029)
Administrative and other expenses[2]	(1,897)	(1,793)
Capitalization of DAC[2]	1,711	1,877
Amortization, unlocking, and true-up of DAC[2]	(1,779)	(1,924)
Acquisition and administrative expenses	**(6,927)**	**(6,868)**
Definitions	521	877
Scope	(267)	(702)
Commissions and profit received on reinsurance business ceded	95	77
Administrative expenses on reinsurance business ceded	13	4
Acquisition and administrative expenses (net)[3]	**(6,565)**	**(6,612)**

1_Prior year figures changed in order to reflect the roll out of profit source reporting to Turkey.
2_As per Group Management Report.
3_As per notes to the consolidated financial statements.

1_Prior year figures have been adjusted in order to reflect the impact resulting from an accounting policy change to measure the Guaranteed Minimum Income Benefit (GMIB) liability at fair value for our life business. For further information please refer to note 2 to the consolidated financial statements.
2_In light of the new operating profit definition, restructuring charges are reported outside operating profit unless shared with policyholders. Prior year figures have been adjusted accordingly.

RISK AND OPPORTUNITY REPORT

Target and strategy of risk management

Allianz aims to ensure that the Group is adequately capitalized at all times and that all related undertakings at least meet their respective regulatory capital requirements for the benefit of both shareholders and policyholders. Furthermore, risk capital reflecting the risk profile and the cost of capital are important aspects considered in business decisions.

In addition, we take into account the requirements of regulators and rating agencies. While capital requirements imposed by regulators constitute a binding constraint, meeting rating agencies' capital requirements and maintaining strong credit ratings are strategic business objectives of the Allianz Group.

We closely monitor the capital position and risk concentrations of the Group and its related undertakings along each of these dimensions, and apply regular stress tests (including standardized, historical and reverse stress test scenarios as well as monthly stress scenarios focusing on current and possible future developments). This allows us to take appropriate measures to ensure our continued capital and solvency strength.

Risk governance system

RISK MANAGEMENT FRAMEWORK

As a provider of financial services, we consider risk management to be a core competency and an integral part of our business. Our risk management framework covers all operations and subsidiaries within the Group in proportion to the inherent risks of the activities, ensuring that risks across the Group are consistently identified, analyzed, assessed, and managed. The primary goals of our risk management framework are:

- Promotion of a strong risk management culture, supported by a robust risk governance structure.
- Consistent and proportional application of an integrated risk capital framework to protect our capital base and support effective capital management.
- Integration of risk considerations and capital needs into management and decision-making process by attributing risk and allocating capital to business segments, products, and strategies.

Our risk management system is based on the following four pillars:

- Risk identification and underwriting: Risk identification and underwriting form the foundation for adequate risk management decisions. Supporting activities include standards for underwriting, valuation methods, individual transaction and new product approvals, emerging-/operational-/top-risk assessments, and scenario analysis, amongst others.
- Risk strategy and risk appetite: Our risk strategy defines our risk appetite consistent with our business strategy. It ensures that rewards are appropriately based on the risks taken and capital required and that delegated authorities are in line with our overall risk-bearing capacity and strategy.
- Risk reporting and monitoring: Our comprehensive qualitative and quantitative risk monitoring and reporting framework provides management with the transparency needed to assess whether our risk profile falls within delegated limits and to identify emerging issues quickly. For example, risk dashboards and limit consumption reports as well as scenario analysis and stress tests are regularly prepared and communicated.
- Communication and transparency: Transparent risk disclosure provides the basis for communicating our strategy and performance to internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing. It also strengthens the risk awareness and risk culture throughout the entire Group.

OUR STRATEGY

OUR BUSINESS ASPIRATIONS

Allianz Group seeks to position itself as the world's most trusted financial institution focusing on the following:

- Portfolio strength: establishing a strong and high-quality portfolio in large and attractive markets.
- Market leadership: maintaining a commanding position in each market with superior skills and scale.
- Customer centricity: practicing relentless execution centered on customers while outperforming competition.

These aspirations have been translated into clear ambitions for 2018. With regard to financial performance, we strive for a return on equity of 13% (excluding unrealized gains/losses on bonds net of shadow accounting), while growing our earnings per share at a compound annual growth rate of 5%.

To ensure the sustainability of our performance, we have set ourselves health targets for customer loyalty and employee engagement: Our ambition is for at least 75% of our businesses to be or become rated by their customers as Loyalty Leader or above-market in terms of Net Promoter Score (NPS). At the same time, we aim to have our Inclusive Meritocracy Index at 72% (or above) in 2018, a level we reached already in 2017.

OUR BUSINESS STRATEGY

In order to achieve these aspirations, the Board of Management of Allianz SE has defined a clear business strategy which is based on the following five pillars:

- True Customer Centricity: making superior customer experience the top priority for all our actions.
- Digital by Default: moving from selected leading assets to become "Digital by Default" everywhere.
- Technical Excellence: creating superior margins, innovation, and growth through best talents and state-of-the-art skills.
- Growth Engines: systematically exploiting new sources for profitable growth.

- Inclusive Meritocracy: reinforcing a culture where both people and performance matter, including gender diversity and women in leadership.

The Board of Management of Allianz SE has also defined a strategy for the management of risk. This risk strategy places a particular emphasis on protecting the Allianz brand and reputation, remaining solvent even in the event of extreme adverse scenarios, maintaining sufficient liquidity to always meet financial obligations, and providing resilient profitability.

RISK GOVERNANCE STRUCTURE

SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Allianz's approach to risk governance enables an integrated management of local and global risks and ensures that our risk profile remains consistent with both our risk strategy and our capacity to bear risks.

Within our risk governance system, the Supervisory Board and Board of Management of Allianz SE have both Allianz SE and group-wide responsibilities. The Board of Management formulates business objectives and a corresponding risk strategy; the core elements of the risk framework are set out in the Allianz Group Risk Policy, approved by the Board of Management. The Supervisory Board advises, challenges and supervises the Board of Management in the performance of its management activities. The following committees support the Board and the Supervisory Board on risk issues:

Supervisory Board Risk Committee

The Risk Committee of the Supervisory Board monitors the effectiveness of the Allianz risk management framework. Furthermore, it focuses on risk-related developments as well as general risks and specific risk exposures.

Group Finance and Risk Committee

The Group Finance and Risk Committee (GFRC) provides oversight of the Group's and Allianz SE's risk management framework, acting as a primary early-warning function by monitoring the Allianz Group's and Allianz SE's risk profiles as well as the availability of capital. The GFRC also ensures that an adequate relationship between return and risk is maintained. Additionally, the GFRC defines risk standards, forms the limit-setting authority within the framework set by the Board of Management, and approves major financing and reinsurance transactions. Finally, the GFRC supports the Board of Management with recommendations regarding the capital structure, capital allocation, and investment strategy, including the strategic asset allocation.

OVERALL RISK ORGANIZATION AND ROLES IN RISK MANAGEMENT

A comprehensive system of risk governance is achieved by setting standards related to organizational structure, risk strategy and appetite, limit systems, documentation, and reporting. These standards ensure the accurate and timely flow of risk-related information and a disciplined approach towards decision-making and execution at both the global and local level.

As a general principle, the "first line of defense" rests with business managers in the related undertaking. They are responsible for both the risks and returns from their decisions. Our "second line of defense" is made up of independent global oversight functions including Risk, Actuarial, Compliance, and Legal, which support the Board in defining the risk frameworks within which the business can operate. Audit forms the "third line of defense", independently and regularly reviewing risk governance implementation, compliance with risk principles, performing quality reviews of risk processes, and testing adherence to business standards, including the internal control framework.

Group Risk management function

Group Risk is managed by the Group Chief Risk Officer and supports the Board of Management of Allianz SE, including its committees, through the analysis and communication of risk-management-related information and in implementing committee decisions.

Group Risk supports the Board of Management in developing the risk management framework, which covers risk governance, risk strategy and appetite, and risk monitoring and reporting. Group Risk is operationally responsible for assessing risks and monitoring limits and accumulations of specific risks across business lines, including natural and man-made disasters and exposures to financial markets and counterparties.

Group Risk strengthens and maintains the Group's risk network through regular and close interaction with the management of related undertakings and other key stakeholders such as the local finance, risk, actuarial and investment departments. A strong group-wide risk network allows the Allianz Group to identify risks at early stages and bring them to management's attention.

Related undertakings

Related undertakings[1] are responsible for their own risk management, including adherence to both external requirements (for example, those imposed by local regulators) and internal standards. Their Boards of Management are responsible for setting and approving a local risk strategy during the annual Strategic and Planning Dialogs with the Group, and for ensuring adherence to their risk strategy.

A risk function headed by a Chief Risk Officer, which is independent from business line management, is established by each related undertaking. A local Risk Committee supports both the Board of Management and the Chief Risk Officer by acting as the primary risk controlling body.

Consistent implementation of the Group's risk management framework in the related undertakings, including regular dialog between the Group and the entity, is ensured through, for example, the Group Risk representation on local Risk Committees as well as the regular assessments of the local risk management framework and Chief Risk Officers by Group Risk. Moreover, the Group Chief Risk Officer must be consulted on decisions regarding the staffing of local Chief Risk Officers.

1_Related undertakings are also referred to as operating entities.

Other functions and bodies

In addition to Group Risk and the local risk functions, legal, compliance, and actuarial functions established at both the Group and related entity level constitute additional components of the "second line of defense".

Group Legal and Group Compliance seek to mitigate legal risks with support from other departments. The objectives of both functions are to ensure that laws and regulations are observed, to react appropriately to all impending legislative changes or new court rulings, to attend to legal disputes and litigation, and to provide legally appropriate solutions for transactions and business processes. In addition, Group Compliance – in conjunction with Group Legal and other experts involved – is responsible for integrity management, which aims to protect the Allianz Group, our related undertakings and employees from regulatory risks.

Group Actuarial contributes towards assessing and managing risks in line with regulatory requirements, in particular for those risks whose management requires actuarial expertise. The range of tasks includes, among others, the calculation and monitoring of technical provisions, technical actuarial assistance in business planning, reporting and monitoring of the results, and supporting the effective implementation of the risk management system.

Risk based steering and risk management

The Allianz Group is exposed to a variety of risks through its core insurance and asset management activities including market, credit, underwriting, business, operational, strategic, liquidity, and reputational risks.

As an integrated financial services provider, we consider diversification across different business segments and regions to be a key element in managing our risks efficiently, limiting the economic impact of any single event and contributing to relatively stable results. Our aim is to maintain a balanced risk profile without any disproportionately large risk concentrations and accumulations.

With Solvency II being the regulatory regime relevant for the Group since 1 January 2016, our risk profile is measured and steered based on our approved Solvency II internal model[1]. We have introduced a target solvency ratio in accordance with Solvency II, based on pre-defined shock scenarios at the level of both the Group and related undertakings, supplemented by economic scenarios and sensitivity analysis.

In addition, central elements of Allianz's dividend policy are linked to Solvency II capitalization based on our internal model. By that we allow for a consistent view on risk steering and capitalization under the Solvency II framework.

Allianz steers its portfolio using a comprehensive view of risk and return based on the internal model and including scenario analysis: Risk and concentrations are actively restricted by limits based on our model and there is a comprehensive analysis of the return on risk capital (RoRC) for all business activities. RoRC allows us to identify profitable lines of business and products on a sustainable basis, reflecting the capital commitment over the life time of the products and is a key criterion for capital allocation decisions.

As a consequence, the internal model is fully integrated in business steering and its application satisfies the so-called "use test" under Solvency II.

MARKET RISK

As an inherent part of our insurance operations, we collect premiums from our policyholders and invest them in a wide variety of assets; the resulting investment portfolios back the future claims and benefits to our customers. In addition, we also invest shareholders' capital, which is required to support the business. Finally, we use derivatives, mostly to hedge our portfolio against adverse market movements (for example, protective puts) or to reduce our reinvestment risk (for example, by using forwards, swaps, or swaptions). Asset/liability management (ALM) decisions are taken based on the internal model, considering both the risks and the returns on the financial market.

As the fair values of our investment portfolios and liabilities depend on changes on the financial markets, we are exposed to the risk of adverse financial market developments. The long-dated liabilities in our Life/Health business segment contribute to interest rate risk, in particular if they cannot be matched by available investments due to long maturities; in addition, we are also exposed to adverse changes in equity and real estate prices, credit spread levels, inflation, implied volatilities, and currencies, which might impact the value of our portfolios.

To measure these market risks, real-world stochastic models for the relevant risk factors are calibrated using historical time series to generate possible future market developments. After the scenarios for all the risk factors are generated, the asset and liability positions are revalued under each scenario. The worst-case outcome of the sorted portfolio profit and loss distribution at a certain confidence level (99.5%) defines the market Value at Risk (VaR). For entities modeled using the standard formula, the market risk is based on aggregating the losses under defined standard formula shocks.

Strategic asset allocation benchmarks and risk limits, including financial VaR, stand-alone interest rate and equity sensitivity limits, and foreign exchange exposure limits, are defined for the Group and the related undertaking. Limits are closely monitored and, if a breach occurs, countermeasures are implemented which may include the escalation and/or closing of positions. Furthermore, we have put in place standards for hedging activities due to exposure to fair-value options embedded in life insurance products. Finally, guidelines are provided by the Group regarding certain investments, new investment products and the use of derivatives. Compliance with these guidelines is controlled by the respective risk and controlling functions.

INTEREST RATE RISK

Allianz is a liability-driven investor. If the duration of our assets is shorter than our liabilities, we may suffer an economic loss in a falling-rate environment as we reinvest maturing assets at lower rates prior to the maturity of liability contracts. This risk is higher for long-dated life investment and savings products, with a significant part of the Life/Health business segment's interest rate risk coming from Western Europe, mainly from traditional life insurance products with guarantees. By contrast, opportunities may arise when interest rates increase. This may result in returns from reinvestments being higher

1_From a formalistic perspective, the German Supervisory Authority deems our model to be "partial" because not all our entities are using the internal model. Some of our smaller entities report under the standard model and others under the deduction and aggregation approach. Without loss of generality, we might use the term internal model in the following chapters, e.g., in case descriptions also referring to entities that use the internal model, or descriptions focusing on processes with respect to the internal model components.

than the rates guaranteed. Interest rate risk is managed within our asset/liability management process and controlled via interest rate sensitivity and duration mismatch limits for the Group and entities.

INFLATION RISK

As an insurance company, we are exposed to changing inflation rates, predominantly due to our Non-Life insurance obligations but also due to inflation-indexed internal pension obligations. Inflation assumptions are taken into account in our product development and pricing. However, unexpected inflation increases both future claims and expenses, leading to greater liabilities; conversely, if future inflation rates were to be lower than assumed, liabilities would be lower than anticipated. The risk of changing inflation rates is incorporated in our internal model.

EQUITY RISK

The Group's insurance-focused operating entities may hold equity investments to diversify their portfolios and take advantage of expected long-term returns. Strategic asset allocation benchmarks and investment limits are used to manage and monitor these exposures. In addition, equity investments fall within the scope of the credit risk platform to avoid single-name risk concentrations. Risks from changes in equity prices are normally associated with decreasing share prices and increasing equity price volatilities. As stock markets also might increase, opportunities may arise from equity investments.

CREDIT SPREAD RISK

Fixed-income assets such as bonds may lose value if credit spreads widen. However, our risk appetite for credit spread risk takes into account the underlying economics of our business model: As a liability-driven investor, we typically hold fixed-income assets until maturity. This implies that short-term changes in market prices do not affect us. In our capacity as a long-term investor, this gives us the opportunity to invest in bonds yielding spreads over the risk-free return and earning this additional yield component.

CURRENCY RISK

Our operating entities typically invest in assets which are dominated in the same currency as their liabilities; however, some foreign currency exposures are allowed to support portfolio diversification and tactical investment decisions. Our largest exposure to foreign currency risk comes from our ownership of non-Euro entities: if the Euro strengthens, the Euro equivalent net asset value of our foreign subsidiaries will decline from a Group perspective; however, at the same time the capital requirements in Euro will decrease, partially mitigating the total impact on the Group capitalization. Based on our foreign-exchange management limit framework, currency risk is monitored and managed at both the local and Group level.

REAL ESTATE RISK

Despite the risk of decreasing real estate values, real estate is a suitable addition to our investment portfolio due to good diversification benefits as well as to the contribution of relatively predictable, long-term cash flows.

The Group Investment Committee of Allianz has defined a framework for standard transactions for real estate equity and commercial real estate loan investments. These standards outline diversification targets, minimum return hurdles, and other qualitative and quantitative requirements. All transactions that do not meet these standards or have a total investment volume (including costs) exceeding a defined threshold must be reviewed individually by Group Risk and other group center functions. In addition, all applicable limits must be met, in particular the limits set for the portfolio of an investing entities by the strategic asset allocation and its respective leeway as well as risk limits.

CREDIT RISK

Credit risk is measured as the potential economic loss in the value of our portfolio that would result from either changes in the credit quality of our counterparties ("migration risk") or the inability or unwillingness of a counterparty to fulfill contractual obligations ("default risk").

The Group's credit risk profile comes from three sources: our investment portfolio, credit insurance business, and external reinsurance.

- Investment portfolio: Credit risk results from our investments in fixed-income bonds, loans, derivatives, cash positions, and receivables whose value may decrease depending on the credit quality of the obligor. However, losses due to credit events can be shared with the policyholder for certain life insurance products.
- Credit insurance: Credit risk arises from potential claim payments on limits granted by Euler Hermes to its policyholders. Euler Hermes insures its policyholders from credit risk associated with short-term trade credits advanced to clients of the policyholder. If the client of the policyholder is unable to meet its payment obligations, Euler Hermes indemnifies the loss to the policyholder.
- Reinsurance: Credit risk arises from potential losses from non-recoverability of reinsurance receivables or due to default on benefits under in-force reinsurance treaties. Our reinsurance partners are carefully selected by a dedicated team. Besides focusing on companies with strong credit profiles, we may further require letters of credit, cash deposits, or other financial measures to further mitigate our exposure to credit risk.

The internal credit risk capital model takes into account the major determinants of credit risk for each instrument, including exposure at default, rating, seniority, collateral, and maturity. Additional parameters assigned to obligors are migration probabilities and obligor asset correlations reflecting dependencies within the portfolio. Ratings are assigned to single obligors via an internal rating approach. It is based on long-term ratings from rating agencies, which are dynamically adjusted using market-implied ratings and the most recent qualitative information available.

The loss profile of a given portfolio is obtained through Monte Carlo simulation, taking into account interdependencies and exposure concentrations per obligor segment. The loss profiles are calculated at different levels of the Allianz Group, and then fed into the internal model at each level for further aggregation across sources of risk to derive diversified credit risk.

Our credit insurance portfolio is modeled by Euler Hermes based on a proprietary model component, which is a local adaptation of the central internal credit risk model. Euler Hermes' loss profile is integrated in the Group's internal credit risk model to capture the concentration and diversification effects.

To ensure effective credit risk management, credit VaR limits are derived from our internal risk capital framework, and rating bucket benchmarks are used to define our risk appetite for exposures in the lower investment grade and non-investment grade area.

Our group-wide country and obligor group limit management framework (CRisP[1]) allows us to manage counterparty concentration risk, covering both credit and equity exposures at the Group and operating entity levels. This limit framework forms the basis for discussions on credit actions and provides notification services with a quick and broad communication of credit-related decisions across the Group.

Clearly defined processes ensure that exposure concentrations and limit utilizations are appropriately monitored and managed. The setting of country and obligor exposure limits from the Group's perspective (i.e. the maximum concentration limit) takes into account the Allianz Group's portfolio size and structure as well as our overall risk strategy.

UNDERWRITING RISK

Underwriting risk consists of premium and reserve risks in the Property-Casualty[2] business segment as well as biometric risks in the Life/Health[3] business segment. Underwriting risks are not relevant for the Asset Management business segment and our banking operations.

PROPERTY-CASUALTY

Our Property-Casualty insurance businesses are exposed to premium risk related adverse developments in current year's new and renewed business as well as reserve risks related to the business in force.

Premium risk

As part of our Property-Casualty business operations, we receive premiums from our customers and provide insurance protection in return. Premium risk is the risk that actual claims for the current year business develop adversely relative to expected claims ratios. Premium risk can be mitigated by reinsurance as well as by technical excellence in underwriting. Assessing risks as part of the underwriting process is a key element of our risk management framework. There are clear underwriting limits and restrictions which are defined centrally and are applied across the Group.

Premium risk is subdivided into three categories: natural catastrophe risk, man-made risk, and non-catastrophe risk.

Premium risk is estimated based on actuarial models that are used to derive loss distributions. Non-catastrophe risks are modeled using attritional loss models for frequency losses as well as frequency and severity models for large losses. Natural disasters, such as earthquakes, storms, and floods, represent a significant challenge for risk management due to their accumulation potential and occurrence volatility. For natural catastrophe risks, we use special modeling techniques which combine portfolio data (geographic location, characteristics of insured objects, and their values) with simulated natural disaster scenarios to estimate the magnitude and frequency of potential losses. Where such stochastic models do not exist, we use deterministic, scenario-based approaches to estimate potential losses. Similar approaches are used to evaluate risk concentrations for man-made catastrophes, including losses from terrorism and industrial concentrations etc.

These loss distributions are then used within the internal model to calculate potential losses with a predefined confidence level of 99.5%.

Reserve risk

Reserve risk represents the risk of adverse developments in best-estimate reserves over a one-year time horizon, resulting from fluctuations in the timing and/or amount of claims settlement. We estimate and hold reserves for claims resulting from past events that have not yet been settled. In case of unexpected developments, we will experience a reserve gain or loss dependent on the assumptions applied for the estimate.

Similar to premium risk, reserve risk is calculated based on actuarial models. The reserve distributions derived are then used within the internal model to calculate potential losses based on a predefined confidence level of 99.5%.

In order to reduce the risk of unexpected reserve volatility, our operating entities constantly monitor the development of reserves for insurance claims on a line-of-business level. In addition, operating entities generally conduct annual reserve uncertainty analyses based on similar methods used for reserve risk calculations. The Allianz Group performs regular independent reviews of these analyses and Group representatives participate in the local reserve committee meetings.

LIFE/HEALTH

Underwriting risks in our Life/Health operations (biometric risks) include mortality, disability, morbidity, and longevity risks. Mortality, disability, and morbidity risks are associated with the unexpected increase in the occurrence of death, disability, or medical claims. Longevity risk is the risk that the reserves covering life annuities and group pension products might not be sufficient due to longer life expectancies of the insured.

Life/Health underwriting risk arises from profitability being lower than expected. As profitability calculations are based on several parameters – such as historical loss information, assumptions on inflation, on mortality, or on morbidity – realized parameters may differ from the ones used for underwriting. For example, higher-than-expected inflation may lead to higher medical claims in the future. However, beneficial deviations can also occur; for example, a lower morbidity rate than expected will most likely result in lower claims.

We measure risks within our internal model, distinguishing, where appropriate, between risks affecting the absolute level and trend development of the actuarial assumptions as well as pandemic risk scenarios. Depending on the nature and complexity of the risk involved, our health business is represented in the internal model according to Property-Casualty or Life/Health calculation methods and is therefore included in the relevant Property-Casualty and Life/Health figures accordingly. However, most of our health business is attributable to the Life/Health business segment.

BUSINESS RISK

Business risks include cost risks and policyholder behavior risks, and are mostly driven by the Life/Health business and to a lesser extent by

1_Credit Risk Platform.
2_Property-Casualty is also referred to as Non-Life.
3_Life/Health is also referred to as Life.

the Property-Casualty business. Cost risks are associated with the risk that expenses incurred in administering policies are higher than expected or that new business volume decreases to a level that does not allow Allianz to absorb its fixed costs. Business risk is measured relative to baseline plans.

For the Life/Health business, policyholder behavior risks are risks related to the unpredictable, adverse behavior of policyholders in exercising their contractual options, including for example the early termination of contracts, surrenders, partial withdrawals, renewals, and annuity take-up options.

Assumptions on policyholder behavior are set in line with accepted actuarial methods and are based on own historical data where available. If there is no historical data, assumptions are based on industry data or expert judgment. This is then used as a basis to determine the economic impact of policyholder behavior under different scenarios within our internal model.

OPERATIONAL RISK

Operational risks represent losses resulting from inadequate or failed internal processes and can stem from a wide variety of sources, for example:

- "Clients, Products & Business Practices" potential losses due to a failure to meet a professional obligation or from the design of a product. Examples include misselling, non-compliance with internal or external requirements related to products, anti-trust behavior, data protection, sanctions and embargoes, etc. These losses tend to be of a lower frequency but with a potentially high financial impact.
- "Execution, Delivery and Process Management" potential losses arising from transaction or process management failures. Examples include interest and penalties from non-payment or underpayment of taxes or losses associated with broker and agent distribution processes. These losses tend to be of a relatively higher frequency but with a low financial impact (although single large loss events can occur).
- Other operational risks, including, for example, internal or external fraud, financial misstatement risk, a breach of cyber security causing business disruption or fines, a potential failure at our outsourcing partners causing a disruption to our working environment, etc.

The operational risk capital of the Group is dominated by the risk of potential losses within the areas of "Clients, Products & Business Practices" and "Execution, Delivery and Process Management".

Operational risk capital is calculated using a scenario-based approach based on expert judgement as well as internal and external operational loss data. Estimates of frequency and severity of potential loss events for each material operational risk category are calculated and used as a basis for our internal model calibration.

Allianz has developed a consistent operational risk management framework, which is applied across the Group and focuses on the early recognition and proactive management of material operational risks. The framework defines roles and responsibilities as well as management processes and methods: Local risk managers, in their capacity as the "second line of defense", identify and evaluate relevant operational risks and control weaknesses via a dialog with the "first line of defense", report operational risk events in a central database, and ensure that the framework is implemented in their respective operating entity.

This framework triggers specific mitigating control programs. For example, compliance risks are addressed via written policies and dedicated compliance programs monitored by the Group Compliance function at Allianz SE. The risk of financial misstatement is mitigated by a system of internal controls covering financial reporting. Outsourcing risks are covered by an Outsourcing Policy, Service Level Agreements, and Business Continuity and Crisis Management programs to protect critical business functions from these events. Cyber risks are mitigated through investments in cyber security and a variety of ongoing control activities.

OTHER RISKS NOT MODELED IN THE INTERNAL MODEL

There are certain risks which are not adequately addressed or mitigated by additional capital and are therefore excluded from the internal model. For the identification, analysis, assessment, monitoring, and management of these risks we also use a systematic approach, with risk assessment generally based on qualitative criteria or scenario analyses. The most important of these other risks are strategic, liquidity, and reputational risk.

STRATEGIC RISK

Strategic risk is the risk of a decrease in the company's value arising from adverse management decisions on business strategies and their implementation.

Strategic risks are identified and evaluated as part of the Group's Top Risk Assessment process, and discussed in various Board of Management-level committees (e.g. Group Finance and Risk Committee). We also monitor market and competitive conditions, capital market requirements, regulatory conditions, etc., to decide if strategic adjustments are necessary.

The most important strategic risks are directly addressed through Allianz's Renewal Agenda, which focuses on True Customer Centricity, Digital by Default, Technical Excellence, Growth Engines, and Inclusive Meritocracy. Progress on mitigating strategic risks and towards meeting the Renewal Agenda objectives is monitored and evaluated as part of the strategic and planning dialog between Allianz Group and the related undertakings.

LIQUIDITY RISK

Liquidity risk is defined as the risk that current or future payment obligations cannot be met or can only be met on the basis of adversely altered conditions. Liquidity risk can arise primarily if there are mismatches in the timing of cash in- and out-flows.

Our related undertakings manage liquidity risk locally, using asset/ liability management systems designed to ensure that assets and liabilities are adequately matched. Local investment strategies particularly focus on the quality of investments and ensure a significant portion of liquid assets (e.g. high-rated government bonds or covered bonds) in the portfolios. In the course of liquidity planning, we reconcile liquidity sources (e.g. cash from investments and premiums) and liquidity needs (e.g. payments due to insurance claims and expenses) under best-estimate plan, as well as under idiosyncratic and systemic adverse liquidity scenarios, to allow for a group-wide consistent view on liquidity risks. These analyses are performed at the operating entity level and are monitored by the Group.

An identical liquidity stress-testing framework is applied to Allianz SE. Major contingent liquidity requirements include market risk scenarios for Allianz SE and its subsidiaries, non-availability of external capital markets, and reinsurance risk scenarios for Allianz SE.

In addition, the accumulated liquidity position of Allianz SE's cash pool is monitored and forecast on a daily basis. It is subject to an absolute minimum strategic cushion amount and an absolute minimum target liquidity amount, while the strategic liquidity planning for Allianz SE over time horizons of 12 months and three years is reported to the Board of Management regularly and is subject to an absolute minimum target level.

REPUTATIONAL RISK

Allianz's reputation as a well-respected and socially aware provider of financial services is influenced by our behavior in a range of areas such as product quality, corporate governance, financial performance, customer service, employee relations, intellectual capital, and corporate responsibility.

Reputational risk is the risk of an unexpected drop in the value of the Allianz SE share price, the value of the in-force business, or the value of future business caused by a decline in our reputation assessed by external stakeholders.

With the support of Group Communications and Corporate Responsibility (GCORE), Group Compliance, and the ESG Office[1], Group Risk defines sensitive business areas and applicable risk guidelines that are mandatory for all related undertakings in the Allianz Group. All Group and local functions affected cooperate in the identification of reputational risk. GCORE is responsible for risk assessment, which is based on a group-wide methodology. Since 2015, Allianz has embedded conduct risk triggers for fair products and services into the reputational risk management process.

The identification and assessment of reputational risks are part of a yearly Top Risk Assessment, during which senior management also decides on a risk management strategy and related actions. This is supplemented by quarterly updates. In addition, reputational risk is managed on a case-by-case basis. Single cases with a potential impact on other related undertakings or the Group have to be reported to the Allianz Group for pre-approval.

Internal risk capital framework

We define internal risk capital as the capital required to protect us against unexpected, extreme economic losses, and which forms the basis for determining our Solvency II regulatory capitalization. On a quarterly basis, we calculate and consistently aggregate internal risk capital across all business segments. We also project risk capital requirements on a bi-weekly basis during periods of financial market turbulence.

GENERAL APPROACH

We utilize an approach for the management of our risk profile and solvency position that reflects the Solvency II rules, in that it comprises our approved internal model and covers all major insurance operations[2]. Other entities are reflected based on standard formula results as well as on sectoral or local requirements for non-insurance operations, in accordance with the Solvency II framework.

INTERNAL MODEL

Our internal model is based on a VaR approach using a Monte Carlo simulation. Following this approach, we determine the maximum loss in portfolio value in scope of the model within a specified timeframe ("holding period", set at one year) and probability of occurrence ("confidence level", set at 95.5 %). We simulate risk events from all risk categories ("sources of risk") modeled and calculate the portfolio value based on the net fair value of assets minus liabilities, including risk mitigating measures like reinsurance contracts or derivatives, under each scenario.

The required risk capital is defined as the difference between the current portfolio value and the portfolio value under adverse conditions at the 99.5 % confidence level. Because we consider the impact of a negative or positive event on all risk sources and covered businesses at the same time, diversification effects across products and regions are taken into account. The results of our Monte Carlo simulation allow us to analyze our exposure to each source of risk both separately and in aggregate. We also analyze several pre-defined stress scenarios representing historical events, reverse stress tests, and adverse scenarios relevant for our portfolio. Furthermore, we conduct ad-hoc stress tests monthly to reflect current political and financial developments or to analyze a non-financial risk category more deeply.

COVERAGE OF THE RISK CAPITAL CALCULATIONS

Allianz's group internal model to calculate the solvency capital requirement covers all major insurance operations[3]. This includes the relevant assets (including fixed income, equities, real estate, and derivatives) and liabilities (including the run-off of all current and planned technical provisions as well as deposits, issued debt and other liabilities). For with-profit products in the Life/Health business segment, options and guarantees embedded in insurance contracts – including policyholder behavior – are taken into account.[4]

Smaller related undertakings within the European Economic Area which are not covered by the group internal model are reflected with their standard formula results. At Group level, the solvency capital requirements for smaller insurance undertakings outside the European Economic Area with only an immaterial impact on the Group's risk profile are accounted for by means of book value deduction.[5]

Risk capital related to our European banking operations is allocated to the Corporate and Other business segment, based on the approach applied by banks in accordance with the local requirements resulting from the Basel regulation (Basel standards). Capital requirements for banks represent an insignificant amount of approx-

1_The Allianz Environmental, Social, Governance (ESG) Board and the ESG office are constituted as advisor to the Board of Management of Allianz SE and will further elevate environmental, social, and governance aspects in corporate governance and decision-making processes at the Allianz Group.

2_Since 30 September 2015, Allianz Life US has been accounted for at 150% of RBC CAL, based on third-country equivalence, within our Group capitalization.

3_As mentioned under section "General approach", Allianz Life US is based on third-country equivalence.

4_For further information about participating life business, please refer to note 15 to the consolidated financial statements.

5_Under book value deduction, the book value of the respective entity is deducted from eligible Own Funds of the Group.

imately 1.7 % (2016: 1.7 %) of our total pre-diversified Group solvency requirement. Therefore, risk management with respect to banking operations is not discussed in more detail.

For our Asset Management business segment, we assign internal risk capital requirements based on sectorial regulatory capital requirements. The Asset Management business is mainly affected by operational risks. However, since most of our Asset Management business is not located within the Eurozone, at Group level its participation value bears a foreign exchange rate risk. Our Asset Management business is covered by adequate risk controlling processes, including qualitative risk assessments (such as the Top Risk Assessment) and regular reporting to the Group. As the impact on the Group's total solvency requirement is minor, risk management with respect to Asset Management is not discussed in more detail.

Therefore Allianz's risk capital framework covers all material and quantifiable risks. Risks specifically not covered by our group internal model include reputational, liquidity, and strategic risks.

ASSUMPTIONS AND LIMITATIONS

RISK-FREE RATE AND VOLATILITY ADJUSTMENT

When calculating the fair values of assets and liabilities, the assumptions regarding the underlying risk-free yield curve are crucial in determining and discounting future cash flows. We apply the methodology provided by the European Insurance and Occupational Pensions Authority (EIOPA) within the technical documentation (EIOPA-BoS-15/035) for the extrapolation of the risk-free interest rate curves beyond the last liquid tenor.[1]

In addition, we adjust the risk-free yield curves by a volatility adjustment in most markets where a volatility adjustment is defined by EIOPA and approved by the local regulator. This is done to better reflect the underlying economics of our business, as the cash flows of our insurance liabilities are largely predictable. The advantage of being a long-term investor, therefore, is the opportunity to invest in bonds yielding spreads over the risk-free return and earning this additional yield component over the duration of the bonds. Being a long-term investor mitigates much of the risk of forced selling of debt instruments at a loss prior to maturity.

We therefore take account of this by applying volatility adjustment to mitigate the credit spread risk, which we consider to be less substantial than the default risk.

VALUATION ASSUMPTIONS: REPLICATING PORTFOLIOS

We replicate the liabilities of our Life/Health insurance business as well as for our internal pension obligations. This technique enables us to represent all product-related options and guarantees, both contractual and discretionary, by means of standard financial instruments. In the risk calculation we use the replicating portfolio to determine and revalue these liabilities under all potentially adverse Monte Carlo scenarios.

1_Due to late availability of EIOPA publication, the risk-free interest rate term structure used might slightly differ from the one published by EIOPA.

DIVERSIFICATION AND CORRELATION ASSUMPTIONS

Our internal model considers concentration, accumulation, and correlation effects when aggregating results at Group level. The resulting diversification reflects the fact that not all potential worst-case losses are likely to materialize at the same time. As we are an integrated financial services provider offering a variety of products across different business segments and geographic regions, diversification is key to our business model.

Diversification typically occurs when looking at combined risks that are not, or only partly, interdependent. Important diversification factors include regions (e.g. windstorm in Australia vs. windstorm in Germany), risk categories (e.g. market risk vs. underwriting risk), and subcategories within the same risk category (e.g. commercial vs. personal lines of property and casualty risk). Ultimately, diversification is driven by the specific features of the investment or insurance products in question and their respective risk exposures. For example, an operational risk event at an Australian entity can be considered to be highly independent of a change in credit spreads for a French government bond held by a German entity.

Where possible, we derive correlation parameters for each pair of market risks through statistical analysis of historical data, considering quarterly observations over more than a decade. In case historical data or other portfolio-specific observations are insufficient or not available, correlations are set by the Correlation Settings Committee, which combines the expertise of risk and business experts in a well-defined and controlled process. In general, when using expert judgment we set the correlation parameters to represent the joint movement of risks under adverse conditions. Based on these correlations, we use an industry-standard approach, the Gaussian copula, to determine the dependency structure of quantifiable sources of risk within the applied Monte Carlo simulation.

ACTUARIAL ASSUMPTIONS

Our internal model also includes assumptions on claims trends, liability inflation, mortality, longevity, morbidity, policyholder behavior, expense, etc. We use our own internal historical data for actuarial assumptions wherever possible, and also consider recommendations from the insurance industry, supervisory authorities, and actuarial associations. The derivation of our actuarial assumptions is based on generally accepted actuarial methods. Within our internal risk capital and financial reporting framework, comprehensive processes and controls exist for ensuring the reliability of these assumptions.

MODEL LIMITATIONS

As the internal model is based on a 99.5 % confidence level, there is a low statistical probability of 0.5 % that actual losses could exceed this threshold at Group level in the course of one year.

We use model and scenario parameters derived from historical data, where available, to characterize future possible risk events. If future market conditions differ substantially from the past, for example in an unprecedented crisis, our VaR approach may be too conservative or too liberal in ways that are difficult to predict. In order to mitigate reliance on historical data, we complement our VaR analysis with stress testing.

Furthermore, we validate the model and parameters through sensitivity analyses, independent internal peer reviews and, where appropriate, independent external reviews, focusing on methods for selecting parameters and control processes. To ensure proper validation we established an Independent Validation Unit (IVU) within Group Risk, responsible for validating our internal model within a comprehensive model validation process. Overall, we believe that our validation efforts are effective and that the model adequately assesses the risks to which we are exposed.

The construction and application of the replicating portfolios mentioned are subject to the set of available replicating instruments and might be too simple or restrictive to capture all factors affecting the change in value of liabilities. As with other model components, the replications are subject to independent validation and to suitability assessments as well as to stringent data and process quality controls. Therefore, we believe that the liabilities are adequately represented by the replicating portfolios.

Since the internal model takes into account the change in the economic fair value of our assets and liabilities, it is crucial to estimate the market value of each item accurately. For some assets and liabilities it may be difficult, if not impossible – notably in distressed financial markets – to either obtain a current market price or apply a meaningful mark-to-market approach. For such assets we apply a mark-to-model approach. For some of our liabilities, the accuracy of their values also depends on the quality of the actuarial cash flow estimates. Despite these limitations, we believe the estimated fair values are appropriately assessed.

MODEL CHANGES IN 2017

In 2017, our internal model has been adjusted based on regulatory developments, validation of our model, and assessment of its appropriateness, as well as feedback received during the ongoing consultations with regulators. For the sake of clarity, all model changes and the resulting impacts on our risk profile are presented jointly within this section, based on data as of 31 December 2016.

The net impact of model changes in 2017 was € (82) mn. Behind this small net result were larger, offsetting impacts: risk capital increased by € 2 bn due to a change in real world credit spread scenarios and stochastic cash flow models for selected life entities, offset by favorable changes for own pensions, the inclusion of negative interest rate scenarios, and various minor and immaterial model changes.

We also updated the approach used for allocating risk capital to business segments and related undertakings by aligning it with the contributions derived from the tail scenarios underpinning our Group risk capital requirements. As a consequence, financial market risk categories (especially in the Life/Health segment) tend to be allocated more risk capital because they diversify less "in the tail" while the other risk categories are generally allocated less risk capital as they diversify more "in the tail".

In all subsequent sections, the figures including model changes will form the basis for the movement analysis of our risk profile in 2017.

Allianz Group: Impact of model change – allocated risk according to the risk profile (total portfolio before non-controlling interests)
€ mn

	Market risk		Credit risk		Underwriting risk		Business risk		Operational risk		Diversification		Total	
As of 31 December	2016[1]	2016[2]	2016[1]	2016[2]	2016[1]	2016[2]	2016[1]	2016[2]	2016[1]	2016[2]	2016[1]	2016[2]	2016[1]	2016[2]
Property-Casualty	3,480	5,805	2,440	2,502	10,718	10,307	835	937	2,227	2,248	(6,166)	(6,606)	13,533	15,193
Life/Health	19,404	12,824	4,914	5,550	400	1,323	3,517	3,536	1,996	2,028	(8,093)	(5,713)	22,138	19,549
Asset Management	42	163	28	29	-	-	-	-	760	768	98	-	929	960
Corporate and Other	1,999	2,753	668	683	44	179	-	-	644	617	(272)	(689)	3,084	3,543
Total Group	**24,925**	**21,546**	**8,051**	**8,763**	**11,162**	**11,809**	**4,352**	**4,473**	**5,627**	**5,661**	**(14,434)**	**(13,008)**	**39,683**	**39,244**
												Tax	(5,185)	(4,664)
												Total Group	**34,498**	**34,580**

1_2016 risk profile figures recalculated based on model changes in 2017 and the impact of minor and immaterial model changes were allocated proportionally.
2_2016 risk profile figures as reported previously.

In 2017, the changes to our internal model focused on the following risk categories:

MARKET RISK

Market risk was significantly affected by the negative interest rate, the credit spread, and the new cash flow model changes. The combined impact of the model changes on the total market risk was an increase of € 3.4 bn to € 24.9 bn (2016: € 21.5 bn).

CREDIT RISK

In 2017, the central credit risk model was changed to allow for a more granular and accurate valuation of exposures in a negative interest rate environment. Consistent with market expectations, counterparties from segments with very low or even negative credit spread levels now carry less credit risk. The credit-risk-reducing effect of this major model change was partially offset by indirect effects from cash flow model changes which reduced the policyholder participation in the Life/Health business segment.

Other immaterial credit risk model changes introduced in 2017 were mainly related to the introduction of new internal rating models for specific asset classes.

UNDERWRITING RISK

Property-Casualty

The increase in underwriting risk in the Property-Casualty business segment was mainly based on the central changes on natural catastrophe modelling for windstorms in Europe and earthquakes in Germany.

Life/Health

The considerable decrease in SCR contribution seen for the Life/Health business segment was mainly driven by the new allocation approach (€ (0.7) bn). There was no central model change performed in 2017 for the Life/Health underwriting risk and the local changes for this module were either minor or immaterial. The remaining impact therefore results from changes that affect the local cash flow models, in particular the introduction of the negative interest rate modeling and a new local cash flow model.

BUSINESS RISK

As for Life/Health underwriting risk, there was no central model change performed in 2017 for the business risk and all local changes for this module were either minor or immaterial.

OPERATIONAL RISK

No material operational risk model change has been applied in 2017.

IMPACT OF MODEL CHANGES ON ELIGIBLE GROUP OWN FUNDS

Model changes in 2017 resulted in a € 3.0 bn increase of Own Funds, mainly driven by regulatory and model changes including negative interest rate model.

Allianz risk profile and management assessment

RISK PROFILE AND MARKET ENVIRONMENT

As mentioned earlier, the Allianz Group is exposed to a variety of risks. The largest risks in terms of their contribution to Allianz's risk profile are:

- Market risk, especially interest rate risk, due to the duration mismatch between assets and liabilities for long-term savings products, equity risk, credit, and credit spread risks driven by assets backing long-term liabilities, which we take to benefit from the expected risk premium;
- Property-casualty premium and reserve risks resulting from natural and man-made catastrophes as well as from claims uncertainty.

The risk profile and relative contributions have changed in 2017, predominantly due to changes in the market environment as well as to management actions such as the decrease in asset durations, the reduction of exposures to some sovereign bond investments, and the significant increase in exposures to real estate and infrastructure investments.

POTENTIAL RISKS IN THE FINANCIAL MARKET AND IN OUR OPERATING ENVIRONMENT

Financial markets are characterized by historically low interest rates and risk premiums, prompting investors to look for higher-yielding – and potentially higher-risk – investments. In addition to sustained low interest rates, the challenges of implementing long-term structural reforms in key Eurozone countries and the uncertainty about the future path of monetary policy may lead to increasing market volatility. This could be accompanied by a flight to quality, combined with falling equity and bond prices due to rising spread levels, even in the face of potentially lower interest rates. Also, possible asset bubbles (as observed in the Chinese equity market) might spill over to other markets, or rising geopolitical tensions – e.g. caused by the North Korean missile program – might trigger market sell-offs, which would contribute to increasing volatility. We therefore continue to closely monitor political and financial developments – such as the Brexit in the United Kingdom, the European migrant crisis and the rise of Euroscepticism, or the situation on the Korean peninsula – in order to manage our overall risk profile to specific event risks.

REGULATORY DEVELOPMENTS

Following the approval of our internal model in November 2015, the model has been fully applied since the beginning of 2016. There is still uncertainty about the future capitalization requirements of Allianz, since the future capital requirements applicable for Global Systemically Important Insurers (so-called G-SII) are yet to be finalized. Due to the review of the Solvency II framework by EIOPA, future Solvency II capital requirements might change depending on the outcome. Finally, the potential for a multiplicity of different regulatory regimes, capital standards, and reporting requirements will increase operational complexity and costs.

MANAGEMENT ASSESSMENT

The Allianz Group's management feels comfortable with the Group's overall risk profile and has confidence in the effectiveness of its risk management framework to meet both, the challenges of a rapidly changing environment and the day-to-day business needs. This confidence is based on several factors, which are summarized below:

- Due to its effective capital management, the Allianz Group is well capitalized and met its internal, rating agency, and regulatory solvency targets as of 31 December 2017. Allianz is also confident that it will be able to meet the capital requirements under new regulatory regimes. Allianz remains one of the highest rated insurance groups in the world, as reflected by our external ratings.
- The Group's management also believes that Allianz is well positioned to deal with potentially adverse future events – due, in part, to our strong internal limit framework, which is defined by the Group's risk appetite, and our risk management practices which include our approved internal model.
- The Group has a conservative investment profile and disciplined business practices in the Property-Casualty, Life/Health, and Asset Management business segments, leading to sustainable operating earnings with a well-balanced risk-return profile.
- Finally, the Group has the additional advantage of being well-diversified, both geographically and across a broad range of businesses and products.

SOLVENCY II REGULATORY CAPITALISATION

The Allianz Group's Own Funds and capital requirements are based on the market value balance sheet approach as the major economic principle of Solvency II rules[1]. Our regulatory capitalization is shown in the following table.

Allianz Group: Solvency II regulatory capitalization

As of 31 December		2017	2016
Own Funds	€ bn	76.4	75.3
Capital requirement	€ bn	33.3	34.6
Capitalization ratio	%	229	218

The following table summarizes our Solvency II regulatory capitalization ratios disclosed over the course of the year 2017.

Allianz Group: Solvency II regulatory capitalization ratios
%

	31 December 2017	30 September 2017	30 June 2017	31 March 2017	31 December 2016
Capitalization ratio	229[1]	227	219	212[1]	218

1_Includes share buy-back.

Compared to year-end 2016, our Solvency II capitalization increased by 11 percentage points to 229 % (2016: 218 %). This was driven by an increase in Own Funds and an overall decrease in the Solvency II capital requirement. The increase in the Solvency II capitalization ratio was mainly due to strong Solvency II earnings and favorable markets that were characterized by higher interest rates, lower credit spreads, and rising equities. Model changes also contributed to the increase of the capitalization ratio. These positive impacts were partly offset by capital management activities like the share buy-backs as well as the dividend accrual throughout the year. Management actions such as the acquisition of Liverpool Victoria (LV=) and part of the non-controlling interests of Euler Hermes, the decrease in exposures to some government bonds, and the improvement of our interest rate risk profile had further compensating effects. Other effects such as taxes, changes in transferability restrictions, and diversification effects contributed to a further reduction of the Solvency II capitalization ratio.

The following table presents the sensitivities of our Solvency II capitalization ratio under certain standard financial scenarios.

Allianz Group: Solvency II regulatory capitalization ratio sensitivities
%

As of 31 December	2017	2016
Base capitalization ratio	229	218
Interest rates up by 0.5 %[1]	231	220
Interest rates down by 0.5 %[1]	218	207
Equity prices up by 30 %	240	224
Equity prices down by 30 %	223	216
Combined scenario: Equity prices down by 30 % Interest rate down by 0.5 %[1]	212	203

1_Non-parallel interest rate shifts due to extrapolation of the yield curve beyond the last liquid point in line with Solvency II rules.

The Allianz Group is a financial conglomerate within the scope of the Financial Conglomerate Directive (FCD). The FCD does not impose a materially different capital requirement on Allianz Group compared to Solvency II.

Quantifiable risks and opportunities by risk category

This Risk and Opportunity Report outlines the Group's risk figures, reflecting its risk profile based on pre-diversified risk figures and group diversification effects.

At the Allianz Group, we measure and steer risk based on an approved internal model, under which we derive our risk capital from potential adverse developments of Own Funds. The resulting risk profile provides an overview of how risks are distributed over different risk categories, and determines the regulatory capital requirements in accordance with Solvency II.

With the exception of the Asset Management business segment, all business segments are exposed to the full range of risk categories stated. As mentioned earlier, the Asset Management business segment is predominantly exposed to operational and market risks and to a lesser extent to credit risk.

The pre-diversified risk figures reflect the diversification effect within each modeled risk category (i.e. market, credit, underwriting, business, and operational risk) but do not include the diversification effects across risk categories. Group-diversified risk figures also capture the diversification effect across all risk categories.

1_Own Funds and capital requirement are calculated under consideration of volatility adjustment and yield curve extension, as described in section Risk-free rate and volatility adjustment.

The Group-diversified risk is broken down as follows:

Allianz Group: Allocated risk according to the risk profile (total portfolio before non-controlling interests)
€ mn

	Market risk		Credit risk		Underwriting risk		Business risk		Operational risk		Diversification		Total	
As of 31 December	2017	2016[1]	2017	2016[1]	2017	2016[1]	2017	2016[1]	2017	2016[1]	2017	2016[1]	2017	2016[1]
Property-Casualty	4,300	3,480	2,433	2,440	11,417	10,718	844	835	1,875	2,227	(4,198)	(6,166)	16,671	13,533
Life/Health	15,868	19,404	3,851	4,914	413	400	3,556	3,517	1,945	1,996	(7,858)	(8,093)	17,775	22,138
Asset Management	170	42	19	28	-	-	-	-	755	760	-	98	943	929
Corporate and Other	1,279	1,999	651	668	147	44	-	-	885	644	(490)	(272)	2,472	3,084
Total Group	**21,617**	**24,925**	**6,954**	**8,051**	**11,978**	**11,162**	**4,400**	**4,352**	**5,459**	**5,627**	**(12,546)**	**(14,434)**	**37,862**	**39,683**
												Tax	(4,545)	(5,185)
												Total Group	**33,317**	**34,498**

1_2016 risk profile figures recalculated based on model changes in 2017 and the impact of minor and immaterial model changes were allocated proportionally.

The following sections explain the evolution of our risk profile per risk category modeled. All risks are presented on a pre-diversified basis and concentrations of single sources of risk are discussed accordingly.

As of 31 December 2017, the group-diversified risk capital, reflecting our risk profile before non-controlling interests, amounting to € 33.3 bn (2016: € 34.6 bn) represented a stable diversification benefit[1] of approximately 25% compared to 2016. The drop in Solvency II capital requirement was mainly due to favorable market developments, specifically an increase in interest rates and a tightening of credit spreads. Management actions predominantly driven by M&A transactions increased the SCR, which was mostly offset by the contribution of business evolution.

MARKET RISK

The following table presents our group-wide risk figures related to market risks by business segment and source of risk.

Allianz Group: Risk profile – market risk by business segment and source of risk (total portfolio before tax and non-controlling interests)
pre-diversified, € mn

	Interest rate		Inflation		Credit spread		Equity		Real estate		Currency		Total	
As of 31 December	2017	2016[1]	2017	2016[1]	2017	2016[1]	2017	2016[1]	2017	2016[1]	2017	2016[1]	2017	2016[1]
Property-Casualty	(390)	(428)	(1,642)	(2,217)	2,851	2,885	2,468	2,316	1,038	922	(26)	2	4,300	3,480
Life/Health	2,491	3,874	(98)	(111)	6,930	9,031	5,835	5,571	823	908	(113)	131	15,868	19,404
Asset Management	28	23	-	-	-	-	28	21	28	18	85	(21)	170	42
Corporate and Other	352	471	(511)	(161)	727	858	478	793	111	97	122	(59)	1,279	1,999
Total Group	**2,481**	**3,941**	**(2,250)**	**(2,489)**	**10,508**	**12,774**	**8,809**	**8,701**	**2,000**	**1,945**	**69**	**54**	**21,617**	**24,925**
									Share of total Group pre-diversified risk				42.9 %	46.1 %

1_2016 risk profile figures recalculated based on model changes in 2017 and the impact of minor and immaterial model changes were allocated proportionally.

Our total pre-diversified market risk showed a decrease of € 3.3 bn, which was mainly driven by interest rate and credit spread risk in the Life/Health business segment. The decrease in interest rate risk was driven by the significant increase in the rates as well as by management actions to improve our interest rate risk profile by asset/liability management measures. For credit spread risk, the decrease was driven by narrowing credit spreads observed in financial markets and the increase in policyholder participation in the Life/Health business segment. These were also supported by exposure changes due to ALM measures and the corresponding effects on the liability side.

INTEREST RATE RISK

As of 31 December 2017, our interest rate sensitive investments excluding unit-linked business – amounting to a market value of € 427.3 bn (2016: € 428.5 bn)[2] – would have gained € 41.6 bn (2016: € 31.4 bn) or lost € 36.1 bn (2016: € 36.1 bn)[3] in value in the event of interest rates changing by -100 and +100 basis points, respectively.

EQUITY RISK

As of 31 December 2017, our investments excluding unit-linked business that are sensitive to changing equity markets – amounting to a market value of € 57.1 bn[4] (2016: € 47.0 bn) – would have lost € 14.9 bn[5] (2016: € 12.4 bn) in value assuming equity markets declined by 30%.

1_Diversification before tax.

2_The stated market value includes all assets whose market value is sensitive to interest rate movements (excluding unit-linked business) reflecting the Solvency II framework, and therefore is not based on classifications given by accounting principles.
3_The effects do not consider policyholder participation.
4_The stated market value includes all assets whose market value is sensitive to equity movements (excluding unit-linked business) reflecting the Solvency II framework, and therefore is not based on classifications given by accounting principles.
5_The effect does not consider policyholder participation.

REAL ESTATE RISK

As of 31 December 2017, about 4.0% (2016: 3.3%) of the total pre-diversified risk was related to real estate exposures.

CREDIT RISK

The following table presents our group-wide risk figures related to credit risks by business segment.

Allianz Group: Risk profile – allocated credit risk by business segment (total portfolio before tax and non-controlling interests)
pre-diversified

As of 31 December		2017	2016[1]
Property-Casualty	€ mn	2,433	2,440
Life/Health	€ mn	3,851	4,914
Asset Management	€ mn	19	28
Corporate and Other	€ mn	651	668
Total Group	**€ mn**	**6,954**	**8,051**
Share of total Group pre-diversified risk	%	13.8	14.9

1_2016 risk profile figures recalculated based on model changes in 2017 and the impact of minor and immaterial model changes were allocated proportionally.

Throughout 2017, the credit environment remained stable. Overall credit risk for the Group decreased compared to last year, primarily driven by an increase of policyholder participation in the Life/Health business segment as a result of better market conditions. Annual updates based on extended time series were performed for credit risk parameters like the transition matrix and asset correlations, which only had a slightly positive effect on credit risk.

CREDIT RISK – INVESTMENTS

As of 31 December 2017, the credit risk arising from our investment portfolio accounted for 85.2% (2016: 86.4%) of our total Group pre-diversified internal credit risk[1].

Credit risk in the Life/Health business segment is primarily driven by long-term assets covering long-term liabilities. Typical investments are government bonds, senior corporate bonds, covered bonds, self-originated mortgages and loans, and a modest amount of derivatives. In the Property-Casualty business segment, fixed-income securities tend to be short- to mid-term, due to the nature of the business, which explains the lower credit risk consumption in this segment.

The counterparty credit risk arising from derivatives is low, since derivatives usage is governed by the group-wide internal guidelines for collateralization of derivatives, which stipulates master netting and collateral agreements with each counterparty and requires high-quality and liquid collateral. In addition, Allianz closely monitors the credit ratings of counterparties and exposure movements.

As of 31 December 2017, the rating distribution based on issue (instrument) ratings of our fixed-income portfolio was as follows:

Rating distribution of Allianz Group's fixed-income portfolio[1] – fair value
€ bn

Type of issuer	Government/ agency		Covered bond		Corporate		Banks		ABS/MBS		Short-term loan		Other		Total	
As of 31 December	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
AAA	42.8	42.3	55.0	57.9	2.0	1.5	1.7	1.6	16.9	17.5	-	0.1	-	-	118.4	120.9
AA	93.4	95.0	15.8	18.6	21.7	20.9	4.4	6.0	2.9	2.3	0.9	1.1	-	-	139.1	144.0
A	19.4	17.1	9.8	8.8	56.1	55.8	15.7	15.4	1.1	0.9	0.4	0.2	0.4	0.7	103.0	98.9
BBB	47.7	49.8	2.3	4.2	100.2	93.9	7.3	8.3	0.4	0.5	0.4	0.8	0.3	0.3	158.7	157.8
BB	5.4	5.3	-	0.3	5.0	6.5	0.7	0.9	0.1	0.1	0.2	0.2	-	-	11.5	13.3
B	2.8	2.1	-	-	1.0	1.3	0.1	-	0.1	0.1	-	-	-	-	4.0	3.6
CCC	-	-	-	-	0.3	0.7	-	-	0.1	0.1	-	-	-	-	0.3	0.8
CC	-	-	-	-	-	0.1	-	-	0.1	0.1	-	-	-	-	0.1	0.1
C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1
D	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	0.1
Not rated	2.1	1.9	0.1	0.1	9.2	8.7	0.6	0.6	-	-	1.1	1.2	4.9	3.7	18.0	16.3
Total	**213.6**	**213.6**	**83.0**	**90.0**	**195.6**	**189.5**	**30.6**	**32.9**	**21.7**	**21.6**	**3.1**	**3.7**	**5.6**	**4.7**	**553.1**	**555.8**

1_In accordance with the Group Management Report, figures stated include investments of Banking and Asset Management. Table excludes private loans. Stated market values include investments not in scope of the Solvency II framework.

CREDIT RISK – CREDIT INSURANCE

As of 31 December 2017, 9.6% (2016: 7.4%) of our total Group pre-diversified internal credit risk was allocated to Euler Hermes credit insurance exposures, for which the relative increase is primarily driven by the lower credit risk of the investment portfolio.

CREDIT RISK – REINSURANCE

As of 31 December 2017, 0.7% (2016: 0.5%) of our total Group pre-diversified internal credit risk was allocated to reinsurance exposures – of which 51.8% (2016: 46.8%) was related to reinsurance counterparties in the United States and Germany.

As of 31 December 2017, 67.8% (2016: 84.0%) of the Allianz Group's reinsurance recoverables were distributed among reinsurers that had been assigned at least an "A-" rating. The non-rated reinsurance recoverables represented 30.1% (2016: 15.1%).

The increase in total and non-rated exposure mainly results from the inclusion of reinsurance captive exposures in the rating overview

1_Additionally, 4.5 % (2016: 5.7 %) of our total Group pre-diversified internal credit risk is allocated to receivables, potential future exposure for derivatives and reinsurance, and other off-balance sheet exposures for 2017. For substantial exposures to non-rated captives, risk mitigating techniques like collateral agreements or funds-withheld concepts are in place.

Reinsurance recoverables by rating class[1]
€ bn

As of 31 December	2017	2016
AAA	0.01	0.04
AA+ to AA-	6.47	6.41
A+ to A-	4.94	4.62
BBB+ to BBB-	0.33	0.12
Non-investment grade	0.01	-
Not assigned	5.08	1.99
Total	**16.85**	**13.18**

1_Represents gross exposure broken down by reinsurer. For 2017 reinsurance captives exposure included.

UNDERWRITING RISK

The following table presents the pre-diversified risk calculated for underwriting risks associated with our insurance business.

Allianz Group: Risk profile – allocated underwriting risk by business segment and source of risk (total portfolio before non-controlling interests)[1]
pre-diversified, € mn

	Premium natural catastrophe		Premium terror		Premium non-catastrophe		Reserve		Biometric		Total	
As of 31 December	2017	2016[2]	2017	2016[2]	2017	2016[2]	2017	2016[2]	2017	2016[2]	2017	2016[2]
Property-Casualty	515	377	(16)	13	5,005	4,444	5,799	5,795	114	89	11,417	10,718
Life/Health	-	-	-	-	-	-	-	-	413	400	413	400
Asset Management	-	-	-	-	-	-	-	-	-	-	-	-
Corporate and Other	-	-	-	-	-	-	-	-	147	44	147	44
Total Group	**515**	**377**	**(16)**	**13**	**5,005**	**4,444**	**5,799**	**5,795**	**675**	**533**	**11,978**	**11,162**
									Share of total Group pre-diversified risk		23.76 %	20.63 %

1_As risks are measured in an integrated approach and on an economic basis, internal risk profile takes reinsurance effects into account.
2_2016 risk profile figures recalculated based on model changes in 2017 and the impact of minor and immaterial model changes were allocated proportionally.

PROPERTY-CASUALTY

During 2017, the total of the stand-alone underwriting risk capital on a Group-diversified basis increased by € 0.2 bn. This slight increase is mainly driven by exposure and model updates as well as discounting effects. The remaining difference is due to diversification effects with other underwriting risk categories.

Overall, the underwriting risk profile for the Allianz Group is not expected to change materially as we do not plan to significantly change our underwriting standards (Allianz Standard for P&C Underwriting), or our Group natural catastrophe man-made or terror risk appetite (i.e. retrocession reinsurance strategy).

The loss ratios for the Property-Casualty business segment can be seen in the following table:

Property-Casualty loss ratios[1] for the past ten years
%

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Loss ratio	66.5	65.6	66.2	66.0	65.9	68.3	69.9	69.1	69.5	68.0
Loss ratio excluding natural catastrophes	64.2	64.2	64.6	65.1	63.0	66.6	65.5	65.9	68.4	66.3

1_Represents claims and insurance benefits incurred (net), divided by premiums earned (net).

The top three perils contributing to the natural catastrophe risk as of 31 December 2017 were: windstorms in Europe, floods in Germany, and earthquakes in Australia.

LIFE/HEALTH

The risk capital contribution from biometric risk increased by € 0.1 bn compared to the previous year (after considering model changes). This is mainly due to the annual calibration update of the stochastic longevity risk model. The impact of this model update for the Property-Casualty and the Corporate business segments is mainly generated by the longevity risk of the corresponding pension schemes.

Due to effective product design and the diversity of our products, there were no significant concentrations of underwriting risks within our Life/Health business segment.

BUSINESS RISK

There was no significant impact on the overall business risk from regular model updates or the evolution of our business. The business risk contribution remained stable at € 4.4 bn.

OPERATIONAL RISK

The marginal decrease shown in the operational risk was driven by the annual regular update of local parameters. Foreign currency exchange effects played a secondary role.

LIQUIDITY RISK

Detailed information regarding the Allianz Group's liquidity risk exposure, liquidity, and funding – including changes in cash and cash equivalents – is provided in Liquidity and Funding Resources from page 57 onwards and in notes 12, 18 and 33 to the consolidated financial statements. As inferred from the section on management of liquidity risks and interest rate risks, they are properly managed and monitored but not quantified.

CONTROLS OVER FINANCIAL REPORTING

The following information is provided pursuant to § 289(4) and § 315(4) of the German Commercial Code ("Handelsgesetzbuch – HGB").

In line with both our prudent approach to risk governance and compliance with regulatory requirements, we have created a structure to identify and mitigate the risk of material errors in our consolidated financial statements (this also includes our market value balance sheet and risk capital controls). Our system of internal control over financial reporting (ICOFR) is regularly reviewed and updated. ICOFR is split into an Entity-Level Control Assessment Process (ELCA), IT General Controls (ITGC) and controls at process levels. The ELCA framework contains controls to monitor the system of governance effectiveness. In the ITGC framework we have implemented, for example, controls for access right management and for project and change management. Going forward, the current ICOFR framework will be part of an Integrated Risk and Control System (IRCS). The IRCS is split into three main components: Reporting Risk (currently ICOFR), Compliance Risk, and Operational Risk.

ACCOUNTING AND CONSOLIDATION PROCESSES

The accounting and consolidation processes we use to produce consolidated financial statements are based on a central consolidation and reporting IT solution and local general ledger solutions. The latter are largely harmonized throughout the Group, using standardized processes, master data, posting logics, and interfaces for data delivery to the Holding. Access rights to accounting systems are managed according to strict authorization procedures.

Accounting rules for the classification, valuation, and disclosure of all items in the balance sheet, the income statement, and notes related to the annual and interim financial statements are defined primarily in our Group accounting manual. Internal controls are embedded in the accounting and consolidation processes to safeguard the accuracy, completeness, and consistency of the information provided in our financial statements.

INTERNAL CONTROL SYSTEM APPROACH

Our approach can be summarized as follows:

- We use a top-down, risk-based approach to determine the accounts and operating entities that should fall under the scope of our system of internal control over financial reporting (as well as IRCS). The methodology is described in our ICOFR manual and the IRCS Guideline. During the scoping process, both materiality and susceptibility to a misstatement are considered simultaneously. In addition to the quantitative calculation, we also consider qualitative criteria – such as expected increase in business volume – which are provided by different Group Centers, Group Audit, and external Audit.
- Then, our local entities identify risks that could lead to material financial misstatements, including all relevant root causes (i.e. human processing errors, fraud, system shortcomings, external factors, etc.).
- Preventive and detective key controls to address financial reporting risks have been put in place to reduce the likelihood and impact of financial misstatements. If a potential risk materializes, actions are taken to reduce the impact of the financial misstatement. Given the strong dependence of financial reporting processes on information technology systems, we also implement IT controls.
- Finally, we focus on ensuring that controls are appropriately designed and effectively executed to mitigate risk. We have set consistent documentation requirements across the Allianz Group for elements such as processes, related key controls, and execution. We conduct an annual assessment of our control system to maintain and continuously enhance its effectiveness. Group Audit and local internal audit functions ensure that the overall quality of our control system is subjected to regular control-testing, to assure reasonable design and operating effectiveness. Internal Audit does so through a comprehensive risk-based approach, which assesses the key controls of the company's internal procedures and processes, including local and group-internal controls over financial reporting risks, from an integrated perspective.

GOVERNANCE

Responsibility for ensuring the completeness, accuracy, and reliability of our consolidated financial statements rests with the Chairman of the Allianz SE Board of Management, as well as the board member responsible for Finance, Controlling, and Risk, supported by Group Center functions, the Group Disclosure Committee, and operating entities.

The Group Disclosure Committee ensures that these board members are made aware of all material information that could affect our disclosures, and assesses the completeness and accuracy of the information provided in the quarterly statements, half-year, and annual financial reports as well as in the Solvency II qualitative reports[1]. In 2017, the Group Disclosure Committee met on a quarterly basis before the quarterly statements and financial reports were issued. An additional meeting was held prior to issuance of the Solvency II qualitative reports.

Subsidiaries within the scope of our control system are individually responsible for adhering to the Group's internal governance and control policy and for creating local Disclosure Committees that are similar to the Group–level committee. The entities' CEOs and CFOs provide periodic sign-offs to the management of Allianz SE, certifying the effectiveness of their local systems of internal control as well as the completeness, accuracy, and reliability of financial data reported to the Holding.

1_Solvency Financial Condition Report and Regular Supervisory Report.