

Market Consistent Embedded Value Report 2011

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1. Introduction

1.1 Basis of preparation

Embedded value (“EV”) represents shareholders’ economic value of the in-force life and pension business of an insurance company. Future new business is not included. The EV of Allianz as of 31 December 2011 is disclosed in this report.

Since 2008 Allianz has disclosed its EV in line with the European Insurance CFO Forum Market Consistent Embedded Value Principles¹ (“MCEV Principles”) which were launched in June 2008 and amended in October 2009. The projection of assets and liabilities applying market consistent economic assumptions ensures a consistent valuation of assets and liabilities. In addition an explicit allowance is made for residual non-hedgeable risk.

This document presents the results, methodology and assumptions used to calculate the 2011 EV for the Allianz Group in accordance with the disclosure requirements of the MCEV Principles. As in previous years, we do not include look-through profits in our main values but provide them as additional information only, as we would like to retain a clear split between the segments in line with our primary IFRS accounts.

A detailed description of the MCEV methodology may be found in appendix A. Assumptions are presented in appendix B and a glossary of definitions and abbreviations in appendix D.

The methodology and assumptions used to determine the 2011 EV for the Allianz Group were reviewed by KPMG. Their opinion is included in chapter 4.

1.2 Covered business

The business covered in the EV results includes all material Life/Health operations which are consolidated into the Life/Health segment of the IFRS accounts of Allianz Group worldwide. The main product groups are:

- Life and disability products including riders
- Deferred and immediate annuity products, both fixed and variable
- Unit-linked and index-linked life products
- Capitalization products
- Long term health products

The value of reinsurance accepted by Allianz Re is reflected in the Holding results.

Where debt is allocated to covered business, it is marked to current market value.

All results reflect the interest of Allianz shareholders in the life entities of the Group. Where Allianz does not hold 100% of the shares of a particular life entity a deduction is made for the corresponding minority interest².

Entities that are not consolidated into Allianz IFRS accounts, i.e. entities where Allianz only holds a minority, are not included in the 2011 EV results. In particular the company in India is not included.

The pension fund business written outside the Life/Health segment is also not included.

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2 | Minorities are evaluated as of 31.12.2011.

2. Overview of results

2011 was a difficult environment in which sovereign debt crises, weak equity markets, low risk-free interest rates and high market volatilities were experienced. The decrease in EV reflects the sensitivity to the markets. The decrease in value of new business also reflects marketing challenges faced in distribution channels such as banks. The management of new business mix however resulted in the increased new business margin.

At 31 December 2011 Allianz Group's total EV amounted to EUR 20,868mn, 21% lower than published in 2010.

The value of new business written in 2011 was EUR 940mn, 5% lower than the value published in 2010.

Operating MCEV Earnings were EUR 3,971mn.

MCEV Earnings were EUR -4,691mn. This reflects the low interest rate and high volatility environment of 2011.

2.1 Embedded value results

The table below shows the EV split into its components, the net asset value ("NAV") and the value of in-force ("VIF").

MCEV | Exhibit 1

	2011 EUR mn	2010 EUR mn	Change in 2011 %
Net asset value	14,265	13,648	5%
Free surplus	-549	2,628	-121%
Required capital	14,814	11,021	34%
Value of in-force	6,602	12,773	-48%
Present value of future profits	18,254	21,094	-13%
Cost of options and guarantees	-7,593	-5,244	45%
Cost of residual non-hedgeable risk	-2,332	-1,449	61%
Frictional Cost of required capital	-1,727	-1,627	6%
MCEV	20,868	26,422	-21%

The EV at 31 December 2011 was EUR 20,868mn, a decrease of EUR 5,554mn compared to EUR 26,422mn published in 2010.

This decrease was primarily due to lower interest rates, wider credit spreads and more volatile financial markets.

Our NAV grew by 5% to EUR 14,265mn.

The cost of options and guarantees ("O&G") increased as interest rates moved yet closer to guarantees and market volatilities increased.

The higher cost of residual non-hedgeable risk ("CNHR") was driven by a change in methodology used to calculate the non-hedgeable risk capital on which it is based and a decrease in diversification effect across actuarial risks.

Lower free surplus was driven by a EUR 3,794mn increase in required capital. Required capital increased as credit spreads widened, interest rates fell and volatilities increased.

Required capital in Italy increased significantly as Italian government bond spreads over Euro swap rates widened by more than 200bps.

In the USA, S&P capital requirements, in draft version in 2010, were finalized. The finalization of the capital requirements increased their required capital.

In Belgium, lower interest rates and wider credit spreads led to the increase in required capital.

The increased required capital in Spain was driven by wider credit spreads.

Lower interest rates in Korea led to the higher required capital.

Details of opening adjustments and drivers of the change in EV during the year are explained in more detail in the following chapters.

2.2 New business

Exhibit 2 shows the value of new business (“VNB”) at point of sale calculated as the sum of quarterly disclosed values. Please note that values are calculated using assumptions at the start of the quarter in which the business was sold. Please refer to appendix A.5 for a description of our VNB methodology.

VALUE OF NEW BUSINESS | Exhibit 2

	2011 EUR mn	2010 EUR mn	change in 2011 %
Value of New Business	940	993	-5%
New Business Margin¹ (in %)	2.3%	2.2%	0.1%-p
Present value of new business premiums	40,884	44,198	-7%
APE Margin² (in %)	20.4%	20.3%	0.1%-p
Single Premium ³	25,074	28,777	-13%
Recurrent Premium	2,097	2,010	4%
Recurrent premium multiplier ⁴	8	8	-2%

1 New business margin = Value of new business / Present value of future new business premiums

2 APE margin = Value of new business / (recurrent premium + single premium/10)

3 In Germany, single premium excludes Parkdepot (EUR 1,210mn)

4 Recurrent Premium Multiplier = (PVNBP - single premium) / recurrent premium

Allianz’s VNB in 2011 was EUR 940mn, 5% lower than in 2010.

The new business margin (“NBM”) increased from 2.2% to 2.3%. Positive developments of business mix, in particular in Germany, Asia and the USA, contributed to the increased NBM.

Recurring premiums increased by 4%, driven by increases in Germany and Italy. Single premiums decreased by 13%, mainly in Asia and Italy. Overall, premiums decreased by 7%.

Exhibit 3 below summarizes the analysis of change in VNB from 2010 to 2011. Further details on the drivers for the change in each region may be found in the regional analyses in chapter 3.

DEVELOPMENT OF VALUE OF NEW BUSINESS | Exhibit 3

	Value of New Business EUR mn	New Business Margin %	Present Value of NB Premiums EUR mn
Reported Value as at 31 December 2010	993	2.2%	44,198
Change in Foreign Exchange	-8	0.0%	-198
Change in Allianz interest	1	0.0%	27
Adjusted Value as at 31 December 2010	986	2.2%	44,026
Change in volume	-30	0.0%	-2,998
Change in business mix	69	0.3%	0
Change in assumptions	-84	-0.2%	-145
Value of New business as at 31 December 2011	940	2.3%	40,884

The foreign exchange adjustment of EUR -8mn reflects mainly the change in the Euro/US Dollar exchange rate during 2011. The change in Allianz interest reflects the change in group share in Germany Life and Spain.

Premium volume grew by 4% in the German Speaking Countries and CEEMA regions. Overall, premium volume however decreased by 7%. The impact on VNB was EUR -30mn.

The business mix in the USA, Germany and Asia, in particular, had a positive effect on VNB.

In the USA fixed index annuities performed well in the first half of the year when interest rates were higher. Variable annuity production was higher than in 2010 as sales gained momentum after the proactive redesign and repricing of products at end 2009. Higher volumes led to lower acquisition expense overruns and hence higher margins.

Germany Life sold a higher proportion of recurring premium business. Policy contract terms were on average longer and new policyholders younger than in 2010. Single premium crediting rates were kept low to manage single premium collections.

In Asia, management of new business sales in Korea resulted in a move from relatively low margin investment products into higher margin whole of life risk products. In Taiwan, where Allianz sells predominantly unit-linked business, the proportion of higher margin recurring premium business increased while lower margin single premium top-ups declined.

Within the regions the business mix was managed to enhance profitability. Furthermore, volumes increased in those regions with higher margin products.

Overall, the change in business mix impacted VNB by EUR 69mn and NBM by 30bps.

The change in assumptions reflects the sum of four quarters' changes. Average interest rates in 2011 were lower than in 2010 and average volatilities in 2011 higher than those of 2010. The change in assumptions impacted VNB by EUR -84mn and NBM by -20bps.

Chapter 3 provides further details on regional development.

2.3 Analysis of MCEV earnings

Exhibit 4 shows the change in EV and free surplus from the value published in 2010 to the value as of 31 December 2011.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE | Exhibit 4

	Earnings on MCEV analysis			
	Free Surplus EUR mn	Required Capital EUR mn	ViF EUR mn	MCEV EUR mn
Opening MCEV reported as at 31 December 2010	2,628	11,021	12,773	26,422
Foreign Exchange Variance	12	128	27	167
Acquired / Divested business	5	9	31	44
Others	0	0	0	0
Adjusted Opening MCEV as at 31 December 2010	2,645	11,158	12,831	26,633
Value of new business at point of sale	-32	0	972	940
Expected existing business contribution				
reference rate	195	0	755	951
in excess of reference rate	741	0	523	1,264
Transfer from ViF and required capital to free surplus				
on in-force at begin of year	1,792	-469	-1,324	0
on new business	-1,525	945	581	0
Experience variance	-157	16	53	-88
Non-economic assumption changes	-222	222	-509	-509
Other operating variance	-353	379	1,387	1,413
Operating MCEV earnings	439	1,094	2,438	3,971
Economic variances	-2,575	2,563	-8,650	-8,662
Other non operating variance	17	0	-17	0
Total MCEV earnings	-2,120	3,656	-6,228	-4,691
Net capital movements	-1,074	0	0	-1,074
Closing MCEV as at 31 December 2011	-549	14,814	6,602	20,868

The [initial adjustments](#) included the following changes:

- [Foreign exchange variance](#) (EUR 167mn) was driven by the US Dollar, in particular, that moved against the Euro.
- [Acquired / Diversified business](#) (EUR 44mn) reflects group shares acquired in Germany Life and Spain.

The key components of the change in 2011 were as follows:

- [Value of new business at point of sale](#) (EUR 940mn) takes into account all expenses with respect to new business written during 2011, including acquisition expense overruns. Development of the VNB is described in chapter 2.2.

- **Expected existing business contribution** was comprised of two elements.
 - **Expected existing business contribution with reference rates** (EUR 951mn) shows the unwinding of the discount on EV with reference rates used in the market consistent projection. For the in-force portfolio at the start of the year, it contains notional interest on all EV components for one year using the start of the year assumptions. Since the required capital reflects the undiscounted capital requirement at the end of the year, there is no unwinding effect in this column. The reference rate of interest earned on all assets backing the NAV directly increases the free surplus. The VIF increases as all future profits now require one year less discounting.

For new business, the value reflects the progression from point of sale to end of year, based on point of sale assumptions.

Furthermore, this step contains the **release from risk with respect to options and guarantees and non-financial and residual non-hedgeable risks**. The margin for the year built into the valuation for uncertainty with regard to asymmetric financial risk and non-financial risk is released in this step.

- **Existing business contribution in excess of reference rates** (EUR 1,264mn) shows the additional earnings in EV consistent with management expectations for the business. In this step, based on normalized real-world assumptions shown in appendix B, risk premiums on equity, real estate and corporate bonds are expected to materialize in the first projection year 2011, whereas reference rate assumptions are kept unchanged for projection years 2012 onwards. This item was lower than in 2010, driven by the USA where the management expectation of the realization of credit spreads changed.
- **Transfer from value of in-force and required capital to free surplus** shows the effect of **the realization of the projected net profits** from the VIF to the NAV. It reduces the VIF and increases the NAV, but does not have any impact on the EV as it only contains the release of profits included in the VIF to the free surplus during the year. It also includes the projected release from required capital to free surplus.

This step is shown separately for in-force at the beginning of the period and new business written during the period. For new business, it shows the negative impact on free surplus projected to occur during the first year to the extent that initial expenses are higher than profits in the first year, and to the extent that these expenses cannot be covered through policyholder funds (EUR 581mn impact on VIF). The amount of additional required capital to be held for new business (EUR 945mn impact on required capital) increases the strain on the free surplus at the point of sale. The **total strain from new business** on the free surplus is the combined impact of expense strain and initial capital binding, an impact of EUR -1,525mn on free surplus. Taking into account the acquisition expense overrun of EUR 32mn the new business strain increases to EUR 1,557mn.

- **Experience variances** (EUR -88mn) reflects the impact of deviations of actual experience from expectations during the year with respect to non-economic factors, e.g. lapses, mortality, expenses and crediting. This item contains various partially offsetting items which are explained in the regional section. The main impact is from one-off costs of EUR 47mn. The main driver was the one-off cost in Japan of EUR 33mn related to the closure of sales. Other one-off costs are described in the regional commentaries in chapter 3.
- **Non-economic assumption changes** (EUR -509mn) reflects changes in non-economic assumptions such as those for lapses, mortality and expenses. The main driver for this change was the increase in CNHR in most regions. The increase in CNHR was driven by lower diversification factors and increased non-headgale risk capital on which CNHR is based.
- **Other operating variances** (EUR 1,413mn) includes operating impacts not included above, such as management reaction to economic changes. Management may, for example, react by changing crediting and investment strategies. Model changes too are included in this item. In 2011, the drivers of these variances were the implementation of interest rate volatility anchoring at Germany Life and model improvements at Germany Health. Details for each region are described in chapter 3.
- **Operating MCEV earnings** (EUR 3,971) reflects the change of the adjusted opening EV due to all operating drivers described above. The 2011 operating MCEV earnings amounts to 15% of the adjusted opening EV.

- **Economic variances** (EUR -8,662mn) includes the impacts of changes in interest rates, actual development of financial markets and of actual performance of the assets in the portfolio. It includes investment variances on new business from point of sale until end of year.

The decrease in interest rates and widening credit spreads impacted EV by EUR -5.3bn. The change in equity markets during the year had an impact of EUR -2.0bn. Higher volatilities impacted EV by EUR -1.3bn. Details of the development per region are described in chapter 3.

- **Other non-operating variances** (EUR 0mn) includes mandatory regulatory changes and other changes in legislation.
- **Total MCEV earnings** (EUR -4,691mn) summarizes the movements during the year due to all drivers described above. The 2011 MCEV earnings amounts to -18% of the adjusted opening EV.
- **Net capital movement** (EUR -1,074mn) reflects net movement of dividends paid by and capital injections paid to our life companies.

2.4 Movement of free surplus and projected profits

The free surplus represents the capital over and above the capital required to run the business. The following diagram presents the development of the free surplus during the year from 2010 to 2011.

Free Surplus at 31 December 2010		2,628
Currency and Group Share Effects		17
Cash Earnings		1,131
Capital Requirements		-476
Net dividends		-1,074
Free Surplus before market movement		-2,226
Change in capital due to economic and operational variances		-3,291
Mark-to-market profits on NAV	516	
Free Surplus at 31 December 2011		-549

The free surplus moved from EUR 2,628mn to EUR -549mn during 2011. The drivers of the change were:

- Cash earnings** (EUR 1,131mn) reflects the actual local P&L effect in the current reporting year. This contains cash earnings from in-force (EUR 1,744mn) and cash strain from new business (EUR -613mn) including acquisition expense overruns. The decrease of EUR 763mn from 2010 was driven by impairments in Italy. In the USA hedging losses on fixed annuities and the increase of variable annuity reserves had a further negative impact. In comparison, the USA made hedging gains and realized gains on sales of bonds in the previous year.
- Capital requirements** (EUR -476mn) includes capital release from in-force (EUR 469mn) and capital strain from new business (EUR -945mn).
- Net dividends** (EUR -1,074mn) reflects net dividend payments after capital movements.
- Change in capital due to economic and operational variances** (EUR -3,291mn) was the main driver of the change of free surplus. Economic variances were the main drivers of the change in capital. Sovereign debt spreads in Europe, corporate bond spreads in the USA, lower interest rates, lower equity values and higher volatilities were the economic factors driving the changes. Details on changes in required capital may be found in chapter 3.1.
- Mark-to-market profits on NAV** (EUR 516mn) was mainly driven by Italy due to different accounting treatment of unrealized capital gains and losses (UCGL) between local statutory and segregated fund accounting. The in-force cash earnings item in the diagram above reflects local statutory accounting profits, which in the case of Italy made large losses due to impairments. However, under the segregated fund accounting, they remain as UCGL. This positive effect of UCGL variances is reflected in 'Mark-to-market profits on NAV'.

The negative free surplus reflects of the market turmoil at the end of 2011, especially the extremely high sovereign debt spreads in Italy, Belgium and Spain. At the time of publication, however, spreads in these countries had already reduced significantly, leading to a positive free surplus.

The colour coding in the following diagram shows how the free surplus movements are reflected in the analysis of MCEV earnings.

Free surplus movement

Free surplus 31.12.10	2,628
Currency & GS effects	17
Cash earnings	
In-force cash earnings	1,744
New business cash strain	-613
Capital requirements	
In-force capital release	469
New business capital strain	-945
Net dividends	-1,074
Change in capital due to economic and operational variances	-3,291
Mark-to-market profits on NAV	516
Free surplus 31.12.11	-549

Analysis of MCEV earnings - Free surplus

Free surplus 31.12.10	2,628
Foreign Exchange Variance	12
Acquired / Divested business	5
Value of new business at point of sale	-32
Expected existing business contribution - reference rate	195
Expected existing business contribution - in excess of reference rate	741
Transfer from VIF and required capital of free surplus - on in-force	1,792
Transfer from VIF and required capital of free surplus - on new business	-1,525
Experience variances	-157
Non-economic assumption changes	-222
Other operating variances	-353
Economic variances	-2,575
Other non-operating variances	17
Net capital movements	-1,074
Free surplus 31.12.11	-549

To present the timing of release of profits, Exhibit 5 shows the expected maturity profile of the present value of future profits used for MCEV.

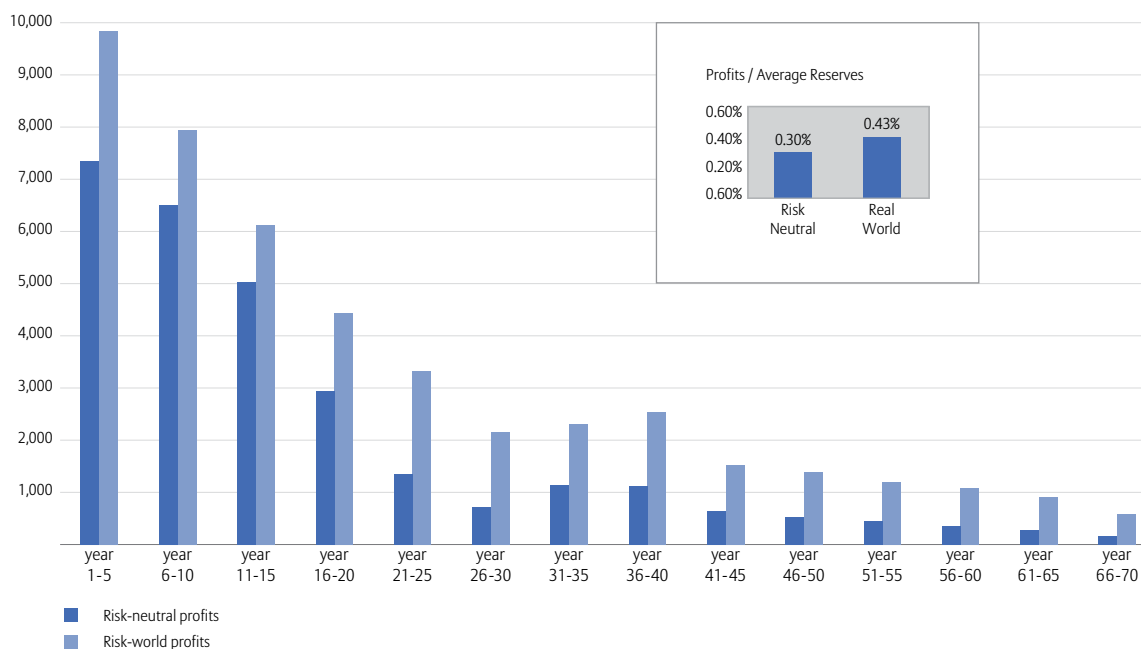
The table shows discounted risk-neutral profits with respect to the current in-force portfolio. Future new business is not considered.

REMAINING PRESENT VALUE OF FUTURE PROFITS | Exhibit 5

End of year	PVFP	% of initial PVFP
year 5	13,659	73%
year 10	9,658	51%
year 15	6,545	35%
year 20	4,552	24%
year 25	3,595	19%
year 30	3,109	17%
year 35	2,342	12%
year 40	1,574	8%
year 45	1,205	6%
year 50	890	5%

Timing of the cash-flows depends very much on the underlying portfolio, and varies over the Group. Within Allianz there are short term portfolios, such as short term saving or protection, as well as long term portfolios, for example annuities. The overall length of the duration of the liabilities is mainly driven by the block of long term traditional business in Germany. The projection of future profits shows a stable earnings release and return on capital over the entire projection period.

The following graph represents the pattern of risk neutral and real world profits grouped by 5 year time buckets. Risk-neutral profits divided by average reserves over the entire projection period was 0.30% and the corresponding real-world ratio was 0.43%.



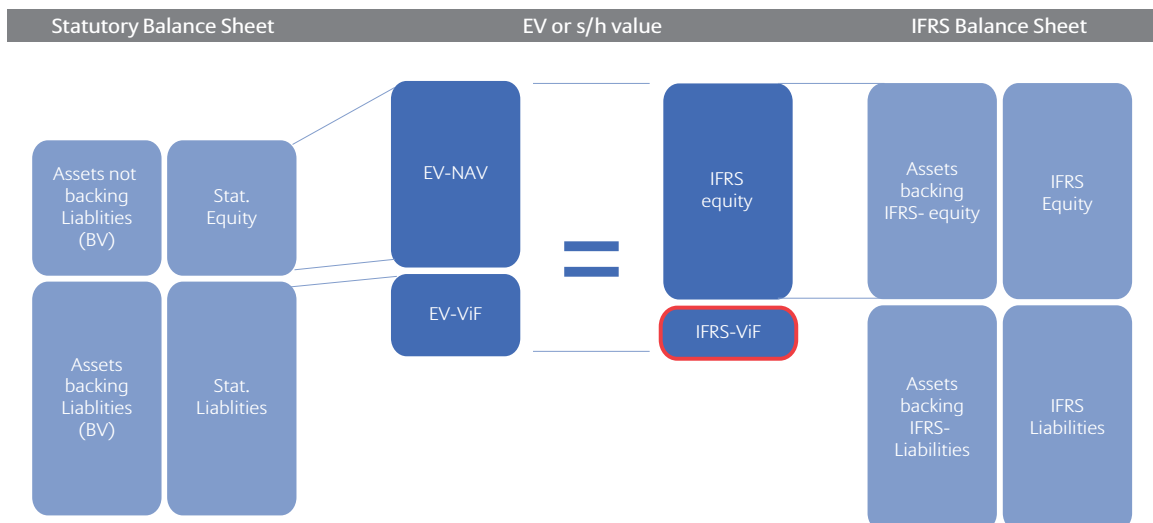
2.5 Shareholder value not accounted for in Group IFRS equity and Group MCEV

Allianz EV reflects the value of shareholders' interest in the life business of Allianz Group. This value includes the determination of best estimate liabilities for bonus payments and tax payments, which are derived from results based on local statutory accounting rather than on the Group's IFRS profit and loss account ("P&L"). Therefore local balance sheet and P&L are the starting point for the EV projections of our subsidiaries.

However, the result of these calculations is a balance sheet reflecting the shareholder value of the in-force business. The accounting principles applied in the projection are required to determine realistic best estimate cash-flows. Apart from this, in the definition of EV the local balance sheet also determines the split of the total EV into NAV, i.e. the value of the assets not backing liabilities which can also be interpreted as the equity component of the EV, and VIF i.e. the value of future profits emerging from operations and assets backing liabilities.

For Allianz Group's other segments, the shareholder value is derived from the Group's IFRS equity. Starting from the EV balance sheet we have determined the additional value not accounted for in IFRS equity i.e. the shareholder margin in our life business that has not yet been recognized in the Group equity. This additional value is referred to below as IFRS-VIF. As the impact of future new business is not included in the EV, we compare it to the IFRS equity for covered business excluding any goodwill.

For this exercise we analyzed the differences between the EV balance sheet and the IFRS-balance sheet, to determine elements that have been recognized in the IFRS equity but not in the EV-NAV and vice versa.



The table below shows that of the EUR 6,602mn VIF, the future related element of EV, EUR 1,677mn represents an economic value of the covered life insurance business that is not captured within the IFRS shareholders' equity.

ADDITIONAL VALUE NOT ACCOUNTED FOR IN IFRS EQUITY | Exhibit 6

	2011 EUR mn	2010 EUR mn
Value of in-force	6,602	12,773
Deferred acquisition cost / value of business acquired	-15,024	-14,974
Difference in IFRS reserves compared to statutory reserves	14,868	11,598
Shareholders' portion of unrealized capital gains included in PVFP	-6,698	-4,862
Asset valuation differences	1,778	1,162
Other adjustments	151	2,831
Additional value not accounted for in IFRS shareholders' equity	1,677	8,528

The components of the table are as follows.

- Deferred acquisition cost / value of business acquired (EUR -15,024mn) reflects the excess of the IFRS amount of the deferred acquisition cost (DAC) and value of business acquired (VOBA) assets over the statutory levels included in the PVFP.
- Difference in IFRS reserves compared to statutory reserves (EUR +14,868mn) is shown after offsetting the policyholders' portion of any unrealized gains or losses and asset valuation differences. Aggregate IFRS life technical and unallocated profit sharing reserves exceed statutory reserves used in PVFP modelling. The main reason for this difference is that in many local statutory accounting models, instead of setting up a DAC asset, the reserves are reduced to reflect part of these acquisition costs, as per local regulation. This excess of IFRS reserves increases the value not accounted for in IFRS shareholders equity. The change from last year is related to policyholder participation on unrealized capital gains on investments not valued at market value within IFRS, due to lower interest rates, largely in Germany.
- Shareholders' portion of unrealized capital gains included in PVFP (EUR -6,698mn) reflects that, when projecting future profits on a statutory basis, the related profits/losses will include the shareholder value of unrealized capital gains/losses. To the extent that assets in IFRS are valued at market value and the market value is higher/lower than the statutory book value, these profits/losses have already been taken into account in the IFRS equity. The change from last year is related largely to the USA from unrealized capital gains.
- Asset valuation differences (EUR +1,778mn) is the shareholder value of the difference between market value and book value of assets (valued in IFRS at book value).
- Other adjustments (EUR +151mn) includes various items not included above relating to valuation differences under MCEV and IFRS such as different tax treatment. The decrease from 2010 to 2011 was driven by France where the reporting of the reconciliation was refined.

Based on the MCEV for the covered business and the IFRS equity for the non covered business, the Allianz Group MCEV is shown in Exhibit 7.

GROUP MCEV | Exhibit 7

	2011 EUR mn	2010 EUR mn
IFRS equity for Allianz Group (net of minorities)	44,915	44,491
Additional value not accounted for in IFRS shareholders' equity	1,677	8,528
Deduct Goodwill for Life/Health ¹	-2,175	-2,328
Group MCEV¹	44,417	50,691
Covered business MCEV	20,868	26,422
IFRS equity non covered business & financing adjustments	23,549	24,269

¹ MCEV Principles require the inclusion of non covered business on an unadjusted IFRS basis, and therefore including Goodwill for non covered business.

The Group MCEV as of 31 December 2011 was EUR 44,417mn, 12% lower than the value for 2010 of EUR 50,691mn. This decrease was after a dividend payment to shareholders of EUR 2,032mn in 2011.

Exhibit 8 shows the analysis of earnings of Group MCEV in line with the methodology of the MCEV Principles. "Non covered" includes all segments except for Life/Health, in particular it also contains the impact of Allianz Group's financing structure as well as consolidation effects between covered and non covered business. The analysis of earnings for non covered business is based on the IFRS income statement and balance sheet, specifically operating earnings for non covered business are based on IFRS operating profit. Due to the differences in definition of operating profit for IFRS applied to non covered business and operating earnings in MCEV for the covered business we do not show a total for operating earnings and non operating earnings separately.

ANALYSIS OF EARNINGS OF GROUP MCEV | Exhibit 8

	Covered business MCEV EUR mn	Non covered business & financing adj. IFRS EUR mn	Total Group MCEV EUR mn
Opening Group MCEV as at 31 December 2010	26,422	24,269	50,691
Opening adjustments	212	189	401
Adjusted Opening MCEV as at 31 December 2010	26,633	24,458	51,092
Operating MCEV earnings ¹	3,971	5,446	not meaningful
Non operating MCEV earnings ²	-8,662	-5,057	not meaningful
Non covered: IFRS net income		1,432	
Non covered: IFRS operating profit		-5,446	
Non covered: OCI		-1,043	
Total MCEV earnings	-4,691	389	-4,302
Other movements in IFRS net equity		-352	-352
Closing adjustments	-1,074	-946	-2,020
Closing MCEV as at 31 December 2011	20,868	23,549	44,417

1 For the Non covered business IFRS Operating Profit of Allianz Group excluding the Segment LH is used as Operating MCEV earnings.

2 For the Non covered business, the Non-operating MCEV earnings are calculated as follows:

- IFRS Net income of the Allianz Group attributable to Shareholders not included in covered business
- IFRS Operating Profit of Allianz Group excluding the Segment LH
- Changes in OCI (Unrealized Gains / Losses) of the Allianz Group attributable to Shareholders not included in covered business

Group MCEV decreased by EUR 6,275mn which consists of the decrease in covered business MCEV by EUR 5,554mn and the decrease in non covered business by EUR 720mn. Non covered business grew from operating profit of EUR 5,446mn mainly from P/C business offset by non operating items and taxes. The total movement of Group MCEV was reduced by capital movements reported as closing adjustments.

Other movements in IFRS net equity include an updated methodology for the calculation of the additional value not accounted for in IFRS equity, excluding the goodwill on entities held by Life entities, but outside the Life segment. The net effect of this updated methodology was EUR -346mn.

Closing adjustments includes dividends paid from Allianz SE to shareholders (EUR -2,032mn) and the capital increase of Allianz SE (EUR +78mn).

2.6 Sensitivities

Sensitivity testing with respect to the underlying best estimate assumptions is an important part of EV calculations. Both economic and non-economic factors are tested. The same management actions and policyholder behavior have been assumed in the sensitivities as for the base case. It should be noted that the sensitivities are usually correlated so that the impact of two events occurring simultaneously is unlikely to be the sum of the outcomes of the corresponding tests. Where it has been determined that the impact of assumption changes is symmetrical, one-sided sensitivities are shown.

The sensitivities presented in the table below correspond to the primary economic and non-economic factors specified in the MCEV Principles. The magnitude of the assumption shifts are not indicative of what may or may not actually occur.

Please note that to reduce complexity the sensitivity analysis for VNB has been carried out on a central VNB recalculated using end of year assumptions. This VNB calculated on end of year assumptions is EUR 432mn lower than the sum of the quarterly reported values. End of year interest rates were lower than the average over the year and end of year volatilities were higher than the average over the year.

SENSITIVITIES | Exhibit 9

	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	20,868	100%	508	100%
Required Capital equal to local solvency capital	646	3%	49	10%
EV change by economic factors				
Risk Free Rate – 100bp	-7,378	-35%	-635	-125%
Risk Free Rate +100bp	3,974	19%	249	49%
Risk Free Rate – 50bp	-2,978	-14%	-287	-56%
Risk Free Rate +50bp	2,242	11%	109	22%
Charge for CNHR +100bp	-714	-3%	-51	-10%
Equity and property values – 10%	-1,024	-5%	-37	-7%
Swaption volatilities +25%	-1,864	-9%	-137	-27%
Equity option volatilities +25%	-1,248	-6%	-90	-18%
EV change by non-economic factors				
Lapse Rates – 10%	-3	0%	71	14%
Maintenance Expenses – 10%	703	3%	76	15%
Mortality – 5% for products with death risk	213	1%	17	3%
Mortality – 5% for products with longevity risk	-510	-2%	-24	-5%

In line with current discussions on Solvency 2 topics and in anticipation of what may appear in specifications, certain entities ran additional non-prescribed sensitivities.

Using the current yield-curve extrapolation methodology, the starting point of the extrapolation for most currencies is at 30 years. If the starting point were changed to 20 years for Germany Life, their EV would increase from EUR 6.1bn to EUR 8.2bn.

Further sensitivities were calculated to measure the impact of the implementation of a European counter-cyclical premium in place of illiquidity premiums in the European entities. At the valuation date the European counter-cyclical premium was 190bps. Using the counter-cyclical premium would increase the German Speaking Countries' EV from EUR 9.5bn to EUR 13.0bn. The EV of the Europe region would increase from EUR 6.3bn to EUR 8.0bn.

A definition of the counter-cyclical premium is provided in the glossary in appendix D.

A description of the disclosed sensitivities follows. Details of the sensitivities by region are provided in chapter 3.

- **Sensitivity to capital requirement**

Using only local solvency capital requirements to determine the required capital instead of the internal required capital reduces the necessary capital and the frictional cost of holding required capital. However, for several companies the capital requirement is already determined by the local statutory requirement and therefore the EV increases by only EUR 646mn or 3%.

- **Sensitivity to a decrease/increase of the underlying market risk-free rates**

This sensitivity shows by how much the EV would change if market interest rates in the different economies were to fall/rise. The sensitivity is designed to indicate the impact of a sudden shift in the risk-free yield-curve, accompanied by a shift in all economic assumptions including discount rates, market values of fixed income assets as well as equity and real estate return assumptions.

Please note that, for consistency, yield-curve extrapolation is applied in sensitivities to interest rate shifts. This means that only the deep and liquid part of yield-curves are subject to a parallel shifts with the ultimate forward rate being kept stable.

Due to the asymmetric and non-linear impact of embedded financial options and guarantees, falling market rates have a higher impact on EV than rising interest rates and the impact increases for each further step down. A shift of -100bps in interest rates results in a reduction of the Group's EV of EUR 7,378mn or 35%. This is higher than the corresponding impact shown for 2010, because of higher volatilities and lower interest rates that are closer to guarantee rates. VNB decreases by EUR 635mn.

- **Sensitivity to an increase in the charge for residual non-hedgeable risk by 100bps**

The effect of increasing the capital charge for residual non-hedgeable risk by 100bps decreases the EV by EUR 714mn. Please see appendices A.4.3 and B.2 for explanations of the cost of residual non-hedgeable risk.

- **Sensitivity to a decrease in equity/property values at the valuation date by 10%**

This sensitivity is designed to indicate the impact of a sudden change in the market values of equity and property assets. Since the modeled investment strategies take into account a certain target allocation based on market value, this shock may lead to a rebalancing of the modelled assets at the end of the first year, when defined boundaries for each asset class are exceeded. A drop of equity values by 10% reduces EV by EUR 1,024mn, in line with the sensitivity of 2010.

- **Sensitivity to an increase in volatilities for fixed income and for equity incl. real estate by 25%**

This sensitivity shows the effect of increasing all volatilities, i.e. swaption implied volatilities, equity option implied volatilities and real estate volatility, by 25% of the assumed rate. An increase in volatilities leads to a higher O&G for traditional participating business.

EV decreases by EUR 1,864mn or 9% for an increase in swaption implied volatility.

EV decreases by EUR 1,248mn or 6% for an increase in equity option implied volatility and real estate volatility.

The volatility sensitivity was relatively high because of the current market in which volatilities are high. O&G values too have increased. Furthermore, volatility anchoring is not applied to the shocks.

- **Sensitivity to a decrease in lapse rates by 10%**

The impact of a 10% proportionate decrease in projected lapse rates is a decrease in EV of EUR 3mn.

- **Sensitivity to a decrease in maintenance expenses by 10%**

The impact of a 10% decrease in the projected expenses on EV is EUR 703mn or 3% as future projected profits would increase. This sensitivity is similar to last year.

- Sensitivity to a decrease in mortality and morbidity rates by 5%

This sensitivity shows the impact of a decrease of mortality and morbidity rates by 5%. Higher mortality has a negative impact on products with mortality risk (e.g. endowments and term life products) and a positive impact on products with longevity risk (life annuities). Since the future experience for the different insured populations in the two product groups might vary significantly, the impact of this sensitivity is shown separately.

For products with mortality risks the impact of a decrease in mortality rates by 5% leads to an increase of EUR 213mn or 1%.

The impact on products with longevity risk is a decrease in value of EUR 510mn or 2%.

The impact of non-economic shocks in general are low as they are mitigated by the ability to share technical profits and losses with policyholders, particularly in Germany.

3. Regional analysis of embedded value

3.1 Overview

The following tables provide overviews of the contribution of the various regions and operating entities to the EV and VNB results of the Allianz Group. Detailed analyses for each region follow.

The regions are defined as:

German Speaking Countries

- **Germany Life** includes Allianz Lebensversicherungs AG. Its subsidiaries are included at equity.
- **Germany Health** is Allianz's health business Allianz Private Krankenversicherungs AG.
- Life operations in **Switzerland** and **Austria**.

Europe

- Life operations in **France** including partnerships.
- Italian and Irish life subsidiaries of **Italy**.
- Life operations in **Spain, Belgium, Netherlands, Portugal, Greece** and **Turkey**.

Growth Markets

- Central and Eastern European life operations in **Slovakia, Czech Republic, Poland, Hungary, Croatia, Bulgaria** and **Romania**.
- **North African** life operations in **Egypt**.
- Asia-Pacific life operations in **Korea, Taiwan, Thailand, China, Indonesia, Malaysia** and **Japan**.
- **Allianz Global Life**.
- The non-consolidated life operation in India is not included.

USA

- **Allianz Life USA**.

Holding

- Holding expenses.
- Internal life reinsurance.
- **Mexico** was recently consolidated and is temporarily reflected in Holding pending the reorganization of the management board.

In the following chapters, the analysis is presented for each region, with specific focus on our larger life operations:

- Germany Life
- France
- Italy
- USA

Exhibit 10 provides an overview of the 2011 EV by region.

EMBEDDED VALUE RESULTS BY REGION | Exhibit 10

	German Speaking Countries	Europe			Growth Markets			USA	Holding	Total	
	EUR mn	Germany Life EUR mn	EUR mn	France EUR mn	Italy EUR mn	EUR mn	Asia-Pacific EUR mn	CEEMA EUR mn	EUR mn	EUR mn	EUR mn
Net asset value	3,400	1,899	5,113	1,960	1,838	1,565	1,076	424	4,122	66	14,265
Free surplus	1,151	630	-910	456	-360	-835	-1,169	308	97	-53	-549
Required capital	2,249	1,269	6,022	1,504	2,198	2,400	2,245	116	4,024	119	14,814
Value of Inforce	6,116	4,233	1,158	1,943	-575	-203	-623	413	-29	-441	6,602
Present value of future profits	12,835	9,938	3,476	2,928	160	856	307	527	1,491	-404	18,254
Cost of options and guarantees	-4,932	-4,423	-1,173	-509	-454	-412	-346	-65	-1,056	-21	-7,593
Cost of residual non-hedgeable risk	-1,294	-1,020	-479	-162	-101	-388	-338	-40	-164	-6	-2,332
Frictional Cost of required capital	-493	-262	-666	-314	-180	-259	-245	-9	-300	-9	-1,727
MCEV	9,516	6,132	6,271	3,903	1,262	1,363	453	837	4,093	-375	20,868
in % of total MCEV	46%	29%	30%	19%	6%	7%	2%	4%	20%	-2%	100%
Value of Inforce by product type											
Traditional	5,494	3,717	298	1,629	-932	-738	-971	233	187	-470	4,771
Unit-Linked	607	503	863	314	354	553	368	178	-1,465	29	587
Index-Linked	15	13	-2	0	3	-18	-20	2	1,249	0	1,244

The EV of the group decreased by EUR 5.6bn, driven by lower interest rates and higher market volatilities.

The in-force book was however effectively steered by the management of crediting rates in Germany Life, the USA, Italy and France and the continuing efficient management of lapses in a challenging market in Italy.

Exhibit 11 provides an overview of the ratios of required capital to reserves and local solvency 1 requirements respectively.

REQUIRED CAPITAL | Exhibit 11

	2011			2010		
	Required capital EUR mn	% of reserve %	% of solvency requirement %	Required capital EUR mn	% of reserve %	% of solvency requirement %
German Speaking Countries	2,249	1.3%	247%	1,985	1.2%	286%
thereof: Germany Life	1,269	0.9%	not meaningful	1,220	0.9%	not meaningful
Europe	6,022	5.2%	118%	3,997	3.4%	117%
thereof: France	1,504	2.4%	100%	1,650	2.6%	100%
thereof: Italy	2,198	6.3%	209%	1,026	2.9%	100%
Growth Markets	2,400	11.0%	208%	1,720	8.0%	418%
thereof: Asia-Pacific	2,245	12.3%	225%	1,574	8.7%	572%
thereof: CEEMA	116	4.2%	100%	125	4.3%	108%
USA	4,024	6.3%	286%	3,220	5.5%	259%
Holding and Internal Reinsurance	119	7.3%	100%	99	7.6%	100%
Total	14,814	4.0%	171%	11,021	3.0%	188%

Required capital increased by EUR 3,794mn to EUR 14,814mn in 2011. The increase was driven by lower interest rates, higher volatilities and local solvency changes. The increase was driven by higher requirements in Italy, USA, Belgium, Spain and Korea.

For Germany Life additional capital on top of Allianz's internal required capital and solvency capital is allocated in order to better reflect local market standards. Required capital as a proportion of reserves is nevertheless low due to high policyholder resources admissible for solvency purposes and the high VIF available as an eligible source of capital for internal capital purposes.

Germany Life's required capital as a proportion of solvency requirement is reflected as "not meaningful" because its local solvency requirement is close to zero.

Please see appendix A.3 for the definition of required capital.

Exhibit 12 provides an overview of VNB by region.

VALUE OF NEW BUSINESS AT POINT OF SALE BY REGION | Exhibit 12

	German Speaking Countries	Europe			Growth Markets			USA	Holding	Total	
	EUR mn	Germany Life EUR mn	EUR mn	France EUR mn	Italy EUR mn	EUR mn	Asia-Pacific EUR mn	CEEMA EUR mn	EUR mn	EUR mn	EUR mn
Value of New Business	424	378	232	72	97	182	113	64	175	-73	940
in % total VNB	45%	40%	25%	8%	10%	19%	12%	7%	19%	-8%	100%
New Business Margin in %	2.9%	3.1%	1.9%	1.3%	2.1%	2.9%	2.4%	5.4%	2.3%	n/a	2.3%
Present value of NB premium	14,731	12,292	12,054	5,343	4,670	6,193	4,752	1,187	7,748	158	40,884
APE Margin ² in %	31.3%	33.0%	17.2%	13.3%	16.8%	16.6%	13.0%	32.4%	22.5%	n/a	20.4%
Single Premium ³	5,410	4,875	8,767	3,975	3,671	3,322	2,606	462	7,508	67	25,074
Recurrent Premium	813	657	474	140	207	764	611	152	28	18	2,097
Recurrent Premium multiplier ⁴	11	11	7	10	5	4	4	5	9	5	8
IRR in %	19.1%	19.5%	10.5%	7.9%	15.4%	19.0%	16.4%	33.7%	13.3%		
Payback Period (in years)	5.0	4.9	7.5	9.9	4.8	4.2	4.9	2.2	6.8		
Value of New Business by product type											
Traditional	387	344	173	66	49	87	52	35	5	-84	568
Unit-Linked	37	34	59	6	48	87	53	29	60	11	254
Index-Linked ¹	0	0	0	0	0	8	8	0	110	0	118
New Business Margin by product type											
Traditional in %	2.7%	2.9%	2.0%	1.5%	2.1%	4.1%	3.5%	5.6%	1.1%	-53.4%	2.2%
Unit-Linked in %	6.8%	7.1%	1.7%	0.6%	2.1%	2.3%	1.8%	5.2%	2.2%	n/a	2.4%
Index-Linked in %	2.6%	n/a	0.4%	n/a	0.1%	2.3%	2.3%	3.4%	2.4%	n/a	2.4%

1 Index-Linked in the USA also includes a small block of fixed annuity products

2 APE margin = Value of new business / (recurrent premium + single premium/10)

3 In Germany Life, single premium excludes Parkdepot (EUR 1,210mn)

4 Recurrent Premium Multiplier = (PVNBP - single premium) / recurrent premium

The VNB decreased by 5%, driven mainly by low interest rates and high volatilities. Management of business mix and higher volumes in Germany and the CEEMA region largely offset the effect of the financial markets.

The NBM increased from 2.2% to 2.3%, driven by proactive management of the business mix, particularly in Germany and Asia. Earlier product redesign and repricing in the USA further drove the increase in NBM.

Recurring premium business in 2011 was above the level achieved in 2010. The growth in recurring premium business was driven by Germany Life and Health, Italy and the CEEMA region. Management of the business mix led to single premium business below the previous year's level. Overall, the present value of new business premiums decreased by 7% in 2011.

3.2 German Speaking Countries

The EV of the German Speaking Countries decreased from EUR 11,337mn to EUR 9,516mn. The decrease was driven by the market conditions in Germany. Germany Health however showed an increase due to changes in methodology.

3.2.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written by the German Speaking Countries in 2011 was EUR 424mn, 5% higher than the value published in 2010. Exhibit 13 presents an analysis of the change in VNB.

The increase in VNB was driven by Germany Life. A description of Germany Life may be found in the next chapter.

The VNB of Germany Health increased by 37% while the results for Switzerland and Austria remained stable.

DEVELOPMENT OF VALUE OF NEW BUSINESS | Exhibit 13

	Value of New Business EUR mn	New Business Margin %	Present Value of NB Premium EUR mn
Reported Value as at 31 December 2010	403	2.8%	14,188
Change in Foreign Exchange	1	0.0%	95
Change in Allianz interest	0	0.0%	11
Adjusted Value as at 31 December 2010	405	2.8%	14,294
Change in volume	12	0.0%	674
Change in business mix	25	0.1%	0
Change in assumptions	-17	-0.1%	-237
Value of new business as at 31 December 2011	424	2.9%	14,731

The weakening of the Euro against the Swiss Franc impacted VNB by EUR 1mn.

Germany Life's volume increase of 2% is described in the next chapter. Volumes in Switzerland and Austria were relatively stable.

Germany Health showed a 22% increase in premium volume. The increase represents a return to normal levels during 2011 after its Aktimed product was temporarily suspended during 2010. The product was relaunched in the fourth quarter of 2010 after repricing.

Overall, increased premium volumes impacted VNB by EUR 12mn.

Germany Life's management of its business mix was the main driver of the positive effect of the change in business mix. Switzerland however experienced a shift from unit-linked to endowment business which is less profitable, in particular in the current low interest environment. Overall, the change in business mix impacted VNB by EUR 25mn.

Change in assumptions was driven by Germany Life's economic assumption changes. Non-economic assumption changes in Germany Health, Switzerland and Austria however had a positive impact of EUR 3mn. Overall, the change of assumptions impacted VNB by EUR -17mn.

3.2.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for the German Speaking Countries decreased from EUR 11,337mn to EUR 9,516mn after dividend payments of EUR 607mn.

Germany Life paid a dividend of EUR 462mn, Germany Health EUR 84mn and Switzerland EUR 61mn.

MCEV earnings were -11% of the adjusted opening EV. The change was driven mainly by lower interest rates and higher volatilities. Germany Health however had a positive impact due to model improvements.

The analysis of earnings in Exhibit 14 presents the drivers of the change in EV.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE | Exhibit 14

	Earnings on MCEV analysis			
	Free Surplus EUR mn	Required Capital EUR mn	VIF EUR mn	MCEV EUR mn
Opening MCEV reported as at 31 December 2010	1,184	1,985	8,169	11,337
Foreign Exchange Variance	14	14	17	44
Acquired / Divested business	2	3	16	21
Others	0	0	0	0
Adjusted Opening MCEV as at 31 December 2010	1,199	2,002	8,202	11,403
Value of new business at point of sale	0	0	424	424
Expected existing business contribution				
reference rate	38	0	396	433
in excess of reference rate	14	0	214	228
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	883	-17	-866	0
on new business	-251	78	173	0
Experience variance	-26	3	28	5
Non-economic assumption changes	0	0	-370	-370
Other operating variance	6	8	1,185	1,200
Operating MCEV earnings	665	72	1,183	1,920
Economic variances	-105	175	-3,269	-3,200
Other non operating variance	0	0	0	0
Total MCEV earnings	559	247	-2,086	-1,280
Net capital movements	-607	0	0	-607
Closing MCEV as at 31 December 2011	1,151	2,249	6,116	9,516

Germany Life was the main driver of the German Speaking Countries' result. Germany Life is described separately in the following chapter. The remaining constituents will be the focus of this chapter.

The foreign exchange variance reflects the weakening of the Euro against the Swiss Franc during 2011. The exchange rate movement impacted EV by 44mn.

The acquired business reflects the change in group share of Germany Life from 99.74% to 100%.

Earning the reference rate on the in-force portfolio increased EV by EUR 433mn. Expected returns in excess of the reference rate increased EV by a further EUR 228mn.

The VNB at point of sale was EUR 424mn with a new business strain of EUR 251mn. The relatively low new business strain is a result of Germany's business model. The topic is discussed in the Germany Life chapter.

Experience variances of EUR 5mn reflects positive persistency experience in Germany Life, the strengthening of reserves with respect to minimum guarantees in Switzerland and the release of reserves in Austria due to regulatory changes.

Assumption changes impacted EV by EUR -370mn. The changes were driven by Germany Life, and are described later.

Other operating variances of EUR 1,200mn was driven by Germany Life and Health. Germany Life's variances are described in the next chapter. Germany Health implemented comprehensive model improvements. The improvements impacted its EV by EUR 467mn.

Economic variances of EUR -3,200mn was driven by lower interest rates (EUR -1,600mn), lower equities (EUR -1,000mn) and increased volatilities (EUR -600mn).

3.2.3 SENSITIVITIES

Exhibit 15 shows the sensitivities for the German Speaking Countries' EV and VNB.

SENSITIVITIES | Exhibit 15

	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	9,516	100%	273	100%
Required Capital equal to local solvency capital	308	3%	21	8%
EV change by economic factors				
Risk Free Rate – 100bp	-5,437	-57%	-499	-182%
Risk Free Rate +100bp	2,880	30%	184	67%
Risk Free Rate – 50bp	-2,128	-22%	-230	-84%
Risk Free Rate +50bp	1,628	17%	73	27%
Charge for CNHR +100bp	-398	-4%	-26	-10%
Equity and property values – 10%	-550	-6%	-1	0%
Swaption volatilities +25%	-1,356	-14%	-118	-43%
Equity option volatilities +25%	-703	-7%	-62	-23%
EV change by non-economic factors				
Lapse Rates – 10%	-26	0%	44	16%
Maintenance Expenses – 10%	295	3%	40	15%
Mortality – 5% for products with death risk	23	0%	4	1%
Mortality – 5% for products with longevity risk	-322	-3%	-21	-8%

The sensitivities are driven by the response of Germany Life's results to the shocks. Germany Life is described in the following chapter.

Non-economic sensitivities are not calculated for Germany Health because the health business has the ability to adjust premiums in response to assumption changes.

Due to the asymmetric nature of embedded options and guarantees, falling market rates have a higher impact on EV than rising rates. Interest rate sensitivities in 2011 are significantly higher than those of 2010 due to the market environment in which interest rates are lower and volatilities higher.

Volatility sensitivities too are higher than those of 2010 because of the current market in which volatilities are high. O&G values too have increased. Furthermore, volatility anchoring is not applied to the shocks.

VNB is calculated using a marginal approach. New business guarantees are lower than in-force guarantees so that the addition of new business to the portfolio reduces the overall guarantee level, which can become more valuable in distressed scenarios applied in some sensitivities. New business sensitivities may behave differently to the corresponding in-force sensitivities.

3.3 Germany Life

The EV of Germany Life decreased from EUR 7,975mn to EUR 6,132mn. The change was driven by negative economic variances.

3.3.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written by Germany Life in 2011 was EUR 378mn, 4% higher than the value published in 2010. The NBM changed from 3.0% to 3.1%. Exhibit 16 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS | Exhibit 16

	Value of New Business EUR mn	New Business Margin %	Present Value of NB Premium EUR mn
Reported Value as at 31 December 2010	362	3.0%	11,997
Change in Foreign Exchange	0	0.0%	0
Change in Allianz interest	0	0.0%	11
Adjusted Value as at 31 December 2010	362	3.0%	12,008
Change in volume	10	0.0%	521
Change in business mix	28	0.2%	0
Change in assumptions	-22	-0.1%	-236
Value of new business as at 31 December 2011	378	3.1%	12,292

The increase in VNB was mainly due to a more profitable business mix during 2011. Higher premium volumes, in particular recurring premium business, also had a positive impact on VNB.

The opening adjustment reflects the change in group share from 99.74% to 100%.

Recurring premium business increased by 17% over 2010. Sales at the end of 2011 were boosted by a last-call effect before the guarantee rate was reduced at the start of 2012.

Single premium business decreased by 9% compared to 2010. The decrease was due to the management of single premium crediting rates and a number of one-off large single premium sales in 2010.

Overall, premium volumes grew by 2%. The higher volumes impact VNB by EUR 10mn.

The change in business mix had a positive impact on VNB. The drivers of the change were the increase in relatively more profitable recurring premium business when compared to single premiums, longer contract periods and younger policyholders. The change in business mix impacted VNB by EUR 28mn and NBM by 20bps.

The change in assumptions was mainly with respect to the decrease in interest rates and increase of volatilities. The change in assumptions impacted VNB by EUR -22mn and NBM by -10bps.

3.3.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for Germany Life decreased from EUR 7,975mn to EUR 6,132mn after a dividend payment of EUR 462mn.

MCEV earnings were -18% of the adjusted opening EV. The change was driven mainly by lower interest rates and higher volatilities.

The analysis of earnings in Exhibit 17 presents the drivers of the change in EV.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE | Exhibit 17

	Earnings on MCEV analysis			
	Free Surplus EUR mn	Required Capital EUR mn	VIF EUR mn	MCEV EUR mn
Opening MCEV reported as at 31 December 2010	585	1,220	6,170	7,975
Foreign Exchange Variance	0	0	0	0
Acquired / Divested business	2	3	16	21
Others	0	0	0	0
Adjusted Opening MCEV as at 31 December 2010	586	1,223	6,186	7,996
Value of new business at point of sale	0	0	378	378
Expected existing business contribution				
reference rate	28	0	339	368
in excess of reference rate	8	0	169	177
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	685	-4	-681	0
on new business	-205	50	155	0
Experience variance	-13	0	18	6
Non-economic assumption changes	0	0	-352	-352
Other operating variance	0	0	641	640
Operating MCEV earnings	503	47	668	1,217
Economic variances	3	-1	-2,621	-2,619
Other non operating variance	0	0	0	0
Total MCEV earnings	506	45	-1,953	-1,402
Net capital movements	-462	0	0	-462
Closing MCEV as at 31 December 2011	630	1,269	4,233	6,132

Opening adjustments reflect the change in group share from 99.74% to 100% at the end of 2011.

Earning the reference rate on the in-force portfolio increased EV by EUR 368mn. Expected returns in excess of the reference rate further increased EV by EUR 177mn.

The VNB at point of sale was EUR 378mn with a new business strain of EUR 205mn. The new business strain is low compared to other markets and reflects the impact of Germany's open-fund business model, where new and in-force business are managed in a single fund. The structure allows for the offset of new business strain against technical profits from the in-force portfolio before profit sharing.

Experience variances of EUR 6mn mainly reflect the positive persistency experience on in-force.

Non-economic assumption changes impacted EV by EUR -352mn. The main drivers were increased CNHR and updated modelling of dynamic policyholder behaviour. The CNHR increased because of an updated derivation of the non-hedgeable risk capital on which it is based and a lower diversification factor.

Other operating variances of EUR 640mn reflect the change in investment strategy and model improvements. The change in investment strategy impacted EV by EUR 158mn. The anchoring of the non-liquid long end of the interest rate volatility curve impacted EV by EUR 621mn. Further model improvements included stochastic projections run with a higher number of paths. The statistical confidence of the result improves as the number of paths is increased.

Economic variances of EUR -2,619mn were driven mainly by lower interest rates and higher volatilities. The lower interest rates impacted EV by EUR -1,350mn, higher interest rate volatilities by EUR -400mn and lower equity returns by EUR -850mn. The change in equity volatilities had little impact.

3.3.3 SENSITIVITIES

Exhibit 18 shows the sensitivities for Germany Life's EV and VNB.

SENSITIVITIES | Exhibit 18

	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	6,132	100%	242	100%
Required Capital equal to local solvency capital	261	4%	20	8%
EV change by economic factors				
Risk Free Rate – 100bp	-4,998	-82%	-482	-199%
Risk Free Rate +100bp	2,369	39%	169	70%
Risk Free Rate – 50bp	-1,962	-32%	-224	-92%
Risk Free Rate +50bp	1,354	22%	65	27%
Charge for CNHR +100bp	-314	-5%	-23	-10%
Equity and property values – 10%	-415	-7%	0	0%
Swaption volatilities +25%	-1,261	-21%	-115	-48%
Equity option volatilities +25%	-637	-10%	-59	-24%
EV change by non-economic factors				
Lapse Rates – 10%	13	0%	42	17%
Maintenance Expenses – 10%	242	4%	37	15%
Mortality – 5% for products with death risk	16	0%	3	1%
Mortality – 5% for products with longevity risk	-308	-5%	-21	-9%

Germany Life's portfolio is mostly traditional participating business with long premium paying terms. Sensitivities to non-economic assumptions are relatively low because technical surplus is shared with policyholders.

Due to the asymmetric nature of embedded options and guarantees, falling market rates have a higher impact on EV than rising rates. Interest rate sensitivities in 2011 are significantly higher than those of 2010 due to the less favourable market environment.

Volatility sensitivities are relatively high because of the current market in which volatilities are high. O&G values too have increased. Furthermore, volatility anchoring is not applied to the shocks.

VNB is calculated using a marginal approach. New business guarantees are lower than in-force guarantees so that the addition of new business to the portfolio reduces the overall guarantee level, which can become more valuable in distressed scenarios applied in some sensitivities. New business sensitivities may behave differently to the corresponding in-force sensitivities.

3.4 Europe

The EV of Europe decreased from EUR 9,232mn to EUR 6,271mn. The change was driven by Italy where lower interest rates, higher volatilities and wider credit spreads impacted VIF and required capital.

3.4.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in Europe in 2011 was EUR 232mn, 27% lower than the value published in 2010. The NBM changed from 2.2% to 1.9%. Exhibit 19 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS | Exhibit 19

	Value of New Business EUR mn	New Business Margin %	Present Value of NB Premium EUR mn
Reported Value as at 31 December 2010	316	2.2%	14,159
Change in Foreign Exchange	-1	0.0%	-16
Change in Allianz interest	1	0.0%	16
Adjusted Value as at 31 December 2010	316	2.2%	14,159
Change in volume	-49	0.0%	-2,108
Change in business mix	-18	-0.2%	0
Change in assumptions	-17	-0.1%	3
Value of new business as at 31 December 2011	232	1.9%	12,054

The change in VNB was driven by changes in volume, mainly in Italy and France.

The foreign exchange adjustment reflects the move of the Euro against the Turkish lira.

The change in Allianz interest reflects the change in group share of Eurovida in Spain.

Premium volumes increased in most countries in Europe. Sales in Belgium, in particular, grew strongly by 24% in all lines of business. Premium volumes in Italy and France however decreased. Overall, volumes in Europe decreased by 15%. Lower volumes impacted VNB by EUR -49mn.

In Spain, the business mix shifted from higher margin credit insurance to savings products in order to secure greater market share. The change in business mix in Italy had a negative impact on VNB and is described in the chapter on Italy. The change in business mix in Europe impacted VNB by EUR -18mn and NBM by -20bps.

The change in assumptions reflects the decreased premium persistency and higher loss ratios of group business in France.

3.4.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for Europe decreased from EUR 9,232mn to EUR 6,271mn after a dividend payment of EUR 556mn. The analysis of earnings in Exhibit 20 presents the drivers of the change in EV.

MCEV earnings were -26% of the adjusted opening EV. The change was driven by adverse economic variances across most of the region, mainly due to lower interest rates, increased volatilities and increased sovereign debt spreads. Small positive earnings were reported by the Netherlands, Portugal and Turkey.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE | Exhibit 20

	Earnings on MCEV analysis			
	Free Surplus EUR mn	Required Capital EUR mn	VIF EUR mn	MCEV EUR mn
Opening MCEV reported as at 31 December 2010	1,399	3,997	3,837	9,232
Foreign Exchange Variance	-5	-2	-6	-13
Acquired / Divested business	4	6	14	24
Others	0	0	0	0
Adjusted Opening MCEV as at 31 December 2010	1,397	4,001	3,845	9,243
Value of new business at point of sale	-3	0	235	232
Expected existing business contribution				
reference rate	78	0	146	224
in excess of reference rate	122	0	94	216
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	607	-149	-459	0
on new business	-490	314	176	0
Experience variance	-76	-3	78	-2
Non-economic assumption changes	-65	65	65	65
Other operating variance	-50	-31	266	184
Operating MCEV earnings	123	195	601	919
Economic variances	-1,873	1,826	-3,288	-3,335
Other non operating variance	0	0	0	0
Total MCEV earnings	-1,751	2,022	-2,687	-2,416
Net capital movements	-556	0	0	-556
Closing MCEV as at 31 December 2011	-910	6,022	1,158	6,271

Italy and France are large constituents of Europe. Details of their earnings are covered in later chapters.

Opening adjustments reflect the weakening of the Turkish lira against the Euro, impacting the EV by EUR -13mn. Allianz increased its share of Eurovida in Spain from 50% to 60%, impacting EV by EUR 24mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 224mn. Expected returns in excess of the reference rate further increased EV by EUR 216mn.

The VNB at point of sale was EUR 232mn with a new business strain of EUR 490mn. The most significant new business strain was incurred in France and Italy. Spain invested EUR 47mn and Belgium 26mn in new contracts.

Experience variances of EUR -2mn reflect negative experience variances in France, the Netherlands, and Turkey that were offset by positive experience variances in Italy, Portugal, Spain, and Belgium.

Non-economic assumption changes impacted EV by EUR 65mn. Large changes reported by France and Italy are described in their chapters that follow. Belgium reported a change of EUR -91mn due to the impacts of the annual

contribution to the state warranty fund, which started at the beginning of 2011, and a change to the effective tax rate.

Other operating variances of EUR 184mn reflect mainly variances in France and Italy. Belgium reported EUR 41mn that reflected changes to their investment strategy and several other effects.

Economic variances of EUR -3,335mn were driven by lower interest rates, higher volatilities and wider sovereign debt spreads. The largest effects were seen in France and Italy followed by variances in Spain of EUR -304mn, in Belgium EUR -311mn and in Greece EUR -116mn. France and Italy are described in later chapters.

Net capital movements of EUR 556mn were paid by the region in 2011. EUR 113mn contributed by Spain was an internal capital transfer from the life company to the non-life company.

The market turmoil at the end of 2011 resulted in a negative free surplus at the valuation date. The largest changes to the free surplus were due to Italy (EUR -1,212mn change), Belgium (EUR -613mn change), and Spain (EUR -442mn change). At the time of publication, however, spreads in these countries had reduced, leading to a positive free surplus.

3.4.3 SENSITIVITIES

Exhibit 21 presents the sensitivities for Europe's EV and VNB.

SENSITIVITIES | Exhibit 21

	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	6,271	100%	160	100%
Required Capital equal to local solvency capital	125	2%	4	2%
EV change by economic factors				
Risk Free Rate - 100bp	-726	-12%	-33	-21%
Risk Free Rate +100bp	386	6%	13	8%
Risk Free Rate - 50bp	-313	-5%	-12	-7%
Risk Free Rate +50bp	223	4%	8	5%
Charge for CNHR +100bp	-147	-2%	-12	-8%
Equity and property values - 10%	-352	-6%	-10	-6%
Swaption volatilities +25%	-314	-5%	-8	-5%
Equity option volatilities +25%	-203	-3%	-1	-1%
EV change by non-economic factors				
Lapse Rates - 10%	77	1%	12	7%
Maintenance Expenses - 10%	214	3%	11	7%
Mortality - 5% for products with death risk	59	1%	5	3%
Mortality - 5% for products with longevity risk	-84	-1%	0	0%

The impact from lower risk free rates was larger than in 2010, mainly triggered by France and Belgium as interest rates decreased and moved closer to or lower than guarantees. Due to the asymmetric nature of embedded financial options and guarantees, falling market rates have a greater impact on EV than rising rates.

The volatility sensitivities also had larger impacts in 2011, driven by France and Italy. Volatilities were at a higher level in general compared to 2010. Similar to interest rates, there is an asymmetric nature to the values produced from volatility sensitivities.

Sensitivities to non-economic factors are highest regarding expenses, while changes in mortality mainly affect entities with a substantial exposure in risk products (e.g. Portugal and Spain).

3.5 France

The EV of France decreased from EUR 4,603mn to EUR 3,903mn. The development was driven by the unfavourable economic environment.

3.5.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in France in 2011 was EUR 72mn, 33% lower than the value published in 2010.

DEVELOPMENT OF VALUE OF NEW BUSINESS | Exhibit 22

	Value of New Business EUR mn	New Business Margin %	Present Value of NB Premium EUR mn
Reported Value as at 31 December 2010	107	1.7%	6,266
Change in Foreign Exchange	0	0.0%	0
Change in Allianz interest	0	0.0%	0
Adjusted Opening Value as at 31 December 2010	107	1.7%	6,266
Change in volume	-21	0.0%	-923
Change in business mix	2	-0.1%	0
Change in assumptions	-16	-0.3%	0
Value of new business as at 31 December 2011	72	1.3%	5,343

The change in VNB was mainly due to lower premium volumes.

Premium volumes decreased by 15% from 2010. Premium production in 2010 was however extraordinarily strong, driven by the promotional offers in the first half of the year. The decrease in 2011 represents to some extent a normalization. The change in volume impacted VNB by EUR -21mn.

The business mix changed little and impacted VNB by EUR 2mn.

The positive impact of economic assumption changes was more than offset by the changes in non-economic assumptions, in particular the negative impact of decreased premium persistency and higher loss ratios in Group Protection business. The change in assumptions impacted VNB by EUR -16mn and NBM by -30bps.

3.5.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of France decreased from EUR 4,603mn to EUR 3,903mn after a dividend payment of EUR 162mn.

MCEV earnings were -12% of the adjusted opening EV. The change was driven by lower interest rates, lower equities and higher volatilities. Lower expense assumptions however had a positive impact.

The analysis of earnings in Exhibit 23 presents the drivers of the change in EV.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE | Exhibit 23

	Earnings on MCEV analysis			
	Free Surplus EUR mn	Required Capital EUR mn	VIF EUR mn	MCEV EUR mn
Opening MCEV reported as at 31 December 2010	390	1,650	2,563	4,603
Foreign Exchange Variance	0	0	0	0
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
Adjusted Opening MCEV as at 31 December 2010	390	1,650	2,563	4,603
Value of new business at point of sale	0	0	72	72
Expected existing business contribution				
reference rate	31	0	83	115
in excess of reference rate	23	0	66	89
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	277	-64	-213	0
on new business	-219	144	75	0
Experience variance	-53	-16	32	-38
Non-economic assumption changes	-1	1	175	175
Other operating variance	-18	-21	171	132
Operating MCEV earnings	40	43	461	545
Economic variances	188	-189	-1,081	-1,082
Other non operating variance	0	0	0	0
Total MCEV earnings	228	-146	-620	-538
Net capital movements	-162	0	0	-162
Closing MCEV as at 31 December 2011	456	1,504	1,943	3,903

Earning the reference rate on the in-force portfolio increased EV by EUR 115mn. Expected returns in excess of the reference rate further increased EV by EUR 89mn.

The VNB at point of sale was EUR 72mn with a new business strain of EUR 219mn.

Experience variances of EUR -38mn reflect the negative experience from lapses and the deviation from crediting strategy. One-off expenses of EUR 5mn were incurred with respect to business restructuring.

Non-economic assumption changes of EUR 175mn reflects mostly the positive effect from lowered expected expenses.

Other operating variances of EUR 132mn reflects changes with respect to the interest rate models and asset mix, as well as the positive true-up effect due to the roll-forward of assets and liabilities at year-end 2010.

Economic variances of EUR -1,082mn reflects the decrease of interest rates and equity level and higher interest volatility.

3.5.3 SENSITIVITIES

Exhibit 24 shows the sensitivities for France's EV and VNB.

SENSITIVITIES | Exhibit 24

	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	3,903	100%	46	100%
Required Capital equal to local solvency capital	0	0%	0	0%
EV change by economic factors				
Risk Free Rate – 100bp	-239	-6%	4	9%
Risk Free Rate +100bp	48	1%	-3	-6%
Risk Free Rate – 50bp	-87	-2%	2	4%
Risk Free Rate +50bp	51	1%	-1	-2%
Charge for CNHR +100bp	-50	-1%	-5	-10%
Equity and property values – 10%	-212	-5%	0	0%
Swaption volatilities +25%	-118	-3%	1	1%
Equity option volatilities +25%	-167	-4%	0	1%
EV change by non-economic factors				
Lapse Rates – 10%	48	1%	0	0%
Maintenance Expenses – 10%	111	3%	1	2%
Mortality – 5% for products with death risk	31	1%	1	2%
Mortality – 5% for products with longevity risk	-54	-1%	0	0%

Sensitivities to economic assumptions increased from last year due to the unfavourable economic environment. A fall in the risk free rate of 100bps reduces EV by EUR 239mn or 6%. An increase in interest rates by 100bps increases the EV by EUR 48mn or 1%.

France has a higher exposure to equity and property than most other countries and is therefore more sensitive to a drop in equity and property value. A drop of 10% reduces EV by 5%. Sensitivities to non-economic factors are low due to the ability to share the technical result with policyholders.

VNB is calculated using a marginal approach. New business guarantees are lower than inforce guarantees so that adding new business to the portfolio reduces the overall guarantee level, which can become more valuable in distressed scenarios applied in some sensitivities.

3.6 Italy

The EV of Italy decreased from EUR 2,762mn to EUR 1,262mn. The change was driven by the unfavourable economic environment of lower interest rates and equity movements, widened credit spreads between Italian government bonds and swap rates and higher market volatilities.

3.6.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in Italy in 2011 was EUR 97mn, 32% lower than the value published in 2010. The NBM changed from 2.4% to 2.1%. Exhibit 25 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS | Exhibit 25

	Value of New Business EUR mn	New Business Margin %	Present Value of NB Premium EUR mn
Reported Value as at 31 December 2010	142	2.4%	5,925
Change in Foreign Exchange	0	0.0%	0
Change in Allianz interest	0	0.0%	0
Adjusted Opening Value as at 31 December 2010	142	2.4%	5,925
Change in volume	-29	0.0%	-1,253
Change in business mix	-9	-0.2%	0
Change in assumptions	-8	-0.2%	-2
Value of new business as at 31 December 2011	97	2.1%	4,670

The change in VNB is driven by lower premium volumes of 2011. Sales were affected by an unfavourable economy and higher personal taxes with lower disposable incomes. A sharp increase in Italian government bond rates shifted bank sales to bonds.

Premium volumes decreased by 21%. The drop in sales affected all sales channels, in both traditional and unit-linked business lines. The change in volume impacted VNB by EUR -29mn.

Although recurring premium business increased by 17%, single premiums decreased by 25%. Most of Italy's new business is single premium business. The change in business mix impacted VNB by EUR -9mn and NBM by -20bps.

The change in assumptions was mainly with respect to lower interest rates, higher Italian government bond spreads to swap rates and higher market volatilities. Higher mortality, lapse and tax rates also impacted the VNB. The change in assumptions impacted VNB by EUR -8mn and NBM by -20bps.

The MCEV methodology does not allow for the capitalization of the spreads on government bonds in the VNB. However, for asset liability matching purposes, Italy uses government bonds to back their relevant liabilities. If the spreads on Italian government bonds were taken into account, the additional value created would have increased the VNB from EUR 97mn to EUR 131mn.

3.6.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of Italy decreased from EUR 2,762mn to EUR 1,262mn after a dividend payment of EUR 223mn.

MCEV earnings were -46% of the adjusted opening EV. The change was driven by lower interest rates, higher volatilities and higher sovereign debt spreads.

The analysis of earnings in Exhibit 26 presents the drivers of the change in EV.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE | Exhibit 26

	Earnings on MCEV analysis			
	Free Surplus EUR mn	Required Capital EUR mn	VIF EUR mn	MCEV EUR mn
Opening MCEV reported as at 31 December 2010	852	1,026	884	2,762
Foreign Exchange Variance	0	0	0	0
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
Adjusted Opening MCEV as at 31 December 2010	852	1,026	884	2,762
Value of new business at point of sale	0	0	97	97
Expected existing business contribution				
reference rate	29	0	37	67
in excess of reference rate	87	0	0	87
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	242	-79	-164	0
on new business	-161	91	69	0
Experience variance	-6	0	26	20
Non-economic assumption changes	0	0	-86	-86
Other operating variance	19	0	40	59
Operating MCEV earnings	211	13	20	243
Economic variances	-1,200	1,159	-1,479	-1,520
Other non operating variance	0	0	0	0
Total MCEV earnings	-989	1,172	-1,460	-1,277
Net capital movements	-223	0	0	-223
Closing MCEV as at 31 December 2011	-360	2,198	-575	1,262

Earning the reference rate on the in-force portfolio increased EV by EUR 67mn. Expected returns in excess of the reference rate further increased EV by EUR 87mn.

The VNB at point of sale was EUR 97mn with a new business strain of EUR 161mn.

Experience variances of EUR 20mn reflects mostly positive tax variances, offset by negative lapse experience.

Non-economic assumption changes of EUR -86mn reflects higher lapse and expense assumption changes.

The other operating variances of EUR 59mn was in respect of refinements to the stochastic model.

The economic variances of EUR -1,520mn was driven by lower interest rates, lower equities and Italian government bond spreads that widened by more than 200bps.

Required capital increased by EUR 1,172mn as the internal risk capital exceeded local solvency capital. The significant decrease in VIF contributed strongly to the increase in required capital. The higher required capital resulted in a negative free surplus.

The VIF decreased mainly due to unrealized losses on Italian government bonds, increased O&G due to increased volatilities and higher CNHR due to the higher risk capital.

The MCEV methodology does not allow for the capitalization of the spreads on government bonds in the VIF. However, for asset liability matching purposes, Italy uses government bonds to back their relevant liabilities. If the spreads on Italian government bonds were taken into account, the additional value created would have increased the VIF from EUR -575mn to EUR 1,029mn. This would have increased the closing EV to EUR 2,866mn.

3.6.3 SENSITIVITIES

Exhibit 27 shows the sensitivities for Italy's EV and VNB.

SENSITIVITIES | Exhibit 27

	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	1,262	100%	78	100%
Required Capital equal to local solvency capital	100	8%	0	0%
EV change by economic factors				
Risk Free Rate – 100bp	-191	-15%	-8	-10%
Risk Free Rate +100bp	145	12%	4	5%
Risk Free Rate – 50bp	-94	-7%	-2	-2%
Risk Free Rate +50bp	75	6%	1	1%
Charge for CNHR +100bp	-31	-2%	-4	-5%
Equity and property values – 10%	-72	-6%	-4	-5%
Swaption volatilities +25%	-151	-12%	-6	-8%
Equity option volatilities +25%	-8	-1%	0	-1%
EV change by non-economic factors				
Lapse Rates – 10%	-18	-1%	6	8%
Maintenance Expenses – 10%	39	3%	5	7%
Mortality – 5% for products with death risk	5	0%	2	2%
Mortality – 5% for products with longevity risk	-4	0%	0	0%

For economic factors, the EV is more sensitive than 2010 due to the lower interest rate environment. For traditional business, the current level of interest rates are close to the minimum guarantee rates, therefore further decreases on interest rates would result in losses for shareholders.

Volatility sensitivities are relatively high because of the current market in which volatilities are high. O&G values too have increased. Furthermore, volatility anchoring is not applied to the shocks.

The in-force lapse rate sensitivity is negative because the traditional business is in loss due to the minimum guarantees. Higher lapses would lead to lower losses on the in-force traditional business.

3.7 Growth Markets

The EV of the Growth Markets decreased from EUR 1,804mn to EUR 1,363mn. The change was mainly driven by lower interest rates in Korea and Taiwan.

3.7.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in the Growth Markets in 2011 was EUR 182mn, 5% lower than the value published in 2010. The NBM increased from 2.4% to 2.9%. Exhibit 28 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS | Exhibit 28

	Value of New Business EUR mn	New Business Margin %	Present Value of NB Premium EUR mn
Reported Value as at 31 December 2010	192	2.4%	7,859
Change in Foreign Exchange	-2	0.0%	13
Change in Allianz interest	0	0.0%	0
Adjusted Value as at 31 December 2010	190	2.4%	7,872
Change in volume	4	0.0%	-1,611
Change in business mix	27	1.1%	0
Change in assumptions	-40	-0.6%	-68
Value of New Business as at 31 December 2011	182	2.9%	6,193

The change in VNB was driven by change in assumptions and expense overruns in Japan.

Premium volumes in CEEMA increased in 2011. The Czech Republic in particular saw healthy new business growth. In Asia, volumes decreased markedly in Taiwan. Overall, the increase in volume in the Growth Markets impacted VNB by EUR 4mn.

Management of the business mix was particularly successful in Taiwan and Korea. In Taiwan, where Allianz sells predominantly unit-linked business, management action resulted in a higher proportion of recurring premium business while the proportion of relatively low margin single premium top-ups decreased. In Korea, sales shifted from relatively low margin investment products to higher margin whole of life risk products. The change in business mix impacted VNB by EUR 27mn and NBM by 110bps.

The change in assumptions was driven mainly by lower interest rates in Korea. Updated non-economic assumptions in Slovakia and the Czech Republic also had an impact. Overall, the change in assumptions impacted VNB by EUR -40mn and NBM by -60bps.

3.7.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for the Growth Markets decreased from EUR 1,804mn to EUR 1,363mn after net capital movements of EUR 25mn. MCEV earnings were -25% of the adjusted opening EV. The change was driven by lower interest rates, higher volatilities and the decision to cease new business operations in Japan.

The analysis of earnings in Exhibit 29 presents the drivers of the change in EV.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE | Exhibit 29

	Earnings on MCEV analysis			
	Free Surplus EUR mn	Required Capital EUR mn	VIF EUR mn	MCEV EUR mn
Opening MCEV reported as at 31 December 2010	-295	1,720	379	1,804
Foreign Exchange Variance	-11	9	-10	-12
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
Adjusted Opening MCEV as at 31 December 2010	-306	1,729	369	1,792
Value of new business at point of sale	-41	0	223	182
Expected existing business contribution				
reference rate	40	0	63	103
in excess of reference rate	25	0	10	34
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	235	-73	-162	0
on new business	-256	130	126	0
Experience variance	-36	23	-26	-39
Non-economic assumption changes	-154	154	-76	-75
Other operating variance	-42	83	-133	-92
Operating MCEV earnings	-229	317	25	113
Economic variances	-341	354	-580	-567
Other non operating variance	17	0	-17	0
Total MCEV earnings	-554	671	-572	-454
Net capital movements	25	0	0	25
Closing MCEV as at 31 December 2011	-835	2,400	-203	1,363

Earning the reference rate on the in-force portfolio increased EV by EUR 103mn. Expected returns in excess of the reference rate further increased EV by EUR 34mn.

The VNB at point of sale was EUR 182mn with a new business strain of EUR 256mn. The increase in acquisition expense overruns since 2010 was driven by the decision to cease new business operations in Japan.

Experience variances of EUR -39mn mainly reflects the recognition of maintenance expense overruns in Japan. A one-off special tax for financial institutions in Hungary is reflected in this variance. One-off maintenance expense overruns in Romania and underruns in China are also included in this variance.

Non-economic assumption changes impacted EV by EUR -75mn. The main drivers were the increase of CNHR and updated modelling of dynamic lapses in Korea. The CNHR increased because of an updated derivation of the non-hedgeable risk capital on which it is based and a lower diversification factor.

Other operating variances of EUR -92mn reflects the valuation of future maintenance expense overruns in Japan.

Economic variances of EUR -567mn were driven mainly by lower interest rates in Korea and Taiwan.

Japan received a capital injection of EUR 45mn.

The decrease of both VIF and FS was driven by Korea and Taiwan where the legacy in-force business with relatively high guarantees is sensitive to interest rates. The latest new business in both countries is more profitable and less sensitive to interest rates. Continued management of the business mix is expected to emerge as positive impacts on future EV results.

3.7.3 SENSITIVITIES

Exhibit 30 presents the sensitivities for the Growth Markets' EV and VNB.

SENSITIVITIES | Exhibit 30

	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	1,363	100%	158	100%
Required Capital equal to local solvency capital	47	3%	3	2%
EV change by economic factors				
Risk Free Rate – 100bp	-688	-50%	-6	-4%
Risk Free Rate +100bp	461	34%	-1	-1%
Risk Free Rate – 50bp	-312	-23%	-3	-2%
Risk Free Rate +50bp	248	18%	-2	-1%
Charge for CNHR +100bp	-118	-9%	-8	-5%
Equity and property values – 10%	-33	-2%	-1	0%
Swaption volatilities +25%	-82	-6%	-2	-1%
Equity option volatilities +25%	-39	-3%	0	0%
EV change by non-economic factors				
Lapse Rates – 10%	39	3%	19	12%
Maintenance Expenses – 10%	96	7%	14	9%
Mortality – 5% for products with death risk	119	9%	8	5%
Mortality – 5% for products with longevity risk	-28	-2%	-1	-1%

Sensitivities to interest rates are driven by the high guarantees in the old-block traditional portfolios in Korea and Taiwan.

Due to the asymmetric nature of embedded options and guarantees, falling market rates have a higher impact on EV than rising rates.

The new business sensitivity to lapse rates is mostly driven by Korea. The corresponding in-force lapse sensitivity is lower, due to offsetting effects between old business where guarantees are in the money and new business with lower guarantees.

3.8 USA

The EV of USA decreased from EUR 4,427mn to EUR 4,093mn. The main positive driver was the unwinding due to significant current expected over-return, which was more than offset by with a larger future negative impact from economic variances as credit spreads widened.

3.8.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in the USA in 2011 was EUR 175mn, 11% higher than the value published in 2010. The NBM increased from 2.0% to 2.3%. Exhibit 31 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS | Exhibit 31

	Value of New Business EUR mn	New Business Margin %	Present Value of NB Premium EUR mn
Reported Value as at 31 December 2010	158	2.0%	7,991
Change in Foreign Exchange	-7	0.0%	-289
Change in Allianz interest	0	0.0%	0
Adjusted Opening Value as at 31 December 2010	151	2.0%	7,702
Change in volume	4	0.0%	46
Change in business mix	35	0.5%	0
Change in assumptions	-14	-0.2%	0
Value of New Business as at 31 December 2011	175	2.3%	7,748

The increase in VNB was due mainly to the proactive management of the business mix in 2011.

The US Dollar movements impacted VNB by EUR -7mn.

Volumes were slightly higher due to new product launches and heavy sales promotion of the fixed indexed annuity product in early 2011. The increase in volume impacted VNB by EUR 4mn.

Variable annuity riders were repriced to maintain their margin. Product changes were introduced on fixed indexed annuities and sales were higher in the first half of the year when rates were higher. The change in business mix impacted VNB by EUR 35mn and NBM by 50bps.

The change in assumptions reflects mainly the decrease in interest rates. Positive impacts were due to updates to non-economic assumptions and changes in estimated acquisition expense overruns. The change in assumptions impacted VNB by EUR -14mn and NBM by -20bps.

3.8.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of USA decreased from EUR 4,427mn to EUR 4,093mn after a dividend payment of EUR 39mn.

MCEV earnings were -10% of the adjusted opening EV. The change was driven mainly by lower interest rates, higher volatilities, lower equities and wider credit spreads.

The analysis of earnings in Exhibit 32 presents the drivers of the change in EV.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE | Exhibit 32

	Earnings on MCEV analysis			
	Free Surplus EUR mn	Required Capital EUR mn	VIF EUR mn	MCEV EUR mn
Opening MCEV reported as at 31 December 2010	435	3,220	772	4,427
Foreign Exchange Variance	15	108	26	148
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
Adjusted Opening MCEV as at 31 December 2010	449	3,327	798	4,575
Value of new business at point of sale	12	0	163	175
Expected existing business contribution				
reference rate	37	0	154	192
in excess of reference rate	580	0	205	786
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	92	-231	139	0
on new business	-455	413	42	0
Experience variance	0	0	-11	-11
Non-economic assumption changes	0	0	-48	-48
Other operating variance	-306	308	43	45
Operating MCEV earnings	-40	490	688	1,138
Economic variances	-274	207	-1,514	-1,581
Other non operating variance	0	0	0	0
Total MCEV earnings	-313	697	-826	-443
Net capital movements	-39	0	0	-39
Closing MCEV as at 31 December 2011	97	4,024	-29	4,093

The opening adjustment reflects the strengthening of the US Dollar against the Euro by 3% at year-end. The currency movement impacted EV by EUR 148mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 192mn. Expected returns in excess of the reference rate, mainly the realization of expected corporate spreads during the year, further increased EV by EUR 786mn.

The VNB at point of sale was EUR 175mn with a new business strain of EUR 455mn.

Experience variances of EUR -11mn reflects the surrender, mortality and annuitization variances in 2011.

Change of assumption of EUR -48mn reflects the annual update of non-economic assumptions, mainly in respect of lapses and mortality.

Other operating variances of EUR 45mn reflects model updates and changes due to updates to the S&P Capital model. The finalization of the S&P Capital model in 2011 resulted in an increase in required capital.

Economic variances of EUR -1.581mn was driven by widening of credit spreads, decreased interest rates, increased volatilities and lower equities.

The decrease of both VIF and FS was driven by the inconsistency in the valuation of assets and liabilities. The increase in corporate credit spreads had a negative effect on the value of assets with no corresponding effect on the value of liabilities. The effect was observed in spite of assets and liabilities being well matched.

3.8.3 SENSITIVITIES

Exhibit 33 shows the sensitivities for the USA EV and VNB.

SENSITIVITIES | Exhibit 33

	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	4,093	100%	-4	100%
Required Capital equal to local solvency capital	166	4%	21	-577%
EV change by economic factors				
Risk Free Rate – 100bp	-521	-13%	-92	2505%
Risk Free Rate +100bp	242	6%	56	-1530%
Risk Free Rate – 50bp	-228	-6%	-41	1099%
Risk Free Rate +50bp	147	4%	32	-865%
Charge for CNHR +100bp	-50	-1%	-4	110%
Equity and property values – 10%	-89	-2%	-26	704%
Swaption volatilities +25%	-112	-3%	-10	276%
Equity option volatilities +25%	-304	-7%	-27	743%
EV change by non-economic factors				
Lapse Rates – 10%	-103	-3%	-6	153%
Maintenance Expenses – 10%	94	2%	9	-251%
Mortality – 5% for products with death risk	8	0%	0	-4%
Mortality – 5% for products with longevity risk	-60	-1%	-4	102%

Compared to 2010, in-force and new business sensitivities to interest rates have increased significantly due to an interest rate environment that is 154bps lower than the previous year. Sensitivities for equity shocks have also increased as the change in the economic environment has a correlated effect.

The VNB central value is lower than the sum of quarters value due to the sales for the entire year of 2011 being valued on the year-end basis. Product changes introduced over the course of 2011 mean that the policies sold earlier in the year are not the same ones being sold in the current economic environment.

3.9 Holding

The Holding EV reflects the results of internal reinsurance and the holding expense adjustment. For 2011 Allianz Mexico Life is also included, as the entity will only be assigned to a specific region in 2012. The following table summarizes the impact of these adjustments.

SUMMARY HOLDING | Exhibit 34

	Impact of Holding Expense EUR mn	Reinsurance EUR mn	Mexico EUR mn	Total EUR mn
Ending Embedded Value 2010	-499	121	n/a	-378
Ending Embedded Value 2011	-582	136	70	-375
Value of New Business 2010	-99	23	n/a	-76
Value of New Business 2011	-105	24	9	-73

Holding Expenses

Although total holding expenses were lower than in 2010, the allocation to the life segment was higher. The higher after-tax life segment holding expenses resulted in a decrease in EV and VNB. Further, the lower interest rates and the resulting lower discounting of future maintenance expenses led to a bigger impact of the present value of the holding expenses on the EV and VNB.

Reinsurance

The reinsurance EV increased, mainly driven by the VNB and the positive impact of a lower discount rate, partly offset by the negative effect of setting the NAV of the entity covering traditional reinsurance to zero. This was done as all assets are held outside of the entity. VNB increased mainly from two large contracts sold by the Singapore branch, which offsets the lower value of the reinsurance of Japanese variable annuities, following the decision to stop selling new business in Japan in 2011.

Allianz Mexico Life

Allianz Mexico Life reported for the first time their EV and VNB results in 2011, and are now included in the Life Health segment. The impact on the overall results is positive. From 2012 this will no longer be included in the Holding, but in a specific region.

4. Independent Opinion

KPMG has been engaged to review the Market Consistent Embedded Value (MCEV) of Allianz Group, Munich, as at 31 December 2011 as stipulated in the MCEV Principles published by the CFO forum in June 2008 and amended in October 2009 (MCEV Principles) as described in the accompanying MCEV Report of Allianz Group. Management is responsible for the preparation of the MCEV Report including the calculation of the MCEV. This includes particularly setting the operative and economic assumptions, the explanation concerning the determination of the MCEV and its roll forward, the implementation and the operativeness of the system which ensures the completeness and correctness of the data which are necessary for the calculation of the MCEV.

KPMG's responsibility is to express an opinion on the calculation of the MCEV based on review procedures. Assessment criteria for this opinion are the MCEV Principles.

We conducted our review of the MCEV in accordance with IDW PS 570. This standard requires that we plan and conduct the review so that we can preclude through critical evaluation, with a certain level of assurance, that the MCEV report – the methodology and assumptions used, the calculation and further information – has not been prepared in material aspects in accordance with the requirements of the MCEV Principles. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a MCEV audit.

The calculation of the MCEV is subject to numerous assumptions on future conditions and events which are uncertain and beyond control of the company. Therefore the actual future cash-flows might differ significantly from those underlying the MCEV report.

Based on our review no matters have come to our attention that causes us to presume that the MCEV report has not been prepared in material respects in accordance with the MCEV Principles.

Munich, 15th March 2012

KPMG AG Wirtschaftsprüfungsgesellschaft

Dr. Peter Ott

Dr. Thorsten Wagner

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B. APPENDIX: ASSUMPTIONS

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C. APPENDIX: DISCLAIMER

D. APPENDIX: GLOSSARY AND ABBREVIATIONS

A Appendix: Methodology

Allianz Group provides the operating entities with detailed guidelines in order to ensure consistency of EV calculations throughout the Group. Allianz Group sets the economic assumptions centrally which are then used in the calculations by the operating entities. All results submitted to Allianz Group are reviewed and approved by the local chief actuaries and CFOs.

A.1 DEFINITIONS

According to MCEV Principle 3, MCEV is defined as the present value of shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business. It is calculated on an after-tax basis taking into account current legislation and known future changes.

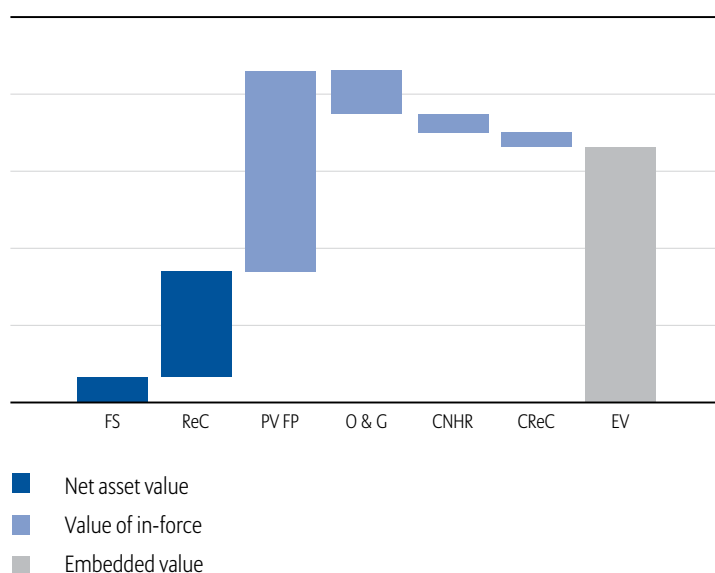
The EV can be broken down into the net asset value ("NAV"), i.e. the value of the assets not backing liabilities, and the value of in-force business ("VIF"), i.e. the value of future profits emerging from operations and assets backing liabilities.

The NAV is defined as

- The required capital ("ReC"), i.e. the minimum amount of capital necessary to run the business
- The free surplus ("FS") allocated to the covered business

The VIF is defined as

- The present value of future profits from in-force business ("PVFP"), after allowance for
- The time value of financial options and guarantees ("O&G"),
- The cost of residual non-hedgeable risks ("CNHR") and
- The frictional cost of required capital ("CReC").



A.2 NET ASSET VALUE

NAV is the market value of the assets not backing local statutory reserves at 31 December 2011, net of an allowance for tax on unrealized capital gains. The NAV includes the ReC, i.e. the amount of capital required to support in-force business in excess of local statutory reserves, FS, i.e. the market value of any capital allocated to, but not required to support, the in-force business at the valuation date.

A.3 REQUIRED CAPITAL

Allianz defines required capital as the maximum of the local minimum statutory solvency capital, the capital requirement derived from the internal risk capital model and additional capital to reflect market standards.

Required capital derived from the internal risk capital model is defined as $[\text{risk capital} - (\text{PVFP} - \text{O\&G} - \text{CNHR})]$.

The internal risk capital in Allianz Group is defined as the maximum loss of MCEV that shareholders may experience under adverse conditions over a time horizon of one year with a confidence interval of 99.93%. The 99.93% interval reflects the Group's target rating of AA. Risk Capital is held to protect against insolvency from the point of view of the economic balance sheet over a time horizon of one year. The time horizon has been chosen to be one year as it is assumed to take up to one year to transfer liabilities to a third party.

To quantify internal risk capital for life insurance operations, the risk universe is first broken down into market, credit, actuarial and business risks. These are further decomposed into single risk drivers and sub risk drivers. For each risk driver stand-alone capital is defined that is based on the change in MCEV under worst case shock conditions of that risk driver.

Internal risk capital is calculated on a fund level, where "fund" refers to a subset of assets and related liabilities that are managed together, forming the basis for a common profit sharing mechanism and thus forming a key element of risk mitigation. In order to derive risk capital requirements on a fund level, stand-alone risk capital requirements per risk driver are aggregated in a first step to risk capital per risk category and then further aggregated to a fund level. Diversification between non-financial risks, between financial risks and between covered entities within MCEV scope is allowed for. Diversification does not include effects between financial and non-financial risks and between covered and non-covered entities.

Generally, the economic capital requirement is monitored and met for each entity, however in exceptional situations, individual companies or segments may not be fully capitalized beyond local solvency levels. This means that risk capital requirements may be higher than MCEV on a local or segment level, or equivalently required capital may be higher than MCEV NAV, as long as targets are met at Group level. Nevertheless the local entities will have to reflect the full required capital (including the economic view) and calculate the cost of required capital accordingly.

A.4 VALUE OF INFORCE COVERED BUSINESS

The VIF covered business is defined as the PVFP from in-force covered business after allowance for O&G, CNHR and CReC. These terms are defined in the following sections.

..... ■ A.4.1 PRESENT VALUE OF FUTURE PROFITS

The PVFP is the discounted present value of the projected future emergence of shareholders' statutory profits, based on projected cash-flows resulting from the current in-force portfolio.

Within the market consistent approach, each cash-flow is valued using the discount rate consistent with that applied to such a cash-flow in the capital markets. For example, an equity cash-flow is valued using an equity risk discount rate, and a bond cash-flow is valued using a bond risk discount rate.

Where cash-flows are either independent of or move linearly with market movements, an equivalent and more practical method, known as the 'certainty equivalent' approach, can be applied, whereby it is assumed that all assets earn the reference rate and all cash-flows are discounted using the reference rate. This leads to the same result as the method described in the previous paragraph.

The PVFP includes any intrinsic value of the embedded financial options and guarantees. Additional costs of O&G related to the variability of investment returns (the time value) are shown separately as described in the following section.

..... ■ A.4.2 TIME VALUE OF OPTIONS AND GUARANTEES

A market consistent approach has been adopted for the valuation of material financial options and guarantees, using a stochastic option pricing technique calibrated to be consistent with the market price of relevant traded options.

The most material options and guarantees granted by the Allianz Group companies are:

- Guaranteed interest rates and minimum maturity values
- Guaranteed minimum surrender values
- Annuity conversion options
- Extension options
- Options and guarantees for unit-linked contracts and variable life and annuities
- Fund switching options with guarantee

O&G is determined based on stochastic techniques. Due to their complex nature, for the majority of the business there is no closed form solution to determine the value. Therefore stochastic simulations are applied which project all cash-flows and reserves including expenses, taxes etc. under a significant number of economic scenarios to determine a stochastic PVFP. O&G is then calculated as the difference between the certainty equivalent and the average of stochastic PVFPs.

The models and assumptions employed in the stochastic simulation are consistent with the underlying embedded value and allow for the effect of management actions and policyholder behavior in different economic scenarios. The scenarios and the key parameters used in the calculations of O&G are described in Appendix B.1.

The entities maintain an asset-liability interaction tool which is used for the stochastic simulations for O&Gs and also for the calculation of risk capital. An important part of this tool is the modelling of investment and crediting strategies:

The main components of the investment strategies are the definition of a target asset allocation, definition of buying and selling rules for the rebalancing process and the definition of asset profiles for reinvestments. While in the standard model the target allocation is defined upfront for each fund and time step, some subsidiaries have refined the implemented strategy to include simple dynamic rules based on stress tests that are prescribed by local authorities. The target allocation is normally consistent with the current asset mix. Projected changes to the asset mix can only be considered to the extent that they have already been agreed in business plans and have been at least partly achieved by the end of the reporting period. Such changes are only considered to the extent that they are projected to be realized within the first three projection years.

The modeled crediting strategy considers all major regulatory and contractual rules. Within these boundaries it is recognized that management behavior is driven by both shareholders' and policyholders' expectations given the economic environment in each scenario. The usage of buffers such as unrealized capital gains or participation funds to meet certain return targets for policyholders and shareholders is defined in the strategy. Where there is management discretion with regard to different types of profit sharing, as for example between terminal dividends versus cash or bonus crediting, a corresponding strategy is defined.

Implemented management strategies follow a strict governance procedure. All specific enhancements and significant parameters are signed off by both local management and Allianz Group. It needs to be demonstrated that the modeled strategies reflect observed management behavior and that any legal and contractual rules are considered as well as potential external drivers such as market pressure. Modelling simplifications are evaluated.

The valuation of guaranteed surrender, extension and conversion options requires modelling of dynamic policyholder behavior dependent on the movement of financial markets. Unlike options on traded assets, however, it is not possible to evaluate these options assuming fully rational policyholder behavior. Contractual features such as surrender penalties, terminal dividends or riders have an impact on the behavior just as the fact that certain embedded features in life contracts cannot be acquired elsewhere. Most Allianz subsidiaries model dynamic behavior as a function of the spread between the credited rates and a market benchmark return. The best estimate assumptions are only altered when the spread exceeds certain boundaries and the dynamic change of the best estimate rates is generally limited. The corresponding parameters vary by product and client group.

..... ■ A.4.3 COST OF RESIDUAL NON-HEDGEABLE RISK

MCEV Principle 9 requires explicitly an allowance for all non-hedgeable risk which are not already allowed for in the O&G or in the deterministic PVFP. In addition to the hedgeable financial risk captured in the O&G, allowance needs to be made for non-financial risks, for non-hedgeable financial risk and for operational risk, where both symmetric and asymmetric risk needs to be considered.

Allianz applies a cost of capital approach so that CNHR is calculated based on the cost of holding capital for non-financial and operational risk. The risk capital is based on the internal risk capital model and equal to the stand alone risk capital for mortality, lapse, expense and operational risks. Diversification between these risks is taken into account. It is based on a 99.93% percentile as required by Allianz target rating of AA for our internal model, to which we apply a capital charge (see Appendix B.2).

Non-financial risk capital allows for an average diversification of covered risks. This covers diversification between non-financial risk types and between covered entities within MCEV scope. Diversification does not include effects between financial and non-financial risk types and between covered and non-covered entities. The capital is projected over the life time of the portfolio based on the projected reserve and other relevant drivers such as sum at risk. The same drivers are used to split the total capital for non-financial risk between existing business and new business. The charge applied to the projected capital reflects the cost of funds for the Group (see Appendix B.2). To ensure compliance with MCEV Principles, we have assessed separately the cost of asymmetries in non-financial risk, the cost of non-hedgeable financial risk and the cost of operational risk which are not included yet in the PVFP or in the options and guarantees. This analysis showed that a major part of our cost of residual non-hedgeable risk is actually an allowance for uncertainty and symmetric risk, with the balance of the CNHR relating to the required allowance for asymmetric non-financial risk and operational risk.

..... ■ A.4.4 FRICTIONAL COST OF REQUIRED CAPITAL

The cost of holding the ReC consist of the projected tax to be paid on interest earned from assets backing the required capital in each projection year and the cost of investment management of these assets, where these have not already been allowed for in the PVFP.

Where investment income on assets backing required capital is subject to profit participation with policyholders, this leads to an additional source of frictional cost of required capital. For Allianz this applies only to the German Health business.

Where capital is derived from the internal risk capital model the capital is projected over the life time of the portfolio based on the projected reserve and other relevant drivers such as sum at risk. The same drivers are used to split the total required capital between in-force and new business.

A.5 NEW BUSINESS

New business is comprised of individual and group policies sold during the reporting period including the expected renewals and expected future contractual alterations to those contracts. Recurring single premiums written under the same contract are included in the value of the contract where future single premiums and their level are reasonably predictable. Additional or ad-hoc single premiums that are paid into existing policies are treated as new business in the year of payment. Short-term group risk contracts are projected with allowance for renewal rates in line with observed experience.

The value of new business (VNB) is defined as the value added to the value of in-force by the new policies. It is calculated as the present value of future profits after acquisition expense over- and underruns and tax (PVFP) minus the time value of options and guarantees (O&G) minus the cost of residual non-hedgeable risk (CNHR) minus the cost of holding the required capital (CReC).

The values are point of sale values based on interest rates valid at the beginning of the quarter the business was sold in line with our quarterly disclosure of value of new business. Appendix B.1 shows the corresponding economic assumptions. For business in the USA, where products are re-priced more frequently, we apply a bi-weekly update of economic assumptions for new business calculations to better reflect how the business is managed.

Timing and assumptions for the present value of new business premiums are in line with assumptions used for the value of new business. Premiums are before reinsurance.

For a major part of the business the value added by new business is equal to the stand-alone value calculated for the business written in the year. Investment return assumptions are based on the market assumptions described in Appendix B.1. For open fund products, where new policies and existing policies are managed together in one fund, the stand-alone value is adjusted for certain interaction effects between new business and in-force business. In Germany and France for example due to regulatory profit sharing rules initial expenses can be shared with all policyholders of the in-force fund, so the shareholder strain from new business is reduced significantly. Furthermore, in order to capture the impact on the time value of options and guarantees from the interaction between new business and previously written business, open fund products are valued on a marginal basis as the difference between the O&G value calculated with and without new business.

A.6 PARTICIPATING BUSINESS

The profit sharing assumptions take into account contractual and regulatory requirements, management strategy and the reasonable expectations of policyholders.

For companies with significant unrealized gains or profit-sharing reserves, the crediting strategies may include a distribution of these buffers to policyholders and shareholders as the business runs off, consistent with established company practice and local market practice and regulation. Alternatively, these buffers may not be required in many of the scenarios to pay competitive bonus rates and there will be excess assets at the end of the projection. In the latter case, the excess assets at the end of the projection are shared between policyholders and shareholders in a consistent manner and the discounted value of the shareholders' share is included in the in-force value.

A.7 HEALTH BUSINESS

The MCEV methodology for the German Health business is aligned to the methodology used for the Life entities. In addition certain specifics to health have been taken into consideration.

- An annual inflation of health cost is assumed which triggers premium adjustments on a regular basis.
- Any adjustment to the technical interest rates is determined in line with regulatory requirements
- The company's strategy to limit premium increases on in-force policies is applied.
- The time value of financial options and guarantees reported is zero as the technical interest rate used for reserving is not a minimum guarantee and can be adjusted in line with regulatory requirements. In addition, we have assessed that the ability to adjust premiums with respect to changes in economic factors is sufficient to fully cover the financial guarantees.
- Investment income on assets backing required capital is subject to profit participation, which leads to an additional source of frictional cost of required capital. This leads to a two thirds reduction in the shareholder value of required capital after frictional cost.

A.8 LOOK-THROUGH ADJUSTMENTS

Under the MCEV Guidance, profits or losses in subsidiary companies providing administration, investment management, sales and other services related to managing the covered business should be included on a "look-through" basis in the total MCEV profits.

The expenses incurred in service companies are directly deducted from the PVFP. As the majority of the related contracts are at cost, no further look-through adjustments are required for these arrangements.

There are, however, some arrangements with respect to the covered business where profits arise in service companies and the asset management segment, which have not been included in the MCEV calculations.

The total value of look-through adjustments on an MCEV basis is approximately EUR 708mn as at 31 December 2011. This additional value has not been included in the MCEV figures.

B Appendix: Assumptions

B.1 ECONOMIC ASSUMPTIONS

The EV results for 2011 are based on economic market conditions as of 30 December 2011.

Options and guarantees have been evaluated using market consistent scenarios. These have been generated to be arbitrage free, and the model underlying the scenarios has been calibrated to replicate actual market implied volatilities for selected financial instruments at the valuation date. This calibration is provided by Barrie & Hibbert, a UK based financial consulting company. Stochastic economic scenarios are then generated centrally by an application provided by Barrie & Hibbert.

Key economic assumptions for risk-neutral evaluation are for each economy

- the reference yield-curve,
- the implied volatilities for each asset class,
- correlations between different asset classes and economies.

Market data for interest rates have been taken from an internal data base fed by Reuters, Bloomberg and Tullett Prebon data. Market data used for calibration of volatilities have been taken from Reuters and Bloomberg where available and sufficiently liquid. Correlations and volatilities for real estate are based on historical data.

Reference rate yield-curves used in the certainty equivalent approach and the stochastic scenarios are based on swap rates as at 30 December 2011 with the following further steps.

In line with EIOPA guidance for Solvency II a reduction of swap rates by 10bps is made to account for credit risk inherent in swaps. The guidance is based on the proposal made by the CFO Forum and CRO Forum in chapter 3 of their document "QIS 5 Technical Specification – Risk-free interest rates".

In 2010 Allianz changed its EV assumptions to include an illiquidity premium. This is in line with the October 2009 MCEV Principle 14, which reads "Where the liabilities are not liquid the reference rate should be the swap yield-curve with the inclusion of a liquidity premium, where appropriate."

The maximum allowable illiquidity premium amount for main currencies is determined by applying the 50/40 proxy formula: maximum $(0; 50\% \times (\text{corporate spread over swap} - 40\text{bps}))$, where the corporate spread over swap is measured with appropriate market indices for each economy. For the corporate spread over swap for the two currencies EUR and USD, we use the quotation directly from Markit for the spread over swap ("direct approach") instead of approximating it in two steps, the first for the corporate spread over government bond rates and the second for the swap over government rates ("indirect approach"). The latter would be the approach used for QIS 5, however, we observed distortions from different government bond baskets in the two steps with increasing government bond spreads in some countries, and therefore, consider the first approach as more appropriate. Our approach is in line with analysis of the "risk-free rate working group" of the CFO and CRO Forum. For other currencies CHF, CZK, PLN, HUF, THB, CNY and MYR we assumed similar illiquidity premiums in line with the EIOPA guidance for QIS 5.

We applied the illiquidity premium in line with EIOPA guidance. Table 2 shows the term structure of the illiquidity premium for each currency. The illiquidity premium does not run down completely because it is added to the forward curve rather than the swap curve. Please note that amounts shown for illiquidity premiums are relative to swaps rates. When measured against the swap credit risk adjusted swap curve, the base illiquidity premium would be 10bps higher.

For application to products we apply a simplified bucketing approach. We apply no illiquidity premium to unit-linked and variable annuities and 75% of the illiquidity premium to all participating and other businesses, including USA fixed and fixed indexed annuities.

We have also ensured that the predictability of the liability cashflows and the assets backing the liabilities justify the level of the illiquidity premium assumptions applied.

As in previous years, for Korea reference rates are based on government rates as due to systematic distortions in the Korean swap versus the Korean government bond market. No illiquidity premium is applied for KRW.

As some of our liabilities are running longer than asset durations are available on financial markets in sufficient depth and liquidity, an extrapolation of yields is needed to assess swap maturities beyond this horizon. We consider markets as deep and liquid up to terms where the majority of government and corporate bonds exist. For EUR, for example, 30 years was used as the extrapolation entry point.

For 2010 and 2011 Allianz adjusted the approach for extrapolation to the approach prescribed by EIOPA for QIS 5. This means that yield-curve extrapolation is done with a Smith Wilson approach along the forward curve with an ultimate forward rate and an entry point of extrapolations as prescribed. The entry points and ultimate forward rates for each currency are shown below in table 3.

For consistency yield-curve extrapolation is applied in sensitivities to interest rate shifts. This means that only the deep and liquid part of yield-curve is shifted in a fully parallel way with the ultimate forward rate being kept stable. Extrapolation parameters determine the actual shift of the extrapolated part of yield-curve, which is then a non-parallel shift.

Due to the introduction of the new underlying reference rate methodology as described above, the projected cash-flows may not always be valued in line with the market prices of similar financial instruments that are traded on the capital markets, which is required by the MCEV Principles. Please note that we applied consistent reference rate assumptions to both the deterministic and stochastic runs, so the intrinsic and time value of O&G's is correct. This would not be feasible if the stochastic scenarios used to value O&G's were based on swap curves and calibrated to meet market prices while the deterministic runs used the reference rate that incorporated the new methodology.

For currencies where swap markets are not sufficiently deep and liquid, government rates are used. The EV of these entities is less than 1% of the total EV.

Table 1 shows the swap rates used in the market consistent valuation:

SWAP RATES | Table 1

Currency	as of dd.mm.yyyy	1 year %	2 year %	5 year %	10 year %	20 year %
EUR	31.12.2010	1.14%	1.59%	2.52%	3.40%	3.86%
	31.03.2011	1.80%	2.29%	3.04%	3.65%	4.10%
	30.06.2011	1.95%	2.18%	2.85%	3.51%	4.06%
	30.09.2011	1.57%	1.51%	1.98%	2.58%	2.91%
	31.12.2011	1.39%	1.31%	1.72%	2.42%	2.74%
CHF	31.12.2010	0.22%	0.52%	1.40%	2.18%	2.55%
	31.03.2011	0.70%	0.86%	1.65%	2.33%	2.70%
	30.06.2011	0.54%	0.52%	1.36%	2.18%	2.59%
	30.09.2011	0.31%	0.21%	0.81%	1.49%	1.91%
	31.12.2011	0.33%	0.22%	0.63%	1.28%	1.68%
USD	31.12.2010	0.46%	0.84%	2.25%	3.63%	4.36%
	31.03.2011	0.58%	0.95%	2.45%	3.72%	4.45%
	30.06.2011	0.48%	0.72%	2.06%	3.44%	4.26%
	30.09.2011	0.63%	0.58%	1.26%	2.16%	2.73%
	31.12.2011	0.86%	0.74%	1.26%	2.09%	2.61%
KRW	31.12.2010	2.41%	2.82%	3.95%	4.53%	4.82%
	31.03.2011	3.46%	3.71%	4.27%	4.69%	4.64%
	30.06.2011	3.57%	3.77%	4.15%	4.41%	4.58%
	30.09.2011	2.91%	3.40%	3.84%	4.00%	4.08%
	31.12.2011	3.39%	3.44%	3.59%	3.84%	4.31%
CZK	31.12.2010	1.82%	2.06%	2.67%	3.25%	3.87%
	31.03.2011	1.88%	2.28%	2.97%	3.46%	4.01%
	30.06.2011	1.49%	2.00%	2.54%	3.15%	3.82%
	30.09.2011	1.11%	1.39%	1.75%	2.25%	2.81%
	31.12.2011	1.06%	1.36%	1.72%	2.27%	2.82%
HUF	31.12.2010	6.28%	6.59%	7.06%	7.31%	6.59%
	31.03.2011	5.55%	6.49%	6.69%	6.89%	6.19%
	30.06.2011	6.18%	6.20%	6.49%	6.78%	6.09%
	30.09.2011	6.75%	6.72%	7.01%	7.46%	6.88%
	31.12.2011	7.91%	7.79%	7.67%	7.84%	7.11%
PLN	31.12.2010	4.36%	4.85%	5.49%	5.65%	5.15%
	31.03.2011	4.41%	5.17%	5.67%	5.66%	5.46%
	30.06.2011	5.02%	5.11%	5.29%	5.37%	5.22%
	30.09.2011	4.76%	4.65%	4.86%	5.04%	4.88%
	31.12.2011	4.91%	4.73%	4.80%	4.96%	4.77%
THB	31.12.2010	1.78%	2.41%	3.40%	4.07%	4.61%
	31.03.2011	2.69%	3.11%	3.79%	4.32%	4.49%
	30.06.2011	3.23%	3.47%	3.83%	4.06%	3.63%
	30.09.2011	2.77%	2.99%	3.46%	3.75%	4.15%
	31.12.2011	2.90%	2.88%	3.30%	3.75%	4.11%
TWD	31.12.2010	1.04%	1.00%	1.52%	1.86%	2.17%
	31.03.2011	0.82%	1.00%	1.49%	1.82%	2.50%
	30.06.2011	0.94%	1.07%	1.36%	1.67%	2.21%
	30.09.2011	0.86%	0.88%	1.04%	1.28%	2.05%
	31.12.2011	0.82%	0.84%	1.02%	1.30%	1.74%

Currency	as of dd.mm.yyyy	1 year %	2 year %	5 year %	10 year %	20 year %
JPY	31.12.2010	0.32%	0.39%	0.57%	1.19%	1.92%
	31.03.2011	0.41%	0.39%	0.62%	1.32%	2.13%
	30.06.2011	0.36%	0.38%	0.55%	1.18%	1.96%
	30.09.2011	0.34%	0.35%	0.48%	1.05%	1.77%
	31.12.2011	0.36%	0.38%	0.48%	1.01%	1.74%

The following table shows the development of illiquidity premiums on swap rates. The values shown are the base illiquidity premiums, i.e. the 100% illiquidity premiums.

100 % ILLIQUIDITY PREMIUM | Table 2

Currency	31.12.2010 bps	31.03.2011 bps	30.06.2011 bps	30.09.2011 bps	31.12.2011 bps	Term	Phase-out
EUR	59 bps	66 bps	55 bps	114 bps	118 bps	15	5
CHF	7 bps	7 bps	3 bps	12 bps	24 bps	10	5
USD	64 bps	56 bps	62 bps	108 bps	103 bps	30	0
CZK	14 bps	17 bps	13 bps	34 bps	35 bps	15	0
HUF	14 bps	17 bps	13 bps	34 bps	35 bps	10	5
PLN	14 bps	17 bps	13 bps	34 bps	35 bps	15	0
THB	10 bps	10 bps	9 bps	29 bps	18 bps	10	5

The following table shows the ultimate forward rate and entry point parameters used when applying yield-curve extrapolations.

YIELD-CURVE EXTRAPOLATION | Table 3

Currency	Entry point	Ultimate forward rate %
EUR	30	4.20%
CHF	15	3.20%
USD	30	4.20%
CZK	15	4.20%
HUF	15	4.20%
PLN	15	4.20%
THB	20	4.20%
TWD	20	4.20%
JPY	20	3.20%

According to MCEV Principles G15.3, volatility assumptions should be based on the most recently available information as at the valuation date. Swaption implied volatilities used for the 2011 MCEV calculations are therefore based on 31 December 2011.

For similar reasons that yield-curve extrapolations were applied, for durations where no deep and liquid swaption markets exist, volatility anchoring is applied. For each currency the last liquid option maturities are determined. Market volatility quotes are used until the last liquid tenor. The historical volatility of the last liquid term node of the yield-curve is used as the long term target level for the swaption volatility surface. The volatility surface is then extrapolated from the last liquid option maturity terms to the long term target level.

Table 4 shows the development of swaption implied volatilities.

DEVELOPMENT OF SWAPTION IMPLIED VOLATILITIES | Table 4

Currency	31.12.2010 %	31.03.2011 %	30.06.2011 %	30.09.2011 %	31.12.2011 %
EUR	18.2%	18.2%	17.5%	25.7%	28.7%
CHF	31.0%	31.0%	28.1%	40.1%	45.3%
USD	16.3%	16.3%	15.9%	28.5%	28.8%
KRW	12.8%	12.8%	12.4%	15.8%	12.4%

Volatilities implied in option on 20 year swaps at the money (10 year swaps for CHF and KRW).

Table 5 shows the swaption implied volatilities at various terms for four main currencies.

SWAPTION IMPLIED VOLATILITIES | Table 5

	Option term	1 year %	2 year %	5 year %	10 year %	20 year %
EUR	31.12.2010	24.1%	22.0%	18.7%	18.2%	22.7%
	31.12.2011	38.5%	35.3%	30.3%	28.7%	22.4%
CHF	31.12.2010	30.0%	27.8%	26.2%	31.0%	n/a
	31.12.2011	53.3%	47.3%	39.5%	45.3%	33.5%
USD	31.12.2010	25.1%	23.4%	20.2%	16.3%	13.8%
	31.12.2011	40.8%	37.4%	32.6%	28.8%	23.2%
KRW	31.12.2010	15.1%	14.2%	13.0%	12.8%	11.5%
	31.12.2011	17.4%	16.2%	14.5%	12.4%	10.3%

Volatilities implied in option on 20 year swaps at the money (10 year swaps for CHF and KRW).

Table 6 shows the starting points of the volatility surface extrapolation and long term target levels for each currency.

SWAPTION VOLATILITY ANCHORING | Table 6

Currency	Last liquid term	Long term target level %
EUR	15	11.6%
CHF	15	15.4%
USD	15	16.2%
CZK	10	12.8%
HUF	10	9.1%
PLN	10	9.1%
THB	10	16.4%
KRW	5	9.1%

For modelling fixed income stochastic scenarios, the Libor Market Model is used.

For fixed income instruments, parameters are fitted to at-the-money swaption implied volatilities. When calibrating to swaption implied volatilities, the greatest weight has been given to the volatilities implied by options on 20-year swaps or the longest term available, in order to account for the long term nature of the life business.

A range of equity indices is considered. For modelling equity and real estate returns, an excess return model is used to generate returns from fixed income dynamics of the economy. A constant volatility model is used where the modeled equity volatility is independent of the option term.

Equity volatilities are taken from implied volatilities of long term equity options at the money, targeted to the longest maturity option available (10 years).

Table 7 shows the equity option implied volatility for the main equity indices.

EQUITY OPTION IMPLIED VOLATILITIES | Table 7

		31.12.2010	31.03.2011	30.06.2011	30.09.2011	31.12.2011
	Index	%	%	%	%	%
EUR	DAX	26.4%	26.4%	23.3%	29.1%	27.1%
	EUROSTOXX	27.3%	27.3%	24.0%	29.1%	27.9%
	CAC	26.5%	26.5%	23.8%	28.7%	26.7%
CHF	SMI	21.0%	21.0%	21.1%	24.0%	22.1%
USD	S&P 500	27.4%	27.4%	24.7%	28.1%	31.0%
KRW	KOSPI	22.7%	22.7%	21.6%	25.4%	24.7%

Volatilities implied in 10 year equity option at the money.

Best estimate levels of volatility are used in the market consistent calibration to derive real estate volatility since meaningful option prices for the property market were not available. The CHF real estate volatility was reviewed and updated in 2010 to reflect the lower volatility in the Swiss specific real estate environment.

Table 8 shows the real estate volatility for the main currencies.

REAL ESTATE VOLATILITIES | Table 8

Currency	31.12.2011	31.12.2010
	%	%
EUR	13.8%	13.8%
CHF	8.9%	8.9%
USD	13.8%	13.8%
KRW	13.8%	13.8%

To show the impact of asset mixes and inter-economy relations, correlation assumptions were estimated from historic market data. Table 9 shows the correlation assumptions updated for 2011.

CORRELATION ASSUMPTIONS | Table 9

	Fixed income 1 year bond rate				Equity Indices					
	EUR	CHF	USD	KRW	CAC	HDAX	KOSPI	SMI	Eurotox50	S&P500
Fixed income 1 year bond rate										
EUR	1.00	0.61	0.64	-0.08	0.30	0.29	0.20	0.25	0.29	0.25
CHF		1.00	0.44	0.01	0.29	0.28	0.21	0.30	0.29	0.24
USD			1.00	0.04	0.17	0.19	0.07	0.13	0.16	0.08
KRW				1.00	0.05	0.03	0.05	0.04	0.05	0.01
Equity Indices										
CAC					1.00	0.96	0.56	0.90	0.99	0.78
HDAX						1.00	0.57	0.86	0.98	0.74
KOSPI							1.00	0.57	0.59	0.46
SPI								1.00	0.90	0.71
Eurotox50									1.00	0.77
S&P500										1.00

1000 path scenarios are used for stochastic calculations of options and guarantees. To reduce Monte-Carlo errors antithetic random numbers are used.

Given the significance of the O&G of Germany Life, 5000 path scenarios were used by this entity. The higher number of paths further reduced Monte-Carlo errors.

B.2 CAPITAL CHARGE FOR COST OF RESIDUAL NON-HEDGEABLE RISK

For 2011 the capital charge for residual non-hedgeable risk was set to 3.25% on a percentile of 99.93% on internal risk capital at the local entity level. This is equivalent to a capital charge of 4% on a 99.5% percentile capital. The latter was agreed as a compromise between European peers to achieve consistency for MCEV throughout the industry.

B.3 FOREIGN CURRENCY EXCHANGE RATES

EV results are calculated in local currencies and converted to Euro using the corresponding exchange rates at the valuation date. Exchange rates are consistent with the rates used in the balance sheet of our IFRS financial accounts. The exchange rates against the Euro are shown in table 10 below.

MAIN EXCHANGE RATES AGAINST EUR | Table 10

	2011 €	2010 €
CHF	1.21	1.25
USD	1.30	1.34
KRW	1,495.47	1,522.53
CZK	25.50	25.09
HUF	314.77	278.35
PLN	4.46	3.96
THB	40.96	40.44
TWD	39.31	39.11

B.4 NON-ECONOMIC ASSUMPTIONS

Non-economic assumptions such as mortality, morbidity, lapse rates and expenses are determined by the respective business units based on their best estimate as at the valuation date.

Best estimate assumptions are set by considering past, current and expected future experience. Future expected changes are taken into account in best estimate assumptions only when sufficient evidence exists and the changes are reasonably certain. Future improvements in productivity can be allowed only if they have been agreed in business plans which have been partly achieved at least by the end of the reporting period, and only to the extent that they are projected to be realized within the first projection year. All the expected expense overruns affecting the covered business, such as holding company operating expenses, overhead costs and development costs in new markets are allowed for in the calculations.

B.5 TAX ASSUMPTIONS

Tax assumptions are set in line with the local tax regime. Tax losses carried forward are considered in the projections. Tax is based on marginal tax impacts. For example, losses on different portfolios can be compensated within one company, and also between Life and P/C portfolios where held in one legal entity. Tax impact of future new business is not allowed for. Table 11 shows the nominal tax rates applied.

TAX ASSUMPTIONS | Table 11

	2011 %	2010 %
Germany	31%	31%
France	34%	34%
Italy	33%	32%
USA	35%	35%
Korea	22%	22%
Switzerland	21%	21%

B.6 REAL-WORLD ECONOMIC ASSUMPTIONS

The following assumptions are centrally provided:

- Risk-free yields
- Equity returns
- Real estate returns

Risk-free yield-curves are the same under real-world and risk-neutral assumptions.

Reinvestment rates for all asset classes are the forward rates implied in the initial yield-curve, which means yields do not stay constant over time, but dynamically follow the forward curve.

Risk premiums are assumed for all risky assets. Return assumptions for equity and real estate are derived from the risk-free rate, i.e. the 10 year swap rate, plus a risk premium; see table 12.

ECONOMIC ASSUMPTIONS FOR REAL-WORLD PROJECTION | Table 12

	2011	2010
Equity risk premium	5.00%	5.00%
Real estate risk premium	20% × 10 year swap rate	

Other economic assumptions applied in the real-world projections such as credit spreads, credit defaults, returns for other asset classes are determined by the respective business units based on the local market data.

All economic assumptions are as of 30 December 2011.

C Appendix: Disclaimer

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include 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 that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, illiquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures, and (xiv) 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. The company assumes no obligation to update any forward-looking statement.

..... ■ NO DUTY TO UPDATE

The company assumes no obligation to update any information contained herein.

D Glossary and abbreviations

CCP

Counter-cyclical premium. The CCP is defined as the maximum of the illiquidity premium and government spread premium. The government spread premium is defined as the maximum of 0 and the “ECB AAA and other government curve” over swaps, calculated at the 10 year tenor.

CNHR

Cost of residual non-hedgeable risk. The allowance made in the MCEV for non-hedgeable risks. This allowance should include the impact of non-hedgeable non-financial risks and non-hedgeable financial risks.

COVERED BUSINESS

The contracts to which the MCEV calculation has been applied, in line with the MCEV Principles.

CREC

Frictional cost of required capital. The allowance made in the MCEV for the frictional costs of required capital. Frictional costs should reflect the taxation and investment costs on the assets backing required capital. Further, frictional costs may be due to any sharing of investment income on required capital with policyholders.

DAC

Deferred acquisition costs. Expenses of an insurance company which are incurred in connection with the acquisition of new insurance policies or the renewal of existing policies. These typically include commissions paid and the costs of processing proposals.

DISTRIBUTABLE EARNINGS

The profits after tax plus changes in required capital plus interests on required capital, all based on real-world assumptions.

EIOPA

European Insurance and Occupational Pension Authority.

EV, MCEV

Market consistent embedded value is a measure of the consolidated value of shareholders’ interests in the covered business. It is defined as

Net asset value (NAV)

+ Present value of future profits (PVFP)

- Time value of options and guarantees (O&G)

- Cost of residual non-hedgeable risk (CNHR)

- Frictional cost of required capital (CReC)

FS

Free surplus is the market value of assets allocated to, but not required to support, the in-force covered business at the valuation date, as defined in MCEV Principle 4. Formerly it was named excess capital.

IFRS

International Financial Reporting Standards. Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board. Already approved standards will continue to be cited as International Accounting Standards (IAS).

IRR

Internal rate of return. The discount rate which gives a zero value of new business under real-world projections after allowing for any acquisition expense overrun or underrun.

LOOK-THROUGH BASIS

A basis via which the impact of an action on the whole Group, rather than on a particular part of the Group, is measured. Under this basis, the MCEV would allow for the value of profits or losses which arise from subsidiary companies providing administration, investment management, sales and other services in relation to the covered business.

MCEV EARNINGS

Change in MCEV after initial adjustments and before capital movements.

NAV

Net asset value. Capital not backing local statutory liabilities, valued at market value.

NBM

New business margin. Value of new business divided by present value of new business premiums.

NEW BUSINESS STRAIN

Impact of new business on free surplus in the year business is written: (negative) profit in the first year plus initial capital binding. Negative result in first year reflects the shareholder share in initial expenses.

O & G

Time value of financial options and guarantees. The allowance made in the MCEV for the potential impact on future shareholder cash flows of all financial options and guarantees within the in-force covered business.

PAYBACK PERIOD

Payback period is the period from the point of sale of new business to the first point in time when the undiscounted sum of distributable earnings, under real world assumptions, is positive.

PVFP

Present value of future profits. Future (statutory) shareholder profits after tax projected to emerge from operations and assets backing liabilities, including value of unrealized gains on assets backing policy reserves.

PVNBP

Present value of new business premiums. The present value of future premiums on new business written during the year discounted at reference rate. It is the present value of projected new regular premiums, plus the total amount of single premiums received.

QIS 5

EIOPA Quantitative Impact Study 5.

REC

Required capital. The market value of assets attributed to the covered business over and above that required to back liabilities for covered business whose distribution to shareholders is restricted.

REFERENCE RATE

A proxy for a risk free rate appropriate to the currency term and liquidity of the liability cash flows. Based on swap rates, includes a swap credit adjustment and illiquidity premium.

VIF

Value of in-force. Present value of future profits from in-force business (PVFP) minus the time value of financial options and guarantees (O&G), minus the cost of residual non-hedgeable risk (CNHR), minus the frictional cost of holding required capital (CReC).

VNB

Value of new business. The additional value to shareholder created through the activity of writing new business. It is defined as present value of future profits (PVFP) after acquisition expense overrun or underrun, minus the time value of financial option and guarantees (O&G), minus the cost of residual non-hedgeable risk (CNHR), minus the frictional cost of holding required capital (CReC), all determined at issue date.

VOBA

Value of the business acquired. It refers to the present value of future profits associated with a block of business purchased. It is booked as an intangible asset in the balance sheet.

