

Market Consistent Embedded Value Report 2012

Content

02 Introduction

- 02 1.1 Basis of preparation
- 02 1.2 Covered business

03 Overview of results

- 03 2.1 Embedded value results
- 04 2.2 New business
- 06 2.3 Analysis of MCEV earnings
- 09 2.4 Movement of free surplus and projected profits
- 12 2.5 Shareholder value not accounted for in Group IFRS equity and Group MCEV
- 15 2.6 Sensitivities

17 Regional analysis of embedded value

- 17 3.1 Overview
- 21 3.2 German Speaking Countries
 - 21 3.2.1 Development of value of new business
 - 22 3.2.2 Development of embedded value and free surplus
 - 24 3.2.3 Sensitivities
- 25 3.3 Germany Life
 - 25 3.3.1 Development of value of new business
 - 26 3.3.2 Development of embedded value and free surplus
 - 28 3.3.3 Sensitivities
- 29 3.4 Western & Southern Europe
 - 29 3.4.1 Development of value of new business
 - 30 3.4.2 Development of embedded value and free surplus
 - 32 3.4.3 Sensitivities
- 33 3.5 France
 - 33 3.5.1 Development of value of new business
 - 34 3.5.2 Development of embedded value and free surplus
 - 36 3.5.3 Sensitivities
- 37 3.6 Italy
 - 37 3.6.1 Development of value of new business
 - 38 3.6.2 Development of embedded value and free surplus
 - 40 3.6.3 Sensitivities
- 41 3.7 Iberia & Latin America
 - 41 3.7.1 Development of value of new business
 - 42 3.7.2 Development of embedded value and free surplus
 - 44 3.7.3 Sensitivities
- 45 3.8 Growth Markets
 - 45 3.8.1 Development of value of new business
 - 46 3.8.2 Development of embedded value and free surplus
 - 48 3.8.3 Sensitivities
- 49 3.9 USA
 - 49 3.9.1 Development of value of new business
 - 50 3.9.2 Development of embedded value and free surplus
 - 52 3.9.3 Sensitivities
- 53 3.10 Holding

54 Independent Opinion

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 2012 is disclosed in this report.

Since 2008 Allianz has disclosed its EV in line with the European Insurance CFO Forum Market Consistent Embedded Value Principles © (“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 2012 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, as we would like to retain a clear split between the segments in line with our primary IFRS accounts.

A 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 2012 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 interest.

Entities that are not consolidated into Allianz IFRS accounts, i.e. entities where Allianz only holds a minority, are not included in the 2012 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.

Overview of results

2012 was a year in which most markets experienced lower interest rates that were offset by lower volatilities, narrowing credit spreads and equities that performed well.

We implemented methodology changes that ensure that assumptions align more closely with what is specified or recommended in the Solvency 2 environment. Furthermore, model changes were implemented to reflect changing legislative and business requirements.

Still, after the impacts of methodology changes, the EV showed a solid increase over 2011, reflecting the narrowing of credit spreads, in particular in the USA and Italy, and higher equities.

For the sake of transparency, we separate the methodology changes from operating variances in the Analysis of Earnings and report them instead as restatements.

The decrease in value of new business reflects the lower interest rates in most countries. We have however managed the business to maintain a solid new business margin.

At 31 December 2012 Allianz Group's total EV amounted to EUR 27,304mn, 31% higher than published in 2011.

The value of new business written in 2012 was EUR 790mn, 16% lower than the value published in 2011.

Operating MCEV Earnings were EUR 3,640mn. MCEV Earnings were EUR 4,084mn.

2.1 Embedded value results

Exhibit 1 shows the EV split into its components, the net asset value ("NAV") and the value of in-force ("VIF").

MCEV		Exhibit 1	
€ MN			
	2012	2011	Change in 2012(%)
Net asset value	15,803	14,265	11%
Free surplus	-185	-549	-66%
Required capital	15,988	14,814	8%
Value of in-force	11,500	6,602	74%
Present value of future profits	20,659	18,254	13%
Cost of options and guarantees	-4,640	-7,593	-39%
Cost of residual non-hedgeable risk	-2,935	-2,332	26%
Frictional Cost of required capital	-1,585	-1,727	-8%
MCEV	27,304	20,868	31%

The EV at 31 December 2012 was EUR 27,304mn, an increase of EUR 6,436mn compared to EUR 20,868mn published in 2011.

Narrower credit spreads, in particular in Italy and the USA, higher equities and lower volatilities had more of an impact than lower interest rates.

Our NAV grew by 11% to EUR 15,803mn.

The cost of options and guarantees ("O&G") decreased as a result of lower volatilities and the change in yield-curve extrapolation entry point.

The higher cost of residual non-hedgeable risk ("CNHR") was driven by a change in methodology used to calculate the risk capital for insurance and operational risk on which it is based. A new life non-market risk framework was implemented which introduced clearer segmentation of risks in both business and underwriting modules. The new framework includes previously non-modelled business risks such as cost inflation and mass lapse. It also models mortality, longevity, and morbidity risks as independent risk types instead of bundling them into a single source of

risk as in the past. With the introduction of the new framework, the correlations, and consequently diversification factor, were revised. The calculation of operational risk changed from a factor based calculation to a scenario based internal model. The scenario identification and estimation takes place at the operating entity level and is informed by the structured risk and control self-assessment and operational risk loss event collection processes.

Higher free surplus (“FS”) was driven by cash earnings that were more than sufficient to cover the increase in capital requirements and dividend payments.

FS in the USA increased significantly as a result of the approval of an updated S&P model that reduced ReC.

Although the FS increased, it remained negative. This was mainly as a result of some entities that reported negative VIF, that increased their required capital (“ReC”) with a negative impact in FS. Although the circumstances in Italy have improved, Spain in particular suffers from high sovereign spreads. In Taiwan the negative VIF was driven by negative spreads on older blocks of business.

Higher ReC in South Korea was driven by economic variances and new business capital requirements.

In these countries, however, the internal economic view on capital requirement is much more stringent than the local capital requirements. Based on local capital requirements, the companies are in fact capitalized above the required regulatory percentages.

Germany Life reported a significant increase in VIF. The increase did not however result in a correspondingly high increase in FS because of stringent local capital requirements.

Increases of ReC in Taiwan and Belgium were driven by economic variances and, to a lesser extent in Belgium, by the change in life non-market risk methodology. FS in both countries consequently decreased.

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. Values are calculated using assumptions at the start of the quarter in which the business was sold. Appendix A.5 contains a description of our VNB methodology.

VALUE OF NEW BUSINESS			Exhibit 2
€ MN			
	2012	2011	change in 2012 (%)
Value of New Business	790	940	-16%
New Business Margin¹ (in %)	1.8%	2.3%	-0.5%-p
Present value of new business premiums	43,540	40,884	6%
APE Margin² (in %)	16.9%	20.4%	-3.5%-p
Single Premium ³	24,134	25,074	-4%
Recurrent Premium	2,263	2,097	8%
Recurrent premium multiplier ⁴	9	8	14%

1—NBM = VNB / Present value of future new business premiums
2—APE margin = VNB / (recurrent premium + single premium / 10)
3—In Germany, single premium excludes Parkdepot (EUR 890mn)
4—Recurrent Premium Multiplier = (PVNBP - single premium) / recurrent premium

Allianz’s VNB in 2012 was EUR 790mn, 16% lower than in 2011.

The new business margin (“NBM”) decreased from 2.3% to 1.8%. Margins are generally under pressure but we have managed our business to maintain a strong NBM. Positive developments of business mix were seen in particular in Germany, USA, France and Spain.

Recurring premiums increased, driven by significant increases in France. The USA also reported a strong increase in recurring premiums. Single premiums decreased slightly, driven mainly by the USA and Asia. Overall, premium volumes were stable.

Exhibit 3 summarizes the change in VNB from 2011 to 2012. 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	
€ MN	Value of New Business	New Business Margin (%)	Present Value of NB Premiums
Reported Value as at 31 December 2011	940	2.3%	40,884
Change in Foreign Exchange	18	0.0%	773
Change in Allianz interest	4	0.0%	41
Adjusted Value as at 31 December 2011	962	2.3%	41,697
Change in volume	1	0.0%	-298
Change in business mix	120	0.3%	0
Change in assumptions	-293	-0.8%	2,141
Value of New business as at 31 December 2012	790	1.8%	43,540

The foreign exchange adjustment of EUR 18mn reflects mainly the change in the Euro/US Dollar exchange rate during 2012. The change in Allianz interest reflects mainly the change in Group share in Slovakia.

Premium volume grew by a healthy 15% in Western & Southern Europe. Overall, the change in premium volume impacted VNB by EUR 1mn.

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

Germany Life's business mix was driven by a decrease of excess acquisition costs as a proportion of premium and reduction of the guaranteed interest rate at the start of 2012.

In the USA there was a favourable increase of life protection products. The repricing and redesign of products also contributed to the positive impact of the change of business mix.

France sold a higher proportion of more profitable group protection business.

In Spain there were higher sales of more profitable risk business.

Overall, the change in business mix impacted VNB by EUR 120mn and NBM by 30bps.

The change in assumptions reflects the sum of four quarters' changes. Average interest rates in 2012 were lower

than in 2011. This line item also captures methodology changes and changes in scope. The change in assumptions impacted VNB by EUR -293mn and NBM by -80bps.

Chapter 3 provides further details on regional development.

2.3 Analysis of MCEV earnings

Exhibit 4 presents the change in EV and FS from the value published in 2011 to the value as of 31 December 2012.

The **initial adjustments** included the following changes:

- **Foreign exchange variance** (EUR -23mn) was driven by the Euro that strengthened against the US Dollar. The USD impact was offset by the weakening of the Euro against a number of Asian and other European currencies.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 4

€ MN

	Earnings on MCEV analysis			
	Free Surplus	Required Capital	VIF	MCEV
Opening MCEV reported as at 31 December 2011	-549	14,814	6,602	20,868
Foreign Exchange Variance	-36	21	-8	-23
Acquired / Divested business	24	-3	14	35
Others	26	-26	2,963	2,962
Adjusted Opening MCEV as at 31 December 2011	-535	14,807	9,570	23,842
Value of new business at point of sale	-38	0	828	790
Expected existing business contribution				
reference rate	284	0	1,001	1,286
in excess of reference rate	356	0	511	866
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	1,932	-519	-1,413	0
on new business	-1,645	1,005	640	0
Experience variance	-180	-25	194	-11
Non-economic assumption changes	198	-191	254	260
Other operating variance	-33	295	187	449
Operating MCEV earnings	874	565	2,201	3,640
Economic variances	167	617	-314	470
Other non operating variance	-69	0	43	-27
Total MCEV earnings	972	1,181	1,930	4,084
Net capital movements	-622	0	0	-622
Closing MCEV as at 31 December 2012	-185	15,988	11,500	27,304

- **Acquired / Diversified business** (EUR 35mn) reflects mainly the increased Group share in Slovakia.
- **Other** (EUR 2,962mn) reflects the impact of methodology changes. The impact was driven by:
 - The change in the yield-curve extrapolation entry point for Euro denominated countries from 30 to 20 years. Appendix B contains a description of the yield-curve extrapolation methodology. The impact on EV was EUR 2,757mn.

- The modelling of the going-concern reserve in Germany Life. The going-concern approach is described in the Germany Life regional chapter 3.3. The impact on EV was EUR -952mn.
- The modelling of the Zinszusatzreserve in Germany Life. The reserve is described in the Germany Life regional chapter 3.3. The impact on EV was EUR 691mn.
- Improved modelling with respect to interest guarantees in Germany Life. The impact on EV was EUR 725mn.

- New life non-market risk capital modelling specified by the Group. The impact on EV was EUR -469mn.
- A model change in Switzerland to reflect shareholders' option to not renew unprofitable group business. The impact on EV was EUR 210mn.

The key components of the change in 2012 were as follows:

- **Value of new business at point of sale** (EUR 790mn) takes into account all expenses with respect to new business written during 2012, 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 1,286mn) 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 for one year using the start of the year assumptions. Since ReC 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 FS. 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.

This step also 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 866mn) shows the additional earnings in EV consistent with management expectations. 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 2012, whereas reference rate assumptions are kept unchanged for projection years

2013 onwards. This item was lower than in 2011, driven by the USA where management expectations changed in line with the capital markets.

- **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 NAV, but does not have any impact on the EV as it only contains the release of profits included in the VIF to the FS 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 new business strain before acquisition expense overruns (EUR 640mn impact on VIF). The amount of additional required capital to be held for new business (EUR 1,005mn impact on ReC) increases the strain on the FS at the point of sale. The **total strain from new business** on the FS is the combined impact of expense strain and initial capital binding, an impact of EUR -1,645mn on FS. Taking into account the acquisition expense overrun of EUR 38mn the new business strain increases to EUR 1,683mn.

- **Experience variances** (EUR -11mn) 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 chapters.

This item also includes one-off costs of EUR 47mn. The main driver was the one-off cost in Italy of EUR 41mn related to the merger of RB Vita and AIV into Allianz S.p.A. Other one-off costs are described in the regional commentaries in chapter 3.

- **Non-economic assumption changes** (EUR 260mn) reflects changes in non-economic assumptions such as those for lapses, mortality and expenses. The main drivers for the change were the positive impact of lower annuitization rates in Germany, offset by negative impacts of more prudent expense assumptions in France and assumptions updated in the USA at the end of the year.
- **Other operating variances** (EUR 449mn) includes operating impacts not included above, such as management reaction to economic changes. Management may, for example, react by changing crediting and investment

strategies. Other drivers are described in the regional parts in chapter 3.

- **Operating MCEV earnings** (EUR 3,640mn) reflects the change of the adjusted opening EV due to all operating drivers described above. The 2012 operating MCEV earnings amounts to 15% of the adjusted opening EV.
- **Economic variances** (EUR 470mn) 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 change in interest rates and credit spreads impacted EV by EUR -1,045mn. The change in equity markets during the year had an impact of EUR 670mn. Lower volatilities impacted EV by EUR 846mn. Development by region is described in chapter 3.

- **Other non-operating variances** (EUR -27mn) reflects the change in local taxes in Slovakia and closing adjustments in AZ Re.
- **Total MCEV earnings** (EUR 4,084mn) summarizes the movements during the year due to all drivers described above. The 2012 MCEV earnings increased to 17% of the adjusted opening EV.
- **Net capital movement** (EUR -622mn) reflects net movement of dividends paid by and capital injections paid to our life companies.

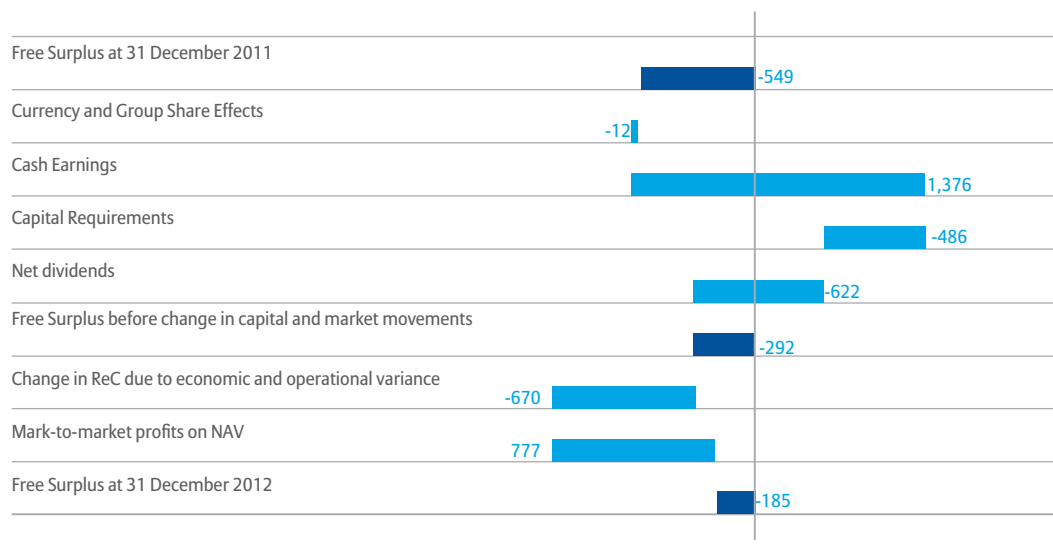
2.4 Movement of free surplus and projected profits

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 2011 to 2012.

The free surplus increased from EUR -549mn to EUR -185mn during 2012. The drivers of the change were:

- **Cash earnings** (EUR 1,376mn) reflects the actual local P&L effect in the current reporting year. This contains cash earnings from in-force (EUR 2,055mn) and cash strain from new business (EUR -678mn) including acquisition expense overruns. The increase of EUR 245mn

FREE SURPLUS MOVEMENT



■ Total dividend in € mn ■ Dividend per share in €

from 2011 was driven by higher investment income on a statutory basis.

- **Capital requirements** (EUR -486mn) includes capital release from in-force (EUR 519mn) and capital strain from new business (EUR -1,005mn).
- **Net dividends** (EUR -622mn) reflects net dividend payments after capital movements.
- **Change in capital due to economic and operational variances** (EUR -670mn) was lower than last year, driven by the lower increase in ReC. Change in ReC is described in chapter 3.1.
- **Mark-to-market profits on NAV** (EUR 777mn) reflects market movements.

- 2 Introduction
- 3 Overview of Results
- 17 Regional Analysis of Embedded Value
- 54 Independent Opinion

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

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

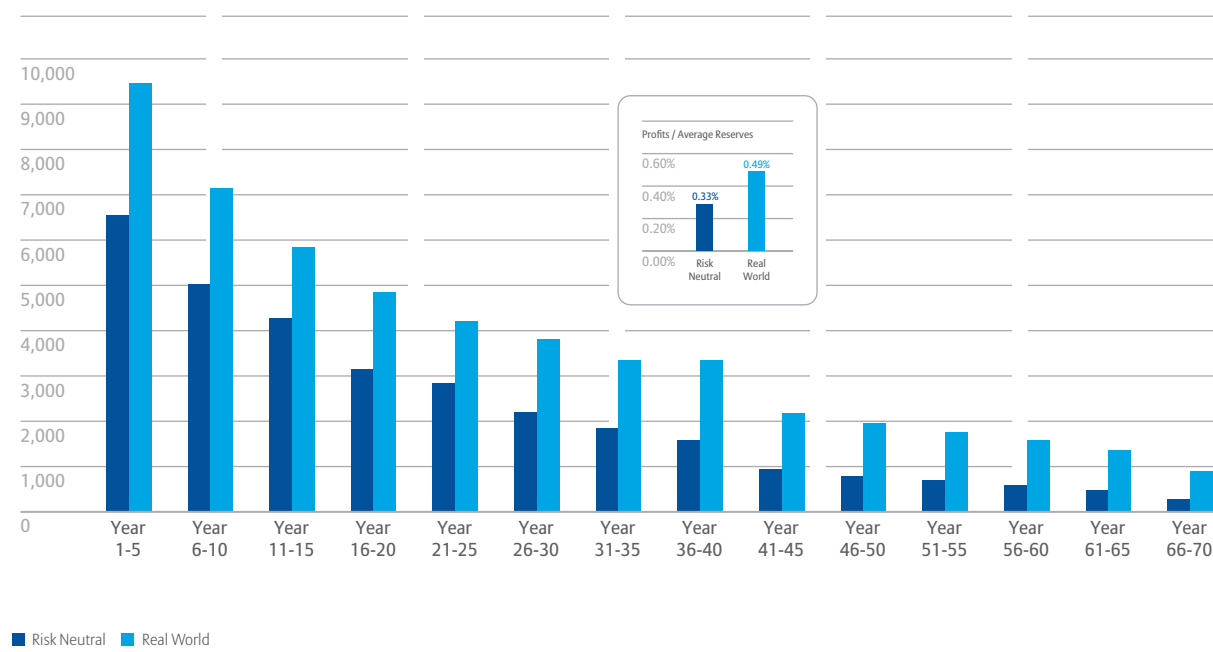
Timing of the cash-flows depends very much on the underlying portfolio, and varies over the Group. Within Allianz there are short term portfolios, such as short term saving or protection, as well as long term portfolios, for example annuities. The overall length of the duration of the liabilities is 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.

REMAINING PRESENT VALUE OF FUTURE PROFITS Exhibit 5

€ MN	PVFP	% of initial PVFP
End of year		
year 5	14,931	73%
year 10	11,809	58%
year 15	9,373	46%
year 20	7,446	36%
year 25	5,648	28%
year 30	4,397	21%
year 35	3,339	16%
year 40	2,372	12%
year 45	1,885	9%
year 50	1,448	7%

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 0.33% and the corresponding real-world ratio was 0.49%.

PATTERN OF RISK NEUTRAL AND REAL WORLD PROFITS



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

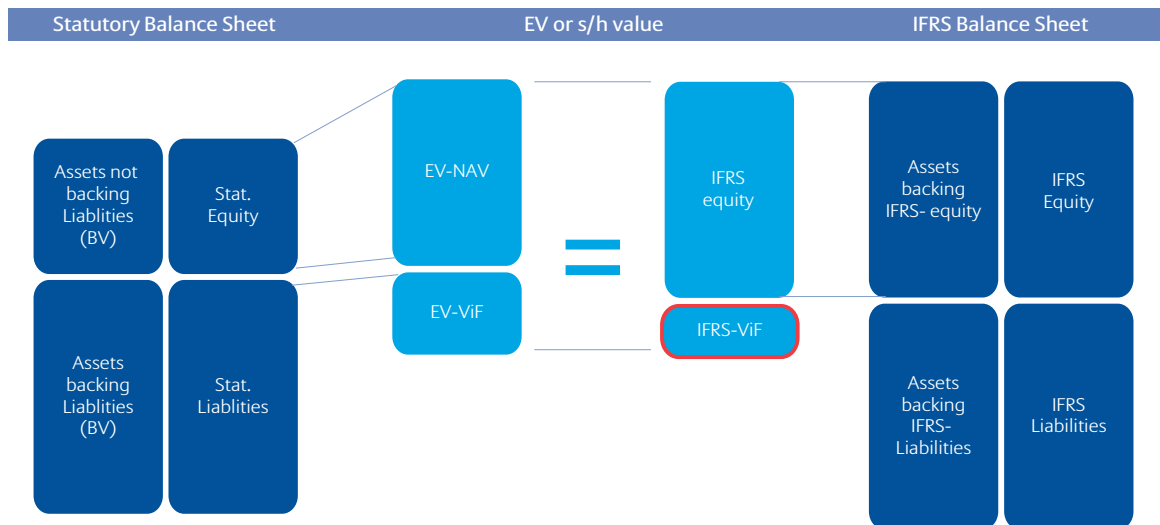
Allianz EV reflects the value of shareholders' interest in the life business of Allianz Group. This value includes the determination of best estimate liabilities for bonus payments and tax payments, which are derived from results based on local statutory accounting rather than on the Group's IFRS profit 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 11,500mn VIF, the future related element of EV, EUR 3,242mn 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
€ MN	2012	2011
Value of in-force	11,500	6,602
Deferred acquisition cost / value of business acquired	-13,600	-15,024
Difference in IFRS reserves compared to statutory reserves	17,162	14,868
Shareholders' portion of unrealized capital gains included in PVFP	-12,368	-6,698
Asset valuation differences	3,580	1,778
Other adjustments	-3,031	151
Additional value not accounted for in IFRS shareholders' equity	3,242	1,677

The components of the table are as follows:

- Deferred acquisition cost / value of business acquired (EUR -13,600mn) 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 17,162mn) 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 -12,368mn) 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, Germany and Italy from unrealized capital gains.

- Asset valuation differences (EUR 3,580mn) is the shareholder value of the difference between market value and book value of assets (valued in IFRS at book value).
- Other adjustments (EUR -3,031mn) includes various items not included above relating to valuation differences under MCEV and IFRS such as different tax treatment. The change from 2011 to 2012 was driven by tax effects on the increase of UCG and consolidation entries, especially with respect to special funds in Germany.

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
€ MN	2012	2011
IFRS equity for Allianz Group (net of minorities)	53,553	44,915
Additional value not accounted for in IFRS shareholders' equity	3,242	1,677
Deduct Goodwill for Life/Health ¹	-2,175	-2,175
Group MCEV¹	54,620	44,417
Covered business MCEV	27,304	20,868
IFRS equity non covered business & financing adjustments	27,317	23,549

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 2012 was EUR 54,620mn, 23% higher than the value for 2011 of EUR 44,417mn. The increase was after a dividend payment to shareholders of EUR 2,037mn.

Exhibit 8 shows the analysis of earnings of Group MCEV. “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.

remainder of this report. Non covered business grew from operating profit of EUR 6,545mn mainly due to P&C business. The total movement of Group MCEV was reduced by capital movements reported as closing adjustments.

Closing adjustments includes dividends paid from Allianz SE to shareholders (EUR -2,037mn) and the capital increase of Allianz SE (EUR 52mn).

ANALYSIS OF EARNINGS OF GROUP MCEV Exhibit 8

€ MN

	Covered business MCEV	Non covered business & financing adj. IFRS	Total Group MCEV
Opening Group MCEV as at 31 December 2011	20,868	23,549	44,417
Opening adjustments	2,974	-37	2,937
Adjusted Opening MCEV as at 31 December 2011	23,842	23,512	47,354
Operating MCEV earnings ¹	3,640	6,545	not meaningful
Non operating MCEV earnings ²	444	-949	not meaningful
Non covered: IFRS net income		3,268	
Non covered: IFRS operating profit		-6,545	
Non covered: OCI		2,328	
Total MCEV earnings	4,084	5,596	9,680
Other movements in IFRS net equity		-453	-453
Closing adjustments	-622	-1,339	-1,961
Closing MCEV as at 31 December 2012	27,304	27,316	54,620

1—For the non covered business, IFRS Operating Profit of the Allianz Group excluding the Life/Health Segment was used as Operating MCEV earnings.

2—For the non covered business, the non operating MCEV earnings were calculated as follows:

— IFRS Net income of the Allianz Group attributable to Shareholders not included in covered business

— IFRS Operating Profit of the Allianz Group excluding the Life/Health Segment

— Changes in OCI (Unrealized Gains / Losses) of the Allianz Group attributable to Shareholders not included in covered business

Group MCEV increased by EUR 10,203mn, driven by the increase in covered business MCEV of EUR 6,436mn and the increase in non covered business of EUR 3,767mn. The increase in covered business MCEV is covered in detail in the

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.

SENSITIVITIES		Exhibit 9		
€ MN				
	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	27,304	100%	790	100%
Required Capital equal to local solvency capital	734	3%	47	6%
EV change by economic factors				
Risk Free Rate – 100bp	-3,874	-14%	-487	-62%
Risk Free Rate +100bp	1,784	7%	161	20%
Risk Free Rate – 50bp	-1,367	-5%	-155	-20%
Risk Free Rate +50bp	1,218	4%	101	13%
Charge for CNHR +100bp	-845	-3%	-59	-7%
Equity and property values – 10%	-584	-2%	-31	-4%
Swaption volatilities +25%	-765	-3%	-96	-12%
Equity option volatilities +25%	-851	-3%	-67	-8%
EV change by non-economic factors				
Lapse Rates – 10%	170	1%	107	13%
Maintenance Expenses – 10%	831	3%	50	6%
Mortality – 5% for products with death risk	353	1%	26	3%
Mortality – 5% for products with longevity risk	-384	-1%	-9	-1%

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.

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 150bps. Using the counter-cyclical premium would increase the German Speaking Countries' EV from EUR 13.3bn to EUR 16.4bn. The EV of the Western & Southern Europe region would increase from EUR 7.9bn to EUR 9.8bn.

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 734mn 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.

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 parallel shifts with the ultimate forward rate (“UFR”) being kept stable, in line with its design under Solvency 2.

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 3,874mn or 14%. This is lower than the corresponding impact shown for 2011, driven mainly by the earlier yield-curve extrapolation entry point in Euro denominated countries. VNB decreases by EUR 487mn.

We ran additional sensitivities to test the sensitivity of the UFR. In contrast to the sensitivities in which the deep and liquid part of the yield-curves are shocked, in these additional sensitivities we shock the UFR by -100bps and keep the deep and liquid part of the yield-curves unchanged. Reducing the UFR by 100bps reduces the Group’s EV by EUR 1,067mn. Similarly, the VNB reduces by EUR 137mn.

– [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 845mn. Appendices A.4.3 and B.2 contain 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 and property values by 10% reduces EV by EUR 584mn.

– [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 765mn or 3% for an increase in swaption implied volatility.

EV decreases by EUR 851mn or 3% for an increase in equity option implied volatility and real estate volatility.

Volatility sensitivities were lower than in 2011 due to lower market volatilities, volatility anchoring applied to the shock scenarios and lower O&G values.

– [Sensitivity to a decrease in lapse rates by 10%](#)

The impact of a 10% proportionate decrease in projected lapse rates is an increase in EV of EUR 170mn.

– [Sensitivity to a decrease in maintenance expenses by 10%](#)

The impact of a 10% decrease in the projected expenses on EV is EUR 832mn 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 353mn or 1%.

The impact on products with longevity risk is a decrease in value of EUR 384mn or 1%.

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.

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**.

Western & Southern Europe

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

Iberia & Latin America

- Life operations in **Spain**, **Portugal** and **Mexico**.

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 **South 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.

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 2012 EV by region.

EMBEDDED VALUE RESULTS BY REGION

Exhibit 10

€ MN												
	German Speaking Countries	Western & Southern Europe			Iberia and Latin America	Growth Markets		Asia-Pacific	CEEMA	USA	Holding	Total
		Germany Life	France	Italy								
Net asset value	3,724	2,080	5,223	1,979	2,237	599	1,883	1,374	442	4,332	42	15,803
Free surplus	1,230	740	-59	241	44	-963	-979	-1,268	257	680	-94	-185
Required capital	2,494	1,339	5,282	1,738	2,192	1,562	2,862	2,642	185	3,651	136	15,988
Value of Inforce	9,572	7,400	2,684	2,562	-212	-292	-378	-867	489	425	-511	11,500
Present value of future profits	13,750	10,629	4,515	3,462	498	31	849	213	595	1,972	-459	20,659
Cost of options and guarantees	-2,379	-2,091	-645	-52	-491	-37	-495	-423	-50	-1,055	-28	-4,640
Cost of residual non-hedgeable risk	-1,294	-887	-811	-617	-94	-120	-443	-383	-44	-245	-20	-2,935
Frictional Cost of required capital	-505	-251	-375	-231	-125	-165	-289	-274	-12	-247	-4	-1,585
MCEV	13,297	9,480	7,907	4,542	2,025	307	1,505	506	931	4,757	-469	27,304
in % of total MCEV	49%	35%	29%	17%	7%	1%	6%	2%	3%	17%	-2%	100%
Value of Inforce by product type												
Traditional	8,676	6,593	1,829	2,268	-586	-292	-1,047	-1,318	271	393	-526	9,033
Unit-Linked	883	795	853	295	373	0	692	476	216	-1,360	15	1,083
Index-Linked	13	12	2	0	2	0	-23	-25	2	1,392	0	1,384

The EV of the Group increased by EUR 6.4bn. An initial adjustment of EUR 3.0bn reflects methodology changes, implemented to reflect changing legislative and business requirements. A further increase of EUR 3.4bn reflects mainly narrower credit spreads, higher equities and lower volatilities.

Exhibit 11 provides an overview of ratios of ReC to statutory reserves and local solvency 1 requirements respectively.

Required capital increased by EUR 1,174mn to EUR 15,988mn in 2012.

REQUIRED CAPITAL

Exhibit 11

	2012			2011		
	Required capital	% of reserve	% of solvency requirement	Required capital	% of reserve	% of solvency requirement
	EUR mn	%	%	EUR mn	%	%
German Speaking Countries	2,494	1.4%	239%	2,249	1.3%	247%
thereof: Germany Life	1,339	0.9%	not meaningful	1,269	0.9%	not meaningful
Europe	5,282	4.5%	155%	4,832	4.4%	100%
thereof: France	1,738	2.6%	100%	1,504	2.4%	100%
thereof: Italy	2,192	6.0%	192%	2,198	6.3%	100%
Iberia & Latin America	1,562	26.3%	549%	1,205	21.3%	438%
Growth Markets	2,862	12.0%	331%	2,400	11.0%	208%
thereof: Asia-Pacific	2,642	13.5%	400%	2,245	12.3%	225%
thereof: CEEMA	185	5.6%	110%	116	4.2%	100%
USA	3,651	5.4%	272%	4,024	6.3%	286%
Holding and Internal Reinsurance	136	6.1%	100%	103	7.4%	100%
Total	15,988	4.0%	226%	14,814	4.0%	171%

A decrease of ReC was reported by the USA as a result of the approval of the updated S&P model. The overall increase in ReC was however driven by increases, in particular, in Spain, Belgium, France, South Korea, Taiwan and Switzerland.

The relatively high ReC in Iberia & Latin America was driven by Spain where high sovereign spreads dampened VIF and increased ReC.

In Belgium and Taiwan, the increase in ReC was driven by the change in life non-market risk capital methodology.

ReC in France is local solvency capital that increased as reserves increased.

In South Korea and Taiwan, negative spreads on legacy business drove the negative VIF and relatively high ReC.

In Switzerland, more stringent local solvency tests drove the increase in ReC.

For Germany Life additional capital on top of Allianz's internal ReC and solvency capital is allocated in order to better reflect local market standards. ReC 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 ReC as a proportion of solvency requirement is reflected as "not meaningful" because its local solvency requirement is close to zero.

A definition of ReC may be found in appendix A.3.

Exhibit 12 provides an overview of VNB by region.

VALUE OF NEW BUSINESS AT POINT OF SALE BY REGION

Exhibit 12

€ MN													
	German Speaking Countries	Western & Southern Europe			Iberia and Latin America			Growth Markets	Asia-Pacific		USA	Holding	Total
		Germany Life	France	Italy					CEEMA				
Value of New Business	453	415	135	80	46	48	196	132	64	44	-87	790	
in % total VNB	57%	53%	17%	10%	6%	6%	25%	17%	8%	6%	-11%	100%	
New Business Margin in %	2.8%	3.2%	1.0%	1.1%	1.0%	3.8%	3.2%	2.8%	5.2%	0.6%	n/a	1.8%	
Present value of NB premium	16,017	12,905	12,952	7,263	4,666	1,276	6,082	4,646	1,234	7,212	0	43,540	
APE Margin² in %	34.0%	38.1%	9.5%	10.9%	8.0%	31.5%	18.7%	15.9%	31.8%	6.1%	n/a	16.9%	
Single Premium³	5,367	4,712	8,412	4,232	3,630	733	2,852	2,135	515	6,772	0	24,134	
Recurrent Premium	795	620	576	308	211	81	765	616	149	50	-4	2,263	
Recurrent Premium multiplier⁴	13	13	8	10	5	7	4	4	5	9	0	9	
IRR in %	17.3%	18.3%	8.7%	6.9%	16.7%	14.4%	17.9%	16.8%	25.5%	11.3%			
Payback Period (in years)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA			
Value of New Business by product type													
Traditional	419	382	75	71	-1	48	96	60	36	10	-87	561	
Unit-Linked	34	33	60	9	47	0	100	72	27	10	0	204	
Index-Linked ¹	0	0	0	0	0	0	0	0	0	24	0	25	
New Business Margin by product type													
Traditional in %	2.7%	3.1%	0.8%	1.1%	-0.1%	3.8%	3.4%	2.9%	4.7%	1.9%	n/a	1.9%	
Unit-Linked in %	7.3%	7.4%	1.8%	1.1%	2.0%	1.0%	3.1%	2.8%	5.9%	0.4%	n/a	2.1%	
Index-Linked in %	0.9%	n/a	n/a	n/a	n/a	n/a	0.9%	0.9%	n/a	0.6%	n/a	0.6%	

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, single premium excludes Parkdepot (EUR 890mn)

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

The VNB decreased by 16%, driven mainly by low interest rates. The USA was the most severely impacted by the change in economic assumptions.

The NBM decreased from 2.3% to 1.8%, driven by change in assumptions. Management of the business mix however

supported the NBM. Positive impacts were seen in particular in Germany and USA.

Recurring premium business in 2012 was above the level achieved in 2011, driven mainly by significant recurring premium increases in France. Single premiums decreased slightly. Overall, the present value of new business premiums increased in 2012.

3.2 German Speaking Countries

The EV of the German Speaking Countries increased from EUR 9,516mn to EUR 13,297mn. After initial adjustments to reflect changes in methodology, the increase was driven by new business and assumption changes.

3.2.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written by the German Speaking Countries in 2012 was EUR 453mn, 7% higher than the value published in 2011. Exhibit 13 presents an analysis of the change in VNB.

The increase in VNB was driven by a more profitable business mix, a change in economic assumption methodology and model changes in Germany. A description of Germany Life may be found in the next chapter.

The VNB of Germany Life and Health increased, but decreased in Switzerland and Austria.

DEVELOPMENT OF VALUE OF NEW BUSINESS Exhibit 13

€ MN	Value of New Business	New Business Margin (%)	Present Value of NB Premium
Reported Value as at 31 December 2011	424	2.9%	14,731
Change in Foreign Exchange	1	0.0%	53
Change in Allianz interest	1	0.0%	20
Adjusted Value as at 31 December 2011	426	2.9%	14,803
Change in volume	-8	0.0%	38
Change in business mix	20	0.1%	0
Change in assumptions	15	-0.1%	1,176
Value of new business as at 31 December 2012	453	2.8%	16,017

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

The change in Group share reflects the increase of the Group's share in Germany Life from 99.74% to 100.00%.

Strong increases in premium volumes were seen in Germany Health and Switzerland. Volumes in Austria were relatively stable. Germany Health's higher production was driven by "last call" sales during the second half of 2012 before "unisex" rates were introduced at the start of 2013. An

increase in long-term care business was in particular reported. The increase in Switzerland was with respect to group life business.

Germany Life's volume decrease is described in the next chapter.

Overall, the change in premium volumes impacted VNB by EUR -8mn.

The change in Germany Life's business mix was the main driver of the positive effect of the change in business mix. Overall, the change in business mix impacted VNB by EUR 20mn and NBM by 10bps.

Change in assumptions was driven by economic assumption updates and model changes in Germany. The change in economic assumptions had a negative impact in Switzerland where interest rates and the liquidity premium were particularly low. Overall, the change of assumptions impacted VNB by EUR 15mn and NBM by -10bps.

3.2.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for the German Speaking Countries increased from EUR 9,516mn to EUR 13,297mn after dividend payments of EUR 554mn.

Germany Life paid a dividend of EUR 454mn and Germany Health EUR 100mn.

MCEV earnings were 13% of the adjusted opening EV. After initial adjustments to reflect changes in methodology, the increase was driven by new business and assumption changes.

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

Germany Life was the main driver of the German Speaking Countries' result. Germany Life is described separately in

ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 14

€ MN

	Earnings on MCEV analysis			
	Free Surplus	Required Capital	ViF	MCEV
Opening MCEV reported as at 31 December 2011	1,151	2,249	6,116	9,516
Foreign Exchange Variance	2	4	1	7
Acquired / Divested business	0	0	0	0
Others	-26	25	2,707	2,707
Adjusted Opening MCEV as at 31 December 2011	1,128	2,278	8,824	12,230
Value of new business at point of sale	0	0	453	453
Expected existing business contribution				
reference rate	58	0	651	709
in excess of reference rate	11	0	146	157
Transfer from ViF and required capital to free surplus				
on in-force at begin of year	900	-2	-898	0
on new business	-237	84	153	0
Experience variance	-243	15	10	-218
Non-economic assumption changes	6	0	752	759
Other operating variance	3	1	-171	-167
Operating MCEV earnings	498	98	1,097	1,694
Economic variances	158	118	-349	-73
Other non operating variance	0	0	0	0
Total MCEV earnings	656	216	748	1,620
Net capital movements	-554	0	0	-554
Closing MCEV as at 31 December 2012	1,230	2,494	9,572	13,297

the following chapter. The remaining entities will be the focus of this chapter.

The foreign exchange variance reflects the slight weakening of the Euro against the Swiss Franc during 2012. The exchange rate movement impacted EV by EUR 7mn.

The other opening adjustment reflects a number of methodology changes, described in the following paragraphs.

The yield-curve extrapolation entry point of the Euro denominated countries was moved from 30 to 20 years. The impact on EV was EUR 2,420mn.

The going concern approach was modelled in Germany Life. This is described in the following chapter. The impact on EV was EUR -952mn.

The Zinszusatzreserve was modelled in Germany Life. This is described in the following chapter. The impact on EV was EUR 692mn.

The modelling of guaranteed interest payments was improved in Germany Life. The impact on EV was EUR 725mn.

Life non-market risk capital modelling changed in line with Group specifications. The impact on EV was EUR -388mn.

In Switzerland, the model was improved to recognize the shareholders' option not to renew unprofitable group business. The impact on EV was EUR 210mn.

The total impact of methodology changes on EV in the German Speaking Countries was EUR 2,707mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 709mn. Expected returns in excess of the reference rate increased EV by a further EUR 157mn.

The VNB at point of sale increased to EUR 453mn while new business strain decreased to EUR 237mn. 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 -218mn was driven by Germany Life and the strengthening of unallocated reserves in Switzerland.

Assumption changes impacted EV by EUR 759mn. The changes were driven by Germany Life and also the decrease in annuitization rates in Switzerland.

Other operating variances of EUR -167mn was driven by Germany Life.

Economic variances of EUR -73mn was the result of offsetting negative impacts in Germany Life and positive impacts in Germany Health and Switzerland. Germany Health reported a positive impact as a result of management of the portfolio and Switzerland as a result of higher market values of assets. Overall, the change in interest rates impacted EV by ca. EUR -1.0bn, the change in equity values by ca. EUR 0.5bn and the change in volatilities by ca. EUR 0.4bn.

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	13,297	100%	453	100%	
Required Capital equal to local solvency capital	304	2%	21	5%	
EV change by economic factors					
Risk Free Rate – 100bp	-2,256	-17%	-365	-81%	
Risk Free Rate +100bp	835	6%	108	24%	
Risk Free Rate – 50bp	-670	-5%	-108	-24%	
Risk Free Rate +50bp	679	5%	70	15%	
Charge for CNHR +100bp	-398	-3%	-24	-5%	
Equity and property values – 10 %	-219	-2%	-3	-1%	
Swaption volatilities +25 %	-525	-4%	-78	-17%	
Equity option volatilities +25 %	-275	-2%	-28	-6%	
EV change by non-economic factors					
Lapse Rates – 10 %	109	1%	68	15%	
Maintenance Expenses – 10 %	298	2%	19	4%	
Mortality – 5 % for products with death risk	81	1%	4	1%	
Mortality – 5 % for products with longevity risk	-154	-1%	-5	-1%	

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 2012 are lower than those of 2011 due to the change in the yield-curve extrapolation entry point.

Volatility sensitivities too are lower than those of 2011 because of the implementation of volatility anchoring to shock as well as base scenarios.

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 increased from EUR 6,132mn to EUR 9,480mn. After initial adjustments to reflect changes in methodology, the increase was driven by new business and assumption changes.

3.3.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written by Germany Life in 2012 was EUR 415mn, 10% higher than the value published in 2011. The NBM changed from 3.1% to 3.2%. Exhibit 16 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS		Exhibit 16	
	Value of New Business	New Business Margin	Present Value of NB Premium
	EUR mn	%	EUR mn
Reported Value as at 31 December 2011	378	3.1%	12,292
Change in Foreign Exchange	0	0.0%	0
Change in Allianz interest	1	0.0%	20
Adjusted Value as at 31 December 2011	379	3.1%	12,312
Change in volume	-15	0.0%	-288
Change in business mix	25	0.2%	0
Change in assumptions	26	0.0%	881
Value of new business as at 31 December 2012	415	3.2%	12,905

The increase in VNB was mainly due to a more profitable business mix during 2012. The change in assumptions, in particular the earlier yield-curve extrapolation entry point and swaption volatility extrapolation, also had a positive impact on VNB.

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

Recurring premium business decreased slightly compared to 2011. Lower volumes were driven by the reduction of the guarantee rate from 2.25% to 1.75% at the start of the year, reducing deferred annuity sales in particular. Single premium business also decreased slightly compared to 2011. The lower volumes impact VNB by EUR -15mn.

The change in business mix had a positive impact on VNB. The drivers of the change were the reduction

of the guaranteed interest rate at the start of 2012 and the decrease of excess acquisition costs as a proportion of premium. The change in business mix impacted VNB by EUR 25mn and NBM by 20bps.

The change in assumptions was driven by capital market changes, non-economic assumption updates and the modelling of the going-concern approach.

The change in the capital market assumptions reflects lower interest rates, higher average volatilities, the change in yield-curve extrapolation entry point and the implementation of swaption volatility anchoring. The changes impacted VNB by EUR 45mn and NBM by 20bps.

Non-economic assumption changes reflect mostly the change in inflation rate from 2% to 1%. The changes impacted VNB by EUR 13mn and NBM by 10bps.

The modelling of the going-concern approach impacted VNB by EUR -41mn and NBM by -30bps. The mechanics of the going-concern approach are described in the following section in this chapter.

Other model changes, driven mainly by the modelling of the Zinszusatzreserve, impacted VNB by EUR 9mn with a negligible impact on NBM. The mechanics of the Zinszusatzreserve is described in the following section in this chapter.

In total, the change in assumptions impacted VNB by EUR 26mn and had a negligible impact on NBM.

3.3.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for Germany Life increased from EUR 6,132mn to EUR 9,480mn after a dividend payment of EUR 454mn.

MCEV earnings were 13% of the adjusted opening EV. After initial adjustments to reflect changes in methodology, the increase was driven by new business and assumption changes.

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

ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 17

€ MN

	Earnings on MCEV analysis			
	Free Surplus	Required Capital	ViF	MCEV
Opening MCEV reported as at 31 December 2011	630	1,269	4,233	6,132
Foreign Exchange Variance	0	0	0	0
Acquired / Divested business	0	0	0	0
Others	0	0	2,645	2,645
Adjusted Opening MCEV as at 31 December 2011	630	1,269	6,878	8,776
Value of new business at point of sale	0	0	415	415
Expected existing business contribution				
reference rate	43	0	569	612
in excess of reference rate	4	0	111	115
Transfer from ViF and required capital to free surplus				
on in-force at begin of year	683	14	-697	0
on new business	-186	48	138	0
Experience variance	-118	-1	-55	-174
Non-economic assumption changes	7	0	854	861
Other operating variance	-1	0	-306	-307
Operating MCEV earnings	432	61	1,029	1,523
Economic variances	133	9	-507	-365
Other non operating variance	0	0	0	0
Total MCEV earnings	565	71	522	1,158
Net capital movements	-454	0	0	-454
Closing MCEV as at 31 December 2012	740	1,339	7,400	9,480

The opening adjustment reflects a number of methodology changes, described in the following paragraphs.

The change in yield-curve extrapolation entry point impacted EV by EUR 2,350mn.

The modelling of the going concern reserve impacted EV by EUR -952mn.

Following the going concern approach, we assume that the entity will write new business in future years in line with the German business model and that acquisition costs will be part of the profit participation of the in-force block. The sum of the acquisition expenses shared with the in-force block is the going concern reserve. The reserve is a form of hybrid debt by which policyholders fund future new business. Their own policies were of course funded by previous

generations of in-force policyholders. The approach reduces the buffers available for the existing in-force block in emergency scenarios. Reduced buffers increase O&G and hence reduce EV.

In the Solvency 2 framework, the going concern reserve contributes to available funds to cover SCR.

The modelling of the Zinszusatzreserve impacted EV by EUR 692mn.

It should be noted that, although the Zinszusatzreserve is described in the context of model changes, the change was in fact driven by a legal requirement.

German life insurers have since the end of 2011 been legally required to set up an additional reserve, the Zinszusatzreserve, to mitigate risks arising as a result of low interest rates. The reserve build-up is calculated on a per policy basis and affects those contracts for which guarantees lie above a defined threshold. The reserve would strengthen as prevailing interest rates decrease and be released as prevailing interest rates increase.

The Zinszusatzreserve serves as balance sheet strengthening and hence reduces O&G.

The modelling of guaranteed interest payments was improved in Germany Life. The impact on EV was EUR 725mn.

Life non-market risk capital modelling changed in line with Group specifications. The impact on EV was EUR -171mn.

For Germany Life, the total impact of methodology changes on EV was EUR 2,645mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 612mn. Expected returns in excess of the reference rate further increased EV by EUR 115mn.

The VNB at point of sale increased to EUR 415mn while the new business strain decreased to EUR 186mn. 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 -174mn reflects the positive impacts of lower annuitizations and decreased interest

rate applied to deferred annuities sold before 1994 that were offset by negative impacts of surrenders, new profit participation defined for 2013 and effect of the Zinszusatzreserve on current year profit.

Non-economic assumption changes impacted EV by EUR 861mn. The main drivers were lower annuitization assumptions and lower maintenance expense inflation.

Other operating variances of EUR -307mn was mainly driven by improved modeling to separate the accrual and payout phases of annuity policies.

Economic variances of EUR -365mn was driven mainly by lower interest rates, lower volatilities and higher equity values. The lower interest rates impacted EV by ca. EUR -1.2bn, lower volatilities by ca. EUR -0.4bn and higher equities by ca. EUR 0.3bn.

3.3.3 SENSITIVITIES

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

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.

SENSITIVITIES	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	9,480	100%	415	100%
Required Capital equal to local solvency capital	250	3%	20	5%
EV change by economic factors				
Risk Free Rate – 100bp	-1,876	-20%	-352	-85%
Risk Free Rate +100bp	691	7%	101	24%
Risk Free Rate – 50bp	-449	-5%	-103	-25%
Risk Free Rate +50bp	601	6%	64	15%
Charge for CNHR +100bp	-273	-3%	-19	-5%
Equity and property values – 10 %	-76	-1%	0	0%
Swaption volatilities +25 %	-497	-5%	-79	-19%
Equity option volatilities +25 %	-248	-3%	-27	-6%
EV change by non-economic factors				
Lapse Rates – 10 %	125	1%	59	14%
Maintenance Expenses – 10 %	209	2%	16	4%
Mortality – 5 % for products with death risk	93	1%	5	1%
Mortality – 5 % for products with longevity risk	-132	-1%	-4	-1%

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 2012 are lower than those of 2011 due to the change in the yield-curve extrapolation entry point.

Volatility sensitivities too are lower than those of 2011 because of the implementation of volatility anchoring to shock as well as base scenarios.

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 Western & Southern Europe

The EV of Western & Southern Europe increased from EUR 6,160mn to EUR 7,907mn. The change was driven by France and Italy.

The change in assumptions reflects the tougher economic environment. The modelling of health business in France however had a positive impact. Change in assumptions impacted VNB by EUR -71mn and NBM by -70bps.

3.4.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in Western & Southern Europe in 2012 was EUR 135mn, 30% lower than the value published in 2011. The NBM changed from 1.7% to 1.0%. 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 2011	194	1.7%	11,150
Change in Foreign Exchange	0	0.0%	0
Change in Allianz interest	0	0.0%	0
Adjusted Value as at 31 December 2011	194	1.7%	11,151
Change in volume	16	0.0%	946
Change in business mix	-3	0.0%	0
Change in assumptions	-71	-0.7%	856
Value of new business as at 31 December 2012	135	1.0%	12,952

The change in VNB was positively impacted by changes in volume, in particular in France, and negatively impacted by changes in assumptions.

Premium volumes were stable. The significant premium increase in France was driven by higher group business. Premiums in Turkey also increased but decreases were seen in the other countries. Overall, higher volumes impacted VNB by EUR 16mn.

In France, there were higher sales of more profitable group business while in Italy, the trend was towards unit-linked business. The change in business mix in Western & Southern Europe impacted VNB by EUR -3mn with a negligible impact on NBM.

3.4.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for Western & Southern Europe increased from EUR 6,160mn to EUR 7,907mn after capital movements of EUR 171mn. The analysis of earnings in Exhibit 20 presents the drivers of the change in MCEV. Earnings were 21% of the adjusted opening EV. The change was driven by positive

market developments, in particular narrower spreads and lower volatilities, and operating variances in France.

Italy and France are the largest entities of Western & Southern Europe. Details of their earnings are covered in later chapters.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 20

€ MN	Earnings on MCEV analysis			
	Free Surplus	Required Capital	ViF	MCEV
Opening MCEV reported as at 31 December 2011	-202	4,832	1,530	6,160
Foreign Exchange Variance	1	0	2	3
Acquired / Divested business	0	0	0	0
Others	-14	14	211	211
Adjusted Opening MCEV as at 31 December 2011	-214	4,847	1,742	6,374
Value of new business at point of sale	-2	0	137	135
Expected existing business contribution				
reference rate	99	0	130	229
in excess of reference rate	98	0	160	258
Transfer from ViF and required capital to free surplus				
on in-force at begin of year	421	-242	-179	0
on new business	-619	409	210	0
Experience variance	-8	-65	156	83
Non-economic assumption changes	165	-164	-194	-194
Other operating variance	-57	238	284	465
Operating MCEV earnings	96	175	705	976
Economic variances	-111	260	237	386
Other non operating variance	0	0	0	0
Total MCEV earnings	-15	436	942	1,363
Net capital movements	171	0	0	171
Closing MCEV as at 31 December 2012	-59	5,282	2,684	7,907

Opening adjustments reflect the movement of the Turkish lira against the Euro, impacting the EV by EUR 3mn.

The yield-curve extrapolation entry point of the Euro denominated countries was moved from 30 to 20 years. The impact on EV was EUR 287mn.

Life non-market risk capital modelling changed in line with Group specifications. The impact on EV was EUR -76mn.

The other opening adjustment of EUR 211mn reflects the two changes described above.

Earning the reference rate on the in-force portfolio increased EV by EUR 229mn. Expected returns in excess of the reference rate further increased EV by EUR 258mn.

The VNB at point of sale was EUR 135mn with a new business strain of EUR 619mn. The most significant new business strain was incurred in France and Italy.

Experience variances of EUR 83mn was driven mainly by the surrender of unprofitable business in Italy and positive experience in France.

- 2 Introduction
- 3 Overview of Results
- 17 Regional Analysis of Embedded Value**
- 54 Independent Opinion

Non-economic assumption changes impacted EV by EUR -194mn. The change was driven by more prudent expense and tax assumptions in France.

Other operating variances of EUR 465mn was driven by France. The changes are described in the next chapter.

Economic variances of EUR 386mn was driven by the narrowing of spreads between Italian government bond and swap rates. The positive effect of the narrowing spreads more than offset the negative effect of lower swap rates.

Net capital movements in 2012 were EUR 171mn. France paid a dividend of EUR 100mn, Netherlands paid EUR 60mn, Belgium EUR 16mn and Turkey EUR 13mn. To satisfy local solvency requirements Greece received a capital injection of EUR 109mn. The capital movement of EUR 250mn to the Italian life entity reflects a transfer from the P&C entity.

3.4.3 SENSITIVITIES

Exhibit 21 presents the sensitivities for Western &

Southern Europe's EV and VNB.

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

SENSITIVITIES					Exhibit 21
€ MN					
	Inforce MCEV		New Business VNB		
	EUR mn	%	EUR mn	%	
Central Assumptions	7,907	100%	135	100%	
Required Capital equal to local solvency capital	68	1%	0	0%	
EV change by economic factors					
Risk Free Rate – 100bp	-373	-5%	-97	-72%	
Risk Free Rate +100bp	244	3%	57	42%	
Risk Free Rate – 50bp	-148	-2%	-38	-28%	
Risk Free Rate +50bp	131	2%	31	23%	
Charge for CNHR +100bp	-204	-3%	-15	-11%	
Equity and property values – 10 %	-252	-3%	-22	-17%	
Swaption volatilities +25 %	-188	-2%	-19	-14%	
Equity option volatilities +25 %	-108	-1%	-1	-1%	
EV change by non-economic factors					
Lapse Rates – 10 %	40	1%	6	4%	
Maintenance Expenses – 10 %	288	4%	8	6%	
Mortality – 5 % for products with death risk	86	1%	3	2%	
Mortality – 5 % for products with longevity risk	-67	-1%	0	0%	

than rising rates. Interest rate sensitivities in 2012 are lower than those of 2011 due to the change in the yield-curve extrapolation entry point for the Euro denominated countries.

Volatility sensitivities too are lower than those of 2011 because of the implementation of volatility anchoring to shock as well as base scenarios.

3.5 France

The EV of France increased from EUR 3,903mn to EUR 4,542mn. The development was driven by positive operating variances.

3.5.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in France in 2012 was EUR 80mn, 12% higher than the value published in 2011.

DEVELOPMENT OF VALUE OF NEW BUSINESS Exhibit 22

€ MN

	Value of New Business	New Business Margin (%)	Present Value of NB Premium
Reported Value as at 31 December 2011	72	1.3%	5,343
Change in Foreign Exchange	0	0.0%	0
Change in Allianz interest	0	0.0%	0
Adjusted Opening Value as at 31 December 2011	72	1.3%	5,343
Change in volume	20	0.0%	1,234
Change in business mix	4	0.1%	0
Change in assumptions	-16	-0.4%	686
Value of new business as at 31 December 2012	80	1.1%	7,263

The change in VNB was mainly due to higher premium volumes and the inclusion of their health business.

The significant increase in premium volumes was mainly with respect to recurring premium group business. The change in volume impacted VNB by EUR 20mn.

The change in business mix was driven by the increase in group business. The impact on VNB was EUR 4mn.

Change in assumptions was driven by the negative effect of lower interest rates but offset by the positive effect of the modelling of the health business. Overall, the changes impacted VNB by EUR -16mn and NBM by -40bps.

3.5.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of France increased from EUR 3,903mn to EUR 4,542mn after a dividend payment of EUR 100mn.

MCEV earnings were 14% of the adjusted opening EV. The change was driven by positive operating variances.

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

ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 23

€ MN

	Earnings on MCEV analysis			
	Free Surplus	Required Capital	ViF	MCEV
Opening MCEV reported as at 31 December 2011	456	1,504	1,943	3,903
Foreign Exchange Variance	0	0	0	0
Acquired / Divested business	0	0	0	0
Others	0	0	157	157
Adjusted Opening MCEV as at 31 December 2011	456	1,504	2,100	4,059
Value of new business at point of sale	0	0	80	80
Expected existing business contribution				
reference rate	44	0	55	100
in excess of reference rate	55	0	133	188
Transfer from ViF and required capital to free surplus				
on in-force at begin of year	272	-41	-232	0
on new business	-323	187	136	0
Experience variance	56	-111	76	21
Non-economic assumption changes	14	-13	-291	-291
Other operating variance	-25	213	287	475
Operating MCEV earnings	93	235	245	573
Economic variances	-208	-1	218	9
Other non operating variance	0	0	0	0
Total MCEV earnings	-115	234	463	582
Net capital movements	-100	0	0	-100
Closing MCEV as at 31 December 2012	241	1,738	2,562	4,542

The yield-curve extrapolation entry point was moved from 30 to 20 years. The impact on EV was EUR 182mn.

A change in diversification effect increased CNHR and impacted EV by EUR -25mn.

The other opening adjustment of EUR 157mn reflects the two changes described above.

Earning the reference rate on the in-force portfolio increased EV by EUR 100mn. Expected returns in excess of the reference rate further increased EV by EUR 188mn.

The VNB at point of sale increased to EUR 80mn with a new business strain of EUR 323mn.

- 2 Introduction
- 3 Overview of Results
- 17 **Regional Analysis of Embedded Value**
- 54 Independent Opinion

Experience variances of EUR 21mn reflects better than expected premium persistency offset by poorer than expected expense experience.

Non-economic assumption changes of EUR -291mn reflects more prudent expense assumptions and an anticipated tax rate increase, in particular driven by lower anticipated tax exemptions on dividends.

Other operating variances of EUR 475mn reflects the inclusion of health business in MCEV scope, the true-up of 2011 assets, liabilities and volatilities and further model changes.

Economic variances of EUR 9mn reflects the impact of market movements on savings products offset by the health and protection lines. The reduction of FS is mainly due to tax obligations in 2012.

3.5.3 SENSITIVITIES

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

SENSITIVITIES		Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%	
Central Assumptions	4,542	100%	80	100%	
Required Capital equal to local solvency capital	0	0%	0	0%	
EV change by economic factors					
Risk Free Rate – 100bp	-56	-1%	-68	-85%	
Risk Free Rate +100bp	31	1%	45	56%	
Risk Free Rate – 50bp	-20	0%	-31	-39%	
Risk Free Rate +50bp	17	0%	22	27%	
Charge for CNHR +100bp	-148	-3%	-10	-12%	
Equity and property values – 10 %	-159	-3%	-15	-18%	
Swaption volatilities +25 %	-2	0%	0	0%	
Equity option volatilities +25 %	-87	-2%	0	0%	
EV change by non-economic factors					
Lapse Rates – 10 %	33	1%	0	1%	
Maintenance Expenses – 10 %	222	5%	2	2%	
Mortality – 5 % for products with death risk	74	2%	1	1%	
Mortality – 5 % for products with longevity risk	-58	-1%	0	0%	

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 2012 are lower than those of 2011 due to the change in the yield-curve extrapolation entry point for the Euro denominated countries.

Volatility sensitivities too are lower than those of 2011 because of the implementation of volatility anchoring to shock as well as base scenarios.

New-business interest rate sensitivities were previously calculated on a marginal basis that was found to be relatively unstable. For 2012 they were calculated on a stand-alone basis and reflect more fairly the behaviour of the new-business layer.

3.6 Italy

The EV of Italy increased from EUR 1,262mn to EUR 2,025mn. The change was driven by positive economic variances and a capital transfer from the P&C business.

3.6.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in Italy in 2012 was EUR 46mn, 52% lower than the value published in 2011. The NBM changed from 2.1% to 1.0%. Exhibit 25 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS		Exhibit 25	
€ MN			
	Value of New Business	New Business Margin (%)	Present Value of NB Premium
Reported Value as at 31 December 2011	97	2,1%	4,670
Change in Foreign Exchange	0	0,0%	0
Change in Allianz interest	0	0,0%	0
Adjusted Opening Value as at 31 December 2011	97	2,1%	4,670
Change in volume	-2	0,0%	-136
Change in business mix	-5	-0,1%	0
Change in assumptions	-43	-1,0%	132
Value of new business as at 31 December 2012	46	1,0%	4,666

The change in VNB was driven by higher volatilities, lower interest rates and lower liquidity premium.

Premium volumes were in total little changed compared to 2011. Volumes of CreditRAS products, sold through bancassurance channels, however decreased significantly. Volumes of DARTA products, unit-linked products sold by financial advisors, increased significantly, most notably in the fourth quarter. The change in volume impacted VNB by EUR -2mn.

Recurring premium business increased slightly while single premiums were stable. The proportion of Allianz S.p.A.'s higher margin risk business declined compared to other lines. The business mix began to shift from traditional towards unit-linked without guarantees in the fourth quarter. The change in business mix impacted VNB by EUR -5mn and NBM by -10bps.

In the second half of 2012, Italy started to reduce the level of minimum guarantees to 0% and to convert clique type to non-clique type guarantees for the majority of new business in order to mitigate current market risks.

The change in assumptions was mainly with respect to lower interest rates, lower liquidity premium and higher volatilities, impacting in particular the traditional business. The change in assumptions impacted VNB by EUR -43mn and NBM by -100bps.

Look-through profits, not included in the VNB, increased from EUR 18mn to EUR 34mn. The increase was driven by the inclusion of profits generated by PIMCO, an Allianz owned investment firm, in the management of funds for CreditRAS and DARTA.

The MCEV methodology does not allow for the capitalization of the spreads on government bonds in the VNB. However, if the spreads on Italian government bonds were taken into account, the additional value created would have increased the VNB from EUR 46mn to EUR 96mn not including look-through profits, 109% higher than the disclosed value.

3.6.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of Italy increased from EUR 1,262mn to EUR 2,025mn after receiving a capital transfer of EUR 250mn from its P&C company.

MCEV earnings were 39% of the adjusted opening EV. The change was driven by the narrowing of spreads between

Italian government bond and swap rates.

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

ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 26

€ MN

	Earnings on MCEV analysis			
	Free Surplus	Required Capital	ViF	MCEV
Opening MCEV reported as at 31 December 2011	-360	2,198	-575	1,262
Foreign Exchange Variance	0	0	0	0
Acquired / Divested business	0	0	0	0
Others	32	-32	16	16
Adjusted Opening MCEV as at 31 December 2011	-328	2,166	-560	1,278
Value of new business at point of sale	0	0	46	46
Expected existing business contribution				
reference rate	34	0	52	86
in excess of reference rate	42	0	0	42
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	51	-138	87	0
on new business	-218	153	65	0
Experience variance	-51	17	75	40
Non-economic assumption changes	0	0	38	38
Other operating variance	-10	1	-62	-71
Operating MCEV earnings	-152	33	300	181
Economic variances	275	-7	48	317
Other non operating variance	0	0	0	0
Total MCEV earnings	123	27	348	497
Net capital movements	250	0	0	250
Closing MCEV as at 31 December 2012	44	2,192	-212	2,025

The yield-curve extrapolation entry point was moved from 30 to 20 years. The impact on EV was EUR 25mn.

Life non-market risk capital modelling changed in line with Group specifications. The impact on EV was EUR -9mn.

The other opening adjustment of EUR 16mn reflects the two changes described above.

Earning the reference rate on the in-force portfolio increased EV by EUR 86mn. Expected returns in excess of the reference rate further increased EV by EUR 42mn.

The VNB at point of sale was EUR 46mn with a new business strain of EUR 218mn.

Experience variances of EUR 40mn reflects the positive

impacts of the surrender of unprofitable business and tax variances.

Non-economic assumption changes of EUR 38mn reflects largely the revision of parameters for CNHR.

The other operating variances of EUR -71mn was in respect of 2011 true-up and model refinements.

The economic variances of EUR 317mn was driven by narrower Italian government bond spreads.

The widened spreads on Italian government bond rates, that caused significant unrealized losses at the start of the year, reduced by around 150bps by the end of the year. This resulted in the recovery of much of the unrealized losses in the segregated funds and thus higher fund returns, which had a positive impact on the VIF and NAV. The overall impact on EV due to the spread movement was EUR 1,071mn.

The positive impact of the narrower spreads more than offset the negative impacts of lower swap rates and liquidity premiums.

The negative FS at the start of the year turned positive as the NAV increased due to lower spreads. Furthermore, there was a capital transfer of EUR 250mn from the P&C entity.

The MCEV methodology does not allow for the capitalization of the spreads on government bonds in the VIF. However, if the spreads on Italian government bonds were taken into account, the additional value created would have increased the VIF from EUR -212mn to EUR 1,092mn, increasing the closing EV to EUR 3,328mn.

3.6.3 SENSITIVITIES

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

SENSITIVITIES		Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%	
Central Assumptions	2,025	100%	46	100%	
Required Capital equal to local solvency capital	64	3%	0	0%	
EV change by economic factors					
Risk Free Rate – 100bp	-205	-10%	-13	-29%	
Risk Free Rate +100bp	141	7%	5	11%	
Risk Free Rate – 50bp	-78	-4%	-2	-5%	
Risk Free Rate +50bp	74	4%	5	12%	
Charge for CNHR +100bp	-29	-1%	-3	-7%	
Equity and property values – 10%	-32	-2%	-5	-11%	
Swaption volatilities +25%	-162	-8%	-17	-37%	
Equity option volatilities +25%	-8	0%	-1	-2%	
EV change by non-economic factors					
Lapse Rates – 10%	-7	0%	3	8%	
Maintenance Expenses – 10%	22	1%	4	8%	
Mortality – 5% for products with death risk	2	0%	2	4%	
Mortality – 5% for products with longevity risk	-6	0%	0	0%	

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 2012 are lower than those of 2011 due to the change in the yield-curve extrapolation entry point for the Euro denominated countries.

Volatility sensitivities too are lower than those of 2011 because of the implementation of volatility anchoring to shock as well as base scenarios.

Also, EV economic sensitivities tend to be lower because of the recovery of unrealized capital losses in the funds due to the reduction of Italian government spreads despite lower interest rates and liquidity premiums.

New-business economic sensitivities are higher because the current level of interest rates are closer to the minimum guarantee rates and volatilities are relatively high.

3.7 Iberia & Latin America

The EV of Iberia & Latin America increased from EUR 181mn to EUR 307mn. The change was driven by new business and positive experience variances.

3.7.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in Iberia & Latin America in 2012 was EUR 48mn, 3% higher than the value published in 2011. The NBM changed from 4.5% to 3.8%. Exhibit 28 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS		Exhibit 28	
€ MN			
	Value of New Business	New Business Margin (%)	Present Value of NB Premium
Reported Value as at 31 December 2011	47	4,4%	1.061
Change in Foreign Exchange	0	0,0%	6
Change in Allianz interest	1	0,1%	15
Adjusted Opening Value as at 31 December 2011	49	4,5%	1.082
Change in volume	7	0,0%	194
Change in business mix	6	0,3%	0
Change in assumptions	-13	-1,0%	0
Value of new business as at 31 December 2012	48	3,8%	1.276

The change in VNB was positively impacted by changes in volume, in particular in Spain, and negatively impacted by changes in assumptions.

Premium volumes increased slightly, driven by a strong increase in single premiums. Mexico reported a strong increase in recurring premiums. The change impacted VNB by EUR 7mn.

The change in business mix reflects the lower sales of negative margin pensions business in Spain. The change impacted VNB by EUR 6mn and NBM by 30bps.

The change in assumptions reflects lower interest rates and the negative impact of updated lapse assumptions in Spain. Change in assumptions impacted VNB by EUR -13mn and NBM by -100bps.

3.7.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for Iberia & Latin America increased from EUR 181mn to EUR 307mn after dividend payments of EUR 6mn. The analysis of earnings in Exhibit 29 presents the drivers of the change in EV.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 29

€ MN

	Earnings on MCEV analysis			
	Free Surplus	Required Capital	ViF	MCEV
Opening MCEV reported as at 31 December 2011	-676	1.205	-348	181
Foreign Exchange Variance	2	1	1	4
Acquired / Divested business	0	0	0	0
Others	0	0	58	58
Adjusted Opening MCEV as at 31 December 2011	-674	1.206	-289	243
Value of new business at point of sale	1	0	48	48
Expected existing business contribution				
reference rate	10	0	7	17
in excess of reference rate	0	0	2	2
Transfer from ViF and required capital to free surplus				
on in-force at begin of year	9	0	-9	0
on new business	-64	43	21	0
Experience variance	3	0	6	9
Non-economic assumption changes	-3	3	-11	-11
Other operating variance	5	-5	20	20
Operating MCEV earnings	-40	40	84	85
Economic variances	-243	316	-87	-14
Other non operating variance	0	0	0	0
Total MCEV earnings	-283	356	-3	70
Net capital movements	-6	0	0	-6
Closing MCEV as at 31 December 2012	-963	1.562	-292	307

MCEV earnings were 29% of the adjusted opening EV. The change was driven by new business and positive experience variances.

Opening FX variance reflects the movement of the Mexican Peso against the Euro, impacting the EV by EUR 4mn.

A further adjustment of EUR 58mn reflects the impact of the change of the Euro yield-curve extrapolation entry point from 30 to 20 years, that impacted EV by EUR 46mn, and the

change in life non-market risk capital methodology, that impacted EV by EUR 12mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 17mn. Expected returns in excess of the reference rate further increased EV by EUR 2mn.

The VNB at point of sale was EUR 48mn with a new business strain of EUR 64mn.

Experience variances of EUR 9mn was driven mainly by the higher surrender of older high guarantee business in Spain.

Non-economic assumption changes impacted EV by EUR -11mn. The change was driven by updated lapse and expense assumptions in Spain.

Other operating variances of EUR 20mn reflects the true-up of 2011 volatilities and model improvements.

Economic variances of EUR -14mn was driven by lower interest rates, higher spreads and realized losses from the sale of government bonds on Spain.

The decrease of the already negative FS was driven by Spain where sovereign spreads widened further.

In Spain, Eurovida paid a dividend of EUR 21mn while Seguros Life received a cash transfer of EUR 15mn from its P&C business. Neither Portugal nor Mexico paid dividends.

3.7.3 SENSITIVITIES

Exhibit 30 presents the sensitivities for Iberia & Latin America's EV and VNB.

SENSITIVITIES	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	307	100%	48	100%
Required Capital equal to local solvency capital	139	45%	3	6%
EV change by economic factors				
Risk Free Rate – 100bp	-77	-25%	2	4%
Risk Free Rate +100bp	50	16%	-3	-6%
Risk Free Rate – 50bp	-35	-11%	1	2%
Risk Free Rate +50bp	28	9%	-1	-3%
Charge for CNHR +100bp	-37	-12%	-3	-5%
Equity and property values – 10 %	-3	-1%	0	0%
Swaption volatilities +25 %	-14	-5%	-1	-2%
Equity option volatilities +25 %	-1	0%	0	0%
EV change by non-economic factors				
Lapse Rates – 10 %	53	17%	10	21%
Maintenance Expenses – 10 %	23	7%	0	-1%
Mortality – 5 % for products with death risk	29	9%	7	15%
Mortality – 5 % for products with longevity risk	-63	-20%	0	-1%

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 2012 are lower than those of 2011 due to the change in the yield-curve extrapolation entry point for the Euro denominated countries.

Volatility sensitivities too are lower than those of 2011 because of the implementation of volatility anchoring to shock as well as base scenarios.

Non-economic sensitivities are higher than other entities, driven by the risk products in Spain and Portugal.

Mexico's investment products tend to be lapse protected by their charging structure but are more exposed to interest rate shocks

3.8 Growth Markets

The EV of the Growth Markets increased from EUR 1,363mn to EUR 1,505mn. The change was mainly driven by strong new business, in particular in Asia.

3.8.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in the Growth Markets in 2012 increased to EUR 196mn, 8% higher than the value published in 2011. The NBM increased from 2.9% to 3.2%. Exhibit 31 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS			Exhibit 31
	Value of New Business	New Business Margin	Present Value of NB Premium
	EUR mn	%	EUR mn
Reported Value as at 31 December 2011	182	2.9%	6,193
Change in Foreign Exchange	5	0.0%	254
Change in Allianz interest	2	0.0%	5
Adjusted Value as at 31 December 2011	188	2.9%	6,453
Change in volume	19	0.0%	-389
Change in business mix	-1	0.5%	0
Change in assumptions	-10	-0.2%	18
Value of New Business as at 31 December 2012	196	3.2%	6,082

The increase in VNB was driven by higher volumes in a number of entities.

Premium volumes in CEEMA increased slightly in 2012. The Czech Republic in particular saw healthy new business growth, a significant increase in recurring premiums and a slight increase in single premiums. Although total volumes in Asia were slightly lower, Indonesia reported a strong increase in single premiums and a slight increase in recurring premiums. South Korea reported a strong increase in single premiums. Overall, the increase in volume in the Growth Markets impacted VNB by EUR 19mn.

Management of the business mix in Indonesia resulted in an increase of the proportion of higher margin agency products.

In Taiwan, sales of lower margin single premium unit linked products increased. The improving equity markets

attracted clients to these products. The change in business mix had a negative effect on NBM.

The change in business mix impacted VNB by EUR -1mn and NBM by 50bps.

The change in assumptions was driven mainly by lower interest rates. Updated non-economic assumptions in Hungary and the Czech Republic also had an impact. Overall, the change in assumptions impacted VNB by EUR -10mn and NBM by -20bps.

3.8.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for the Growth Markets increased from EUR 1,363mn to EUR 1,505mn after net capital movements of EUR 119mn. MCEV earnings were 14% of the adjusted opening EV. The change was driven by strong new business, offset by lower interest rates in South Korea.

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

ANALYSIS OF EARNINGS OF EMBEDDED VALUE		Exhibit 32		
€ MN				
	Earnings on MCEV analysis			
	Free Surplus	Required Capital	ViF	MCEV
Opening MCEV reported as at 31 December 2011	-835	2,400	-203	1,363
Foreign Exchange Variance	-39	78	-13	26
Acquired / Divested business	24	-3	14	35
Others	-296	296	1	1
Adjusted Opening MCEV as at 31 December 2011	-1,146	2,771	-201	1,424
Value of new business at point of sale	-37	0	233	196
Expected existing business contribution				
reference rate	58	0	64	121
in excess of reference rate	7	0	7	14
Transfer from ViF and required capital to free surplus				
on in-force at begin of year	267	-69	-198	0
on new business	-301	158	143	0
Experience variance	-47	28	8	-11
Non-economic assumption changes	-1	1	-20	-20
Other operating variance	88	0	-35	54
Operating MCEV earnings	35	118	201	355
Economic variances	302	-27	-420	-145
Other non operating variance	-53	0	43	-10
Total MCEV earnings	285	92	-177	200
Net capital movements	-119	0	0	-119
Closing MCEV as at 31 December 2012	-979	2,862	-378	1,505

A further adjustment of EUR 1mn reflects the impact of the change of the Euro yield-curve extrapolation entry point from 30 to 20 years, that impacted EV by EUR 5mn, and the change in life non-market risk capital methodology, that impacted EV by EUR -4mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 121mn. Expected returns in excess of the reference rate further increased EV by EUR 14mn.

The VNB at point of sale increased to EUR 196mn with a new business strain of EUR 301mn. The acquisition expense overruns were driven by lower than expected sales in China and South Korea.

Experience variances of EUR -11mn mainly reflects the negative impacts of lower lapse, mortality and morbidity experience in Slovakia, compensation of unit-linked policyholders in China offset by the positive impacts of higher

- 2 Introduction
- 3 Overview of Results
- 17 **Regional Analysis of Embedded Value**
- 54 Independent Opinion

VA lapses in South Korea and lower unit-linked lapses in Indonesia.

Non-economic assumption changes impacted EV by EUR -20mn. The main drivers were the negative impact of the update of assumptions in Slovakia, offset by the positive impact of the updated tax assumptions in Thailand.

Other operating variances of EUR 54mn reflects mainly the unrealized capital gains in South Korea.

Economic variances of EUR -145mn was driven mainly by lower interest rates in South Korea.

Japan and Taiwan received capital injections of EUR 9mn and EUR18mn respectively

3.8.3 SENSITIVITIES

Exhibit 33 presents the sensitivities for the Growth Markets' EV and VNB.

SENSITIVITIES	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	1,505	100%	196	100%
Required Capital equal to local solvency capital	98	7%	9	5%
EV change by economic factors				
Risk Free Rate – 100bp	-835	-56%	-22	-11%
Risk Free Rate +100bp	556	37%	5	3%
Risk Free Rate – 50bp	-382	-25%	-10	-5%
Risk Free Rate +50bp	306	20%	3	2%
Charge for CNHR +100bp	-131	-9%	-11	-6%
Equity and property values – 10 %	-46	-3%	0	0%
Swaption volatilities +25 %	-3	0%	2	1%
Equity option volatilities +25 %	-51	-3%	-3	-2%
EV change by non-economic factors				
Lapse Rates – 10 %	48	3%	22	11%
Maintenance Expenses – 10 %	113	8%	14	7%
Mortality – 5 % for products with death risk	146	10%	10	5%
Mortality – 5 % for products with longevity risk	-26	-2%	1	0%

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

3.9 USA

The EV of USA increased from EUR 4,093mn to EUR 4,757mn. The main positive driver was the expected existing business contribution.

3.9.1 DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in the USA in 2011 was EUR 44mn, 75% lower than the value published in 2011. The NBM decreased from 2.3% to 0.6%. Exhibit 34 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS		Exhibit 34	
€ MN			
	Value of New Business	New Business Margin	Present Value of NB Premium
	EUR mn	%	EUR mn
Reported Value as at 31 December 2011	175	2.3%	7,748
Change in Foreign Exchange	12	0.0%	460
Change in Allianz interest	0	0.0%	0
Adjusted Opening Value as at 31 December 2011	187	2.3%	8,208
Change in volume	-22	0.0%	-996
Change in business mix	97	1.4%	0
Change in assumptions	-218	-3.0%	0
Value of New Business as at 31 December 2012	44	0.6%	7,212

The decrease in VNB was driven by the change in economic assumptions during 2012.

Movements of the US Dollar during the course of the year impacted VNB by EUR 12mn.

Fixed index annuity premiums declined throughout 2012 after product changes were introduced at the end of 2011 to protect margins in the challenging economic environment. Variable annuity premiums also declined as repricing during the year was carried out to protect margins. Sales of Life Pro Plus, a fixed index universal life product, however, picked up in 2012. The decrease in volume impacted VNB by EUR -22mn.

Change in business mix reflects the higher proportion of life business compared to fixed index and variable

annuities in 2012. Repricing of each of the product lines to protect margins also had a positive effect. The change in business mix impacted VNB by EUR 97mn and NBM by 140bps.

The change in assumptions reflects the decrease in interest rates impacted VNB by EUR -218mn and NBM by -300bps.

3.9.2 DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of USA increased from EUR 4,093mn to EUR 4,757mn after a dividend payment of EUR 114mn.

MCEV earnings were 21% of the adjusted opening EV. The change was driven by the expected existing business contribution.

The analysis of earnings in Exhibit 35 presents the drivers of the change in EV

ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 35

€ MN

	Earnings on MCEV analysis			
	Free Surplus	Required Capital	ViF	MCEV
Opening MCEV reported as at 31 December 2011	97	4,024	-29	4,093
Foreign Exchange Variance	-1	-62	0	-63
Acquired / Divested business	0	0	0	0
Others	361	-361	-8	-8
Adjusted Opening MCEV as at 31 December 2011	457	3,602	-36	4,022
Value of new business at point of sale	0	0	44	44
Expected existing business contribution				
reference rate	60	0	158	218
in excess of reference rate	239	0	196	435
Transfer from ViF and required capital to free surplus				
on in-force at begin of year	360	-208	-153	0
on new business	-349	302	47	0
Experience variance	0	0	13	13
Non-economic assumption changes	0	0	-241	-241
Other operating variance	-11	5	101	95
Operating MCEV earnings	299	99	165	563
Economic variances	38	-49	296	286
Other non operating variance	0	0	0	0
Total MCEV earnings	337	50	462	849
Net capital movements	-114	0	0	-114
Closing MCEV as at 31 December 2012	680	3,651	425	4,757

The opening FX adjustment reflects the move of the US Dollar against the Euro. The currency movement impacted EV by EUR -63mn.

A further opening adjustment of EUR -8mn reflects the impact on EV of a change in life non-market risk capital methodology.

Earning the reference rate on the in-force portfolio increased EV by EUR 218mn. Expected returns in excess of the reference rate, mainly the realization of expected corporate spreads during the year, further increased EV by EUR 435mn.

The VNB at point of sale was EUR 44mn with a new business strain of EUR 349mn.

Experience variances of EUR 13mn reflects slightly positive experience in 2012.

Change of assumption of EUR -241mn reflects the annual update of non-economic assumptions.

Other operating variances of EUR 95mn reflects the S&P model update, true-up and fixed annuity model changes.

Economic variances of EUR 286mn was driven by the narrowing of credit spreads, lower equity and interest volatilities and improved equity markets, offset by lower interest rates.

FS increased significantly as a result of the approval of the updated S&P model.

3.9.3 SENSITIVITIES

Exhibit 36 shows the sensitivities for the USA EV and VNB.

Compared to 2011, in-force sensitivities to interest rates have decreased slightly due to lower volatilities.

SENSITIVITIES		Exhibit 36		
€ MN				
	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
Central Assumptions	4,757	100%	44	100%
Required Capital equal to local solvency capital	124	3%	14	31%
EV change by economic factors				
Risk Free Rate –100bp	-338	-7%	-5	-12%
Risk Free Rate +100bp	105	2%	-5	-11%
Risk Free Rate –50bp	-136	-3%	-1	-1%
Risk Free Rate +50bp	77	2%	-2	-4%
Charge for CNHR +100bp	-76	-2%	-6	-13%
Equity and property values –10%	-64	-1%	-5	-12%
Swaption volatilities +25%	-34	-1%	0	0%
Equity option volatilities +25%	-416	-9%	-34	-77%
EV change by non-economic factors				
Lapse Rates –10%	-83	-2%	-1	-3%
Maintenance Expenses –10%	105	2%	9	21%
Mortality –5% for products with death risk	7	0%	0	0%
Mortality –5% for products with longevity risk	-74	-2%	-4	-9%

Interest rate volatility sensitivities are lower than those of 2011 because of the implementation of volatility anchoring to shock as well as base scenarios.

3.10 Holding

The Holding EV reflects the results of internal reinsurance and the holding expense adjustment. In 2011 Allianz Mexico Life was included in Holding, while in 2012 the entity is reported in the region Iberia & Latin America. The following table summarizes the impact of these adjustments.

SUMMARY HOLDING Exhibit 37

€ MN	Impact of Holding Expense	Reinsurance	Total
Ending Embedded Value 2011	-582	136	-445
Ending Embedded Value 2012	-620	151	-469
Value of New Business 2011	-105	24	-82
Value of New Business 2012	-107	20	-87

Holding Expenses

Although total Holding expenses increased by only 0.4% compared to 2011, the holding expenses allocated to the life segment increased by 2.4% as the allocation to the life segment was slightly 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 a strong hedge result from the variable annuity reinsurance, 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 decreased slightly in 2012 due to the decision to stop selling new variable annuity new business in Japan in 2011. VNB on the traditional block increased due to strong premium from the Singapore branch.

Independent Opinion

KPMG has been engaged to review the Market Consistent Embedded Value (MCEV) of Allianz Group, Munich, as at 31 December 2012 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 2013

KPMG AG Wirtschaftsprüfungsgesellschaft

Dr. Peter Ott

Dr. Thorsten Wagner

Appendix

56 Methodology

- 56 A.1 Definitions
- 56 A.2 Net asset value
- 56 A.3 Required capital
- 57 A.4 Value of in-force covered business
 - 57 A.4.1 Present value of future profits
 - 57 A.4.2 Time value of options and guarantees
 - 58 A.4.3 Cost of residual non-hedgeable risk
 - 59 A.4.4 Frictional cost of required capital
- 59 A.5 New business
- 59 A.6 Participating business
- 60 A.7 Health business
- 60 A.8 Look through adjustments

61 Assumptions

- 61 B.1 Economic assumptions
- 66 B.2 Capital charge for cost of residual non-hedgeable risk
- 66 B.3 Foreign currency exchange rates
- 66 B.4 Non-economic assumptions
- 67 B.5 Tax assumptions
- 67 B.6 Real-world economic assumptions

68 Disclaimer

69 Glossary and Abbreviations

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.

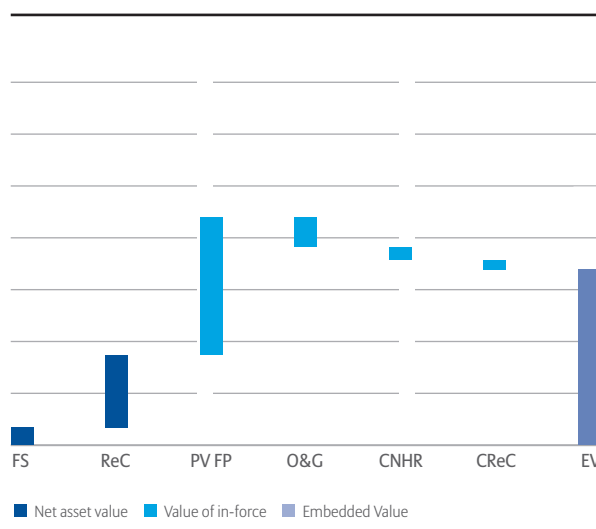
The EV can be broken down into the net asset value ("NAV"), i.e. the value of the assets not backing liabilities, and the value of in-force business ("VIF"), i.e. the value of future profits emerging from operations and assets backing liabilities.

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"),
 - The frictional cost of required capital ("CRc").



A.2 Net asset value

NAV is the market value of the assets not backing local statutory reserves at 31 December 2012, 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, and 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 [risk capital - (PVFP - O&G - CNHR)].

The internal risk capital in Allianz Group is defined as 130% of the maximum loss of MCEV that shareholders may experience under adverse conditions over a time horizon of one year with a confidence interval of 99.5%. The 130% capitalization target and 99.5% confidence interval reflect 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. When ReC is derived from the internal RC model, diversification between financial and non-financial risks is allowed for, otherwise not. Diversification is not allowed for 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 in-force covered business

The VIF of 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.

Following the market consistent approach the “certainty equivalent” method is applied, whereby it is assumed that all assets earn the reference rate and all cash-flows are discounted using the reference rate.

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, for example between terminal dividends and 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 risks 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 risks need 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 99.5% percentile multiplied by a capitalization target of 130% 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. Diversification does not include effects between financial and non-financial risk types and between 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 consists 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 VNB. 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 O&G 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 O&G 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 ReC 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 1,250mn as at 31 December 2012, driven mainly by Germany Life. This additional value has not been included in the MCEV figures.

Appendix: Assumptions

B.1 Economic assumptions

The EV results for 2012 are based on economic market conditions as of 28 December 2012.

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 performed by Allianz SE. 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 28 December 2012 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. The 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 South Korea reference rates are based on government rates as due to systematic distortions in the South 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, 20 years was used as the extrapolation entry point.

Allianz has 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. 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	31.12.2011	1.39%	1.31%	1.72%	2.42%	2.74%
	31.03.2012	1.00%	1.07%	1.58%	2.34%	2.74%
	30.06.2012	0.80%	0.86%	1.32%	2.04%	2.38%
	30.09.2012	0.38%	0.45%	0.94%	1.77%	2.35%
	31.12.2012	0.28%	0.38%	0.78%	1.62%	2.27%
CHF	31.12.2011	0.33%	0.22%	0.63%	1.28%	1.68%
	31.03.2012	0.39%	0.25%	0.53%	1.18%	1.64%
	30.06.2012	0.38%	0.24%	0.42%	1.07%	1.54%
	30.09.2012	0.36%	0.24%	0.36%	0.98%	1.53%
	31.12.2012	0.28%	0.19%	0.40%	1.00%	1.59%
USD	31.12.2011	0.86%	0.74%	1.26%	2.09%	2.61%
	31.03.2012	0.73%	0.57%	1.23%	2.29%	2.98%
	30.06.2012	0.74%	0.55%	0.97%	1.80%	2.45%
	30.09.2012	0.57%	0.37%	0.75%	1.71%	2.51%
	31.12.2012	0.50%	0.39%	0.83%	1.83%	2.70%
KRW	31.12.2011	3.39%	3.44%	3.59%	3.84%	4.31%
	31.03.2012	3.50%	3.59%	3.82%	4.04%	4.03%
	30.06.2012	3.26%	3.33%	3.51%	3.72%	3.82%
	30.09.2012	2.90%	2.82%	2.95%	3.06%	3.12%
	31.12.2012	2.78%	2.83%	3.04%	3.26%	3.40%
CZK	31.12.2011	1.06%	1.36%	1.72%	2.27%	2.82%
	31.03.2012	1.23%	1.52%	1.79%	2.29%	2.85%

SWAP RATES | TABLE 1

Currency	as of dd.mm. yyyy	1 year	2 year	5 year	10 year	20 year
		%	%	%	%	%
	30.06.2012	1.02%	1.30%	1.54%	2.03%	2.48%
	30.09.2012	0.57%	0.79%	1.00%	1.65%	2.29%
	31.12.2012	0.39%	0.55%	0.81%	1.39%	2.14%
HUF	31.12.2011	7.91%	7.79%	7.67%	7.84%	7.11%
	31.03.2012	7.54%	7.34%	7.10%	7.38%	6.51%
	30.06.2012	7.03%	6.72%	6.46%	6.69%	5.90%
	30.09.2012	6.28%	6.16%	6.13%	6.62%	5.82%
	31.12.2012	5.17%	5.11%	5.11%	5.50%	4.83%
PLN	31.12.2011	4.91%	4.73%	4.80%	4.96%	4.77%
	31.03.2012	5.00%	4.81%	4.86%	4.95%	4.78%
	30.06.2012	5.03%	4.68%	4.61%	4.72%	4.54%
	30.09.2012	4.34%	4.22%	4.21%	4.38%	4.16%
	31.12.2012	3.43%	3.35%	3.35%	3.58%	3.47%
THB	31.12.2011	2.90%	2.88%	3.30%	3.75%	4.11%
	31.03.2012	3.16%	3.33%	3.81%	4.19%	4.24%
	30.06.2012	2.73%	2.79%	3.17%	3.52%	4.15%
	30.09.2012	3.00%	3.01%	3.33%	3.75%	4.11%
	31.12.2012	2.64%	2.77%	3.25%	3.78%	4.40%
TWD	31.12.2011	0.82%	0.84%	1.02%	1.30%	1.74%
	31.03.2012	0.88%	0.91%	1.13%	1.39%	2.43%
	30.06.2012	0.86%	0.87%	1.01%	1.23%	2.22%
	30.09.2012	0.87%	0.88%	0.98%	1.20%	2.21%
	31.12.2012	0.91%	0.92%	1.04%	1.29%	2.16%
JPY	31.12.2011	0.36%	0.38%	0.48%	1.01%	1.74%
	31.03.2012	0.34%	0.35%	0.49%	1.05%	1.85%
	30.06.2012	0.34%	0.33%	0.40%	0.85%	1.63%
	30.09.2012	0.30%	0.28%	0.34%	0.79%	1.58%
	31.12.2012	0.24%	0.22%	0.31%	0.86%	1.82%

Table 2 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 2 100 % ILLIQUIDITY PREMIUM | TABLE 2

Currency	31.12.2011	31.03.2012	30.06.2012	30.09.2012	31.12.2012	Term	Phase-out
	bps	bps	bps	bps	bps		
EUR	118 bps	69 bps	87 bps	60 bps	44 bps	15	5
CHF	24 bps	16 bps	15 bps	5 bps	3 bps	10	5
USD	103 bps	78 bps	88 bps	69 bps	59 bps	30	0
CZK	35 bps	18 bps	24 bps	15 bps	9 bps	15	0
HUF	35 bps	18 bps	24 bps	15 bps	9 bps	10	5
PLN	35 bps	18 bps	24 bps	15 bps	9 bps	15	0
THB	18 bps	10 bps	21 bps	9 bps	5 bps	10	5

Table 3 shows the ultimate forward rate and entry point parameters used when applying yield-curve extrapolations. Ultimate forward rates are determined by macro-economic methods, the most important inputs being long term expected inflation and real interest rates.

Currency	Entry point	Ultimate forward rate
		%
EUR	20	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 2012 MCEV calculations are therefore based on 28 December 2012.

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.

Currency	31.12.2011	31.03.2012	30.06.2012	30.09.2012	31.12.2012
	%	%	%	%	%
EUR	28.7%	25.9%	28.4%	25.9%	23.5%
CHF	45.3%	38.0%	41.3%	44.5%	42.6%
USD	28.8%	22.2%	25.8%	23.8%	21.6%
KRW	12.4%	12.6%	13.4%	14.1%	12.9%

Market implied volatilities - 10 year options 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.

Option term	1 year	2 year	5 year	10 year	20 year
	%	%	%	%	%
EUR					
31.12.2011	38.5%	35.3%	30.3%	28.7%	22.4%
31.12.2012	30.1%	29.1%	25.9%	23.5%	16.8%
CHF					
31.12.2011	53.3%	47.3%	39.5%	45.3%	33.5%
31.12.2012	44.9%	43.9%	42.0%	42.6%	28.1%
USD					
31.12.2011	40.8%	37.4%	32.6%	28.8%	23.2%
31.12.2012	28.8%	28.2%	24.4%	21.6%	18.4%
KRW					
31.12.2011	17.4%	16.2%	14.5%	12.4%	10.3%
31.12.2012	14.2%	14.6%	13.8%	12.9%	12.0%

Market implied volatilities on 20 year swaps at the money (10 year swaps for CHF and KRW).

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

SWAPTION VOLATILITY ANCHORING Table 6

Currency	Start of swaption volatility anchoring	Long term target level
	Year	%
EUR	15	7.8%
CHF	15	8.3%
USD	15	15.3%
CZK	10	7.4%
HUF	10	11.5%
PLN	10	8.1%
THB	10	13.5%
KRW	5	11.4%

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 underlying swap terms 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

Index	31.12.2011	31.03.2012	30.06.2012	30.09.2012	31.12.2012	
	%	%	%	%	%	
EUR	DAX	27.1%	22.5%	23.4%	22.0%	23.5%
	Eurostoxx 50	27.9%	27.3%	26.1%	27.6%	25.4%
	CAC	26.7%	21.4%	22.1%	23.2%	24.0%
CHF	SMI	22.1%	18.7%	19.6%	18.7%	18.7%
USD	S&P 500	31.0%	25.4%	28.1%	26.0%	27.0%
KRW	KOSPI	24.7%	19.2%	22.5%	18.2%	22.3%

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.

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

REAL ESTATE VOLATILITIES Table 8

Currency	31.12.2012	31.12.2011
	%	%
EUR	13.8%	13.8%
CHF	10.0%	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 2012.

CORRELATION ASSUMPTIONS

Table 9

	Fixed income 1 year bond rate				Equity Indices					
	EUR	CHF	USD	KRW	CAC	HDAX	KOSPI	SPI	Eurotox50	S&P500
Fixed income 1 year bond rate										
EUR	1.00	0.51	0.53	0.17	0.27	0.26	0.21	0.25	0.27	0.24
CHF		1.00	0.37	0.13	0.26	0.24	0.19	0.24	0.26	0.22
USD			1.00	0.16	0.08	0.10	0.01	0.09	0.07	0.05
KRW				1.00	0.05	-0.01	0.03	0.05	0.04	0.04
Equity Indices										
CAC					1.00	0.94	0.58	0.89	0.98	0.83
HDAX						1.00	0.60	0.86	0.97	0.80
KOSPI							1.00	0.58	0.61	0.50
SPI								1.00	0.89	0.76
Eurotox50									1.00	0.83
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.

The exchange rates against the Euro are shown in table 10 below.

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.

MAIN EXCHANGE RATES AGAINST EUR

Table 10

€ MN	2012	2011
CHF	1.21	1.21
USD	1.32	1.30
KRW	1,411.45	1,495.47
CZK	25.10	25.50
HUF	291.22	314.77
PLN	4.08	4.46
THB	40.33	40.96
TWD	38.29	39.31

B.2 Capital charge for cost of residual non-hedgeable risk

For 2012 the capital charge for residual non-hedgeable risk was set to 3.25% on a percentile of 99.5% on internal risk capital with a target capitalization of 130% at the local entity level.

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.

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

	2012	2011
	%	%
Germany	31%	31%
France	34%	34%
Italy	33%	33%
USA	35%	35%
Korea	22%	22%
Switzerland	21%	21%

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

	2012	2011
Equity risk premium	5.00%	5.00%
Real estate risk premium	20% × 10 year swap rate	

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.

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.

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.

CRcC

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 (CRcC)

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.

PVNB

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.

Ultimate forward rate

The estimate of the ultimate forward rate (UFR) is defined in a QIS5 paper. An extrapolation is needed past last available market data points. The UFR is determined for each currency using macro-economic methods, the most important factors being long term expected inflation and real interest rates. Although the UFR is subject to revision, it should be stable and only change when there are fundamental changes to long term expectations.

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.

