Economic Insight

Resilient European economy

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Executive Summary

- In 2017, the global economy registered the strongest growth since 2011. In recent months, however, uncertainty about future economic developments has increased significantly, partly due to the protectionist US trade policy and geopolitical risks. We continue to assume that reason prevails and that negotiations can prevent a noticeable escalation of conflicts. Under this premise, the expansion of global trade in goods and services is likely to continue, albeit at a somewhat slower pace.

- Political uncertainties in Europe are currently considerable. Even if the attempt by populist parties to form a government in Italy has failed for the time being, a great amount of political uncertainties remain.

- Nevertheless, the overall conditions for a continuation of the upswing in the euro zone are mostly positive. In our opinion, the first quarter of the year saw only a temporary stutter in the economy.

- The German economy got off to a weak start in 2018, with growth halving to 0.3% in the first quarter of this year compared with the end of 2017 (+0.6%). Within the euro zone, the German economy is now growing at below-average rates. Germany's real gross domestic product in the first quarter of 2018 was only 2.3% higher than the corresponding prior-year level, but that of the euro zone was up by 2.5%.

- However, the domestic economic conditions for a continuation of the upswing in Germany remain very good. The earnings situation of the companies is positive and the financing conditions are exceptionally favorable. Corporate and household debt is relatively low and high capacity utilization is boosting investment demand. Rising employment creates additional income and the real purchasing power of disposable income is growing despite higher oil prices. We therefore expect domestic demand to pick up again in the second quarter of this year.

- All in all, despite the increased risks, we expect overall economic utilization in Germany to continue to increase in 2018 and 2019. However, with real GDP growth of 2.1% this year and 1.9% next year, the rate of last year (+2.2%) will not quite be reached.

GLOBAL ECONOMIC ENVIRONMENT

In 2017, the global economy registered the strongest growth since 2011. Global output grew by 3.3% in real terms. In recent months, uncertainty about future economic developments has increased, partly due to the protectionist US trade policy and geopolitical risks. Against this background, it is important to clearly describe the global framework conditions, on which our economic forecast for 2018 and 2019 is based on.

- There is no doubt that increasing protectionism represents a considerable risk for global trade and thus also for the further development of the world economy. However, we do not expect any noticeable expansion of protectionist measures at global level. It still seems more likely to us that economic reason will prevail and that a noticeable escalation of the conflict can be avoided through negotiations. Under this premise, the expansion of global trade in goods and services is likely to continue, albeit at a somewhat slower pace. After an increase of 4.8% last year, we expect an increase of around 4 ½% this year. Growth is expected to be just below 4% in 2019.

- Since the middle of last year, the price of Brent crude oil has risen noticeably. One barrel currently costs around USD 75. By comparison, at the end of June 2017 Brent was still quoted at 48 USD/barrel and at the beginning of 2018 at 67 USD/barrel. There are various reasons for the recent upward trend. On the demand side, the robust global economy points to a rising oil price. At the same time, the underinvestment of recent years and the regained production discipline in the OPEC-producing countries are among the factors affecting supply. In addition, geopolitical developments such as the withdrawal of the USA from the nuclear agreement with Iran have contributed to an increase in oil prices. Fundamentally, we do not expect any pronounced changes in supply and demand on the oil market by the end of 2019. Against this background, we expect an annual average oil price of about USD 70 to 75 per barrel for 2018 and 2019.

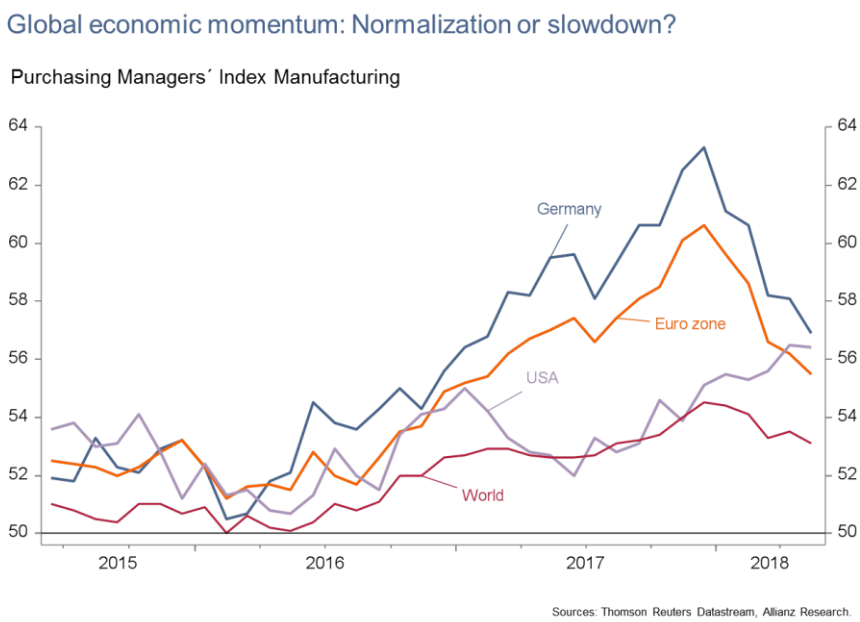
- If the economy remains solid, the Fed will continue its monetary policy normalization and raise key rates further over the entire forecast period. We expect at least four interest rate hikes of 25 basis points each by the end of 2019, and the Fed will continue to gradually reduce its balance sheet. In the euro zone, the ECB's exit from its ultra-loose monetary policy continues in mini-steps. The ECB is expected to discontinue its bond purchase program at the end of this year. We do not anticipate an initial increase in the refinancing rate before mid-2019 at the earliest.

- The USD/EUR exchange rate has been subject to significant fluctuations so far this year. The euro appreciated by 4% against the US dollar by mid-February. Since mid-April, the single European currency has been in a devaluation movement, which more than compensated for the appreciation at the beginning of the year. By the end of 2019, we see the USD/EUR exchange rate fluctuating essentially in a range between 1.15 and 1.20. On the one hand, the Federal Reserve Bank's ongoing rate hiking cycle is likely to weigh on the euro. On the other hand, a number of factors, such as the solid economic recovery in the euro area, will support the euro.

- Political uncertainty in Europe remains at an elevated level. Our euro area forecast is not based on an escalation of risks, but neither on a disappearance of risks. In addition to the continuing Brexit uncertainty and possible early elections in Spain, our attention is primarily focused on Italy: Even if the attempt by populist parties to form a government in Italy has failed for the time being, political uncertainty could increase again. This applies in particular in the event that the populist parties clearly advocate Italy's withdrawal from the euro in the run-up to the new elections and convert the election into a vote for or against the euro.

WILL THE GERMAN ECONOMY TURN INTO A DECELERATION FACTOR FOR EUROPE?

Economic growth in Germany halved in the first quarter of this year to 0.3% compared with the end of 2017 (+0.6%). A lower seasonally and working day adjusted increase was last seen in the first quarter of 2015. Despite the slight upturn in the first quarter of 2018, private consumption has been providing very little impetus since mid-2017. Compared to the previous year, the increase in the first quarter of 2018 was 1.4%. Exports, which expanded strongly in 2017, suffered a significant setback in the first quarter of 2018. Both real exports and real imports shrank. In addition, according to the ifo test and purchasing managers´ indices, the mood of companies has deteriorated significantly.



Within the euro area, the German economy is now growing at below-average rates. Germany's real gross domestic product in the first quarter of 2018 was only 2.3% higher than the corresponding prior-year level, but that of the euro area by 2.5%. Is the thesis that the German economy is Europe's growth engine now outdated? Is it perhaps even slowing down the upswing in Europe?

From our point of view, however, this would be a misinterpretation. Several factors contributed to Germany´s subdued start to the year 2018.

- Extraordinary factors such as higher sick leave, an above-average number of strike days and early Easter holidays are likely to have dampened overall economic production.

- The recent strong increase in investment and a sustained considerable increase in employment speak for a continuing economic upward movement.

- However, in view of the long-lasting upswing, the German economy is close to its capacity limits in some areas. The overall economic growth rates can therefore only deviate upwards from the medium-term growth potential of the economy, which should amount to about 1.5% annually, to a limited extent. By contrast, a number of other European countries still have considerable economic catch-up potential.

EMU ECONOMY CLEARLY REMAINS IN GOOD SHAPE

The economic upturn in the eurozone has been underway since 2014 and we believe it will continue - this year with GDP growth of 2.2% and 2% next year. A persistently favorable policy mix will help here:

Firstly, it will take time for the ECB's monetary policy to normalize. At the end of this year the ECB is likely to end its bond purchase program, but will continue to reinvest principal payments. The first interest rate hike is not expected before mid-2019 and the unlimited provision of liquidity for banks will probably continue until at least the end of 2019. A reduction in the ECB's balance sheet total is not expected before 2020.

Secondly, following a largely neutral course in recent years, fiscal policy is now likely to have a slightly expansionary effect. In its latest spring forecast for the eurozone for 2018 and 2019, the EU Commission expects both a slight increase in cyclically-adjusted deficit ratios and a downward trend in cyclically-adjusted primary surpluses in relation to GDP. However, as the good economic situation and the low-interest rate environment help to improve public finances, we forecast that the government budget deficit in the eurozone will continue to move towards zero in non-cyclically-adjusted terms (2019: -0.3% of GDP).

Not too large euro exchange rate movements also contribute to the favorable framework conditions. We assume that the appreciation trend of the common currency was temporary. A key argument for this is the strong yield advantage of the USA over the eurozone. Although the US bond market is exerting upward pressure on yields on 10-year German government bonds, we believe that a sustained decoupling from the international interest-rate linkages is likely due to the different monetary policies on both sides of the Atlantic. The ECB remains considerably active in the bond market with its reinvestment policy, which curbs the rise in EMU yields.

Euro area: Economic indicators and forecast*

		2017				2018				2019						
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018f	2019f
GDP real		0.6	0.7	0.7	0.7	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.4	2.5	2.2	2.0
Private consumption		0.5	0.5	0.3	0.2	0.4	0.5	0.3	0.4	0.4	0.4	0.3	0.3	1.8	1.5	1.5
Government spending		0.3	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.4	1.2	1.3	1.4
Investment		0.1	2.0	-0.3	1.2	0.8	0.8	0.7	0.6	0.9	0.8	0.8	0.7	3.2	3.1	3.2
Exports		1.4	1.2	1.7	2.2	0.0	1.1	1.1	0.8	1.0	0.9	0.9	0.8	5.4	4.4	3.8
Imports		0.3	1.8	0.7	1.6	0.1	1.2	1.0	0.9	0.9	0.8	0.7	0.8	4.5	3.7	3.6
Industrial production (excl. construction)		0.1	0.7	1.9	1.3	-0.6	0.9	0.5	0.5	0.5	0.5	0.4	0.4	2.9	2.5	2.0
Unemployment rate	%	9.5	9.1	9.0	8.7	8.6	8.5	8.3	8.2	8.1	8.0	8.0	7.9	9.1	8.4	8.0
Consumer prices	y-o-y	1.8	1.5	1.4	1.4	1.3	1.7	1.8	1.8	1.7	1.7	1.8	1.8	1.5	1.6	1.7
Producer prices	y-o-y	4.0	3.3	2.4	2.5	1.8	2.8	3.4	2.7	2.6	2.7	2.4	2.5	3.1	2.7	2.5
Current account balance	EUR bn, sa	87.6	77.6	115.7	105.9	108.5	90.0	90.0	85.0	90.0	85.0	80.0	75.0	386.8	373.5	330.0
	% of GDP													3.5	3.2	2.7
Budget balance	% of GDP													-0.9	-0.5	-0.3

*) quarterly values: percentage change over previous period, seasonally adjusted, except where noted; annual GDP not adjusted; foreign trade incl.intra trade f = forecast.

In this positive environment, we believe that the economy only started to stutter temporarily in the first quarter of the year, but will pick up again. For the following quarters we expect GDP sequential growth rates in the eurozone to average 0.5% - although this means less dynamic growth than the 0.7% achieved in Q2 to Q4 2017. Central to our confidence is that the improvement in the labor market will continue. The EMU unemployment rate is likely to fall below 8% in 2019 (although the pace of decline will slow). Together with slightly higher wage increases and subdued inflation rates, this provides a good basis for private consumption which in turn should prop up domestic sales prospects for companies and thus investment incentives. Investment activity is also supported by favorable financing conditions and the high capacity utilization of currently 84.4% in the industrial sector.

In recent years, good economic momentum, together with major structural reforms, has helped to continuously reduce the legacy of the crisis and macroeconomic imbalances in the eurozone. There has also been a trend towards greater convergence among the member states in key macroeconomic variables. Although weaknesses such as the still high level of government debt remain, there is some evidence that the eurozone is more crisis-resistant and stable today than before the 2007 crisis, but of course there can be no talk of immunity against, in particular, current political risks within or outside Europe (see below). All in all, we have not yet seen the beginning of an EMU economic slowdown, but in the longer term beyond 2019 there is certainly a risk that the good phase of the economic cycle could not last long enough to normalize monetary policy. Either tightening steps by the ECB would then come at the same time as a weakening of the economy, or the low-interest rate environment would persist.

Box: Europe politically paralyzed

Compared to purely economic risks, we currently regard the political risks in the eurozone as serious:

- Europe is extremely engaged with Brexit negotiations, upcoming new elections in Italy and the uncertain government situation in Spain that less power and resources remain for other important matters.
- President Macron's initiative to take European integration a big step forward will meet with considerable resistance. Although the economically good phase would favor reforms, progress in integration is likely only on a small scale.
- So far, market/economic actors have assumed that an Italian government will not be able to go against the euro or the European rules. This perception could now change.
- The current support of populist parties among the population shows the vulnerability of monetary union from the national political side. This development is particularly regrettable because key surveys such as the EU Commission's Eurobarometer clearly show that the majority of the EMU population is clearly in favor of the euro.

UPSWING IN GERMANY PROVES TO BE ROBUST

The domestic economic conditions for a continuation of the upswing in Germany remain excellent. The earnings situation in the corporate sector is positive, financing conditions are exceptionally favorable, the debt of companies and households is relatively low, high capacity utilization promotes investment demand, job creation generates additional income and real purchasing power of disposable incomes is growing despite higher oil prices. We therefore expect domestic demand to pick up again already in the second quarter of this year.

Germany: Economic indicators and forecast*

		2016				2017				2018				2019							
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018e	2019f
GDP real (not calendar-adjusted)		0.6	0.5	0.3	0.4	0.9	0.6	0.7	0.6	0.3	*0.6*	*0.5*	*0.5*	*0.5*	*0.4*	*0.4*	*0.4*	1.9	2.2	2.1	1.9
Private consumption		0.5	0.1	0.5	0.7	0.5	0.8	0.0	0.1	0.4	*0.6*	*0.4*	*0.4*	*0.5*	*0.4*	*0.4*	*0.3*	2.1	1.8	1.4	1.7
Government spending		1.5	0.7	0.2	0.5	0.1	0.5	0.5	0.4	-0.5	*0.5*	*0.5*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	3.7	1.5	0.9	1.7
Investment in machinery/equipment		0.4	-1.8	0.7	-1.3	2.6	3.3	1.3	0.7	1.2	*1.3*	*1.3*	*1.0*	*1.2*	*1.2*	*0.8*	*0.8*	2.2	4.0	5.0	4.5
Construction		2.0	-1.8	0.2	1.0	2.9	0.5	-0.2	0.1	2.1	*1.2*	*1.0*	*0.8*	*0.8*	*0.8*	*0.7*	*0.7*	2.7	2.8	3.7	3.4
Domestic demand		0.9	-0.2	0.8	0.8	0.4	1.1	0.4	0.1	0.4	*0.8*	*0.6*	*0.5*	*0.5*	*0.4*	*0.4*	*0.4*	2.4	2.2	1.9	2.0
Exports		1.0	1.3	-0.2	1.3	1.6	1.1	1.7	2.6	-1.0	*1.0*	*0.9*	*0.9*	*0.8*	*0.8*	*0.7*	*0.7*	2.6	4.6	3.4	3.3
Imports		1.7	-0.2	0.7	2.5	0.5	2.4	1.0	1.8	-1.1	*1.5*	*1.5*	*1.0*	*0.9*	*0.9*	*0.7*	*0.7*	3.9	5.2	3.4	4.0
Industrial production (excl. construction)**)		1.6	-0.6	0.2	0.1	1.1	1.6	1.4	0.9	0.0	*1.0*	*0.6*	*0.8*	*0.5*	*0.5*	*0.5*	*0.5*	1.3	3.3	3.0	2.4
Unemployment rate (EU def.)	%	4.4	4.2	4.1	4.0	3.9	3.8	3.7	3.6	3.5	*3.4*	*3.4*	*3.3*	*3.3*	*3.2*	*3.2*	*3.1*	4.2	3.8	3.4	3.2
Unemployment rate (nat. def.)	%	6.2	6.1	6.0	6.0	5.9	5.7	5.7	5.5	5.4	*5.3*	*5.3*	*5.2*	*5.1*	*5.0*	*4.9*	*4.8*	6.1	5.7	5.3	5.0
Employed persons (national def.)	y-o-y	1.3	1.3	1.3	1.4	1.5	1.5	1.5	1.4	1.4	*1.4*	*1.3*	*1.3*	*1.1*	*1.0*	*0.9*	*0.8*	1.3	1.4	1.3	0.9
Consumer prices	y-o-y	0.3	0.1	0.5	1.1	1.9	1.7	1.7	1.7	1.5	*1.8*	*1.9*	*1.8*	*1.9*	*1.8*	*1.9*	*1.9*	0.5	1.7	1.8	1.9
Consumer prices (HICP)	y-o-y	0.1	0.0	0.4	1.0	1.9	1.6	1.7	1.6	1.3	*1.6*	*1.6*	*1.7*	*1.9*	*1.8*	*1.9*	*1.9*	0.4	1.7	1.6	1.9
Producer prices	y-o-y	-2.8	-2.7	-1.7	0.2	2.8	2.9	2.7	2.6	2.0	*2.5*	*2.8*	*2.5*	*2.6*	*2.4*	*2.2*	*2.0*	-1.7	2.7	2.5	2.3
Current account balance	EUR bn	69.3	69.4	63.2	64.7	65.4	59.6	68.2	70.7	70.9	*65.0*	*65.0*	*63.0*	*62.0*	*61.0*	*60.0*	*59.0*	268.8	263.9	263.9	242.0
	% of GDP																	8.5	8.1	7.8	7.0
Budget balance	EUR bn																	25.7	36.6	40.6	28.2
(Maastricht-definition)	% of GDP																	0.8	1.1	1.2	0.8

*) quarterly figures: percentage change over previous period, seasonally and working day adjusted, except where noted, yearly figures: percentage change, not working day adjusted; **) yearly average working day adjusted;

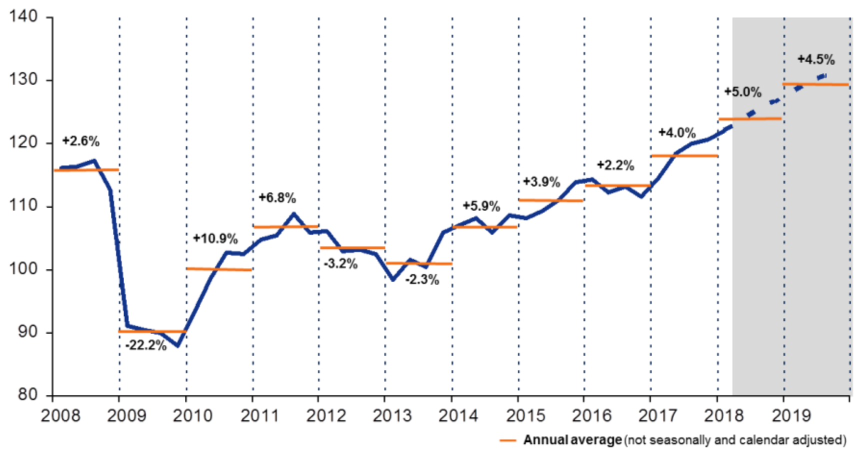
e = estimate; f = forecast.

Much more uncertainty prevails with regard to foreign trade prospects. The trade conflict with the USA continues to smolder. An escalation remains within the realm of possibility. Geopolitical tensions also affect trade. Uncertainty also arises from the unclear political prospects in Italy. Experience shows that trade flows react sensitively to increased risks. Although the external value of the euro has declined noticeably, which improves the price competitiveness of German exporters, this will probably not fully offset the negative factors. Exports are unlikely to show such a significant upward trend in the further course of 2018 as previously expected. We now expect real exports to grow by 3.4% in 2018 (previously +5.6%). With +3.3% we expect a similar increase in 2019.

Investment demand, which gained traction in 2017, is expected to continue its upward trend in 2018. In view of above-average capacity utilization and the good earnings and liquidity situation of companies, we estimate that real investment in machinery and equipment will grow by around 5% in 2018 and 4.5% in 2019. Construction remains on the upswing in any case, even if capacity bottlenecks are dampening growth here. The noticeable increase in investment activity is positive in view of the medium-term growth potential of the German economy.

Investment clearly trending upwards

Investment in machinery and equipment (index (2010 = 100), seasonally and calendar adjusted, in previous year's prices)



Sources: Thomson Reuters Datastream, own forecasts.

The disposable income of private households will continue to grow quite strongly in nominal terms. Last year's increase of 3.8% was the highest since 2001. For this year we expect growth of 3.4% and in 2019 it should be even higher with an increase of 3.8%. The growth acceleration in 2019 is mainly due to the expected tax relief and additional monetary social benefits. Despite slightly higher inflation rates due to the oil price, purchasing power gains are sufficient for a continuous expansion of real private consumption, which is expected to rise by 1.4% on average in 2018 and 1.7% in 2019.

All in all, overall economic utilization will thus continue to increase in 2018 and 2019.

However, with real GDP growth of 2.1% this year and 1.9% next year, the rate of last year (+2.2%) will not quite be reached.

The labor market will prove to be robust if, as expected, the economy as a whole continues to expand. However, employment growth is expected to slow gradually. The number of employed persons, which increased by around 630,000 last year, is expected to increase by 590,000 this year and by 420,000 next year. In particular, the declining increase in the working age population speaks in favor of this slowdown. The number of unemployed should continue to fall relatively steadily. We estimate that the number of unemployed persons will decrease by around 180,000 in 2018 and by around 140,000 in 2019.

GOVERNMENT BUDGET REMAINS IN SURPLUS

Since 2014, the German government has recorded a positive budget balance – and it is increasing year after year. This will not change in 2018. We expect a budget surplus of just under EUR 41 billion. Thanks to the buoyant economy, both social contributions and tax revenues will grow strongly. Total government revenues are expected to increase by 3.8%. Expenditure is expected to increase by 3.6%, the same order of magnitude as last year. All in all, we have penciled in a budget surplus of 1.2% of GDP in 2018, after an increase of 1.1% in 2017.

We expect tax revenues to increase by 4.2% this year. In principle, the good economic situation combined with a continued strong increase in employment is fueling tax revenues. However, tax relief is somewhat dampening this development. At the beginning of 2018, for example, the child and basic allowances were increased and the tariff ranges adjusted to compensate for the cold progression. In terms of social contributions, the reduction of 0.1 percentage points in the pension insurance contribution rate at the beginning of the year and the fact that some statutory health insurances have reduced the supplementary contributions have led to a lower overall increase in contributions than in the previous year (3.8% after 4.6% in 2017). Government spending continues to rise noticeably. However, as expenditure growth this year will again be below the forecast growth of nominal gross domestic product, the state spending ratio is likely to fall slightly from 44.1% last year to 44%. We expect the largest expenditure item "monetary welfare benefits" to increase by 3% (2017: +4%). The slowdown in growth momentum is mainly due to declining expenses for labor market policy benefits.

Germany: Public-sector revenue and expenditure

in EUR bn	2014	2015	2016	2017	2018f	2019f
Revenue	1308.3	1354.3	1414.2	1474.6	1530.8	1585.7
of which:						
Taxes	668.7	698.0	732.0	767.2	799.4	829.0
Social contributions	482.0	500.8	523.8	548.1	568.9	589.4
Expenditure	1298.8	1334.9	1388.6	1438.0	1490.2	1557.6
of which:						
Inputs	137.4	142.2	150.0	155.3	160.4	165.7
Employee compensation	224.0	229.2	236.5	246.5	256.3	266.6
Property income payable (interest)	51.2	46.4	41.6	38.9	37.4	36.6
Subsidies	26.4	27.0	27.8	27.6	28.2	28.7
Monetary welfare benefits	451.3	469.9	486.3	505.5	520.7	546.7
Welfare benefits-in-kind	239.7	252.4	268.6	277.9	287.7	298.6
Other current transfers	73.2	74.8	75.7	75.3	84.3	94.4
Gross investment	60.0	64.2	66.8	70.3	73.8	77.5
Financial balance	9.5	19.4	25.7	36.6	40.6	28.2
memorandum:						
State spending ratio[1)]	44.3%	43.9%	44.2%	44.1%	44.0%	44.4%
Financial balance[1)]	0.3%	0.6%	0.8%	1.1%	1.2%	0.8%

[1)] in relation to gross domestic product in current prices.

Sources: Statistisches Bundesamt, own forecasts.

While the economic policy agenda of the new government will have no major impact on the public budget in the current year, the planned tax cuts and additional expenditures will be clearly visible on the revenue and expenditure side of the budget in 2019. We expect growth in both tax revenues and social contributions to slow down. The planned further increase in tax allowance and the shift in the tax rate should slightly dampen the increase in tax revenues. The 0.3 percentage point reduction in unemployment insurance contributions, which will come into force at the beginning of 2019 at the latest, will dampen dynamics in social insurance contributions. Overall, we expect total revenues to increase by 3.6% in 2019 compared to the previous year and thus somewhat weaker than in 2018. At the same time, government spending will grow faster than revenues for the first time since 2013, rising by 4.5% next year. The main reason for this is the expected strong increase of 5% in monetary social benefits. It is assumed that the basic pension (*Grundrente*) will be implemented at the beginning of 2019 and the expansion of the so-called "maternity pension" (*Mütterrente*) in the middle of next year. The planned increase in child benefit should also have an impact from the middle of 2019. By contrast, government interest expenditure is the only item of expenditure that will continue to decline in 2019, thanks to the persistently low level of interest rates and the reduction in public debt. Overall, the budget surplus is set to decline to EUR 28 bn or 0.8% of GDP.

What is worth highlighting is that public spending in 2019 will grow faster than nominal GDP. As a result, government expenditures as percent of GDP should rise quite perceptible from 44.0% to 44.4%. Against the backdrop of the fact that the German economy will again grow above potential in the coming year and in view of the long-term demographic challenges for the government budget, we take a critical view of the increase in the state spending ratio at this point in time.

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The Allianz Group is one of the world's leading insurers and asset managers with more than 86 million retail and corporate customers. Allianz customers benefit from a broad range of personal and corporate insurance services, ranging from property, life and health insurance to assistance services to credit insurance and global business insurance. Allianz is one of the world's largest investors, managing over 650 billion euros on behalf of its insurance customers while our asset managers Allianz Global Investors and PIMCO manage an additional 1.4 trillion euros of third-party assets. Thanks to our systematic integration of ecological and social criteria in our business processes and investment decisions, we hold the leading position for insurers in the Dow Jones Sustainability Index. In 2017, over 140,000 employees in more than 70 countries achieved total revenue of 126 billion euros and an operating profit of 11 billion euros for the group.

ABOUT EULER HERMES

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 5,800+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong Europe. The company posted a consolidated turnover of €2.6 billion in 2016 and insured global business transactions for €883 billion in exposure at the end of 2016. Further information: www.eulerhermes.com, LinkedIn or Twitter @eulerhermes.

These assessments are, as always, subject to the disclaimer provided below.

FORWARD-LOOKING STATEMENTS

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

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

NO DUTY TO UPDATE

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