

# Market Consistent Embedded Value Report 2014



# CONTENT

## Introduction 2

---

- 1.1 Basis of preparation 2
- 1.2 Covered business 2

## Overview of results 3

---

- 2.1 Embedded value results 3
- 2.2 New business 4
- 2.3 Analysis of MCEV earnings 5
- 2.4 Movement of free surplus and projected profits 7
- 2.5 Shareholder value not accounted for in Group IFRS equity and Group MCEV 10
- 2.6 Sensitivities 12

## Regional analysis of embedded value 14

---

- 3.1 Overview 14
- 3.2 German Speaking Countries 18
  - 3.2.1 Development Of Value For New Business 18
  - 3.2.2 Development Of Embedded Value And Free Surplus 18
  - 3.2.3 Sensitivities 19
- 3.3 Germany Life 20
  - 3.3.1 Development Of Value Of New Business 20
  - 3.3.2 Development Of Embedded Value And Free Surplus 20
  - 3.3.3 Sensitivities 21
- 3.4 Western & Southern Europe 22
  - 3.4.1 Development Of Value Of New Business 22
  - 3.4.2 Development Of Embedded Value And Free Surplus 22
  - 3.4.3 Sensitivities 23
- 3.5 France 24
  - 3.5.1 Development Of Value Of New Business 24
  - 3.5.2 Development Of Embedded Value And Free Surplus 24
  - 3.5.3 Sensitivities 25
- 3.6 Italy 26
  - 3.6.1 Development Of Value Of New Business 26
  - 3.6.2 Development Of Embedded Value And Free Surplus 26
  - 3.6.3 Sensitivities 27
- 3.7 Iberia & Latin America 28
  - 3.7.1 Development Of Value Of New Business 28
  - 3.7.2 Development Of Embedded Value And Free Surplus 28
  - 3.7.3 Sensitivities 29
- 3.8 Growth Markets 30
  - 3.8.1 Development Of Value Of New Business 30
  - 3.8.2 Development Of Embedded Value And Free Surplus 30
  - 3.8.3 Sensitivities 31
- 3.9 USA 32
  - 3.9.1 Development Of Value Of New Business 32
  - 3.9.2 Development Of Embedded Value And Free Surplus 32
  - 3.9.3 Sensitivities 33
- 3.10 Holding 34

## Independent Opinion 35

## APPENDIX 36

---

# 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 2014 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 2014 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 2014 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 2014 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

2014 was a year in which market conditions deteriorated continuously from the beginning of the first half and reduced to the lowest interest rates we have seen in the Eurozone in the second half of the year. In most markets, interest rates decreased and volatilities increased considerably. Spreads decreased in the Eurozone but increased in the US. Equity markets performed relatively consistently in Europe, while in the US equity markets increased.

EV showed an increase in the first three quarters of the year compared to 2013 but decreased in the last quarter of the year, reflecting mainly the lower interest rates and higher volatilities, in particular in Germany, Italy and US.

We had already implemented methodology and assumption changes in 2013 in order to align more closely with what was specified, recommended and expected in the Solvency II environment. The changes implemented in 2013 were confirmed in 2014 following the political process for the new framework.

The calculation of EV used the illiquidity premium for the first half of the year but was moved to the volatility adjustment for the second half of the year to align with Solvency II. Testing of results based on the proposed volatility adjustment against those based on the illiquidity premium did not reveal any major differences.

During 2015 our reporting will evolve further in order to align with Solvency II calibration.

The increase in value of new business and margin reflects the generally favorable development of the new business mix. The challenging market conditions were offset by product design initiatives and expense reduction efforts at the Allianz entities.

At 31 December 2014, Allianz Group's Life & Health EV amounted to EUR 26,796mn, 14% lower than that published in 2013.

The value of new business written in 2014 was EUR 1,378mn, 45% higher than the value published in 2013.

Operating MCEV Earnings were EUR 3,859mn. MCEV Earnings were EUR -2,696mn due to the large negative impact from unfavorable economic conditions.

## 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			
	2014	2013	Change in 2014(%)
Net asset value	16,428	14,689	12%
Free surplus	-739	555	not meaningful
Required capital	17,167	14,134	22%
Value of Inforce	10,367	15,804	-34%
Present value of future profits	21,495	24,205	-11%
Cost of options and guarantees	-6,057	-3,839	-57%
Cost of residual non-hedgeable risk	-3,640	-2,924	-24%
Frictional Cost of required capital	-1,429	-1,639	13%
<b>MCEV</b>	<b>26,796</b>	<b>30,492</b>	<b>-14%</b>

Lower interest rates in the Eurozone, higher volatilities and narrowing spreads on sovereign bonds were the economic drivers behind the decrease of the EV. The impacts were seen in Germany, Italy and most other entities within the European region. In the US, we saw widening spreads on corporates and financials which reduced their EV in local currency.

Our NAV changed by 12% to EUR 16,429mn. The change was driven by the change in market conditions and capital movements out of the Life & Health segment.

The cost of options and guarantees ("O&G") increased as a result of lower interest rates and higher volatilities.

The cost of residual non-hedgeable risk ("CNHR") increased due to the higher levels of 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. For entities using the internal risk capital model, the required capital is defined as [risk capital - (PVFP - O&G - CNHR)], which can result in higher levels of required capital when economic markets are volatile. The internal risk capital at Allianz Group level is based on 130% capitalization and 99.5% confidence interval to reflect the Group's target rating of AA.

Significantly lower free surplus ("FS") was driven by higher levels of required capital ("ReC") and higher levels of dividend payments. The FS of most entities decreased due to the high capital movements during 2014.

The Group's FS was negative, mainly driven by the much lower VIF of individual entities and higher capital requirements. For many entities, we saw a large decrease in FS levels. This was partly due to lower levels of transfer from inforce VIF. In addition, capital strain on new business increased for those entities using risk capital as a basis for ReC. The economic variance had a large negative impact on many OEs, particularly South Korea.

In South Korea, the ReC was adjusted to take into account the negative VIF. This increased the ReC and hence reduced the FS. The negative VIF was driven by old blocks of business with relatively high guarantees. Given that South Korea is well capitalized on a local statutory basis at 194%, no recapitalization is required on an economic basis.

In Taiwan, who also have a large old block of business with high guarantees, the FS is negative. Again on a local statutory basis, they are well capitalized.

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			
	2014	2013	Change in 2014 (%)
<b>Value of New Business</b>	<b>1,378</b>	952	45%
<b>New Business Margin<sup>1</sup> (in %)</b>	<b>2.4%</b>	2.1%	0.3%-p
Present value of new business premiums	57,272	45,337	26%
APE Margin <sup>2</sup> (in %)	21.5%	19.4%	2.1%-p
Single premium <sup>3</sup>	36,128	27,258	33%
Recurrent Premium	2,785	2,182	28%
Recurrent premium multiplier <sup>4</sup>	8	8	0%

1—NMB= 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 1,753mn)

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

Allianz's VNB in 2014 was EUR 1,378mn, 45% higher than in 2013. The new business margin ("NBM") increased from 2.1% to 2.4%. Margins were generally under pressure due to the lower interest rate environment but we have managed our business to maintain a strong NBM. Positive developments of business mix were seen in particular in Germany, USA, France, Italy, Belgium, Spain and Poland.

Modest increases of recurring premiums in most markets were more than offset by lower volumes in Germany Life, resulting in an overall decrease.

The increase in single premium business was driven by higher volumes in US, Germany Life and Italy.

Overall, new business premium volumes were slightly higher.

Exhibit 3 summarizes the change in VNB from 2013 to 2014. 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
<b>Reported Value as at 31 December 2013</b>	952	2,1%	45,337
Change in Foreign Exchange	68	0,1%	371
Change in Allianz interest	0	0,0%	-2
<b>Adjusted Value as at 31 December 2013</b>	1,020	2,2%	45,708
Change in volume	188	0,0%	11,268
Change in business mix	124	0,1%	-20
Change in assumptions	47	0,1%	316
<b>Value of New Business as at 31 December 2014</b>	1,378	2,4%	57,272

The foreign exchange adjustment of EUR 68mn was driven mainly by Asian exchange rate changes during 2014.

The change in Allianz interest reflects the changes in Group share in Malaysia compared to the previous year.

Overall, new business premium volume grew by 26% which had a positive impact on VNB of EUR 188mn.

The change in business mix in the USA, France, Iberia and Italy, in particular, had a positive effect on VNB.

In 2014, we saw similar levels of single premium business at Germany Life compared to the previous year. The sales for the alternative guarantee product "Perspektive" were higher compared to its launch in 2013, reaching 73,700 policies.

The USA had a record-breaking year with the sales of newly designed Fixed Index Annuity ("FIA") products "Allianz 222" and "Allianz 365i". Production levels of FIA business went from 62% in 2013 to 82% in 2014 as the focus moved away from variable annuity type products.

In France, we saw the business mix move towards unit-linked supported additionally by the inclusion of French variable annuity business. There was a positive impact from repricing actions in retail business. Domestic Group Protection saw a more improved risk mix with better underwriting at lower loss ratios.

In Italy there was a large increase in unit-linked business without guarantees and traditional business with lower guarantees which improved NBMs. Renewals of Group business also helped the higher business volumes.

The change in assumptions impacted VNB by EUR 47mn with a negligible impact on NBM. However, individually the large decrease in economic market was offset by a positive impact from non-economic assumptions such as those due to cost-cutting exercises.

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 for 2013 to the value as of 31 December 2014.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE					Exhibit 4
€MN					
	Earnings on MCEV analysis				
	Free Surplus	Required Capital	VIF	MCEV	
<b>Opening MCEV reported as at 31 December 2013</b>	<b>555</b>	<b>14,134</b>	<b>15,804</b>	<b>30,492</b>	
Foreign Exchange Variance	-36	678	234	876	
Acquired / Divested business	-2	2	-5	-4	
Others	0	0	0	0	
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>518</b>	<b>14,814</b>	<b>16,032</b>	<b>31,364</b>	
Value of new business at point of sale	-17	0	1,396	1,378	
Expected existing business contribution					
reference rate	147	0	812	958	
in excess of reference rate	529	0	822	1,350	
Transfer from VIF and required capital to free surplus					
on in-force at begin of year	2,066	-1,174	-892	0	
on new business	-1,908	1,233	675	0	
Experience variance	-268	240	281	253	
Non-economic assumption changes	46	-45	-630	-630	
Other non-operating variance	-361	236	674	549	
<b>Operating MCEV earnings</b>	<b>233</b>	<b>489</b>	<b>3,136</b>	<b>3,859</b>	
Economic variances	237	1,864	-7,947	-5,847	
Other non operating variance	145	0	-854	-708	
<b>Total MCEV earnings</b>	<b>615</b>	<b>2,353</b>	<b>-5,664</b>	<b>-2,696</b>	
Net capital movements	-1,872	0	0	-1,872	
<b>Closing MCEV as at 31 December 2014</b>	<b>-739</b>	<b>17,167</b>	<b>10,367</b>	<b>26,796</b>	

The initial adjustments included the following changes:

- Foreign exchange variance (EUR 876mn) was driven mainly by the weakening of the Euro against the US Dollar and the Swiss Franc
- Acquired / Divested business (EUR -4mn) reflects:
  - Changes in minority shareholding in Malaysia (EUR 7.2mn).

- Changes in minority shareholding in Yapi Kredi Turkey (EUR -12mn)

The key components of the change in 2014 were as follows:

- Value of new business at point of sale (EUR 1,378mn) takes into account all expenses with respect to new business written during 2014, including acquisition expense overruns. Development of the VNB is described in chapter 2.2.
- Expected existing business contribution is comprised of two elements:
  - Expected existing business contribution with reference rates (EUR 958mn) shows the unwinding of the discount on EV with reference rates used in the market consistent projection. 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. The margin for the year built into the valuation for uncertainty (options and guarantees) with regard to asymmetric financial risk and non-financial risk is released in this step.
  - Existing business contribution in excess of reference rates (EUR 1,350mn) 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.
- 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, 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.
- 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 675mn impact on VIF). The amount of additional required capital to be held for new business (EUR 1,233mn 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 -1,908mn on FS. Taking into account the acquisition expense overrun of EUR 17mn the new business strain increases to EUR 1,687mn.
- Experience variances (EUR 253mn) 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.
- Non-economic assumption changes (EUR -630mn) reflects changes in non-economic assumptions such as those for lapses,

mortality and expenses. The main drivers for the change in 2014 were changes to expense in France (EUR -212mn) and lapse assumptions updates in USA (EUR -342mn).

- **Other operating variances** (EUR 549mn) includes operating impacts not included above, such as management reaction to economic changes and model changes. Management may, for example, react by changing crediting and investment strategies. The drivers are described in the regional parts in chapter 3.
- **Operating MCEV earnings** (EUR 3,859mn) reflects the change of the adjusted opening EV due to all operating drivers described above. The 2014 operating MCEV earnings amounts to 13% of the adjusted opening EV.
- **Economic variances** (EUR -5,847mn) includes the impacts of changes in interest rates, actual development of financial markets and of actual performance of the assets in the portfolio. In 2014, the economic variance was very negative reflecting the downturn in the market during the fourth quarter of 2014 from interest rates, volatilities and spreads. The change in interest rates and credit spreads impacted total EV by EUR -4,960mn. Higher volatilities impacted EV by EUR -773mn. Development by region is described in chapter 3.
- **Other non-operating variances** (EUR -708mn) reflect changes in government regulations that are not reflected in other operating variances. This includes the impact from the LVRG in Germany, which capped the level of shareholders' participation in risk surplus to 10%.
- **Total MCEV earnings** (EUR -2,696mn) summarizes the movements during the year due to all drivers described above. The 2014 MCEV earnings resulted in a decrease of the EV due to the large impact of economic variances unable to be offset by the positive operating variances.
- **Net capital movement** (EUR -1,874mn) reflects net movement of dividends and capital injections from/to our life companies. Further details may be found in the regional parts in chapter 3.

## 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 2013 to 2014.

### FREE SURPLUS MOVEMENT

Free Surplus at 31 December 2013		555
Currency and Group Share Effects		-37
Cash Earnings		2,182
Capital Requirements		-59
Net dividends		-1,872
Free Surplus before change in capital and market movements		769
Change in capital due to economic and operational variances		-2,294
Mark-to-market profits on NAV	787	
Free Surplus at 31 December 2014		-739

The free surplus decreased from EUR 555mn, turning negative to EUR -739mn during 2014. The drivers of the change were:

- **Cash earnings** (EUR 2,182mn) reflects the actual local P&L effect in the current reporting year. This contains cash earnings from in-force (EUR 2,874mn) and cash strain from new business (EUR -692mn).
- **Capital requirements** (EUR -59mn) includes capital release from in-force (EUR 1,174mn) and capital requirements for new business (EUR -1,233mn).
- **Net dividends** (EUR -1,872mn) reflects net capital transfers.
- **Change in capital due to economic and operational variances** (EUR -2,294mn) is reflecting higher capital requirements

following the market development. Change in ReC is described in chapter 3.1.

- **Mark-to-market profits on NAV** (EUR 787mn) reflects market movements.



The color coding in the following diagram shows how the FS movements are reflected in the analysis of MCEV earnings. (Note that a minus sign should be applied to ReC values.)

<b>FREE SURPLUS MOVEMENT</b>	
Free surplus 31 December 2013	555
Currency & GS effects	-37
Cash earnings	
In-force capital release	2,874
New business cash strain	-692
Capital requirements	
In-force capital release	1,174
New business capital strain	-1,233
Net dividends	-1,872
Change in capital due to economic and operational variances	-2,294
Market-to-market profits on NAV	787
Free surplus 31 December 2014	-739

<b>ANALYSIS OF MCEV EARNINGS</b>	<b>FS</b>	<b>REC</b>	<b>NAV</b>
Free surplus 31 December 2013	555	14,134	14,689
Foreign Exchange Variance	-36	678	642
Acquired / Divested business	-2	2	0
Others	0	0	0
Value of new business at point of sale	-17	0	-17
Expected existing business contribution - reference rate	147	0	147
Expected existing business contribution -in excess of reference rate	529	0	529
Transfer from VIF and required capital to free surplus - on in-force	2,066	-1,174	892
Transfer from VIF and required capital to free surplus - on new business	-1,908	1,233	-675
Experience variance	-268	240	-28
Non-economic assumption changes	46	-45	1
Other operating variance	-361	236	-125
Economic variances	237	1,864	2,101
Other non operating variance	145	0	145
Net capital movements	-1,872	0	-1,872
Free surplus 31 December 2014	-739	17,167	16,428

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.

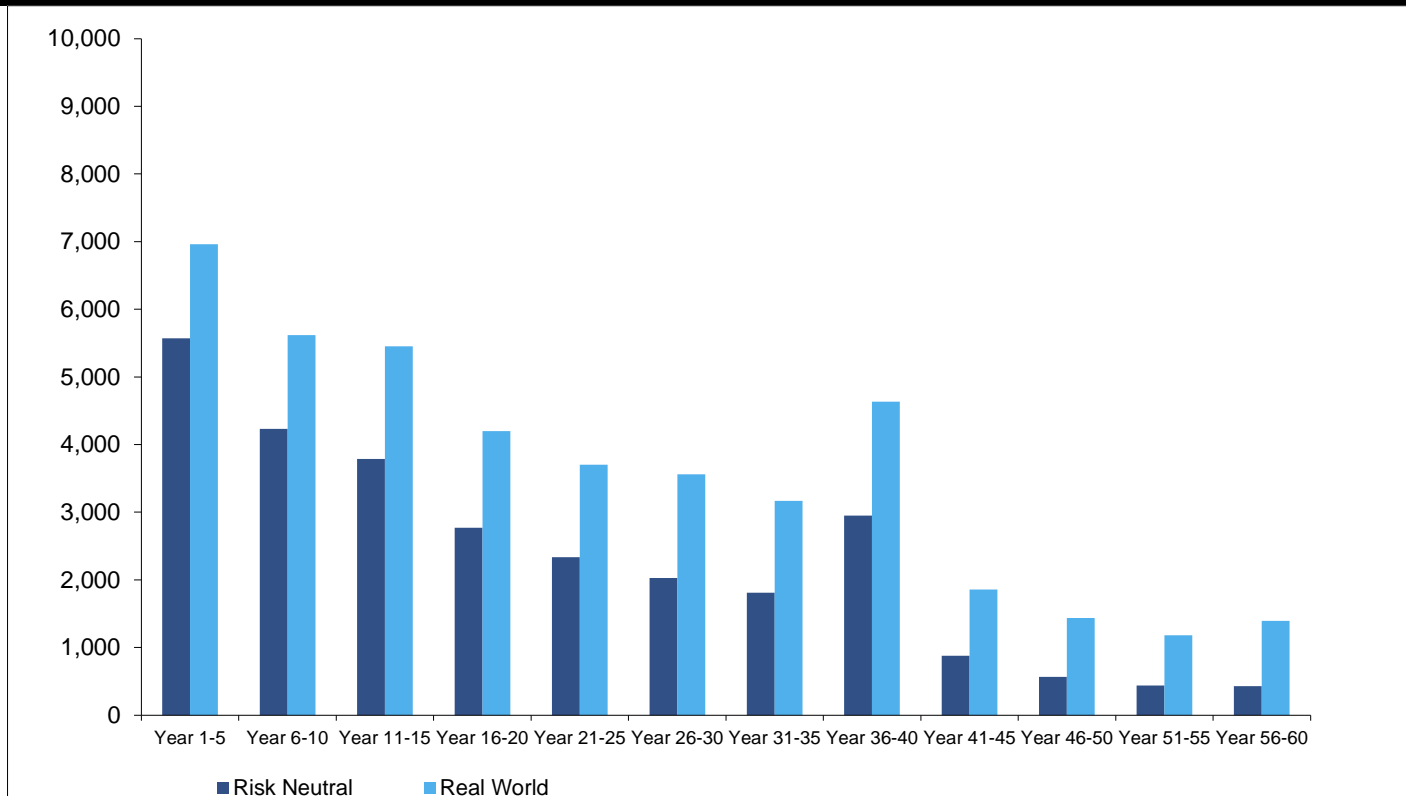
The table shows discounted risk-neutral profits with respect to the current in-force portfolio. Future new business is not considered.

REMAINING PRESENT VALUE OF FUTURE PROFITS		Exhibit 5	
€MN			
End of year	PVFP	% of initial PVFP	
year 5	14,851	76%	
year 10	11,808	60%	
year 15	9,182	47%	
year 20	7,325	37%	
year 25	5,913	30%	
year 30	4,834	25%	
year 35	3,869	20%	
year 40	1,625	8%	
year 45	1,031	5%	
year 50	641	2%	

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

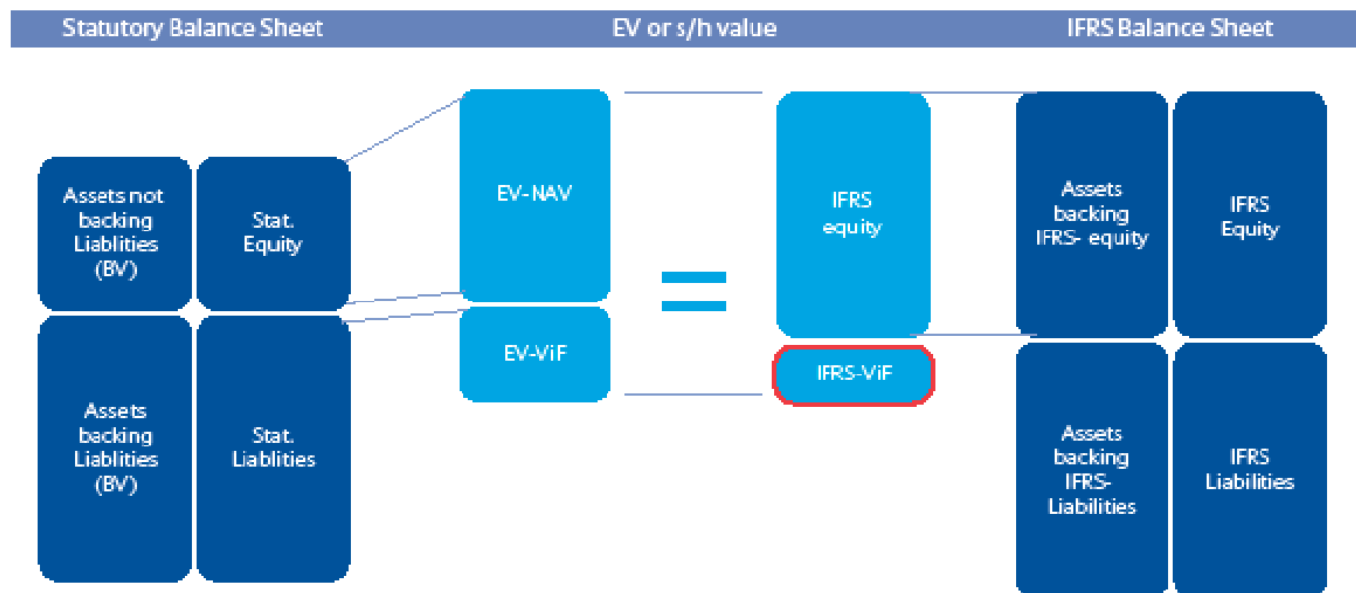
The following graph represents the pattern of risk neutral and real world profits grouped by 5 year time buckets. Risk-neutral profits divided by average reserves over the entire projection period was 0.26% and the corresponding real-world ratio was 0.37%.

#### 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"). Local balance sheet and P&L are therefore the starting points for the EV projections of our subsidiaries.



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 the differences between the EV balance sheet and the IFRS balance sheet are analyzed, to determine elements

that have been recognized in the IFRS equity but not in the EV NAV and vice versa.

Exhibit 6 shows that of the EUR 10,367mn VIF, the future related element of EV, EUR -228mn represents an economic value of the covered life insurance business that is not captured within the IFRS shareholders' equity.

<b>ADDITIONAL VALUE NOT ACCOUNTED FOR IN IFRS EQUITY</b>		Exhibit 6
€ MN		
	2014	2013
Value of in-force	10,367	15,804
Deferred acquisition cost / value of business acquired	-16,293	-16,254
Difference in IFRS reserves compared to statutory reserves	21,795	16,833
Shareholders' portion of unrealized capital gains included in PVFP	-13,947	-7,472
Asset valuation differences	5,429	2,655
<b>Other adjustments</b>	<b>-7,580</b>	<b>-2,548</b>
<b>Additional value not accounted for in IFRS shareholders' equity</b>	<b>-228</b>	<b>9,018</b>

The components of the table are as follows:

- Deferred acquisition cost / value of business acquired (EUR -16,293mn) 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 21,795mn) 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 higher interest rates, largely in Germany and the USA.
- Shareholders' portion of unrealized capital gains included in PVFP (EUR -13,947mn) 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 lower unrealized capital gains in the USA and Germany.

- Asset valuation differences (EUR 5,429mn) is the shareholder value of the difference between market value and book value of assets (valued in IFRS at book value).
- Other adjustments (EUR -7,580mn) includes various items not included above relating to valuation differences under MCEV and IFRS such as different tax treatment. The change from 2013 to 2014 was driven by tax effects on the decrease of UCG and consolidation entries, especially with respect to special funds in France and 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.

<b>GROUP MCEV</b>		Exhibit 7
€ MN		
	2014	2013
IFRS equity for Allianz Group (net of non-controlling interests)	60,747	50,084
Additional value not accounted for in IFRS shareholders' equity	-228	9,018
Deduct Goodwill for Life/Health <sup>1</sup>	-2,232	-2,159
<b>Group MCEV<sup>1</sup></b>	<b>58,287</b>	<b>56,943</b>
<b>Covered business MCEV</b>	<b>26,796</b>	<b>30,492</b>
<b>IFRS equity non covered business &amp; financing adjustments</b>	<b>31,491</b>	<b>26,451</b>

<sup>1</sup> – 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 2014 was EUR 58,287mn, 2% higher than the value for 2013 of EUR 56,943mn. The increase was after a dividend payment to shareholders of EUR 2,405mn.

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.

## ANALYSIS OF EARNINGS OF GROUP MCEV

Exhibit 8

€ MN

	Covered business MCEV	Non covered business & financing adj. IFRS	Total group MCEV
<b>Opening Group MCEV as at 31 December 2013</b>	<b>30,492</b>	<b>26,451</b>	<b>56,943</b>
Opening adjustments	871	553	1,424
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>31,363</b>	<b>27,004</b>	<b>58,367</b>
Operating MCEV earnings <sup>1</sup>	3,859	7,074	not meaningful
Non operating MCEV earnings <sup>2</sup>	-6,555	-1,627	not meaningful
Non covered: IFRS net income		4,085	
Non covered: IFRS operating profit		-7,074	
Non covered: OCI		1,362	
<b>Total MCEV earnings</b>	<b>-2,696</b>	<b>5,447</b>	<b>2,751</b>
Other movements in IFRS net equity		-448	-448
Closing adjustments	-1,872	-512	-2,384
<b>Closing MCEV as at 31 December 2014</b>	<b>26,796</b>	<b>31,491</b>	<b>58,287</b>

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 and DBP) of the Allianz Group attributable to shareholders not included in covered business

Group MCEV increased by EUR 1,344mn, driven by the increase in non-covered business MCEV of EUR 5,040mn. The change in covered is partially offsetting this increase. The opening adjustment of the non covered business reflects FX effects. The higher operating profit of the non covered business, amounting to EUR 7,074mn, was mainly due to P&C business. The decrease in covered business MCEV is described in detail in the remainder of this report. 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 amounting to EUR 2,405mn and a capital increase to Allianz SE of EUR 59mn.

## 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 rules 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	%
<b>Central Assumptions</b>	<b>26,796</b>	<b>100%</b>	<b>1,378</b>	<b>100%</b>
EV change by economic factors				
Risk Free Rate – 50bp	-3,224	-12%	-170	-12%
Risk Free Rate +50bp	2,214	8%	123	9%
Charge for CNHR +100bp	-1,106	-4%	-84	-6%
Equity values – 20 %	-1,617	-6%	-141	-10%
Swaption volatilities +25 %	-1,020	-4%	-113	-8%
Equity option volatilities +25 %	-946	-4%	-64	-5%
EV change by non-economic factors				
Lapse Rates – 10 %	223	1%	72	5%
Maintenance Expenses – 10 %	888	3%	64	5%
Mortality + 15 % for products with death risk	-353	-1%	-82	-6%
Mortality – 20 % for products with longevity risk	-1,602	-6%	-95	-7%

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

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.

Under the current methodology, if a sensitivity produces a negative interest rate, the interest rate is floored at 0%. Due to the current low interest rate environment, the sensitivities for -100bps were no longer meaningful as the movement no longer represented a full -100bps shift. The interest rate shifts in the following sensitivity tables now only show -50bps/+50bps levels to ensure the movements disclosed are a complete representation of the sensitivity.

A shift of -50bps in interest rates results in a reduction of the Group’s EV of EUR 3,224mn or 12%. This is higher than the corresponding impact shown for 2013, driven mainly by much lower interest rates and higher volatilities. VNB decreases by EUR 170mn.

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 -200bps and keep the deep and liquid part of the yield-curves unchanged. Reducing the UFR by 200bps reduces the Group’s EV by EUR 3,297mn. Similarly, the VNB reduces by EUR 284mn.

– **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 1,106mn. Appendices A.4.3 and B.2 contain explanations of the cost of residual non-hedgeable risk.

– **Sensitivity to a decrease in equity values at the valuation date by 20%**

This sensitivity is designed to indicate the impact of a sudden change in the market values of equity 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 modeled assets at the end of the first year, when defined boundaries for each asset class are exceeded. A drop of equity values by 20% reduces EV by EUR 1,617mn.

– **Sensitivities to increases in volatilities for fixed income and equity by 25%**

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

EV decreases by EUR 1,020mn or 4% for an increase in swaption implied volatility.

EV decreases by EUR 946mn or 4% for an increase in equity option implied volatility.

Volatility sensitivities were higher than in 2013 due to higher market volatilities and higher O&G costs.

– **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 223mn. This is lower than in 2013 due to the interest rate level.

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

The impact of a 10% decrease in the projected expenses on EV is EUR 888mn. This sensitivity is similar to last year.

– **Sensitivity to changes in mortality and morbidity rates**

These sensitivities show the impact of an increase in mortality rates by 15% for products with death risk and a decrease in mortality rates of 20% for products exposed to longevity risk. Since the future experience for the different insured populations in the two product groups might vary significantly, the impacts of this sensitivity are shown separately.

For products with death risks the impact of an increase in mortality rates by 15% leads to a decrease of EUR 353mn or 1%.

The impact of a decrease in mortality rates by 20% on products exposed to longevity risk leads to a decrease of EUR 1,602mn or 6%. This is higher than the 2013 results as in a lower interest rate environment, the impact from longevity risk is greater.

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 and French variable annuity business
- Italian and Irish life subsidiaries of **Italy**
- Life operations in **Belgium, Netherlands, Luxemburg, 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** and **Lebanon**.
- **Asia-Pacific** life operations in **South Korea, Taiwan, Thailand, China, Indonesia, Malaysia** and **Japan**.
- **Allianz Global Life** excluding French variable annuity business.
- The non-consolidated life operation in **India** is not included.

### USA

- **Allianz Life USA**.

### Holding

- Holding expenses and 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 2014 EV by region.

## EMBEDDED VALUE RESULTS BY REGION

Exhibit 10

€ MN	German speaking countries	Germany Life	Western & Southern Europe	France	Italy	Iberia and Latin America	Growth Markets	Asia-Pacific	CEEMA	USA	Holding	Total
<b>Net asset value</b>	<b>3,479</b>	1,799	<b>5,153</b>	2,363	1,740	<b>621</b>	<b>2,051</b>	1,529	522	<b>5,071</b>	<b>55</b>	<b>16,428</b>
Free surplus	<b>819</b>	271	<b>-30</b>	606	-380	<b>-41</b>	<b>-2,034</b>	-2,351	317	<b>584</b>	<b>-37</b>	<b>-739</b>
Required capital	<b>2,660</b>	1,528	<b>5,183</b>	1,757	2,121	<b>662</b>	<b>4,084</b>	3,880	204	<b>4,487</b>	<b>92</b>	<b>17,167</b>
<b>Value of Inforce</b>	<b>6,623</b>	4,362	<b>3,139</b>	2,804	-202	<b>588</b>	<b>-372</b>	-871	499	<b>879</b>	<b>-488</b>	<b>10,367</b>
Present value of future profits	<b>11,376</b>	7,810	<b>5,646</b>	3,992	899	<b>813</b>	<b>904</b>	310	591	<b>3,184</b>	<b>-428</b>	<b>21,495</b>
Cost of options and guarantees	<b>-2,602</b>	-2,146	<b>-1,427</b>	-504	-798	<b>-62</b>	<b>-477</b>	-444	-32	<b>-1,445</b>	<b>-45</b>	<b>-6,057</b>
Cost of residual non-hedgeable risk	<b>-1,705</b>	-1,062	<b>-848</b>	-553	-219	<b>-123</b>	<b>-435</b>	-387	-48	<b>-513</b>	<b>-15</b>	<b>-3,640</b>
Frictional Cost of required capital	<b>-446</b>	-240	<b>-233</b>	-131	-85	<b>-40</b>	<b>-362</b>	-349	-12	<b>-347</b>	<b>-1</b>	<b>-1,429</b>
<b>MCEV</b>	<b>10,102</b>	6,161	<b>8,292</b>	5,167	1,539	<b>1,209</b>	<b>1,678</b>	658	1,019	<b>5,950</b>	<b>-434</b>	<b>26,796</b>
in % of total MCEV	<b>38%</b>	23%	<b>31%</b>	19%	6%	<b>5%</b>	<b>6%</b>	2%	4%	<b>22%</b>	<b>-2%</b>	<b>100%</b>
<b>Value of Inforce by product type</b>												
Guaranteed Savings & Annuities	<b>4,786</b>	4,362	<b>1,509</b>	2,275	-829	<b>-11</b>	<b>-392</b>	-614	222	<b>373</b>	<b>-628</b>	<b>5,639</b>
Protection & Health	<b>1,790</b>	549	<b>757</b>	433	163	<b>544</b>	<b>-528</b>	-731	200	<b>506</b>	<b>135</b>	<b>3,204</b>
Unit Linked without Guarantees	<b>46</b>	0	<b>873</b>	96	464	<b>54</b>	<b>550</b>	474	76	<b>0</b>	<b>4</b>	<b>1,527</b>



	2014			2013		
	Required capital EUR mn	% of reserve %	% of solvency requirement %	Required capital EUR mn	% of reserve %	% of solvency requirement %
<b>German Speaking Countries</b>	<b>2,660</b>	<b>1.3%</b>	<b>268%</b>	<b>2,278</b>	<b>1.2%</b>	<b>307%</b>
thereof: Germany Life	1,528	0.9%	Not meaningful	1,432	0.9%	not meaningful
<b>Western &amp; Southern Europe</b>	<b>5,182</b>	<b>3.8%</b>	<b>139%</b>	<b>4,677</b>	<b>3.7%</b>	<b>130%</b>
thereof: France	1,757	2.5%	101%	1,893	2.7%	100%
thereof: Italy	2,121	4.7%	177%	1,649	4.2%	147%
<b>Iberia &amp; Latin America</b>	<b>662</b>	<b>9.5%</b>	<b>209%</b>	<b>1,167</b>	<b>18.0%</b>	<b>383%</b>
<b>Growth Markets</b>	<b>4,084</b>	<b>15.6%</b>	<b>407%</b>	<b>2,599</b>	<b>11.4%</b>	<b>304%</b>
thereof: Asia-Pacific	3,880	17.3%	484%	2,421	12.7%	357%
thereof: CEEMA	204	5.5%	101%	171	5.0%	100%
<b>USA</b>	<b>4,487</b>	<b>5.0%</b>	<b>100%</b>	<b>3,287</b>	<b>4.7%</b>	<b>244%</b>
Holding and Internal Reinsurance	92	4.9%	100%	125	6.5%	100%
<b>Total</b>	<b>17,167</b>	<b>3.7%</b>	<b>162%</b>	<b>14,134</b>	<b>3.4%</b>	<b>203%</b>

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

Required capital increased by EUR 3,033mn to EUR 17,167mn in 2014. The overall increase was driven by worsening market conditions.

The increase in the German Speaking Countries was driven by the higher ReC in Austria due to much lower interest rates.

For Germany Life, ReC is calculate as 1% of local GAAP gross reserves including the unit-linked reserves which is in line with local market standards. The internal ReC and local solvency requirements are significantly lower due to definitions of available capital including Surplus Funds in Germany for Solvency II.

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

The higher ReC of Western & Southern Europe was driven by higher capital requirements in Italy due to lower interest rates.

The decrease in ReC in Iberia & Latin America was driven by Spain. The capital requirements on large parts of pension business reduced due to narrowing spreads on sovereign debt and the application of matching adjustment in line with Solvency II rules.

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

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

**VALUE OF NEW BUSINESS AT POINT OF SALE BY REGION**

Exhibit 12

€ MN	German Speaking Countries	Germany Life	Western & Southern Europe	France	Italy	Iberia and Latin America	Growth Markets	Asia-Pacific	CEEMA	USA	Holding	Total
<b>Value of New Business</b>	<b>441</b>	371	<b>351</b>	88	176	<b>67</b>	<b>213</b>	164	49	<b>406</b>	<b>-100</b>	<b>1,378</b>
in % total VNB	<b>32%</b>	27%	<b>25%</b>	6%	13%	<b>5%</b>	<b>15%</b>	12%	4%	<b>29%</b>	<b>-7%</b>	<b>100%</b>
New Business Margin in %	<b>2.6%</b>	2.5%	<b>1.7%</b>	1.1%	1.7%	<b>4.0%</b>	<b>3.6%</b>	3.2%	6.0%	<b>3.4%</b>	n/a	<b>2.4%</b>
Present value of NB premium	<b>17,251</b>	14,850	<b>20,378</b>	7,914	10,038	<b>1,690</b>	<b>5,973</b>	5,145	828	<b>11,981</b>	<b>0</b>	<b>57,272</b>
APE Margin <sup>1</sup> in %	<b>29.5%</b>	28.5%	<b>14.5%</b>	11.2%	13.6%	<b>36.7%</b>	<b>20.0%</b>	18.8%	25.5%	<b>32.8%</b>	n/a	<b>21.5%</b>
APE Absolute	<b>1,496</b>	1,301	<b>2,415</b>	783	1,291	<b>183</b>	<b>1,066</b>	872	194	<b>1,237</b>	n/a	<b>6,398</b>
Single Premium <sup>2</sup>	<b>7,954</b>	7,550	<b>12,887</b>	4,757	6,933	<b>985</b>	<b>2,823</b>	2,627	196	<b>11,479</b>	<b>0</b>	<b>36,128</b>
Recurrent Premium	<b>701</b>	546	<b>1,127</b>	307	597	<b>85</b>	<b>784</b>	610	174	<b>89</b>	<b>0</b>	<b>2,785</b>
Recent premium multiplier <sup>3</sup>	<b>13</b>	13	<b>7</b>	10	5	<b>8</b>	<b>4</b>	4	4	<b>6</b>	<b>0</b>	<b>8</b>
<b>IRR in %</b>	<b>17.0%</b>	17.1%	<b>10.9%</b>	7.9%	12.3%	<b>11.6%</b>	<b>15.9%</b>	15.8%	16.2%	<b>12.7%</b>		<b>12.5%</b>
Payback Period (in years)	<b>5.56</b>	5.58	<b>7.26</b>	9.65	6.4	<b>7.49</b>	<b>5.1</b>	5.24	4.67	<b>5.53</b>		<b>6.39</b>
<b>Value of New Business by product type</b>												
Guaranteed Savings & Annuities	<b>398</b>	371	<b>135</b>	41	53	<b>13</b>	<b>48</b>	34	14	<b>386</b>	<b>-116</b>	<b>865</b>
Protection & Health	<b>42</b>	0	<b>94</b>	46	24	<b>39</b>	<b>100</b>	71	30	<b>21</b>	<b>16</b>	<b>311</b>
Unit Linked without Guarantees	<b>1</b>	0	<b>121</b>	0	99	<b>16</b>	<b>65</b>	59	6	<b>0</b>	<b>0</b>	<b>203</b>
<b>New Business Margin by product type</b>												
Guaranteed Savings & Annuities in %	<b>2.5%</b>	2.5%	<b>1.2%</b>	0.8%	1.1%	<b>1.2%</b>	<b>2.3%</b>	2.0%	4.0%	<b>3.4%</b>	<b>36.0%</b>	<b>2.1%</b>
Protection & Health in %	<b>4.1%</b>	n/a	<b>3.2%</b>	1.7%	20.2%	<b>13.6%</b>	<b>8.9%</b>	8.2%	11.5%	<b>4.1%</b>	<b>4.9%</b>	<b>5.0%</b>
Unit Linked without Guarantees in %	<b>3.3%</b>	n/a	<b>2.0%</b>	n/a	2.0%	<b>4.8%</b>	<b>2.3%</b>	2.3%	2.6%	<b>n/a</b>	<b>n/a</b>	<b>2.2%</b>

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

2—In Germany, single premium excludes Parkdepot and Kapitalisierungsprodukt

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

Exhibit 12 provides an overview of VNB by region.

The VNB increased by 45%, driven mainly by the positive development of business mix and large volumes of business sold in US, Italy and Germany Life.

The NBM increased from 2.1% to 2.4%, driven by product design to reduce guarantee levels, expense saving initiatives, product mix developments and larger volumes of business sold.

The USA, Asia and France had significant improvement in NBM levels and growth during the course of 2014.

Recurring premium business has increased in 2014 compared to the 2013 levels. But we have also seen an increase in single premium business mainly due to Italy, USA, Asia and Germany.

## 3.2 German Speaking Countries

### 3.2.1. DEVELOPMENT OF VALUE FOR NEW BUSINESS

The VNB written by the German Speaking Countries in 2014 was EUR 441mn, almost 10% higher than the previous year's published value. Exhibit 13 presents an analysis of the change in VNB.

The increase in VNB was driven mostly by the much higher volumes of business written during 2014. There was a 16% increase in PVNBP compared to the previous year. Germany Life PVNBP increased by 19% with much higher levels of single premium being sold. This included strong sales of the new Perspektive product. Overall, the increase in business volumes impacted the VNB by EUR 51mn.

#### DEVELOPMENT OF VALUE OF NEW BUSINESS Exhibit 13

€ MN			
€ MN	Value of New Business	New Business Margin (%)	Present Value of NB Premium
<b>Reported Value as at 31 December 2013</b>	<b>406</b>	<b>2.7%</b>	<b>14,815</b>
Change in Foreign Exchange	0.2	0.0%	7
Change in Allianz interest	0	0.0%	0
<b>Adjusted Value as at 31 December 2013</b>	<b>407</b>	<b>2.7%</b>	<b>14,822</b>
Change in volume	51	0.0%	1,974
Change in business mix	-15	-0.1%	0
Change in assumptions	-1	0.0%	455
<b>Value of new business as at 31 December 2014</b>	<b>441</b>	<b>2.6%</b>	<b>17,251</b>

Business mix had an overall negative impact on VNB for the German Speaking Countries, reducing the VNB by EUR -15mn. This was mainly due to the much higher levels of single premium business being written by Germany Life. In Switzerland, the move towards more regular paying business improved the NBM as these products had lower guarantees and profitable riders. The NBM in Austria was impacted positively due to a new unisex tariff with a lower guarantee rate and a replacement of a traditional type product.

The economic environment had a negative impact on NBMs. Interest rate levels were low, particularly in the second half of the year which affected traditional type products. Volatility levels also increased. The absolute impact on VNB was EUR -1mn as changes in non-economic assumptions had a positive impact offsetting the negative change.

### 3.2.2. DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for the German Speaking Countries reduced from EUR 13,736mn to EUR 10,102mn after capital transfers of EUR 702mn.

Germany Life made a capital transfer of EUR 513mn, Germany Health of EUR 107mn, Switzerland of EUR 62mn and Austria of EUR 20mn.

MCEV earnings were -22% of the adjusted opening EV. The decrease was driven by the much lower economic environment.

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 given the much higher impact from economic variances. The other entities will be the main focus of this chapter.

#### ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 14

€ MN				
	Earnings on MCEV analysis			
	Free Surplus	Required Capital	VIF	MCEV
<b>Opening MCEV reported as at 31 December 2013</b>	<b>1,039</b>	<b>2,278</b>	<b>10,419</b>	<b>13,736</b>
Foreign Exchange Variance	13	10	14	37
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>1,052</b>	<b>2,288</b>	<b>10,433</b>	<b>13,773</b>
Value of new business at point of sale	0	0	441	441
Expected existing business contribution				
reference rate	16	0	303	318
in excess of reference rate	21	0	279	299
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	656	-18	-638	0
on new business	-240	91	149	0
Experience variance	-469	267	110	-93
Non-economic assumption changes	0	0	16	16
Other operating variance	14	1	-149	-134
<b>Operating MCEV earnings</b>	<b>-3</b>	<b>341</b>	<b>509</b>	<b>847</b>
Economic variances	328	30	-3,466	-3,108
Other non operating variance	145	0	-854	-708
<b>Total MCEV earnings</b>	<b>470</b>	<b>371</b>	<b>-3,810</b>	<b>-2,969</b>
Net capital movements	-702	0	0	-702
<b>Closing MCEV as at 31 December 2014</b>	<b>819</b>	<b>2,660</b>	<b>6,623</b>	<b>10,102</b>

The VNB at point of sale was EUR 441mn while new business strain was EUR 240mn. 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 -93mn was the result of actual experience deviating from what was expected.

Non-economic assumption changes by Switzerland and updates of dynamic policyholder behavior assumptions had a net impact of EUR 16mn.

Other operating variances of EUR-134mn was driven by model updates in Germany Health including policyholder participation crediting strategy which had an impact of EUR -291mn. This was offset by positive impacts from Austria.

### 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	%
<b>Central Assumptions</b>	<b>10,102</b>	<b>100%</b>	<b>441</b>	<b>100%</b>
EV change by economic factors				
Risk Free Rate – 50bp	-1,886	-19%	-85	-19%
Risk Free Rate +50bp	1,201	12%	79	18%
Charge for CNHR +100bp	-524	-5%	-25	-6%
Equity values – 20 %	-840	-8%	-78	-18%
Swaption volatilities +25 %	-660	-7%	-101	-23%
Equity option volatilities +25 %	-282	-3%	-29	-7%
EV change by non-economic factors				
Lapse Rates – 10 %	181	2%	25	6%
Maintenance Expenses – 10 %	197	2%	14	3%
Mortality + 15 % for products with death risk	-72	-1%	-7	-2%
Mortality – 20 % for products with longevity risk	-311	3%	-22	-5%

The portfolio is mostly participating business with long premium paying terms. Sensitivities to non-economic assumptions are relatively low because technical surplus is shared with policyholders. For the German health business, premiums adjust when assumptions change.

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 2014 are higher than those of 2013 due to lower rates and higher volatilities.

## 3.3 Germany Life

### 3.3.1. DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written by Germany Life in 2014 was EUR 371mn, 5% higher than the value published in 2013. The NBM changed from 2.8% to 2.5%. Exhibit 16 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS				Exhibit 16
€ MN				
	Value of New Business	New Business Margin (%)	Present Value of NB Premium	
<b>Reported Value as at 31 December 2013</b>	354	2.8%	12,501	
Change in Foreign Exchange	0	0.0%	0	
Change in Allianz interest	0	0.0%	0	
<b>Adjusted Value as at 31 December 2013</b>	354	2.8%	12,501	
Change in volume	56	0.0%	2,058	
Change in business mix	-19	-0.1%	0	
Change in assumptions	-20	-0.2%	291	
<b>Value of new business as at 31 December 2014</b>	371	2.5%	14,850	

The increase in VNB was due to increases in both single and regular premium volumes. Germany Life saw an increase in PVNBP of 2.4bn with an almost equal split of single and regular premium business. The VNB increased by EUR 56mn due to higher volumes.

The change in business mix had a negative impact on VNB of EUR -19mn. This was mainly due to single premium business which is more sensitive to the lower interest rates at the short end of the interest rate curve. More regular premium business was sold in the second half of the year with longer payment terms which offset some of the negative impact from the first half of the year.

Changes to economic and non-economic assumptions had a EUR -20mn impact on VNB and NBM of -20bps. This was mainly due to the lower interest rate environment in the second half of 2014 coupled with higher volatilities. Changes to dynamic policyholder behavior assumptions because of legal requirements, offset the negative impact of the lower economic environment.

### 3.3.2. DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of Germany Life decreased by 34% from EUR 9,340mn to EUR 6,161mn after a capital transfer of EUR 513mn.

As previously highlighted in the ReC section, Germany Life use 1% of local GAAP gross reserves including the unit-linked reserves as their Required Capital. The movement on ReC during 2014 reflects the higher local reserves due to lower interest rates.

MCEV earnings were -28% of the opening EV. The lower earnings were driven by the negative impact from the lower interest rates and higher volatilities.

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

### ANALYSIS OF EARNINGS ON EMBEDDED VALUE

Exhibit 17

€ MN	Earnings on MCEV analysis			
	Free Surplus	Required Capital	VIF	MCEV
<b>Opening MCEV reported as at 31 December 2013</b>	<b>156</b>	<b>1,432</b>	<b>7,753</b>	<b>9,340</b>
Foreign Exchange Variance	0	0	0	0
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>156</b>	<b>1,432</b>	<b>7,753</b>	<b>9,340</b>
Value of new business at point of sale	0	0	371	371
Expected existing business contribution				
reference rate	10	0	277	287
in excess of reference rate	12	0	234	247
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	484	-4	-480	0
on new business	-210	75	134	0
Experience variance	-1	0	-7	-8
Non-economic assumption changes	0	0	45	45
Other operating variance	15	0	-47	-32
<b>Operating MCEV earnings</b>	<b>309</b>	<b>72</b>	<b>528</b>	<b>909</b>
Economic variances	173	24	-3,065	-2,867
Other non operating variance	145	0	-854	-708
<b>Total MCEV earnings</b>	<b>628</b>	<b>96</b>	<b>-3,391</b>	<b>-2,666</b>
Net capital movements	-513	0	0	-513
<b>Closing MCEV as at 31 December 2014</b>	<b>271</b>	<b>1,528</b>	<b>4,362</b>	<b>6,161</b>

The VNB at point of sale was EUR 371mn with a new business strain of EUR 210mn. 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.

Earning the reference rate on the in-force portfolio increased EV by EUR 287mn. Expected returns in excess of the reference rate further increased EV by EUR 247mn.

Experience variances of EUR -8mn reflects mainly offsetting impacts from management actions taken to increase the unallocated reserves (RfB) by realizing previously unrealized

capital gains and variance in projections of inforce development at the end of the year.

Non-economic assumption changes impacted EV by EUR 45mn. The main drivers were the new best estimate mortality assumptions and adjustments to the dynamic policyholder behavior parameters due to legal requirements.

Economic variances of EUR -2,867mn had the biggest impact on MCEV in 2014. The lower interest rates impacted EV by EUR -2,672mn, higher volatilities by EUR -476mn and decreasing spreads by EUR 246mn. Changes in equities had a minor impact of EUR 35mn.

Other non-operating variance represents the introduction of the modelling of the new "Lebensversicherungsreformgesetz" (LVRG) which increased policyholder participation in risk surplus from 75% to 90%.

Due to a positive ruling by the BFH in respect of Germany Life tax rebates, an additional EUR 900mn in unallocated reserves (RfB) was added to the cashflow projection. This resulted in a positive impact on EV of approximately EUR150mn.

There were also net capital movements of EUR 513mn in respect of the profit/loss transfer agreement.

### 3.3.3. SENSITIVITIES

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

SENSITIVITIES	Exhibit 18			
	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
<b>Central Assumptions</b>	<b>6,161</b>	<b>100%</b>	<b>371</b>	<b>100%</b>
EV change by economic factors				
Risk Free Rate - 50bp	-1,862	-30%	-82	-22%
Risk Free Rate +50bp	1,150	19%	77	21%
Charge for CNHR +100bp	-327	-5%	-20	-5%
Equity values - 20 %	-654	-11%	-75	-20%
Swaption volatilities +25 %	-460	-7%	-100	-27%
Equity option volatilities +25 %	-270	-4%	-27	-7%
EV change by non-economic factors				
Lapse Rates - 10 %	160	3%	18	5%
Maintenance Expenses - 10 %	70	1%	10	3%
Mortality + 15 % for products with death risk	-16	0%	-2	-0%
Mortality - 20 % for products with longevity risk	-274	-4%	-24	-6%

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

Due to the asymmetric nature of embedded options and guarantees, falling market rates have a higher impact on EV than rising rates. Interest rate sensitivities in 2014 are significantly higher than in 2013 as interest rates are very low in the shorter end of the interest rate curve which forces buffers to be used to pay guarantees on the traditional block of business.

Volatility sensitivities too are higher than those of 2013 due to higher implied market volatilities.

The risk related shocks show a lower impact compared to 2013. This should be considered in connection with the LVRG; the shareholder now participates to a smaller extent in the lower risk surplus.

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. However, the much lower level of interest rates coupled with high volatilities had a large negative impact on the inforce block which reduced the buffers available for the VNB business.

## 3.4 Western & Southern Europe

### 3.4.1. DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in Western & Southern Europe in 2014 was EUR 351mn, 74% higher than the value published in 2013. The NBM increased from 1.2% to 1.7%. 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
<b>Reported Value as at 31 December 2013</b>	<b>202</b>	<b>1.2%</b>	<b>16,192</b>
Change in Foreign Exchange	0	0.0%	451
Change in Allianz interest	0	0.0%	-461
<b>Adjusted Value as at 31 December 2013</b>	<b>202</b>	<b>1.2%</b>	<b>16,182</b>
Change in volume	-3	0.0%	3,984
Change in business mix	97	0.4%	-4
Change in assumptions	55	0.1%	216
<b>Value of new business as at 31 December 2014</b>	<b>351</b>	<b>1.7%</b>	<b>20,378</b>

The change in VNB was positively impacted by the changes in business mix, assumptions and slightly negative due to volumes. Every entity showed a much higher level of VNB and NBM compared to 2013. The biggest contributor was Italy which saw a large increase in PVNBP of 67% from EUR 6,026mn to EUR 10,038mn. This was primarily due to strong growth of unit-linked business and renewals of Group business. Overall, the impact from higher volumes was neutral as the lower sales in France was offset by much higher levels in Italy.

In Italy, the improved NBM from business mix was due to less traditional products being sold with higher guarantee levels. In France, we saw a positive impact from higher sales of unit-linked business which had higher margins. The inclusion of Turkey's acquisition of Yapi Kredi also impacted the VNB positively. This business is mostly concentrated in unit-linked type products. Overall, business mix contributed to an increase of EUR 97mn in VNB and NBM of 40bps.

The change in assumptions reflects both non-economic and economic impacts including model changes. The largest contributor to the positive VNB of EUR 55mn was due to France with the introduction of a new Group Protection model and more favorable loadings on individual life and unit-linked business.

### 3.4.2. DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for Western & Southern Europe decreased from EUR 9,376mn to EUR 8,292mn which represents a reduction of 12%.

Free Surplus is negative due to higher ReC from Italy which is discussed in the section on Italy. France made a capital transfer of EUR 391mn EUR, Italy made a transfer of EUR 386mn, Netherlands made a capital transfer of EUR 48mn and Turkey, EUR 21mn. The analysis of earnings in Exhibit 20 presents the drivers of the change in EV. MCEV earnings were -2% of the adjusted opening EV. The change was driven by negative market developments in particular, lower interest rates, narrowing sovereigns and higher volatility.

ANALYSIS OF EARNINGS OF EMBEDDED VALUE		Exhibit 20		
€ MN		Earnings on MCEV analysis		
	Free Surplus	Required Capital	VIF	MCEV
<b>Opening MCEV reported as at 31 December 2013</b>	<b>804</b>	<b>4,677</b>	<b>3,894</b>	<b>9,376</b>
Foreign Exchange Variance	3	1	8	12
Acquired / Divested business	-3	-1	-8	-12
Others	0	0	0	0
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>805</b>	<b>4,677</b>	<b>3,894</b>	<b>9,376</b>
Value of new business at point of sale	-1	0	352	351
Expected existing business contribution				
reference rate	41	0	144	185
in excess of reference rate	113	0	169	282
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	1,195	-715	-480	0
on new business	-667	419	247	0
Experience variance	73	-38	53	88
Non-economic assumption changes	-6	6	-273	-273
Other operating variance	-67	-61	707	579
<b>Operating MCEV earnings</b>	<b>681</b>	<b>-389</b>	<b>919</b>	<b>1,212</b>
Economic variances	-660	895	-1,675	-1,440
Other non operating variance	0	0	0	0
<b>Total MCEV earnings</b>	<b>21</b>	<b>506</b>	<b>-756</b>	<b>-229</b>
Net capital movements	-856	0	0	-856
<b>Closing MCEV as at 31 December 2014</b>	<b>-30</b>	<b>5,183</b>	<b>3,139</b>	<b>8,292</b>

Italy and France are the largest entities in Western and Southern Europe. Details of their earnings are covered in later chapters. The opening foreign exchange adjustment reflects the movement of the Turkish Lira against the Euro impacting the EV by EUR 1mn.

### 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 than rising rates. Interest rate sensitivities in 2014 are higher than those of 2013 due to lower interest rates and higher market volatilities.

Volatility sensitivities too are higher than those of 2013 because of higher market volatilities.

SENSITIVITIES		Exhibit 21			
€MN					
	Inforce MCEV		New Business VNB		
	EUR mn	%	EUR mn	%	
<b>Central Assumptions</b>	<b>8,292</b>	<b>100%</b>	<b>351</b>	<b>100%</b>	
EV change by economic factors					
Risk Free Rate – 50bp	-681	-8%	-77	-22%	
Risk Free Rate +50bp	511	6%	42	12%	
Charge for CNHR +100bp	-254	-3%	-33	-9%	
Equity values – 20 %	-555	-7%	-58	-17%	
Swaption volatilities +25 %	-254	-3%	-13	-4%	
Equity option volatilities +25 %	-230	-3%	-13	-4%	
EV change by non-economic factors					
Lapse Rates – 10 %	0	0%	21	6%	
Maintenance Expenses – 10 %	406	5%	23	7%	
Mortality + 15 % for products with death risk	-34	-0%	-47	-13%	
Mortality – 20 % for products with longevity risk	-429	-5%	-21	-6%	

Economic sensitivities have increased compared to 2013 due to the lower interest rate environment. This was seen particularly in Italy, Benelux, Greece and France. Volatilities have also become more sensitive due to the much higher levels experienced in 2014. This has made the cost of O&Gs more expensive. We have seen this in particular in Italy.

For new business on the non-economic side, we see higher sensitivity from mortality compared to 2013 due to higher sales of protection type products in Italy and Netherlands. For longevity type risk, the lower interest rate environment increases the impact on this sensitivity.



## 3.5 France

### 3.5.1. DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in France in 2014 was EUR 88mn, 73% higher than the value published in 2013.

DEVELOPMENT OF VALUE OF NEW BUSINESS				Exhibit 22
	Value of New Business	New Business Margin	Present Value of NB Premium	
	EUR mn	%	EUR mn	
<b>Reported Value as at 31 December 2013</b>	<b>51</b>	<b>0.6%</b>	<b>8,361</b>	
Change in Foreign Exchange	0	0.0%	0	
Change in Allianz interest	0	0.0%	0	
<b>Adjusted Value as at 31 December 2013</b>	<b>51</b>	<b>0.6%</b>	<b>8,361</b>	
Change in volume	-21	0.0%	-276	
Change in business mix	37	0.4%	0	
Change in assumptions	20	0.1%	-171	
<b>Value of new business as at 31 December 2014</b>	<b>88</b>	<b>1.1%</b>	<b>7,914</b>	

New business volumes reduced VNB by EUR -21mn. The decrease was mainly due to the transfer of the international health business to Allianz Worldwide Partners.

The change in business mix was driven by the increase in unit-linked business and the inclusion of variable annuity business from Global Life. The impact of higher loadings on individual life products and less negative margins from individual savings products is captured here. The change impacted VNB by EUR 37mn and NBM by 40bps.

Change in assumptions was positive overall. VNB increased by EUR 20mn and NBM by 10bps. The change was due to more favorable underwriting assumptions and model changes. This was partially offset by the negative impact from lower interest rates.

### 3.5.2. DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of France decreased by -3.4% from EUR 5,351mn to EUR 5,167mn after a dividend payment of EUR 391mn.

MCEV earnings were 4% of the adjusted opening EV. The change was driven by positive operating variance but partially offset by negative economic variances.

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

The ReC for France's largest entity is based on local statutory capital. The decrease during the year was minor, reflecting changes in reserve volumes.

### ANALYSIS OF EARNINGS OF EMBEDDED VALUE

Exhibit 23

€ MN	Earnings on MCEV analysis			
	Free Surplus	Required Capital	VIF	MCEV
<b>Opening MCEV reported as at 31 December 2013</b>	<b>582</b>	<b>1,893</b>	<b>2,876</b>	<b>5,351</b>
Foreign Exchange Variance	0	0	0	0
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>582</b>	<b>1,893</b>	<b>2,876</b>	<b>5,351</b>
Value of new business at point of sale	0	0	88	88
Expected existing business contribution				
reference rate	13	0	54	67
in excess of reference rate	16	0	124	140
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	757	-480	-278	0
on new business	-355	199	135	0
Experience variance	206	-111	-31	64
Non-economic assumption changes	-11	11	-212	-212
Other operating variance	-116	-21	643	506
<b>Operating MCEV earnings</b>	<b>531</b>	<b>-402</b>	<b>524</b>	<b>653</b>
Economic variances	-116	266	-596	-446
Other non operating variance	0	0	0	0
<b>Total MCEV earnings</b>	<b>415</b>	<b>-136</b>	<b>-72</b>	<b>207</b>
Net capital movements	-391	0	0	-391
<b>Closing MCEV as at 31 December 2014</b>	<b>606</b>	<b>1,757</b>	<b>2,804</b>	<b>5,167</b>

The VNB at point of sale was EUR 88mn with a new business strain of EUR 355mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 67mn. Expected returns in excess of the reference rate further increased EV by EUR 140mn.

The results from experience variance and other operating variance in the VIF were due to a higher one-off expense impacts.

Non-economic assumption changes of EUR -212mn reflects updated expense assumptions.

Other operating variances of EUR 506mn is mostly driven by true-up and model changes at the beginning of the year.

France introduced a new model for the Group Protection business that better reflects the financial margin earned on the reserves. A new crediting strategy was implemented to reflect the more persistent nature of the inforce policyholders. Inflation

modelling using inflation linked bonds was introduced in 2014 which resulted in lower than expected inflation having a positive impact on EV. These items were partially offset by the removal of the Allianz Worldwide Partners business which has now been retrospectively included in the P&C segment from beginning of 2014.

Economic variances had a negative impact of EUR -446mn to reflect the lower interest rate environment which had an impact of EUR -546mn. This was offset by reduced credit spreads of EUR 36mn.

### 3.5.3. SENSITIVITIES

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

SENSITIVITIES		Exhibit 24		
€MN				
	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
<b>Central Assumptions</b>	5,167	100%	88	100%
EV change by economic factors				
Risk Free Rate - 50bp	-267	-5%	-55	-63%
Risk Free Rate +50bp	187	4%	27	31%
Charge for CNHR +100bp	-163	-3%	-21	-24%
Equity values - 20 %	-196	-4%	-29	-33%
Swaption volatilities +25 %	-41	-0%	-2	-2%
Equity option volatilities +25 %	-173	-3%	-9	-10%
EV change by non-economic factors				
Lapse Rates - 10 %	-27	-0%	8	9%
Maintenance Expenses - 10 %	299	6%	11	13%
Mortality + 15 % for products with death risk	8	0%	-38	-43%
Mortality - 20 % for products with longevity risk	-375	-7%	-20	-23%

Interest rate sensitivities in 2014 are much higher than those in 2013 due to the much lower level of interest rates. Equity values are more sensitive due to higher levels of equity investment in the French portfolio.

For VNB we see a similar level of sensitivities as lower interest rates erode the investment margin, making losses in the early years.

## 3.6 Italy

### 3.6.1. DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in Italy in 2014 increased from EUR 100m to EUR 176mn, however the NBM remained stable at 1.7%. Exhibit 25 presents an analysis of the change in VNB.

DEVELOPMENT OF NEW BUSINESS VALUE		Exhibit 25	
	Value of New Business	New Business Margin	Present Value of NB Premium
	EUR mn	%	EUR mn
<b>Reported Value as at 31 December 2013</b>	<b>100</b>	<b>1.7%</b>	<b>6,026</b>
Change in Foreign Exchange	0	0.0%	0
Change in Allianz interest	0	0.0%	0
<b>Adjusted Value as at 31 December 2013</b>	<b>100</b>	<b>1.7%</b>	<b>6,026</b>
Change in volume	6	0.0%	3,825
Change in business mix	56	0.1%	0
Change in assumptions	14	0.0%	188
<b>Value of new business as at 31 December 2014</b>	<b>176</b>	<b>1.7%</b>	<b>10,038</b>

The increase in VNB was driven by business mix and a positive change in non-economic assumptions.

Sales across all entities DARTA, CreditRAS and SpA were high this year. PVNBP increased by 67% or EUR 4,013mn. The increase in volume impacted VNB by EUR 6mn.

Italy continued its shift to sales of business with low or no guarantees. The margins of savings products with lower guarantees in SpA and the unit-linked range of CreditRAS are relatively high and have been sold in large volumes in 2014. The unit-linked single premium product "Progetto Reddito" sold particularly well in 2014. The shift in business mix had a positive impact on VNB in 2014 of EUR 56mn and NBM by 10bps.

Assumption and model changes impacted VNB by EUR 14mn. This was due to lower acquisition expense assumptions on SpA and CreditRAS. The impact of lower interest rates had a negative impact on VNB but the positive impact from non-economic assumption changes offset the impact from worsening economic conditions.

### 3.6.2. DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of Italy decreased by 36% from EUR 2,415mn to EUR 1,539mn after a dividend payment of EUR 386mn.

The Free Surplus in 2014 was EUR -380mn. AZ Italy is a composite company whereby the solvency of the company is considered by adding the non-life company and the life company together. On a total company view, Italy is well capitalized. The ReC capital is based on the internal model calculation.

MCEV earnings were -20% of the opening EV. The change was driven by the lower interest rates and lower spread variance on sovereign debt.

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	
<b>Opening MCEV reported as at 31 December 2013</b>	<b>372</b>	<b>1,649</b>	<b>394</b>	<b>2,415</b>	
Foreign Exchange Variance	0	0	0	0	
Acquired / Divested business	0	0	0	0	
Others	0	0	0	0	
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>372</b>	<b>1,649</b>	<b>394</b>	<b>2,415</b>	
Value of new business at point of sale	0	0	176	176	
Expected existing business contribution					
reference rate	12	0	44	56	
in excess of reference rate	76	0	19	95	
Transfer from VIF and required capital to free surplus					
on in-force at begin of year	311	-153	-158	0	
on new business	-218	132	86	0	
Experience variance	-78	74	43	39	
Non-economic assumption changes	0	0	-67	-67	
Other operating variance	9	6	44	59	
<b>Operating MCEV earnings</b>	<b>113</b>	<b>59</b>	<b>186</b>	<b>357</b>	
Economic variances	-479	413	-781	-847	
Other non operating variance	0	0	0	0	
<b>Total MCEV earnings</b>	<b>-366</b>	<b>472</b>	<b>-595</b>	<b>-490</b>	
Net capital movements	-386	0	0	-386	
<b>Closing MCEV as at 31 December 2014</b>	<b>-380</b>	<b>2,121</b>	<b>-202</b>	<b>1,539</b>	

The VNB at point of sale increased to EUR 176mn while new business strain increased slightly to EUR 218mn following higher sales volumes.

Earning the reference rate on the in-force portfolio increased EV by EUR 56mn. Expected returns in excess of the reference rate further increased EV by EUR 95mn.

Experience variances of EUR 39mn reflects a positive impact from lower than expected lapses.

Non-economic assumption changes of EUR -67mn reflects the increase in CNHR due to a higher amount of lapse risk capital in lower interest rate environment.

Other operating variances of EUR 59mn represents mainly the inclusion of the Italian business sold by Global Life.

The economic variance impacted negatively EV by EUR 847mn as the narrowing spread on Italian government bonds could not offset the large decrease in risk-free rates and the increase in interest rate volatilities. At AZ S.p.A. the impact of lower interest rates was EUR -566mn, of higher volatilities EUR -438 mn, while the positive impact of Italian government spreads was only EUR 179mn.

### 3.6.3. SENSITIVITIES

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

<b>SENSITIVITIES</b>		Exhibit 27		
€MN				
	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
<b>Central Assumptions</b>	1,539	100%	176	100%
EV change by economic factors				
Risk Free Rate – 50bp	-337	-22%	-18	-10%
Risk Free Rate +50bp	262	17%	12	7%
Charge for CNHR +100bp	-66	-4%	-10	-6%
Equity values – 20 %	-256	-17%	-24	-14%
Swaption volatilities +25 %	-184	-12%	-9	-5%
Equity option volatilities +25 %	-46	-3%	-2	-1%
EV change by non-economic factors				
Lapse Rates – 10 %	3	-0%	8	5%
Maintenance Expenses – 10 %	56	4%	10	6%
Mortality + 15 % for products with death risk	-18	-1%	-6	-3%
Mortality – 20 % for products with longevity risk	-48	-3%	-2	-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 2014 are lower than those of 2013 due to lower interest rates and higher market volatilities. The lower interest rates also impact the lapse sensitivity as it increases the persistency of policyholders.

Equity sensitivity is driven by unit-linked business in DARTA. The impact of equity is more significant for new business given the volumes of unit-linked business sold during the year.

## 3.7 Iberia & Latin America

### 3.7.1. DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in Iberia & Latin America in 2014 increased to EUR 67mn, 22% higher than the value published in 2013. The NBM changed from 3.5% to 4.0%. Exhibit 28 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS			Exhibit 28
	Value of New Business	New Business Margin	Present Value of NB Premium
	EUR mn	%	EUR mn
<b>Reported Value as at 31 December 2013</b>	<b>55</b>	<b>3.5%</b>	<b>1,566</b>
Change in Foreign Exchange	0	0.0%	-4
Change in Allianz interest	0	0.0%	0
<b>Adjusted Value as at 31 December 2013</b>	<b>55</b>	<b>3.5%</b>	<b>1,558</b>
Change in volume	5	0.0%	124
Change in business mix	1	0.1%	0
Change in assumptions	7	0.4%	7
<b>Value of new business as at 31 December 2014</b>	<b>67</b>	<b>4.0%</b>	<b>1,690</b>

The increase in VNB was driven by higher new business volumes in Mexico and Spain together with a positive development of the business mix in Spain.

In Mexico the new business increase was mostly due to higher margin unit-linked products. The higher new business volumes impacted VNB by EUR 4mn.

In Spain the increase in the business mix of products with low margins is offset by an increase in the sales of mortgage protection business with higher margins. The change impacted VNB by EUR 2mn and NBM by 20bps. Overall, the change in business mix had a positive impact on VNB of EUR 1mn.

The change in assumptions reflects the change in economic assumptions each quarter and updated lapse and expense assumptions, mostly in Spain. This had a positive contribution to VNB of EUR 7mn and increased NBM by 40bps.

### 3.7.2. DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for Iberia & Latin America increased from EUR 798mn to EUR 1,209mn after dividend payments of EUR 73mn. 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
<b>Opening MCEV reported as at 31 December 2013</b>	<b>-573</b>	<b>1,167</b>	<b>204</b>	<b>798</b>
Foreign Exchange Variance	0	1	1	2
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>-573</b>	<b>1,168</b>	<b>205</b>	<b>800</b>
Value of new business at point of sale	-1	0	68	67
Expected existing business contribution				
reference rate	4	0	9	13
in excess of reference rate	0	0	1	2
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	89	-26	-63	0
on new business	-80	48	32	0
Experience variance	11	0	32	44
Non-economic assumption changes	0	0	1	1
Other operating variance	0	0	132	132
<b>Operating MCEV earnings</b>	<b>24</b>	<b>22</b>	<b>213</b>	<b>258</b>
Economic variances	582	-528	170	225
Other non operating variance	0	0	0	0
<b>Total MCEV earnings</b>	<b>606</b>	<b>-506</b>	<b>383</b>	<b>483</b>
Net capital movements	-73	0	0	-73
<b>Closing MCEV as at 31 December 2014</b>	<b>-41</b>	<b>662</b>	<b>588</b>	<b>1,209</b>

MCEV earnings were 60% of the adjusted opening EV. The change was driven by positive economic variances.

Opening FX variance reflects the strengthening of the Mexican Peso against the Euro, impacting the EV by EUR 2mn.

The VNB at point of sale increased to EUR 67mn with a new business strain of EUR 80mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 13mn. Expected returns in excess of the reference rate further increased EV by EUR 2mn.

Experience variances of EUR 44mn was driven by higher than expected lapses on older business with high guarantees in Spain.

Non-economic assumption changes impacted EV by EUR 1mn. The change was driven by a lower corporate tax rate in Spain of EUR 42mn offset by the update on lapse EUR -21mn and expense EUR -21mn assumptions.

Other operating variances of EUR 132mn reflects the introduction of the new valuation methodology based on volatility adjustment and specifically matching adjustment for pension business in Spain.

Economic variances of EUR 225mn was driven by reduced credit spreads in Spain.

In Spain, Popular paid a dividend of EUR 36mn while Seguros Life paid EUR 26mn. Portugal paid a dividend of EUR 12mn. Mexico did not make any dividend payments.

### 3.7.3. SENSITIVITIES

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

SENSITIVITIES		Exhibit 30		
€MN				
	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
<b>Central Assumptions</b>	1,209	100%	67	100%
EV change by economic factors				
Risk Free Rate – 50bp	-4	-0%	3	4%
Risk Free Rate +50bp	-4	-0%	-4	-6%
Charge for CNHR +100bp	-37	-3%	-4	-6%
Equity values – 20 %	-6	-0%	0	0%
Swaption volatilities +25 %	-17	1%	0	0%
Equity option volatilities +25 %	-2	-0%	0	0%
EV change by non-economic factors				
Lapse Rates – 10 %	54	4%	8	12%
Maintenance Expenses – 10 %	26	2%	1	0%
Mortality + 15 % for products with death risk	-59	-5%	-8	-12%
Mortality – 20 % for products with longevity risk	-182	-15%	-5	-12%

The low sensitivity of interest rates is due to the offsetting effects between entities in the region. Portugal and some entities in Spain sell mostly risk products and the impact from a reduction in interest rates is positive. However, for traditional products the impact is negative

Volatility sensitivities are similar to those in 2013.

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

Mexico's investment products tend to lapse insensitive due to their charging structure but are more exposed to interest rate sensitivities.

## 3.8 Growth Markets

### 3.8.1. DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in the Growth Markets in 2014 was EUR 213mn, 28% higher than the value published in 2013. The NBM changed from 3.0% to 3.6%. 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
<b>Reported Value as at 31 December 2013</b>	<b>166</b>	<b>3.0%</b>	<b>5,485</b>
Change in Foreign Exchange	-3	0.0%	-24
Change in Allianz interest	0	0.0%	-2
<b>Adjusted Value as at 31 December 2013</b>	<b>163</b>	<b>3.0%</b>	<b>5,459</b>
Change in volume	8	0.0%	714
Change in business mix	21	0.1%	-17
Change in assumptions	21	0.5%	-181
<b>Value of new business as at 31 December 2014</b>	<b>213</b>	<b>3.6%</b>	<b>5,976</b>

The change in foreign exchange was driven mainly by the change in most of the Asian currencies against the Euro. The South Korean Won, Taiwan Dollar and Indonesian Rupiah appreciated significantly during 2014. The change in group share reflects the decreased share in Malaysia during the year.

New business premium volumes increased in Asia and decreased in the CEEMA regions. In Asia the increase in premium was driven by all entities but mostly seen in South Korea, Taiwan and Indonesia.

The Czech Republic saw a significant drop in sales throughout the year due to aggressive pricing by peers. In Hungary and Poland, a shift towards more unit-linked products improved profitability. In Taiwan, the high sales of single premium unit-linked products continued. South Korea also saw growth due to launches of health products and other single premium business.

The change in non-economic assumptions in South Korea and Indonesia were the main drivers of the change of assumptions in the Growth Markets. Expense control actions in South Korea and a revision of mortality and expense assumptions in Indonesia increased the VNB considerably.

### 3.8.2. DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV for the Growth Markets increased from EUR 1,646mn to EUR 1,678mn after net capital movements of EUR -67mn.

The Free Surplus of the Growth Markets is negative mainly due to South Korea and Taiwan that are not subject to Solvency II capital requirements locally. All Growth market entities are well

capitalized at a local level and recapitalization would only be necessary if local solvency was threatened.

MCEV earnings were 0% of the adjusted opening EV. The negative economic variances was offset by the positive new business contribution and unwinding.

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
<b>Opening MCEV reported as at 31 December 2013</b>	<b>-997</b>	<b>2,599</b>	<b>45</b>	<b>1,646</b>
Foreign Exchange Variance	-102	211	-19	89
Acquired / Divested business	1	3	3	8
Others	0	0	0	0
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>-1,099</b>	<b>2,813</b>	<b>29</b>	<b>1,743</b>
Value of new business at point of sale	-33	0	246	213
Expected existing business contribution				
reference rate	56	0	84	140
in excess of reference rate	21	0	10	32
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	297	-102	-195	0
on new business	-217	87	130	0
Experience variance	33	12	6	51
Non-economic assumption changes	23	-23	70	70
Other operating variance	-110	106	96	92
<b>Operating MCEV earnings</b>	<b>70</b>	<b>80</b>	<b>447</b>	<b>596</b>
Economic variances	-939	1,192	-848	-595
Other non operating variance	0	0	0	0
<b>Total MCEV earnings</b>	<b>-869</b>	<b>1,272</b>	<b>-401</b>	<b>1</b>
Net capital movements	-67	0	0	-67
<b>Closing MCEV as at 31 December 2014</b>	<b>-2,034</b>	<b>4,084</b>	<b>-372</b>	<b>1,678</b>

The foreign exchange variance reflects a general weakening of the Euro against the Asian and CEEMA currencies. The movement against South Korea Won, Taiwan Dollar and Indonesian Rupiah was particularly weak. The change in foreign exchange rates impacted EV by EUR 89mn.

The VNB at point of sale was EUR 213mn with a new business strain of EUR 217mn.

Earning the reference rate on the in-force portfolio increased EV by EUR 140mn. Expected returns in excess of the reference rate further increased EV by EUR 32mn.

Experience variances of EUR 51mn was mainly driven by South Korea from net impacts including increases in tax losses carried forward and other one-off impacts such as reversals of restructuring provisions.

Non-economic assumption changes impacted EV by EUR 70mn. This was mainly due to Asia. Indonesia's update of mortality, morbidity, lapse and risk capital assumptions had a positive impact of EUR 63mn and South Korea mainly from a decrease in risk rate assumption related to death and accidental death.

Other operating variances had a EUR 92mn positive impact due to model changes in Taiwan where the data provider was changed and this resulted in more granular information being made available. In Indonesia we saw the introduction of the partial withdrawal fee, which increased EV by EUR 34mn.

Economic variances of EUR -595mn was driven by the much lower yield curve in South Korea which reduced EV by EUR -830mn. This was compensated by the positive market movements in Indonesia and Thailand.

Net capital movements of EUR -67mn due to dividends paid by Slovakia of EUR 25mn, Poland of EUR 12mn, Czech Republic of EUR 10mn, Hungary of EUR 8mn, Bulgaria of EUR 3mn, Egypt of EUR 2mn, Lebanon of EUR 6mn and Malaysia of EUR 1mn.

### 3.8.3. SENSITIVITIES

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

SENSITIVITIES		Exhibit 33		
€MN				
	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
<b>Central Assumptions</b>	1,678	100%	213	100%
EV change by economic factors				
Risk Free Rate – 50bp	-411	-24%	-16	-8%
Risk Free Rate +50bp	340	-20%	9	4%
Charge for CNHR +100bp	-133	-8%	-9	-4%
Equity values – 20 %	-109	-6%	0	0%
Swaption volatilities +25 %	-19	-1%	-7	-3%
Equity option volatilities +25 %	-16	-1%	-3	-1%
EV change by non-economic factors				
Lapse Rates – 10 %	44	3%	17	8%
Maintenance Expenses – 10 %	124	7%	12	6%
Mortality + 15 % for products with death risk	-143	-9%	-16	-8%
Mortality – 20 % for products with longevity risk	-161	-10%	-1	-1%

Sensitivities to interest rates are driven by the high guarantees in the old-block of 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 Taiwan and Poland. 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

### 3.9.1. DEVELOPMENT OF VALUE OF NEW BUSINESS

The VNB written in the USA in 2014 increased significantly to EUR 406mn, 85% higher than the value published in 2013. The NBM increased from 3.0% to 3.4%. Exhibit 34 presents an analysis of the change in VNB.

DEVELOPMENT OF VALUE OF NEW BUSINESS		Exhibit 34	
	Value of New Business	New Business Margin	Present Value of NB Premium
	EUR mn	%	EUR mn
<b>Reported Value as at 31 December 2013</b>	<b>219</b>	<b>3.0%</b>	<b>7,279</b>
Change in Foreign Exchange	13	0.1%	229
Change in Allianz interest	0	0.0%	0
<b>Adjusted Value as at 31 December 2013</b>	<b>232</b>	<b>3.1%</b>	<b>7,508</b>
Change in volume	127	0.0%	4,473
Change in business mix	21	0.2%	0
Change in assumptions	26	0.2%	0
<b>Value of new business as at 31 December 2014</b>	<b>406</b>	<b>3.4%</b>	<b>11,981</b>

The increase in VNB was due to much higher volumes of fixed index annuity business sold with higher margins and a shift in production towards more preferred type fixed index products.

Movements of the US Dollar during the course of the year had a large positive impact on VNB of EUR 13mn.

Change in new business volumes had the largest impact of EUR 127mn due to the much higher levels of fixed index annuity business and the move away from variable annuity and life business.

Change in business mix reflects two impacts. The first, is the move away from variable annuity business to fixed index annuities and the second is a shift from older generations of fixed index annuity products to new developed preferred products such as Allianz 222.

The change in assumptions reflects the impact from lower interest rates offset by non-economic assumptions including lower acquisition cost allocation and alignment of pricing and valuation models. This had a positive impact of EUR 26mn.

### 3.9.2. DEVELOPMENT OF EMBEDDED VALUE AND FREE SURPLUS

The EV of USA increased from EUR 5,303 to EUR 5,950mn after a dividend payment of EUR 207mn.

The ReC of USA is based on the local regulatory requirement hence the value is not as volatile in lower economic market environments.

MCEV earnings were 2.2% of the adjusted opening EV. The new business and inforce contribution were offset by the negative economic variance result.

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
<b>Opening MCEV reported as at 31 December 2013</b>	<b>365</b>	<b>3,287</b>	<b>1,652</b>	<b>5,303</b>
Foreign Exchange Variance	51	456	229	736
Acquired / Divested business	0	0	0	0
Others	0	0	0	0
<b>Adjusted Opening MCEV as at 31 December 2013</b>	<b>415</b>	<b>3,743</b>	<b>1,881</b>	<b>6,039</b>
Value of new business at point of sale	18	0	389	406
Expected existing business contribution				
reference rate	30	0	275	304
in excess of reference rate	374	0	363	737
Transfer from VIF and required capital to free surplus				
on in-force at begin of year	-198	-276	474	0
on new business	-603	559	44	0
Experience variance	0	0	82	82
Non-economic assumption changes	0	0	-342	-342
Other operating variance	-234	223	-117	-127
<b>Operating MCEV earnings</b>	<b>-613</b>	<b>506</b>	<b>1,167</b>	<b>1,060</b>
Economic variances	988	238	-2,169	-943
Other non operating variance	0	0	0	0
<b>Total MCEV earnings</b>	<b>375</b>	<b>744</b>	<b>-1,002</b>	<b>117</b>
Net capital movements	-207	0	0	-207
<b>Closing MCEV as at 31 December 2014</b>	<b>584</b>	<b>4,487</b>	<b>879</b>	<b>5,950</b>

The opening foreign exchange adjustment reflects the weakening of the Euro against the US Dollar. The currency movement impacted EV by EUR 736mn.

The VNB at point of sale increased significantly to EUR 406mn while new business strain increased to EUR 603mn. This was due to changes in the allocation of ReC to the different business lines and also the move to ReC based on the local risk based capital approach.

Earning the reference rate on the in-force portfolio increased EV by EUR 304mn. Expected returns in excess of the reference rate, mainly the realization of expected corporate spreads during the year, further increased EV by EUR 737mn.

Experience variances of EUR 82mn was driven by positive annuitization and lapse variances on the fixed annuity business.

Non-economic assumption changes of EUR -342mn reflects the annual update of lapse, maintenance expense and longevity assumptions.

Other operating variances of EUR -127mn was driven mainly by changes made to the asset model parameterization and model alignment.

Economic variances of EUR -943mn was driven by the much lower interest rate levels which impacted EV by EUR -345mn. The largest impact of EUR -531mn came from widening credit spreads. Higher equities had a positive impact of EUR 93mn whilst higher equity and swaption volatility had a negative impact of EUR -145mn.

The decrease in FS was driven by the change in required capital base and the allocation of capital to the new business lines. In addition, a dividend of EUR 207mn was paid.

### 3.9.3. SENSITIVITIES

Exhibit 36 shows the sensitivities for the USA EV and VNB. Most sensitivities align with those of 2013. Those that do not are discussed below.

SENSITIVITIES		Exhibit 36		
€MN				
	Inforce MCEV		New Business VNB	
	EUR mn	%	EUR mn	%
<b>Central Assumptions</b>	5,950	100%	406	100%
EV change by economic factors				
Risk Free Rate – 50bp	-247	-4%	5	1%
Risk Free Rate +50bp	171	3%	-3	-1%
Charge for CNHR +100bp	-158	-3%	-13	-3%
Equity values – 20 %	-107	-2%	-4	-1%
Swaption volatilities +25 %	-71	-1%	9	2%
Equity option volatilities +25 %	-416	-7%	-19	-5%
EV change by non-economic factors				
Lapse Rates – 10 %	-63	-1%	0	-0%
Maintenance Expenses – 10 %	132	2%	13	3%
Mortality + 15 % for products with death risk	-21	-0%	0	-0%
Mortality – 20 % for products with longevity risk	-517	-9%	-47	-12%

The signs have changed on the interest rate sensitivities. Given the much lower levels of interest rates, the US business is now more sensitive to movement on their Variable Annuity business exposed to down shifts rather than the Fixed Index Annuity business, exposed to up shifts.

Lapse sensitivities have become more sensitive compared to 2013 due to lower interest rates which affect the lapses on variable annuities significantly.

On new business, the equity sensitivity has reduced due to the lower levels of variable annuity business being sold in 2014. The lapse sensitivity has increased due to the lower interest rate environment.

## 3.10 Holding

The Holding EV reflects the results of internal reinsurance and the holding expense adjustment. Exhibit 37 summarizes the impact of these adjustments.

<b>SUMMARY HOLDING</b>		Exhibit 37	
€MN	Impact of Holding Expense	Reinsurance	Total
Embedded Value 2013	-521	153	-367
Embedded Value 2014	-661	227	-434
Value of New Business 2013	-111	15	-96
Value of New Business 2014	-116	16	-100

### Holding Expenses

The total Holding Expenses increased by 27% compared to 2013, the holding expenses allocated to the life segment increased by 4% as the allocation of operating profit to the life segment was higher. The higher after-tax life segment holding expenses resulted in an reduction in EV and VNB. Further, the much lower interest rates and the resulting lower discounting of future maintenance expenses led to a greater impact of the present value of the holding expenses on the EV and VNB.

### Reinsurance

The reinsurance EV increased significantly, mainly driven by a transfer from the P&C entity of EUR 33mn. In addition, due to favourable interest rates movements on the reinsurance business, the economic variances was positive. A positive impact from assumption changes on future management costs improved the EV by 34mn. New business contribution was EUR 16mn which has been stable since 2013.

# Independent Opinion

KPMG has been engaged to review the Market Consistent Embedded Value (MCEV) of Allianz Group, Munich, as at 31 December 2014 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, 13th March 2015

KPMG AG Wirtschaftsprüfungsgesellschaft

Dr. Peter Ott

Dr. Thorsten Wagner

# APPENDIX

## Appendix A: Methodology 37

---

- A.1 Definitions 37
- A.2 Net asset value 37
- A.3 Required capital 37
- A.4 Value of in-force covered business 38
  - A.4.1. Present Value Of Future Profits 38
  - A.4.2. Time Value Of Options And Guarantees 38
  - A.4.3. Cost Of Residual Non-Hedgeable Risk 39
  - A.4.4. Frictional Cost Of Required Capital 39
- A.5 New business 39
- A.6 Participating business 40
- A.7 Health business 40
- A.8 Look-through adjustments 40

## Appendix B: Assumptions 41

---

- B.1 Economic assumptions 41
- B.2 Capital charge for cost of residual non-hedgeable risk 46
- B.3 Foreign currency exchange rates 46
- B.4 Non-economic assumptions 46
- B.5 Tax assumptions 47
- B.6 Real-world economic assumptions 47

## Appendix C: Disclaimer 48

## Appendix D: Glossary and Abbreviations 49

---

# Appendix A: 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 making 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.

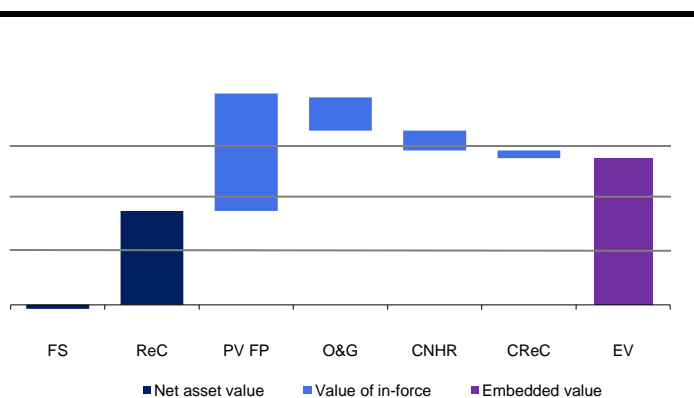
The EV can be broken down into the net asset value ("NAV"), i.e. the value of the assets not backing liabilities, and the value of in-force business ("VIF"), i.e. the value of future profits emerging from operations and assets backing liabilities.

The NAV is defined as:

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

The VIF is defined as:

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



## A.2 Net asset value

NAV is the market value of the assets not backing local statutory reserves at 31 December 2014, 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 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 Group capitalization level is 130% and the confidence interval of 99.5% reflects the Group's target rating of AA. Risk capital is held to protect against insolvency from the point of view of the economic balance sheet over a time horizon of one year. The time horizon has been chosen to be one year as it is assumed to take up to one year to transfer liabilities to a third party.

To quantify internal risk capital for life insurance operations, the risk universe is first broken down into market, credit, actuarial, business and operational 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, morbidity, 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.

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.
- 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 645mn as at 31 December 2014, driven mainly by Germany Life. This additional value has not been included in the MCEV figures.

# Appendix B: Assumptions

## B.1 Economic assumptions

The EV results for 2014 are based on economic market conditions as of 31 December 2014.

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 generated centrally by an in-house model.

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, Bloomberg and Tullett Prebon where available and markets are 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 31 December 2014 with the following further steps.

In line with EIOPA guidance for Solvency II a reduction of swap rates currency specific is made to account for credit risk inherent in swaps. The guidance is based on the Consultation Paper on a Technical document regarding the risk free interest rate term structure issued by EIOPA on November 2014.

The adjustment is determined on the basis of the difference between rates capturing the credit risk reflected in the floating rate of interest rate swaps and overnight indexed swap rates of the same maturity, where both rates are available from deep, liquid and transparent financial markets. The calculation of the adjustment is based on 50 percent of the average of that difference over a time period of one year. Where necessary, the adjustment is subject to a cap and a floor to ensure that it is not lower than 10 basis points or higher than 35 basis points. The swap maturity used for the calculation is 10 year in order to match Allianz liability duration.

The dynamic credit risk adjustments estimated by currency according to the methodology are shown in Table 1

CREDIT RISK ADJUSTMENT | Table 1

Currency	Credit Risk Adjustment
EUR	-10bps
USD	-12bps
GBP	-19bps
CHF	-11bps
KRW	-10bps
CZK	-10bps
HUF	-10bps
PLN	-10bps
TWD	-10bps
THB	-10bps

In 2014 Allianz has changed its EV assumptions to include a volatility adjustment following the recommendations of Solvency II. This volatility adjustment is based on Allianz interpretation and may change when further guidance is provided. It 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 Volatility Adjustment is a function of the market yield spread from a weighted average portfolio of sovereign and corporate bonds over risk free. It is based on a reference portfolio per currency and per country. The risk-adjusted currency spread is applied as an adjustment to the discount rate. An additional adjustment is added to the discount rate, if the risk-adjusted country spread is significantly higher than risk-adjusted currency spread. The application ratio is 65%. We applied the volatility adjustment in line with EIOPA guidance. Table 3 shows the term structure of the volatility adjustment for each currency. The volatility adjustment does not run down completely because it is added to the forward curve rather than the swap curve. The amounts shown for volatility adjustment are relative to swaps rates. When measured against the credit risk adjusted swap curve, the base volatility adjustment would be higher by the level of credit risk adjustment applied.

For application to products we apply a simplified bucketing approach. We apply no volatility adjustment to unit-linked and variable annuities and 65% of the volatility adjustment to all participating and other businesses, including USA fixed and fixed indexed annuities.

A matching adjustment is applied instead of the volatility adjustment to specific products where the only risks relate to longevity, expense, revision and mortality and do not have future premium payments. Only collective saving products in Spain fulfill the requirements, after interpreting Art.77.b of the Solvency II Directive. (Directive 2009/138/EC).

We have also ensured that the predictability of the liability cash-flows and the assets backing the liabilities justify the level of the volatility adjustment 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 4.

For consistency, yield-curve extrapolation is applied in sensitivities to interest rate shifts. This means that only the deep and liquid part of the 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.

**SWAP RATES | TABLE 2**

Currency	as of dd.mm.yyyy	1 year	2 year	5 year	10 year	20 year
		%	%	%	%	%
EUR	31.12.2013	0.27%	0.42%	1.17%	2.11%	2.72%
	31.03.2014	0.28%	0.38%	0.88%	1.73%	2.39%
	30.06.2014	0.16%	0.21%	0.56%	1.37%	2.07%
	30.09.2014	0.07%	0.11%	0.36%	1.06%	1.77%
	31.12.2014	0.06%	0.09%	0.26%	0.73%	1.27%
CHF	31.12.2013	0.13%	0.07%	0.68%	1.59%	2.19%
	31.03.2014	0.12%	0.06%	0.42%	1.24%	1.87%
	30.06.2014	0.12%	0.06%	0.25%	0.95%	1.67%
	30.09.2014	0.09%	0.05%	0.18%	0.77%	1.46%
	31.12.2014	0.01%	0.01%	0.08%	0.48%	1.05%
USD	31.12.2013	0.30%	0.38%	1.67%	3.03%	3.82%
	31.03.2014	0.26%	0.43%	1.72%	2.83%	3.49%
	30.06.2014	0.27%	0.48%	1.60%	2.58%	3.22%
	30.09.2014	0.32%	0.71%	1.84%	2.57%	3.06%

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, in order to better the accuracy of the calculation of the intrinsic and time value of O&G's. 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 2 shows the swap rates used in the market consistent valuation. These already include the deduction for the credit risk adjustment.

**SWAP RATES | TABLE 2**

Currency	as of dd.mm.yyyy	1 year	2 year	5 year	10 year	20 year
		%	%	%	%	%
USD	31.12.2014	0.36%	0.77%	1.67%	2.21%	2.56%
KRW	31.12.2013	2.67%	2.86%	3.28%	3.65%	3.87%
	31.03.2014	2.69%	2.83%	3.18%	3.55%	3.81%
	30.06.2014	2.60%	2.65%	2.89%	3.18%	3.38%
	30.09.2014	2.21%	2.25%	2.53%	2.88%	3.13%
	31.12.2014	1.95%	1.98%	2.22%	2.53%	2.77%
CZK	31.12.2013	0.28%	0.47%	1.18%	2.05%	2.67%
	31.03.2014	0.33%	0.47%	1.02%	1.76%	2.46%
	30.06.2014	0.14%	0.30%	0.59%	1.29%	2.07%
	30.09.2014	0.19%	0.32%	0.56%	1.14%	2.00%
	31.12.2014	0.21%	0.30%	0.45%	0.79%	1.57%
HUF	31.12.2013	2.86%	3.05%	3.96%	5.19%	5.20%
	31.03.2014	2.79%	3.12%	3.96%	4.85%	4.79%
	30.06.2014	2.24%	2.27%	2.70%	3.69%	3.77%
	30.09.2014	2.12%	2.26%	2.85%	3.81%	3.86%
	31.12.2014	1.97%	2.00%	2.39%	3.15%	3.30%
PLN	31.12.2013	2.60%	2.84%	3.57%	4.12%	4.15%
	31.03.2014	2.64%	2.87%	3.46%	3.90%	4.00%
	30.06.2014	2.32%	2.38%	2.81%	3.26%	3.41%
	30.09.2014	1.82%	1.90%	2.20%	2.75%	3.00%
	31.12.2014	1.67%	1.66%	1.83%	2.10%	2.38%
TWD	31.12.2013	0.78%	0.87%	1.24%	1.62%	1.85%
	31.03.2014	0.81%	0.91%	1.20%	1.56%	1.97%
	30.06.2014	0.81%	0.89%	1.21%	1.54%	1.94%
	30.09.2014	0.83%	0.95%	1.31%	1.64%	2.10%
	31.12.2014	0.81%	0.88%	1.20%	1.54%	2.06%
JPY	31.12.2013	0.11%	0.11%	0.30%	0.85%	1.68%
	31.03.2014	0.08%	0.09%	0.23%	0.74%	1.59%
	30.06.2014	0.07%	0.07%	0.17%	0.61%	1.45%
	30.09.2014	0.08%	0.08%	0.17%	0.56%	1.38%
	31.12.2014	0.04%	0.03%	0.10%	0.40%	1.04%

Table 3 shows the development of Long-Term Guarantee Measures. The illiquidity premium based on swap rates at 100%

as used until 30.06.2014 and thereafter based on volatility adjustment using the application ratio of 65%.

**Long-Term Guarantee Measures | TABLE 3**

Currency	31.12.2013	31.03.2014	30.06.2014	30.09.2014	31.12.2014	Term	Phase-out
	bps	bps	bps	bps	bps		
EUR	44 bps	39 bps	38 bps	17 bps	13 bps	15	5
CHF	3 bps	3 bps	0 bps	5 bps	28 bps	10	5
USD	59 bps	57 bps	65 bps	36 bps	50 bps	30	0
CZK	9 bps	7 bps	7 bps	5 bps	4 bps	15	0
HUF	9 bps	7 bps	7 bps	39 bps	28 bps	10	5
PLN	9 bps	7 bps	7 bps	6 bps	18 bps	15	0
THB	5 bps	3 bps	22 bps	16 bps	17 bps	10	5

Table 4 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

YIELD-CURVE EXTRAPOLATION		Table 4
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 2014 MCEV calculations were therefore based on 31 December 2014.

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 5 shows the development of swaption implied volatilities.

DEVELOPMENT OF SWAPTION IMPLIED VOLATILITIES						Table 5
Currency	31.12.2013	31.03.2014	30.06.2014	30.09.2014	31.12.2014	
	%	%	%	%	%	
EUR	21.70%	22.15%	22.52%	25.50%	32.48%	
CHF	28.30%	33.40%	31.40%	35.70%	48.50%	
USD	14.80%	16.27%	17.14%	17.97%	22.33%	
KRW	12.90%	12.93%	13.35%	13.60%	15.11%	

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

Table 6 shows the swaption implied volatilities at various terms for four main currencies.

SWAPTION IMPLIED VOLATILITIES							Table 6
Currency	Option term	1 year	2 year	5 year	10 year	20 year	
		%	%	%	%	%	
EUR	31.12.2013	23.70%	24.30%	24.00%	21.70%	15.30%	
	31.12.2014	43.47%	41.22%	36.03%	32.48%	21.59%	
CHF	31.12.2013	24.70%	25.80%	27.40%	28.30%	21.70%	
	31.12.2014	60.80%	58.30%	56.80%	48.50%	30.87%	
USD	31.12.2013	20.40%	19.90%	17.70%	14.80%	14.20%	
	31.12.2014	27.11%	26.27%	25.20%	22.33%	17.90%	
KRW	31.12.2013	15.80%	14.40%	13.90%	12.90%	12.00%	
	31.12.2014	17.30%	17.00%	17.50%	15.11%	12.78%	

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

Table 7 shows the starting points of the volatility extrapolation and long term target levels for each currency.

<b>SWAPTION VOLATILITY ANCHORING</b>		Table 7
Currency	Start of swaption volatility anchoring Year	Long term target level %
EUR	15	7.80%
CHF	15	8.30%
USD	15	15.30%
CZK	10	7.40%
HUF	10	11.50%
PLN	10	8.10%
THB	10	13.50%
KRW	5	11.40%

For modelling fixed income stochastic scenarios, the Constant Elasticity Volatility Model, which is an extension of the Libor Market Model, is used.

<b>EQUITY OPTION IMPLIED VOLATILITIES</b>		Table 8				
	Index	31.12.2013 %	31.03.2014 %	30.06.2014 %	30.09.2014 %	31.12.2014 %
EUR	Eurostoxx 50	21.70%	20.82%	21.10%	22.34%	21.78%
	CAC	23.59%	19.95%	20.47%	21.42%	19.38%
CHF	SMI	17.21%	16.64%	16.65%	16.17%	17.90%
USD	S&P 500	24.40%	20.69%	20.81%	21.85%	23.60%
KRW	KOSPI	22.19%	18.87%	16.36%	20.14%	20.64%

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 9 shows the real estate volatility for the main currencies

<b>REAL ESTATE VOLATILITIES</b>		Table 9	
Currency	31.12.2014 %	31.12.2013 %	
EUR	15.00%	13.80%	
CHF	8.00%	10.00%	
USD	15.00%	13.80%	
KRW	15.00%	13.80%	

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 8 shows the equity option implied volatility for the main equity indices.

To show the impact of asset mixes and inter-economy relations, correlation assumptions were estimated from historic market data. Table 10 shows the correlation assumptions updated for 2014. Correlations moved due to the calibration process of the correlation matrix. Additionally, in 2014, the return period was changed from a weekly to a quarterly basis.

#### CORRELATION ASSUMPTIONS

Table 10

	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	0.49	0.42	0.42	0.17	0.17	0.14	0.18	0.14	0.25
CHF		1	0.39	0.47	0.42	0.42	0.35	0.40	0.41	0.45
USD			1	0.38	0.08	0.12	0.08	0.16	0.06	0.18
KRW				1	0.32	0.3	0.19	0.39	0.33	0.35
Equity Indices										
CAC					1	0.94	0.74	0.91	0.98	0.88
HDAX						1	0.79	0.88	0.95	0.9
KOSPI							1	0.70	0.75	0.73
SPI								1	0.88	0.86
Eurotox50									1	0.87
S&P500										1

1,000 path scenarios are used for stochastic calculations of options and guarantees. To reduce Monte-Carlo errors antithetic random numbers are used.

Given the significance of the O&G of Germany Life, 5,000 path scenarios were used by this entity. The higher number of paths further reduced Monte-Carlo errors.

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

For 2014 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. The exchange rates against the Euro are shown in table 11 below.

#### MAIN EXCHANGE RATES AGAINST EUR

Table 11

€ MN	2014	2013
CHF	1.20	1.23
USD	1.21	1.38
KRW	1,330.03	1,454.22
CZK	27.72	27.37
HUF	315.75	297.08
PLN	4.30	4.16
THB	39.81	45.28
TWD	38.24	41.07

## 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 estimates 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 12 shows the nominal tax rates applied.

TAX ASSUMPTIONS	Table 12	
	2014	2013
	%	%
Germany	31%	31%
France	34%	34%
Italy	33%	33%
USA	35%	35%
Korea	22%	22%
Switzerland	21%	21%

## B.6 Real-world economic assumptions

The following assumptions are centrally provided:

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

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

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

Risk premiums are assumed for all risky assets. Return assumptions for equity and real estate are derived from the risk-free rate, i.e. the 10 year swap rate, plus a risk premium; see table 13.

ECONOMIC ASSUMPTIONS FOR REAL-WORLD PROJECTION		Table 13	
	2014	2013	
Equity risk premium	5.00%	5.00%	
Real estate risk premium	20% × 10 year swap rate		



# Appendix C:Disclaimer

## Cautionary note regarding forward-looking statements

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

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

### **NO DUTY TO UPDATE**

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

# Appendix D: Glossary and Abbreviations

## 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.

### PVNBP

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

### QIS 5

EIOPA Quantitative Impact Study 5.

### ReC

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

### Reference rate

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

### 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 (CRcC).

### 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 (CRcC), 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.