STRENGTH
CONTINUITY
CHANGE

Allianz Group

Alternative Performance Measures 2016

Allianz

Alternative Performance Measures

The Allianz Group uses, throughout its financial publications, alternative performance measures (APMS) in addition to the figures which are prepared in accordance with the International Financial Reporting Standards (IFRS). We believe that these measures provide useful information to investors and enhance the understanding of our results. These financial measures are designed to measure performance, growth, profit generation and capital efficiency.

The APMS should be viewed as complementary to, rather than a substitute for, the figures determined according to IFRS.

The Allianz Group uses the following major alternative performance measures:

- Total revenues
- Internal growth
- Operating profit
- Return on equity
- Combined ratio
- New business margin
- Cost-income ratio
- Total assets under management

Investors should consider that similarly titled APMS reported by other companies may be calculated differently. For that reason, the comparability of APMS across companies might be limited.

In accordance with the guidelines of the European Securities and Markets Authority (ESMA), the following information is given in regards to the above mentioned alternative performance measures:

- Section 1:
  Definition of the APM, its use and limitations on the usefulness.

- Section 2:
  Reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements.

The Allianz Group's most recent financial publications at any time are available online at www.allianz.com/en/investor_relations/ under the heading "Results & reports: Results".

Definitions, use and limitations

TOTAL REVENUES

DEFINITION AND USEFULNESS

Total revenues are defined as the amount of money that Allianz earns for providing its products and services. It is the "top line" figure from which costs and expenses are subtracted to determine operating profit and net income. According to our business segments, total revenues in Allianz Group comprise gross premiums written in Property-Casualty, statutory premiums in Life/Health, operating revenues in Asset Management and total revenues in Corporate and Other (Banking).

$$\text{Total revenues}_{\text{Allianz Group}} = \text{Gross premiums written}_{\text{Property-Casualty}} + \text{Statutory premiums}_{\text{Life/Health}} + \text{Operating revenues}_{\text{Asset Management}} + \text{Total revenues}_{\text{Corporate and Other (Banking)}}$$

We consider total revenues as a key performance indicator and believe that it is useful and meaningful to our external audience because it is an important financial measure for the performance and growth of Allianz Group during a specific time period.

LIMITATIONS ON THE USEFULNESS

Total revenues do not provide any information as to the profitability of Allianz Group. Therefore, total revenues should always be viewed in conjunction with other performance indicators such as operating profit or net income.

Furthermore, total revenues are subject to fluctuations which do not derive from the performance of Allianz Group. These fluctuations result from effects of price changes, foreign currency translation as well as acquisitions, disposals and transfers. Accordingly, in addition to presenting nominal total revenue growth, we also present internal growth, which excludes some of these effects.

INTERNAL GROWTH

DEFINITION AND USEFULNESS

The Allianz Group presents the percentage change of total revenues adjusted for foreign currency translation and portfolio effects in addition to presenting the nominal total revenue growth. The adjusted percentage change is called internal growth.

The Allianz Group's Consolidated Financial Statements are presented in Euro. As a significant portion of our total revenues results from countries outside the Eurozone, the comparability between different periods is affected when exchange rates fluctuate. The comparability of our total revenues is further influenced by acquisitions, disposals as well as transfers (or "changes in scope of consolidation").

We believe that internal growth allows a meaningful analysis of revenue development as it makes data comparable from period to period and enhances an understanding of the underlying operating development.

Management uses internal growth in the steering of our business.

Internal growth of total revenues is determined by correcting nominal total revenue growth for the effects of foreign currency translation as well as acquisitions and disposals. Foreign currency translation effects are calculated as

$$\text{FX Effects} = \frac{\text{total revenues at CY FX rate} - \text{total revenues at PY FX rate}}{\text{PY total revenues at PY FX rate}}$$

CY = current year period
PY = prior year period

The effects of acquisitions are calculated as the percentage change in total revenues attributable to the acquired business while the effects of disposals are determined as the percentage change in total revenues assuming the disposed business had not been part of the Allianz Group in the previous period.

LIMITATIONS ON THE USEFULNESS

Internal growth rates are not adjusted for other effects, such as price changes.

OPERATING PROFIT (OP)

DEFINITION AND USEFULNESS

The Allianz Group uses operating profit to evaluate the performance of its reportable segments as well as of the Allianz Group as a whole. Operating profit highlights the portion of income before income taxes that is attributable to the ongoing core operations of the Allianz Group.

The Allianz Group considers the presentation of operating profit to be useful and meaningful to investors because it enhances the understanding of the Allianz Group's underlying operating performance and the comparability of its operating performance over time.

Operating profit is used as one of the decision metrics by Allianz Group's management.

To better understand the ongoing operations of the business, the Allianz Group generally excludes the following non-operating effects:

- acquisition-related expenses and the amortization of intangible assets, as these relate to business combinations,
- interest expenses from external debt, as these relate to the capital structure of the Allianz Group,
- income from financial assets and liabilities carried at fair value through income (net), as this does not reflect the Allianz Group's long-term performance,
- realized capital gains and losses (net) or impairments of investments (net), as the timing of sales that would result in such realized gains or losses is largely at the discretion of the Allianz Group and impairments are largely dependent on market cycles or issuer-specific events over which the Allianz Group has little or no control and which can vary, sometimes materially, over time,
- certain one-off effects from pension revaluation,
- Profit (loss) of substantial subsidiaries held-for-sale, but not yet sold.

The following exceptions apply to this general rule:

- In all reportable segments, income from financial assets and liabilities carried at fair value through income (net) is treated as operating profit if the income relates to operating business.
- For life/health insurance business and property-casualty insurance products with premium refunds, all items listed above are included in operating profit if the profit sources are shared with policyholders. This is also applicable to tax benefits, which are shared with policyholders. IFRS requires that the consolidated income statements present all tax benefits in the income taxes line item, even when they belong to policyholders. In the segment reporting, tax benefits are reclassified and shown within operating profit in order to adequately reflect the policyholder participation in tax benefits.

Operating profit should be viewed as complementary to, and not as a substitute for, income before income taxes or net income as determined in accordance with IFRS.

LIMITATIONS ON THE USEFULNESS

Operating profit is subject to fluctuations which do not derive from the performance of Allianz Group such as changes in foreign currency rates or acquisitions, disposals and transfers between reportable segments.

RETURN ON EQUITY (ROE)

DEFINITION AND USEFULNESS

For Allianz Group, return on equity represents net income attributable to shareholders divided by the average shareholders' equity excluding unrealized gains/losses on bonds net of shadow accounting at the beginning of the period and at the end of the period.

$$\text{RoE}_{\text{AZ Group}} = \frac{\text{Net income attributable to shareholders}}{(\text{Shareholders' equity}^{1,2}\text{ begin of period} + \text{Shareholders' equity}^{1,2}\text{ end of period})/2}$$

1 — Shareholders' equity excluding non-controlling interests
2 — Shareholders' equity excluding unrealized gains/losses on bonds net of shadow accounting

Allianz Group also uses RoE as a performance measure for the Life/Health segment. For the Life/Health segment, RoE represents net income divided by the average total equity excluding unrealized gains/losses on bonds net of shadow accounting at the beginning of the period and at the end of the period.

$$\text{RoE}_{\text{LH Segment}} = \frac{\text{Total net income}}{(\text{Total equity}^{1}\text{ begin of period} + \text{Total equity}^{1}\text{ end of period})/2}$$

1 — Total equity excluding unrealized gains/losses on bonds net of shadow accounting

The Allianz Group uses RoE as a key performance indicator. It combines the view on business profitability and capital efficiency. Therefore, management uses RoE in the steering of our business.

LIMITATIONS ON THE USEFULNESS

The RoE of Allianz Group or the Life/Health segment include items which are not indicative of the performance of management. Furthermore, RoE is not available at Line of Business or product level.

The performance indicator RoE is inherently limited by the fact that it represents a ratio and thus does not provide any information as to the absolute amount of net income or shareholders' equity/ total equity excluding unrealized gains/losses on bonds net of shadow accounting.

COMBINED RATIO (CR)

DEFINITION AND USEFULNESS

Allianz Group uses the combined ratio as a measure of underwriting profitability in the Property-Casualty segment. The combined ratio represents the total of acquisition and administrative expenses (net) and claims and insurance benefits incurred (net) divided by premiums earned (net).

$$CR_{\text{PC Segment}} = \frac{\text{Acq. and admin. expenses (net)}^{1} + \text{Claims and ins. benefits inc. (net)}^{1}}{\text{Premiums earned (net)}^{1}}$$

1 — In insurance terminology the tern "net" means after reinsurance ceded.

The combined ratio is typically expressed as a percentage. A ratio of below 100 % indicates that the underwriting result is profitable, whereas a ratio of above 100 % indicates an underwriting loss.

The combined ratio can be further broken down into the loss ratio and the expense ratio. The loss ratio represents claims and insurance benefits incurred (net) divided by premiums earned (net), and thus expresses the percentage of net earned premiums used to settle claims.

$$\text{Loss ratio}_{\text{PC Segment}} = \frac{\text{Claims and ins. benefits inc. (net)}}{\text{Premiums earned (net)}}$$

The expense ratio represents acquisition and administrative expenses (net) divided by premiums earned (net). It expresses the percentage of net earned premiums used to cover underwriting expenses for the acquisition of new or renewal business and for administrative expenses.

$$\text{Expense ratio}_{\text{PC Segment}} = \frac{\text{Acq. and admin. expenses (net)}}{\text{Premiums earned (net)}}$$

LIMITATIONS ON THE USEFULNESS

The combined ratio is used to measure underwriting profitability, but it does not capture the profitability of the investment result or the non-operating result. Even in case of a combined ratio of above 100 %, the operating profit and/or the net income can still be positive due to a positive investment income and/or a positive non-operating result.

Moreover, the usefulness of the combined ratio is inherently limited by the fact that it is a ratio and thus it does not provide information on the absolute amount of the underwriting result.

NEW BUSINESS MARGIN (NBM)

DEFINITION AND USEFULNESS

The new business margin is a common key performance indicator to measure the profitability of new business in our Life/Health segment. The NBM is calculated as the Value of new business (VNB) divided by the Present value of new business premiums (PVNBP).

$$NBM_{\text{LH Segment}} = \frac{\text{Value of new business (VNB)}}{\text{Present value of new business premium (PVNBP)}}$$

The VNB is the additional value to the shareholder which is created through the activity of writing new business in the current period. It is defined as the present value of future profits (PVFP) after acquisition expenses overrun or underrun, minus the time value of financial options and guarantees (O & G) and minus the risk margin (RM), all determined at the date of issue.

The PVNBP is the present value of projected new regular premiums, discounted with risk-free rates, plus the total amount of single premiums received.

VNB and PVNBP are determined by using an actuarial platform. In the actuarial platform, insurance contracts are projected deterministically using best estimate assumptions for lapse, mortality, disability and expenses until maturity. Contracts are projected no longer than 60 years. Premiums are before reinsurance. To receive a valid and meaningful NBM, the calculation of VNB and PVNBP need to be based on the same assumptions.

LIMITATIONS ON THE USEFULNESS

Limitations come from the best estimate assumptions, including risk-free rate, and the long projection period of up to 60 years. The best estimate assumptions are derived from historical data. That means that a different future customer behavior could lead to variances. The same is applicable for the risk-free rate, which is based on current market data. Furthermore, the long projection period is worthy of discussion, because changes such as regulatory changes or a new currency are not reflected in the projection.

COST-INCOME RATIO (CIR)

DEFINITION AND USEFULNESS

The Allianz Group uses the cost-income ratio as a key performance indicator in the Asset Management segment. The CIR sets operating expenses in relation to operating revenues in a given period.

$$CIR_{\text{AM Segment}} = \frac{\text{Operating expenses}^1}{\text{Operating revenues}^2}$$

1 — Operating expenses consist of administrative expenses (net), excluding acquisition-related expenses and one-off effects from pension revaluation and of restructuring charges.
2 — Operating revenues are the sum of net fee and commission income, net interest income, income from financial assets and liabilities carried at fair value through income (net) and other income. The term "net" means that the relevant expenses have already been deducted.

Allianz Group uses CIR in order to measure the efficiency of its activities in the Asset Management segment. Changes in the ratio indicate a change in efficiency.

LIMITATIONS ON THE USEFULNESS

The CIR in a given period of time can be influenced by special items, one-offs or foreign exchange effects on the revenue and/or expense side which lead to a change in CIR without a long-term change of efficiency.

Moreover, the usefulness of the cost-income ratio is inherently limited by the fact that it is a ratio and thus it does not provide information on the absolute amount of the operating revenues and expenses.

TOTAL ASSETS UNDER MANAGEMENT (AUM)

DEFINITION AND USEFULNESS

Assets under management are assets or securities portfolios, valued at current market value, for which Allianz Asset Management companies provide discretionary investment management decisions and have the portfolio management responsibility. They are managed on behalf of third parties as well as on behalf of the Allianz Group.

AuM are a key performance indicator in Allianz Group and the underlying success of our asset management activities in comparison with prior periods as well as in comparison with other companies.

Changes in AuM are driven by net flows, market and other, consolidation/deconsolidation effects and foreign exchange effects.

Net flows represent the sum of new clients' assets, additional contributions from existing clients, including dividend reinvestment, withdrawals of assets from, and termination of, separate client accounts, mutual funds and distributions to investors.

Market and other represents current income earned on, and changes in fair value of, securities held in separate client accounts or mutual funds. It also includes dividends from net investment income and from net realized capital gains to investors of open ended mutual funds and of closed end funds.

Net flows as well as market and other define the real growth of the AuM base.

LIMITATIONS ON THE USEFULNESS

The volume of AuM reported is subject to fluctuations which do not derive from the success of our asset management activities. These fluctuations result from effects of foreign currency translation as well as acquisitions, disposals and transfers.

Reconciliations

TOTAL REVENUES

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

COMPOSITION OF TOTAL REVENUES

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	2016	2015
Property-Casualty		
Gross premiums written	51,535	51,597
Life/Health		
Statutory premiums	64,636	66,903
Asset Management		
Operating revenues	6,022	6,479
consisting of:		
Net fee and commission income	6,019	6,488
Net interest income[1]	(5)	(5)
Income from financial assets and liabilities carried at fair value through income (net)	6	(8)
Other income	3	4
Corporate and Other		
thereof: Total revenues (Banking)	551	577
consisting of:		
Interest and similar income	474	546
Income from financial assets and liabilities carried at fair value through income (net)[2]	14	16
Fee and commission income	540	565
Interest expenses, excluding interest expenses from external debt	(172)	(212)
Fee and commission expenses	(308)	(340)
Consolidation effects within Corporate and Other	2	2
Consolidation	(328)	(365)
Allianz Group total revenues	**122,416**	**125,190**

1 — Represents interest and similar income less interest expenses.
2 — Includes trading income.

INTERNAL GROWTH

The IFRS financial measure most directly comparable to internal growth is the nominal growth of total revenue growth.

RECONCILIATION OF NOMINAL TOTAL REVENUE GROWTH TO INTERNAL TOTAL REVENUE GROWTH

%

	Internal growth	Changes in scope of consolidation	Foreign currency translation	Nominal growth
2016				
Property-Casualty	3.1	(1.0)	(2.2)	(0.1)
Life/Health	(3.1)	0.2	(0.5)	(3.4)
Asset Management	(7.5)	0.3	0.1	(7.1)
Corporate and Other	(4.4)	–	–	(4.4)
Allianz Group	**(0.8)**	**(0.3)**	**(1.2)**	**(2.2)**
2015				
Property-Casualty	2.9	0.7	3.2	6.8
Life/Health	(4.9)	–	4.2	(0.6)
Asset Management	(11.4)	–	12.8	1.4
Corporate and Other	4.5	(0.7)	–	3.7
Allianz Group	**(2.1)**	**0.3**	**4.2**	**2.4**

OPERATING PROFIT (OP)

BUSINESS SEGMENT INFORMATION - RECONCILIATION OF OPERATING PROFIT (LOSS) TO NET INCOME (LOSS)

€ MN

	Property-Casualty	Life/Health	Asset Management	Corporate and Other	Consolidation	Group
2016						
Operating profit (loss)	**5,370**	**4,148**	**2,205**	**(867)**	**(23)**	**10,833**
Non-operating investment result						
Non-operating income from financial assets and liabilities carried at fair value through income (net)[1]	(53)	26	–	40	(1)	11
Non-operating realized gains/losses (net)[1]	814	81	–	500	108	1,503
Non-operating impairments of investments (net)[1]	(236)	(227)	–	(217)	–	(681)
Subtotal	524	(121)	–	322	107	833
Interest expenses from external debt	–	–	–	(858)	–	(858)
Acquisition-related expenses	–	–	2	–	–	2
One-off effects from pension revaluation	–	–	–	–	–	–
Non-operating amortization of intangible assets	(60)	(52)	(12)	(11)	–	(135)
Reclassifications[2]	–	(268)	–	–	(115)	(383)
Non-operating items	465	(441)	(10)	(547)	(8)	(541)
Income (loss) before income taxes	5,835	3,707	2,194	(1,414)	(31)	10,292
Income taxes	(1,677)	(1,127)	(784)	420	126	(3,042)
Net income (loss)	**4,158**	**2,581**	**1,411**	**(994)**	**95**	**7,250**
Net income (loss) attributable to:						
Non-controlling interests	155	137	66	12	(3)	367
Shareholders	4,003	2,443	1,344	(1,006)	99	6,883
2015						
Operating profit (loss)	**5,603**	**3,796**	**2,297**	**(945)**	**(16)**	**10,735**
Non-operating investment result						
Non-operating income from financial assets and liabilities carried at fair value through income (net)[1]	(99)	(51)	–	(58)	(10)	(219)
Non-operating realized gains/losses (net)[1]	746	298	–	337	(170)	1,211
Non-operating impairments of investments (net)[1]	(223)	(18)	–	(27)	–	(268)
Subtotal	424	228	–	252	(181)	724
Income from fully consolidated private equity investments (net)[1]	–	–	–	(52)	(8)	(60)
Interest expenses from external debt	–	–	–	(849)	–	(849)
Acquisition-related expenses	–	–	11	1	–	12
One-off effects from pension revaluation	(181)	(13)	(31)	224	–	–
Non-operating amortization of intangible assets	(63)	(222)	(11)	(8)	–	(304)
Reclassifications	–	–	–	–	(62)	(62)
Non-operating items	181	(6)	(31)	(432)	(250)	(539)
Income (loss) before income taxes	5,784	3,790	2,266	(1,377)	(267)	10,196
Income taxes	(1,660)	(1,169)	(817)	374	63	(3,209)
Net income (loss)	**4,124**	**2,621**	**1,449**	**(1,003)**	**(204)**	**6,987**
Net income (loss) attributable to:						
Non-controlling interests	143	143	71	14	(1)	371
Shareholders	3,981	2,478	1,378	(1,017)	(203)	6,616

1 — In Investment terminology the term "net" is used when the relevant expenses have already been deducted.

2 — From the classification of the Korean life business as "held for sale" in the second quarter of 2016 until its disposal in the fourth quarter of 2016, the total result was considered as non-operating. Furthermore tax reclassifications are included in this line.

RETURN ON EQUITY (ROE)

Return on equity represents net income attributable to shareholders divided by the average shareholders' equity excluding unrealized gains/losses on bonds net of shadow accounting at the beginning of the period and at the end of the period.

$$RoE_{\text{AZ Group}} = \frac{\text{Net income attributable to shareholders}}{(\text{Shareholders' equity}^{1,2}\text{ begin of period} + \text{Shareholders' equity}^{1,2}\text{ end of period})/2}$$

1 — Shareholders' equity excluding non-controlling interests
2 — Shareholders' equity excluding unrealized gains/losses on bonds net of shadow accounting

RECONCILIATION OF RETURN ON EQUITY FOR ALLIANZ GROUP
€ MN

	2016	2015
Net income attributable to shareholders	6,883	6,616
Shareholders' equity bop	63,144	60,747
Shareholders' equity eop	67,341	63,144
Unrealised gains/losses on bonds (net of Shadow DAC) bop	7,554	10,656
Unrealised gains/losses on bonds (net of Shadow DAC) eop	8,695	7,554
Return on equity (excluding unrealized gains/losses on bonds net of shadow accounting) in %	**12.0**	**12.5**

For the Life/Health segment, RoE represents net income divided by the average total equity excluding unrealized gains/losses on bonds net of shadow accounting at the beginning of the period and at the end of the period.

$$RoE_{\text{LH Segment}} = \frac{\text{Total net income}}{(\text{Total equity}^{1}\text{ begin of period} + \text{Total equity}^{1}\text{ end of period})/2}$$

1 — Total equity excluding unrealized gains/losses on bonds net of shadow accounting

RECONCILIATION OF RETURN ON EQUITY FOR LH SEGMENT
€ MN

	2016	2015
Net income	2,581	2,621
Total equity bop	29,998	30,604
Total equity eop	30,953	29,998
Unrealised gains/losses on bonds (net of Shadow DAC) bop	5,050	6,929
Unrealised gains/losses on bonds (net of Shadow DAC) eop	5,721	5,050
Return on equity (excluding unrealized gains/losses on bonds net of shadow accounting) in %	**10.3**	**10.8**

COMBINED RATIO (CR)

The combined ratio represents the total of acquisition and administrative expenses (net) and claims and insurance benefits incurred (net) divided by premiums earned (net).

$$CR_{\text{PC Segment}} = \frac{\text{Acq. and admin. expenses (net)} + \text{Claims and ins. benefits inc. (net)}}{\text{Premiums earned (net)}}$$

RECONCILIATION OF COMBINED RATIO
€ MN

	2016	2015
Claims and insurance benefits incurred (net)	(30,576)	(30,721)
Acquisition and administrative expenses (net), excluding one-off effects from pension revaluation	(13,352)	(13,208)
Premiums earned (net)	46,588	46,430
Combined ratio in %	**94.3**	**94.6**
Loss ratio in %	65.6	66.2
Expense ratio in %	28.7	28.4

NEW BUSINESS MARGIN (NBM)

There is no comparable IFRS financial measure. Therefore, a reconciliation is not possible. However, our calculation of NBM is consistent with the accounting policies we apply in our financial statements prepared in accordance with IFRS.

COST-INCOME RATIO (CIR)

The cost-income ratio sets operating expenses in relation to operating revenues in a given period.

$$CIR_{\text{AM Segment}} = \frac{\text{Operating expenses}}{\text{Operating revenues}}$$

RECONCILIATION OF COST-INCOME RATIO
€ MN

	2016	2015
Operating expenses	(3,818)	(4,182)
Operating revenues	6,022	6,479
Cost-income ratio in %	**63.4**	**64.5**

TOTAL ASSETS UNDER MANAGEMENT (AUM)

There is no comparable IFRS financial measure. Therefore, a reconciliation is not possible. However, our calculation of AuM is consistent with the accounting policies we apply in our financial statements prepared in accordance with IFRS.

FORWARD-LOOKING APMS

An APM may not be reconcilable because it is not derived from the financial statements, such as profit estimates, future projections or profit forecasts. However, all forward-looking APMS are consistent with the accounting policies we apply in our financial statements prepared in accordance with IFRS.