

Allianz
European Embedded Value Report
2007

Table of Contents:

1	INTRODUCTION	4
1.1	BASIS OF PREPARATION	4
1.2	COVERED BUSINESS	4
1.3	DEFINITIONS	5
2	OVERVIEW OF RESULTS	6
2.1	EMBEDDED VALUE RESULTS	6
2.2	NEW BUSINESS	7
2.3	MOVEMENT OF EMBEDDED VALUE AND FREE SURPLUS	8
2.4	SHAREHOLDER VALUE NOT ACCOUNTED FOR IN GROUP IFRS EQUITY	11
2.5	SENSITIVITIES	13
3	REGIONAL ANALYSIS OF EMBEDDED VALUE	15
3.1	OVERVIEW	15
3.2	GERMANY	17
3.2.1	<i>Development of Value of New Business</i>	17
3.2.2	<i>Development of Embedded Value and Free Surplus</i>	17
3.2.3	<i>Sensitivities</i>	18
3.3	FRANCE	20
3.3.1	<i>Development of Value of New Business</i>	20
3.3.2	<i>Development of Embedded Value and Free Surplus</i>	20
3.3.3	<i>Sensitivities</i>	21
3.4	ITALY	22
3.4.1	<i>Development of Value of New Business</i>	22
3.4.2	<i>Development of Embedded Value and Free Surplus</i>	22
3.4.3	<i>Sensitivities</i>	23
3.5	OTHER WESTERN EUROPE	24
3.5.1	<i>Development of Value of New Business</i>	24
3.5.2	<i>Development of Embedded Value and Free Surplus</i>	24
3.5.3	<i>Sensitivities</i>	25
3.6	NEW EUROPE	26
3.6.1	<i>Development of Value of New Business</i>	26
3.6.2	<i>Development of Embedded Value and Free Surplus</i>	26
3.6.3	<i>Sensitivities</i>	27
3.7	USA	28
3.7.1	<i>Development of Value of New Business</i>	28
3.7.2	<i>Development of Embedded Value and Free Surplus</i>	28
3.7.3	<i>Sensitivities</i>	29
3.8	ASIA	31
3.8.1	<i>Development of Value of New Business</i>	31
3.8.2	<i>Development of Embedded Value and Free Surplus</i>	31
3.8.3	<i>Sensitivities</i>	32
3.9	HOLDING	33
4	INDEPENDENT OPINION	34
A	APPENDIX: METHODOLOGY	35
A.1	NET ASSET VALUE	35
A.2	REQUIRED CAPITAL	35
A.3	VALUE OF IN-FORCE	36
A.3.1	<i>Present value of future profits</i>	36
A.3.2	<i>Options and guarantees</i>	36
A.3.3	<i>Cost of non-financial risk</i>	37
A.3.4	<i>Cost of holding the Required Capital</i>	37
A.4	NEW BUSINESS	37
A.5	PARTICIPATING BUSINESS	38

A.6	LOOK THROUGH ADJUSTMENTS.....	38
B	APPENDIX: ASSUMPTIONS.....	39
B.1	ECONOMIC ASSUMPTIONS	39
B.2	CAPITAL CHARGE FOR COST OF NON-FINANCIAL RISK	41
B.3	FOREIGN CURRENCY EXCHANGE RATES	41
B.4	NON-ECONOMIC ASSUMPTIONS	41
B.5	TAX ASSUMPTIONS.....	42
C	APPENDIX: REAL WORLD PROJECTIONS AND IMPLIED DISCOUNT RATES	43
C.1	DEFINITION	43
C.1.1	<i>Required Capital</i>	43
C.1.2	<i>Free Surplus</i>	43
C.1.3	<i>Present value of future profits</i>	43
C.1.4	<i>Options and Guarantees</i>	43
C.1.5	<i>Cost of holding the Required Capital</i>	43
C.1.6	<i>Cost of non-financial risk</i>	43
C.2	ECONOMIC ASSUMPTIONS FOR REAL-WORLD PROJECTIONS.....	44
C.3	IMPLIED RISK DISCOUNT RATES	44
D	APPENDIX: DISCLAIMER	46
E	APPENDIX: GLOSSARY AND ABBREVIATIONS.....	47

1 Introduction

1.1 Basis of Preparation

Embedded value (or “EV”) represents shareholders’ economic value of the in-force life and pension business of an insurance company, which is the value of the business written as of 31 December 2007. Future new business is not included.

The most important advantage EV has over many alternative performance measures is its consideration of profitability over the long-term. In contrast to IFRS or other accounting standards that only focus on revenues and expenses occurring during a single reporting period, EV measures the shareholder value an insurance portfolio is expected to create over its lifetime.

Since 2004 Allianz has calculated embedded value in line with the European Embedded Value (or “EEV”) principles¹. For the 2006 reporting period, Allianz further refined the methodology to more explicitly allow for risk and applies bottom-up market consistent techniques to project the profits arising from the in-force business for its major Life entities. 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 non-financial risk. In 2007 market consistent valuation techniques have been rolled out to further entities within the Group. In total the business calculated on a market consistent basis now amounts to more than 99% of the total embedded value and value of new business.

This document provides details on the results, methodology and assumptions used to calculate the 2007 EEV for the Allianz Group in accordance with the disclosure requirements of the EEV principles.

The methodology and assumptions used to determine the 2007 embedded value results for the Allianz Group have been reviewed by the Tillinghast Insurance Consulting practice of Towers Perrin. Their opinion is included in Section 4.

1.2 Covered Business

The business covered in embedded value figures includes all material life operations which are consolidated into the IFRS accounts of Allianz Group worldwide. The main product groups are:

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

All calculations are net of external reinsurance; results for individual regions are shown net of intra-group reinsurance with the value of such intra-group reinsurance being included in the total embedded value.

All results reflect the interest of Allianz shareholders in the life entities of the Group. Where Allianz does not hold 100% of the shares of a particular life entity a deduction is made for the corresponding minority interest². Where one life business has an interest in another life business, the net worth of that business is adjusted to exclude the interest in the dependent company. Entities that are not consolidated into Allianz IFRS accounts, i.e. entities where Allianz only holds a minority, are not included in the 2007 EEV results. In particular the fast growing companies in India and Thailand are not included.

Health business written in separate legal entities, such as the German health business, is not included in the 2007 EEV results.

¹ The EEV principles had been published in May 2004 by the CFO Forum, a group representing the Chief Financial Officers of major European insurance companies.

² Minorities are evaluated as of 31.12.2007.

1.3 Definitions

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

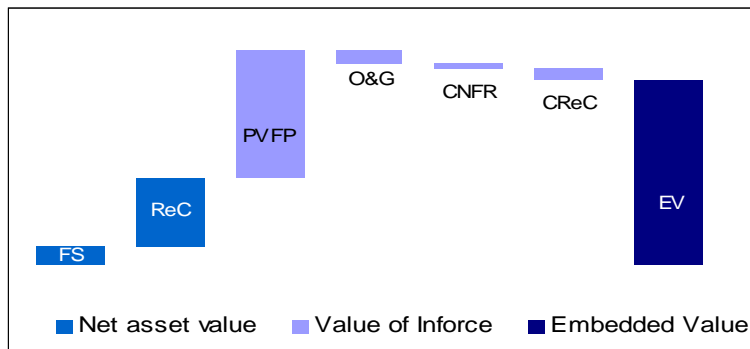
The EV can be broken down into the net asset value, i.e. the value of the assets not backing liabilities, and the value of in-force, i.e. the value of future profits emerging from operations and assets backing liabilities.

The net asset value (or "NAV") contains

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

The value of in-force (or "VIF") is defined as

- the present value of future profits from in-force business (or "PVFP") after allowance for
 - the cost of options and guarantees (or "O&G"),
 - the cost of non-financial risk (or "CNFR"),
 - the cost of holding the required capital (or "CReC").



A detailed description of these terms is provided in the methodology section in the appendix.

2 Overview of results

As of 31.12 2007 Allianz Group's total embedded value amounts to EUR 21,927mn, 18% more than published in 2006. The value of new business written in 2007 was EUR 1,077mn; EUR 95mn or 10% more than the value published in 2006.

EV Profit for 2007 is EUR 2,060mn (10% of the starting value).

2.1 Embedded Value results

The table below shows the embedded value result split by its components: the net asset value and the value of in-force.

Exhibit 1: Embedded Value

	2006	2007	change in 2007
	mn EUR	mn EUR	%
Net asset value	8,379	9,369	12%
Free surplus	2,640	2,454	-7%
Required capital	5,739	6,915	20%
Value of Inforce	10,155	12,557	24%
Present value of future profits	13,228	16,338	24%
Cost of options and guarantees	1,542	1,790	16%
Cost of non-financial risk	530	804	52%
Cost of holding required capital	1,000	1,187	19%
Embedded Value	18,535	21,927	18%

The embedded value as of 31 December 2007 was EUR 21,927mn, which is 18% higher than the value of EUR 18,535mn published in 2006, after allowing for a net capital outflow of EUR 1,061mn.

This includes initial adjustments allowing for changes to foreign exchange rates and Allianz's increase in its interest in the AGF Group (including its life subsidiaries outside of France), Allianz Leben Germany and our Asian company in Taiwan. Total initial adjustments led to an increase in the opening value by EUR 2,393mn to EUR 20,928mn.

The details of the opening adjustments as well as the drivers for the change of embedded value during the year are explained in more detail in the following sections.

2.2 New Business

Apart from the increase in Allianz's interest in some of its major operating entities, the most important driver for the growth in Allianz's Embedded Value in 2007 was the value of new business sold during the year. Exhibit 2 shows the value of new business at point of sale, calculated using year-end economic and non-economic assumptions:

Exhibit 2: Value of New Business

	2006	2007	change in 2007
	mn EUR	mn EUR	%
Value of New Business at point of sale	982	1,077	9.7%
New Business Margin ¹	3.1%	3.0%	-0.1%-p
<i>Present value of future new business premium</i>	<i>31,405</i>	<i>36,303</i>	<i>15.6%</i>
APE Margin ²	24.5%	26.1%	1.6%-p
<i>Single Premium</i>	<i>17,803</i>	<i>20,813</i>	<i>16.9%</i>
<i>Recurrent Premium</i>	<i>2,226</i>	<i>2,040</i>	<i>-8.4%</i>

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

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

In 2007, the overall new business value increased significantly. This is driven by the increase in Allianz's interest in the AGF Group, Allianz Leben and Taiwan, and continued growth in volumes at attractive margins.

Exhibit 3 below summarizes the analysis of change in the new business value from the value published in 2006 to the 2007 value. Additional details on the drivers for the change in each region can be found in the regional analysis in Section 3.

Exhibit 3: Development of Value of New Business

	Value of New Business mn EUR	New Business Margin mn EUR	Present Value of Premium mn EUR
Reported Value as at 31 December 2006	982	3.1%	31,405
Total initial adjustments	132	0.2%	2,002
<i>Change in Foreign Exchange</i>	<i>-35</i>	<i>0.0%</i>	<i>-1,182</i>
<i>Change in Allianz interest</i>	<i>113</i>	<i>0.0%</i>	<i>3,220</i>
<i>Other model changes</i>	<i>53</i>	<i>0.2%</i>	<i>-36</i>
Starting Value as at 31 December 2006	1,114	3.3%	33,408
Change in volume	90	0.0%	2,693
Change in business mix	-36	-0.1%	0
Change in assumptions	-91	-0.3%	202
Value of new business as at 31 December 2007	1,077	3.0%	36,303

The initial adjustments of the value of new business include:

- Change in foreign currency exchange rates (EUR -35mn), primarily driven by the strong Euro against the US Dollar, Korean Won and Swiss Franc;
- Change in Allianz interest in the Group's life insurance companies (EUR +113mn);
- Other initial adjustments (EUR +53mn) reflecting the positive impact of model refinements, particularly the full assessment of life annuities in Germany as well as the restatement to MCEV in New Europe and Taiwan.

New business volumes in 2007 are significantly above the level achieved in 2006. The present value of new business premiums increased by 16% from EUR 31,405mn to EUR 36,303mn in 2007. Strong volume growth was seen in all markets but the US, especially in the relatively mature markets such as Germany and France, and in growth markets in New Europe and Asia. This growth compensated the significant drop in volume observed in the US.

Challenging market conditions have resulted in the need to be more competitive to maintain market shares, particularly in France and Italy. In the US, a shift in business mix to products with lower margins was observed. With regards to business mix impacts across the Group, growth in regions with higher margins (Germany and New Europe) offsets the impact on the overall margin from growth in expanding markets in Asia with lower margins.

The impact of favorable assumption changes such as the lower corporate tax rate in Germany were compensated by higher expense and lapse assumptions as well as unfavorable economic environment in the US leading to a slight decrease in the new business margin in 2007.

For details on the regional development please refer to Section 3.

2.3 Movement of Embedded Value and Free Surplus

Exhibit 4 shows the change in embedded value and free surplus from the published value 2006 to the value as of 31 December 2007.

Exhibit 4: Movement of Embedded Value

	NAV			
	FS	ReC	ViF	EV
	mn EUR	mn EUR	mn EUR	mn EUR
Reported Value as at 31 December 2006	2,640	5,739	10,155	18,535
Total initial adjustments	-152	1,133	1,412	2,393
<i>Change in Foreign Exchange</i>	-100	-187	-174	-460
<i>Change in Allianz interest</i>	240	953	1,552	2,745
<i>Other initial adjustments</i>	-292	367	33	109
Starting Value as at 31 December 2006	2,488	6,873	11,567	20,928
Total Unwinding (inforce)	1,712	-89	-500	1,123
<i>Unwinding of discount</i>	313	0	573	886
<i>Realisation of projected profits</i>	1,398	-89	-1,309	0
<i>Release from O&G and CNFR</i>	0	0	237	237
Deviation from unwind due to market changes and asset performar	421	-405	180	196
Operating Variances	-72	7	-357	-422
Operating Assumption Changes	56	0	383	439
Value of new business at point of sale	0	0	1,077	1,077
Total Unwind (new business)	-1,086	530	603	47
<i>Unwinding of discount</i>	0	0	31	31
<i>Realisation of projected profits</i>	-1,086	530	566	0
<i>Release from O&G and CNFR</i>	0	0	16	16
Changes in legislation	-3	0	-396	-399
Embedded Value before capital movements	3,515	6,915	12,557	22,988
Net capital movements	-1,061	0	0	-1,061
Embedded Value as at 31 December 2007	2,454	6,915	12,557	21,927

The initial adjustments include the following changes:

- **Change in foreign currency exchange rates** (EUR -460mn). World economic market uncertainties have led to a weakening of some of the major currencies against the Euro, particularly the US Dollar, Korean Won and Swiss Franc. Correspondingly, this has led to a decrease in EV.
- **Change in Allianz interest in the Group's life insurance companies** (EUR +2,745mn). This adjustment represents the change in Allianz Group's interest in its entities over the year. Allianz increased its holdings in the AGF Group, increasing the EV by EUR 2,641mn. In Germany, the interest

in Allianz Leben was increased creating an additional value of EUR 211mn for Allianz Group. In Asia, Allianz bought out minority holdings in Taiwan but had to reduce holdings in Malaysia in line with local regulatory requirements. The combined impact of the change in our Asian holdings was EUR -107mn.

- **Other initial adjustments** (EUR +109mn). Other changes include model changes, i.e. the impact of various improvements our companies made to allow a more accurate projection of their in-force portfolio. This item also includes the impact of rolling out bottom-up MCEV to our main companies in New Europe and Asia.

The impact of initial adjustments for each region are described in Section 3.

The key components of the change in 2007 are as follows:

Unwinding (in-force)

Unwinding contributed EUR 1,123mn to our EV. It represents the natural progression of the EV and is comprised of three components:

- The **unwinding of the discount** on embedded value contains notional interest on embedded value for one year using the start of the year assumptions. For the business modeled with risk-neutral assumptions this step contains the progression at the risk-free rate. For the business still calculated on a top-down basis the unwinding of the discount contains interest at the risk discount rate on the VIF. First, the part of the life companies' investment returns which is attributable to the investments covering NAV, i.e. free surplus and required capital, will increase the NAV over the year. VIF is, by definition, a discounted value. With a year having passed, and hence all future profits now requiring one fewer year to be discounted, VIF increases.
- The effect of **the realization of the projected net profits** from the VIF to the NAV reduces the value of in-force and increases the NAV. This step does not have any impact on the embedded value in total as it only contains the release of profits included in the value of in-force at the start of the year to the free surplus during the year. It also includes the projected release from required capital to free surplus.
- The third component of the unwinding contains the **release from risk with regard to O&G and non-financial risks**. The margin for the year built into the valuation for uncertainty with regard to asymmetric financial risk and non-financial risk is released in this step.

All these effects, so for example the parameters for asset returns and discount rates, are based on the values used in the projection at the end of the previous year.

Deviation from unwinding related to asset performance and changes in market conditions:

This item includes the impact of changes in interest rates, the impact of actual development of financial markets as well as the impact of actual performance of the assets in the portfolio. The positive impact of EUR 196mn on embedded value is the net impact of two main factors: The positive impact of higher interest rates in our main economies in Europe and Asia, which led to higher re-investment assumptions and higher projected profits in the future outweighing the impact of higher discount rates, and the negative impact of market turbulences in the US. Higher interest rates are also the main driver for the decrease in required capital and associated cost of required capital, which on one hand contributes to the VIF, but also has a positive impact on the free surplus. In the free surplus we can also see the net impact of outperformance of assets backing NAV and higher book returns on assets backing liabilities. Since in the risk neutral projections no risk premiums on assets are capitalized upfront, returns above risk free rates on equity, real estate and corporate bonds also flow through this item. The details of the development per region are described in Section 3.

Operating variances: This item shows the impact of deviations of actual experience from expectations during the year regarding non-economic factors – for example higher or lower lapses, mortality, expenses, etc. The overall impact of operational variances to the change in EV was a decrease of EUR 422mn. The main drivers for this decrease are the lapse development observed in Italy and Korea as well as higher unit expenses in France and the US. The details for each region are described in Section 3.

Operating assumption changes: Changes in non-economic assumptions such as those for lapses, mortality and expenses, which occurred during the year are included in the line items ‘Operating assumption changes’. The overall impact of these assumption changes was an increase in EV of EUR 439mn as the positive impact of the change in corporate tax rate in Germany outweighs the impact of adjusted lapse assumptions in Italy and Korea and expense assumptions in France and US. For an overview of the changes in each region please refer to the analysis of the regional segments in Section 3.

Value of new business (VNB) written in the year

This represents the value of new business written in the year. The new business value at point of sale takes into account all expenses in connection with new business, including acquisition expense overruns. Additional details on the development of the value of new business are provided in Section 2.2.

Unwinding of new business³

The unwinding of new business consists of the projected roll forward of the new business from point of sale to the end of the year. The components are the same as discussed for the unwinding of the in-force. The most important component of the unwinding of new business is the item “**realization of projected profits**”, which shows the negative impact on free surplus projected to occur during the first year to the extent that initial expenses are higher than profits in the first year, and to the extent that these expenses cannot be covered through policyholder funds (EUR -556mn impact on FS). The amount of additional required capital to be held for new business (EUR -530mn impact on FS) increases the strain on the free surplus at the point of sale. The **total strain from new business** on the free surplus is the combined impact of expense strain and initial capital binding, and this sums up to EUR 1,086mn negative impact on free surplus.

Changes in Legislation⁴

Changes in legislation captures the impact of new legislation for insurance contracts in Germany, commonly referred to as the VVG Reform, and changes in regulations in France on profit sharing for Group Protection business. For additional information please refer to the corresponding regional analysis in Section 3.

Net capital movement

The net of dividends paid by, and capital injections to our life companies amounted to EUR 1,061mn. This includes a significant release of excess capital of EUR 716m from AGF to the Group following the minority buy-out.

³ As set out in the analyst presentation, due to materiality considerations, unwinding of new business is shown under “Operating Variances & Assumption Changes”.

⁴ In the analyst presentation, “Changes in Legislation” were shown together with other movements as “Other”. Following more detailed analysis, items shown as “Other” were identified to be operating variances or assumption changes and are included in the corresponding components throughout this document. The impact from changes in legislation is shown separately.

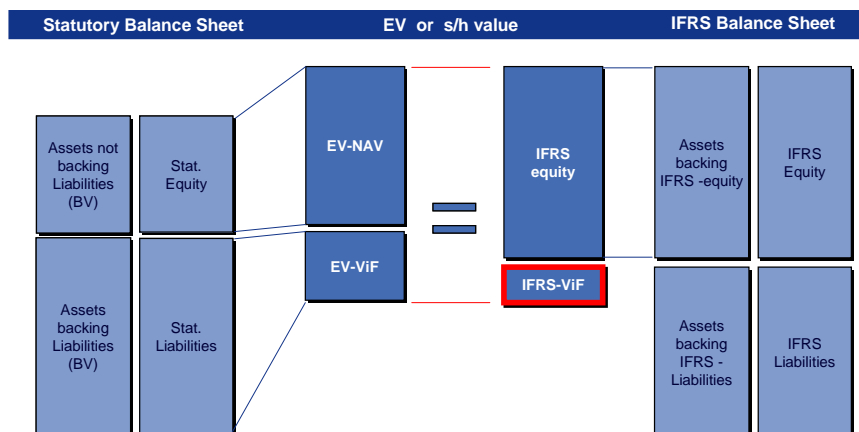
2.4 Shareholder value not accounted for in Group IFRS Equity

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

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

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



The table below shows that of the EUR 12,557mn future related element of EV (i.e. PVFP less O&G less CNFR less CReC), EUR 9,580mn represents an economic value of the covered life insurance business that is not captured within the IFRS shareholders' equity:

Exhibit 5: Additional Value not accounted for in IFRS equity

	2006	2007
	mn EUR	mn EUR
Value of Inforce	10,155	12,557
Deferred acquisition cost / value of business acquired	-11,809	-12,956
Difference in IFRS reserves compared to statutory reserves	11,177	9,260
Shareholders' portion of unrealized capital gains included in PVFP	-1,725	-1,355
Asset valuation differences	811	218
Other adjustments	-970	1,856
Additional value not accounted for in IFRS shareholders' equity	7,640	9,580

The primary components of the table are as follows.

- Deferred acquisition cost / value of business acquired (EUR -12,956mn)**
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 +9,260mn)**
Aggregate IFRS life technical and unallocated profit sharing reserves exceed statutory reserves used in PVFP modeling. The main reason for this difference is that in many local statutory accounting models, instead of setting up a deferred acquisition cost 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. Note that in previous years this component also included certain valuation differences on liabilities other than policyholder reserves, that have now been moved to "other adjustments".
- Shareholders' portion of unrealized capital gains included in PVFP (EUR -1,355mn)**
When projecting future profits on a statutory basis, the related profits will include the shareholder value of unrealized capital gains. To the extent that assets in IFRS are valued at market and the market value is higher than the statutory book value, these profits have already been taken into account in the IFRS equity.
- Asset valuation differences (EUR +218mn)**
This element is the shareholder value of the difference between market value and book value of assets (valued at IFRS book value).
- Other Adjustments (EUR +1,856mn)**
This includes various items not included above related to differences in valuation under embedded value and IFRS, including differences in tax treatment. As explained above, the difference in the size of this component in comparison to previous years is due to the fact that EUR 2.2bn of valuation differences on liabilities other than policyholder reserves was previously recorded under reserve differences, but has since been moved to this category.

2.5 Sensitivities

Sensitivity testing with respect to the underlying best estimate assumptions is an important part of embedded value calculations. Both economic and non-economic factors are tested. It should be noted that the various sensitivities are in most cases correlated so that the impact of two events occurring simultaneously is not likely to be the sum of the outcomes of the corresponding tests.

The numbers presented in the table below provide the sensitivity with regard to the primary economic and non-economic factors. The tests performed and disclosed below follow the “Additional Guidance on EEV Disclosures” published by the CFO Forum in September 2005 for adoption as of 31 December 2006. The size of the assumption shifts are not indicative of what may or may not actually occur; in reality the factors will move in increments greater or smaller than those presented below.

	Inforce	Inforce	NB	NB
	mn EUR	%	mn EUR	%
Central Assumptions	21,927	100%	1,077	100%
Required Capital equal to local solvency capital	366	2%	34	3%
<i>EV change by economic factors</i>				
Risk Free Rate -100bp	-2,353	-11%	-95	-9%
Risk Free Rate +100bp	1,139	5%	48	4%
Risk Free Rate -50 bp	-997	-5%	-42	-4%
Risk Free Rate +50 bp	665	3%	26	2%
Charge for CNFR +100bp	-232	-1%	-38	-4%
Equity and property values - 10%	-995	-5%	0	0%
Volatilities +10%	-204	-1%	14	1%
<i>EV change by non-economic factors</i>				
Lapse Rates -10%	334	2%	77	7%
Maintenance Expenses -10%	418	2%	57	5%
Mortality -5% for products with death risk	122	1%	15	1%
Mortality -5% for products with longevity risk	-152	-1%	-10	-1%

A breakdown of the sensitivity results by region is provided in Section 3.

- **Sensitivity to capital requirement**

Using only local solvency capital requirements to determine the required capital instead of the internal required capital reduces the necessary capital and the corresponding cost of holding capital. However, for several companies the capital requirement is already determined by the local statutory requirement and therefore the EV increases only by EUR 366mn or 2%.

- **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 would fall/rise. The sensitivity is designed to indicate the impact of a sudden parallel 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. Due to the asymmetric impact of embedded financial options and guarantees, falling market rates have a higher impact on EV than rising interest rates. As shown above a shift of -100bp in interest rates causes a reduction of the Group’s EV by EUR 2,353mn or 11%. Due to the higher interest rate environment in Europe and the above mentioned asymmetric behavior, the impact is slightly lower than last year.

- **Sensitivity to an increase in the charge for non-financial risk by 100 bp**

The effect of increasing the capital charge for non-financial risk by 100bp decreases the EV by EUR 232mn, or 1%.

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

This sensitivity is designed to indicate the impact of a sudden change in the market values of equity and property assets. Since the modeled investment strategies take into account a certain target allocation based on market value, this shock may lead to a rebalancing of the modeled assets at the end of the first year, when defined boundaries for each asset class are exceeded. Since new business is valued at point of sale, there is no impact from this sensitivity on the VNB.

- **Sensitivity to an increase in volatilities for all asset classes by 10%**
This sensitivity shows the effect of increasing all implied volatilities, i.e. swaption implied volatilities as well as equity option implied volatilities, to 110% of the assumed rate. Where no option prices are available from the market, historic volatilities were increased to account for the same effect. As an increase in volatilities leads to a higher time value of options and guarantees for traditional participating business, EV decreases by EUR 204mn or 1 %. For equity indexed products depending on the design of the caps and floors in the product an increase in volatility may also lead to an increase in the portfolio value, as can be seen in the values shown for the US in Section 3.
- **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 334mn or 2 %. This is comparatively low as surrender charges partly offset the loss of future profits when a policyholder lapses.
- **Sensitivity to a decrease in maintenance expenses by 10%**
The impact of a 10% decrease in the projected expenses on EV is EUR +418mn or 2 % as future projected profits would increase.
- **Sensitivity to a decrease in mortality and morbidity rates by 5%**
This sensitivity shows the impact of a decrease of mortality and morbidity rates of 5%. Higher mortality has a negative impact in products with mortality risk (e.g. endowments and term life products) and a positive impact in products with longevity risk (life annuities). Since the future experience for the different insured populations in the two product groups might vary significantly the impact of this sensitivity is shown separately. For products with mortality risks the impact of decrease in mortality rates by 5% leads to an increase of EUR 122mn or 1%. The impact on products with longevity risk is a decrease in value of EUR 152mn or 1%. The improved modeling of the annuity pay-out phase in Germany led to a small increase in the sensitivity to longevity risk. However, this is mitigated by the ability to share technical profit and hence the sensitivity to longevity risk is low.

3 Regional analysis of Embedded Value

3.1 Overview

The following tables provide an overview of the contribution of the various operating entities and regions to the embedded value results and to the value of new business of Allianz Group. A detailed analysis for each region is provided in the following sections.

The regions are defined as follows:

- **Germany** includes Allianz Leben AG; its subsidiaries are included at equity.
- **France** includes the life entities of AGF in France.
- **Italy** includes the life entities of Allianz Italy including the Irish subsidiary (i.e. all former life entities of RAS Group and Lloyd Adriatico Group).
- **Western Europe** is comprised of the remaining entities in Western Europe including operations in Switzerland, Austria, Spain, Belgium, Netherlands, Portugal and Greece, and also includes Egypt.
- **New Europe** is made up of the entities in Central and Eastern Europe including operations in Slovakia, Poland, Hungary, Czech Republic, Croatia, Romania, Bulgaria and Russia.
- **USA** is Allianz Life of North America.
- **Asia** includes the consolidated Asian operations in Korea, Taiwan, China, Indonesia and Malaysia.
- **Holding** includes the impact of holding costs and intra-group reinsurance.

Exhibit 7 provides an overview of the 2007 embedded value by region and a break down of the components:

Exhibit 7: Embedded Value Results by region

	Germany	France	Italy	Western Europe	New Europe	USA	Asia	Holding	Total
	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR
<i>Net asset value</i>	1,460	1,812	1,811	1,655	196	1,720	640	75	9,369
Free surplus	419	34	909	612	81	476	-78	0	2,454
Required capital	1,041	1,778	902	1,043	115	1,244	717	75	6,915
<i>Value of Inforce</i>	4,952	2,782	1,711	1,690	371	1,164	-3	-111	12,557
Present value of future profits	5,842	3,655	1,961	2,274	445	1,939	315	-93	16,338
Cost of options and guarantees	546	302	36	300	29	479	97	0	1,790
Cost of non-financial risk	91	216	109	131	29	123	106	0	804
Cost of holding required capital	254	355	105	152	16	173	114	17	1,187
Embedded Value	6,412	4,595	3,522	3,346	567	2,884	637	-36	21,927
in % of total Embedded Value	29%	21%	16%	15%	3%	13%	3%	0%	100%

Negative Free Surplus in Asia arises from the operation in Taiwan as locally deployed capital is less than the Risk Capital required before group diversifications.

Exhibit 8 provides an overview of the ratios between **required capital** and reserve / solvency requirement.

Exhibit 8: Required capital

	2006			2007		
	required capital mn EUR	% of reserve	% of SR	required capital mn EUR	% of reserve	% of SR
Germany	961	1.0%	35180%	1,041	0.9%	36620%
France	993	3.3%	100%	1,778	3.2%	100%
Italy	897	2.8%	100%	902	2.7%	100%
Other Western Europe	1,027	5.5%	142%	1,043	4.2%	113%
New Europe	149	9.2%	151%	115	5.0%	122%
USA	865	1.9%	100%	1,244	2.8%	160%
Asia	774	9.6%	202%	717	6.4%	185%
Other	74	4.7%	100%	75	5.1%	100%
Total	5,739	2.5%	142%	6,915	2.4%	140%

The overall increase in required capital is due to the increase in Allianz's holding in the AGF Group. Aggregate required capital relative to reserves and local solvency requirements has decreased in 2007. The main reason for this is the higher interest rate environment in Korea. Additionally, with the introduction of bottom-up MCEV in New Europe and Asia, the required capital for the corresponding entities is derived from our internal capital model, which allows for a more detailed view of the risks in the business leading to a lower capital requirement than previously required using the factor based S&P capital model.

In the US, the required capital was increased to better reflect market standards. Using both the solvency capital and capital derived from our internal model would have resulted in a lower required capital.

For Germany the required capital proportional to the reserve is low due to high policyholder resources admissible for solvency purposes and the high value of in-force available as an eligible source of capital for internal capital purposes. Similar to the US, additional capital on top of Allianz's internal required capital and solvency capital was allocated to better reflect market standards.

Exhibit 9 provides an **overview over the new business values 2007**, the split by product type and the most important KPIs by region:

Exhibit 9: New Business Value at point of sale by region

	Germany	France	Italy	Western Europe	New Europe	USA	Asia	Holding	Total
	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR	mn EUR
New Business Value	362	146	208	93	58	93	159	-43	1,077
in % total VNB	34%	14%	19%	9%	5%	9%	15%	-4%	100%
New Business Margin	3.9%	2.5%	2.9%	3.9%	6.6%	1.4%	3.5%	n/a	3.0%
<i>Present value of future premium</i>	<i>9,188</i>	<i>5,787</i>	<i>7,130</i>	<i>2,378</i>	<i>880</i>	<i>6,411</i>	<i>4,529</i>	<i>0</i>	<i>36,303</i>
APE Margin ²	41.2%	25.8%	19.6%	37.1%	46.1%	14.3%	26.9%	n/a	26.1%
<i>Single Premium</i>	<i>3,028</i>	<i>4,239</i>	<i>4,489</i>	<i>902</i>	<i>356</i>	<i>5,885</i>	<i>1,914</i>	<i>0</i>	<i>20,813</i>
<i>Recurrent Premium</i>	<i>578</i>	<i>140</i>	<i>610</i>	<i>161</i>	<i>91</i>	<i>59</i>	<i>401</i>	<i>0</i>	<i>2,040</i>
New Business Value at point of sale by product type									
<i>Traditional</i>	79%	68%	45%	76%	50%	2%	37%	100%	55%
<i>Unit Linked</i>	15%	32%	50%	24%	49%	5%	41%	0%	30%
<i>Index Linked</i>	6%	0%	5%	0%	1%	92%	22%	0%	14%

1) Index Linked in the US also includes a small block of fixed annuity products

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

The table highlights the increasing importance of the growth regions in New Europe and particularly in Asia. In terms of total EV the entities in these regions together only contribute 6% of the value of the Group. For new business, the contribution is 15% for Asia and 5% for New Europe.

For more detailed information on each region please refer to the regional analysis in the following sections.

3.2 Germany

In 2007, the Embedded Value for Germany showed strong growth, driven by the high value of new business and a lower corporate tax rate. The share of Allianz SE in Allianz Leben AG increased from 91% in 2006 to 95% at the end of 2007. The changes arising from the new legislation (VVG reform) have been allowed for in the modeling.

3.2.1 Development of Value of New Business

The value of new business written by Allianz Leben AG in 2007 was EUR 362mn, which is 48% higher than the published value for 2006. The new business margin increased from 3.0% to 3.9%. Exhibit 10 shows an analysis of the change in new business value:

Exhibit 10: Movement of Value of New Business - Germany

	Value of New Business	New Business Margin	Present Value of Premium
	mn EUR	%	mn EUR
Reported Value as at 31 December 2006	244	3.0%	8,053
Total initial adjustments	52	0.6%	150
<i>Change in Foreign Exchange</i>	0	0.0%	0
<i>Change in Allianz interest</i>	10	0.0%	329
<i>Other model changes</i>	42	0.6%	-179
Starting Value as at 31 December 2006	296	3.6%	8,203
Change in volume	36	0.0%	985
Change in business mix	0	0.0%	0
Change in assumptions	30	0.3%	0
Value of new business as at 31 December 2007	362	3.9%	9,188

Initial adjustments added 21% to the value published for the end of 2006. Part of this is the result of Allianz's higher interest in Allianz Leben. Model improvements particularly the improved modeling of the annuity pay-out phase showed additional margins that were previously not valued, and led to an increase of the new business margin by 0.6%-p.

In 2007 the new business volume, after initial adjustments, increased by 12%, supported by high volumes in recurrent premium annuity business. The lower corporate tax rate following the tax reform in Germany and higher interest rates had a significant positive impact on new business margin.

3.2.2 Development of Embedded Value and Free Surplus

The total embedded value for Allianz Leben increased from EUR 5,182mn to EUR 6,412mn after a dividend payment of EUR 338mn.

The movement analysis in Exhibit 11 summarizes the main drivers for the change in embedded value of Allianz Leben.

Exhibit 11: Movement of Embedded Value - Germany

	NAV			
	FS	ReC	VIF	EV
	mn EUR	mn EUR	mn EUR	mn EUR
Reported Value as at 31 December 2006	409	961	3,812	5,182
Total initial adjustments	17	39	306	362
Change in Foreign Exchange	0	0	0	0
Change in Allianz interest	17	39	156	211
Other initial adjustments	0	0	150	150
Starting Value as at 31 December 2006	425	1,000	4,118	5,543
Total Unwinding (inforce)	310	-3	6	313
Unwinding of discount	59	0	191	250
Realisation of projected profits	252	-3	-248	0
Release from O&G and CNFR	0	0	63	63
Deviation from unwind due to market changes and asset performar	55	0	94	149
Operating Variances	-22	22	-104	-104
Operating Assumption Changes	55	0	761	816
Value of new business at point of sale	0	0	362	362
Total Unwind (new business)	-66	22	53	8
Unwinding of discount	0	0	8	8
Realisation of projected profits	-66	22	45	0
Release from O&G and CNFR	0	0	0	0
Changes in legislation	0	0	-338	-338
Embedded Value before capital movements	757	1,041	4,952	6,750
Net capital movements	-338	0	0	-338
Embedded Value as at 31 December 2007	419	1,041	4,952	6,412

The embedded value increased significantly as a result of Allianz's higher interest in Allianz Leben and model refinements including the full assessment of life annuities, which led to a higher revised start value.

The embedded value profit (after initial adjustment and before dividend payment) is 22% of the revised start value. This profit was driven by the positive impact of higher interest rates, slightly offset by the effect of higher volatilities at year end on the value of Options & Guarantees. The impact of several smaller operating variances is by far compensated by the positive impact of the corporate tax reform (from 40% to 31%) shown as operating assumption changes.

The positive effects were partly offset by the impact of new legislation for insurance contracts (VVG reform) which brings forward policyholder participation on unrealized capital gains which, in turn increases the cost of financial options and guarantees.

Additional changes from the reform of the legal requirements for minimum crediting to be introduced in 2008 (VAG reform) have not yet been implemented. However, since in the majority of the scenarios the credited rate is determined by the company's crediting strategy rather than by the modeled legal minimum, the proposed harmonization of the current rules for business written before 1994 and after 1994 (Z / Z-R Quoten-Regelung) is not expected to restrict current target shareholder returns.

The new business strain was EUR 66mn. This is comparatively low and reflects the impact of the German open-fund business model, where new business and in-force portfolio are managed as a single fund. This structure allows offsetting new business strain against technical profits of the in-force before sharing the profits with the policyholders and leads to a significant reduction of the shareholder strain.

3.2.3 Sensitivities

Exhibit 12 shows the sensitivities for embedded value and value of new business:

Exhibit 12: Sensitivities - Germany

	Inforce	Inforce	NB	NB
	mn EUR	%	mn EUR	%
Central Assumptions	6,412	100%	362	100%
Required Capital equal to local solvency capital	251	4%	17	5%
<i>EV change by economic factors</i>				
Risk Free Rate -100bp	-877	-14%	-28	-8%
Risk Free Rate +100bp	353	6%	17	5%
Charge for CNFR +100bp	-25	0%	-2	0%
Equity and property values - 10%	-362	-6%	0	0%
Volatilities +10%	-67	-1%	1	0%
<i>EV change by non-economic factors</i>				
Lapse Rates -10%	158	2%	17	5%
Maintenance Expenses -10%	126	2%	13	4%
Mortality -5% for products with death risk	32	0%	2	1%
Mortality -5% for products with longevity risk	-69	-1%	-5	-1%

Due to the nature of the business with long premium payment terms and the high percentage of traditional participating business, the sensitivities to the market drivers show a significantly higher impact than the sensitivities to non-economic factors. Due to the asymmetric impact of embedded financial options and guarantees, falling market rates have a higher impact on EV than rising interest rates. With the higher interest rate environment in 2007, the sensitivity to market rates is much lower than in 2006. In relative terms the impact is slightly higher for new business than for the total EV, as in EV there is a balancing effect from the shift in the market values of the assets backing NAV. The improved modeling of the annuity pay-out phase led to a small increase in the sensitivity to longevity risk, however, sensitivities to non-economic parameters are still very low, because of the mitigating effect of the (technical) profit sharing.

3.3 France

In 2007 Allianz SE completed the buy-out of AGF minorities which increased Allianz interest from 60% at the start of the year to 100% at the year end. Changes in the cost allocation after the merger and challenging market conditions affected the value creation during the year.

3.3.1 Development of Value of New Business

The value of new business written by AGF in 2007 was EUR 146mn, which is 33% higher than the value reported in 2006. The new business margin was 2.5% in 2007.

Exhibit 13 shows an analysis of the change in new business value:

Exhibit 13: Movement of Value of New Business - France

	Value of New Business	New Business Margin	Present Value of Premium
	mn EUR	%	mn EUR
Reported Value as at 31 December 2006	109	3.5%	3,088
Total initial adjustments	59	-0.3%	2,039
<i>Change in Foreign Exchange</i>	0	0.0%	0
<i>Change in Allianz interest</i>	72	0.0%	2,039
<i>Other model changes</i>	-13	-0.3%	0
Starting Value as at 31 December 2006	168	3.3%	5,127
Change in volume	17	0.0%	519
Change in business mix	-6	-0.1%	0
Change in assumptions	-33	-0.6%	142
Value of new business as at 31 December 2007	146	2.5%	5,787

The table above shows that the minority buy-out led to an increase of new business value of EUR 72mn. After model changes, the restated value for 2006 is EUR 59mn higher than the value published for the end of 2006.

In 2007, the new business volume increased strongly by 13% after initial adjustments despite an underperforming insurance market in France. More competitive products to support premium growth, a new regulation of profit sharing for Group Protection business and higher expenses reduced the new business margin to 2.5% leading to a new business value of EUR 146mn.

3.3.2 Development of Embedded Value and Free Surplus

The total embedded value for AGF France increased from EUR 3,096mn to EUR 4,595mn after a dividend payment of EUR 716mn.

The movement analysis in Exhibit 14 summarizes the main drivers for the change in embedded value of AGF France.

Exhibit 14: Movement of Embedded Value - France

	NAV			
	FS	ReC	ViF	EV
	mn EUR	mn EUR	mn EUR	mn EUR
Reported Value as at 31 December 2006	292	993	1,812	3,096
Total initial adjustments	171	692	1,296	2,159
Change in Foreign Exchange	0	0	0	0
Change in Allianz interest	193	656	1,196	2,045
Other initial adjustments	-22	37	100	114
Starting Value as at 31 December 2006	462	1,685	3,108	5,255
Total Unwinding (inforce)	382	-24	-125	232
Unwinding of discount	88	0	136	224
Realisation of projected profits	294	-24	-269	0
Release from O&G and CNFR	0	0	8	8
Deviation from unwind due to market changes and asset performer	240	-27	-20	193
Operating Variances	-103	38	-137	-201
Operating Assumption Changes	0	2	-271	-269
Value of new business at point of sale	0	0	146	146
Total Unwind (new business)	-231	105	140	13
Unwinding of discount	0	0	3	3
Realisation of projected profits	-231	105	127	0
Release from O&G and CNFR	0	0	10	10
Changes in legislation	0	0	-58	-58
Embedded Value before capital movements	750	1,778	2,782	5,311
Net capital movements	-716	0	0	-716
Embedded Value as at 31 December 2007	34	1,778	2,782	4,595

The embedded value profit (after initial adjustment and before dividend payment) is EUR 55mn or 1% of the revised start value.

Higher interest in AGF following the minority buy-out increased Group EV by EUR 2,045mn. Following the buy-out, EUR 716mn of excess capital was released to Allianz Group and AGF holding expenses were re-allocated between the Life and P&C segments leading to a higher allocation to the Life segment which is shown under both operating variances and assumption changes. The impact of higher Euro interest rates is slightly offset by underperformance of equity and real estate resulting in an overall impact of EUR 193mn arising from market changes and asset performance. New legal requirements for profit sharing on Group Protection lowered both in-force and new business value.

3.3.3 Sensitivities

Exhibit 15 shows the sensitivities for embedded value and value of new business of AGF France.

	Inforce	Inforce	NB	NB
	mn EUR	%	mn EUR	%
Central Assumptions	4,595	100%	146	100%
Required Capital equal to local solvency capital	0	0%	0	0%
<i>EV change by economic factors</i>				
Risk Free Rate -100bp	-317	-7%	-23	-16%
Risk Free Rate +100bp	230	5%	18	12%
Charge for CNFR +100bp	-60	-1%	-5	-3%
Equity and property values - 10%	-216	-5%	0	0%
Volatilities +10%	-64	-1%	-2	-1%
<i>EV change by non-economic factors</i>				
Lapse Rates -10%	34	1%	11	7%
Maintenance Expenses -10%	54	1%	12	8%
Mortality -5% for products with death risk	5	0%	3	2%
Mortality -5% for products with longevity risk	-10	0%	0	0%

Sensitivities to economic assumptions have increased from last year due to new legal requirements on profit sharing for Group business. Sensitivities to non-economic assumptions are low since in France technical profits are shared with the policyholders

3.4 Italy

In 2007, the Italian insurance market continued to show low performance affecting particularly the agents' and financial advisors' distribution channels. Allianz Italy outperformed the market particularly in the financial advisors' channel.

3.4.1 Development of Value of New Business

The value of new business written by Allianz Italy (Italian and Irish subsidiaries of former RAS and Lloyd Adriatico) in 2007 amounts to EUR 208mn with a new business margin of 2.9%. Exhibit 16 shows an analysis of the change in new business value in 2007.

Exhibit 16: Movement of Value of New Business - Italy

	Value of New Business	New Business Margin	Present Value of Premium
	mn EUR	%	mn EUR
Reported Value as at 31 December 2006	224	3.5%	6,401
Total initial adjustments	-3	0.0%	-11
<i>Change in Foreign Exchange</i>	0	0.0%	0
<i>Change in Allianz interest</i>	0	0.0%	-7
<i>Other model changes</i>	-3	0.0%	-3
Starting Value as at 31 December 2006	221	3.5%	6,391
Change in volume	27	0.0%	772
Change in business mix	-21	-0.3%	0
Change in assumptions	-19	-0.3%	-32
Value of new business as at 31 December 2007	208	2.9%	7,130

Despite the above mentioned low performance of the Italian insurance market, Allianz Italy increased new business volumes by 11% driven by growth in the banking channel and flexible unit-linked products. In order to ensure market share following the pension reform, AZ Italy introduced more competitive pension fund products. This and increased volume in the lower margin banking channel lowered the overall margin. Higher lapse experience in the own portfolio and the overall market have been reflected in corresponding assumption changes which also contributed to the lower margins at year end.

3.4.2 Development of Embedded Value and Free Surplus

The total embedded value for the Italian operations increased from EUR 3,404mn to EUR 3,522mn after a net capital movement of EUR -133mn.

The movement analysis in Exhibit 17 summarizes the main drivers for the change in embedded value of Allianz Italy.

Exhibit 17: Movement of Embedded Value - Italy

	NAV			
	FS	ReC	ViF	EV
	mn EUR	mn EUR	mn EUR	mn EUR
Reported Value as at 31 December 2006	804	897	1,703	3,404
Total initial adjustments	69	15	-60	24
Change in Foreign Exchange	0	0	0	0
Change in Allianz interest	0	0	0	0
Other initial adjustments	69	15	-60	24
Starting Value as at 31 December 2006	873	911	1,643	3,428
Total Unwinding (inforce)	326	-49	-163	113
Unwinding of discount	36	0	66	102
Realisation of projected profits	290	-49	-240	0
Release from O&G and CNFR	0	0	11	11
Deviation from unwind due to market changes and asset performar	-61	6	40	-15
Operating Variances	41	-40	-84	-83
Operating Assumption Changes	3	-3	-6	-6
Value of new business at point of sale	0	0	208	208
Total Unwind (new business)	-140	77	73	10
Unwinding of discount	0	0	5	5
Realisation of projected profits	-140	77	63	0
Release from O&G and CNFR	0	0	5	5
Changes in legislation	0	0	0	0
Embedded Value before capital movements	1,041	902	1,711	3,655
Net capital movements	-133	0	0	-133
Embedded Value as at 31 December 2007	909	902	1,711	3,522

The embedded value profit (after initial adjustment and before dividend payment) is EUR 227mn or 7% of the revised start value.

Due to close asset-liability matching the sensitivity to market changes is low for Allianz Italy. A slightly positive impact of higher interest rates is offset by negative performance of strategic equity participation backing the net asset value. Operating variances and assumption changes slightly reduce the value; higher lapse experience in the own portfolio and the overall market have been reflected in corresponding assumption changes and higher cost for non-financial risk. This impact is partly offset by the positive effect of lower tax rates following the tax reform in Italy.

3.4.3 Sensitivities

Exhibit 18 shows the sensitivities for the embedded value and value of new business of Allianz Italy.

	Inforce		NB	
	mn EUR	%	mn EUR	%
Central Assumptions	3,522	100%	208	100%
Required Capital equal to local solvency capital	0	0%	0	0%
<i>EV change by economic factors</i>				
Risk Free Rate -100bp	-28	-1%	2	1%
Risk Free Rate +100bp	9	0%	-2	-1%
Charge for CNFR +100bp	-38	-1%	-17	-8%
Equity and property values - 10%	-89	-3%	0	0%
Volatilities +10%	-6	0%	-1	0%
<i>EV change by non-economic factors</i>				
Lapse Rates -10%	28	1%	12	6%
Maintenance Expenses -10%	52	1%	12	6%
Mortality -5% for products with death risk	-6	0%	1	1%
Mortality -5% for products with longevity risk	-2	0%	0	0%

All of the sensitivities are comparatively low. In particular, as described above, sensitivities to changes in the market environment are low due to good asset liability management in the segregated funds and the high proportion of unit-linked business with low or, for most of the portfolio, no guarantees. For new business, due to the higher proportion of unit-linked and single premium with low re-investment risk policies, the sensitivity to a shift in the interest rate is opposite to that seen for in-force business, as the impact of a change in the discount rate is higher than the corresponding impact from changed investment returns.

3.5 Other Western Europe

As a consequence of the AGF buy-out, the interest of Allianz in AGF subsidiaries in Belgium, Netherlands and Spain has increased with a positive impact on the Group embedded value and value of new business. Strong volume growth is seen throughout the region.

3.5.1 Development of Value of New Business

In 2007, the value of new business of the entities included in “Other Western Europe” was EUR 93mn with a new business margin of 3.9%. Exhibit 19 shows an analysis of the change in new business value.

Exhibit 19: Movement of Value of New Business - Other Western Europe

	Value of New Business mn EUR	New Business Margin %	Present Value of Premium mn EUR
Reported Value as at 31 December 2006	70	4.3%	1,650
Total initial adjustments	19	-0.1%	488
<i>Change in Foreign Exchange</i>	-1	0.0%	-12
<i>Change in Allianz interest</i>	19	0.0%	434
<i>Other model changes</i>	1	-0.1%	66
Starting Value as at 31 December 2006	90	4.2%	2,138
Change in volume	6	0.0%	146
Change in business mix	2	0.1%	0
Change in assumptions	-4	-0.3%	94
Value of new business as at 31 December 2007	93	3.9%	2,378

Increase in minorities for AGF subsidiaries raised the new business value by EUR 19mn. This impact was slightly reduced by the lower exchange rate for the Swiss Franc.

Strong premium growth in Belgium, Switzerland, Portugal and Spain compensated for the challenging market conditions in the Netherlands due to negative publicity on unit-linked business. The overall growth after initial adjustments is strong with 11%. The new business margin remains high at 3.9% despite the negative impact of high unit costs and lower management fee income in the Netherlands.

3.5.2 Development of Embedded Value and Free Surplus

The embedded value for the entities summarized under “Other Western Europe” increased from EUR 2,238mn to EUR 3,346mn after a dividend payment of EUR 16mn.

The movement analysis in Exhibit 20 summarizes the main drivers for the change in embedded value:

Exhibit 20: Movement of Embedded Value - Other Western Europe

	NAV			
	FS	ReC	ViF	EV
	mn EUR	mn EUR	mn EUR	mn EUR
Reported Value as at 31 December 2006	151	1,027	1,060	2,238
Total initial adjustments	36	217	285	538
Change in Foreign Exchange	1	-16	-10	-25
Change in Allianz interest	80	188	329	596
Other initial adjustments	-45	45	-33	-33
Starting Value as at 31 December 2006	186	1,245	1,345	2,776
Total Unwinding (inforce)	284	-37	-95	151
Unwinding of discount	51	0	58	108
Realisation of projected profits	233	-37	-196	0
Release from O&G and CNFR	0	0	43	43
Deviation from unwind due to market changes and asset performer	239	-199	231	271
Operating Variances	4	-10	78	72
Operating Assumption Changes	-1	1	-6	-6
Value of new business at point of sale	0	0	93	93
Total Unwind (new business)	-83	43	45	5
Unwinding of discount	0	0	4	4
Realisation of projected profits	-83	43	41	1
Release from O&G and CNFR	0	0	0	0
Changes in legislation	0	0	0	0
Embedded Value before capital movements	628	1,043	1,690	3,362
Net capital movements	-16	0	0	-16
Embedded Value as at 31 December 2007	612	1,043	1,690	3,346

The embedded value profit (after initial adjustment and before dividend payment) is EUR 586mn or 21% of the revised start value.

Increase in Allianz's interest due to the AGF buy-out increased EV by EUR 596mn. This impact was slightly reduced by lower Swiss Franc exchange rate and a slightly negative impact resulting from model changes.

Higher interest rates in the Euro zone and Switzerland increased EV; this was slightly offset by volatile equity and real estate markets. Operating variances increase EV by EUR 72mn due to positive lapse experience in Switzerland and Austria and favourable mortality experience in Spain.

3.5.3 Sensitivities

Exhibit 21 shows the sensitivities for the embedded value and value of new business.

Exhibit 21: Sensitivities - Other Western Europe

	Inforce	Inforce	NB	NB
	mn EUR	%	mn EUR	%
Central Assumptions	3,346	100%	93	100%
Required Capital equal to local solvency capital	15	0%	1	1%
<i>EV change by economic factors</i>				
Risk Free Rate -100bp	-359	-11%	-18	-19%
Risk Free Rate +100bp	181	5%	9	9%
Charge for CNFR +100bp	-36	-1%	-3	-3%
Equity and property values - 10%	-148	-4%	0	0%
Volatilities +10%	-50	-2%	-2	-2%
<i>EV change by non-economic factors</i>				
Lapse Rates -10%	43	1%	8	9%
Maintenance Expenses -10%	90	3%	7	8%
Mortality -5% for products with death risk	29	1%	3	3%
Mortality -5% for products with longevity risk	-29	-1%	-1	-1%

The sensitivity to interest rates for in-force business has decreased from 2006 due to the higher level of interest rates across the markets.

The impact of sensitivities to a decrease in maintenance expense assumptions depends strongly on whether technical profits are subject to profit sharing with policyholders as is the case in Switzerland and Austria.

3.6 New Europe

Bottom-up Market Consistent Embedded Value (MCEV) was implemented in the four main entities in the Czech Republic, Hungary, Poland and Slovakia. With EUR 567mn, this region currently contributes 3% of the embedded value and 5% of the value of new business of the Group.

3.6.1 Development of Value of New Business

The value of new business of the entities summarized under “New Europe” in 2007 was EUR 58 million with a new business margin of 6.6%. Exhibit 22 shows an analysis of the change in new business value.

Exhibit 22: Movement of Value of New Business - New Europe

	Value of New Business mn EUR	New Business Margin %	Present Value of Premium mn EUR
Reported Value as at 31 December 2006	42	6.1%	687
Total initial adjustments	14	1.0%	110
<i>Change in Foreign Exchange</i>	1	0.0%	22
<i>Change in Allianz interest</i>	0	0.0%	0
<i>Other model changes</i>	13	1.0%	87
Starting Value as at 31 December 2006	56	7.0%	797
Change in volume	6	0.0%	85
Change in business mix	-2	-0.3%	0
Change in assumptions	-1	-0.1%	-2
Value of new business as at 31 December 2007	58	6.6%	880

Apart from a small increase due to foreign currency effects, the restated value for 2006 includes the impact of the move from top-down to bottom-up MCEV methodology. This more detailed evaluation of the risks inherent in the business resulted in higher new business margins as the previous top-down risk margins were too conservative for the new business portfolio, which has a high proportion of unit-linked products without or with low guarantees.

In 2007, after initial adjustments, the value of new business increased by 4% and new business volume increased by 10%. Volume growth remains strong and margins stay high despite regional and local growth initiatives to retain market share, and strong competition in the sector. The main contributors to this change are the successful bancassurance joint venture in Poland and the continued success of index-linked investment contracts in the Czech Republic and Slovakia.

3.6.2 Development of Embedded Value and Free Surplus

The embedded value for New Europe increased from EUR 419mn to EUR 567mn after a net capital movement of EUR -8mn.

The movement analysis in Exhibit 23 below summarizes the main drivers for the change in embedded value.

Exhibit 23: Movement of Embedded Value - New Europe

	NAV			
	FS	ReC	ViF	EV
	mn EUR	mn EUR	mn EUR	mn EUR
Reported Value as at 31 December 2006	27	149	242	419
Total initial adjustments	54	-46	56	64
<i>Change in Foreign Exchange</i>	1	3	5	9
<i>Change in Allianz interest</i>	0	0	0	0
<i>Other initial adjustments</i>	53	-49	51	55
Starting Value as at 31 December 2006	81	103	298	483
Total Unwinding (inforce)	55	1	-24	31
<i>Unwinding of discount</i>	9	0	18	26
<i>Realisation of projected profits</i>	46	1	-46	0
<i>Release from O&G and CNFR</i>	0	0	5	5
Deviation from unwind due to market changes and asset performar	-4	0	20	16
Operating Variances	-14	0	-1	-14
Operating Assumption Changes	-2	0	3	2
Value of new business at point of sale	0	0	58	58
Total Unwind (new business)	-24	11	15	2
<i>Unwinding of discount</i>	0	0	2	2
<i>Realisation of projected profits</i>	-24	11	13	0
<i>Release from O&G and CNFR</i>	0	0	0	0
Changes in legislation	-3	0	0	-3
Embedded Value before capital movements	89	115	371	575
Net capital movements	-8	0	0	-8
Embedded Value as at 31 December 2007	81	115	371	567

Embedded value profit (after initial adjustment and before dividend payment) is EUR 93mn or 19% of the revised start value.

The initial adjustments contain the impact of changes in foreign currency exchange rates as well as the impact of implementing bottom-up MCEV, which increased EV as the New Europe portfolio is predominantly unit-linked and as such the risk margin used in the top-down methodology was too conservative.

In general, mortality and morbidity experiences were favourable and assumptions were revised across New Europe creating positive impact on EV. The New Europe markets have limited company experience and as such have used market rates to set assumptions. As their internal experience data increase, these assumptions have been revised to be better aligned to their own experience. This positive impact is partly offset by the impact from increased sales incentives to retain market share in a competitive market. AZ Slovakia enhanced policyholder benefits during the period which is also reflected as an operating variance.

3.6.3 Sensitivities

Exhibit 24 shows the sensitivities for the embedded value and the value of new business.

Exhibit 24: Sensitivities - New Europe	Inforce	Inforce	NB	NB
	mn EUR	%	mn EUR	%
Central Assumptions	567	100%	58	100%
Required Capital equal to local solvency capital	3	1%	0	1%
<i>EV change by economic factors</i>				
Risk Free Rate -100bp	-22	-4%	1	2%
Risk Free Rate +100bp	12	2%	0	0%
Charge for CNFR +100bp	-8	-1%	-1	-2%
Equity and property values - 10%	-6	-1%	0	0%
Volatilities +10%	-1	0%	0	0%
<i>EV change by non-economic factors</i>				
Lapse Rates -10%	9	2%	5	8%
Maintenance Expenses -10%	21	4%	4	7%
Mortality -5% for products with death risk	4	1%	2	3%
Mortality -5% for products with longevity risk	-2	0%	0	0%

Sensitivities to economic factors have decreased significantly from reported sensitivities last year. Reasons for this decline are the increasing share of unit-linked products in the portfolio and better reflection of ALM under the bottom-up MCEV methodology for the traditional portfolio with relatively high minimum guaranteed rates. The new business is predominantly unit-linked and new traditional products have significantly lower guarantees.

3.7 USA

The value of new business and the embedded value shown below for 2007 are affected by a drop of 12% in the US Dollar exchange rate compared to year-end 2006. Low sales volumes, market turbulences and margin erosion affect both value of new business and value of in-force.

3.7.1 Development of Value of New Business

The value of new business written by AZ Life US in 2007 amounts to EUR 93mn with a new business margin of 1.4%. Exhibit 25 shows an analysis of the change in new business value.

Exhibit 25: Movement of Value of New Business - US

	Value of New Business	New Business Margin	Present Value of Premium
	mn EUR	%	mn EUR
Reported Value as at 31 December 2006	195	2.5%	7,943
Total initial adjustments	-25	-0.1%	-781
Change in Foreign Exchange	-21	0.0%	-837
Change in Allianz interest	0	0.0%	0
Other model changes	-5	-0.1%	56
Starting Value as at 31 December 2006	170	2.4%	7,163
Change in volume	-19	0.0%	-804
Change in business mix	-8	-0.1%	0
Change in assumptions	-50	-0.8%	52
Value of new business as at 31 December 2007	93	1.4%	6,411

The 2006 new business value is EUR 21mn lower when foreign exchange rates as at 31 December 2007 are applied. Other model changes show the impact of higher cost of capital after allocating additional capital on top of the internally derived capital to reflect market standards and rating purposes.

After allowing for changes in the US Dollar exchange rate, in aggregate, new business volume was 10% lower than in 2006, with a higher proportion in low margin products. The main drivers for the decrease in the margin are the higher unit expenses and the impact of unfavorable market conditions with lower interest rates at the valuation date. The increase in unit expenses is largely driven by the reduced sales volumes. Ongoing cost-cutting measures and economies of scale due to anticipated future increase in sales volumes is expected to lead to an increase in margins in the future.

3.7.2 Development of Embedded Value and Free Surplus

The total embedded value for AZ-Life decreased from EUR 3,617mn to EUR 2,884mn after a capital injection of EUR 102mn.

The movement analysis in Exhibit 26 summarizes the main drivers for the change in embedded value.

Exhibit 26: Movement of Embedded Value - US

	NAV			
	FS	ReC	ViF	EV
	mn EUR	mn EUR	mn EUR	mn EUR
Reported Value as at 31 December 2006	1,054	865	1,698	3,617
Total initial adjustments	-463	232	-278	-509
Change in Foreign Exchange	-111	-91	-179	-381
Change in Allianz interest	0	0	0	0
Other initial adjustments	-352	324	-99	-128
Starting Value as at 31 December 2006	591	1,097	1,420	3,108
Total Unwinding (inforce)	294	2	-68	228
Unwinding of discount	39	0	103	142
Realisation of projected profits	255	2	-257	0
Release from O&G and CNFR	0	0	85	85
Deviation from unwind due to market changes and asset performar	-186	0	-366	-552
Operating Variances	-26	0	-31	-58
Operating Assumption Changes	0	0	-42	-42
Value of new business at point of sale	0	0	93	93
Total Unwind (new business)	-299	145	159	5
Unwinding of discount	0	0	5	5
Realisation of projected profits	-299	145	154	0
Release from O&G and CNFR	0	0	0	0
Changes in legislation	0	0	0	0
Embedded Value before capital movements	374	1,244	1,164	2,782
Net capital movements	102	0	0	102
Embedded Value as at 31 December 2007	476	1,244	1,164	2,884

The embedded value profit (after initial adjustment and before dividend payment) is -10% of the revised start value.

The lower US Dollar exchange rate led to a decrease in the start value of EUR 381mn. Additional capital on top of Allianz internal required capital and solvency capital has been allocated to better reflect market standards. This measure reduced free surplus and contributed to the reduction in EV due to higher frictional cost.

Capital market turbulences especially in the forth quarter had a major effect on EV with lower swap rates, higher credit spreads and underperformance of equity investments. Operating variances and assumption changes are driven by adverse expense developments as the current business volume is insufficient to support the existing infrastructure.

The new business strain is significantly higher than last year due to the higher capital requirement.

3.7.3 Sensitivities

Exhibit 27 shows the sensitivities for AZ-Life embedded value and value of new business:

	Inforce		NB	
	mn EUR	%	mn EUR	%
Central Assumptions	2,884	100%	93	100%
Required Capital equal to local solvency capital	65	2%	10	10%
<i>EV change by economic factors</i>				
Risk Free Rate -100bp	-320	-11%	-34	-37%
Risk Free Rate +100bp	94	3%	14	15%
Charge for CNFR +100bp	-35	-1%	-7	-7%
Equity and property values - 10%	-147	-5%	0	0%
Volatilities +10%	64	2%	11	11%
<i>EV change by non-economic factors</i>				
Lapse Rates -10%	2	0%	1	1%
Maintenance Expenses -10%	36	1%	3	3%
Mortality -5% for products with death risk	7	0%	1	1%
Mortality -5% for products with longevity risk	-36	-1%	-4	-4%

The asymmetric sensitivities to swings in the risk free rate are a result of the projected different dynamic policyholder and management behaviors in the underlying lines of business. For indexed annuities, a downshift in rates would reduce the obtainable margin as credited interest would approach minimum guaranteed rates, while at higher market rates the margins cannot be increased accordingly. Non-indexed annuities would face increased surrenders by clients looking for

better returns elsewhere in an interest-up scenario. Variable annuities show a higher loss of value in the down scenario than gain in the up scenario due to the implied minimum guarantees.

The sensitivity to an increase in volatilities shows an increase in value particularly for new business: For indexed products, differences in the time horizons applied to caps and floors leads to a higher portfolio value when volatilities increase.

3.8 Asia

In 2007 Allianz SE completed the buy-out of minorities of Allianz Life Taiwan. Bottom-up MCEV was introduced in Allianz Life Taiwan. Along with Allianz Life Korea where bottom-up MCEV had been introduced a year earlier, the two companies represent the majority of the Life business of the region. All other Asian entities still calculate EV applying the top-down real-world methodology described in Appendix C.

3.8.1 Development of Value of New Business

The value of new business of our Asian operations increased to EUR 159mn, which is 23% higher than the value reported in 2006. The new business margin in 2007 is 3.5%. Exhibit 28 shows an analysis of the change in new business value.

Exhibit 28: Movement of Value of New Business - Asia

	Value of New Business mn EUR	New Business Margin %	Present Value of Premium mn EUR
Reported Value as at 31 December 2006	129	3.9%	3,349
Total initial adjustments	15	0.4%	60
<i>Change in Foreign Exchange</i>	-15	0.0%	-355
<i>Change in Allianz interest</i>	13	-0.1%	426
<i>Other model changes</i>	17	0.5%	-11
Starting Value as at 31 December 2006	144	4.2%	3,409
Change in volume	49	0.0%	1,172
Change in business mix	-25	-0.6%	0
Change in assumptions	-9	-0.1%	-52
Value of new business as at 31 December 2007	159	3.5%	4,529

The most significant contribution comes from AZ-Life in Korea, where the value of new business is EUR 113mn. The other significant operation is Taiwan with a value of new business of EUR 45mn. The value increase in Taiwan is the result of very strong sales; volume increased by 74% after the minority buy-out.

As expected, China's fast growing operation has incurred an expense overrun, which is decreasing in value as planned. The new business volumes in China increased by more than 150%. In Indonesia, volumes grew by 160% after initial adjustments for exchange rate movements. The strong growth in Taiwan and the expanding operations with relatively lower margins than in Korea lead to an overall decrease of the margin in the region.

The lower new business margin reflects revised lapse assumptions used for new investment type products in Taiwan.

3.8.2 Development of Embedded Value and Free Surplus

The embedded value for the Asian entities increased from EUR 590mn to EUR 637mn after a capital injection of EUR 21mn supporting the growth in China and a dividend payment of EUR 7mn from Korea.

The movement analysis in Exhibit 29 summarizes the main drivers for the change in embedded value:

Exhibit 29: Movement of Embedded Value - Asia

	NAV			
	FS	ReC	ViF	EV
	mn EUR	mn EUR	mn EUR	mn EUR
Reported Value as at 31 December 2006	-97	774	-87	590
Total initial adjustments	-34	-17	-193	-244
<i>Change in Foreign Exchange</i>	10	-83	10	-63
<i>Change in Allianz interest</i>	-49	70	-129	-107
<i>Other initial adjustments</i>	5	-4	-74	-73
Starting Value as at 31 December 2006	-131	758	-280	347
Total Unwinding (inforce)	63	26	-39	50
<i>Unwinding of discount</i>	29	0	2	32
<i>Realisation of projected profits</i>	34	26	-60	0
<i>Release from O&G and CNFR</i>	0	0	18	18
Deviation from unwind due to market changes and asset performar	138	-185	184	137
Operating Variances	45	-4	-74	-33
Operating Assumption Changes	0	0	-42	-42
Value of new business at point of sale	0	0	159	159
Total Unwind (new business)	-207	123	89	5
<i>Unwinding of discount</i>	0	0	5	4
<i>Realisation of projected profits</i>	-207	123	84	0
<i>Release from O&G and CNFR</i>	0	0	0	0
Changes in legislation	0	0	0	0
Embedded Value before capital movements	-92	717	-3	623
Net capital movements	14	0	0	14
Embedded Value as at 31 December 2007	-78	717	-3	637

The embedded value profit (after initial adjustment and before dividend payment) is EUR 276mn or 80% of the revised start value.

The total initial adjustment arises mostly from the increase in Allianz's interest in Taiwan and the introduction of bottom-up MCEV methodology in Taiwan. The weaker Korean Won and Taiwanese Dollar further contribute to the negative initial adjustments.

Higher interest rates in Korea and Taiwan had a positive impact on the value of in-force. Operating variances and assumption changes mostly reflect the lapse and mortality/morbidity experience and assumption changes. Lower than expected lapses on the old blocks with higher guarantees and adjusted lapse assumptions in Korea reduced the EV. Updated lapse assumptions for the unit-linked business in Taiwan also reduced the EV.

3.8.3 Sensitivities

Exhibit 30 shows the sensitivities for embedded value and value of new business.

Exhibit 30: Sensitivities - Asia				
	Inforce	Inforce	NB	NB
	mn EUR	%	mn EUR	%
Central Assumptions	637	100%	159	100%
Required Capital equal to local solvency capital	33	5%	6	4%
<i>EV change by economic factors</i>				
Risk Free Rate -100bp	-435	-68%	5	3%
Risk Free Rate +100bp	265	42%	-7	-5%
Charge for CNFR +100bp	-29	-5%	-5	-3%
Equity and property values - 10%	-27	-4%	0	0%
Volatilities +10%	-79	-12%	7	5%
<i>EV change by non-economic factors</i>				
Lapse Rates -10%	55	9%	24	15%
Maintenance Expenses -10%	38	6%	7	4%
Mortality -5% for products with death risk	49	8%	3	2%
Mortality -5% for products with longevity risk	-4	-1%	0	0%

Sensitivities in Asia are dominated by Taiwan and Korea. The values of in-force are very sensitive to movements in the risk free rate due to high guarantees in the old blocks of business. High guarantees in the in-force are also the reason for the sensitivity to a change in volatilities as the guarantees are close to the current market rates. The value of new business is most sensitive to lapse assumptions. For the in-force this sensitivity is lower as for some of the high guarantee blocks of business there is a negative impact of lower lapse rates.

3.9 Holding

The holding segment in the EV report contains the results from internal reinsurance as well as the holding expense adjustment. The following table summarizes the impact of these adjustments:

Exhibit 31: Summary Holding

	Holding Expenses	Reinsurance	Total
Embedded Value 2006	-146	135	-11
Ending Embedded Value 2007	-173	138	-36
Value of New Business 2006	-36	5	-31
Value of New Business 2007	-46	3	-43

The after-tax impact of holding expenses on the embedded value and on the value of new business increased due to the lower corporate tax rates.

As the entities calculate Embedded Value net of internal and external reinsurance, the corresponding projected profits of the internal life reinsurance entity increase the EV. Premiums are reported gross of reinsurance.

4 Independent opinion

“The Tillinghast Insurance Consulting practice of Towers Perrin has reviewed the methodology and assumptions used to determine the 2007 embedded value results for the Allianz Group. Our review covered the embedded value as at 31 December 2007, the value of 2007 new business, the analysis of movement in embedded value over 2007 and the sensitivities on the embedded value and new business value.

Tillinghast has concluded that the methodology and assumptions used comply with the EEV Principles. In particular

- The methodology makes allowance for the aggregate risks in the covered business through the bottom-up methodology as described in Appendix A of the "Allianz European Embedded Value Report 2007";
- The operating assumptions have been set with appropriate regard to past, current and expected future experience;
- The economic assumptions used are internally consistent and consistent with observable market data; and
- For participating business, the assumed bonus rates, and the allocation of profit between policyholders and shareholders, are consistent with the projection assumptions, established company practice and local market practice.

The methodology and assumptions also comply with the EEV Guidance (noting the disclosed exception concerning look-through profits arising from internal asset management and service agreements, as described in the "Allianz European Embedded Value Report 2007").

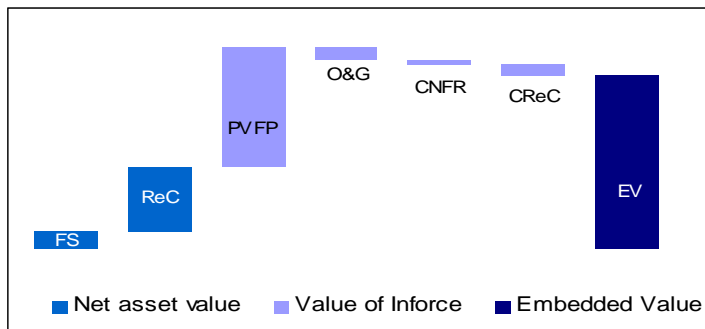
Tillinghast has also performed limited high-level checks on the results of the calculations and has confirmed that any issues discovered do not have a material impact on the disclosed embedded values and new business values. Tillinghast has not, however, performed detailed checks on the models and processes involved.

In arriving at these conclusions, Tillinghast has relied on data and information provided by Allianz SE and its subsidiaries. This opinion is made solely to Allianz SE in accordance with the terms of Tillinghast's engagement letter. To the fullest extent permitted by applicable law, Tillinghast does not accept or assume any responsibility, duty of care or liability to anyone other than Allianz SE for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion."

A Appendix: Methodology

Allianz Group provides the operating entities with detailed guidelines in order to ensure consistency of embedded value calculations throughout the Group. Allianz Group sets the basic economic assumptions centrally which are then used in the calculations by the operating entities. All results submitted to Allianz Group are signed off by the local chief actuary and the CFO.

As described in Section 1.3, embedded value consists of the net asset value, i.e. the value of the assets not backing liabilities which can also be interpreted as the equity component of the embedded value, and the value of in-force, i.e. the value of future profits emerging from operations and the assets backing liabilities.



A.1 Net asset value

Net asset value (or “NAV”) is the market value of the assets not backing local statutory reserves at 31 December 2007, net of an allowance for tax on unrealized capital gains. The NAV includes the required capital (or “ReC”), i.e. the amount of capital required to support in-force business in excess of local statutory reserves, and the free surplus (or “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.2 Required Capital

According to the EEV principles the ReC is the amount of capital required to be held to support covered business in excess of local statutory reserves, taking into account external requirements such as solvency requirements as well as capital required to meet internal objectives. In Allianz, the required capital is defined 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.

The internal risk capital in Allianz Group is defined as the maximum loss in terms of Market Consistent Embedded Value (MCEV) that shareholders may experience under adverse conditions over a time horizon of one year with a given confidence interval reflecting the Group’s target rating. In other words, Risk Capital is held to protect against insolvency from the point of view of the economic balance sheet during the 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.

For the quantification of internal risk capital for life insurance operations, in a first step the risk universe is broken down into the categories market risk, credit risk, actuarial risks and business risks. These are further decomposed into single risk drivers and sub risk drivers; e.g. for mortality, level, trend and calamity risks are assessed separately. For each risk driver a stand-alone capital is defined based on the change in MCEV under worst case shock conditions of the corresponding 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 as per risk category and are further aggregated to a fund level. The aggregation process takes local diversification effects into account, but does not allow for the group diversification effects. As a final aggregation step risk capital per fund is further aggregated to a total risk capital per subsidiary.

As described, Allianz internal risk capital is based on the change in MCEV. Therefore the available economic capital to be considered to cover the capital requirement is the company’s MCEV, which in line with statutory

accounts can be split into the VIF, i.e. the profit margin in the statutory reserves and the NAV. This means that to protect against insolvency from an economic point of view, capital is required to be held in addition to local statutory reserves and statutory solvency capital to the extent that the sum of solvency capital and margins in the local statutory reserves are not sufficient to cover risk capital.

A.3 Value of in-force

The value of in-force is defined as the present value of future profits from in-force business (or “PVFP”) after allowance for the cost of options and guarantees (or “O&G”), for the cost of non-financial risk (or “CNFR”) and for the cost of holding the required capital (or “CReC”). These terms are defined in the following sections.

A.3.1 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. For most of the business, the PVFP is calculated using the market consistent approach.

Within the market consistent approach, each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a bond cash flow is valued using a bond risk discount rate. In using cash flow specific discount rates, the market-consistent EEV methodology differs from the previous EEV methodology which used a single ‘top down’ risk discount rate.

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

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

A.3.2 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
- Guaranteed minimum benefits on unit-linked contracts
- Options and guarantees for variable life and annuities
- Fund switching options with guarantee

The time value of these options and guarantees 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. The time value of O&G is then calculated as the difference between the certainty equivalent and the stochastic PVFP.

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 B1.

Allianz has developed a central asset-liability interaction tool which is used by all entities for the stochastic simulations for options and guarantees and also for the calculation of risk capital. An important part of this tool is the modeling of investment management 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 regulatory and contractual rules. Within these boundaries it is recognized that management behavior is driven by both shareholders' and policyholders' expectations given the economic environment in each scenario. The usage of buffers such as unrealized capital gains or participation funds to meet certain return targets for policyholders and shareholders is defined in the strategy. Where there is management discretion with regard to different types of profit sharing, as for example between terminal dividends versus cash or bonus crediting, a corresponding strategy is defined.

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

The valuation of guaranteed surrender, extension and conversion options requires modeling 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.3.3 Cost of non-financial risk

There are asymmetric non-financial and operational risks where an additional allowance for non-financial risk is required. Allianz has adopted a cost of capital approach to determine this additional allowance, i.e. the allowance is calculated based on the cost of holding capital for non-financial risk. The corresponding risk capital is equal to the stand alone risk capital for mortality risk, lapse risk, expense risk and operational risk allowing for an average diversification of covered risks. 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 B2).

A.3.4 Cost of holding the Required Capital

The cost of holding required capital is the difference between the amount of required capital and the present value of future releases, allowing for future investment returns of that capital. It reflects the impact on the value for the shareholder due to the fact that the capital is locked in the company to run the business.

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

For the business calculated on a market consistent basis the cost of holding the ReC reduces to 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.

A.4 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 after tax profits (PVFP) minus the time value of options and guarantees (O&G) minus the cost of non-financial risk (CNFR) minus the cost of holding the required capital (CReC).

The values are point of sale values using year-end economic and non-economic assumptions. Expense allowances takes into account all acquisition expenses, including any overrun.

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 B1. 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 for example initial expenses can be shared with all policyholders of the in-force fund, so the shareholder strain from new business is reduced significantly. Furthermore, in order to capture the impact on the time value of options and guarantees from the interaction between new business and previously written business, open fund products are valued on a marginal basis as the difference between the O&G value calculated with and without new business.

A.5 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.6 Look through adjustments

Under the EEV 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 EEV 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 EEV calculations. A large part of these profits arise in the Italian operations where part of the margins for asset management and sales are paid to entities outside the life segment but within the Group.

The total value of look-through adjustments on an EEV basis is approximately EUR 300mn as at 31 December 2007. This additional value has not been included in the EEV figures.

B Appendix: Assumptions

B.1 Economic assumptions

The embedded value results for 2007 are based on economic market conditions as of 31 December 2007.

For the market consistent valuation of the options and guarantees embedded in the portfolios of our entities market consistent economic scenarios are used. These have been generated to be arbitrage free, and the model underlying the scenarios has been calibrated to replicate actual prices for selected financial instruments at the valuation date. This calibration is provided by Barrie & Hibbert, a UK based financial consulting company. Stochastic economic scenarios are then generated centrally by an application also provided by Barrie & Hibbert.

Key economic assumptions for risk neutral evaluation are for every economy

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

Market data used for calibration has been taken from Bloomberg. No adjustments e.g. for smoothing volatilities over time are included. Where there are no sufficient financial instruments available in the market for calibration, historic market data are used. e.g. for correlations or volatilities for real estate and for some equity indices.

Risk free yield curves used in the certainty equivalent approach and the stochastic scenarios are based on swap rates as at 31 December 2007. For the European and Asian economies, in order to provide scenario sets early enough in the process to enable a timely completion of the calculations, implied volatilities as at 30 September 2007 were used and results were adjusted based on the sensitivities performed on volatility changes to replicate the actual year end position. For the US, the impact of the difference in the volatilities between 30 September and 31 December was considered to be material and the embedded value was calculated based on volatility data as of 31 December 2007.

Table 1 shows the risk free yields used in the market consistent valuation by currencies:

Table 1: Risk free rates

		1 year	2 year	5 year	10 year	20 year
		%	%	%	%	%
EUR	as of 31.12.2006	4.11%	4.12%	4.18%	4.27%	4.35%
	as of 31.12.2007	4.44%	4.49%	4.61%	4.75%	4.88%
CHF	as of 31.12.2006	2.44%	2.56%	2.75%	2.85%	2.90%
	as of 31.12.2007	2.88%	2.95%	3.13%	3.36%	3.67%
USD	as of 31.12.2006	5.39%	5.24%	5.16%	5.27%	5.42%
	as of 31.12.2007	4.26%	3.84%	4.25%	4.81%	5.13%
KRW	as of 31.12.2006	5.00%	5.03%	5.07%	5.13%	5.30%
	as of 31.12.2007	6.05%	5.77%	5.60%	5.56%	5.54%
CZK	as of 31.12.2006	2.81%	3.00%	3.42%	3.79%	4.05%
	as of 31.12.2007	4.16%	4.22%	4.39%	4.59%	4.84%
HUF	as of 31.12.2006	8.02%	7.81%	7.27%	6.70%	6.21%
	as of 31.12.2007	7.59%	7.45%	7.13%	6.80%	6.49%
PLN	as of 31.12.2006	4.60%	4.81%	5.07%	5.16%	5.20%
	as of 31.12.2007	6.24%	6.17%	6.00%	5.79%	5.59%
SKK	as of 31.12.2006	4.87%	4.53%	4.18%	4.21%	4.34%
	as of 31.12.2007	4.43%	4.45%	4.53%	4.69%	4.94%
THB	as of 31.12.2006	7.81%	6.24%	5.26%	5.71%	6.22%
	as of 31.12.2007	4.14%	4.39%	4.97%	5.52%	5.96%
TWD	as of 31.12.2006	1.79%	1.87%	2.05%	2.20%	2.29%
	as of 31.12.2007	2.38%	2.44%	2.57%	2.70%	2.81%

Annually compounded zero coupon rates derived from swap rates

For modeling fixed income stochastic scenarios, the extended 2-factor Black-Karasinski model is used.

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

For Korean Won where sufficient market data is not available, the historic calibration method is used.

Table 2 shows the swaption implied volatilities for four main currencies.

Table 2: Swaption implied volatilities

option term		1 year	2 year	5 year	10 year	20 year
		%	%	%	%	%
EUR	as of 31.12.2006	13,1%	13,2%	12,9%	11,8%	10,8%
	as of 31.12.2007	11,8%	11,5%	11,1%	10,5%	9,9%
CHF	as of 31.12.2006	17,4%	17,9%	17,5%	16,9%	14,9%
	as of 31.12.2007	15,3%	15,0%	14,0%	13,0%	11,7%
USD	as of 31.12.2006	12,7%	13,3%	13,3%	11,3%	10,6%
	as of 31.12.2007	19,8%	18,2%	15,8%	13,3%	12,4%
KRW	as of 31.12.2006	11,6%	11,7%	11,0%	10,8%	8,9%
	as of 31.12.2007	13,1%	12,6%	11,4%	10,6%	8,8%

Volatilities implied in option on 20 year swaps at the money

A range of equity indices is considered. For modeling equity and real estate returns, a short rate excess 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). Best estimate levels of volatility are used in the market consistent calibration to derive implied real estate volatility since meaningful option prices for the property market were not available. This volatility is assumed to be 15% for all economies. Table 3 shows the equity option implied volatility for the main equity indices.

Table 3: Equity option implied volatilities at the money

Index		as of	as of
		31.12.2007	31.12.2006
		%	%
EUR	DAX	27.8%	22.5%
	EUROSTOXX	27.3%	22.5%
	CAC	28.0%	21.4%
CHF	SMI	23.7%	17.4%
USD	S&P 500	25.9%	20.0%
KRW	KOSPI	36.4%	36.4%

*Volatilities implied in 10 year equity option at the money
Historic volatility for KOSPI*

To show the impact of asset mixes and inter-economy relations, correlation assumptions were estimated from historic market data (see Table 4). The sensitivity of the EEV to all correlation parameters is generally small.

Table 4: Correlation assumptions

		Fixed income 1 year bond rate				Equity Indices					
		EUR	CHF	USD	KRW	CAC	DAX	KOSPI	SMI	Eurostoxx	S&P
Fixed income 1 year bond rate	EUR	1.00	0.56	0.53	0.56	0.02	0.01	0.01	0.02	0.01	0.01
	CHF		1.00	0.47	0.52	0.01	0.01	0.01	0.02	0.02	0.01
	USD			1.00	0.48	0.00	0.00	0.00	0.00	-0.01	0.00
	KRW				1.00	0.01	0.01	0.01	0.01	0.01	0.01
Equity Indices	CAC					1.00	0.35	0.28	0.33	0.40	0.30
	DAX						1.00	0.24	0.42	0.53	0.38
	KOSPI							1.00	0.36	0.46	0.44
	SMI								1.00	0.53	0.41
	Eurostoxx									1.00	0.52
	S&P										1.00

A set of 1000 scenarios is used for stochastic calculations of options and guarantees. To reduce Monte-Carlo errors antithetic random variables are used.

B.2 Capital charge for cost of non-financial risk

The capital charge for non-financial risk is calculated as a multiple of the market-assessed risk factor for the insurance segment (beta) and the equity market risk premium. The values used at 31 December 2007 are 0.9 for beta and 4.0% for the equity market risk premium leading to a capital charge of 3.60%, which is the same as 2006. The value for beta is derived from a peer analysis for the individual segments and corresponds to a weighted beta of 0.95 for the Allianz Group including Dresdner Bank. The equity market risk premium is based on best estimate assumptions with reference to analyst and academic assumptions.

B.3 Foreign currency exchange rates

Embedded values are calculated in local currencies and converted to Euro using the corresponding exchange rates as at the valuation date. The exchange rates against the Euro are shown in the table below.

Table 5: Main exchange rates against EUR

	2007	2006
CHF	1.655	1.607
USD	1.472	1.317
KRW	1,377.960	1,224.810
CZK	26.628	27.485
HUF	253.730	251.770
PLN	3.594	3.831
SKK	33.583	34.435
THB	43.800	46.770
TWD	47.726	42.919

B.4 Non-economic assumptions

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

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

B.5 Tax assumptions

Tax assumptions are set in line with the local tax regime. The following Table 6 shows the nominal tax rates applied.

Table 6: Tax assumptions

	2007	2006
Germany	31%	40%
France	34%	34%
Italy	32%	38%
USA	35%	35%
Korea	27%	27%
Switzerland	22%	22%

C Appendix: Real world projections and Implied Discount Rates

Allianz rolled out bottom-up MCEV to additional OEs this year. After the second wave, only a few remaining entities (which contribute less than 1% to both embedded value and value of new business) continue to calculate top-down real world embedded value based on the same methodology applied for 2006 & 2005 year-end results. In the following chapter we briefly summarize items where the top-down methodology deviates from the methodology described in the prior section.

The chapter includes the economic assumptions used in the real-world projections as well as implied risk discount rates (IDR's) for the main entities which calculate MCEV.

C.1 Definition

The components of embedded value are the same as described for the market consistent embedded value, i.e. embedded value as defined as the sum of

the net asset value (or "NAV") containing

- the required capital (or "ReC")
- and the free surplus (or "FS").

and the value of in-force (or "VIF") defined as

- the present value of future profits from in-force business (or "PVFP") after allowance for
 - the cost of options and guarantees (or "O&G") granted to policyholders,
 - the cost of holding the required capital (or "CReC").

C.1.1 Required Capital

As internal risk capital is based on MCEV, it is calculated only for entities that are valued under the market consistent methodology. For those subsidiaries that do not yet apply the market consistent methodology, the required capital is defined as the greater of local solvency capital and the capital defined via Standards & Poors' model.

C.1.2 Free Surplus

As in MCEV the free surplus is defined as the market value of any capital allocated to, but not required to support the in-force covered business at the valuation date net of an allowance for tax on unrealized capital gains.

C.1.3 Present value of future profits

For the business not already evaluated with market consistent techniques the PVFP is projected applying best estimate market assumptions. The risk discount rate employed in the calculations is set equal to the risk free rate plus a risk margin to reflect the risks associated with the emergence of future profits that have not been reflected elsewhere in the valuation. If a major block of business produces negative cash flows, then the PVFP is the lower of the present value of future profits discounted at the earned rate after allowance for tax and that calculated when discounted at the risk discount rate.

C.1.4 Options and Guarantees

Some of the subsidiaries calculating real world embedded value also calculate real world options and guarantees. The methodology is generally the same as described for MCEV; however, the scenarios are adjusted to be consistent with the underlying real world assumptions used in the PVFP.

C.1.5 Cost of holding the Required Capital

For portfolios calculated on a real-world basis the cost of holding the required capital is calculated as the projected difference between the risk discount rate and the expected investment return net of tax on required capital, discounted at the risk discount rate (RDR)

C.1.6 Cost of non-financial risk

For the business still evaluated on the top-down EEV approach the allowance for non-financial risk is included in the risk discount rate and in the cost for holding required capital.

C.2 Economic assumptions for real-world projections

For the entities calculating real-world embedded value as well as for the calculation of the implied discount rates the following assumptions are centrally provided:

- Risk free zero coupon yields based on government bonds
- Expected defaults per bond rating
- Equity returns
- Real estate returns
- Risk discount rates

Table 7: Economic assumptions for real world EEV

	Risk free rates	
	2007	2006
EUR	4.35%	3.70%
CHF	3.05%	2.40%
USD	4.25%	4.75%
KRW	5.65%	4.70%
CNY	4.65%	3.00%
CZK	4.75%	3.90%
HRK	5.80%	4.45%
HUF	7.00%	7.65%
IDR	10.05%	11.05%
MYR	4.20%	4.15%
PLN	5.90%	5.55%
SKK	4.65%	4.40%
TWD	2.65%	2.15%
Equity risk premium	400bp	400bp
Real estate risk premium	0.2 x 10 year bond rate	
Risk premium for discount rates	360 bp	360 bp

Risk free rates are taken from 10 year government bond rates

Fixed risk premiums are assumed for all assets other than government bonds. Return assumptions for equity and real estate are derived from the risk free rate, i.e. the 10 year government bond rate, plus a risk premium; see Table 7.

The risk discount rates are based on the sum of a risk margin and the appropriate 10 year risk free rates. The calculation method for risk margin is the same as the capital charge for cost of non-financial risk, which is described in Section B.2.

In line with the constant risk discount rate, reinvestment rates are held constant for all future periods and all asset classes. All economic assumptions are as of 31 December 2007.

Other economic assumptions such as credit spreads, returns for other asset classes or inflation rates are determined by the respective business units based on the local market data.

C.3 Implied Risk Discount Rates

With the change to market consistent valuation Allianz has refined its approach to allow for the risk inherent in the business. The projection of assets and liabilities applying risk neutral economic assumptions ensures consistent valuation of assets and liabilities. The expected market volatility and the corresponding risk for the realization of expected future profits are priced in accordance with current conditions in financial markets. In addition to the market consistent valuation of economic risk an explicit allowance for non-financial risk is made to capture the price for actuarial, business and operational risk in the business.

In a traditional embedded value the projected statutory profits or distributable earnings, i.e. statutory profits plus releases of and interest on required capital, calculated with best estimate assumptions are discounted with a risk discount rate to get the PVFP or the PVFP - CREC. The risk margin in the discount rate reflects a price for the aggregate economic and non-economic risks in the portfolio.

As described the market consistent methodology used does not require the use of traditional embedded value risk discount rates. In order to provide information as to what risk discount rates in a traditional embedded value model would lead to the same result as the market-consistent value, “Implied Risk Discount Rates” (IDRs) are calculated.

The IDRs are derived by calculating the risk discount rate which, when used within the traditional deterministic embedded value projection of distributable earnings (PVFP-CReC) gives the same value as that arising from the market-consistent approach net of the time value of financial options and guarantees, the additional allowance for non-market risk and cost of required capital (PVFP_{rw}-CReC_{rw}=VIF_{mc}).

It is important to note that this implied discount rate strongly depends on the best estimate assumptions of the real-world projection at the valuation date, in particular on the underlying assessment of risk for the asset portfolio, which is implicitly included in the best estimate assumptions through the specification of certain over-returns: Financial markets attribute higher return assumptions on risky assets to reflect a price for higher volatility on these assets. Therefore the calculated aggregate implied risk discount rate increases with higher assumed over-returns for example on equity, real estate and corporate bonds.

As market consistent embedded value reflects differences in the economic risk profile of individual portfolios, particularly between new business and business written in the past as well as changes in the risk profile over time, implied risk discount rates vary for each portfolio and also over time.

Table 8 shows the corresponding implied risk discount rates for our main entities based on distributable earnings.

Table 8: Implied discount rates (IDR) - Inforce

	Germany	France	Italy	USA	Korea
IDR 2007 based on earnings	6.22%	6.48%	5.54%	8.65%	6.81%
Sensitivity					
EV 2007 - central value	6,767	4,595	3,522	4,245	443
Sensitivity to change in IDR + 100bp	-826	-428	-169	-226	-26
<i>in % central EV 2007</i>	<i>-12.21%</i>	<i>-9.31%</i>	<i>-4.80%</i>	<i>-5.33%</i>	<i>-5.87%</i>

The comparison to last years shows an increase of IDR in line with the increase in risk free rates for the main entities. The decrease in IDR based on earnings for US is driven by the change in capital requirements.

D Appendix: Disclaimer

Cautionary Note Regarding Forward-Looking Statements

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz Group's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro / US dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures, and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also be affected by risks and uncertainties described from time to time in Allianz SE's filings with the US Securities and Exchange Commission. The company assumes no obligation to update any forward-looking statement.

No duty to update

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

E Appendix: Glossary and abbreviations

Aggregate policy reserves	Policies in-force- especially in life, health, and personal accident insurance- give rise to potential liabilities for which funds have to be set aside. The amount required is calculated actuarially.
Cost of non-financial risk (CNFR)	Explicit allowance for asymmetric non-financial and operational risk based on cost of capital approach. Taking into account actuarial, expense, lapse and operational risk
Cost of required capital (CReC)	Allowance for tax impact and asset management expenses for holding required capital
Covered business	The contracts to which the EEV methodology has been applied, in line with the EEV principles.
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 include commissions paid and the costs of processing proposals.
Embedded value	Net asset value (NAV) + Present value of future profits (PVFP) – Time value of options & guarantees (O&G) – Cost of non-financial risk (CNFR) – Cost of required capital (CReC)
Free surplus (FS)	The amount of capital and surplus, allocated to, but not required to support, the covered business.
IAS	International Accounting Standards.
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).
Implied risk discount rate	Risk discount rate which, when used within the traditional deterministic embedded value projection gives the same value as that arising from the MCEV
Look-through basis	Under this basis, the EEV 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.
Net asset value (NAV)	Capital not backing local statutory liabilities, valued at market value.
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 shareholder share in initial expenses
Present value of future profits (PVFP)	Future (statutory) shareholder profits after tax projected to emerge from operations and assets backing liabilities, includes value of unrealized gains on assets backing policy reserves.
Present value of new business premiums (PVNBP)	Present value of projected new regular premiums, discounted with risk free rates, plus the total amount of single premiums received
Reinsurance	Where an insurer transfers part of the risk which he has assumed to another insurer.
Reserve for premium refunds	That part of the operating surplus which will be distributed to policyholders in the future. This refund of premiums is made on the basis of statutory, contractual, or company by-law obligations, or voluntary undertaking.
Required Capital (ReC)	Value of assets attributed to the covered business over and above that required to back liabilities, determined as higher of local solvency, capital requirement from internal risk capital and additional capital required by market standards
Risk discount rate (RDR)	Rate used in the previous top-down EV approach to discount future profits.
Stochastic techniques	Techniques that incorporate the potential future variability in assumptions affecting their outcome.
Time value and intrinsic value	An option feature has two elements of value, the time value and intrinsic value. The intrinsic value is that of the most valuable benefit under the option under conditions at the valuation date. Time value is the additional value ascribable to the potential for benefits under the option to increase in value prior to expiry.
Value of in-force (VIF)	Present value of future profits from in-force business (PVFP) minus the cost of options and guarantees (O&G) granted to policyholders, minus the cost of non-financial risk (CNFR), minus the cost of holding required capital (CReC)
Value of new business (VNB)	Present value of future profits (PVFP) after acquisition expenses minus the cost of options and guarantees (O&G) granted to policyholders, minus the cost of non-financial risk (CNFR), minus the cost of holding required capital (CReC), all determined at the issue date.
Variable annuities	The benefits payable under this type of life insurance depend primarily of the performance of the investments in a mutual fund. The policyholder shares equally in the profits or losses of the underlying investments.