

**Allianz**  
**European Embedded Value Report**

**2005**

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**1 Introduction**

Allianz Group has adopted the European Embedded Value (or “EEV”) principles that were published in May 2004 by the CFO Forum, a group representing the Chief Financial Officers of major European insurance companies. This document provides details on the results, methodology and assumptions used to calculate EEV for the Allianz Group in accordance with the disclosure requirements of the EEV principles.

Embedded value (or “EV”) estimates shareholders’ economic value of the existing life and pension business of an insurance company. Within the Allianz Group, EV is calculated for all life and pension products, including endowment and annuity life insurance portfolios, both unit-linked and traditional, as well as for certain health insurance products where these products are written within the life insurance companies.

EV assesses the value of the “in-force” portfolio, that is the value of the business already written as of December 31, 2005. It does not include future new business. The most important advantage which EV has over many alternative performance measures is its consideration of profitability over the long-term. Contrary to IFRS or other accounting standards, EV does not only focus on revenues and expenses which occur during a single reporting period, but measures the expected value which an insurance portfolio will create over its lifetime until it is completely run-off.

**2 Basis of Preparation**

Allianz Group first adopted the EEV principles for the year-end 2004 EV results. At this stage, the methodology was largely in line with the principles. Hence, for this year-end, no restatement has been necessary except that the value of the intra-group life reinsurance operations is now included. This has been included as one of the initial adjustments in the movement analysis below.

The methodology and assumptions used to determine the 2005 embedded value results for the Allianz Group have been reviewed by Tillinghast, the actuarial and management consulting business of Towers Perrin. Their opinion is included in section 12 below.

**3 Covered Business**

The business covered in embedded value figures includes all material life operations of the 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 being included in the total embedded value. 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.

All embedded value figures denominated in foreign currencies have been translated to EUR using the appropriate closing exchange rate. The main exchange rates against the EURO are shown in the table below.

**Exhibit 1: Main exchange rates against EUR**

	2005	2004
USD .....	1.17970	1.36400
CHF .....	1.55510	1.54370
KRW .....	1184.42	1412.29

## **4 Definitions**

EV is the sum of the net asset value (or “NAV”) and the value of in force (or “VIF”) which is defined as the present value of future profits from in force business (or “PVFP”) minus the cost of holding the risk adjusted capital (or “CRC”) and the cost of options and guarantees (or “O&G”) granted to policyholders. These terms are defined below. It is calculated on an after-tax basis taking into account current legislation and known future changes.

### **4.1 Net asset value**

Net asset value is the market value of the assets not backing local statutory reserves, net of an allowance for tax on unrealized capital gains. The NAV includes the risk adjusted capital (or “RAC”) i.e. the amount of capital necessary to run the business, defined as the greater of the capital calculated using the internal risk capital model and the local solvency minimum statutory solvency capital. The excess of net asset value over the risk adjusted capital is called free surplus.

### **4.2 Present Value of Future Profits**

The PVFP is the discounted present value of the projected future emergence of shareholders’ statutory profits. 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.

The PVFP includes an allowance for the impact of financial options and guarantees arising from best estimate assumptions (intrinsic value). Additional costs of O&G related to the variability of investment returns (the time value) are shown separately as described in section 4.5.

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.

### **4.3 Cost of holding the Risk Adjusted Capital**

The cost of holding the RAC is calculated as the projected difference between the risk discount rate and the expected investment return net of tax on risk-adjusted capital, discounted at risk discount rate (RDR).

### **4.4 Options and guarantees**

The most relevant 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
- Variable life and annuities
- Fund switching options with guarantee

The time value of O&G value is calculated as the difference between the deterministic best estimate PVFP and the stochastic PVFP with guarantees. This is explicitly disclosed in the results in section 10.

## 5 Overview of results

In 2005, the embedded value of the covered business increased from € 13,782 million to € 15,732 million<sup>1)</sup> i.e. by 14% compared to 2004.

The value of new business written in 2005 was € 663 million; € 52 million, or 9% more than in 2004.

### 5.1 Embedded Value results

The table below shows the embedded value results split by their component parts: net asset value, the present value of future profits, the cost of options and guarantees granted to policyholders and the cost of holding the risk adjusted capital.

**Exhibit 2: Embedded Value – covered life insurance business**

Year ended December 31	2005	2004	% change
	€ mn	€ mn	€ mn
Net Asset Value . . . . .	8,610	7,346	17%
Present Value of Future Profits . . . . .	9,212	7,177	28%
Cost of Options & guarantees . . . . .	745	534	40%
Cost of holding RAC . . . . .	2,109	1,600	32%
<b>Embedded Value . . . . .</b>	<b>14,968</b>	<b>12,389</b>	<b>21%</b>

The embedded value has grown by 21% in 2005 to € 14,968 million from € 12,389 million in 2004 (before inclusion of initial adjustments and after net capital movement of € 764 million). If initial adjustments are included, the embedded value increased by 14% from € 13,728 million to € 15,732 million before allowing for capital movements. This strong growth reflects expansion of the life insurance business and moves to more profitable lines of businesses in all regions.

The cost of options and guarantees as a percentage of the present value of in-force business remained relatively flat. The cost of holding required capital as a percentage of present value of in-force business was relatively stable which means that the business continues to utilize capital in an efficient manner.

It should be noted that the figures above do not include any allowance for the “look-through adjustments” as described in section 6.4.

1) After initial adjustments and before capital movements in 2005

## Allianz EEV 2005

The following tables provide an analysis of the movement in Allianz Group's embedded value and its components from 2004 to 2005.

**Exhibit 3: 2005 EV Movement Analysis Allianz Group**

	Net Asset Value	PVFP- (CRC+O&G)	Embedded Value
	€ mn	€ mn	€ mn
<b>Reported Value as at 31 December 2004</b> .....	<b>7,346</b>	<b>5,043</b>	<b>12,389</b>
Initial adjustments .....	818	575	1,393
<b>Starting Value as at 31 December 2004</b> .....	<b>8,164</b>	<b>5,618</b>	<b>13,782</b>
Unwinding of expected return .....	258	426	684
Realization of expected profits .....	801	(801)	0
Release in CRC and O&G .....	0	225	225
<b>Total Unwinding (Inforce and New Business)</b> .....	<b>1,060</b>	<b>(151)</b>	<b>909</b>
Value of New Business at issue .....	(27)	690	663
Operating Variances .....	89	(47)	42
Operating assumption changes .....	(22)	25	3
<b>Total operating EV profit</b> .....	<b>1,099</b>	<b>517</b>	<b>1,616</b>
Economic variances .....	127	184	311
Economic assumption changes .....	2	19	21
Others .....	(19)	21	2
<b>EV before capital movements</b> .....	<b>9,374</b>	<b>6,358</b>	<b>15,732</b>
Net capital movement .....	(764)	0	(764)
<b>Ending EV as at 31 December 2005</b> .....	<b>8,610</b>	<b>6,358</b>	<b>14,968</b>

The key components of the table are described as follows.:

### Initial adjustment

These are the adjustments made to the value at the start of the year compared to those reported as part of the 2004 results. These adjustments include the impact of:

- **Change in Allianz interest in Group life insurance companies (€ 540 million).** This adjustment represents the change in Allianz Group's interest in the subsidiaries over the year. In connection with the RAS merger Allianz holdings at year end were 76% up from 55% in 2004. This created an increase in EV of € 585 m. taking into account also the increase of the non Italian RAS holdings.
- **Change in foreign currency exchange rates for our non-European life insurance companies (€ 421 million).** An increase of foreign currency exchange rates against the Euro led to an increase in EV primarily driven by a higher exchange rate for USD.
- **Internal reinsurance (€ 115 million).** In comparison to last year, a change has been made to the business covered by the EV by including the value of the life reinsurance operation with a starting value of € 115 million.
- **Other (€ 317 million).** Other changes include model changes, i.e. the impact of various improvements our companies perform to allow a better projection of their in force portfolio.

## Unwinding

The unwinding of the discount and O&G contributed € 909 million to our EV. It represents the natural progression of the EV and is comprised of five components:

- Firstly, the part of the life companies' investment returns which is attributable to the investments covering NAV will increase the NAV over the year.
- The unwind of the risk discount rate on the PVFP at the start of the year. PVFP is, by definition, a discounted value. With a year having passed, and hence with all future profits now requiring one less year to be discounted, PVFP increases.
- The release of the charge for maintaining the risk-adjusted capital over the year.
- The cost of O&G will also have progressed over the year.
- The effect of the realization of the expected profits from the VIF to the NAV.

All effects are being modeled on an "expected basis" i.e. the parameters for asset returns and discount rates are based on their expected values at the end of the previous year.

## Variations & assumption changes

All deviation of the actual parameters from their expected value and every change in assumptions that occurred during the year are included in the line items 'Operating variations and assumption changes' and 'Economic variations and assumption changes'. The contribution of variations & assumption changes has had a positive impact on EV of € 377 million. The reasons vary by company and are explained in more detail in the analysis of the regional segments below.

## Value of new business (VNB) written in the year

This represents the value of the new business written over the year, which increased by € 52 million, or 9%, in 2005. More details are provided in the following section.

## Net capital movement

The net of dividends paid by, and capital injections to, our life companies amounted to € 764 million. This amount reduces NAV and is thus also part of the movement in EV.

## 5.2 New Business

New business comprise of individual and group policies sold during the reporting period including the expected renewals and expected future contractual alterations to those contracts. Recurrent 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 calculated as the present value of future after tax profits (PVFP) minus the cost of holding the required risk adjusted capital (CRC) minus the time value of options and guarantees (O&G) assessed at the point of sale. For this purpose, PVFP is after deduction of acquisition expenses, including any overrun. The values shown below are based on point of sale values using end-of year assumptions.

The overall development of new business values is shown in Exhibit 4:

**Exhibit 4: New business value, margin and spread after CRC, tax and minorities**

	2005	2004	Change
New business value (EUR m) . . . . .	663	611	9%
New business margin <sup>1)</sup> . . . . .	2.3%	2.2%	0.1%-p
New business spread <sup>2)</sup> . . . . .	0.34%	0.30%	0.04%-p

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

2) New business spread = New business value / Present value of new business statutory reserves

The overall new business value increased significantly. This is due to the higher volumes of new business being sold at higher profitability.

New business volumes have increased significantly. The present value of new business premiums increased by 3.6% from € 27,579 million in 2004 to € 28,585 million in 2005. This is despite the exceptionally high volumes in 2004 seen in Germany due to the “last call” (exceptional increase in sales volume due to an announced change of tax law at the end of 2004). Strong growth was seen in all regions, particularly in relatively mature markets such as France and Italy and in growth markets in Eastern Europe and Asia.

New business profitability increased significantly under the measures used to assess new business profitability such as new business margins and new business spreads. This is a result of strategic shifts in many regions into more profitable products coupled with tight controls on expenses including cost reductions in some regions.



## 6 Methodology

Allianz Group centrally provides the operating entities with detailed guidelines in order to ensure consistency of embedded value calculations throughout the Group. In addition, Allianz Group centrally sets the basic economic assumptions which are then used in the calculations by the operating entities.

### 6.1 Risk Adjusted Capital

As described in section 4, the RAC is the amount of capital necessary to run the business and is defined as the maximum of the capital calculated using the internal risk capital model and local minimum statutory solvency capital. The internal risk capital model considers uncertainties inherent in the course of the life insurance operation such as investment risk, credit risk, biometric risks such as mortality and morbidity and operating risks. It is calculated for the majority of the underlying business. For those subsidiaries that do not yet use the internal risk capital approach, a modified Standards & Poors' model has been used as a substitute.

**Exhibit 5: Ratio of risk adjusted capital over statutory reserves**

	2005	2004
Germany . . . . .	0.9% <sup>1)</sup>	0.7% <sup>1)</sup>
France . . . . .	4.0%	4.2%
Italy . . . . .	2.9%	3.0%
Other Europe . . . . .	8.3%	7.5%
USA . . . . .	4.5%	4.7%
Asia . . . . .	18.2%	26.6%
Other . . . . .	4.7%	19.7%
<b>Total average . . . . .</b>	<b>3.4%</b>	<b>3.5%</b>

1) after policyholder resources admissible for solvency purposes

### 6.2 Options and guarantees

The models and assumptions employed are consistent with the underlying embedded value and allow for the effect of management actions and policyholders' behavior in different economic scenarios.

The time value of these options and guarantees is determined based on stochastic techniques 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 options and guarantees calculation allows for expected management and policyholders actions in response to future economic scenarios. The scenarios chosen are representative of the possible future outcomes for market variables. The key parameters used in the calculations of O&G are as described in section 7.

### 6.3 Participating business

The profit-sharing assumed for the future takes into account contractual and regulatory requirements, management policy 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 an appropriate manner and the discounted value of the shareholders' share is included in the in-force value.

### *6.4 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 in respect of the covered business where profits arise in service companies and the asset management arm 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 € 150 million as at 31 December 2005. This additional value has not been included in the EEV figures.

## 7 Assumptions

### 7.1 Economic assumptions

The economic assumptions employed in Allianz Group's embedded value calculations are summarized in the table below.

**Exhibit 6: Economic assumptions**

	2005	2004
Risk free rate for reinvestments (10 year government zero-coupon bond)		
EUR .....	3.40%	3.6%
CHF .....	2.20%	2.35%
USD .....	4.70% <sup>1)</sup>	4.30%
KRW .....	5.70%	3.90%
Equity risk premium .....	350bp	350bp
Real estate risk premium .....	0.2 x 10 year bond rate <sup>2)</sup>	0.2 x 10 year bond rate <sup>2)</sup>
Risk discount rates		
EUR .....	6.55%	6.75%
CHF .....	5.35%	5.50%
USD .....	7.85%	7.45%
KRW .....	8.85%	7.05%

1) Corresponds to bond equivalent yield rate of 4.64%

2) Except US: real estate risk premium 3.9%

The following assumptions are centrally provided to operating entities:

- Risk free yields
  - Yield curves for government bonds (i.e. risk free rate) for the main currencies
  - 10 year government bond rate for all other currencies
- Expected defaults per bond rating
- Equity returns
- Real estate returns
- Risk discount rates

The risk discount rates are based on the sum of a risk margin and the appropriate 10 year risk free rates. The risk margin 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 2005 are 0.9 (2004: 0.9) for beta and 3.5% (2004: 3.5%) for the equity market risk premium. The value for beta was derived from a peer analysis for the individual segments and corresponds to a weighted beta of 0.95 (2004: 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.

Other economic assumptions such as credit spreads, returns for other asset classes or inflation rates are determined by the respective business units based on local market data. The calculations assume that current asset mix will remain the same in future unless changes to the asset mix have already been agreed in business plans and have been at least partly achieved by the end of the reporting period and only to the extent they are projected to be realized within the three projection years.

In line with the constant risk discount rate, reinvestment rates are held constant for all future periods.

### 7.2 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 of the valuation date.

Best estimate assumptions are set by having regard to past, current and expected future experience. Future changes in experience are allowed for in the value when sufficient evidence exists and the changes are reasonably certain. Future improvements in productivity are only included if they have been agreed to in business plans and have been at least partly achieved by the end of the reporting period and only to the extent they are projected to be realized within the first projection year. All expected expense overruns affecting the covered business, including holding company operating expenses, overhead costs and development costs in new markets are allowed for in the calculations. The present value of holding expenses was € 97 million at 31 December 2005.

### 7.3 Tax assumptions

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

**Exhibit 7: Tax rates**

	2005	2004
Deutschland .....	40%	40%
France .....	34%	35%
Italy .....	38%	38%
USA .....	35%	35%
Korea .....	27%	27%
Suisse .....	22%	25%

### 7.4 Parameters used for option and guarantees valuation

The following table describes the main parameters used to value options and guarantees.

**Exhibit 8: Returns and Volatility for O&G Valuation**

		10 year government bonds	Equity	Real Estate
EUR .....	Return	3,4%	6,9%	4,08%
	Volatility	2,8%	23% Eurostoxx, 28 % DAX	14%
CHF .....	Return	2,2%	5,7%	2,64%
	Volatility	2,0%	16% SPI	14%
USD .....	Return	4,7%	8,2%	8,60%
	Volatility	3,6%	17% S&P 500	14%
KRW .....	Return	5,7%	9,2%	6,84%
	Volatility	4,2%	36% KOSPI	14%

The models used to generate economic scenarios are based on a central Economic Scenario Generator. The starting point for the economic scenarios are best estimate calibrations provided for Allianz. The underlying interest rate model (used for the nominal zero coupon bond prices) is the 2-Factor Black-Karasinski-Model. The equity and real estate model is an interest rate excess model which means that each log-return is the sum of the short rate and some additional stochastic terms. The resulting scenarios are subsequently adjusted so that they are in line with the central embedded value assumptions.

## 8 Reconciliation to Group IFRS Equity

The table below shows that of the € 6,358 million future related element of EV (i.e PVFP less CRC less O&G), € 4,192 million represents an economic value of the covered life insurance business not captured within the IFRS shareholders' equity

**Exhibit 9: Reconciliation to IFRS equity**

As of December 31	2005	2004
	€ mn	€ mn
PVFP – CRC – O&G .....	6,358	5,043
Deferred acquisition cost / value of business acquired .....	(9,909)	(7,782)
Difference in IFRS reserves compared to statutory reserves .....	10,266	6,615
Shareholders' portion of unrealized capital gains included in PVFP .....	(2,142)	(864)
Asset valuation differences .....	915	(330)
Other adjustments .....	(1,296)	66
<b>Additional value not accounted for in IFRS shareholders' equity</b>	<b>4,192</b>	<b>2,748</b>

The primary components of the table are as follows.

- **Deferred acquisition cost / value of business acquired (€ 9,909 million)**  
The excess of IFRS amount of the deferred acquisition cost asset (DAC) and value of business acquired (VOBA) over the statutory levels included in the PVFP. This excess contributes in increasing IFRS shareholders' equity
- **Difference in IFRS reserves compared to statutory reserves (€ 10,266 million)**  
Aggregate IFRS life technical and unallocated profit sharing reserves exceed statutory reserves used in PVFP modeling. The main reason for this is that in most local statutory accounting models, instead of setting up deferred acquisition cost asset, the reserves are reduced to reflect part of these acquisition costs. The excess of IFRS reserves reduces the IFRS shareholders equity.
- **Shareholders' portion of unrealized capital gains included in PVFP (€ 2,142 million)**  
When projecting future profits on a statutory basis, these profits will contain unrealized capital gains. These will have already been taken into account in IFRS to the extent that assets in IFRS are valued at a value higher than the statutory book value. The shareholder value of all unrealized capital gains included in the PVFP projection (net of tax and policyholder participation) increases IFRS shareholders' equity.
- **Asset valuation differences (€ 915 million)**  
This element is the shareholder value of the difference between market value and book value of assets (valued at IFRS book value).
- **Other Adjustments (€ 1,296 million)**  
This includes various items such as the differences in statutory versus IFRS accounting treatment other than above, including differences in tax and Purchase-GAAP valuation adjustments, which in sum increase IFRS shareholders' equity.

## 9 Regional analysis of Embedded Value

### 9.1 Embedded Value results by region

**Exhibit 10 : Embedded Value 2005 – Composition by region**

	Germany	France	Italy	Other Europe	USA	Asia	Other	Total
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Net Asset Value .....	1,364	1,890	1,287	1,106	2,102	788	73	8,610
Present Value of Future Profits .....	3,190	1,615	1,240	1,208	1,958	19	(18)	9,212
Cost of Options & guarantees .....	208	38	29	139	284	48	0	745
Cost of holding RAC .....	423	394	175	338	419	341	19	2,109
<b>Embedded Value .....</b>	<b>3,922</b>	<b>3,073</b>	<b>2,324</b>	<b>1,837</b>	<b>3,357</b>	<b>419</b>	<b>36</b>	<b>14,968</b>

In the table above, the “Germany” region includes Allianz Leben AG and its subsidiaries are included at equity. “France” includes the life entities of AGF Group in France. “Italy” includes the life entities of RAS Group in Italy and Lloyd Adriatico. “Other Europe” are the remaining entities in Europe including operations in Switzerland, Austria, Spain, Portugal, Greece and Central and Eastern Europe. “USA” is Allianz Life. “Asia” includes all Asian operations particularly Korea and Taiwan. “Other” includes holding costs, internal reinsurance and the life operations in Egypt.

The key movement in embedded value by region is shown below.

**Exhibit 11: 2005 EV movement analysis by region**

	Germany	France	Italy	Other Europe	USA	Asia	Other	Total
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
<b>Reported Value as at 31 December 2004 .....</b>	<b>3,722</b>	<b>2,726</b>	<b>1,612</b>	<b>1,341</b>	<b>2,657</b>	<b>429</b>	<b>(98)</b>	<b>12,389</b>
Initial adjustments .....	310	-49	465	164	337	49	116	1,393
<b>Starting Value as at 31 December 2004 .....</b>	<b>4,032</b>	<b>2,677</b>	<b>2,077</b>	<b>1,505</b>	<b>2,994</b>	<b>478</b>	<b>18</b>	<b>13,782</b>
Unwinding .....	248	173	132	109	227	16	4	909
Value of New Business at issue .....	124	72	138	71	210	72	(23)	663
Operating Variances and assumption changes ...	(47)	87	(12)	(17)	171	(145)	8	44
<b>Total operating EV profit .....</b>	<b>325</b>	<b>332</b>	<b>257</b>	<b>163</b>	<b>608</b>	<b>(58)</b>	<b>(11)</b>	<b>1,616</b>
Economic variances and assumption changes ...	(218)	177	80	219	(145)	216	2	332
Others .....	3	(4)	(6)	7	(10)	(7)	19	2
<b>EV before capital movements .....</b>	<b>4,142</b>	<b>3,183</b>	<b>2,409</b>	<b>1,894</b>	<b>3,446</b>	<b>630</b>	<b>28</b>	<b>15,732</b>
Net capital movement .....	(220)	(110)	(85)	(57)	(89)	(211)	9	(764)
<b>Ending EV as at 31 December 2005 .....</b>	<b>3,922</b>	<b>3,073</b>	<b>2,324</b>	<b>1,837</b>	<b>3,357</b>	<b>419</b>	<b>36</b>	<b>14,968</b>

The main drivers of the change in EV are as follows (the value of new business is discussed in section 8.2):

- **Germany:** (EV: € 3,922 million, increase of € 420 million prior to net capital movement of € 220 million) Allianz-Leben AG has improved the modeling of EV with regard to modeling of asset returns, expenses and O&G. Additional business of separate accounts is now covered in the EV calculations. These adjustments had a net impact of € 310 million on EV shown as initial adjustment.

Positive asset performance variance within the year is offset by the impact of lower future return assumptions due to the drop in interest rates in the EUR zone. This led to a reduction of EV of € 218 m EUR.

- **France** (EV: € 3,073 million, increase of € 457 million prior to net capital movement of € 110 million): High equity performance in the French market led to an increase in unrealized capital gains on equity. The sale of Gecina increased the investment profit in the year. The total impact of economic variances and assumption changes on EV is € 177 m.

Operating variances and assumption changes were largely the result of reduced costs assumptions as a result of the costs reductions during the year and gains due a revision to the mortality assumptions for saving products reflecting recent experience.

- **Italy** (EV: € 2,324 million, increase of € 797 million prior to net capital movement of € 85 million) As a consequence of the RAS merger Allianz interest in RAS increased from 55% in 2004 to 76% at year end. With this interest of Allianz shareholders in RAS EV increased by € 465 m shown as initial adjustment.

Favorable equity performance created a positive investment variance in RAS particularly for the asset backing shareholders' equity. The overall effect of operating variances and assumption changes was low.

- **Other Europe:** (EV: € 1,837 million, increase of € 553 million prior to net capital movement of € 57 million)

Since RAS has holdings in several Allianz companies also the value of these companies increased with the higher interest in RAS (€ 120 m included in initial adjustments)

Favorable asset performance in several entities led to positive economic assumption changes which offset the impact of fallen interest rates on future return assumptions.

- **USA** (EV: € 3,357 million, increase of € 789 million prior to net capital movement of € 89 million): An increase of the exchange rate for USD against EUR has had a positive impact of € 415 million on the starting value, which is included in the initial adjustment for AZ-Life.

Re-pricing in fixed annuity to maintain margins increased the value of this business as shown under operating variances and assumption changes. The economic variance and assumption changes is largely due to the impact of an increase in risk discount rate which exceeds the higher reinvestment expectations as future interest yields have increased.

- **Asia** (EV: € 419 million, increase of € 201 million, prior to a net capital movement of € 211 million): In Korea, the 10 years government rates went up by 180 basis points to 5.7% which led to a highly positive impact on EV due to improved investment performance and increased future return assumption. This offsets the impact of lower interest rates in Taiwan.

Operating variance and assumption changes were largely affected by Korea due to increased persistency of higher guarantee business and updates to morbidity and mortality assumptions to reflect recent experience.

- **Rest of World** (EV: € 36 million, increase of € 126 million prior to a net capital movement of € -9 million):

These figures include internal re-insurance of € 126 million. The corresponding start value of € 115 m has been included under initial adjustments.

## 9.2 New Business

The table below shows the development of new business profitability by region:

Exhibit 12: 2005 New business analysis by region

	NB value		NB margin		Present value of NB premium		O&G NB		NB strain <sup>1)</sup>		IRR <sup>2)</sup>		NB spread bp <sup>3)</sup>	
	05	04	05	04	05	04	05	04	05	04	05	04	05	04
	€ mn	€ mn	in %	in %	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	in %	in %	€ mn	€ mn
Germany . . . . .	124	209	2.4	2.4	5,108	8,672	16	0	34	55	25	26	26	30
France . . . . .	72	39	2.8	1.6	2,614	2,419	(1)	4	81	81	12	10	34	22
Italy . . . . .	138	88	2.6	2.6	5,269	3,463	5	1	119	89	18	19	44	47
Other Europe . .	71	59	3.9	3.4	1,827	1,733	7	3	85	56	18	24	60	54
USA . . . . .	210	218	1.9	2.3	10,949	9,503	53	37	445	381	12	14	29	30
Asia . . . . .	72	(2)	2.6	(0.1)	2,701	1,764	(1)	4	94	107	19	13	60	(2)
Other . . . . .	(24)	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total . . . . .</b>	<b>663</b>	<b>611</b>	<b>2.3%</b>	<b>2.2%</b>	<b>28,585</b>	<b>27,579</b>	<b>78</b>	<b>49</b>	<b>872</b>	<b>770</b>	<b>15%</b>	<b>16%</b>	<b>34</b>	<b>30</b>

1) Shareholder acquired expense + initial capital binding

2) IRR is calculated excluding value of O&G except for US, aggregated values weighted with RAC

3) NB spread = NB Value / PV statutory reserves

The main drivers for the development of the new business values are as follows:

- Germany (VNB: € 124 million, decrease by € 85 million or 41% )**  
 In 2004 Allianz Leben AG had written an exceptionally high volume of new business in connection with an announced change of tax laws, which came into effect at the beginning of 2005. Hence as expected, new business volumes and value were significantly lower this year compared to last year.
- France (VNB: € 72 million, increase of € 33 million or 85%)**  
 The value of new business for AGF increased in 2005 by 85% mainly as a consequence of shift in business mix towards profitable unit linked business and higher profitability from the success of the cost reduction programs.
- Italy (VNB: € 138 million, increase of € 50 million or 57%)**  
 In 2005 new business volumes sold in the two Italian companies have risen significantly. While Lloyd increased sale of unit linked, RAS sold more traditional recurrent and single premium business. The increase of Allianz interest in RAS as a consequence of the merger also increases the value of new business for AZ shareholders.
- Other Europe (VNB: € 71 million, increase of € 12 million or 20%)**  
 New business margins have increased in a number of Western European countries due to moves towards more profitable lines of business and reduced capital requirements.  
  
 In the Eastern European entities, particularly in Slovakia, sales volumes have increased significantly and high new business margins have been maintained (in 2005 7.6% for Eastern Europe in total).
- USA (VNB: € 210 million, decrease of € 8 million or 4%)**  
 Sales volumes increased compared to last year. In particular, high volumes of fixed annuities continue to be sold at high margins. A reduction of the margins in variable business due to an increase in risk adjusted capital and greenfield expenses led to a slightly lower new business value than last year.
- Asia (VNB: € 72 million, increase of € 74 million)**  
 The most significant contribution comes from AZ-Life in Korea, where the value of new business turned positive in 2005 (€ 49 million) mainly due to a shift in business mix towards variable products that now contribute 64% of total value. The other significant operation is Taiwan with a NB value of € 22 m.
- Other (VNB: € -24 million):**  
 Holding cost attributed to the production of new business has a negative impact on the overall new business value of the Group



## 10 Time value of Options & guarantees by region

Exhibit 12 shows the regional distribution of options and guarantees:

**Exhibit 13: Time value of options and guarantees by region**

	2005	2004
	€ mn	€ mn
Germany .....	208	190
France .....	38	51
Italy .....	29	33
Other Europe .....	139	47
USA .....	284	185
Asia .....	48	28
<b>Total .....</b>	<b>745</b>	<b>534</b>

Options & guarantees Value increase by 211 Mio. EUR. Mid-size OE are now also included in the valuation process. The key observations are:

- Germany (O&G: € 208 million, increase of € 18 million or 9%).**  
The main guarantees are in respect on interest rates guarantees on traditional business and guaranteed surrender values on business acquired before 1994. O&G compared to VIF remained at a similar in 2005 compared to 2004.
- France (O&G: € 38 million, decrease of € 13 million or 25%).**  
Some old versions of saving products have minimum interest rates guarantees whilst other versions contain interest rates guarantees linked to inflation and monetary yield. O&G decreased due to the significant increase in reserve for premium refunds and unrealized capital gains.
- Italy (O&G: € 29 million, decrease of € 4 million or 12%).**  
These are mainly minimum interest rate guarantees, guaranteed surrender values, maturity guarantees and extension options. The value of O&G is very low relative to PVFP and the reduction was partly due to reduction in duration gap between asset and liabilities.
- Other Europe (O&G: € 139 million, increase of € 92 million or 195%).**  
O&G have now been valued for mid sized OEs in Central & Eastern Europe. Modeling changes increased the value of O&G in some regions such as Belgium and Switzerland.
- USA (O&G: € 284 million, increase of € 99 million or 53%).**  
In the fixed annuities business, guarantees include crediting rate floors and caps and in variable business, various guarantees are offered such as guaranteed minimum death benefits, guaranteed minimum income benefits and guaranteed minimum account value. The increase in O&G can largely be attributed to new business.
- Asia (O&G: € 48 million, increase of € 20 million or 71%).**  
The increase was largely due to the increase in O&G value for Korea in respect of guaranteed interest on certain older contracts.

## 11 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 correlations between the sensitivity tests are in most cases not linear so the impact of two events occurring simultaneously is not likely to be the sum of outcomes of the corresponding tests.

The numbers presented in the table below are provided to exhibit the sensitivity with regard to the primary economic and non-economic factors. The size of the shifts in the assumptions are not necessarily indicative of what may or may not actually occur, in reality the following factors will move in increments greater or less than the increments presented below.

**Exhibit 14: Sensitivity test of Embedded Values—In-force**

	EV change by economic factors					EV change by non-economic factors			
	Base Case EV	-100 bp in risk-free	+100 bp in risk-free	Equity Returns -100 bp	Risk discount Rate +100bp	Statutory Solvency Capital	Expenses +10%	Mortality +10%	Lapses +25%
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Germany . . . . .	3,922	(1,090)	644	(200)	(318)	422	(34)	(93)	(162)
France . . . . .	3,073	(52)	9	(81)	(168)	0	(73)	(42)	(74)
Italy . . . . .	2,324	(46)	28	(35)	(92)	0	(30)	(17)	(18)
Other Europe . . . . .	1,837	(532)	362	(104)	(137)	139	(86)	(83)	(48)
USA . . . . .	3,357	9	(70)	(72)	(191)	267	(53)	(55)	(63)
Asia . . . . .	419	(504)	240	(25)	(28)	153	(35)	(109)	23
Other . . . . .	36	5	(4)	0	(8)	3	(11)	(2)	(7)
<b>Total . . . . .</b>	<b>14,968</b>	<b>(2,201)</b>	<b>1,209</b>	<b>(518)</b>	<b>(941)</b>	<b>983</b>	<b>(322)</b>	<b>(401)</b>	<b>(349)</b>

**Exhibit 15: Sensitivity test of Embedded Values—New Business**

	EV change by economic factors					EV change by non-economic factors			
	Base Case EV	-100 bp in risk-free	+100 bp in risk-free	Equity Returns -100 bp	Risk discount Rate +100bp	Statutory Solvency Capital	Expenses +10%	Mortality +10%	Lapses +25%
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Germany . . . . .	124	(64)	24	(13)	(20)	17	(4)	(3)	(14)
France . . . . .	72	(2)	1	(8)	(18)	0	(6)	(5)	(11)
Italy . . . . .	138	0	(9)	(4)	(20)	0	(6)	(5)	(8)
Other Europe . . . . .	71	(18)	8	(3)	(14)	9	(8)	(5)	(8)
USA . . . . .	210	(18)	72	(31)	(49)	75	(9)	(3)	(13)
Asia . . . . .	72	0	2	(1)	(10)	4	(8)	(10)	(15)
Other . . . . .	(24)	0	0	0	(1)	1	(1)	(1)	(1)
<b>Total . . . . .</b>	<b>663</b>	<b>(103)</b>	<b>98</b>	<b>(59)</b>	<b>(131)</b>	<b>106</b>	<b>(42)</b>	<b>(32)</b>	<b>(71)</b>

- **Sensitivity to a decrease (increase) of the underlying market risk free rates by 100 bp**  
This sensitivity shows by how much the EV in the various regions would drop (rise) if market interest rates in the different economies would fall (rise) by 100bp accompanied by a shift in the underlying risk free assumption for all economic assumptions including the risk discount rate, the return on equities and real estate assets assumptions.  
  
The impact of the down-shift is a reduction of the Group's EV by € 2,201 million or 15%. The decrease in Germany is consistent with the relative size of a 100 bp movement compared to current interest yields.  
  
The impact of the corresponding up-shift is an increase of the Group's EV by € 1,209 million or 8%.
- **Sensitivity of a change in equity returns by 100 bp**  
This sensitivity shows the effect of equity returns being 100bp lower than assumed in the original projection. The decrease of EV (by € 518 million or 3%) is because distributable investment profits would be lower.
- **Sensitivity to an increase of the risk discount rate by 100 bp**  
The effect of increasing the risk discount rate by 100bp decreases the EV by € 941 million, or 6%, as future profits are now discounted with a higher rate.
- **Sensitivity to capital requirement**  
Using local solvency capital requirements to determine the required capital instead of the internal risk adjusted capital reduces the encumbered capital and the corresponding cost of holding capital. Therefore EV increases by € 983 million or 7%. For France and Italy risk adjusted capital is lower than local solvency, therefore solvency capital is used in the EV projection.
- **Sensitivity to an increase of expenses by 10%**  
The impact of a 10% increase in the projected expenses on EV is € 322 million or 2% as future projected profits would decrease.
- **Sensitivity to a change in mortality**  
This sensitivity shows the impact of an increase of mortality of 10% in products with mortality risk (e.g. endowments and term life products) and a simultaneous decrease of mortality of 10% for products with longevity risk (life annuities). Under this scenario the EV would drop by € 401 million or 3%.
- **Sensitivity to an increase in lapse rates by 25%**  
The impact of a 25% increase in the projected lapse rates is a drop in EV of € 349 million or 2%. This is comparatively low as surrender charges partly offset the impact of loss of future profits when a policyholder lapses. For Asia the impact of a higher lapse assumption for the total portfolio is positive as the lapse rates are also assumed to increase for the business which is unprofitable due to the existence of high minimum guarantees granted for some old products.

## 12 Independent opinion

“Tillinghast has reviewed the methodology and assumptions used to determine the 2005 embedded value results for the Allianz Group. Our review covered the embedded value as at 31 December 2005, the value of 2005 new business, the analysis of movement in embedded value over 2005 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 incorporation of risk margins in the discount rates applied to best estimate projections of after-tax statutory profits in determining the PVFP,
  - the deduction of the cost of risk-based capital relating to the business, and
  - the stochastic allowance for the cost of financial options and guarantees;
- 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, reliable 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).

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.”

### 13 Glossary and abbreviations

<b>Aggregate policy reserves</b>	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.
<b>Cost of risk-adjusted capital (CRC)</b>	Future differences between risk discount rate and expected investment return on risk-adjusted capital, discounted at risk discount rate (RDR).
<b>Covered business</b>	The contracts to which the EEV methodology has, in line with the EEV principles, been applied.
<b>Deferred acquisition costs</b>	Expense of an insurance company which are incurred in connection with the acquisition of new insurance policies or the renewal of existing policies. They include commissions paid and the costs of processing proposals.
<b>Embedded value</b>	Net asset value (NAV) + Present value of future profits (PVFP) – Cost of risk-adjusted capital (CRC) – Time value of options & guarantees.
<b>Free surplus</b>	The amount of capital and surplus, allocated to, but not required to support, the covered business.
<b>IAS</b>	International Accounting Standards.
<b>IFRS</b>	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).
<b>Look-through basis</b>	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.
<b>Net asset value (NAV)</b>	Capital not backing local statutory liabilities, valued at market value.
<b>New business margin</b>	Value of new business divided by PVFNP, discounted at risk discount rate.
<b>Present value of future profits (PVFP)</b>	Future local statutory shareholder profits discounted at risk discount rate (RDR); includes value of unrealized gains on assets backing policy reserves.
<b>Present value of new business premiums (PVFNP)</b>	Projected regular premiums on new business, discounted at RDR, plus the total amount of single premiums received in the year.
<b>Reinsurance</b>	Where an insurer transfers part of the risk which he has assumed to another insurer.
<b>Reserve for premium refunds</b>	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.
<b>Risk-adjusted capital (RAC)</b>	Capital tied into life business (maximum of internal risk capital and required local minimum statutory solvency margin).

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<b>Risk discount rate (RDR)</b>	Rate used to discount future profits. It is based on CAPM assuming risk free rates in line with economic assumptions; equity risk premium 3.5% and beta = 0.9.
<b>Stochastic techniques</b>	Techniques that incorporate the potential future variability in assumptions affecting their outcome.
<b>Time value and intrinsic value</b>	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.
<b>Value of inforce (VIF)</b>	Present value of future profits from in force business ( PVFP) minus the cost of holding the risk adjusted capital ( CRC) and the cost of options and guarantees (O&G) granted to policyholders.
<b>Value of new business (VNB)</b>	Present value of future profits (PVFP) after acquisition expenses less the cost of risk-adjusted capital (CRC) less time value of options and guarantees (O&G), all determined at the issue date.
<b>Variable annuities</b>	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.