

Allianz

European Embedded Value Report

2006

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1 Introduction

1.1 Basis of Preparation

Allianz already adopted the European Embedded Value (or “EEV”) principles¹ for the year-end 2004 and 2005 embedded value results. For the 2006 reporting period, Allianz has further refined the methodology to more explicitly allow for risk and now applies bottom-up market consistent techniques to project the profits arising from the in-force business for its major Life entities, whereas previously the top-down approach was used. The impact on the embedded value from this change in methodology has been included as one of the initial adjustments in the movement analysis.

Embedded value (or “EV”) estimates shareholders’ economic value of the in-force life and pension business of an insurance company, which is the value of the business already written as of December 31, 2006. 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

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 market consistent economic assumptions ensures a consistent valuation of assets and liabilities. The market consistent approach is more granular than the previous “top-down” methodology that used only a single risk discount rate; it allows for differences in the economic risk profile of individual portfolios. The valuation also more clearly distinguishes the value created by adding new business written during the reporting period from that embedded in previously written business. In addition to the market consistent valuation of economic risk, we make an explicit allowance for non-financial risk.

Allianz has rolled out market consistent techniques to its major Life entities including the operations in Germany, Italy, France, the US, Korea and several other Western European countries. In total the business calculated on a market consistent basis amounts to 96% of the total embedded value and 92% of the value of new business.

This document provides details on the results, methodology and assumptions used to calculate the 2006 EEV for the Allianz Group in accordance with the disclosure requirements of the EEV principles.

The methodology and assumptions used to determine the 2006 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 6 .

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.

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.

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 2006 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 2006 EEV results.

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

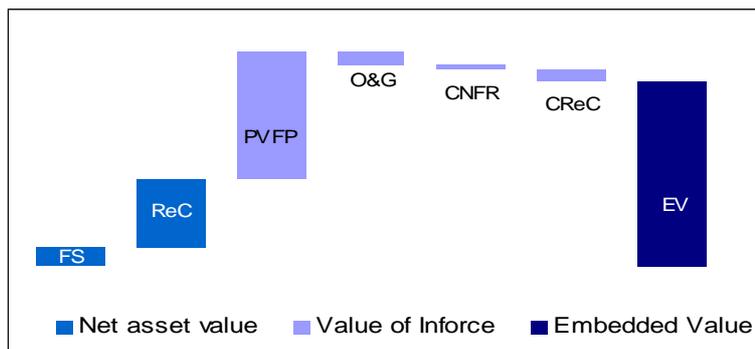
- the required capital (or "ReC"), i.e. the amount of capital necessary to run the business
- and the free surplus (or "FS").

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") granted to policyholders,
- 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 3.

² Minorities are evaluated as of 31.12.2006. The planned increases in interest in AGF and Allianz Leben are not included in the 2006 EEV results.

2 Overview of results

As of 31.12 2006 Allianz Group's total embedded value amounts to € 18,535 million, 24% more than published in 2005.

The value of new business written in 2006 was € 982 million; € 70 million or 8% more than the restated value for 2005 and € 319 million or 48% more than the value published in 2005.

2.1 Embedded Value results

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

Exhibit 1: Embedded Value

| | 2005 | 2005 restated | 2006 | change in 2006 |
|----------------------------------|---------------|------------------|---------------|-------------------|
| | €nn | €nn | €nn | % |
| Net asset value | 8,610 | 8,222 | 8,379 | 2% |
| Free surplus | 1,501 | 2,345 | 2,640 | 13% |
| Required capital | 7,109 | 5,877 | 5,739 | -2% |
| Value of Inforce | 6,358 | 7,627 | 10,155 | 33% |
| Present value of future profits | 9,212 | 11,019 | 13,228 | 20% |
| Cost of options and guarantees | 745 | 2,031 | 1,542 | -24% |
| Cost of non-financial risk | 0 | 435 | 530 | 22% |
| Cost of holding required capital | 2,109 | 926 | 1,000 | 8% |
| Embedded Value | 14,968 | 15,849 | 18,535 | 17% |

The embedded value as of 31.12.2006 was €18,535 million, which is 24% higher than the value of €14,968 million published in 2005. This includes initial adjustments, such as the change to market consistent valuation and the impact of higher Allianz interest in RAS, which led to an increase of the opening value to €15,849 million.

If initial adjustments are included, the embedded value increased by 23% to €19,555 million before allowing for net capital movements (of €1,020 million).

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.

The change to market consistent embedded value and a bottom-up evaluation of the risk inherent in the business also caused a change in the different components of the value of in-force. While in the top-down projection non-financial risk and part of the cost of options and guarantees were covered by the risk discount rate in the PVFP and within the cost of required capital, the sources of risk under MCEV are now captured explicitly at a granular level. Options and guarantees are valued in line with techniques applied in financial markets and now fully reflect the time value of corresponding traded securities. Cost of non-financial risk is explicitly taken into account via a cost of capital approach. The higher allowance for O&G and CNFR are offset by the impact of the release of the risk margin used to discount PVFP and CReC. The required capital decreases slightly as the value of in-force, which is now calculated consistently with the risk capital, can be fully used as a source to fund the capital.

In 2006 both the value of O&G and the ReC decreased due to the fact that the uplift in interest rates particularly in Europe brought guarantees further out of the money, and also due to continuous de-risking of the business via lower guarantees in traditional business sold and a higher share of unit linked products.

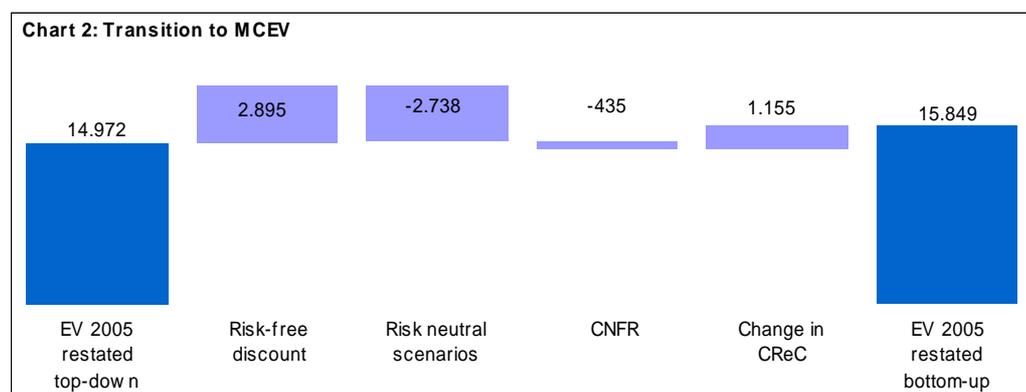
2.1.1 Initial adjustments including restatement to MCEV

Exhibit 2: Initial Adjustments

| | NAV | ViF | EV |
|--|--------------|--------------|---------------|
| | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 8,610 | 6,358 | 14,968 |
| Total initial adjustments other than restatement to MCEV | -388 | 392 | 4 |
| <i>Change in Foreign Exchange</i> | -251 | -110 | -361 |
| <i>Change in Allianz interest</i> | 388 | 317 | 705 |
| <i>Other initial adjustments</i> | -526 | 185 | -340 |
| Starting Value before restatement to MCEV | 8,222 | 6,750 | 14,972 |
| Restatement to MCEV | 0 | 877 | 877 |
| Starting Value as at 31 December 2005 | 8,222 | 7,627 | 15,849 |

Exhibit 2 shows the adjustments made to the value at the start of the year compared to those reported as part of the 2005 results. The initial adjustments include the following changes:

- **Change in foreign currency exchange rates (€-361 million).** A decrease of foreign currency exchange rates against the Euro, particularly for the USD, led to a decrease in EV.
- **Change in Allianz interest in the Group's life insurance companies (€+705 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 are now 100%, up from 76% in 2005 and 55% in 2004. This created an increase in EV of €750 million including the increase in the non-Italian RAS holdings.
- **Other initial adjustments (€-340 million).** 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. The item also contains the impact of a revised treatment of the "réserve de capitalisation" of AGF in France: Previously the reserve was allocated to shareholder equity. Since the reserve cannot be released it is now integrated into the projection of the portfolio in order to reflect policyholder participation on related investment income as well as the related tax- and investment management cost of holding the reserve (see also section 5.3.2).
- **Restatement to MCEV (€+877 million).** The most important methodological change is the change to market consistent embedded value, which led to an increase in the value of in-force of €877 million or 6 % in terms of reported value 2005. The evaluation of the allowance for risk based on a bottom-up approach showed that the allowance applied in the top-down approach had been too conservative in aggregate. In order to better explain the different components, the transition from the top-down real world approach to the market consistent approach can be broken down into the following steps:



1. Risk free discount (€+2,895 million):
In the first step of the transition from top-down EV to market consistent EV the risk margin in the risk discount rate is removed. This increases the present value of future profits as those are now discounted with lower rates. The time value of options and guarantees increases as well since projected future losses due to guarantees are now also discounted with risk free rates. However, the impact on O&G is overcompensated by the higher PVFP.
2. Apply risk neutral economic scenarios (€-2,738 million):
As a counter step risk neutral assumptions are applied, which means economic scenarios are used that satisfy the no arbitrage condition. Different economic scenarios are simulated, which on average do not create any up-front value for investments in risky assets. As the projected average investment returns decrease, the PVFP decreases. O&G increase since lower average investment returns bring guarantees closer to being in the money. Therefore both components have a negative impact on the VIF.

The first two steps together form the combined impact of adopting the certainty equivalent approach and risk neutral stochastic scenarios as described in Section 3.2.

3. Allow for cost of non-financial risk (€-435 million):
This item allows for asymmetric non-financial and operational risks where the best estimate assumptions have not been set to give the mean financial outcome to shareholders. As described in section 3.2.3 Allianz calculates this allowance based on a cost of capital approach.
4. Change in cost of required capital (€+1,155 million):
The last step in moving to the market consistent embedded value is to apply risk-free return assumptions and risk free discounting to the projected cost of holding the required capital, which then reduces to the tax and investment management cost of holding the capital. This step also captures a release in required capital, where previously the margin in the statutory reserves had not been considered as a source to cover risk capital.

The overall positive impact on the value shows that, at the level of Allianz Group, the top-down approach to allow for risk was too conservative. However this analysis varies by portfolio, as the more detailed bottom-up analyses show.

2.2 New Business

The most important driver for the increase in Allianz Embedded Value in 2006 was the value of the business sold during the year. Exhibit 3 shows the value of new business at point of sale, calculated using year-end economic and non-economic assumptions:

Exhibit 3: Value of New Business

| | 2005 | 2005 restated | 2006 | change |
|---|------------|---------------|------------|-------------|
| | €mn | €mn | €mn | % |
| Value of New Business at point of sale | 663 | 912 | 982 | 7.7% |
| New Business Margin | 2.3% | 2.9% | 3.1% | 5.8% |
| <i>Present value of future premium</i> | 28,585 | 30,873 | 31,405 | 1.7% |
| APE Margin | 17% | 24% | 25% | |
| <i>Single Premium</i> | 18,724 | 18,538 | 17,803 | -4.0% |
| <i>Recurrent Premium</i> | 1,950 | 1,994 | 2,226 | 11.7% |

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

2) APE margin = New business value / (recurrent premium + single premium/10)

3) Restatement contains impact of change to MCEV, but also changed in minorities and f/x rates affecting also premiums

The table above shows a restated value for 2005 that is significantly higher than the value published for the end of 2005. The main reason for the size of the restatement is that market consistent bottom-up analysis reflects the lower level of risk within the new business sold in 2005, compared with the previously written business. The top-down approach did not reflect this difference in the level of risk. The restatement is explained in more detail in the next section.

In 2006 the overall new business value increased significantly. This is due to the higher volumes of new business being sold at an improved profitability.

New business volumes in 2006 are slightly above the high level achieved in 2005. The present value of new business premiums increased by 1.7% from €30,873 million, as shown for the restated value of 2005, to €31,405 million in 2006. Strong growth was seen in relatively mature markets such as Germany and in growth markets in Eastern Europe and Asia. This growth compensated the drop in volume observed in the US.

Cost reductions and product rationalization as well as the favorable interest environment led to a slight increase in the new business margin in 2006.

Exhibit 4 summarizes the analysis of change in the new business value from the value published in 2005 to the 2006 value. More details on the drivers for the change in each region can be found in the regional analysis in section 5.

Exhibit 4: Restatement of Value of New Business

| | Value of New Business | New Business Margin | Present Value of Premium |
|---|-----------------------------|---------------------------|--------------------------------|
| | €nn | €nn | €nn |
| Reported Value as at 31 December 2005 | 663 | 2.3% | 28,585 |
| Total initial adjustments | 249 | 0.6% | 2,288 |
| <i>Change in Foreign Exchange</i> | -24 | 0.0% | -1,286 |
| <i>Change in Allianz interest</i> | 38 | 0.0% | 1,328 |
| <i>Restatement to MCEV and other model changes</i> | 236 | 0.6% | 2,246 |
| Starting Value as at 31 December 2005 | 912 | 2.9% | 30,873 |
| Change in volume | 30 | 0.0% | 1,037 |
| Change in business mix | 4 | 0.0% | 0 |
| Change in assumptions | 35 | 0.2% | -521 |
| Other | 0 | 0.0% | 15 |
| Value of new business as at 31 December 2006 | 982 | 3.1% | 31,405 |

2.2.1 Initial adjustments and restatement to MCEV

The sources for the restatement of the value of new business published in 2005 are the same as described in section 2.1.1 for the value of in-force, i.e.:

- Change in foreign currency exchange rates (€-24 million), primarily driven by a lower exchange rate for the USD;
- Change in Allianz interest in the Group's life insurance companies over the year (€+38 million);
- Restatement to MCEV and other model changes (€+236 million).

The change to market consistent bottom-up valuation in relative terms had a significantly greater impact on the value of new business (+35%) than it had for the total embedded value (+6%). The bottom-up valuation now fully captures the different risk profile of the new business in comparison to

the total in-force portfolio, in particular its lower level of overall guarantees. While under the top-down EEV the same risk margins had been applied to both new business and total in-force, the market consistent approach reflects lower risk for new business due to a higher proportion of unit linked products with low guarantees and significantly lower interest guarantees in traditional products.

The change to market consistent embedded value also has an impact on the present value of new business premium as the projected premiums are now discounted at the risk-free rate, while previously the top-down risk discount rate was used.

2.3 Movement of Embedded Value and Free Surplus

Exhibit 5: Movement of Embedded Value

| | NAV | | | |
|---|--------------|--------------|---------------|---------------|
| | FS | ReC | ViF | EV |
| | €mn | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 1,501 | 7,109 | 6,358 | 14,968 |
| Total initial adjustments | 844 | -1,233 | 1,269 | 880 |
| Starting Value as at 31 December 2005 | 2,345 | 5,877 | 7,627 | 15,849 |
| Total Unwinding (inforce) | 1,336 | 20 | -460 | 895 |
| <i>Unwinding of discount</i> | 210 | 0 | 319 | 530 |
| <i>Realisation of projected profits</i> | 1,125 | 20 | -1,145 | 0 |
| <i>Release from O&G and CNFR</i> | 0 | 0 | 366 | 366 |
| Deviation from unwind due to market changes and asset performance | 750 | -440 | 1,170 | 1,480 |
| Operating Variances | -10 | -44 | 354 | 301 |
| Operating Assumption Changes | 19 | -21 | -4 | -7 |
| Value of new business at point of sale | 0 | 0 | 982 | 982 |
| Total Unwind (new business) | -766 | 354 | 459 | 47 |
| <i>Unwinding of discount</i> | -1 | 0 | 38 | 38 |
| <i>Realisation of projected profits</i> | -766 | 354 | 419 | 7 |
| <i>Release from O&G and CNFR</i> | 0 | 0 | 2 | 2 |
| <i>Others</i> | -14 | -5 | 26 | 7 |
| Embedded Value before capital movements | 3,660 | 5,739 | 10,155 | 19,555 |
| Net capital movements | -1,020 | 0 | 0 | -1,020 |
| Embedded Value as at 31 December 2006 | 2,640 | 5,739 | 10,155 | 18,535 |

Exhibit 5 shows the change in embedded value and free surplus from the published value 2005 to the value as of 31.12.2006. The initial adjustments were already explained in section 2.1.1.

The key components of the change in 2006 are as follows:

Unwinding (in-force)

The unwinding of the discount and O&G contributed € 895 million 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, which further increases the free surplus.

- The third component of the unwinding contains the **release from risk with regard to O&G and non-financial risk**. The margin 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 € 1,480 million on embedded value is to a large extent related to the positive impact of higher interest rates in our main economies, which led to higher re-investment assumptions and higher projected profits in the future, outweighing the impact of higher discount rates. This effect is the main reason for the increase in the VIF. 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 impact of out-performance of assets backing NAV and higher book-returns on assets backing liabilities. Since in the risk neutral-projections no risk-premiums on risky assets are capitalized up-front, returns above risk-free rates on equity, real-estate and corporate bonds also flow through this item.

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 an increase of € 301 million. The reasons vary by subsidiary and are explained in more detail in the analysis of the regional segments in section 5.

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 to the change of EV was low in 2006 (€ -7 million). Due to the global diversification, positive and negative impacts largely offset each other. For an overview of the changes in each region please refer to the analysis of the regional segments in section 5.

Value of new business (VNB) written in the year

This represents the value of the new business written in the year. The new business value at point of sale includes all expenses in connection with new business, including acquisition expense overruns. More details on the development of the value of new business are provided in section 2.2.

Unwinding of new business

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 (€-413 million impact on FS). The amount of additional required capital to be held for new business (€-354 million impact on FS) increases the strain on the free surplus at the point of sale. With this the **total strain from new business** on the free surplus, i.e. the combined impact of expense strain and initial capital binding, sums up to a €766 million negative impact on free surplus.

Net capital movement

The net of dividends paid by, and capital injections to our life companies amounted to € 1,020 million. This amount reduces NAV and hence is also part of the movement in EV.

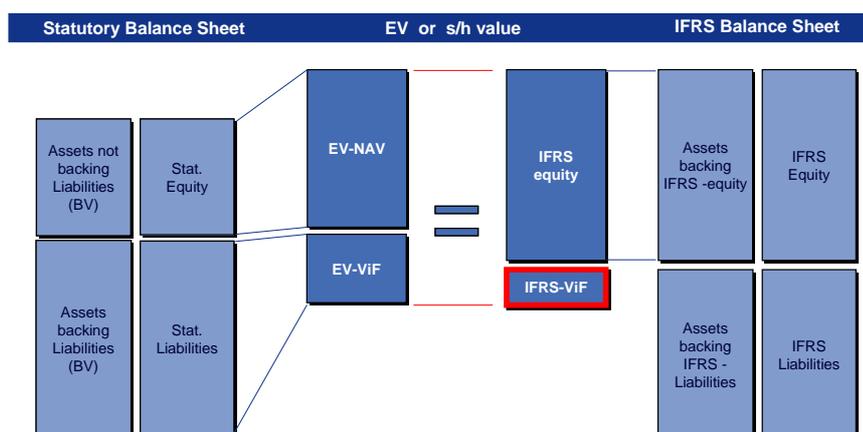
2.4 Shareholder value not accounted for in Group IFRS Equity

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 the 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 the 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 €10,155 million future related element of EV (i.e. PVFP less O&G less CNFR less CReC), €7,640 million represents an economic value of the covered life insurance business that is not captured within the IFRS shareholders' equity:

Exhibit 6: Additional Value not accounted for in IFRS equity

| | 2005 | 2006 |
|--|--------------|---------------|
| | €mn | €mn |
| Value of Inforce | 6,358 | 10,155 |
| Deferred acquisition cost / value of business acquired | -9,909 | -11,809 |
| Difference in IFRS reserves compared to statutory reserves | 10,266 | 11,177 |
| Shareholders' portion of unrealized capital gains included in PVFP | -2,142 | -1,725 |
| Asset valuation differences | 915 | 811 |
| Other adjustments | -1,296 | -970 |
| Additional value not accounted for in IFRS shareholders' equity | 4,192 | 7,640 |

The primary components of the table are as follows.

- Deferred acquisition cost / value of business acquired (€11,809 million)**
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 (€11,177 million)**
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.
- Shareholders' portion of unrealized capital gains included in PVFP (€-1,725 million)**
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 (€811 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 (€-970 million)**
This includes various items not included above related to differences in valuation under embedded value and IFRS. The main impact is related to differences in tax treatment. The differences in the treatment of the "réserve de capitalisation" in France is also included in this item.

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 correlations between the sensitivity tests are in most cases not fully 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 31.12.2006. The size of the assumption shifts are not necessarily indicative of what may or may not actually occur; in reality the factors will move in increments greater or smaller than those presented below.

Exhibit 7: Sensitivities

| | Inforce | Inforce | NB | NB |
|--|---------------|-------------|------------|-------------|
| | €mn | % | €mn | % |
| Central Assumptions | 18,535 | 100% | 982 | 100% |
| Required Capital equal to local solvency capital | 394 | 2% | 35 | 4% |
| <i>EV change by economic factors</i> | | | | |
| Risk Free Rate -100bp | -2,390 | -13% | -142 | -14% |
| Risk Free Rate +100bp | 860 | 5% | 27 | 3% |
| Risk Free Rate -50 bp | -925 | -5% | -57 | -6% |
| Risk Free Rate +50 bp | 538 | 3% | 19 | 2% |
| Charge for CNFR +100bp | -145 | -1% | -12 | -1% |
| Equity and property values - 10% | -885 | -5% | 0 | 0% |
| Volatilities +10% | -299 | -2% | -17 | -2% |
| <i>EV change by non-economic factors</i> | | | | |
| Lapse Rates -10% | 304 | 2% | 70 | 7% |
| Maintenance Expenses -10% | 405 | 2% | 56 | 6% |
| Mortality -5% for products with death risk | 132 | 1% | 21 | 2% |
| Mortality -5% for products with longevity risk | -81 | 0% | -10 | -1% |

A breakdown of the sensitivity results by region is provided in Section 5.

- **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. For several companies the capital requirement is already determined by the local statutory requirement and therefore the EV increases only by €394 million 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 €2,390 million or 13%.

- **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 €145 million, 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, EV decreases by €299 million or 2%.

- **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 €304 million 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 €405 million or 2 % as future projected profits would increase.

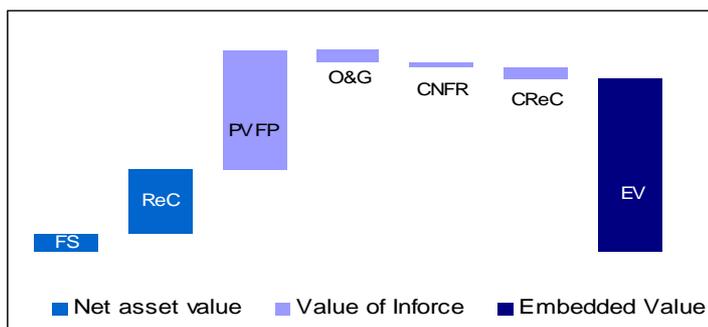
- **Sensitivity to a decrease in mortality and morbidity rates by 5%**

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 €132 million or 1%. The impact on products with longevity risk is a decrease in value of €81 million, the proportion shows the limited longevity exposure of Allianz Group.

3 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.



3.1 Net asset value

Net asset value (or “NAV”) is the market value of the assets not backing local statutory reserves at 31.12.2006, 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 be held to support covered 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 covered business at the valuation date.

3.1.1 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) 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 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 risk, 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 diversification effects into account at a local level, 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.

3.2 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") granted to policyholders, for the cost of non-financial risk (or "CNFR") as well as for the cost of holding the required capital (or "CRcC"). These terms are defined in the following sections.

3.2.1 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 gives the same result as the method in the previous paragraph.

The PVFP includes the 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.

3.2.2 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 deterministic 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 section 4.

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 the re-investments. 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 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.

3.2.3 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. 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 capital charge applied to the projected capital reflects the cost of funds for the Group (see section 4.2).

3.2.4 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 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 capital for non-financial risk 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.

3.3 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. 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 defined as the value added by the new policies to the value of in-force. 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 include 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 section 4. 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 the 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.

3.4 Participating business

The profit-sharing assumptions take 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 a consistent manner and the discounted value of the shareholders' share is included in the in-force value.

3.5 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 €200 million as at 31 December 2006. This additional value has not been included in the EEV figures.

4 Assumptions

4.1 Economic assumptions

For the embedded value results for 2006, economic data for both returns and implied volatilities at 30 September 2006 was used in order to provide assumptions and scenario sets early enough in the process to enable a timely completion of the calculations. It was intended to adjust the results at the beginning of 2007 if deviations in the economic conditions would have caused a material impact. Our analysis demonstrated that deviations between 30 September and 31 December economic data did not cause a material impact on the results, with the exception of Korea, where the impact of a significant shift in interest rates led to an adjustment of the value, which has been incorporated in the results³. Assumptions provided are based on the end of December economic environment⁴.

For generating risk neutral scenarios the parameters used in financial models have to be calibrated to observable market data at one point of time. 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 is taken from Bloomberg, except for data for Korea (KRW) which is based on data from KIS⁵. No adjustments, e.g. for smoothing volatilities over time or for changing expected returns, are included. Only when there are no sufficient corresponding financial instruments available for calibration, historic market data are used, e.g. for correlations or volatilities for real estate and also some equity indices.

Risk free yield curves used in the certainty equivalent approach and the stochastic scenarios are based on swap rates. Table 1 shows the risk free yields in the market consistent calculation by currencies:

Table 1: Risk free rates
as of 31.12.2006

| | 1 year | 2 year | 5 year | 10 year | 20 year |
|-----|--------|--------|--------|---------|---------|
| | % | % | % | % | % |
| EUR | 4.11% | 4.12% | 4.18% | 4.27% | 4.35% |
| CHF | 2.44% | 2.56% | 2.75% | 2.85% | 2.90% |
| USD | 5.39% | 5.24% | 5.16% | 5.27% | 5.42% |
| KRW | 5.00% | 5.03% | 5.07% | 5.13% | 5.30% |

Annually compounded zero coupon rates derived from swap rates

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

Fixed income volatilities are taken from implied volatilities of swaptions at the money, except for KRW where historic volatilities are used. Although a range of swaptions and terms are considered, the focus in calibration are options on 20 year swaps to account for the long term nature of the business as shown in the following table.

³ Materiality checks were performed based on sensitivities to a parallel shift of the yield curve of 50 and 100 bp. For the volatility shift in interest rates in the US we used the sensitivity to volatility as described in section 2.5.

⁴ The appendix shows an overview of assumptions as of 31.12.2005, 30.09.2006 and 31.12.2006

⁵ KIS: Korea Investors' Service

Table 2: Swaption implied volatilities
as of 31.12.2006

| option term | 1 year | 2 year | 5 year | 10 year | 20 year |
|-------------|--------|--------|--------|---------|---------|
| | % | % | % | % | % |
| EUR | 13.1% | 13.2% | 12.9% | 11.8% | 10.8% |
| CHF | 17.4% | 17.9% | 17.5% | 16.9% | 14.9% |
| USD | 12.7% | 13.3% | 13.3% | 11.3% | 10.6% |
| KRW | 11.60% | 11.70% | 11.00% | 10.80% | 8.90% |

Volatilities implied in option on 20 year swaps at the money

A range of equity indices is considered. For modeling equity and real estate a short rate excess model is used to generate returns from fixed income dynamics of the economy. A constant volatility model is used, i.e. 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, again, focused on 10 year options. Volatilities for real estate are taken mainly from historic returns reflecting also other data sources (as volatilities of REITs), and are assumed as 15% for all economies.

Table 3 shows the corresponding parameters for the main equity indices:

Table 3: Equity option implied volatilities
as of 31.12.2006

| Index | | 10 year option |
|-------|-----------|----------------|
| | | % |
| EUR | DAX | 22.5% |
| | EUROSTOXX | 22.5% |
| | CAC | 21.4% |
| CHF | SPI | 17.4% |
| USD | S&P 500 | 20.0% |
| KRW | KOSPI | 36.4% |

Volatilities implied in 10 year equity option at the money

Historic volatility for KOSPI

To properly describe the impact of asset mixes and inter-economy relations, assumptions for correlations 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 | SPI | Eurostoxx | S&P |
| Fixed income 1 year bond rate | EUR | 1.00 | 0.49 | 0.45 | 0.49 | -0.11 | -0.11 | -0.20 | -0.14 | -0.17 | -0.14 |
| | CHF | | 1.00 | 0.47 | 0.49 | -0.10 | -0.09 | -0.20 | -0.16 | -0.15 | -0.15 |
| | USD | | | 1.00 | 0.46 | -0.09 | -0.09 | -0.21 | -0.14 | -0.14 | -0.14 |
| | KRW | | | | 1.00 | -0.09 | -0.08 | -0.20 | -0.14 | -0.14 | -0.15 |
| Equity Indices | CAC | | | | | 1.00 | 0.50 | 0.32 | 0.42 | 0.48 | 0.34 |
| | DAX | | | | | | 1.00 | 0.28 | 0.58 | 0.69 | 0.45 |
| | KOSPI | | | | | | | 1.00 | 0.40 | 0.47 | 0.43 |
| | SPI | | | | | | | | 1.00 | 0.62 | 0.45 |
| | Eurostoxx | | | | | | | | | 1.00 | 0.53 |
| | 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.

4.2 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 2006 are 0.9 (2005: 0.9) for beta and 4.0% (2005: 3.5%) for the equity market risk premium leading

to a capital charge of 3.60% (2005: 3.15%). The value for beta was derived from a peer analysis for the individual segments and corresponds to a weighted beta of 0.95 (2005: 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

4.3 Foreign currency exchange rates

All embedded value figures are calculated in local currency and translated to EUR using the appropriate closing exchange rate. The exchange rates against the EUR are shown in the table below.

Table 5: Main exchange rates against EUR
as of 31.12.2006

| | 2006 | 2005 |
|-----|-------|-------|
| CHF | 1.607 | 1.555 |
| USD | 1.317 | 1.18 |
| KRW | 1,225 | 1,184 |

4.4 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 of the valuation date.

Best estimate assumptions are set by considering 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 that 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.

4.5 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

| | 2006 | 2005 |
|-------------|------|------|
| Germany | 40% | 40% |
| France | 34% | 34% |
| Italy | 38% | 38% |
| USA | 35% | 35% |
| Korea | 27% | 27% |
| Switzerland | 22% | 22% |

5 Regional analysis of Embedded Value

5.1 Overview

The following tables provide an overview over 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 RAS Group in Italy as well as the Irish subsidiary and Lloyd Adriatico Group.
- **Western Europe** is comprised of the remaining entities in Western Europe including operations in Switzerland, Austria, Spain, Belgium, Netherlands, Portugal, Greece and Egypt.
- **New Europe** contains 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 internal life reinsurance.

Exhibit 8 provides an overview over the embedded value 2006 by region and a break down of the components:

Exhibit 8: Embedded Value Results by region

| | Germany | France | Italy | Western Europe | New Europe | USA | Asia | Holding | Total |
|----------------------------------|--------------|--------------|--------------|----------------|------------|--------------|------------|------------|---------------|
| | €mn | €mn | €mn | €mn | €mn | €mn | €mn | €mn | €mn |
| <i>Net asset value</i> | 1,369 | 1,284 | 1,701 | 1,178 | 176 | 1,919 | 677 | 74 | 8,379 |
| Free surplus | 409 | 292 | 804 | 151 | 27 | 1,054 | -97 | 0 | 2,640 |
| Required capital | 961 | 993 | 897 | 1,027 | 149 | 865 | 774 | 74 | 5,739 |
| <i>Value of Inforce</i> | 3,812 | 1,812 | 1,703 | 1,060 | 242 | 1,698 | -87 | -85 | 10,155 |
| Present value of future profits | 4,561 | 2,205 | 1,980 | 1,536 | 327 | 2,439 | 249 | -69 | 13,228 |
| Cost of options and guarantees | 425 | 116 | 87 | 256 | 38 | 525 | 95 | 0 | 1,542 |
| Cost of non-financial risk | 63 | 119 | 72 | 92 | 0 | 89 | 95 | 0 | 530 |
| Cost of holding required capital | 260 | 158 | 117 | 128 | 47 | 127 | 147 | 16 | 1,000 |
| Embedded Value | 5,182 | 3,096 | 3,404 | 2,238 | 419 | 3,617 | 590 | -11 | 18,535 |
| in % of total Embedded Value | 28% | 17% | 18% | 12% | 2% | 20% | 3% | 0% | 100% |

Negative Free Surplus in Asia, mainly arises from the operations in Taiwan (-55 m €) and Korea (-51 m €). Locally deployed capital is less than the Risk Capital required to run the business locally, before group diversifications.

Exhibit 9 provides an overview over the ratios between required capital and reserve

Exhibit 9: Required capital over statutory reserves

| | 2005 restated | | 2006 | |
|----------------------|------------------|--------------|------------------|--------------|
| | required capital | % of reserve | required capital | % of reserve |
| Germany | 921 | 1.0% | 961 | 1.0% |
| France | 954 | 3.5% | 993 | 3.3% |
| Italy | 881 | 2.9% | 897 | 2.8% |
| Other Western Europe | 1,093 | 7.4% | 1,027 | 5.5% |
| New Europe | 132 | 10.9% | 149 | 9.2% |
| USA | 784 | 2.1% | 865 | 1.9% |
| Asia | 1,040 | 16.3% | 774 | 9.6% |
| Other | 71 | 4.6% | 74 | 4.7% |
| Total | 5,877 | 2.8% | 5,739 | 2.5% |

The table above shows that the required capital at the end of 2006 is slightly lower than the restated value for 2005. This mainly reflects the changes in the risk structure as de-risking of the business and the higher interest environment leads to lower requirements from the internal model.

For Germany the required capital in proportion to the reserve is low due to high policyholder resources admissible for solvency purposes and the high value of in-force as an eligible source for internal capital.

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

Exhibit 10 provides an overview over the new business values 2006 and the most important KPIs by region:

Exhibit 10: New Business Value at point of sale by region

| | Germany | France | Italy | Western Europe | New Europe | USA | Asia | Holding | Total |
|---------------------------------|------------|------------|------------|----------------|------------|------------|------------|------------|------------|
| | €mn | €mn | €mn | €mn | €mn | €mn | €mn | €mn | €mn |
| New Business Value | 244 | 109 | 224 | 70 | 42 | 195 | 129 | -31 | 982 |
| in % total VNB | 25% | 11% | 23% | 7% | 4% | 20% | 13% | -3% | 100% |
| New Business Margin | 3.0% | 3.5% | 3.5% | 4.3% | 6.1% | 2.5% | 3.9% | n/a | 3.1% |
| Present value of future premium | 8,053 | 3,088 | 6,401 | 1,650 | 687 | 7,943 | 3,349 | 234 | 31,405 |
| APE Margin | 34.5% | 34.0% | 26.3% | 36.9% | 39.1% | 24.2% | 13.8% | n/a | 24.5% |
| Single Premium | 2,719 | 2,145 | 3,836 | 626 | 273 | 7,584 | 621 | 0 | 17,803 |
| Recurrent Premium | 436 | 106 | 468 | 128 | 79 | 47 | 871 | 91 | 2,226 |

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 5% of the value of the Group. For new business the contribution is 13% for Asia and 4% for New Europe.

5.2 Germany

5.2.1 Development of Value of New Business

The value of new business written by Allianz Leben AG in 2006 was €244 million, which is almost twice the amount reported in 2005 (€124 million). The new business margin increased to 3.0%. Exhibit 11 shows an analysis of the change in new business value, in particular the impact of the change in methodology:

Exhibit 11: Movement of Value of New Business - Germany

| | Value of New Business | New Business Margin | Present Value of Premium |
|---|-----------------------------|---------------------------|--------------------------------|
| | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 124 | 2.4% | 5,108 |
| Total initial adjustments | 39 | 0.2% | 1,096 |
| <i>Change in Foreign Exchange</i> | 0 | 0.0% | 0 |
| <i>Change in Allianz interest</i> | 0 | 0.0% | 0 |
| <i>Restatement to MCEV and other model changes</i> | 39 | 0.2% | 1,096 |
| Starting Value as at 31 December 2005 | 163 | 2.6% | 6,204 |
| Change in volume | 58 | 0.0% | 2,215 |
| Change in business mix | 0 | 0.0% | 0 |
| Change in assumptions | 23 | 0.4% | -366 |
| Other | 0 | 0.0% | 0 |
| Value of new business as at 31 December 2006 | 244 | 3.0% | 8,053 |

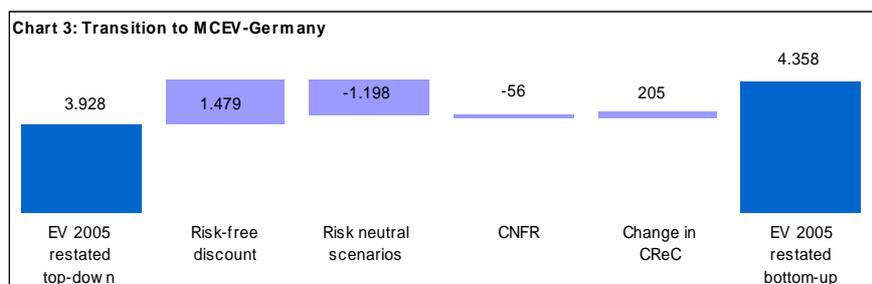
The table above shows a restated value for 2005 that is 31% higher than the value published for the end of 2005. The main reason for the size of the restatement is that market consistent bottom-up analysis reflects the lower level of risk within the new business sold in 2005, compared to the business written in the past. For Allianz Leben the weighted average guarantee of the in-force portfolio is 3.5%, while the business written in 2006 had a guaranteed rate of 2.75%. The restated new business margin is 0.2%-p or 8% higher than the margin published in 2005. As the premium payment terms for recurrent premium business are comparatively long in Germany, the present value of future premium increases by 21% due to risk free discounting instead of discounting with risk discount rates.

In 2006 the new business volume in terms of present value of future premiums increased by 30%, supported by the successful introduction of the new index-linked product. The higher interest environment at the end of the year had a positive impact on the new business margin.

5.2.2 Development of Embedded Value and Free Surplus

The total embedded value for Allianz Leben increased from €3,922 million to €5,182 million after a dividend payment of €287 million.

The restatement of 2005 embedded value to market consistent EV leads to an increase in value of €430 million or 11%. As shown in chart 3 below, the impact of moving to risk neutral return assumptions is more than offset by the positive impact of removing the risk-margin in the discount rate.



The movement analysis in Exhibit 12 summarizes the main drivers for the change in embedded value:

Exhibit 12: Movement of Embedded Value - Germany

| | NAV | | | |
|---|------------|------------|--------------|--------------|
| | FS | ReC | ViF | EV |
| | €mn | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 479 | 885 | 2,559 | 3,922 |
| Total initial adjustments | -34 | 36 | 434 | 436 |
| Change in Foreign Exchange | 0 | 0 | 0 | 0 |
| Change in Allianz interest | 0 | 0 | 0 | 0 |
| Other initial adjustments | 2 | 0 | 4 | 6 |
| Restatement to MCEV | -36 | 36 | 430 | 430 |
| Starting Value as at 31 December 2005 | 445 | 921 | 2,992 | 4,358 |
| Total Unwinding (inforce) | 282 | 0 | -34 | 249 |
| Unwinding of discount | 40 | 0 | 110 | 150 |
| Realisation of projected profits | 242 | 0 | -242 | 0 |
| Release from O&G and CNFR | 0 | 0 | 99 | 99 |
| Deviation from unwind due to market changes and asset performance | 25 | 13 | 393 | 432 |
| Operating Variances | 0 | 0 | 93 | 93 |
| Operating Assumption Changes | 0 | 0 | 89 | 89 |
| Value of new business at point of sale | 0 | 0 | 244 | 244 |
| Total Unwind (new business) | -57 | 26 | 34 | 4 |
| Unwinding of discount | 0 | 0 | 4 | 4 |
| Realisation of projected profits | -57 | 26 | 30 | 0 |
| Release from O&G and CNFR | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 |
| Embedded Value before capital movements | 695 | 961 | 3,812 | 5,468 |
| Net capital movements | -287 | 0 | 0 | -287 |
| Embedded Value as at 31 December 2006 | 409 | 961 | 3,812 | 5,182 |

The embedded value profit (after initial adjustment and before dividend payment) is 25% of the revised start value.

Besides the highly positive impact from the higher interest environment and good equity performance, the value of in-force also benefits from a change in the cost structure related to new contracts after the re-organisation of tied agents.

The new business strain was €57 million. This is comparatively low and reflects the impact of the German open-fund business model, where new business and in-force portfolio are managed in a common 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.

5.2.3 Sensitivities

Exhibit 13 shows the sensitivities for embedded value and value of new business:

Exhibit 13: Sensitivities - Germany

| | Inforce | Inforce | NB | NB |
|--|--------------|-------------|------------|-------------|
| | €mn | % | €mn | % |
| Central Assumptions | 5,182 | 100% | 244 | 100% |
| Required Capital equal to local solvency capital | 260 | 5% | 16 | 7% |
| <i>EV change by economic factors</i> | | | | |
| Risk Free Rate -100bp | -1,430 | -28% | -89 | -36% |
| Risk Free Rate +100bp | 357 | 7% | 9 | 4% |
| Charge for CNFR +100bp | -18 | 0% | -1 | 0% |
| Equity and property values - 10% | -304 | -6% | 0 | 0% |
| Volatilities +10% | -129 | -2% | -2 | -1% |
| <i>EV change by non-economic factors</i> | | | | |
| Lapse Rates -10% | 115 | 2% | 8 | 3% |
| Maintenance Expenses -10% | 56 | 1% | 6 | 3% |
| Mortality -5% for products with death risk | 8 | 0% | 0 | 0% |
| Mortality -5% for products with longevity risk | -33 | -1% | 0 | 0% |

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. 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.

5.3 France

All results reported for France are net of minorities and reflect the holdings of Allianz in AGF as of 31.12.2006.

5.3.1 Development of Value of New Business

The value of new business written by AGF in France in 2006 was €109 million, which is 51% higher than the value reported in 2005 (€72 million). The new business margin increased to 3.5%. Exhibit 14 shows an analysis of the change in new business value, in particular the impact of the change in methodology:

Exhibit 14: Movement of Value of New Business - France

| | Value of New Business | New Business Margin | Present Value of Premium |
|---|-----------------------------|---------------------------|--------------------------------|
| | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 72 | 2.8% | 2,614 |
| Total initial adjustments | 23 | 0.5% | 313 |
| <i>Change in Foreign Exchange</i> | 0 | 0.0% | 0 |
| <i>Change in Allianz interest</i> | -1 | 0.0% | -33 |
| <i>Restatement to MCEV and other model changes</i> | 24 | 0.5% | 346 |
| Starting Value as at 31 December 2005 | 95 | 3.3% | 2,928 |
| Change in volume | 5 | 0.0% | 160 |
| Change in business mix | -3 | -0.1% | 0 |
| Change in assumptions | 12 | 0.4% | 0 |
| Other | 0 | 0.0% | 0 |
| Value of new business as at 31 December 2006 | 109 | 3.5% | 3,088 |

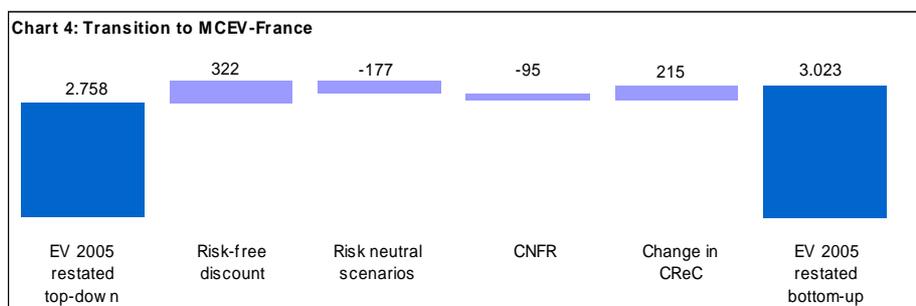
The table above shows a restated value for 2005 that is €24 million or 33% higher than the value published for the end of 2005. The margin is 0.5%-p or 17% higher. This shows that the previous top-down risk premium significantly overstated the risk inherent in the new business portfolio. The lower guarantees and the higher proportion of unit linked business with low guarantees had not been reflected in the risk margin.

In 2006 the new business volume in terms of present value of future premiums increased by 5%, mainly driven by the contribution of Partnerships. Assumption changes due to the favorable interest rate environment and operational improvements in maintenance loadings further increased the new business value.

5.3.2 Development of Embedded Value and Free Surplus

The total embedded value for AGF France increased from €3,073 million to €3,096 million after a dividend payment of €405 million.

The restatement of 2005 embedded value to market consistent EV leads to an increase in value of €265 million or 10%. As shown in chart 4 below, the impact of moving to risk neutral return assumptions is more than offset by the positive impact of removing the risk-margin in the discount rate. A positive contribution also results from capital charges that are lower in aggregate.



For AGF the positive impact from the change to MCEV is offset by the impact of a revised treatment of the “réserve de capitalisation” of €504 m (as of 31.12.2005 after minorities). This reserve was previously mainly allocated to shareholder equity. To better reflect the legislative constraint that it cannot be released to shareholders it is now reflected in PVFPP with the shareholder part on related investment income. The allocation of the “réserve de

capitalisation” to the PVFP has a negative impact on NAV which is only partly offset by a positive impact on the VIF. The required capital reduces, as from an economic point of view the shareholder margin in the reserve can still be recognized as available capital.

The movement analysis in Exhibit 15 summarizes the main drivers for the change in embedded value:

Exhibit 15: Movement of Embedded Value - France

| | NAV | | | |
|---|------------|--------------|--------------|--------------|
| | FS | ReC | ViF | EV |
| | €mn | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 785 | 1,106 | 1,183 | 3,073 |
| Total initial adjustments | -243 | -152 | 346 | -49 |
| Change in Foreign Exchange | 0 | 0 | 0 | 0 |
| Change in Allianz interest | -10 | -14 | -15 | -38 |
| Other initial adjustments | -234 | -138 | 95 | -276 |
| Restatement to MCEV | 0 | 0 | 265 | 265 |
| Starting Value as at 31 December 2005 | 541 | 954 | 1,528 | 3,023 |
| Total Unwinding (inforce) | 228 | -25 | -106 | 98 |
| Unwinding of discount | 37 | 0 | 44 | 81 |
| Realisation of projected profits | 192 | -25 | -167 | 0 |
| Release from O&G and CNFR | 0 | 0 | 18 | 18 |
| Deviation from unwind due to market changes and asset performance | 68 | 6 | 311 | 385 |
| Operating Variances | 32 | -11 | 1 | 22 |
| Operating Assumption Changes | -3 | 0 | -114 | -116 |
| Value of new business at point of sale | 0 | 0 | 109 | 109 |
| Total Unwind (new business) | -145 | 67 | 81 | 3 |
| Unwinding of discount | 0 | 0 | 2 | 2 |
| Realisation of projected profits | -145 | 67 | 78 | 0 |
| Release from O&G and CNFR | 0 | 0 | 0 | 0 |
| Others | -24 | 1 | 0 | -22 |
| Embedded Value before capital movements | 697 | 993 | 1,812 | 3,501 |
| Net capital movements | -405 | 0 | 0 | -405 |
| Embedded Value as at 31 December 2006 | 292 | 993 | 1,812 | 3,096 |

The embedded value profit (after initial adjustment and before dividend payment) is 16% of the revised start value.

The impact of market changes and asset performance shown above was due to higher interest rates and a strong equity and real estate performance in the AGF portfolio.

During the year, the operational variances were mainly a result of a positive impact from morbidity partially offset by a negative impact from lapses and lower than expected policy increments. The operational assumption change was mainly a result of a change in the expense allocation between life and non-life business.

5.3.3 Sensitivities

Exhibit 16 shows the sensitivities for embedded value and value of new business:

| Exhibit 16: Sensitivities - France | Inforce | Inforce | NB | NB |
|--|--------------|-------------|------------|-------------|
| | €mn | % | €mn | % |
| Central Assumptions | 3,096 | 100% | 109 | 100% |
| Required Capital equal to local solvency capital | 0 | 0% | 0 | 0% |
| <i>EV change by economic factors</i> | | | | |
| Risk Free Rate -100bp | -89 | -3% | -4 | -3% |
| Risk Free Rate +100bp | 90 | 3% | 2 | 2% |
| Charge for CNFR +100bp | -33 | -1% | -3 | -3% |
| Equity and property values - 10% | -106 | -3% | 0 | 0% |
| Volatilities +10% | -21 | -1% | 0 | 0% |
| <i>EV change by non-economic factors</i> | | | | |
| Lapse Rates -10% | 62 | 2% | 9 | 8% |
| Maintenance Expenses -10% | 90 | 3% | 8 | 7% |
| Mortality -5% for products with death risk | 35 | 1% | 5 | 4% |
| Mortality -5% for products with longevity risk | -12 | 0% | 0 | 0% |

Sensitivity to interest rates is low with €-89 m for in-force, and €-4 m for new business reflecting the low level of guarantees in the French operation.

5.4 Italy

The second stage of the merger raised the holdings of Allianz in RAS to 100%, up from 76% in the end of 2005 and 55% in the end of 2004. The higher participation of Allianz shareholders in the value of RAS and its subsidiaries increased the embedded value and the value of new business in Italy.

In 2006 the Italian insurance market was affected by several law changes and proposals which are still in discussion. In particular the tax treatment for investment income on insurance contracts is currently in debate. As there currently is no final agreement, the discussed changes are not reflected in the calculation. Due to various offsetting effects of this revised treatment, the overall impact is not expected to be very significant.

5.4.1 Development of Value of New Business

The value of new business written by the Italian subsidiaries of RAS and Lloyd Adriatico in 2006 amounts to € 224 million with a new business margin of 3.5%. Exhibit 17 shows an analysis of the change in new business value, in particular the impact of the change in methodology and the impact of the higher holdings in RAS:

Exhibit 17: Movement of Value of New Business - Italy

| | Value of New Business | New Business Margin | Present Value of Premium |
|---|-----------------------------|---------------------------|--------------------------------|
| | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 138 | 2.6% | 5,269 |
| Total initial adjustments | 78 | 0.6% | 1,492 |
| <i>Change in Foreign Exchange</i> | 0 | 0.0% | 0 |
| <i>Change in Allianz interest</i> | 34 | 0.0% | 1,212 |
| <i>Restatement to MCEV and other model changes</i> | 43 | 0.5% | 280 |
| Starting Value as at 31 December 2005 | 215 | 3.2% | 6,761 |
| Change in volume | -9 | 0.0% | -296 |
| Change in business mix | 9 | 0.1% | 0 |
| Change in assumptions | 8 | 0.2% | -64 |
| Other | 0 | 0.0% | 0 |
| Value of new business as at 31 December 2006 | 224 | 3.5% | 6,401 |

The restatement of the new business value 2005, considering both the increase in interest in RAS and the change in methodology, leads to an increase in value of 56%. The bottom-up analysis reveals significantly higher margins in the business of Lloyd and RAS as the top-down analysis did not adequately reflect the comparatively low market exposure of the business (see below).

In 2006 the value of new business increased by 4 % despite the difficult situation in the Italian market. A slight drop in volume in terms of present value of premiums is overcompensated by higher margins: While premium income dropped in the bank channels with lower margins, production in more profitable lines of business increased. The favorable interest environment and the impact of cost cutting measures also led to margin improvements.

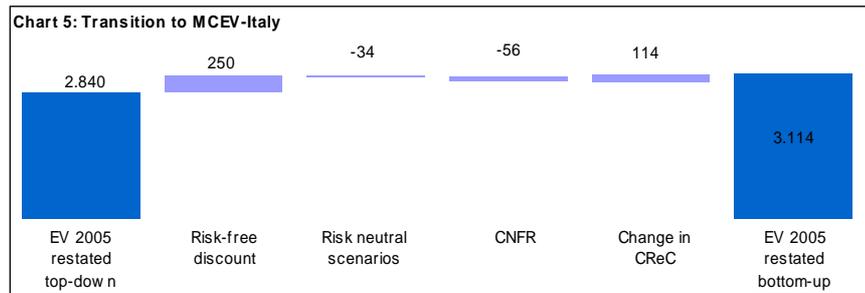
5.4.2 Development of Embedded Value and Free Surplus

The total embedded value for the Italian operations increased from €2,324 million to €3,404 million after a dividend payment of €106 million. The impact of higher holdings in RAS contributed €584 million.

The restatement of 2005 embedded value to market consistent EV leads to an increase in value of €274 million or 10%. The reason for this increase is that the risk-margins applied in the top-down evaluation did not reflect the low exposure to market risk in the business due to asset liability matching and a high proportion of unit linked business without significant financial guarantees.

The positive impact from the change to MCEV was slightly offset by a negative net impact of improvements in the projection models.

Chart 5 shows the reconciliation of the restated 2005 value to the corresponding top-down value, after allowing for the change in minorities.



The movement analysis in Exhibit 18 summarizes the main drivers for the change in embedded value:

Exhibit 18: Movement of Embedded Value - Italy

| | NAV | | | |
|---|------------|------------|--------------|--------------|
| | FS | ReC | VIF | EV |
| | €mn | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 576 | 710 | 1,037 | 2,324 |
| Total initial adjustments | 133 | 171 | 486 | 790 |
| Change in Foreign Exchange | 0 | 0 | 0 | 0 |
| Change in Allianz interest | 132 | 179 | 274 | 584 |
| Other initial adjustments | -6 | -1 | -62 | -68 |
| Restatement to MCEV | 7 | -7 | 274 | 274 |
| Starting Value as at 31 December 2005 | 710 | 881 | 1,523 | 3,114 |
| Total Unwinding (inforce) | 283 | -32 | -122 | 129 |
| Unwinding of discount | 46 | 0 | 48 | 94 |
| Realisation of projected profits | 237 | -32 | -205 | 0 |
| Release from O&G and CNFR | 0 | 0 | 35 | 35 |
| Deviation from unwind due to market changes and asset performance | 32 | -2 | 63 | 93 |
| Operating Variances | 42 | -40 | -65 | -63 |
| Operating Assumption Changes | 0 | 0 | 12 | 12 |
| Value of new business at point of sale | 0 | 0 | 224 | 224 |
| Total Unwind (new business) | -158 | 89 | 74 | 6 |
| Unwinding of discount | 0 | 0 | 4 | 4 |
| Realisation of projected profits | -158 | 89 | 69 | 1 |
| Release from O&G and CNFR | 0 | 0 | 1 | 1 |
| Others | 2 | 0 | -7 | -5 |
| Embedded Value before capital movements | 911 | 897 | 1,703 | 3,511 |
| Net capital movements | -106 | 0 | 0 | -106 |
| Embedded Value as at 31 December 2006 | 804 | 897 | 1,703 | 3,404 |

The embedded value profit (after initial adjustment and before dividend payment) is 13% of the revised start value.

The main driver of the change in value was the new business value. The positive market environment also contributed to the increase in value but, as stated above, the sensitivity to market changes is comparatively low due to close asset liability matching. Operating variances and assumption changes slightly reduce the value. Negative lapse experience is partly offset by lower expense assumptions due to cost cutting measures.

5.4.3 Sensitivities

Exhibit 19 shows the sensitivities for the embedded value and value of new business of the Italian entities.

Exhibit 19: Sensitivities - Italy

| | Inforce | Inforce | NB | NB |
|--|--------------|-------------|------------|-------------|
| | €mn | % | €mn | % |
| Central Assumptions | 3,404 | 100% | 224 | 100% |
| Required Capital equal to local solvency capital | 0 | 0% | 0 | 0% |
| <i>EV change by economic factors</i> | | | | |
| Risk Free Rate -100bp | -77 | -2% | -17 | -7% |
| Risk Free Rate +100bp | 16 | 0% | 2 | 1% |
| Charge for CNFR +100bp | -20 | -1% | -3 | -1% |
| Equity and property values - 10% | -93 | -3% | 0 | 0% |
| Volatilities +10% | -26 | -1% | -4 | -2% |
| <i>EV change by non-economic factors</i> | | | | |
| Lapse Rates -10% | 41 | 1% | 9 | 4% |
| Maintenance Expenses -10% | 72 | 2% | 14 | 6% |
| Mortality -5% for products with death risk | 9 | 0% | 2 | 1% |
| Mortality -5% for products with longevity risk | -7 | 0% | 0 | 0% |

All sensitivities are comparatively low. In particular, as described above, sensitivities to changes in the market environment are low due to ALM in the segregated funds and the high proportion of unit linked business with low guarantees.

5.5 Other Western Europe

As a consequence of the RAS merger the interest of Allianz in several other European entities such as Austria, Switzerland and Spain with significant RAS holdings has increased with a positive impact on the Group embedded value and value of new business of 10% relative to the value of the total region.

Apart from Portugal and Greece, all entities now report market consistent EV. With €116 million the remaining two entities contribute less than 10% of total EV for this region and less than 1% of the Group's EV.

5.5.1 Development of Value of New Business

In 2006 the value of new business of the entities included in "other Western Europe" was €70 million with a new business margin of 4.3%. Exhibit 20 shows an analysis of the change in new business value, in particular the impact of the change in methodology and the impact of the higher holdings in the entities linked to RAS:

Exhibit 20: Movement of Value of New Business - Other Western Europe

| | Value of New Business €mn | New Business Margin €mn | Present Value of Premium €mn |
|---|------------------------------------|----------------------------------|---------------------------------------|
| Reported Value as at 31 December 2005 | 41 | 2.9% | 1,441 |
| Total initial adjustments | 32 | 1.3% | 339 |
| Change in Foreign Exchange | 0 | 0.0% | -14 |
| Change in Allianz interest | 4 | 0.0% | 148 |
| Restatement to MCEV and other model changes | 29 | 1.3% | 205 |
| Starting Value as at 31 December 2005 | 73 | 4.1% | 1,780 |
| Change in volume | -6 | 0.0% | -139 |
| Change in business mix | 1 | 0.0% | 5 |
| Change in assumptions | 2 | 0.1% | 3 |
| Other | 0 | 0.0% | 1 |
| Value of new business as at 31 December 2006 | 70 | 4.3% | 1,650 |

The restatement of the new business value 2005, considering both the increase in interest in RAS and the change in methodology, leads to an increase in value of 78%. The bottom-up analysis reveals significantly higher margins particularly in Belgium, Switzerland and Spain since the previously applied risk margins overstated the risk inherent in new business.

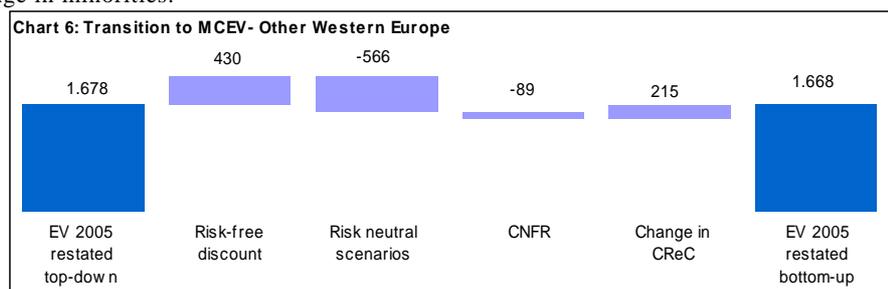
In 2006 the new business value went down by €6 m due to a decrease in volume, mainly in AZ Suisse after a strategic move away from low margin products.

5.5.2 Development of Embedded Value and Free Surplus

The embedded value for the entities summarized under "Other Western Europe" increased from €1,509 million to €2,238 million after a dividend payment of €12 million. The impact of higher holdings contributed €159 million.

The restatement of 2005 embedded value to market consistent EV had a slightly negative impact of €10 million for this region, mainly driven by the negative impact on the values of Switzerland and Spain, where high guarantees written in the past lead to a lower value under MCEV. As shown below, for this business the positive impact from removing the risk-margin is low in comparison to the impact of lower investment returns, as projected losses for blocks of business with high guarantees are now discounted with the risk-free rate. For other entities there is a positive impact from the change in methodology regarding required capital (see section 3.1.1), as the recognition of the VIF as an eligible source of capital reduces the required capital and the related cost of required capital.

Chart 6 shows the reconciliation of the restated 2005 value to the corresponding top-down value, after allowing for the change in minorities.



The movement analysis in Exhibit 21 summarises the main drivers for the change in embedded value:

Exhibit 21: Movement of Embedded Value - Other Western Europe

| | NAV | | | |
|---|-------------|--------------|--------------|--------------|
| | FS | ReC | ViF | EV |
| | €mn | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | -153 | 1,105 | 557 | 1,509 |
| Total initial adjustments | 49 | -12 | 123 | 160 |
| Change in Foreign Exchange | 2 | -14 | -6 | -18 |
| Change in Allianz interest | -10 | 111 | 58 | 159 |
| Other initial adjustments | -72 | 20 | 81 | 29 |
| Restatement to MCEV | 129 | -129 | -10 | -10 |
| Starting Value as at 31 December 2005 | -104 | 1,093 | 680 | 1,668 |
| Total Unwinding (inforce) | 193 | -27 | -92 | 74 |
| Unwinding of discount | 24 | 0 | 27 | 51 |
| Realisation of projected profits | 167 | -27 | -140 | 0 |
| Release from O&G and CNFR | 2 | 0 | 21 | 23 |
| Deviation from unwind due to market changes and asset performance | 158 | -91 | 333 | 400 |
| Operating Variances | -12 | 7 | 65 | 61 |
| Operating Assumption Changes | -4 | 4 | -31 | -31 |
| Value of new business at point of sale | 0 | 0 | 70 | 70 |
| Total Unwind (new business) | -67 | 37 | 32 | 3 |
| Unwinding of discount | 0 | 0 | 2 | 2 |
| Realisation of projected profits | -67 | 37 | 30 | 0 |
| Release from O&G and CNFR | 0 | 0 | 0 | 0 |
| Others | -2 | 4 | 2 | 5 |
| Embedded Value before capital movements | 162 | 1,027 | 1,060 | 2,249 |
| Net capital movements | -12 | 0 | 0 | -12 |
| Embedded Value as at 31 December 2006 | 151 | 1,027 | 1,060 | 2,238 |

The embedded value profit (after initial adjustment and before dividend payment) is 35% of the revised start value.

Higher interest rates increased EV, mainly in countries with relevant guarantees. Positive market movements and out-performance particularly in Switzerland's and Belgium's portfolios had a significant positive impact on EEV.

Among various partially balancing items are positive variances from mortality and lapses in AZ Seguros, and from policy changes in AGF Belgium and AZ Elementar.

Operating assumption changes include improvements in mortality for Spain, Switzerland and Netherlands and decrements from re-evaluating the effective tax rate in AGF Belgium and from surrender in AZ Suisse.

5.5.3 Sensitivities

Exhibit 22 shows the sensitivities for the embedded value and value of new business.

Exhibit 22: Sensitivities - Other Western Europe

| | Inforce | Inforce | NB | NB |
|--|--------------|-------------|-----------|-------------|
| | €mn | % | €mn | % |
| Central Assumptions | 2,238 | 100% | 70 | 100% |
| Required Capital equal to local solvency capital | 32 | 1% | 2 | 3% |
| <i>EV change by economic factors</i> | | | | |
| Risk Free Rate -100bp | -361 | -16% | -20 | -29% |
| Risk Free Rate +100bp | 199 | 9% | 9 | 13% |
| Charge for CNFR +100bp | -27 | -1% | -2 | -2% |
| Equity and property values - 10% | -164 | -7% | 0 | 0% |
| Volatilities +10% | -45 | -2% | -2 | -3% |
| <i>EV change by non-economic factors</i> | | | | |
| Lapse Rates -10% | 33 | 1% | 4 | 6% |
| Maintenance Expenses -10% | 89 | 4% | 6 | 9% |
| Mortality -5% for products with death risk | 28 | 1% | 2 | 3% |
| Mortality -5% for products with longevity risk | -28 | -1% | -1 | -1% |

Sensitivity to interest rates for in-force is noticeable with €-361 m or -16% for a 100bp decrease of risk free rates because of high guarantee portfolios in Belgium, Switzerland and Austria. New business guarantees to interest rates are also significant due to high guarantees that were still sold in Switzerland during 2006; meanwhile these blocks have been closed for new business.

The impact of sensitivities to a decrease in maintenance expense assumptions is higher for entities not sharing technical profits with the policyholders like for example AGF Belgium.

5.6 New Europe

All entities in New Europe still calculate EV applying the top-down methodology described in appendix B. With €419 million this region currently contributes 2% of the embedded value and 4% of the value of new business of the Group.

5.6.1 Development of Value of New Business

The value of new business of the entities summarized under “New Europe” in 2006 was €42 million with a new business margin of 6.1%. Exhibit 23 shows an analysis of the change in new business value.

Exhibit 23: Movement of Value of New Business - New Europe

| | Value of New Business | New Business Margin | Present Value of Premium |
|---|-----------------------------|---------------------------|--------------------------------|
| | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 32 | 7.6% | 414 |
| Total initial adjustments | 5 | 0.8% | 25 |
| <i>Change in Foreign Exchange</i> | 1 | 0.0% | 17 |
| <i>Change in Allianz interest</i> | 0 | 0.0% | 0 |
| <i>Restatement to MCEV and other model changes</i> | 4 | 0.8% | 8 |
| Starting Value as at 31 December 2005 | 37 | 8.4% | 439 |
| Change in volume | 23 | 0.0% | 267 |
| Change in business mix | -15 | -2.1% | 0 |
| Change in assumptions | -4 | -0.3% | -33 |
| Other | 1 | 0.0% | 14 |
| Value of new business as at 31 December 2006 | 42 | 6.1% | 687 |

Apart from a small increase due to foreign currency effects the restated value for 2005 also contains an increase due to improvements of modelling of rider products.

In 2006 the value of new business increased by 14% compared to the restated 2005 value. The new business volume rose by 56%. The main driver of this change in volume is the successful bank-assurance joint venture in Poland between Allianz Poland and a local bank selling a new single premium unit linked product. As the margin of this product is below the high level of this region, the overall level drops as shown in the line change in business mix.

Growth in New Europe is also supported by regional initiatives such as the parallel introduction of a new index linked product. The new business margin is still declining from an exceptionally high level to a more sustainable level in a rapidly growing market.

5.6.2 Development of Embedded Value and Free Surplus

The embedded value for New Europe increased from €336 million to €419 million after a small capital re-allocation in Poland from the P&C to the life segment.

The movement analysis in Exhibit 24 below summarizes the main drivers for the change in embedded value.

The initial adjustments contain the impact of changes in foreign currency exchange rates (mainly Slovakia) and the impact of several improvements in EV modelling. The most important are:

- Improved modelling of O&G in Czech Republic: A statutory reserve held for O&G was previously directly offset against the calculated O&G value. Now the reserve is included in the projection with a negative net-impact on the VIF and on required capital.
- The adjusted accounting treatment of real estate in Slovakia caused a reallocation of a part of the UCG from NAV to PVFP and consequently a decrease in NAV and an increase in VIF.

The embedded value profit (after initial adjustment and before dividend payment) is 20% of the revised start value.

Exhibit 24: Movement of Embedded Value - New Europe

| | NAV | | | |
|---|-----------|------------|------------|------------|
| | FS | ReC | ViF | EV |
| | €mn | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 44 | 113 | 180 | 336 |
| Total initial adjustments | -44 | 20 | 34 | 10 |
| Change in Foreign Exchange | 2 | 7 | 8 | 17 |
| Change in Allianz interest | 0 | 0 | 0 | 0 |
| Other initial adjustments | -46 | 13 | 26 | -7 |
| Restatement to MCEV | 0 | 0 | 0 | 0 |
| Starting Value as at 31 December 2005 | 0 | 132 | 213 | 346 |
| Total Unwinding (inforce) | 23 | 26 | -22 | 27 |
| Unwinding of discount | 5 | 0 | 18 | 23 |
| Realisation of projected profits | 18 | 26 | -44 | 0 |
| Release from O&G and CNFR | 0 | 0 | 4 | 4 |
| Deviation from unwind due to market changes and asset performance | 1 | 1 | -3 | -1 |
| Operating Variances | 7 | -1 | 3 | 9 |
| Operating Assumption Changes | 0 | 0 | -9 | -9 |
| Value of new business at point of sale | 0 | 0 | 42 | 42 |
| Total Unwind (new business) | -19 | 2 | 20 | 3 |
| Unwinding of discount | 0 | 0 | 3 | 3 |
| Realisation of projected profits | -19 | 2 | 17 | 0 |
| Release from O&G and CNFR | 0 | 0 | 0 | 0 |
| Others | 12 | -12 | -1 | -1 |
| Embedded Value before capital movements | 24 | 149 | 242 | 415 |
| Net capital movements | 3 | 0 | 0 | 3 |
| Embedded Value as at 31 December 2006 | 27 | 149 | 242 | 419 |

5.6.3 Sensitivities

Exhibit 25 shows the sensitivities for the embedded value and the value of new business.

Exhibit 25: Sensitivities - New Europe

| | Inforce | Inforce | NB | NB |
|--|------------|-------------|-----------|-------------|
| | €mn | % | €mn | % |
| Central Assumptions | 419 | 100% | 42 | 100% |
| Required Capital equal to local solvency capital | 21 | 5% | 2 | 6% |
| <i>EV change by economic factors</i> | | | | |
| Risk Free Rate -100bp | -39 | -9% | -3 | -6% |
| Risk Free Rate +100bp | 29 | 7% | 0 | -1% |
| Charge for CNFR +100bp | 0 | 0% | 0 | 0% |
| Equity and property values - 10% | -9 | -2% | 0 | 0% |
| Volatilities +10% | 0 | 0% | 0 | 0% |
| <i>EV change by non-economic factors</i> | | | | |
| Lapse Rates -10% | 4 | 1% | 3 | 8% |
| Maintenance Expenses -10% | 17 | 4% | 3 | 7% |
| Mortality -5% for products with death risk | 5 | 1% | 1 | 2% |
| Mortality -5% for products with longevity risk | 0 | 0% | 0 | 0% |

Economic factors have the biggest influence on the changes in EV because the in-force portfolio still has a relatively high average minimum guaranteed rate. The new business has significantly lower O&G values.

5.7 USA

The value of new business and the embedded value shown below for 2006 are affected by a drop of 10% in the exchange rate of USD against EUR compared to year-end 2005.

5.7.1 Development of Value of New Business

The value of new business written by AZ Life US in 2006 amounts to €195 million – 8% lower than reported last year. The new business margin is 2.5%, higher than last year's reported figure of 1.9%. However, for both measures the 2005 figures need to be restated for comparability.

The 2005 new business value, after taking into account the effect of foreign exchange for EUR to USD, and restating according to the new methodology is €41 million higher than reported originally. Likewise, the 2005 new business margin increases by 0.6 %-p to 2.5% for these adjustments. The main driver for this increase is the lower capital requirement described in section 3.1.1, which more than offset the negative impact of the lower projected investment returns.

Thus, the new business margin after the restatement remains stable at 2.5%. In 2006 sales volume was lower than in 2005, but management pricing actions maintained profit margins and cost-cutting measures were taken in order to counter the effect that reduced volume would have on new business value. Exhibit 26 shows an analysis of the change in new business value, including the impact of the change in methodology and the foreign exchange impact:

Exhibit 26: Movement of Value of New Business - US

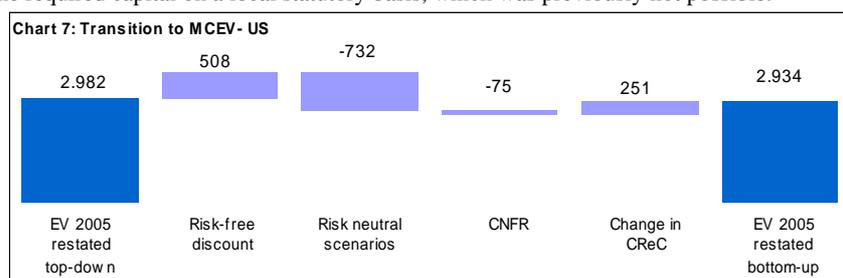
| | Value of New Business | New Business Margin | Present Value of Premium |
|---|-----------------------|---------------------|--------------------------|
| | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 210 | 1.9% | 10,949 |
| Total initial adjustments | 41 | 0.6% | -1,083 |
| Change in Foreign Exchange | -22 | 0.0% | -1,141 |
| Change in Allianz interest | 0 | 0.0% | 0 |
| Restatement to MCEV and other model changes | 63 | 0.6% | 58 |
| Starting Value as at 31 December 2005 | 251 | 2.5% | 9,866 |
| Change in volume | -47 | 0.0% | -1,856 |
| Change in business mix | -3 | 0.0% | 0 |
| Change in assumptions | -6 | -0.1% | -66 |
| Other | 0 | 0.0% | 0 |
| Value of new business as at 31 December 2006 | 195 | 2.5% | 7,943 |

5.7.2 Development of Embedded Value and Free Surplus

The total embedded value for AZ-Life increased from €3,357 million to €3,617 million after a dividend payment of €99 million. The lower USD exchange rate led to a decrease in the start value of €350 million.

The restatement of 2005 embedded value to market consistent EV slightly lowered the in-force value by €49 million. As shown in chart 7 below, for AZ Life the impact of moving to risk neutral return assumptions is not offset by the positive impact of removing the risk-margin in the discount rate. Under MCEV investment risk margins on corporate bonds and equity are not valued up-front, but are recognized when realized.

The effect is almost compensated by lower capital requirements and the related decrease of CRc. As described in section 3.1.1 the internal risk capital is defined as a capital requirement on the economic balance sheet with MCEV as the available capital. When transferring this capital requirement to a statutory balance sheet, i.e. when determining the capital to be held on top of statutory reserves, the margins in the reserve and related assets (i.e. the VIF) is an eligible source of capital. Capital in excess of reserve and local statutory capital is only required were risk capital exceeds these requirements. The integrated framework for risk capital and embedded value allows to directly link internal capital requirements to the required capital on a local statutory basis, which was previously not possible.



The movement analysis in Exhibit 27 summarizes the main drivers for the change in embedded value:

Exhibit 27: Movement of Embedded Value - US

| | NAV | | | |
|---|--------------|--------------|--------------|--------------|
| | FS | ReC | ViF | EV |
| | €mn | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 201 | 1,901 | 1,255 | 3,357 |
| Total initial adjustments | 835 | -1,117 | -141 | -423 |
| Change in Foreign Exchange | -21 | -198 | -131 | -350 |
| Change in Allianz interest | 0 | 0 | 0 | 0 |
| Other initial adjustments | -15 | -48 | 38 | -25 |
| Restatement to MCEV | 871 | -871 | -49 | -49 |
| Starting Value as at 31 December 2005 | 1,036 | 784 | 1,114 | 2,934 |
| Total Unwinding (inforce) | 242 | 97 | -120 | 219 |
| Unwinding of discount | 34 | 0 | 80 | 114 |
| Realisation of projected profits | 208 | 97 | -305 | 0 |
| Release from O&G and CNFR | 0 | 0 | 105 | 105 |
| Deviation from unwind due to market changes and asset performance | 116 | -27 | 198 | 287 |
| Operating Variances | -114 | 0 | 208 | 94 |
| Operating Assumption Changes | 26 | -26 | -47 | -47 |
| Value of new business at point of sale | 0 | 0 | 195 | 195 |
| Total Unwind (new business) | -149 | 35 | 132 | 17 |
| Unwinding of discount | 0 | 0 | 17 | 17 |
| Realisation of projected profits | -149 | 35 | 114 | 0 |
| Release from O&G and CNFR | 0 | 0 | 0 | 0 |
| Others | -4 | 3 | 20 | 18 |
| Embedded Value before capital movements | 1,153 | 865 | 1,698 | 3,715 |
| Net capital movements | -99 | 0 | 0 | -99 |
| Embedded Value as at 31 December 2006 | 1,054 | 865 | 1,698 | 3,617 |

The embedded value profit (after initial adjustment and before dividend payment) is 27% of the revised start value.

Increasing interest rates and high equity performance had a positive impact on AZ-Life's embedded value. Lower than expected lapse and mortality experience led to a positive operating variance. A positive impact also results from the sale of AZ life's health business. The impact of negative expense trends was mitigated by spread adjustments. An increase in annuity conversion rates has a slightly negative effect on the projected profits.

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

5.7.3 Sensitivities

Exhibit 28 shows the sensitivities for AZ-Life embedded value and value of new business:

Exhibit 28: Sensitivities - US

| | Inforce | | NB | |
|--|--------------|-------------|------------|-------------|
| | €mn | % | €mn | % |
| Central Assumptions | 3,617 | 100% | 195 | 100% |
| Required Capital equal to local solvency capital | 0 | 0% | 0 | 0% |
| <i>EV change by economic factors</i> | | | | |
| Risk Free Rate -100bp | -143 | -4% | -33 | -17% |
| Risk Free Rate +100bp | 6 | 0% | 23 | 12% |
| Charge for CNFR +100bp | -20 | -1% | -3 | -2% |
| Equity and property values - 10% | -191 | -5% | 0 | 0% |
| Volatilities +10% | -63 | -2% | -6 | -3% |
| <i>EV change by non-economic factors</i> | | | | |
| Lapse Rates -10% | 22 | 1% | 2 | 1% |
| Maintenance Expenses -10% | 56 | 2% | 12 | 6% |
| Mortality -5% for products with death risk | 6 | 0% | 0 | 0% |
| Mortality -5% for products with longevity risk | -4 | 0% | -2 | -1% |

The asymmetric sensitivities to positive vs. negative 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.

Asia

MCEV has been introduced in Allianz Life Korea, which represents the majority of the Life business of the region. All other Asian entities still calculate EV applying the real-world methodology described in appendix B.

5.7.4 Development of Value of New Business

The value of new business of our Asian operations increased to €129 million, which is 79% higher than the value reported for year end 2005. The new business margin after the restatement to MCEV is 3.9%. Exhibit 29 shows an analysis of the change in new business value, including the impact of the change in methodology:

Exhibit 29: Movement of Value of New Business - Asia

| | Value of New Business | New Business Margin | Present Value of Premium |
|---|-----------------------------|---------------------------|--------------------------------|
| | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | 72 | 2.6% | 2,701 |
| Total initial adjustments | 38 | 1.2% | 106 |
| Change in Foreign Exchange | -4 | 0.0% | -148 |
| Change in Allianz interest | 0 | 0.0% | 0 |
| Restatement to MCEV and other model changes | 41 | 1.2% | 253 |
| Starting Value as at 31 December 2005 | 109 | 3.9% | 2,807 |
| Change in volume | 20 | 0.0% | 519 |
| Change in business mix | 0 | 0.0% | 0 |
| Change in assumptions | -1 | 0.0% | 22 |
| Other | 0 | 0.0% | 1 |
| Value of new business as at 31 December 2006 | 129 | 3.9% | 3,349 |

The most significant contribution comes from AZ-Life in Korea, where the value of new business showed a major increase to €115 million. The bottom-up analysis reveals significantly higher new business margins as the top-down approach did not adequately reflect the lower risk in the new business due to lower guarantees and the higher proportion of unit linked. In 2006 the introduction of the equity indexed product that was adapted from AZ Life US and sold starting in the third quarter 2006 already contributed 16% of the total value.

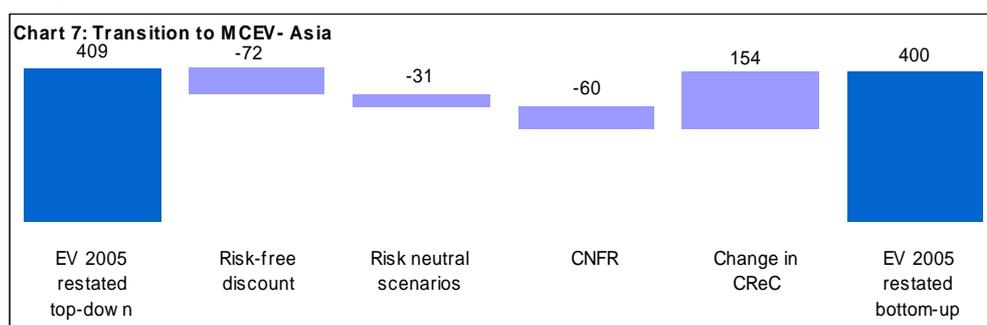
The other significant operation is Taiwan with a value of new business of €15 million. China still has a negative value of new business of - €5 million, but the net present value of premiums increases by more than 300%.

5.7.5 Development of Embedded Value and Free Surplus

The embedded value for the Asian entities increased from €419 million to €590 million after a release of capital of €142 million previously held to cover capital requirements in Korea.

The restatement of 2005 embedded value to market consistent EV had a slightly negative impact of €9 million for Korea. As shown in chart 7 below, the impact from removing the risk-margin is negative, as projected losses for the blocks of business in the in-force portfolio with high guarantees are now discounted with the risk-free rate whereas previously they were discounted with the projected earned investment rate. The negative impact is almost compensated by the lower capital requirement revealed by the new risk capital model.

Chart 7 shows the reconciliation of the restated 2005 value to the corresponding top-down value, after allowing for the change in minorities.



The movement analysis in Exhibit 30 summarizes the main drivers for the change in embedded value:

Exhibit 30: Movement of Embedded Value - Asia

| | NAV | | | |
|---|-------------|--------------|-------------|------------|
| | FS | ReC | ViF | EV |
| | €mn | €mn | €mn | €mn |
| Reported Value as at 31 December 2005 | -430 | 1,218 | -370 | 419 |
| Total initial adjustments | 147 | -178 | 12 | -18 |
| Change in Foreign Exchange | 16 | -44 | 19 | -10 |
| Change in Allianz interest | 0 | 0 | 0 | 0 |
| Other initial adjustments | -3 | 1 | 3 | 1 |
| Restatement to MCEV | 134 | -134 | -9 | -9 |
| Starting Value as at 31 December 2005 | -283 | 1,040 | -357 | 400 |
| Total Unwinding (inforce) | 61 | 0 | 35 | 96 |
| Unwinding of discount | 23 | 0 | -6 | 17 |
| Realisation of projected profits | 37 | 0 | -38 | 0 |
| Release from O&G and CNFR | 1 | 0 | 79 | 80 |
| Deviation from unwind due to market changes and asset performance | 350 | -340 | -120 | -109 |
| Operating Variances | 41 | 1 | 49 | 91 |
| Operating Assumption Changes | 0 | 0 | 115 | 115 |
| Value of new business at point of sale | 0 | 0 | 129 | 129 |
| Total Unwind (new business) | -126 | 74 | 63 | 12 |
| Unwinding of discount | 0 | 0 | 5 | 5 |
| Realisation of projected profits | -126 | 74 | 57 | 6 |
| Release from O&G and CNFR | 0 | 0 | 0 | 0 |
| Others | 2 | -1 | -2 | -1 |
| Embedded Value before capital movements | 45 | 774 | -87 | 733 |
| Net capital movements | -142 | 0 | 0 | -142 |
| Embedded Value as at 31 December 2006 | -97 | 774 | -87 | 590 |

The embedded value profit (after initial adjustment and before dividend payment) is 83% of the revised start value.

Lower interest rates in Korea and adjusted investment assumptions in Taiwan had a negative impact on the value of in-force. The impact is partly offset by a significant decrease in the required capital for Korea and the related decrease in cost of capital: Changes in the investment strategy introduced some years ago now show effect as the asset structure converges to the target asset allocation. New business with low guarantees and higher proportion of unit-linked products as well as the gradual run-off of the business with high-guarantees also have a positive impact.

Lower lapse experience and expense reductions had a positive impact as reflected in operating variances and assumption changes.

5.7.6 Sensitivities

Exhibit 31 shows the sensitivities for AZ-Life embedded value and value of new business:

| | Inforce | | NB | |
|--|------------|-------------|------------|-------------|
| | €mn | % | €mn | % |
| Central Assumptions | 590 | 100% | 129 | 100% |
| Required Capital equal to local solvency capital | 81 | 14% | 14 | 11% |
| <i>EV change by economic factors</i> | | | | |
| Risk Free Rate -100bp | -256 | -43% | 22 | 17% |
| Risk Free Rate +100bp | 168 | 29% | -18 | -14% |
| Charge for CNFR +100bp | -27 | -5% | 0 | 0% |
| Equity and property values - 10% | -18 | -3% | 0 | 0% |
| Volatilities +10% | -16 | -3% | -3 | -2% |
| <i>EV change by non-economic factors</i> | | | | |
| Lapse Rates -10% | 25 | 4% | 34 | 26% |
| Maintenance Expenses -10% | 25 | 4% | 5 | 4% |
| Mortality -5% for products with death risk | 40 | 7% | 10 | 8% |
| Mortality -5% for products with longevity risk | 4 | 1% | -6 | -5% |

Sensitivities in Asia are dominated by Korea. The values of in-force and new business are very sensitive to movements in the risk free rate, most of the business consists of capital accumulation products. 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.

5.8 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 32: Summary Holding

| | Holding Expenses | Reinsurance | Total |
|-------------------------------------|------------------|-------------|-------|
| | €mn | €mn | €mn |
| Embedded Value 2005 | -97 | 126 | 29 |
| restated Value 2005 | -122 | 126 | 5 |
| Ending Embedded Value 2006 | -146 | 135 | -11 |
| | | | |
| Value of New Business 2005 | -28 | 3 | -25 |
| restated Value of New Business 2005 | -34 | 3 | -32 |
| Value of New Business 2006 | -36 | 5 | -31 |

The restated figures for the holding cost reflect the fact that the projected expenses are now discounted with risk-free rates rather than with the risk discount rate. In 2006 observed holding expenses allocated to the life segment increased slightly, as a result of an improved allocation of expenses between segments, which is reflected in the higher ending value.

The increase in the value of reinsurance is related to the transfer of a block of business previously reinsured by RAS and now managed by Allianz Reinsurance.

6 Independent opinion

“Tillinghast has reviewed the methodology and assumptions used to determine the 2006 embedded value results for the Allianz Group. Our review covered the embedded value as at 31 December 2006, the value of 2006 new business, the analysis of movement in embedded value over 2006 and the sensitivities on the embedded value and new business value. The review also covered the restated embedded value as at 31 December 2005 and the reconciliation to the embedded value as at 31 December 2005 as published in March 2006.

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 section 3 of the "Allianz European Embedded Value Report 2006";
- 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 2006").

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”

A Appendix: Overview assumptions

Table 7: Risk free rates

| | | 1 year | 2 year | 5 year | 10 year | 20 year |
|-----|------------------|--------|--------|--------|---------|---------|
| | | % | % | % | % | % |
| EUR | as of 31.12.2005 | 2.92% | 2.98% | 3.19% | 3.47% | 3.80% |
| | as of 30.09.2006 | 3.76% | 3.82% | 3.89% | 4.01% | 4.19% |
| | as of 31.12.2006 | 4.11% | 4.12% | 4.18% | 4.27% | 4.35% |
| CHF | as of 31.12.2005 | 1.65% | 1.73% | 2.01% | 2.34% | 2.69% |
| | as of 30.09.2006 | 2.18% | 2.32% | 2.55% | 2.76% | 2.99% |
| | as of 31.12.2006 | 2.44% | 2.56% | 2.75% | 2.85% | 2.90% |
| USD | as of 31.12.2005 | 4.59% | 4.65% | 4.78% | 4.92% | 4.96% |
| | as of 30.09.2006 | 5.37% | 5.17% | 5.18% | 5.29% | 5.37% |
| | as of 31.12.2006 | 5.39% | 5.24% | 5.16% | 5.27% | 5.42% |
| KRW | as of 31.12.2005 | 4.63% | 4.80% | 5.29% | 5.67% | 5.80% |
| | as of 30.09.2006 | 4.64% | 4.68% | 4.70% | 4.86% | 5.12% |
| | as of 31.12.2006 | 5.00% | 5.03% | 5.07% | 5.13% | 5.30% |

Annually compounded zero coupon rates derived from swap rates

Table 8: Swaption implied volatilities

| option term | | 1 year | 2 year | 5 year | 10 year | 20 year |
|-------------|------------------|--------|--------|--------|---------|---------|
| | | % | % | % | % | % |
| EUR | as of 31.12.2005 | 15.5% | 15.9% | 15.5% | 14.3% | 12.8% |
| | as of 30.09.2006 | 14.1% | 13.9% | 13.3% | 12.1% | 11.0% |
| | as of 31.12.2006 | 13.1% | 13.2% | 12.9% | 11.8% | 10.8% |
| CHF | as of 31.12.2005 | 21.7% | 21.5% | 20.0% | 18.6% | 18.1% |
| | as of 30.09.2006 | 16.5% | 17.3% | 17.4% | 16.4% | 15.2% |
| | as of 31.12.2006 | 17.4% | 17.9% | 17.5% | 16.9% | 14.9% |
| USD | as of 31.12.2005 | 16.9% | 16.7% | 15.5% | 13.5% | 11.2% |
| | as of 30.09.2006 | 14.2% | 14.9% | 14.8% | 13.1% | 11.3% |
| | as of 31.12.2006 | 12.7% | 13.3% | 13.3% | 11.3% | 10.6% |
| KRW | for all dates | 11.60% | 11.70% | 11.00% | 10.80% | 8.90% |

Volatilities implied in option on 20 year swaps at the money

Table 9: Equity option implied volatilities at the money

| | | as of | as of | as of |
|-------|-----------|------------|------------|------------|
| Index | | 31.12.2006 | 30.09.2006 | 31.12.2005 |
| | | % | % | % |
| EUR | DAX | 22.5% | 23.6% | 20.3% |
| | EUROSTOXX | 22.5% | 22.0% | 23.6% |
| | CAC | 21.4% | 23.6% | 21.8% |
| CHF | SPI | 17.4% | 18.8% | 18.7% |
| USD | S&P 500 | 20.0% | 20.4% | 23.6% |
| KRW | KOSPI | 36.4% | 36.4% | 36.4% |

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

B Appendix: Real world projections and Implied Discount Rates

As described in the introduction Allianz has rolled out MCEV to all of its major entities. The remaining entities, which contribute 4% of embedded value and 8% of the value of new business, still calculate a top-down real-world embedded value based on the same methodology as applied for 2005 year-end results. In the following chapter we briefly summarize the items where the top-down methodology deviates from the methodology described in the main part.

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 that already calculated MCEV.

B.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").

B.1.1 Required Capital

As internal risk capital is based on MCEV it is only calculated 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.

B.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.

B.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.

B.1.4 Options and Guarantees

Options and guarantees on a real-world basis are calculated for all mid-size subsidiaries. The methodology generally is the same as described for MCEV; however, the scenarios are adjusted to be consistent with the underlying real-world assumptions used in the PVFP.

B.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)

B.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.

B.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 10: Economic assumptions for real world EEV

| | Risk free rates | | Currency exchange rates to EUR | |
|---------------------------------|-------------------------|--------|--------------------------------|-------|
| | 2006 | 2005 | 2006 | 2005 |
| EUR | 3.70% | 3.40% | 1.00 | 1.00 |
| CHF | 2.40% | 2.20% | 1.61 | 1.56 |
| USD | 4.75% | 4.70% | 1.32 | 1.18 |
| KRW | 4.70% | 5.70% | 1,225 | 1,184 |
| CNY | 3.00% | 3.35% | 10.3 | 9.5 |
| CZK | 3.90% | 3.70% | 27.5 | 29.0 |
| HRK | 4.45% | 4.10% | 7.35 | 7.37 |
| HUF | 7.65% | 6.70% | 251.8 | 252.9 |
| IDR | 11.05% | 14.55% | 11.8 | 11.6 |
| MYR | 4.15% | 4.25% | 4.65 | 4.46 |
| PLN | 5.55% | 5.25% | 3.83 | 3.86 |
| SKK | 4.40% | 3.70% | 34.4 | 37.9 |
| TWD | 2.15% | 1.95% | 42.9 | 38.9 |
| Equity risk premium | 400bp | 350bp | | |
| Real estate risk premium | 0.2 x 10 year bond rate | | | |
| Risk premium for discount rates | 360 bp | 315 bp | | |

Risk free rates are taken from 10 year government bond rates

Fixed over-returns are assumed for all risky assets. Return assumptions for equity and real estate are derived from the risk free rate, i.e. the 10 year government bond rate, plus a risk premium, see Table 10.

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 2006 are 0.9 (2005: 0.9) for beta and 4.0% (2005: 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 (2005: 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.

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 30.09.2006.

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.

B.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 (PVFP) or distributable earnings (PVFP- CRcC) calculated with best estimate assumptions are discounted with a risk discount rate. 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 best estimate statutory profits (PVFP) or 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).

It is important to note that this implied discount rate strongly depends on the best estimate assumptions of the real-world projection, 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.

Exhibit 33 and Exhibit 34 show the corresponding implied risk discount rates for our main entities. In addition we show a decomposition into the components risk free rate, financial risk, O&G, CNFR. The underlying assumptions for the real-world projection are the same as used for the top-down approach (see appendix B2). In order to allow a comparison to last year's top-down discount rates, we have calculated an effective RDR, by including the allowance for options and guarantees and the cost of non-financial as an additional margin in the risk discount rate. In last year's disclosure these elements were shown separately.

Exhibit 33: Implied discount rates (IDR) - Inforce

| | Germany | France | Italy | USA | Korea |
|--|--------------|--------------|--------------|---------------|-------------|
| <i>weighted risk-free</i> | 3.70% | 3.70% | 3.70% | 4.75% | n.a. |
| <i>risk-margin</i> | 1.44% | 1.47% | 0.03% | 4.88% | n.a. |
| <i>O&G contribution</i> | 0.74% | 0.60% | 0.61% | 4.66% | n.a. |
| <i>CNFR contribution</i> | 0.12% | 0.64% | 0.54% | 1.03% | n.a. |
| <i>CReC contribution</i> | 0.53% | 1.00% | 0.97% | 1.64% | n.a. |
| IDR 2006 based on profits | 6.53% | 7.41% | 5.85% | 16.97% | n.a. |
| consider required capital in real-world projection | -0.46% | -1.71% | -0.75% | -4.26% | n.a. |
| IDR 2006 based on earnings | 6.07% | 5.70% | 5.10% | 12.70% | n.a. |
| Sensitivity | | | | | |
| EV 2006 - central value | 5,182 | 3,096 | 3,404 | 3,617 | 579 |
| Sensitivity to change in IDR + 100bp | -546 | -225 | -177 | -124 | n.a. |
| <i>in % central EV 2006</i> | -10.53% | -7.26% | -5.20% | -3.43% | n.a. |
| Effective RDR used in 2005 (based on profits) | | | | | |
| 10-year risk free | 3.40% | 3.40% | 3.40% | 4.70% | n.a. |
| risk-margin | 3.15% | 3.15% | 3.15% | 3.15% | n.a. |
| <i>O&G contribution</i> | 0.56% | 0.32% | 0.29% | 1.72% | n.a. |
| <i>CReC contribution</i> | 1.43% | 4.22% | 2.40% | 4.20% | n.a. |

Exhibit 34: Implied discount rates (IDR) - New business

| | Germany | France | Italy | USA | Korea |
|--|--------------|--------------|--------------|---------------|--------------|
| <i>weighted risk-free</i> | 3.70% | 3.70% | 3.70% | 4.75% | 4.70% |
| <i>risk-margin</i> | 1.03% | 2.15% | 0.51% | 5.13% | 0.47% |
| <i>O&G contribution</i> | 0.10% | 0.04% | 0.40% | 5.27% | 0.01% |
| <i>CNFR contribution</i> | 0.09% | 0.46% | 0.39% | 1.10% | 1.83% |
| <i>CRcC contribution</i> | 0.39% | 0.64% | 0.69% | 2.12% | 1.62% |
| IDR 2006 based on profits | 5.30% | 6.98% | 5.70% | 18.38% | 8.62% |
| consider required capital in real-world projection | -0.14% | -1.13% | -0.45% | -4.96% | -1.48% |
| IDR 2006 based on earnings | 5.16% | 5.86% | 5.25% | 13.42% | 7.14% |
| Sensitivity | | | | | |
| VNB 2006 | 244 | 109 | 224 | 195 | 115 |
| Sensitivity to change in IDR + 100bp | -43 | -21 | -32 | -20 | -17 |
| <i>in % central VNB 2006</i> | -17.74% | -18.96% | -14.17% | -10.41% | -14.46% |
| Effective RDR used in 2005 (based on profits) | | | | | |
| <i>10-year risk free</i> | 3.40% | 3.40% | 3.40% | 4.70% | 5.70% |
| <i>risk-margin</i> | 3.15% | 3.15% | 3.15% | 3.15% | 3.15% |
| <i>O&G contribution</i> | 0.64% | -0.12% | 0.21% | 2.87% | -0.39% |
| <i>CRcC contribution</i> | 0.79% | 2.24% | 1.70% | 14.56% | 2.88% |

IDR numbers are highly depending on the real world assumptions and only provide information, on the current valuation date.

Exhibit 33 and 34 provide an insight in the breakdown of the Implied Discount Rate, for both the in-force and the new business. These tables are reflecting the impact of all the different elements in the EV calculations:

- Starting with the weighted average risk free rate, based on the 10-year government rate
- Risk for the expected cash flows is determined
- Risk for the financial risks (options and guarantees) are determined
- Risks for the asymmetric non-financial risks (CNFR)
- Required Capital contribution

This leads to a total implied discount rate, based on the profits projected which is comparable with the effective RDR used in 2005, after allowance for O&G and cost or required capital.

To derive these numbers we solved for the discount rate, which would provide the same value of in-force from projected real world profits ($PVFP_{rw} = VIF_{mc}$, referred to as "IDR based on profits"⁶). Under the top-down methodology, however the cost of capital also contains a differential between risk discount rate and investment yield. To allow for this different approach we also calculated the IDR, after this effect. To arrive at this numbers we solved for the discount rate, which would provide the same value of in-force, from projected real world earnings ($PVFP_{rw} - CRcC_{rw} = VIF_{mc}$, referred to as "IDR based on earnings"⁷).

As a result of the negative in-force value of Korea, the corresponding IDR has not been provided. Exhibit 33 shows that the IDR based on profits from the bottom-up methodology are lower than the ones used at the end of 2005, for almost all major entities. US, however shows a higher IDR of in-force, resulting from the risk adjusted valuation of the spread on corporate bonds under MCEV.

⁶ "IDR based on profits": Projection of distributable profits on a real world basis, i.e. taking into account assets backing liabilities ($PVFP_{rw}$)

⁷ "IDR based on earnings": Projection of distributable earnings on a real world basis, i.e. taking also into account the impact of holding required capital (i.e. $PVFP_{rw} - CRcC_{rw}$). The resulting discount rate is a weighted average between the IDR based on distributable profits and an IDR calculated for the projected investment returns on assets backing required capital. Therefore, unless the required capital is backed predominantly by risky assets, the IDR based on distributable earnings is lower than the IDR based on distributable profits.

C 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.

D 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. |