SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period to

or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell report

Commission file number 1-15154

ALLIANZ SE

(Exact name of registrant as specified in its charter)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Königinstrasse 28, 80802 Munich, Germany

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares (without par value)*	The New York Stock Exchange, Inc.

* Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock at December 31, 2006:

Ordinary shares, without par value	432,150,000 shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES x NO ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES ¨ NO x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Annual Report, the terms we, us and our refer to Allianz Societas Europaea (or Allianz SE, and together with its consolidated subsidiaries, the Allianz Group), unless the context requires otherwise.

Unless otherwise indicated, when we use the term consolidated financial statements, we are referring to the consolidated financial statements (including the related notes) of Allianz SE as of December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006, which have been audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (or IFRS), as adopted under European Union regulations in accordance with clause 315a of the German Commercial Code. IFRS differ in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP). For a discussion of significant differences between IFRS and U.S. GAAP and a reconciliation of net income and shareholders equity under IFRS and U.S. GAAP, you should read Note 53 to the consolidated financial statements. In addition, the amounts set forth in some of the tables may not add up to the total amounts given in those tables due to rounding.

References herein to $, U.S.$ and U.S. Dollar are to United States Dollars and references to and Euro are to the Euro, the single currency established for participants in the third stage of the European Economic and Monetary Union (or EMU), commencing January 1, 1999. We refer to the countries participating in the third stage of the EMU as the Euro zone.

For convenience only (except where noted otherwise), some of the Euro figures have been translated into U.S. Dollars at the rate of $1.3511 =

1.00, the noon buying rate in New York for cable transfers in Euros certified by the Federal Reserve Bank of New York for customs purposes on May 18, 2007. These translations do not mean that the Euro amounts actually represent those U.S. Dollar amounts or could be converted into U.S. Dollars at those rates. See Key Information Exchange Rate Information for information concerning the noon buying rates for the Euro from January 1, 2002 through May 18, 2007.

Unless otherwise indicated, when we use the terms gross premiums, gross premiums written and gross written premiums, we are referring to premiums (whether or not earned) for insurance policies written during a specific period, without deduction for premiums ceded to reinsurers, and when we use the terms net premiums, net premiums written and net written premiums, we are referring to premiums (whether or not earned) for insurance policies written during a specified period, after deduction for premiums ceded to reinsurers. When we use the term statutory premiums, we are referring to gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the relevant insurer s home jurisdiction.

Unless otherwise indicated, we have obtained data regarding the relative size of various national insurance markets from annual reports prepared by SIGMA, an independent organization that publishes market research data on the insurance industry. In addition, unless otherwise indicated, insurance market share data are based on gross premiums written and statutory premiums for our Property-Casualty and Life/Health segments, respectively. Data on position and market share within particular countries are based on various third party and/or internal sources as indicated herein.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These include statements under Information on the Company, Operating and Financial Review and Prospects, Quantitative and Qualitative Disclosures About Market Risk and elsewhere in this annual report relating to, among other things, our future financial performance, plans and expectations regarding developments in our business, growth and profitability, and general industry and business conditions applicable to the Allianz Group. These forward-looking statements can generally be identified by terminology such as may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue or other similar terminology. W forward-looking statements on our current expectations, assumptions, estimates and projections about future events. These forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that may cause our actual results, performance or achievements or those of our industry to be materially different from or worse than those expressed or implied by these forward-looking statements. These factors include, without limitation:

- general economic conditions, including in particular economic conditions in our core business areas and core markets;
- function and performance of global financial markets, including emerging markets;
- frequency and severity of insured loss events, including terror attacks, environmental and asbestos claims;
- mortality and morbidity levels and trends;
- persistency levels;
- interest rate levels;
- currency exchange rate developments, including the Euro/U.S. Dollar exchange rate;
- levels of additional loan loss provisions;
- further impairments of investments;
- general competitive factors, in each case on a local, regional, national and global level;
- changes in laws and regulations, including in the United States and in the European Union;
- changes in the policies of central banks and/or foreign governments;
- the impact of acquisitions, including related integration and restructuring issues; and

terror attacks, events of war, and their respective consequences.

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PART I

ITEM 1. Identity of Directors, Senior Management and Advisors

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

Selected Consolidated Financial Data

We present below our selected financial data as of and for each of the years in the five-year period ended December 31, 2006. We derived the selected financial data for each of the years in the five-year period ended December 31, 2006 from our audited annual consolidated financial statements, including the notes to those financial statements. All the data should be read in conjunction with our consolidated financial statements and the notes thereto. We prepare our annual audited consolidated financial statements in accordance with IFRS.

Effective January 1, 2006, we implemented certain revisions to our consolidated financial statements to enhance the reader s understanding of our financial results and to use a more consistent presentation with that of our peers. These revisions reflect certain reclassifications in our consolidated balance sheet and consolidated income statement, changes to our segment reporting, changes to operating profit methodology and changes to our consolidated cash flow statement. We applied these revisions to all three years of the Allianz Group s consolidated financial statements. As a result, we have retrospectively applied these revisions to the Allianz Group s consolidated financial statements as

of and for the years ended December 31, 2005 and 2004, as previously issued in connection with our Annual Report on Form 20-F for the year ended December 31, 2005, without any impact on our consolidated net income and shareholders equity for these years. See Note 3 to the consolidated financial statements for detailed information on the changes of our consolidated financial statements and the impact of these revisions. Our selected financial data as of and for the years ended December 31, 2005, 2004, 2003 and 2002 presented below also reflects these revisions, with the exception of total revenues and operating profit for the years ended December 31, 2003 and 2002. Total revenues and operating profit for the year ended December 31, 2003 are presented in accordance with our pre-2006 segment reporting structure and operating profit methodology, and accordingly do not reflect the retrospective application of our revised segment reporting structure and operating profit methodology, due to the unreasonable effort or expense required to prepare such information, in particular resulting from the implementation of our new Corporate segment. Total revenues and operating profit for the year ended December 31, 2002 are not presented, because total income and net income were the relevant performance measures used by the Allianz Group for 2002.

IFRS differ in certain significant respects from U.S. generally accepted accounting principles, which in this Annual Report on Form 20-F we refer to as U.S. GAAP. For a description of the significant differences between IFRS and U.S. GAAP as they relate to us and a reconciliation of our net income and shareholders equity under IFRS to U.S. GAAP, see Note 53 to our audited annual consolidated financial statements included herein.

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As of or For the Years ended December 31,		2006 $[1]	2006	Change from previous year %	2005	2004	2003	2002
				(in millions, except per share data)				
Income Statement								
Total revenues[2]								
Property-Casualty	mn	59,007	43,674	(0.1)	43,699	42,942	43,420[3]	[4]
Life/Health	mn	64,070	47,421	(1.8)	48,272	45,233	42,319[3]	[4]
Banking	mn	9,577	7,088	12.2	6,318	6,576	6,704[3]	[4]
Asset Management	mn	4,113	3,044	11.8	2,722	2,245	2,226[3]	[4]
Consolidation	mn	(132)	(98)	not meaningful	(44)	(47)	(929)[3]	[4]
Total Group	mn	136,635	101,129	0.2	100,967	96,949	93,740[3]	[4]
Operating profit[5]								
Property-Casualty	mn	8,470	6,269	21.9	5,142	4,825	2,397[3]	[4]
Life/Health	mn	3,466	2,565	22.5	2,094	1,788	1,265[3]	[4]
Banking	mn	1,921	1,422	102.0	704	447	(396)[3]	[4]
Asset Management	mn	1,743	1,290	14.0	1,132	839	716[3]	[4]
Corporate	mn	(1,123)	(831)	not meaningful	(881)	(870)	[3]	[4]
Income (loss) before income taxes and minority interests in earnings	mn	13,947	10,323	31.9	7,829	5,044	3,812	(4,044)
Net income (loss)[6]	mn	9,486	7,021	60.3	4,380	2,266	2,691	(3,243)
Balance Sheet								
Investments	mn	402,809	298,134	4.6	285,015	254,085	237,682	239,220
Loans and advances to banks and customers	mn	551,624	408,278	21.2	336,808	377,223	378,295	329,195
Total assets	mn	1,423,014	1,053,226	6.5	989,288	990,959	933,802	848,753
Liabilities to banks and customers	mn	487,852	361,078	16.4	310,316	348,484	332,906	284,598
Reserves for loss and loss adjustment expenses	mn	88,448	65,464	(2.3)	67,005	62,331	62,782	65,961
Reserves for insurance and investment contracts	mn	388,707	287,697	3.4	278,312	251,497	233,896	225,049
Shareholders equity	mn	68,205	50,481	27.8	39,487	29,995	27,993	21,046
Minority interests	mn	8,659	6,409	(15.8)	7,615	7,696	7,266	7,965
Returns								
Return on equity after income taxes[7]	%	15.6	15.6	3.0	12.6	7.8	11.0	(12.5)
Return on equity after income taxes and before goodwill amortization[7]	%	15.6	15.6	3.0	12.6	11.6	16.5	(8.3)
Share Information								
Basic earnings per share[6]		23.09	17.09	52.0	11.24	6.19	7.96	(11.71)
Diluted earnings per share[6]		22.67	16.78	50.6	11.14	6.16	7.93	(11.71)
Weighted average number of shares outstanding								
Basic	mn	410.9	410.9	5.4	389.8	365.9	338.2	276.9
Diluted	mn	418.3	418.3	6.4	393.3	368.1	339.8	276.9
Shareholders equity per share		166	123	21.8	101	82	83	76
Dividend per share		5.13	3.80	90.0	2.00	1.75	1.50	1.50
Dividend payment	mn	2,219	1,642	102.5	811	674	551	374
Share price as of December 31[8]		209.10	154.76	21.0	127.94	97.60	100.08	80.80
Market capitalization as of December 31	mn	90,362	66,880	28.7	51,949	35,936[9]	36,743[9]	22,039[9]
Other data								
Employees		166,505	166,505	(6.3)	177,625	176,501	173,750	181,651
Third-party assets under management as of December 31	mn	1,032,044	763,855	2.8	742,937	584,624	564,714	560,588
U.S. GAAP consolidated data								
Net income (loss)	mn	8,805	6,517	76.5	3,693	2,881	2,245	(1,260)
Basic earnings per share		21.06	15.59	67.1	9.33	7.87	6.71	(4.79)
Diluted earnings per share		20.78	15.38	66.1	9.26	7.83	6.70	(4.79)
Shareholders equity	mn	71,607	52,999	19.4	44,383	33,380	30,825	22,836
Shareholders equity per share		174	129	13.2	114	91	91	82

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(1) Amounts given in Euros have been translated for convenience only into U.S. Dollars at the rate of $1.3511 = 1,00, the noon buying rate in New York for cable transfers in Euros certified by the Federal Reserve Bank of New York for customs purposes on May 18, 2007.

(2) Total revenues comprise Property-Casualty segment s gross premiums written, Life/Health segment s statutory premiums, Banking segment s operating revenues and Asset Management segment s operating revenues.

(3) Total revenues and operating profit for the year ended December 31, 2003 do not reflect the reporting changes effective January 1, 2006.

(4) Not presented, because total income and net income were the relevant performance measures used by the Allianz Group for 2002.

(5) The Allianz Group uses operating profit to evaluate the performance of its business segments. For further information on operating profit, as well as the particular reconciling items between operating profit and net income, see Note 5 to our consolidated financial statements.

(6) Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

(7) Based on average shareholders equity. Average shareholders equity has been calculated based upon the average of the current and preceding year s shareholders equity.

(8) Source: Thomson Financial Datastream.

(9) Excluding treasury shares.

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Dividends

The following table sets forth the annual dividends paid per ordinary share and American Depositary Share (or ADS) equivalent for 2002 through 2006. The table does not reflect the related tax credits available to German taxpayers. See Additional Information German Taxation Taxation of Dividends.

	Dividend per ordinary share		Dividend paid per ADS equivalent	
		$		$
2002	1.50	1.76	0.150	0.176
2003	1.50	1.82	0.150	0.182
2004	1.75	2.27	0.175	0.227
2005	2.00	2.43	0.200	0.243
2006[1]	3.80	5.13	0.380	0.513

(1) Dividend amounts given in Euros have been translated for convenience only into U.S. Dollars at the rate of $1.3511 = 1.00, the noon buying rate in New York for cable transfers in Euros certified by the Federal Reserve Bank of New York for customs purposes on May 18, 2007. See Presentation of Financial and Other Information.

The ability to pay future dividends will depend upon our future earnings, financial condition (including our cash needs), prospects and other factors. You should not assume that any dividends will actually be paid or make any assumptions about the amount of dividends which will be paid in any given year. See Financial Information Dividend Policy.

Exchange Rate Information

The table below sets forth, for the periods indicated, information concerning the noon buying rates for the Euro expressed in U.S. Dollars per 1.00. No representation is made that the Euro or U.S. Dollar amounts referred to herein could be or could have been converted into U.S. Dollars or Euros, as the case may be, at any particular rate or at all.

	High	Low	Period average[1]	Period end
		($ per	1.00)	
2002	1.0485	0.8594	0.9454	1.0485
2003	1.2597	1.0361	1.1321	1.2597
2004	1.3625	1.1801	1.2478	1.3538
2005	1.3476	1.1667	1.2400	1.1842
2006	1.3327	1.1860	1.2481	1.3197
September	1.2833	1.2648	1.2847	1.2687
October	1.2773	1.2502	1.2759	1.2773
November	1.3261	1.2705	1.3016	1.3261
December	1.3327	1.3073	1.3257	1.3197
2007				
January	1.3286	1.2904	1.3142	1.2998
February	1.3246	1.2933	1.3126	1.3230
March	1.3374	1.3094	1.3274	1.3374

April	1.3660	1.3363	1.3517	1.3660
May (until May 18, 2007)	1.3616	1.3494	1.3556	1.3511

(1) Computed using the average of the noon buying rates for Euros on the last business day of each month during the relevant annual period or on the first and last business days of each month during the relevant monthly period.

On May 18, 2007, the noon buying rate for the Euro was $1.3511.

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Risk Factors

You should carefully review the following risk factors together with the other information contained in this annual report before making an investment decision. Our financial position and results of operations may be materially adversely affected by each of these risks. The market price of our ADSs may decline as a result of each of these risks and investors may lose the value of their investment in whole or in part. Additional risks not currently known to us or that we now deem immaterial may also adversely affect our business and your investment.

Interest rate volatility may adversely affect Allianz Group s results of operations.

Changes in prevailing interest rates (including changes in the difference between the levels of prevailing short- and long-term rates) can affect Allianz Group s insurance, asset management, banking and corporate results.

Over the past several years, movements in both short- and long-term interest rates have affected the level and timing of recognition of gains and losses on securities held in Allianz Group s various investment portfolios. An increase in interest rates could substantially decrease the value of Allianz Group s fixed income portfolio, and any unexpected change in interest rates could materially adversely affect Allianz Group s bond and interest rate derivative positions. Results of Allianz Group s asset management business may also be affected by movements in interest rates, as management fees are generally based on the value of assets under management, which fluctuate with changes in the level of interest rates.

The short-term impact of interest rate fluctuations on Allianz Group s life/health insurance business may be reduced in part by products designed to partly or entirely transfer Allianz Group s exposure to interest rate movements to the policyholder. While product design reduces Allianz Group s exposure to interest rate volatility, changes in interest rates will impact this business to the extent they result in changes to current interest income, impact the value of Allianz Group s fixed income portfolio, and affect the levels of new product sales or surrenders of business in force. In addition,

reductions in the investment income below the rates prevailing at the issue date of the policy, or below the regulatory minimum required rates in countries such as Germany and Switzerland, would reduce or eliminate the profit margins on the life/health insurance business written by Allianz Group s life/health subsidiaries to the extent the maturity composition of the assets does not match the maturity composition of the insurance obligations they are backing.

In addition, the composition of Allianz Group s banking assets and liabilities, and any mismatches resulting from that composition, cause the net income of Allianz Group s banking operations to vary with changes in interest rates. Allianz Group is particularly impacted by changes in interest rates as they relate to different maturities of contracts and the different currencies in which Allianz Group holds interest rate positions. A mismatch with respect to maturity of interest-earning assets and interest-bearing liabilities in any given period can have a material adverse effect on the financial position or results of operations of Allianz Group s banking business.

Market risks could impair the value of Allianz Group s portfolio and adversely impact Allianz Group s financial position and results of operations.

Allianz Group holds a significant equity portfolio, which represented approximately 19% of Allianz Group s financial assets at December 31, 2006, excluding financial assets and liabilities carried at fair value through income. Fluctuations in equity markets affect the market value and liquidity of these holdings. Allianz Group also has real estate holdings in its investment portfolio, the value of which is likewise exposed to changes in real estate market prices and volatility.

Most of Allianz Group s assets and liabilities are recorded at fair value, including trading assets and liabilities, financial assets and liabilities designated at fair value through income, and securities available-for-sale. Changes in the value of securities held for trading purposes and financial assets designated at fair value through income are recorded through Allianz Group s consolidated income statement. Changes in the market value of

securities available-for-sale are recorded directly in Allianz Group s consolidated shareholders equity. Available-for-sale equity and fixed income securities, as well as securities classified as held-to-maturity, are reviewed regularly for impairment, with write-downs to fair value charged to income if there is objective evidence that the cost may not be recovered. See Operating and Financial Review Critical Accounting Policies and Estimates and Note 2 to the consolidated financial statements for further information concerning Allianz Group s significant accounting and valuation policies.

Market and other factors could adversely affect goodwill, deferred policy acquisition costs and deferred tax assets; Allianz Group s deferred tax assets are also potentially impacted by changes in tax legislation.

Business and market conditions may impact the amount of goodwill Allianz Group carries in its consolidated financial statements. As of December 31, 2006, Allianz Group has recorded goodwill in an aggregate amount of 12,007 million, of which 6,272 million relates to its asset management business, 3,965 million relates to its insurance business, 1,626 million relates to its banking business, and 144 million relates to its corporate segment.

As the value of certain parts of Allianz Group s businesses, including in particular Allianz Group s banking and asset management businesses, are significantly impacted by such factors as the state of financial markets and ongoing operating performance, significant declines in financial markets or operating performance could also result in impairment of other goodwill carried by us and result in significant write-downs, which could be material. No impairments were recorded for goodwill in 2006.

The assumptions Allianz Group made with respect to recoverability of deferred policy acquisition costs (DAC) are also affected by such factors as operating performance and market conditions. DAC is incurred in connection with the production of new and renewal insurance business and is deferred and amortized generally in proportion to profits or to premium income expected to be generated over the life of the underlying policies, depending on the classification of the product. If the assumptions on which expected profits are based

prove to be incorrect, it may be necessary to accelerate amortization of DAC, even to the extent of writing down DAC through impairments, which could materially adversely affect results of operations. No impairments were recorded for DAC in 2006.

As of December 31, 2006, Allianz Group had a total of 4,727 million in net deferred tax assets and 4,618 million in net deferred tax liabilities. The calculation of the respective tax assets and liabilities is based on current tax laws and IFRS and depends on the performance of the Allianz Group as a whole and certain business units in particular. At December 31, 2006, 4,128 million of deferred tax assets depended on the ability to use existing tax-loss carry forwards.

Changes in German or other tax legislation or regulations or an operating performance below currently anticipated levels may lead to a significant impairment of deferred tax assets, in which case Allianz Group could be obligated to write-off certain tax assets. Tax assets may also need to be written-down if certain assumptions of profitability prove to be incorrect, as losses incurred for longer than expected will make the usability of tax assets more unlikely. Any such development may have a material adverse impact on Allianz Group s results of operations.

Loss reserves for Allianz Group s property-casualty insurance and reinsurance policies are based on estimates as to future claims liabilities. Adverse developments relating to claims could lead to further reserve additions and materially adversely impact Allianz Group s results of operations.

In accordance with industry practice and accounting and regulatory requirements, Allianz Group established reserves for losses and loss adjustment expenses related to its property-casualty insurance and reinsurance businesses, including property-casualty business in run-off. Reserves are based on estimates of future payments that will be made in respect of claims, including expenses relating to such claims. Such estimates are made both on a case-by-case basis, based on the facts and circumstances available at the time the reserves are established, as well as in respect of losses that have been incurred but not reported (IBNR) to the Allianz Group. These reserves represent the

estimated ultimate cost necessary to bring all pending reported and IBNR claims to final settlement.

Reserves, including IBNR reserves, are subject to change due to a number of variables that affect the ultimate cost of claims, such as changes in the legal environment, results of litigation, changes in medical costs, costs of repairs and other factors such as inflation and exchange rates, and Allianz Group s reserves for asbestos and environmental and other latent claims are particularly subject to such variables. Allianz Group s results of operations depend significantly upon the extent to which Allianz Group s actual claims experience is consistent with the assumptions Allianz Group uses in setting the prices for products and establishing the liabilities for obligations for technical provisions and claims. To the extent that Allianz Group s actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, Allianz Group may be required to increase its reserves, which may materially adversely affect its results of operations.

Established loss reserves estimates are periodically adjusted in the ordinary course of settlement, using the most current information available to management, and any adjustments resulting from changes in reserve estimates are reflected in current results of operations. Allianz Group also conducts reviews of various lines of business to consider the adequacy of reserve levels. Based on current information available to us and on the basis of Allianz Group s internal procedures, Allianz Group s management considers that Allianz Group s reserves are adequate at December 31, 2006. However, because the establishment of reserves for loss and loss adjustment expenses is an inherently uncertain process, there can be no assurance that ultimate losses will not materially exceed the established reserves for loss and loss adjustment expenses and have a material adverse effect on Allianz Group s results of operations.

Actuarial experience and other factors could differ from that assumed in the calculation of life/health actuarial reserves and pension liabilities.

The assumptions Allianz Group makes in assessing its life/health insurance reserves may differ from what we experience in the future. Allianz Group derive its life/health insurance reserves using best estimate actuarial practices and assumptions. These

assumptions include the assessment of the long-term development of interest rates, investment returns, the allocation of investments between equity, fixed income and other categories, policyholder bonus rates (some of which are guaranteed), mortality and morbidity rates, policyholder lapses and future expense levels. Allianz Group monitors its actual experience of these assumptions and to the extent that it considers that this experience will continue in the longer term it refines its long-term assumptions. Similarly, estimates of Allianz Group s own pension obligations necessarily depend on assumptions concerning future actuarial, demographic, macroeconomic and financial markets developments. Changes in any such assumptions may lead to changes in the estimates of life/health insurance reserves or pension obligations.

We have a significant portfolio of contracts with guaranteed investment returns, including endowment and annuity products for the German market as well as certain guaranteed contracts in other markets. The amounts payable by us at maturity of an endowment policy in Germany and in certain other markets include a guaranteed benefit, an amount that, in practice, is equal to a legally mandated maximum rate of return on actuarial reserves. If interest rates decline to historically low levels for a long period, we could be required to provide additional funds to Allianz Group s life/health subsidiaries to support their obligations in respect of products with higher guaranteed returns, or increase reserves in respect of such products, which could in turn have a material adverse effect on Allianz Group s results of operations.

In the United States, we have a significant portfolio of contracts with guaranteed investment returns indexed to equity markets. We enter into derivative contracts as a means of mitigating the risk of investment returns underperforming guaranteed returns. However, there can be no assurance that the hedging arrangements will satisfy the returns guaranteed to policyholders, which could in turn have a material adverse effect on Allianz Group s results of operations.

Allianz Group s financial results may be materially adversely affected by the occurrence of catastrophes.

Portions of Allianz Group s property-casualty insurance may cover losses from unpredictable

events such as hurricanes, windstorms, hailstorms, earthquakes, fires, industrial explosions, freezes, riots, floods and other man-made or natural disasters, including acts of terrorism. The incidence and severity of these catastrophes in any given period are inherently unpredictable.

Although the Allianz Group monitors its overall exposure to catastrophes and other unpredictable events in each geographic region, each of Allianz Group s subsidiaries independently determines, within the Allianz Group s limit framework, its own underwriting limits related to insurance coverage for losses from catastrophic events. We generally seek to reduce Allianz Group s potential losses from these events through the purchase of reinsurance, selective underwriting practices and by monitoring risk accumulation. However, such efforts to reduce exposure may not be successful and claims relating to catastrophes may result in unusually high levels of losses and could have a material adverse effect on Allianz Group s financial position or results of operations.

We have significant counterparty risk exposure.

We are subject to a variety of counterparty risks, including:

General Credit Risks. Third-parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers whose securities we hold, borrowers under loans made, customers, trading counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Reinsurers. We transfer our exposure to certain risks in its property-casualty and life/health insurance business to others through reinsurance arrangements. Under these arrangements, other insurers assume a portion of Allianz Group s losses and expenses associated with reported and unreported losses in exchange for a portion of policy premiums. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. Any decrease in the amount of Allianz Group s reinsurance will increase its risk of loss.

When we obtain reinsurance, we are still liable for those transferred risks if the reinsurer cannot meet its obligations. Therefore, the inability of Allianz Group s reinsurers to meet their financial obligations could materially affect Allianz Group s results of operations. Although Allianz Group conducts periodic reviews of the financial statements and reputations of its reinsurers, including, and as appropriate, requiring letters of credit, deposits or other financial measures to further minimize its exposure to credit risk, reinsurers may become financially unsound by the time they are called upon to pay amounts due.

Many of our businesses are dependent on the financial strength and credit ratings assigned to us and our businesses by various rating agencies. Therefore, a downgrade in our ratings may materially adversely affect relationships with customers and intermediaries, negatively impact sales of our products and increase our cost of borrowing.

Claims paying ability and financial strength ratings are each a factor in establishing the competitive position of insurers. Our financial strength rating has a significant impact on the individual ratings of key subsidiaries. If a rating of certain subsidiaries falls below a certain threshold, the respective operating business may be significantly impacted. A ratings downgrade, or the potential for such a downgrade, of the Allianz Group or any of our insurance subsidiaries could, among other things, adversely affect relationships with agents, brokers and other distributors of our products and services, thereby negatively impacting new sales, adversely affect our ability to compete in our markets and increase our cost of borrowing. In particular, in those countries where primary distribution of our products is done through independent agents, such as the United States, future ratings downgrades could adversely impact sales of our life insurance products. Any future ratings downgrades could also

materially adversely affect our cost of raising capital, and could, in addition, give rise to additional financial obligations or accelerate existing financial obligations which are dependent on maintaining specified rating levels.

Rating agencies can be expected to continue to monitor our financial strength and claims paying ability, and no assurances can be given that future

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ratings downgrades will not occur, whether due to changes in our performance, changes in rating agencies industry views or ratings methodologies, or a combination of such factors.

If our asset management business underperforms, it may experience a decline in assets under management and related fee income.

While the assets under management in our asset management segment include a significant amount of funds related to our insurance operations, third-party assets under management, represent the majority. Results of our asset management activities are affected by share prices, share valuation, interest rates and market volatility. In addition, third-party funds are subject to withdrawal in the event our investment performance is not competitive with other asset management firms. Accordingly, fee income from the asset management business might decline if the level of our third-party assets under management were to decline due to investment performance or otherwise.

Increased geopolitical risks following the terrorist attack of September 11, 2001, and any future terrorist attacks, could have a continuing negative impact on our businesses.

After September 11, 2001, reinsurers generally either put terrorism exclusions into their policies or drastically increased the price for such coverage. Although we have attempted to exclude terrorist coverage from policies we write, this has not been possible in all cases, including as a result of legislative developments such as the Terrorism Risk Insurance Act in the United States. Furthermore, even if terrorism exclusions are permitted in our primary insurance policies, we may still have liability for fires and other consequential damage claims that follow an act of terrorism itself. As a result we may have liability under primary insurance policies for acts of terrorism and may not be able to recover a portion or any of our losses from our reinsurers.

At this time, we cannot assess the future effects of terrorist attacks, potential ensuing military and other responsive actions, and the possibility of further terrorist attacks, on our businesses. Such matters have significantly adversely affected general economic, market and political conditions, increasing many of the risks in our businesses noted in the

previous risk factors. This may have a material negative effect on our businesses and results of operations over time.

Changes in existing, or new, government laws and regulations, or enforcement initiatives in respect thereof, in the countries in which we operate may materially impact us and could adversely affect our business.

Our insurance, banking and asset management businesses are subject to detailed, comprehensive laws and regulation as well as supervision in all the countries in which we do business. Changes in existing laws and regulations may affect the way in which we conduct our business and the products we may offer. Changes in regulations relating to pensions and employment, social security, financial services including reinsurance business, taxation, securities products and transactions may materially adversely affect our insurance, banking and asset management businesses by restructuring our activities, imposing increased costs or otherwise.

Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, know your customer rules, privacy, record keeping, and marketing and selling practices. Banking, insurance and other financial services laws, regulations and policies currently governing us and our subsidiaries may change at any time in ways which have an adverse effect on our business, and we cannot predict the timing or form of any future regulatory or

enforcement initiatives in respect thereof. Also, bank regulators and other supervisory authorities in the European Union (EU), the United States and elsewhere continue to scrutinize payment processing and other transactions under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures. If we fail to address, or appear to fail to address, appropriately any of these changes or initiatives, our reputation could be harmed and we could be subject to additional legal risk, including to enforcement actions, fines and penalties. Despite our best efforts to comply with applicable regulations, there are a number of risks in areas where applicable regulations may be unclear or where regulators revise their previous guidance or courts overturn previous

rulings. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in significant adverse publicity and reputational harm, suspension or revocation of our licenses, cease-and-desist orders, fines, civil penalties, criminal penalties or other disciplinary action that could materially harm our results of operations and financial condition.

Effective January 2005, reinsurance companies in Germany such as Allianz SE are subject to specific legal requirements regarding the assets covering their technical reserves. These assets are required to be appropriately diversified to prevent a reinsurer from relying excessively on any particular asset. The introduction of these requirements anticipated the implementation of EU Reinsurance Directive (2005/68/EC) which was adopted in November 2005. All of the directive s provisions have finally been implemented in Germany effective June 2, 2007. Although Allianz SE expects to meet the new requirements, there can be no assurances as to the impact on Allianz SE of any future amendments to or changes in the interpretation of the laws and regulations regarding assets covering technical reserves of reinsurance companies, which could require Allianz SE to change the composition of its asset portfolio covering its technical reserves or take other appropriate measures.

In addition, currently discussions on a new solvency regime for insurance companies in the EU (Solvency II) are ongoing. As those discussions are in a preliminary stage, its potential future impact for capital requirements can not currently be assessed. For more information, see Regulation and Supervision.

In addition, changes to tax laws may affect the attractiveness of certain of our products that currently receive favorable tax treatment. Governments in jurisdictions in which we do business may consider changes to tax laws that could adversely affect such existing tax advantages, and if enacted, could result in a significant reduction in the sale of such products.

Our business may be negatively affected by adverse publicity, regulatory actions or litigation with respect to the Allianz Group, other well-known companies and the financial services industry generally.

Adverse publicity and damage to our reputation arising from failure or perceived failure to comply with legal and regulatory requirements, financial reporting irregularities involving other large and well-known companies, increasing regulatory and law enforcement scrutiny of know your customer , anti-money laundering and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the mutual fund, banking and insurance industries, and litigation that arises from the failure or perceived failure by Allianz Group companies to comply with legal, regulatory and compliance requirements, could result in adverse publicity and reputational harm, lead to increased regulatory supervision, affect our ability to attract and retain customers, maintain access to the capital markets, result in suits, enforcement actions, fines and penalties or have other adverse effects on us in ways that are not predictable.

Changes in value relative to the Euro of non-Euro zone currencies in which we generate revenues and incur expenses could adversely affect our reported earnings and cash flow.

We prepare our consolidated financial statements in Euro. However, a significant portion of the revenues and expenses from our subsidiaries outside the Euro zone, including in the United States, Switzerland and the United Kingdom, originates in currencies other than the Euro. We expect this trend to continue as we expand our business into growing non-Euro zone markets. For the year ended December 31, 2006, approximately 32.8% of our gross premiums written in our property-casualty segment and 31.5% of our statutory premiums in our life/health segment originated in currencies other than the Euro.

As a result, although our non-Euro zone subsidiaries generally record their revenues and expenses in the same currency, changes in the exchange rates used to translate foreign currencies into Euro may adversely affect our results of operations.

While our non-Euro assets and liabilities, and revenues and related expenses, are generally denominated in the same currencies, we do not generally engage in hedging transactions with respect to dividends or cash flows in respect of our non-Euro subsidiaries.

The share price of Allianz SE has been and may continue to be volatile.

The share price of Allianz SE has been volatile in the past and may continue to be volatile due in part to the high volatility in the securities markets generally, and in financial institutions shares in particular, as well as developments which impact our financial results. Factors other than our financial results that may affect our share price include but are not limited to: market expectations of the performance and capital adequacy of financial institutions generally; investor perception of as well as the actual performance of other financial institutions; investor perception of the success and impact of our strategy, including the acquisition of Assurances Générales de France S.A. (or AGF , and together with its subsidiaries, the AGF Group), a downgrade or rumored downgrade of our credit ratings; potential litigation or regulatory action involving the Allianz Group or any of the industries we have exposure to through our insurance, banking and asset management activities; announcements concerning the bankruptcy or other similar reorganization proceedings involving, or any investigations into the accounting practices of, other insurance or reinsurance companies, banks or asset management companies; and general market volatility.

The benefits that Allianz SE may realize from the completed merger with RAS S.p.A. and from Allianz AG s conversion into a European Company (Societas Europaea) in connection therewith could be materially different from our current expectations.

The benefits that Allianz SE may realize from the merger with its Italian subsidiary, RAS S.p.A., and from Allianz AG s conversion into a European Company (Societas Europaea, SE) in connection therewith and the subsequent reorganization of its European operations could be materially different from our current expectations. For more information about this transaction and reorganization, see Information on the Company Legal Structure:

Conversion into Allianz SE Completed and Information on the Company Important Group Organizational Changes Simplification of European Structures. We took these measures to implement a business plan creating strategic synergies and organizational efficiencies, however, our estimates of the benefits that we may realize as a result of these measures involve subjective judgments that are subject to uncertainties. A variety of factors that are partially or entirely beyond our control could cause actual results to be materially different from what we currently expect, and any synergies that we realize from the merger and conversion to an SE therefore could be materially different from our current expectations.

The benefits that Allianz SE may realize from the contemplated acquisition of full ownership in AGF could be materially different from its current expectations.

The benefits that Allianz SE may realize from the contemplated acquisition of full ownership in its French subsidiary, AGF, could be materially different from its current expectations. Allianz SE s estimates of the benefits that it may realize as a result of the full ownership involve subjective judgments that are subject to uncertainties. A variety of factors that are partially or entirely beyond Allianz SE s control could cause actual results to be materially different from what it currently expects, and any synergies that it realizes from the full ownership therefore could, as a result, be materially different from its current expectations.

ITEM 4. Information on the Company

The Allianz Group

Founded in 1890 and with 116 years of experience in the financial services industry, the Allianz Group is committed to providing financial security to a broad base of customers ranging from private individuals to large multinational corporations.

Allianz SE (formerly Allianz Aktiengesellschaft, or Allianz AG) is a European Company (Societas Europaea, or SE) incorporated in the Federal Republic of Germany and organized under the laws of the Federal Republic of Germany and the European Union. Allianz SE is the ultimate parent of the Allianz Group. It was incorporated as Allianz Versicherungs-

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Aktiengesellschaft in Berlin, Germany on February 5, 1890 and converted to a European Company on October 13, 2006. Our registered office is located at Koeniginstrasse 28, 80802 Munich, Germany, telephone +49(0)89 3800-0.[1]

The Allianz Group s Business Model

As an integrated and globally operating financial services provider we are able to offer our clients considerable value by providing a wide range of insurance and finance products as well as extensive advisory capacity through our subsidiaries under strong and well-known brands. We operate and manage our activities primarily through four operating segments: Property-Casualty, Life/Health, Banking and Asset Management. We are well-positioned to anticipate and successfully respond to competitive forces within our various operations.

Property-Casualty and Life/Health Insurance Operations[2]

We are one of the leading insurance groups in the world and rank number one in the German property-casualty and life insurance markets based on gross premiums written and statutory premiums, respectively, in 2006.[3] We are also among the largest insurance companies in a number of the other countries in which we operate.

Our product portfolio includes a wide array of property-casualty and life/health insurance products for both private and corporate customers.

In our Property-Casualty segment, our product range consists of, among others, individual motor, injury, liability, homeowner and accident insurance. Furthermore, we are a leading provider of commercial and industrial coverage to enterprises of all sizes, including many of the world s largest companies. Through our specialty lines of business,

we offer credit insurance, marine, aviation and industrial transport insurance, international industrial risks reinsurance, as well as travel insurance and assistance services, which we manage on a world-wide basis.

Our Life/Health segment s portfolio includes, among others, traditional life, endowment, annuity and term insurance products as well as unit-linked and investment-oriented products. Additionally we serve private customers with health, disability and related coverage and provide group life and pension products for employers.

We distribute our insurance products via a broad network of self-employed full-time agents, part-time tied agents, brokers, banks and other channels. The particular distribution channels vary by product and geographic market.

Within our home market of Europe, Germany, France, Italy, the United Kingdom, Switzerland and Spain comprise our primary insurance markets, with Germany as our most important single market, although we operate in almost every European country. We also consider the United States and Asia-Pacific as two of our primary markets. Our more mature insurance markets (e.g. Germany, France, Italy, United States) are highly competitive. In recent years, we have also experienced increased competition in emerging markets as large insurance companies and other financial services providers from more developed countries have entered these markets to participate in their high growth potential. In

addition, local institutions have become more experienced and have established strategic relationships, alliances or mergers with our competitors.

Our global diversification in the property-casualty business permits us to implement cycle management , whereby we seek to capitalize on growth opportunities that offer a profitable correlation between premium rates and risks and forego premium growth in markets with increasing pricing pressures. In our life insurance business, we view the expected increased demand for wealth accumulation and private retirement provisions in the face of underfunded social insurance systems as an opportunity for growth.

In order to further strengthen our market position and maintain profitable growth we have

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(1) See Legal Structure: Conversion into Allianz SE Completed for more information on the conversion into a European Company upon completion of its merger with Riunione Adriatica di Sicurtà S.p.A. (or RAS).

(2) Please see Operating and Financial Review and Prospects Property-Casualty Insurance Operations by Geographic Region and Operating and Financial Review and Prospects Life/Health Insurance Operations by Geographic Region for a breakdown of our insurance operations by geographic region.

(3) Source: Gesamtverband der deutschen Versicherungswirtschaft e.V. (or GDV). The GDV is a private association representing the German insurance industry.

launched two comprehensive programs for our insurance segments: the Sustainability Program and the Customer Focus Initiative. Under our Sustainability Program, we systematically search for the best practices in product and service offerings, and processes across our organization. The highest standard is then made obligatory for all Allianz Group companies. The objective of our Customer Focus Initiative is to take a more customer-oriented approach towards our product and service offerings, and our flexibility awareness. In addition, we are undertaking various reorganization measures.[(1)]

Allianz SE, the Allianz Group s parent company, acts on an arm s length basis as our reinsurer for most of our insurance operations, other than international industrial risks reinsurance. Allianz SE assumed 33.3%, 35.6% and 38.1% of all reinsurance ceded by Allianz Group companies for the years ended December 31, 2006, 2005 and 2004, respectively. Allianz SE also assumes a relatively small amount of reinsurance from external cedents. We also cede risk to third-party reinsurers, of which Munich Re is our primary partner.

Allianz SE also provides advice to subsidiaries on structuring their own reinsurance programs and establishing lists of permitted reinsurers. In addition the Allianz Group has a pooling concept via Allianz SE in place offering reinsurance cover to the Allianz Group s subsidiaries against natural catastrophes, which provides Group internal diversification benefits.

Banking Operations[(2)]

Our Banking activities are primarily executed by Dresdner Bank Group (or Dresdner Bank), through which we serve individual, corporate and governmental customers with a broad range of private, commercial and investment banking products. Dresdner Bank has a strong and well-known brand and is one of the largest banks in Germany.[(3)]

We distribute our banking products mainly through 952 (as of December 31, 2006) branch offices, of which 902 are located in Germany and 50 outside of Germany. Furthermore, the distribution of

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(1) For further information please see Important Group Organizational Changes .
(2) Please see Operating and Financial Review and Prospects Banking Operations for a breakdown of our banking operations by division and geographic region, respectively.
(3) Based on total assets as of December 31, 2006.

Dresdner Bank products through our insurance agents network is increasing in importance. While Dresdner Bank focuses on selected geographic regions worldwide, Germany is its primary market, which, as of December 31, 2006, made up 73% of Dresdner Bank s operating revenues. Similarly, on the same date, 61% of Dresdner Bank s loan portfolio represented loans to German counterparties. The largest credit exposures to borrowers in Germany are loans to private individuals (including self-employed professionals) at 55%; this category represented 34% of total loans outstanding as of December 31, 2006.

We are subject to competition from both bank and non-bank institutions that provide financial services and, in some of our activities, also from government agencies. Substantial competition exists among a large number of commercial banks, savings banks, other public sector banks, brokers and dealers, investment banking firms, insurance companies, investment advisors, mutual funds and hedge funds that provide the types of banking products and services that our banking operations offer.

For the purpose of strengthening our position as a leading bank in Germany, we started our Neue Dresdner Plus restructuring program in 2006 to further integrate our banking business model and to thereby enable us to increase efficiency and reduce complexity.[4]

Asset Management Operations[5]

Our business activities in this segment consist of asset management products and services both for third-party investors and for the Allianz Group s insurance operations. As of December 31, 2006, we managed 764 billion of third-party assets on a worldwide basis, which includes fixed income, equity, money market and sector products, as well as alternative investments. We are one of the five largest asset managers in the world.[6]

We conduct our retail asset management business primarily through our operating companies worldwide under the brand name, Allianz Global

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(4) Please see Important Group Organizational Changes Neue Dresdner Plus Reorganization Program , which includes a description of Dresdner Bank s operating divisions effective starting in the first quarter of 2007.

(5) Please see Operating and Financial Review and Prospects Asset Management Operations for a breakdown of our third-party assets by geographic region.

(6) Based on total assets under management as of December 31, 2006. Source: Own internal analysis and estimates.

Investors . In our institutional asset management business, we operate under the brand names of our investment management entities; Allianz Global Investors serves as an endorsement brand.

We serve a comprehensive range of retail and institutional asset management clients. Our institutional customers include corporate and public pension funds, insurance and other financial services companies, governments and charities, and financial advisors.

The United States and Germany as well as France, Italy and the Asia-Pacific region are our primary asset management markets.

Our distribution channels vary by product and geographic market. In Europe and in the United States, Allianz Global Investors markets and services its institutional products through specialized personnel located in Frankfurt, London, Munich, Paris, Milan, San Francisco, San Diego and Newport Beach (California). Retail products in Europe are mostly distributed through proprietary Allianz Group channels such as branch bank advisors, full-time agents employed by affiliated companies and other Allianz Group financial planners and advisors. With the merger of Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH (or dit) and dresdner bank investment management Kapitalanlagegesellschaft mbH (or dbi) into Allianz Global Investors Kapitalanlagegesellschaft mbH, we combined our institutional business with our retail business in Germany in order to implement the existing integrated asset management business model into one entity.

In the United States, Allianz Global Investor s local asset management operating entities offer a wide range of retail products. We have committed substantial resources to the expansion of the third-party asset management business in the Asia-Pacific region with offices in Tokyo, Hong Kong, Shanghai, Singapore, Taipei, Seoul and Sydney. We expect this region to become an increasingly important market.

In the asset management business, we experience competition from all major international financial institutions and peer insurance companies that also offer asset management products and services and compete for retail and institutional clients.

Our competitive investment performance has resulted in the majority of our third-party assets outperforming their respective benchmarks in 2006.

Legal Structure: Conversion into Allianz SE Completed

On September 11, 2005, Allianz AG (now Allianz SE) and Riunione Adriatica di Sicurtà S.p.A. (or RAS , and taken together with its subsidiaries, the RAS Group) announced their intention to merge RAS with and into Allianz AG in a cross-border merger. Effective with the registration of the merger in the commercial register of Allianz AG on October 13, 2006, Allianz AG changed its legal form to a European Company (Societas Europaea, or SE), and is now named Allianz SE.[(1)] The last step in connection with the transaction was the listing of the Allianz SE shares on the Italian Stock Exchange on October 16, 2006. Allianz SE is the first company in the Dow Jones EURO STOXX 50 to have become an SE.

Concurrent with the merger, and in order to provide the merger consideration to RAS shareholders, Allianz completed a capital increase involving the issuance of approximately 25.1 million new Allianz SE shares. In accordance with the merger plan, the remaining RAS

shareholders received 3 new Allianz SE shares in exchange for 19 RAS shares. Prior to the merger date, Allianz AG had purchased in a voluntary cash tender offer certain of the RAS ordinary shares and RAS savings shares that were not already held by Allianz AG. The total consideration for the acquisition of the outstanding RAS shares amounted to approximately 6.4 billion, which includes the approximately 2.7 billion paid to acquire RAS shares in the voluntary cash tender offer.

The merger with RAS and the conversion of Allianz AG to Allianz SE was designed to simplify the Allianz Group s management and organizational structures, thus reducing complexity and increasing efficiency. Our Allianz Group-wide objectives and programs on the basis of our 3+One program[2] are expected to be achieved more consistently and more

(1) The SE is a legal form based on European Community law and was introduced into the EU by the Council Regulation (EC) No. 2157/2001 of October 8, 2001 on the Statute for a European Company (the SE Regulation). Since Allianz SE keeps it registered office in Germany, it is governed by the SE Regulation, the applicable German law supplementing the SE Regulation and relevant German law applicable to German stock corporations, in particular the German Stock Corporation Act.

(2) Under our 3+One program, we work on achieving sustainable growth of our competitive strength and company value.

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efficiently with the implementation of the merger. Furthermore, the merger was designed to facilitate more efficient capital and liquidity management within the Allianz Group, to simplify accounting and reporting processes, and to increase the Allianz Group s presence in the attractive Italian insurance market.

In addition to improving efficiency, the change in governance framework to an SE reflects the Allianz Group s European and international dimension. As part of these changes, we reduced the size of the Supervisory Board and established an SE works council. Nevertheless, Allianz SE remains governed to a large extent by German Corporate Law.

Milestones of the Allianz-RAS Merger 2006

February 3, 2006	RAS S.p.A. shareholders approve the merger plan at the extraordinary shareholders meetings
February 8, 2006	Allianz AG shareholders approve the merger plan at the extraordinary shareholders meeting
July 19, 2006	Contestation suits against formation of Allianz SE withdrawn
September 20, 2006	Agreement concerning participation of employees in Allianz SE signed
October 13, 2006	Allianz AG s legal form changed to a Societas Europaea, new company name Allianz SE
	Capital increase effective (3 new Allianz SE shares for 19 RAS shares)
October 16, 2006	Allianz SE shares listed in Itlay

Important Group Organizational Changes[1]

Simplification of European Structures

The Allianz-RAS merger provided the opportunity to streamline the Allianz Group s structure in an effort to increase capital efficiency and to benefit from operational and strategic synergies.

As a consequence of the merger, Allianz SE now holds 100% of its property-casualty and life/health subsidiaries in Switzerland (Allianz Suisse Versicherungs-Gesellschaft and Allianz Suisse Lebensversicherungs-Gesellschaft) and in Austria (Allianz Elementar Versicherungs-Aktiengesellschaft

(1) Please see Note 4 to our consolidated financial statements for information on changes in the scope of consolidation in the years ended December 31, 2006, 2005 and 2004.

and Allianz Elementar Lebensversicherungs-Aktiengesellschaft) through holding companies. These subsidiaries were formerly held jointly by Allianz AG (now Allianz SE) and RAS, with RAS holding the majority. Also due to implementation of the merger, Allianz SE now directly holds majority interests in the Portuguese insurance subsidiary, Compañhía de Seguros Allianz Portugal S.A., and in the Spanish insurance subsidiary, Allianz Compañía de Seguros y Reaseguros S.A.

The acquisition of the minority interest in AGF, which was announced on January 18, 2007, is also designed to further streamline our Group structure across regions and business units.[2]

Reorganization of German Insurance Operations

In 2006, we further consolidated our major German insurance subsidiaries (Allianz Versicherungs-Aktiengesellschaft, Allianz Lebensversicherungs-Aktiengesellschaft and Allianz Private Krankenversicherungs-Aktiengesellschaft) under the new holding company Allianz Deutschland AG (wholly-owned by Allianz SE). In the course of this reorganization, which we announced in September 2005, Frankfurter Versicherungs-AG and Bayerische Versicherungsbank AG were merged into Allianz Versicherungs-Aktiengesellschaft. The tied agent sales activities of the German property-casualty and life/health business, which previously were run by five different corporations, were consolidated into a separate sales company, Allianz Beratungs- und Vertriebs-AG, which is also a subsidiary of Allianz Deutschland AG. We have replaced the insurance operations previous regional structure with four sales and service regions.

The reorganization of our German insurance operations is designed to simplify structures and reduce complexity within the Allianz Group, allowing us to react to changes in our markets with greater speed, focus and flexibility. Our goal is to create one joint presence of our insurance operations, with customers perceiving Allianz as one unit with comprehensive high quality services geared toward the customer s needs. This process is part of our strategy to further develop our leading position in the German insurance market.

(2) Please see Operating and Financial Review and Prospects Recent and Expected Developments Significant Expected Investments for further information on this transaction.

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We are continuing this reorganization plan and expect to have the new business model in place by 2008. The new business model will require approximately 5,700 fewer staff. In connection with this reorganization we took the following steps in 2006:

- Created the German insurance holding company Allianz Deutschland AG.
- Top management team in place.
- Agreement on key points between the works councils and the management of Allianz Deutschland AG and its main subsidiaries.
- Allianz Deutschland AG and its main subsidiaries committed not to make any compulsory redundancies until the end of 2009.
- Districts organized into four regions.
- Distribution centralized.
- Property-Casualty companies merged.

We expect the reduced complexity to allow us to reduce costs in the long-term. As of December 31, 2006, Allianz Deutschland AG s provisions for restructuring amounted to 455 million.[1]

Merger of Industrial Insurance Business within Allianz Global Corporate & Specialty

In the second half of 2006, we commenced the reorganization of the Allianz Group s international corporate and specialty insurance business by creating Allianz Global Corporate & Specialty AG, a wholly-owned subsidiary of Allianz SE. This unit houses the activities of the former Allianz Global Risks Re and Allianz Marine & Aviation operating entities, the corporate customer business of Allianz Sach, as well as Allianz Risk Transfer in Switzerland, under the umbrella of one Munich-based company. In the future, we also plan to integrate other local corporate and specialty insurance activities in selected locations into Allianz Global Corporate & Specialty AG in order to offer a comprehensive range of risk management solutions and specialist expertise from one source. The new organization is designed to facilitate a clear client focus, while it reduces complexity, increases efficiency and promotes globally consistent management practices.

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(1) For further information see Note 49 to our consolidated financial statements.

Neue Dresdner Plus Reorganization Program

In 2006, Dresdner Bank launched the Neue Dresdner Plus reorganization program, by integrating its former four operating divisions into two operating divisions. As part of this restructuring, 2,480 full-time positions are to be cut at the Dresdner Bank Group in the period up to 2008.

The Board of Management and the employee representatives have agreed on a social plan for implementing the reduction of the number of employees associated with the program as part of a reconcilement of interests. The final new business model of Dresdner Bank will consist of the following two new operating divisions:

Private & Corporate Clients combines all banking activities formerly provided by the Personal Banking and Private & Business Banking divisions (including Private Wealth Management) as well as our activities with medium-sized business clients from our former Corporate Banking division.

Investment Banking, with Global Banking and Capital Markets, unites the activities formerly provided by the Dresdner Kleinwort Wasserstein division and the remaining activities of the former Corporate Banking division.

In addition, the Corporate Other division contains income and expense items that are not assigned to Dresdner Bank s operating divisions.

The goal of the Neue Dresdner Plus program is to re-position Dresdner Bank to further develop its advisory services and sales activities for private clients as well as to create a single source for groups and institutional clients. As of December 31, 2006, Dresdner Bank Group s provisions for restructuring amounted to 379 million. In 2006, Dresdner Bank Group recorded restructuring charges for all restructuring programs of 422 million.[2]

Reorganization in the United States

In order to capture the potential for regional synergies, the Allianz Group has commenced a reorganization of the business lines in the United States by strengthening the role of the Allianz of America Inc. holding company in an effort to create expense and distribution synergies between the

(2) For further information see Note 49 to our consolidated financial statements.

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different businesses in the United States. This regionalization is designed to allow our U.S. companies to leverage all of the available resources and assets and to enable Allianz Life United States and Fireman s Fund to more effectively anticipate and deliver on customer needs. The respective management teams of each company will be able to

draw upon the resources of Allianz of America to provide customers with high-quality solutions, maximize cross-selling opportunities, simplify services, and leverage combined assets while driving a performance-based culture. The goal of the reorganization is to optimize the ability of both companies to improve their market positions.

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Global Diversification[1]

As an integrated financial services provider we offer insurance, banking and asset management products and services from a single source to more

than 60 million customers in over 70 countries. We are one of the leading insurers and financial services providers world-wide. Based on our market capitalization[2] we are the largest financial institution in Germany.

Europe is our home market. We consider property-casualty insurance in the region to be rather saturated. In life/health insurance, we see the characteristics of aging societies and their rising need for private retirement provision products and additional health insurance coverage as a growth opportunity.

n n n n	Austria	n n	Luxembourg
n n n	Belgium	n n n n	Netherlands
n n n n	France	n n n	Portugal
n n n n	Germany	n n n n	Spain
n n n	Greece	n n n n	Switzerland
n n	Ireland	n n n	United Kingdom
n n n n	Italy	n n	Turkey

2006 in review:

- January 1: Allianz Deutschland AG and a new independent sales company in Germany are launched and, at the same time, regional structures are simplified.
- June 22: Restructuring details at Allianz Deutschland AG and Dresdner Bank AG announced.
- October 13: Allianz AG completes conversion into Allianz SE.
- November 28: First European company pension offer launched.
- December 18: Merger of dit and dbi in our Asset Management segment.

New Europe We are committed to a region in transition: We are established in the most important insurance markets in the region and have leading market positions. New Europe offers substantial opportunities across all lines of business alongside rising living standards.

n n n n	Bulgaria	n n n	Slovakia
n n n	Croatia		
n n n	Czech Republic		
n n n n	Hungary		
n n n	Poland		
n n	Romania		
n n n n	Russia		

2006 in review:

- October 2: Introduction of a limited edition index-linked life insurance product in Bulgaria, Croatia, Czech Republic, Poland, Romania and Slovakia.
- October 17: Allianz Hungária is the first insurer and asset manager in Hungary to found a retail bank. With this move, Allianz in Hungary becomes an integrated financial services provider.
- December 27: Allianz Direct New Europe commences operations as the first pan-European regional direct platform offering property-casualty insurance products for customers in Poland and the Czech Republic.

n Property-Casualty n Life/Health n Banking n Asset Management

[1] Please see International Presence for a breakdown of selected operating entities.

[2] As of March 1, 2007. Source: Deutsche Börse Group.

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The Americas We are well-positioned in the United States, the largest insurance market of the world. Overall, our American operations take place in attractive markets.

n n	Argentina
n n n	Brazil
n	Colombia
n	Mexico
n n n n	United States
n n	Venezuela

2006 in review:

September 5: Standard & Poor s affirmed its A counterparty and insurer financial strength ratings on Fireman s Fund and rated subsidiaries. The rating outlook has been revised to positive from stable.
December 7: Allianz Life United States announced the full integration of operations between its retail broker/dealer subsidiaries, USAllianz Securities® and Questar Capital Corporation. The organization will operate under the Questar Capital name.

Asia-Pacific and Africa Asia-Pacific is the Allianz Group s largest emerging region. Many markets in this part of the world are characterized by high growth rates.

n n	Australia	n n	South Korea
n n n n	China	n n n	Malaysia
n n	Indonesia	n n n	Singapore
n n	India	n n	Taiwan
n n n	Japan	n n	Egypt
n	Laos		

2006 in review:

January 24: Allianz is the first western joint-venture insurer to introduce insurance products in Indonesia, which comply with the rules of the Islamic law, Sharia.
January 27: Allianz and Industrial and Commercial Bank of China Ltd. (or ICBC) announce strategic investment and partnership agreement. Allianz acquires a 2.5% interest in ICBC.
April 1: Following the shareholder change in 2005, the former Allianz Dazhong was renamed into Allianz China Life.

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Our Largest Insurance Markets and Companies

Property-Casualty Insurance Operations[1]

Germany

Operations We operate in the German property-casualty market through operating entities combined under the umbrella of Allianz Versicherungs-Aktiengesellschaft (or Allianz Sach). Allianz Sach is the market leader in Germany based on gross premiums written in 2006.[2] Our results of operations presented under Germany also include our property-casualty assumed reinsurance business, primarily attributable to Allianz SE.

Products and Distribution We offer a wide variety of insurance products, of which our main lines of business include motor (liability and own damage), general liability, homeowner and accident. Allianz Sach distributes its products mainly through a network of full-time tied agents. However, distribution through Dresdner Bank branches and the Internet is increasing in relative importance.

Expected Developments With Germany being a rather mature market with a high degree of competition, one of the key challenges is managing the trade-off between achieving growth while maintaining profitability. We are currently reorganizing our major German operating entities. The new structure is designed to further develop our leading position in the German insurance market by a joint presence, thus allowing us to provide an enhanced customer orientation and improved service, while at the same time cutting costs in the long-term through reduced complexity.[3]

France

Operations Through the companies of AGF Group, we ranked third in the property-casualty market in France, based on gross premiums written in 2005.[4]

Products and Distribution The broad range of AGF brand products for both individuals and

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[1] Please see International Presence for the Allianz Group s ownership percentages in the operating subsidiaries mentioned.
[2] Source: German Insurance Association, GDV.
[3] Please see Important Group Organizational Changes Reorganization of German Insurance Operations for further information.
[4] Source: French Insurers Association, FFSA.

corporate customers, including property, injury and liability insurance, are distributed primarily through a network of general agents, brokers and other direct sales channels.

Expected Developments Operating in a market that has seen limited growth in recent years, we seek to focus on maintaining operating profitability while simultaneously implementing selective initiatives aimed to generate growth. One such initiative is the introduction of a new motor tariff at the end of 2006, which we expect will have a beneficial impact on our business development in the coming years.

The acquisition of the minority interest in AGF is expected to reduce the complexity of our organization and allows us to further implement Allianz Group-wide programs and initiatives, as well as to strengthen our market position in France.[5]

Italy

Operations We operate in the Italian market through our RAS , Lloyd Adriatico and Allianz Subalpina brands. Jointly, we continued to rank third in the Italian property-casualty market, based on gross premiums written in 2005.[6]

Products and Distribution The RAS Group operates in most major personal and commercial property-casualty lines in Italy, while Lloyd Adriatico S.p.A. underwrites mainly personal lines. The RAS Group s most important business line is motor. Other important businesses include fire, general liability and personal accident.

Expected Developments The Italian non-motor market, which has a lower penetration rate for insurance products compared to other European markets, represents a potential market for growth. Among other channels, we also view distribution through direct operations as a growth channel.

RAS S.p.A., Lloyd Adriatico S.p.A. and Allianz Subalpina S.p.A. have launched the project to integrate the Allianz Group s operations in Italy. The integration is designed to allow Allianz to serve the Italian market, its second largest based on premiums,

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(5) Please see Operating and Financial Review and Prospects Recent and Expected Developments Significant Expected Investments for further information.
(6) Source: Italian Insurers Association, ANIA.

with a broad range of insurance and financial products and with more effective customer service. We are also implementing this integration to seek to benefit from the announced deregulation of insurance distribution in Italy.

United Kingdom

Operations We serve the market in the United Kingdom primarily through our subsidiary Allianz Cornhill Insurance plc. (or Allianz Cornhill) and rank seventh based on gross premiums written in 2005.[(1)] In 2006, Allianz Cornhill further strengthened its market position in the United Kingdom through the acquisition of the remaining interest in Premier Line Direct Ltd. and the acquisition of Home & Legacy (Holdings) Ltd.

Products and Distribution We offer a broad range of property-casualty products, including a number of specialty products, which we offer through our personal, commercial and specialty lines and through a range of distribution channels, including affinity groups.

Expected Developments Operating in a highly competitive market, Allianz Cornhill has concentrated on active cycle management as a measure to support its operating profitability.

Effective April 30, 2007, Allianz Cornhill Insurance plc. changed its company name to Allianz Insurance plc. in order to benefit from the Allianz brand.

Switzerland

Operations In the Swiss market we are represented by the Allianz Suisse brand and Allianz Risk Transfer AG. Allianz Suisse acts as the umbrella brand for our four general property-casualty legal entities in Switzerland. Based on gross premiums written in 2005, Allianz Suisse ranks fourth in Switzerland.[(2)]

Products and Distribution While Allianz Suisse operates in the general property-casualty market in Switzerland, Allianz Risk Transfer AG offers conventional reinsurance and a variety of

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(1) Source: Financial Services Authority, FSA.
(2) Source: Statistics of the Swiss Federal Bureau of Private Insurers.

alternative risk transfer products. The most important line of business for Allianz Suisse is motor, comprising approximately 42% of its gross premiums written in 2006.

Expected Developments In the very competitive market environment in Switzerland, we will continue to put profitability first, while expecting to achieve attractive growth.

Spain

Operations We serve the Spanish market through our operating entities Allianz Compañía de Seguros y Reaseguros S.A. and Fénix Directo S.A. We currently rank third in the Spanish market, based on gross premiums written in 2006.[3]

Products and Distribution In Spain, we offer a wide variety of personal and commercial property-casualty insurance products, with an emphasis on motor business, comprising approximately two-thirds of our gross premiums written in Spain in 2006.

Expected Developments Market conditions in Spain are characterized by the continuation of intense price competition in motor business.

Western and Southern Europe

Operations We conduct property-casualty operations in most of the other Western and Southern European countries, of which, based on gross premiums written in 2006, the largest are our operations in the Netherlands, Austria and Ireland.

Products and Distribution The most important lines of business of Allianz Nederland Schadeverzekering N.V. in the Netherlands are motor and fire insurance. Our Dutch subsidiary distributes its products through independent agents and brokers.

Allianz Elementar Versicherungs-Aktiengesellschaft in Austria offers a broad range of products to individual and group customers primarily through salaried sales forces, tied agents and brokers.

Our subsidiary Allianz Irish Life Holdings p.l.c. offers a wide variety of products, mainly motor and property insurance for both commercial and private

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[3] Source: Research and Statistics Bureau of Spanish Insurers and Pension Funds, ICEA.

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customers in Ireland, and distributes predominantly through brokers and banks as well as telephone- and internet-based direct sales channels.

Expected Developments The Dutch insurance market is characterized by intense competition. In the motor business with expected price decreases. In Ireland, we expect the market will become more favorable in 2007, both in commercial and in personal lines.

New Europe

Operations We are the leading international insurance company in Central and Eastern Europe, based on gross premiums written in 2005[(1)], which we believe is one of the fastest growing insurance markets in the world. We serve the market through our operating subsidiaries in Hungary, the Czech Republic, Slovakia, Poland, Bulgaria, Romania and Croatia. We also sell property-casualty insurance in Russia through our subsidiaries embraced under Allianz Russia and our participation in Russian People s Insurance Society Rosno .

Products and Distribution The primary products sold in these countries are mandatory motor third-party liability and motor own damage coverage.

Expected Developments Motor business and increasingly other personal lines products continue to be the primary sources of our profitable growth, while we also expect to expand and further develop our sales network. We believe we are well-positioned to capture the opportunities from the expected growth in demand for property-casualty insurance products.

On February 21, 2007, the Allianz Group announced the purchase of further interest in Rosno, increasing our holding to approximately 97%. With this acquisition we are expanding our position as the number one insurer in Central and Eastern Europe.

United States

Operations Our operations in the United States are organized under the umbrella of Allianz of America Inc., which comprises a group of operating entities underwriting a wide, but focused, variety of lines of business.

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(1) Source: Own estimate based on published annual reports.

Products and Distribution Through Fireman s Fund Insurance Company (or Fireman s Fund), we underwrite personal, commercial and specialty lines. Fireman s Fund s business strategy focuses on specific markets. The personal lines address the needs of high net worth customers. The commercial business targets a core set of industries offering specialized products and services. Our specialty products are sold through local distribution channels, which allow us to tailor our products and services to our customer s needs.

Expected Developments Fireman s Fund expects to continue to grow in these target markets by enhancing customer solutions. We plan to upgrade customer service capabilities, introduce new products and services, and leverage cross-selling through strengthened distribution management.

In addition, we are currently undertaking certain reorganization measures in the United States. We expect these measures will help us to strengthen our market position.[2]

Asia-Pacific

Operations In Asia-Pacific, the large majority of our business is generated by Allianz Australia, which serves the markets of Australia and New Zealand. We also maintain operations in Malaysia, Indonesia, as well as other Asia-Pacific countries, including China, Thailand, Japan, Hong Kong, Singapore, Laos and India.

Products and Distribution Our Australian insurance operations include a variety of products and services, with particularly strong positions in the workers compensation market, as well as in rehabilitation and occupational health, safety and environment services. We also operate in certain niche markets, including premium financing and pleasure craft insurance. Allianz Australia markets our products through brokers and non-tied agents as well as directly to customers.

Expected Developments Allianz Australia expects to continue to employ market segmentation technique, which includes diversifying its portfolio outside of the traditionally cyclical areas.

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(2) Please see Important Group Organizational Changes Reorganization in the United States for further information.

South America

Operations We conduct our property-casualty operations in Brazil through our subsidiary AGF Brasil Seguros S.A. Based on gross premiums written in 2006, we are the seventh-largest property-casualty insurance provider in Brazil.[1] We also sell property-casualty products in Colombia, Argentina and Venezuela.

Products and Distribution In Brazil, we write primarily automobile insurance, but also fire, transportation and other lines. Distribution is organized primarily through independent agents and brokers. In Colombia, Venezuela and Argentina we also market a broad range of products.

Expected Developments We expect growth to continue, primarily in Brazil and Argentina, mainly driven by the motor market.

Specialty Lines

Operations Through our subsidiary Euler Hermes, the largest credit insurer in the world, based on gross premiums written in 2005[2], we underwrite credit insurance in major markets around the world.

Allianz Global Corporate & Specialty primarily combines the Allianz Group s international corporate insurance business.[3]

Through Mondial Assistance Group, we are among the world s largest providers of travel insurance and assistance services based on gross premiums written in 2005.[4]

Products and Distribution Euler Hermes provides enterprises protection against the risk of non-payment of receivables and customer insolvency. Thereby, we help companies of all sizes, wherever they trade, to safeguard and grow their business. In addition, through Allianz Global Corporate & Specialty, we offer a variety of other specialty lines of business, namely marine, aviation and industrial

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(1) Source: Own estimate based on published annual reports.
(2) Source: Own estimate based on published annual reports.
(3) Please see Important Group Organizational Changes Merger of Industrial Insurance Business within Allianz Global Corporate & Specialty for further information on this newly created subsidiary.
(4) Source: Own estimate based on published annual reports.

transport insurance, international industrial risks reinsurance, and through Moncial Assistance Group, we offer travel insurance and assistance services. In contrast to our other insurance businesses, we manage and offer these services on a worldwide basis.

Expected Developments Through the recent combination of our international corporate business within Allianz Global Corporate & Specialty, which manages a diversified portfolio of risk management solutions and services, we expect to realize synergies and increase efficiency.

At Mondial Assistance Group, we seek to enter in new markets and develop new products. A variety of sales channels including the internet is used to achieve this goal.

Life/Health Insurance Operations[5]

Germany Life

Operations In our most important market, Allianz Lebensversicherungs-Aktiengesellschaft (or Allianz Leben) is the market leader for life insurance based on statutory premiums in 2006.[6] In addition to Allianz Leben, we operate through a variety of smaller operating entities in the German market.

Products and Distribution We are active both in the private and commercial markets and offer a comprehensive range of life insurance and related products on both an individual and group basis. The main classes of coverage offered include annuity, endowment and term insurance. In our commercial lines, we offer group life insurance and provide companies with services and solutions in connection with pension schemes and defined contribution plans. Allianz Leben distributes its products mainly through a network of full-time tied agents, while distribution through Dresdner Bank branches and brokers is increasing.

Expected Developments We are currently reorganizing our major German operating entities. The new structure is designed to further develop our

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(5) Please see International Presence for the Allianz Group s ownership percentages in the operating subsidiaries mentioned.
(6) Source: German Insurance Association, GDV.

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leading position in the German insurance market by a joint presence, thus allowing us to provide an enhanced customer orientation and improved service, while at the same time cutting costs in the long-term through reduced complexity.

Germany Health

Operations Through Allianz Private Kranken-versicherungs-Aktiengesellschaft (or Allianz Private Kranken), we are the third-largest private health insurer in Germany based on statutory premiums in 2005[1] with more than two million customers.

Products and Distribution Allianz Private Kranken provides a wide range of health insurance products, including full private healthcare coverage for salaried employees and the self-employed, supplementary insurance for individuals insured under statutory health insurance plans, supplementary care insurance as well as foreign travel medical insurance. Allianz Private Kranken distributes its products mainly through a network of full-time tied agents.

Expected Developments The ongoing discussions about reforming the German statutory health insurance system causes uncertainty among customers. The demographic change combined with medical progress will cause rising expenses within the statutory health insurance system. Furthermore, benefit cuts will most likely occur. Private health insurers will benefit from this development in the long-run.

France

Operations In France, through the companies of AGF Group, we are the eighth-largest life insurance provider based on statutory premiums in 2005.[2]

Products and Distribution We provide a broad range of life and health insurance products, including short-term investment and savings products. An important portion of our life statutory premiums in France is generated through the sale of unit-linked policies.

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(1) Source: German Insurance Association, GDV.
(2) Source: French Insurers Association, FFSA.

Expected Developments Life insurance is one of the fastest growing businesses of the AGF Group and we expect this strong growth to continue.

The acquisition of the minority interest in AGF is designed to allow us to reduce the complexity of our organizational and management structures, permitting us to further implement Allianz Group-wide programs and initiatives, as well as strengthen our market position in France.[3]

Italy

Operations We maintain a strong position in the Italian life insurance market through RAS Group, Lloyd Adriatico S.p.A. and Allianz Subalpina S.p.A. Jointly, on the basis of statutory premiums in 2005, our Italian subsidiaries ranked second.[4]

Products and Distribution In Italy, we offer individual life policies, primarily endowment policies, annuities and unit-linked products in addition to other products. Consistent with general trends in the Italian market, our business includes an increasing number of unit-linked policies, in which policyholders participate directly in the performance of policy-related investments. In 2006, two-thirds of our combined statutory premiums in Italy comprised unit-linked products. A large percentage of our contracts are marketed through our bancassurance channel.

Expected Developments RAS S.p.A., Lloyd Adriatico S.p.A. and Allianz Subalpina S.p.A. have launched the project to integrate the Allianz Group s operations in Italy. The integration is designed to allow Allianz so serve the Italian market, its second largest based on premiums, with a broad range of insurance and financial products and with more effective customer service. We are also implementing this integration to seek to benefit from the announced deregulation of insurance distribution in Italy.

Switzerland

Operations We conduct our life/health operations in Switzerland primarily through Allianz

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(3) Please see Operating and Financial Review and Prospects Recent and Expected Developments Significant Expected Investments for further information.
(4) Source: Italian Insurers Association, ANIA.

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Suisse Lebensversicherungs-Gesellschaft and Phénix Vie. In aggregate, these operating entities represent the sixth largest life insurance provider in Switzerland based on statutory premiums in 2005.(1)

Products and Distribution We market a wide range of individual and group life insurance products, including retirement, death and disability products.

Expected Developments Given the relatively higher market share we hold in our property-casualty business in Switzerland, we believe there is potential for growth in our life/health business through cross-selling between our segments.

Spain

Operations We conduct our life/health operations in Spain through Allianz Compañía de Seguros y Reaseguros S.A. and through Eurovida, our joint venture with Banco Popular.

Products and Distribution Our Spanish insurance subsidiaries offer a broad product portfolio, consisting primarily of traditional life insurance, annuities, pension and unit-linked products, which are mainly distributed by agents and through our bank channel.

Expected Developments In 2006, income tax reforms were approved in Spain and became effective as of January 2007. Under the new tax law, most life insurance policies, except annuities, lose their tax privileges. It is still too early to finally assess the long-term impact of this income tax reform on our business. Nevertheless, we have analyzed our existing product range resulting in the development of new products and adaptation of the existing ones, in order to benefit through further profitable growth.

Western and Southern Europe

Operations We conduct life/health insurance operations in most of the other Western and Southern European countries, of which, based on statutory premiums 2006, the largest are in Belgium and the Netherlands.

Products and Distribution AGF Belgium Insurance S.A. markets a wide range of life insurance

(1) Source: Statistics of the Swiss Federal Bureau of Private Insurers.

products mainly through brokers. In the Netherlands, we also offer a broad range of life insurance products and have a strong position in the unit-linked market.

Expected Developments The larger life insurance markets forming our Western and Southern European region are mature and provide limited growth opportunities.

New Europe

Operations We are present in all key markets in this region and are one of the top four international life insurance providers, based on statutory premiums in 2005.[2]

Products and Distribution In 2006, we continued to expand our product range and sales capacity throughout New Europe. We follow a multi-channel distribution approach and sell both unit-linked and traditional life insurance products. In the fourth quarter of 2006, our companies in the region launched a limited-edition index-linked life insurance product across six markets. In 2006, our Hungarian insurer, Allianz Hungária Biztositó Rt., opened its own retail bank and has become an integrated financial services provider.

Expected Developments Central and Eastern Europe represents one of the fastest growing life insurance markets of the world, as current penetration levels are low. In anticipation of the expected growth, we continuously strengthen our sales capacity and product range.

United States

Operations In the United States, we are represented by Allianz Life Insurance Company of North America (or Allianz Life United States) which is, as with our property-casualty business in the United States, also organized under the umbrella of Allianz of America Inc. In August 2006, Allianz Life United States sold its health insurance business to HCC Insurance Holdings Inc.

Products and Distribution Allianz Life United States is the market leader in fixed-indexed annuities, with approximately one-third of the market share based on statutory premiums in 2006.[1] On the same

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[2] Source: Own estimate based on published annual reports.

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basis, Allianz Life United States holds a 10% share of the overall fixed annuity market and also has a 2% share of the large variable annuity market.[1] Its smaller but growing product lines include individual life and long-term care insurance.

Expected Developments Allianz Life United States is taking measures to grow its annuity products business by expanding distribution with broker-dealers, banks and wire-houses, designing channel-specific products, and also reinforcing product development of variable products and fixed-indexed products. For example, since November 2006, Allianz Life United States has entered into broker-dealer marketing agreements, having signed six in 2006 adding more than 10,000 agents. In addition, we are currently undertaking certain reorganization measures in the United States. We are confident that these measures will also help us to strengthen our market position.[2]

Asia-Pacific

Operations In Asia-Pacific, the majority of our operations are conducted in South Korea through Allianz Life Insurance Co. Ltd. (or Allianz Life Korea). Allianz Life Korea is the fifth-largest life insurance company in South Korea based on statutory premiums in 2005.[3] We are also represented in Taiwan by Allianz President Life Insurance Co. Ltd. (or Allianz Life Taiwan) and maintain operations in Malaysia, Indonesia, as well as other Asia-Pacific countries, including China, Thailand and India.

Products and Distribution Our South Korean operations market a wide range of life insurance products. Due to the very low interest rate environment and a favorable equity market in South Korea, Allianz Life Korea has increasingly shifted its focus to variable life products. Allianz Life Taiwan sells term life, whole life and endowment products. In addition, Allianz Life Taiwan increasingly offers investment-linked products.

Expected Developments We are seeking to expand in all of our selected markets, through

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(1) Source: LIMRA.
(2) Please see Important Group Organizational Changes Reorganization in the United States for further information.
(3) Source: South Korean Life Insurance Association.

internal growth and selected acquisitions. For example, in January 2007, we agreed with our long-term joint venture partner in Taiwan, the Uni-President Group, to acquire Uni-President s shareholding in our joint venture Allianz Life Taiwan.

China is a strategic market for the Allianz Group and our partnership with Industrial and Commercial Bank of China Ltd. emphasizes our long-term commitment to the market and also offers a platform for our strategic expansion in China.

Additionally, Bajaj Allianz Life Insurance Company Ltd. (or Allianz Life India), in which we held an interest of 26.0% at December 31, 2006, has demonstrated strong growth in the last several years, becoming a leading private insurer in India, which we expect to continue.

South America

Operations Our largest life operation in this region is in Colombia. We also operate a small life portfolio in Brazil.

Products and Distribution Our life insurance activities in Colombia include traditional group life insurance as well as investment-oriented products like savings, pensions and annuity products.

Expected Developments We estimate that growth rates in the South American life insurance market will remain attractive over the coming years. Accordingly, we seek to expand our presence in life insurance beyond our Colombian subsidiary.

International Presence

The following table sets forth selected Allianz Group operating companies by geographic region at December 31, 2006, including our ownership percentage. It does not contain all companies of the Allianz Group, nor does it indicate whether an interest is held directly or indirectly by Allianz SE. Further, the ownership percentage presented in the following table includes equity participations held by dependent enterprises of the Allianz Group in full, even if the Allianz Group s ownership in the dependent enterprise is below 100%. Please see Note

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54 to our consolidated financial statements for a more extensive list of Allianz Group companies.

GERMANY

Company	Share
Allianz Capital Partners GmbH	100.0%
Allianz Dresdner Bauspar AG	100.0%
Allianz Global Corporate & Specialty AG	100.0%
Allianz Global Investors Advisory GmbH	100.0%
Allianz Global Investors AG	100.0%
Allianz Global Investors Europe GmbH	100.0%
Allianz Global Investors Kapitalanlagegesellschaft mbH	100.0%
Allianz Lebensversicherungs-Aktiengesellschaft	91.0%
Allianz Private Krankenversicherungs-Aktiengesellschaft	100.0%
Allianz Versicherungs-Aktiengesellschaft	100.0%
DEGI Deutsche Gesellschaft für Immobilienfonds m.b.H.	94.0%
Deutsche Lebensversicherungs-AG	100.0%
Dresdner Bank AG	100.0%
Euler Hermes Kreditversicherungs-AG	100.0%
MAN Roland Druckmaschinen AG	100.0%
Oldenburgische Landesbank Aktiengesellschaft	89.4%
Reuschel & Co. Kommanditgesellschaft	97.5%

OTHER EUROPE   WESTERN AND SOUTHERN EUROPE

Country	Company	Share
Austria		
	Allianz Elementar Lebensversicherungs-Aktiengesellschaft	100.0%
	Allianz Elementar Versicherungs-Aktiengesellschaft	100.0%
Belgium		
	AGF Belgium Insurance S.A.	100.0%
France		
	AGF Asset Management S.A.	99.8%
	Assurances Générales de France IART S.A.	100.0%
	Assurances Générales de France Vie S.A.	100.0%
	Assurances Générales de France	60.2%
	Banque AGF S.A.	100.0%
	Euler Hermes SFAC S.A.	100.0%
	Mondial Assistance S.A.S.	100.0%
Greece		
	Allianz General Insurance Company S.A.	100.0%
	Allianz Life Insurance Company S.A.	100.0%
Ireland		
	Allianz Irish Life Holdings p.l.c.	66.4%
	Allianz Worldwide Care Ltd.	100.0%
Italy		
	ALLIANZ SUBALPINA S.p.A. SOCIETÀ DI ASSICURAZIONI E RIASSICURAZIONI	98.0%
	Lloyd Adriatico S.p.A.	99.7%
	RAS ASSET MANAGEMENT Società di gestione del risparmio S.p.A.	100.0%
	Riunione Adriatica di Sicurtà S.p.A.	100.0%
Luxembourg		
	Allianz Global Investors Luxembourg S.A.	100.0%
	Dresdner Bank Luxembourg S.A.	100.0%
Netherlands		
	Allianz Nederland Levensverzekering N.V.	100.0%
	Allianz Nederland Schadeverzekering N.V.	100.0%

Portugal		
	Companhia de Seguros Allianz Portugal S.A.	64.8%
Spain		
	Allianz Compañía de Seguros y Reaseguros S.A.	99.9%
Switzerland		
	Allianz Risk Transfer AG	100.0%
	Allianz Suisse Lebensversicherungs-Gesellschaft	100.0%
	Allianz Suisse Versicherungs-Gesellschaft	100.0%
	Dresdner Bank (Schweiz) AG	99.8%
	ELVIA Reiseversicherungs-Gesellschaft AG	100.0%
United Kingdom		
	Allianz Cornhill Insurance plc.	98.0%[1]
	RCM (UK) Ltd.	100.0%

OTHER EUROPE   NEW EUROPE

Bulgaria		
	Allianz Bulgaria Insurance and Reinsurance Company Ltd.	78.0%
	Allianz Bulgaria Life Insurance Company Ltd.	99.0%
	Commercical Bank Allianz Bulgaria Ltd.	99.8%
Croatia		
	Allianz Zagreb d.d.	80.1%
Czech Republic		
	Allianz pojistóvna, a.s.	100.0%

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Hungary		
	Allianz Hungária Biztositó Rt.	100.0%
Poland		
	TU Allianz Polska S.A.	100.0%
	TU Allianz Polska Zycie S.A.	100.0%
Romania		
	Allianz Tiriac Asigurari SA	51.6%
Russian Federation		
	Insurance Joint Stock Company Allianz	100.0%
Slovakia		
	Allianz-Slovenská poist ovna a.s.	84.6%

NORTH AND SOUTH AMERICA

Argentina		
	AGF Allianz Argentina Compañía de Seguros Generales S.A.	100.0%
Brazil		
	AGF Brasil Seguros S.A.	72.5%
Colombia		
	Colseguros Generales S.A.	100.0%
Mexico		
	Allianz México S.A. Companía de Seguros	100.0%
United States		
	Allianz Global Investors of America L.P.	97.3%
	Allianz Global Investors Distributors LLC	100.0%
	Allianz Global Risks US Insurance Company	100.0%
	Allianz Life Insurance Company of North America	100.0%
	Fireman s Fund Insurance Company	100.0%
	NFJ Investment Group L.P.	100.0%
	Nicholas Applegate Capital Management LLC	100.0%
	Oppenheimer Capital LLC	100.0%
	Pacific Investment Management Company LLC	85.0%
	RCM Capital Management LLC	100.0%
Venezuela		
	Adriática de Seguros C.A.	98.3%

ASIA-PACIFIC AND REST OF WORLD

Australia		
	Allianz Australia Limited	100.0%
China		
	Allianz China Life Insurance Co. Ltd.	51.0%
	Allianz Global Investors Hong Kong Ltd.	100.0%
	Allianz Insurance (Hong Kong) Ltd.	100.0%
Indonesia		
	PT Asuransi Allianz Utama Indonesia Ltd.	75.4%
	PT Asuransi Allianz Life Indonesia p.l.c.	99.8%

Japan		
	Allianz Fire and Marine Insurance Japan Ltd.	100.0%
	Dresdner Kleinwort (Japan) Ltd.	100.0%
Laos		
	Assurances Générales du Laos Ltd.	51.0%
South Korea		
	Allianz Global Investors Korea Limited	100.0%
	Allianz Life Insurance Co. Ltd.	100.0%
Malaysia		
	Allianz General Insurance Malaysia Berhad p.l.c.	98.7%
	Allianz Life Insurance Malaysia Berhad p.l.c.	100.0%
Singapore		
	Allianz Global Investors Singapore Ltd.	100.0%
	Allianz Insurance Company of Singapore Pte. Ltd.	100.0%
Taiwan		
	Allianz President Life Insurance Co. Ltd.	50.0%[(2)]
	Allianz Global Investors Taiwan (SITE) Ltd.	100.0%
Egypt		
	Allianz Egypt Insurance Company S.A.E.	85.0%
	Allianz Egypt Life Company S.A.E.	99.4%

Business segments

Property-Casualty
Life/Health
Banking
Asset Management
Corporate

Operating entity contributes a substantial portion of our total revenues within our primary geographic markets. Total revenues comprise Property-Casualty segment s gross premiums written, Life/Health segment s statutory premiums, Banking segment s operating revenues and Asset Management segment s operating revenues.

[(1)] 99.99% of the voting share capital.

[(2)] Controlled by the Allianz Group.

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Property-Casualty Insurance Reserves

General

The Allianz Group establishes property-casualty loss reserves for the payment of losses and loss adjustment expenses (or LAE) on claims which have occurred but are not yet fully settled. Loss and LAE reserves fall into two categories: individual case reserves for reported claims and reserves for incurred but not reported (or IBNR) claims.

Case reserves are based on estimates of future loss and LAE payments on claims already reported. Such estimates are made on a case-by-case basis, based on the facts and circumstances available at the time the reserves are initially established. The estimates reflect the informed judgment of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim. These case reserves are regularly re- evaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available.

IBNR reserves are established to recognize the estimated cost of losses that have occurred but where the Allianz Group has not yet been notified (incurred but not yet reported, IBNYR), as well as additional development of claims relating to case reserves (incurred but not enough reported, or IBNER). Similar to case reserves for reported claims, IBNR reserves are established to recognize the estimated costs, including loss adjustment expenses, necessary to bring claims to final settlement. Allianz Group relies on its past experience, adjusted for current trends and any other relevant factors, to estimate IBNR reserves.

IBNR reserves are estimates based on actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The analyses are based on facts and circumstances known at the time, predictions of future events, estimates of future inflation and other societal and economic factors. Trends regarding claim frequency, severity and time lag in reporting are examples of factors used in calculating the IBNR reserves. IBNR reserves are reviewed and revised periodically as additional information becomes available.

The process of estimating loss and LAE reserves is by nature uncertain due to the large number of variables affecting the ultimate amount of claims.

Some variables are internal to the Allianz Group, such as changes in claims handling procedures, introduction of new information technology (IT) systems or company acquisitions and divestitures. Other factors are external to the Allianz Group, such as inflation, judicial trends and changes in the applicable legal and regulatory environment. The Allianz Group attempts to reduce the uncertainty in reserve estimates through the use of multiple actuarial and reserving techniques and analysis of the assumptions underlying each technique.

Within the Allianz Group, loss and LAE reserves are estimated by local operating entity, and within each entity by line of business. Group-level actuaries at Allianz SE use a variety of methods to oversee and monitor reserve levels set by the local companies. The loss reserving process on a local entity level and the central oversight function are described in more detail below.

During 2006, there were no significant changes in the mix of business written across Allianz Group.

On the basis of currently available information, management believes that the Allianz Group s property-casualty loss and LAE reserves are adequate. However, the establishment of loss reserves is an inherently uncertain process, and accordingly, there can be no assurance that ultimate losses will not differ from these estimates.

Overview of Loss Reserving Process

Within the Allianz Group, loss and LAE reserves are set locally by reserving actuaries, subject to central monitoring and oversight by the Allianz SE actuarial department (Group Actuarial). This two stage reserving process is designed so reserves are set by those individuals most familiar with the underlying business, but in accordance with central standards and oversight. Our central standards are designed to provide consistent reserving methodologies and assumptions to be employed across the Group.

Local Reserving Processes

In each jurisdiction, reserves are calculated for individual lines of business taking into consideration a wide range of local factors. This local reserving

process begins with local reserving actuaries gathering data to calculate estimates and reserves, with our companies typically dividing reserving data into the smallest possible homogeneous segments, while maintaining sufficient volume to form the basis for stable projections. For longer-tailed lines of business such as motor liability, development data going back for up to twenty or more years is used, while for shorter-tailed lines such as property, data going back five to seven years is typically considered sufficient. Once data is collected, we derive patterns of loss payment and emergence of claims based on historical data organized into development triangles arrayed by accident year vs. development year. Loss payment and reporting patterns are selected based on observed historical development factors and also on the judgment of the reserving actuary using an understanding of the underlying business, claims processes, data and systems as well as the market, economic, societal and legal environment. We then develop expected loss ratios, which are derived from the analysis of historical observed loss ratios, adjusted for a range of factors such as loss development, claims inflation, changes in premium rates, changes in portfolio mix and change in policy terms and conditions.

Using the development patterns and expected loss ratios described above, local reserving actuaries produce estimates of ultimate loss and allocated loss adjustment expense (LAE) using several methods. The most commonly used local reserving methods are:

- Loss Development (Chain-Ladder) Method, which estimates ultimate loss and LAE by applying loss development patterns directly to observed paid and reported losses.

- Bornhuetter-Ferguson Method, which estimates loss and LAE using development patterns, observed losses and *a priori* expected loss estimates.

- Frequency-Severity Methods, which produce separate estimates of the ultimate number and average size of claims. In addition, individual companies use a variety of other methods for certain lines of business.

Using the above estimate of ultimate loss and LAE, we directly estimate total loss and LAE

reserves by subtracting cumulative payments for claims and LAE through the relevant balance sheet date. Finally, local reserving actuaries calculate the relevant entities IBNR reserves as the difference between (i) the total loss and LAE reserves and (ii) the case reserves as established by claims adjusters on a case-by-case basis.

Because loss reserves represent estimates of uncertain future events, our local reserve actuaries determine a range of reasonably possible outcomes. To analyze the variability of loss reserve estimates, actuaries employ a range of methods and approaches, including simple sensitivity testing using alternative assumptions as well as more sophisticated stochastic techniques. Group reserving standards require that each company s local reserve committee meet quarterly to discuss and document these reserving decisions and to select the best estimate of the ultimate amount of reserves within the range of possible outcomes and the rationale for that selection for the particular entity.

Central Reserve Oversight Process

Building on the local reserving process described above, Group Actuarial conducts a central process of reserve oversight. This process ensures that reserves are set at the local level in accordance with Group-wide standards of actuarial practice regarding methods, assumptions and data. The key components of this central oversight process are:

- Minimum standards for actuarial loss reserving;

- Regular central independent reviews by Group Actuarial of reserves of local operating entities;

- Regular peer reviews by Group Actuarial of reserve reports provided by local operating entities; and

- Regular quantitative and qualitative reserve monitoring.

Each of these components is described further below.

Minimum standards for actuarial loss reserving: Group-wide minimum standards of actuarial reserving define the reserving practices which must be conducted by each operating entity. These standards provide guidance regarding all relevant aspects of loss reserving, including organization and structure, data, methods, and reporting. Group Actuarial monitors compliance with these minimum standards through a combination of

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diagnostic review i.e. standardized qualitative assessment of the required components in the reserving process and local site visits. Group Actuarial informs the local operating entity of areas requiring immediate remediation as well as areas for potential improvement and coordinates with the local operating entities to address the relevant issues and implement improvements.

Regular central independent reviews by Group Actuarial of reserves of local operating entities: Group Actuarial performs independent reviews of loss and LAE reserves for key local operating entities on a regular basis. This process is designed such that all significant entities are reviewed once every three years. Such a review typically starts with site visits to ensure that Group Actuarial updates their knowledge of the underlying business as well as the issues related to data and organization. Group Actuarial then conducts an analysis of reserves using data provided by the operating entity. Preliminary conclusions are then discussed with the local operating entity prior to being finalized. Any material differences between Group Actuarial s reserve estimates and those of the local operating entity are then discussed, and evaluated to determine if changes in assumptions are needed.

Regular peer reviews by Group Actuarial of reserve reports provided by local operating entities: Local operating entities are required to provide Group Actuarial with an annual reserve report, documenting the entity s analysis of its loss and LAE reserves. The Allianz Group standard for these reports is that an independent actuary, by analyzing this report and discussing it with the entity, must be capable of forming an opinion regarding the appropriateness of the entity s held reserves. In years when Group Actuarial does not perform a complete reserve review of an Allianz Group company, it will perform a peer review of the entity s own analysis.

Regular quantitative and qualitative reserve monitoring: On a quarterly basis, Group Actuarial

monitors reserve levels, movements and trends across the Allianz Group. This monitoring is conducted on the basis of quarterly loss data submitted by local operating entities as well as through participation in local reserve committees and frequent dialogue with local actuaries of each operating entity. This quarterly loss data provides information about quarterly reserve movements, as the information is presented by accident year and line of business, as defined by the local operating entity.

The oversight and monitoring of the Group s loss reserves culminate in quarterly meetings of the Group Reserve Committee, which monitors key developments across the Group affecting the adequacy of loss reserves.

Loss and LAE Composition by Region and Line of Business

The time required to learn of and settle claims is an important consideration in establishing reserves. Short-tail claims, such as automobile property damage claims, are typically reported within a few days or weeks and are generally settled within two to three years. Medium-tail claims such as personal and commercial motor liability claims generally take four to six years to settle, while long-tail claims, such as general liability, workers compensation, construction and professional liability claims take longer.

The following table breaks down the loss and LAE reserves of the Allianz Group, in total and separately by IBNR and case reserves, gross of reinsurance, by region and major line of business for the years ending December 31, 2004, 2005 and 2006, on an IFRS basis. The credit, travel and global corporate lines are written on a world-wide basis through multiple legal entities in several countries, and as a result, are not included in the regional totals.

The Allianz Group estimates that loss and LAE reserves consist of approximately 12% short-tail, 59% medium-tail and 29% long-tail business.

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Loss and LAE Reserves by Year, Region and Line of Business, Gross of Reinsurance[1]

As of December 31,	Automobile Insurance			General Liability			Property			Other Short-Tail Lines[2]			Other Medium-Tail Lines[2]			Other Long-Tail Lines[2]			Total		
	2004 mn	2005 mn	2006 mn	2004 mn	2005 mn	2006 mn	2004 mn	2005 mn	2006 mn	2004 mn	2005 mn	2006 mn	2004 mn	2005 mn	2006 mn	2004 mn	2005 mn	2006 mn	2004 mn	2005 mn	2006 mn
Germany[3]	4,806	4,696	4,681	1,714	1,826	1,875	732	748	556				2,165	2,731	2,454	2,219	2,051	2,017	11,637	12,053	11,583
Case Reserves[1]	4,663	4,579	4,555	1,127	1,251	1,300	597	592	452				1,503	1,984	1,631	640	679	695	8,530	9,085	8,632
IBNR	143	117	126	587	574	575	135	156	104				662	748	824	1,579	1,373	1,322	3,106	2,968	2,951
France	2,132	2,180	2,224	1,777	1,901	1,924	1,200	1,161	1,103	244	306	316	2,074	2,144	2,182	1,113	1,052	997	8,540	8,744	8,746
Case Reserves[1]	1,607	1,610	1,511	1,538	1,541	1,534	1,002	963	921	76	95	114	828	785	763	67	54	66	5,117	5,049	4,910
IBNR	525	571	713	238	359	390	198	197	182	169	211	202	1,246	1,359	1,419	1,046	997	931	3,423	3,695	3,836
Italy	3,920	4,175	4,192	1,495	1,579	1,716	445	449	521	152	142	134	425	430	459	9	12	14	6,446	6,786	7,035
Case Reserves[1]	2,626	2,927	3,091	1,025	1,023	1,067	401	422	510	131	119	110	379	385	407	8	11	13	4,571	4,886	5,197
IBNR	1,294	1,249	1,101	470	556	649	43	27	10	21	23	24	45	45	53	0	1	1	1,875	1,900	1,838
United Kingdom	964	1,029	1,005	342	418	503	465	615	485	66	73	77	305	194	259	897	927	935	3,038	3,257	3,265
Case Reserves[1]	789	836	847	256	306	356	305	456	356	27	30	29	191	116	179	613	607	577	2,180	2,350	2,344
IBNR	174	193	157	87	112	147	160	159	129	39	44	48	114	79	80	284	320	359	858	907	921
Switzerland	845	824	842	239	236	233	101	146	104	96	82	74	554	872	836	1,116	1,119	1,080	2,950	3,278	3,169
Case Reserves[1]	728	718	683	200	189	191	83	126	74	66	59	53	447	675	725	822	791	764	2,346	2,557	2,490
IBNR	117	106	159	39	47	42	18	20	29	30	24	22	107	197	111	294	328	315	604	721	679
Spain	915	1,036	1,134	210	264	280	120	135	142	2	2	3	35	69	82	135	189	183	1,417	1,695	1,824
Case Reserves[1]	861	992	1,072	177	219	208	110	117	117	2	2	2	29	51	64	116	168	151	1,294	1,550	1,614
IBNR	54	44	62	32	44	72	11	17	25	0	0	0	6	19	19	20	21	32	123	145	210
Other Europe	2,937	2,742	2,864	1,039	1,033	1,051	537	485	538	399	302	197	171	174	146	638	604	592	5,721	5,340	5,388
Case Reserves[1]	2,099	2,379	2,378	770	781	786	440	441	433	337	247	132	153	133	121	460	432	436	4,259	4,414	4,287
IBNR	838	363	486	269	252	265	97	44	104	62	54	65	18	41	25	178	172	157	1,462	926	1,102
NAFTA Region[3]	469	471	349	2,759	3,749	3,041	739	951	722	95	37	169	678	849	1,108	1,405	1,462	1,201	6,144	7,519	6,589
Case Reserves[1]	256	275	202	1,074	1,182	976	104	183	89	85	23	101	380	449	425	1,145	1,149	938	3,043	3,260	2,730
IBNR	213	196	147	1,685	2,568	2,065	635	768	632	10	14	68	298	401	683	259	313	263	3,101	4,260	3,859
Asia -Pacific Region	1,211	1,384	1,381	343	379	379	226	219	184	33	39	40	101	110	119	599	671	665	2,513	2,802	2,768
Case Reserves[1]	667	782	899	107	110	113	138	147	114	2	3	2	42	49	49	201	217	221	1,157	1,307	1,398
IBNR	543	602	483	237	270	266	88	72	70	32	36	38	59	61	70	398	454	444	1,356	1,495	1,371
South America & other	108	165	176	29	56	59	148	110	149				51	77	68				336	407	452
Case Reserves[1]	87	130	127	28	55	57	131	91	136				34	52	46				280	328	366
IBNR	21	34	48	1	1	2	16	19	13				18	25	22				56	80	86
Subtotal of countries / regions	18,304	18,702	18,849	9,947	11,440	11,061	4,713	5,019	4,502	1,088	984	1,009	6,558	7,652	7,714	8,130	8,086	7,684	48,741	51,882	50,818
Case Reserves[1]	14,382	15,228	15,365	6,303	6,656	6,588	3,311	3,538	3,204	725	578	543	3,986	4,678	4,409	4,072	4,107	3,859	32,778	34,785	33,968
IBNR	3,923	3,475	3,484	3,645	4,784	4,473	1,402	1,481	1,298	363	406	467	2,572	2,974	3,305	4,059	3,979	3,825	15,963	17,097	16,850
Credit Insurance										681	688	691	529	424	351				1,210	1,112	1,042
										454	445	452	696	663	586				1,150	1,108	1,038

Case Reserves[1]																					
IBNR										228	243	239	(168)	(239)	(235)				60	4	4
Allianz Global Corporate & Specialty[3]				1,577	1,632	1,399	1,252	1,930	1,594		72	131	1,912	2,819	2,921	706	685	616	5,448	7,137	6,662
Case Reserves[1]				713	713	719	976	1,305	966		33	78	1,290	1,622	1,463	408	441	408	3,387	4,114	3,633
IBNR				864	919	681	276	625	629		39	53	622	1,197	1,458	298	244	208	2,061	3,023	3,028
Travel Insurance and Assistance Services										130	128	143							130	128	143
Case Reserves[1]										103	108	117							103	108	117
IBNR										27	20	26							27	20	26
Subtotal of specific business (global)				1,577	1,632	1,399	1,252	1,930	1,594	811	888	964	2,440	3,243	3,272	706	685	616	6,788	8,377	7,846
Case Reserves[1]				713	713	719	976	1,305	966	557	586	647	1,986	2,285	2,049	408	441	408	4,640	5,330	4,789
IBNR				864	919	681	276	625	629	254	302	317	454	958	1,223	298	244	208	2,147	3,047	3,057
Allianz Group Total	**18,304**	**18,702**	**18,849**	**11,525**	**13,072**	**12,460**	**5,965**	**6,949**	**6,096**	**1,899**	**1,872**	**1,973**	**8,998**	**10,894**	**10,986**	**8,837**	**8,770**	**8,300**	**55,528**	**60,259**	**58,664**
Case Reserves[1]	**14,382**	**15,228**	**15,365**	**7,016**	**7,369**	**7,307**	**4,287**	**4,843**	**4,169**	**1,282**	**1,164**	**1,190**	**5,972**	**6,963**	**6,458**	**4,480**	**4,548**	**4,267**	**37,418**	**40,115**	**38,757**
IBNR	**3,923**	**3,475**	**3,484**	**4,509**	**5,703**	**5,153**	**1,678**	**2,106**	**1,927**	**617**	**707**	**783**	**3,026**	**3,931**	**4,528**	**4,357**	**4,223**	**4,032**	**18,110**	**20,145**	**19,908**

(1) By jurisdiction of individual Allianz Group subsidiary companies.

(2) For 2006, lines of business are allocated to Other Short-, Medium- and Long-Tail Lines based on more detailed information depending on duration by jurisdiction. Prior year balances have been adjusted to reflect these reclassifications and allow for comparability across periods.

(3) Allianz Global Corporate & Specialty was established in 2006 and combines reserves formerly presented as Marine & Aviation and as part of reserves for Germany and NAFTA Region. Prior year balances have been adjusted to reflect these reclassifications and allow for comparability across periods.

When reviewing the foregoing tables, caution should be used in comparing the split between case and IBNR reserves across country and line of business. The portion of IBNR on total loss reserves varies by line of business due to different reporting and settlement patterns. For short-tail lines of business, like property, claims are generally reported immediately after occurrence and settled in a period of only a few years. For long-tail lines of business like product liability it is not unusual that a claim is reported years after its occurrence; and settlement can also take a significant length of time, in particular for bodily injury claims.

In addition, the portion of IBNR as a percentage of total loss reserves varies considerably across regions. IBNR reserves represent the amount which, together with reported case reserves, is needed to

fully provide for indemnity and claims cost until final settlement. As such, IBNR reserves are typically calculated as the difference between total reserves and known case reserves. The relative level of case reserves, however, differs significantly by country and company based on the regulatory environment and company practices and procedures on setting case reserves. In some jurisdictions, such as Germany, case reserves are set on a prudent basis based on local regulatory requirements, leading to relatively low (or negative) IBNR. While total reserves for loss and LAE are set on a best estimate level as required by IFRS, the split by case reserve and IBNR is strongly dependent on the jurisdiction and line of business. In particular a low (or negative) level of IBNR in a certain country does not indicate weak overall reserve levels.

Reconciliation of Beginning and Ending Loss and LAE Reserves

The following table reconciles the beginning and ending reserves of the Allianz Group, including the effect of reinsurance ceded, for the property-casualty insurance segment for each of the years in the three-year period ended December 31, 2006 on an IFRS basis.

Reconciliation of Loss and LAE Reserves

	2006			**2005**			**2004**		
	Gross mn	**Ceded mn**	**Net mn**	**Gross mn**	**Ceded mn**	**Net mn**	**Gross mn**	**Ceded mn**	**Net mn**
Balance as of January 1,	**60,259**	**(10,604)**	**49,655**	**55,528**	**(10,049)**	**45,479**	**56,750**	**(12,067)**	**44,683**
Plus incurred related to:									
Current year	28,214	(2,572)	25,642	30,111	(3,580)	26,531	28,693	(2,965)	25,728
Prior years	(1,186)	217	(969)[1]	(1,632)	433	(1,199)	(1,293)	836	(457)
Total incurred	27,028	(2,355)	24,673	28,479	(3,147)	25,332	27,400	(2,129)	25,271
Less paid related to:									
Current year	(12,436)	675	(11,761)	(12,742)	861	(11,881)	(12,290)	845	(11,445)
Prior years	(14,696)	2,455	(12,241)	(13,284)	2,568	(10,716)	(14,384)	2,576	(11,808)
Total paid	(27,132)	3,130	(24,002)	(26,026)	3,429	(22,597)	(26,674)	3,421	(23,253)
Effect of foreign exchange and other	(1,491)	496	(995)	2,277	(837)	1,440	(1,132)	534	(598)
Effect of (divestitures)/acquisitions[2]				1		1	(816)	192	(624)
Balance as of December 31,	**58,664**	**(9,333)**	**49,331**	**60,259**	**(10,604)**	**49,655**	**55,528**	**(10,049)**	**45,479**

(1) The 969 million of favorable development during 2006 was the result of many individual developments by region and line of business. See Changes in Loss and LAE Reserves During 2006.

(2) Reserves for loss and LAE of subsidiaries acquired (or disposed) are shown during the year of acquisition (or disposition). The divestiture of 624 million in 2004 was driven primarily by the sale of Allianz Insurance Company of Canada in December 2004.

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Changes in Loss and LAE Reserves During 2006

As noted above, net loss and LAE reserves of the Allianz Group at December 31, 2006 included a 969 million reduction in incurred loss and LAE relating to favorable development on prior years, representing 2 % of net loss and LAE reserves at January 1, 2006. The following table provides a breakdown of this amount by region.

Changes in Loss and LAE Reserves During 2006

	Net Reserves as of December 31, 2005 mn	Net Development in 2006 related to Prior Years mn	in %[1]
Germany	9,988	(14)	(0.1)
France	7,485	(142)	(1.9)
Italy	2,971	(241)	(8.1)
United Kingdom	2,687	(169)	(6.3)
Switzerland	3,053	117	3.8
Spain	1,499	(70)	(4.7)
Rest of Europe	5,011	(240)	(4.8)
NAFTA Region	6,348	9	0.1
Asia-Pacific Region	2,528	(119)	(4.7)
South America, Africa and Rest of World	4,072	(18)	(0.4)
Subtotal of regions	45,642	(887)	(1.9)
Credit insurance	791	(168)	(21.3)
Allianz Global Corporate and Speciality	3,098	104	3.3
Travel insurance and assistance services	124	(17)	(13.9)
Allianz Group Total	**49,655**	**(968)**	**(1.9)**

(1) In percent of net reserves as of December 31, 2005.

Within each region, these reserve developments represent the sum of amounts for individual companies and lines of business. Because of the multitude of these reviewed segments, it is not feasible, or meaningful, to provide detailed information regarding each segment (e.g., claim frequencies, severities and settlement rates). We discuss below the major highlights of the reserve developments during the past year as they are recognized at the operating entities. Most of these companies analyze loss and LAE reserves on a gross basis. Therefore, the discussion is based on gross loss and LAE reserves in the local currency of the company before consolidation and converted to Euro for uniform presentation. Consequently, individual amounts in the following discussion, which are based on significant developments of our major operating entities, do not fully reconcile to those in the above table, which are based on net loss and LAE reserves and net developments during 2006.

Germany

In Germany, gross loss and LAE reserves developed favorably during 2006 by approximately 45 million, or 0.4% of reserves at January 1, 2006.

At Allianz Sach the property-casualty insurance company of the Allianz Group in Germany, gross loss and LAE reserves developed unfavorably by 53 million. This development was the result of multiple effects.

Unfavorable developments included:

97 million for motor third party liability on the basis of a more precise method of allocating loss adjustment expenses to origin periods. The increase in reserve represents a first indication of the effect of this reallocation on estimated ultimate losses, which will undergo further analysis in the future.

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- 25 million for legal protection, as reserves were strengthened to reflect a change in the legislation concerning attorney fees and the increase of value added tax in Germany,

Offsetting favorable developments include:

- 26 million resulting from the transfer of the corporate business to Allianz Global Corporate and Specialty. In the past, corporate, commercial and personal business had been analyzed in aggregate, but the separation has led to a reduction of reserves for the portfolio remaining with Allianz Sach; and

- 23 million for the winter storm Dorian in December 2005. Early estimates of ultimate claims incurred from this storm were available as of end of 2005 and subsequent claims development has been favorable.

Also during 2006, Allianz SE, the Allianz Group company underwriting primarily intra-Allianz Group reinsurance, experienced 114 million of favorable reserve development. In many cases, these developments were the direct result of corresponding developments in reserves on the underlying business of the Allianz Group companies that were ceded to Allianz SE. The main drivers for the favorable development were:

- 90 million for international corporate business resulting from an improved reserve calculation in property business. The new approach based on triangulations showed that the former approach based on benchmarks overestimated the ultimate loss for the portfolio.

- 50 million on facultative business mainly due to a lower than expected number of late reported claims as well as case reserves being below average experience for these types of claims.

- 12 million related to the settlement of World Trade Center claims.

These developments were partially offset by an increase of 17 million for IBNR claims in non-proportional motor and credit treaty business in Western Europe and an adverse development of 15 million for external business due to a increase of incurred losses by cedents.

France

In France, gross loss and LAE reserves developed favorably by 270 million, or 3.1% of the reserves at January 1, 2006.

At AGF IART, favorable reserve developments of 410 million were partially offset by 148 million unfavorable developments.

Favorable developments at AGF IART included:

159 million on property business, mainly driven by reductions in the estimated ultimate loss for professional lines for recent accident years for which actual development has been less than expected and partly due to the settlement of older accident years;

109 million on general liability business mainly driven by the international corporate business for professional liability due to reductions in the estimated ultimate loss for which actual development has been less than expected;

78 million on health and group business mainly driven by accident claims on group contracts as a result of a detailed review of disability claims; and

49 million in aggregate for smaller developments in eight lines of business.

Offsetting unfavorable developments at AGF IART included:

44 million for construction business mainly due to a reduction in recoveries and an increase for underdeveloped recent years, estimated on exposures that are trending higher than expected;

35 million for motor third party liability in agents and overseas business for older prior years following the indication of a re-estimation;

11 million for general liability mainly driven by participation in local pools;

11 million for natural catastrophes, reflecting further adverse development during 2006 on claims arising from droughts in 2003; and

24 million as a result of aggregating smaller developments in several lines of business.

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Italy

As a result of a combination of reserve developments at several operating entities, the gross loss and LAE reserves developed favorably in Italy by 248 million, or 8.2% of the reserves at January 1, 2006.

At RAS S.p.A., gross loss and LAE reserves developed favorably by 15 million. This was the result of favorable developments mainly attributable to the following factors:

- 41 million in motor third party liability due to a reduction in claims frequency influenced by a change in law permitting the introduction and acceptance of deductibles and a punitive point system against traffic rule offences. At the same time, claim severity has been favorably impacted by a revised claims handling strategy that gives priority to the quality of the settlement above the pure speed in closing claim files; and

- 33 million in fire and engineering due to favorable settlement of reported large claims.

These favorable developments were partially offset by adverse developments in general liability reserves, which were increased for coinsured business and business with public entities related to older accident years that were identified as being deficient after reviewing separately from the ordinary general liability book.

Allianz Subalpina, a consolidated subsidiary of RAS S.p.A., exhibited favorable development of 34 million during 2006, mainly due to motor third party liability, for the same reasons discussed above for RAS S.p.A.

Genialloyd, a consolidated subsidiary of RAS S.p.A. specializing in direct motor business, exhibited favorable development of 24 million during 2006. This development is a result of more robust and stable analyses based on a larger volume of business due to the significant growth of the company since its founding in 1997.

Lloyd Adriatico experienced favorable development of 181 million during 2006 mainly due to a reduction of 150 million in motor third party liability. This reflects several factors, including a further reduction of already historically low claims frequencies and a lower than anticipated impact on the severity of bodily injury claims resulting from legal changes in 2005. Furthermore, Lloyd Adriatico experienced favorable development of 20 million in its personal accident, property and motor own damage lines.

United Kingdom

In the United Kingdom, gross loss and LAE reserves developed favorably during 2006 by 150 million, or 4.6%, of the reserves at January 1, 2006.

At Allianz Cornhill, gross loss and LAE reserves developed favorably during 2006 by 178 million due primarily to the following factors:

34 million on private lines primarily related to motor accounts. Private car has seen a surplus mainly as a result of changing claims development patterns due to claims process review changes, faster delivery of benefits from group-wide implementation of improved practice processes in the claims division, and lower than anticipated inflation on bodily injury claims. There was also a small release from the household account largely resulting from the precautionary bad weather reserves established to allow for delayed claims reporting during the 2005 year-end holiday season not being needed;

107 million on commercial lines, 64 million of which related from the motor account largely for the same reasons as for the personal lines discussed above. There was an additional 33 million surplus from the Property accounts partly arising from precautionary bad weather reserves established to allow for delayed claims reporting during the 2005 year-end holiday season not being needed, but also from favourable development from a few individual large claims. There were also releases from the more recent years for the liability account, but these were partially offset by deterioration in older years. This

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was mainly in respect of mesothelioma claims, where we have seen an increase in severity of claims notified in 2006, and we have reflected this in our expectations for the future;

15 million on schemes where the improvement relates mainly to favourable experience on the creditor and all risks accounts; and

21 million on marine where the surplus has arisen largely as a result of US asbestos related claims being settled, and a continuation of the recent trend of only a very low level of new claims being notified.

At AGF U.K., a company in run-off reserves for loss and loss adjustment expenses, developed unfavorably by 28 million as a result of higher number of mesothelioma claims received in 2006 than expected, and this being reflected in revised future expectations.

Switzerland

In Switzerland, gross loss and LAE reserves experienced unfavorable development of 110 million, or 3.3% of the reserves at January 1, 2006.

At Allianz Suisse Versicherungs-Gesellschaft, gross loss and LAE reserves developed favorably by 8 million. This development consists of a 21 million release in general liability, mainly a result of an improved database integrating all legal entities of Allianz Suisse allowing more robust review of claims. These favorable developments were partly offset by an increase of 14 million for allocation of interest to annuities.

Loss and LAE reserves of Allianz Risk Transfer, the Allianz Group company selling conventional reinsurance as well as a variety of alternative risk transfer products, developed unfavorably by 122 million. Reasons for this development were:

37 million due to the unfavorable development on a large traditional quota-share reinsurance contract; and

80 million negative run-off in the alternative risk transfer segment as a consequence of additional loss advices for 2005 U.S. Hurricanes.

Spain

Gross loss and LAE reserves for Allianz Seguros developed favorably by 82 million, or 4.8% of the reserves at January 1, 2006. This favorable development is mainly due to a change in methodology. Due to a limited history of data, in the past, estimates have been based on incurred loss development in prior reserve reviews. In 2006 sufficient history was available to rely on paid loss development allowing for a more stable analysis.

Rest of Europe

Loss and LAE reserves in other European Allianz Group companies developed favorably by 299 million, or 5.6% of reserves at January 1, 2006. This figure includes the result of unfavorable as well as favorable developments for numerous individual companies. As the business is written in different currencies, these developments were also affected by foreign exchange rate movements.

Allianz Irish Life Holdings p.l.c. experienced favorable development of 133 million for several reasons:

- 32 million release for commercial and personal motor mainly a result of better than anticipated levels of savings following the introduction of the Personal Injury Assessment Board (PIAB);

- 28 million for commercial and religious liability; again due to the effect of introducing PIAB;

- 19 million on the property account consisting of 6 million in favorable claims development on outstanding claims in the commercial fire account during 2006. At the beginning of 2006, there was a release of a 13 million reserve established to cover delayed claims reporting from the 2005 year-end holiday period that was not needed; and

25 million release on the PIAB reserve following the December 2006 review. The PIAB reserve is spread over motor, employers liability and public liability accounts. This reserve was set up to cover the risk of claims inflation as a result of the introduction of the PIAB in 2004. As exposure to this risk was reduced, the reserve is no longer required and was fully released in 2006.

Gross loss and LAE reserves for Allianz Nederland Schade experienced favorable development of 57 million in 2006, primarily due to:

37 million for motor business as a result of improved practices in the claims settlement process implemented as part of a group-wide knowledge sharing initiative. Small bodily injury claims are settled quicker than in the past and at lower costs;

24 million from property caused by less then expected large claims for accident year 2005. In particular, held IBNYR of 10 million were not needed and incurred amounts for accident years 2003 and 2004 developed favorably.

Gross loss and LAE reserves for Allianz Hungária Biztosító experienced favorable development of 29 million in 2006, including:

14 million for property due to favorable court decisions regarding industrial claims;

13 million for motor third party liability driven by the reduction in the estimated ultimate loss; and

5 million for motor non third party liability due to an improved claims settlement process.

Gross loss and LAE reserves for Allianz Slovenská experienced favorable development of 15 million in 2006, due primarily to improved management of unallocated loss adjustment expenses, better than expected settlement of two large property claims and as a result of a re-estimation in due course for motor business.

NAFTA Region

For the entire NAFTA region, Allianz Group s gross loss and LAE reserves developed unfavorably during 2006 by 187 million, or 2.5% of the reserves at January 1, 2006. The largest Allianz Group company in this region is Fireman s Fund Insurance Company.

At Fireman s Fund, prior period gross loss and LAE reserve estimates increased by 179 million primarily driven by the following factors:

190 million for the 2005 U.S. hurricanes. Most of it is attributed to hurricane Katrina in particular due to the most recent court ruling regarding flood versus wind coverage; and

72 million for Asbestos and Environmental claims (A&E) resulting from reviews of recent developments in claims and exposure.

These adverse developments were partially offset by favorable developments of 40 million for agribusiness due to unusually low occurrence of crop claims and of 33 million in workers compensation due to a continued larger than expected impact from recent cost-reducing system reforms. Favorable development of 20 million was also observed for marine third party liability driven by fewer than usually experienced large claims.

Asia-Pacific

Gross loss and LAE reserves for the Asia-Pacific region developed favorably during 2006 by approximately 133 million or 4.7% of reserves at January 1, 2006. The largest Allianz Group property-casualty insurer in the region is Allianz Australia, representing approximately 93% of the region s total reserves.

Allianz Australia experienced favorable development of 120 million during 2006. This result arose from partially favorable developments from different lines of business:

- 88 million from motor third party liability following favorable loss experience in Queensland and New South Wales due to the impact of prior years legislative changes;

30 million in property, fire and engineering businesses. The surplus was a result of better than expected development across most accident years, but in particularly for the three most recent accident years. While the reserve as of December 31, 2005 assumed case reserves would develop further, the experience has shown that the case reserves development is actually negative. This portfolio is very volatile as a result of the size of risks being written, so unexpected movements from a few large claims can have significant impact.

23 million for workers compensation. The release from this portfolio is a result of continuing positive development in workers compensation portfolios, in particular Western Australia, Australian Capital Territory (ACT) and Tasmania for prior accident years. Legislative changes in these jurisdictions and positive return to work outcomes as a result of the lowest Australian unemployment rate in 30 years have contributed to this development. These releases were offset partially by an increase in the estimate for asbestos related claims following a review of developing experience.

21 million for general liability. There was significant legislative reform during 2002 affecting this class of business intended to reduce claim costs. Claim frequencies have reduced significantly and claim sizes to date are also lower.

9 million release for motor first-party relating almost entirely to the 2005 accident year, for which the estimate of the final accident quarter s incurred claims, was, in hindsight, too high.

Credit Insurance

Credit insurance is underwritten in the Allianz Group by Euler Hermes. During 2006, Euler Hermes experienced favorable development of 223 million, or 20.1% of the reserves at January 1, 2006. Of this amount, 77 million is attributable to Euler Hermes Germany, which experienced favorable loss trends and an unexpected loss recovery in commercial credit. In France, the favorable development of 53

million was mainly attributable to an increase in salvage and subrogation and decrease of average claim cost. Furthermore, in Italy, the favorable development of 28 million was partly the result of a release of reserves on two large claims, which developed better than expected as well as the lower than expected loss development on attachment year 2005. A favorable development of 38 million in the United Kingdom was mainly attributable to a lower than anticipated number and severity of corporate insolvencies in 2005.

Allianz Global Corporate and Specialty

Allianz Global Corporate and Specialty (AGCS) was formed as the result of the merger of the corporate business company Allianz Global Risks and the specialty carrier Allianz Marine and Aviation. The new entity is designed to be the global carrier for corporate and specialty risks and also includes the corporate branch of the German business which was formerly part of the German general insurance company Sachgruppe Deutschland (SGD) now operating as Allianz Sach.

Overall AGCS experienced 3 million of unfavorable development in 2006. This was mainly caused by the following partly offsetting effects:

Reserves held at AGCS North-America for the losses from 2005 U.S. hurricanes developed favorably. Year end 2005 reserves for these events were set very shortly after the occurrence and were therefore subject to increased uncertainty. During 2006, actual loss emergence from the hurricanes was below expectation. This and the overall favorable loss reporting for U.S. property business during 2006 led to a release of 79 million of prior year reserves.

Reserves held by AGCS France especially for more recent underwriting years in cargo were reduced by 17 million due to better than expected development. Further favorable development of 25 million arose from marine UK business from underwriting years 2002 and prior.

AGCS Germany experienced unfavorable development of 128 million which was mainly driven by an increase in reserves of 235 million for inwards marine excess of loss reinsurance due to 2005 hurricane

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claims. Estimates of ultimate claims for this account had to be revised due to limited information flow and delayed reporting of losses by cedents. This effect is partially offset by the favorable development in aviation of 75 million, resulting mainly from a lack of large claims activity.

Changes in Historical Loss and LAE Reserves

The following table illustrates the development of the Allianz Group s loss and LAE reserves, on an IFRS basis and gross of reinsurance, over the past ten years. As the Allianz Group adopted IFRS in 1997, historical loss development data is available on an IFRS basis for the nine years 1997 to 2006 only.

Each column of this table shows reserves as of a single balance sheet date and subsequent development of these reserves. The top row of each column shows gross reserves as initially established at the end of each stated year. The next section, reading down, shows the cumulative amounts paid as of the end of the successive years with respect to the reserve initially established. The next section shows the retroactive re-estimation of the initially established gross reserves for loss and LAE as of the end of each successive year. This re-estimation results primarily from additional facts and circumstances that pertain to open claims.

The bottom section compares the latest re-estimated gross reserves for loss and LAE to the gross reserves as initially established and indicates the cumulative development of the initially established gross reserves through December 31, 2006. The surplus (deficiency) shown in the table for each year represents the aggregate amount by which the original estimates of reserves at that year-end

have changed in subsequent years. Accordingly, the cumulative surplus (deficiency) for a year-end relates only to reserves at that year-end and such amounts are not additive. Caution should be exercised in evaluating the information shown on this table, as each amount includes the effects of all changes in amounts for prior periods. For example, the development of 1997 reserves during 2000 is included in the cumulative surplus (deficiency) of the 1997 through 1999 columns.

This table below presents calendar year, not accident year, data. Conditions and trends that have affected development of liability in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results may not be derived from information presented in this table.

Companies acquired or divested during the period shown in the table can lead to distortions in the cumulative surplus or deficiency. The table starts with the presentation of gross liabilities for unpaid claims and claims expenses as accounted as of the respective date of the balance sheet. Over time, these liabilities are re-estimated. In addition, these liabilities will change if, through acquisition or sale of a company, entire new portfolios of claim payments and reserves are added to or subtracted from the data. In addition, changes in currency exchange rates can lead to distortions in the cumulative surplus or deficiency. At the end of this table, we quantify the effects of the change in the set of consolidated entities and of foreign exchange, and present the cumulative loss development excluding these two effects.

Prior year amounts have been reclassified to conform to the current year presentation.

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Changes in Historical Reserves for Unpaid Loss and LAE

Property-Casualty Insurance Segment

Gross of Reinsurance

As of December 31, [1]	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
	mn	**mn**	**mn**	**mn**	**mn**	**mn**	**mn**	**mn**	**mn**	**mn**
Gross liability for unpaid claims and claims expenses	34,323	45,564	51,276	54,047	61,883	60,054	56,750	55,528	60,259	58,664
Paid (cumulative) as of:										
One year later	9,010	12,273	15,114	16,241	15,945	16,357	14,384	13,282	14,696	
Two years later	14,113	18,847	22,833	23,077	24,567	24,093	21,157	20,051		
Three years later	17,812	23,407	27,242	28,059	29,984	29,007	26,149			
Four years later	20,591	26,327	30,698	31,613	33,586	32,839				
Five years later	22,522	28,738	33,263	34,218	36,431					
Six years later	24,233	30,550	35,194	36,317						
Seven years later	25,536	32,051	36,930							
Eight years later	26,699	33,344								
Nine years later	27,670									
Liability re-estimated as of:										
One year later	40,651	46,005	52,034	55,200	58,571	56,550	54,103	56,238	57,932	
Two years later	38,058	46,043	52,792	53,535	56,554	55,704	55,365	53,374		
Three years later	37,909	46,780	51,265	52,160	56,056	57,387	53,907			
Four years later	38,530	45,307	49,929	52,103	57,640	56,802				
Five years later	37,342	44,196	50,058	53,675	57,006					
Six years later	36,346	44,524	51,432	53,204						
Seven years later	36,648	45,679	51,263							
Eight years later	37,696	45,478								
Nine years later	37,647									
Cumulative surplus (deficiency)	**(3,324)**	**86**	**13**	**843**	**4,877**	**3,252**	**2,843**	**2,154**	**2,327**	
Effect of disposed/(acquired) portfolios[2]	(5,514)	(2,147)			(93)		540			
Effect of foreign exchange	(482)	(4,495)	(1,155)	515	3,415	2,007	(974)	(1,544)	1,141	
Excluding both effects	**2,672**	**6,728**	**1,168**	**328**	**1,155**	**1,245**	**3,277**	**3,698**	**1,186**	
Percent	7.8%	14.8%	2.3%	0.6%	2.5%	2.1%	5.8%	6.7%	2.0%	

(1) Reserves for loss and LAE of subsidiaries sold (or purchased) are excluded (or included) in the above table as of the date of the disposal (or acquisition).

(2) Major acquisitions were AGF (consolidated 1998), Allianz Australia and Allianz Ireland (consolidated 1999), and Allianz Slovenská (consolidated 2001). A major disposal was Allianz Canada (deconsolidated 2004). The effect on the liability re-estimated consists of effects on paid and unpaid losses for prior years in the year of the transaction while the effect of (divestitures)/acquisitions presented in the table Reconciliation of Loss and LAE Reserves states the total amount of loss reserves being deconsolidated or consolidated for the first time.

In 2006, loss and LAE reserves decreased by 1,595 million. Important contributors to this decline were the positive development on prior years loss reserves primarily in Italy, France, the United Kingdom and within the credit insurance business, as well as the weakening of the U.S. Dollar and Australian Dollar relative to the Euro. A further

factor was the relative absence of natural catastrophe claims during 2006 compared to the unusually high reserves in 2005 for Hurricanes Katrina, Rita and Wilma in the United States. Reserve developments during 2006 are described in further detail in the preceding section Changes in Loss and LAE Reserves During 2006 .

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The overall increase in loss and LAE reserves from 2004 to 2005 was caused in part by the unusually high frequency and severity of natural catastrophes in 2005, including an estimated net reserve of 1,090 million for the hurricanes Katrina, Rita and Wilma. An additional causative factor was the weakening of the Euro relative to U.S. Dollar and Australian Dollar during 2005.

The overall reduction in loss and LAE reserves from 2003 to 2004 is attributable to the then ongoing settlement and run-off of various U.S. business lines, and the appreciation of the Euro relative to U.S. Dollar during 2004.

Discounting of Loss and LAE Reserves

As of December 31, 2006, 2005 and 2004, the Allianz Group consolidated property-casualty reserves reflected discounts of 1,377 million, 1,326 million and 1,220 million respectively.

Reserves are discounted to varying degrees in the United States, United Kingdom, Germany, Hungary, Switzerland, Portugal, France and Belgium. For the United States, the discount reflected in the reserves is related to structured settlements with fixed and determinable payments for certain long-tailed liabilities, primarily in workers compensation. For the other countries, the reserve discounts relate to reserves for structured settlements in various classes of business. These classes include personal accident, general liability and motor liability in Germany and Hungary, workers compensation in Switzerland and Portugal, individual and group health disability and motor liability in France, health disability in Belgium and claims from employers liability in the United Kingdom. All of the reserves that have been discounted have payment amounts that are fixed and timing that is reasonably determinable. The following table shows, by country, the carrying amounts of reserves for claims and claim adjustment expenses that have been discounted, and the interest rates used for discounting for the years ended December 31:

	Discounted Reserves in		Amount of the Discount		Interest rate used for Discounting	
	2006	2005	2006	2005	2006	2005
	mn	mn	mn	mn		
France	1,325	1,404	349	357	3.25%	3.25%
Germany	504	445	346	298	2.75% to 4.00%	2.75% to 4.00%
Switzerland	427	414	253	236	3.25%	3.25%
United States	181	213	200	230	6.00%	6.00%
United Kingdom	139	116	133	110	4.00% to 4.25%	4.00% to 4.25%
Belgium	91	91	26	28	3.20% to 4.68%	4.68%
Portugal	79	57	47	44	4.00%	4.00%
Hungary	74	67	23	22	1.40%	1.40%
Total	**2,820**	**2,807**	**1,377**	**1,325**		

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Asbestos and Environmental Loss Reserves

There are significant uncertainties in estimating A&E reserves for loss and loss adjustment expenses. Reserves for asbestos-related illnesses and environmental clean up losses cannot be estimated using traditional actuarial techniques due to the long latency period and changes in the legal, socio-economic and regulatory environment. Case reserves are established when sufficient information is available to indicate the involvement of a specific insurance policy. In addition, IBNR reserves are established to cover additional exposures on both known and not yet reported claims. To the extent possible, A&E loss reserve estimates are based not only on claims reported to date but also on a survey of policies that may be exposed to claims reported in the future (i.e. an exposure analysis).

In establishing liabilities for A&E claims, management considers facts currently known and the current state of the law and coverage litigation. However, given the expansion of coverage and liability by the courts and the legislatures in the past and the possibilities of similar interpretation in the future, there is significant uncertainty regarding the extent of remediation and insurer liability. As a result, the range of reasonable potential outcomes for A&E liabilities provided in these analyses is particularly large. Given this inherent uncertainty in estimating A&E liabilities, significant deviation from the currently carried A&E reserve position is possible.

While the U.S. A&E claims still represent a majority of the total A&E claims reported to the Company, the insurance industry is facing an increased prominence in exposures to A&E claims on a global basis. We have, as a result, increased our analysis of these non-U.S. A&E exposures during 2006. The results of our non-U.S. A&E reserve analysis support our prior and current level of carried A&E reserves without any need for additional reserve strengthening in 2006.

The following table summarizes the gross and net loss and loss adjustment expenses reserves for A&E claims.

As of December 31,	A&E Net Reserves	A&E Gross Reserves	As percentage of the Allianz Group s Property-Casualty Gross Reserves
	mn	mn	
2004	3,161	3,638	6.6%
2005	3,147	3,873	6.4%
2006	2,990	3,636	6.2%

The table below shows total A&E loss activity for the past three years.

Total Asbestos and Environmental:	Years Ended December 31, 2004	2005	2006
	mn	mn	mn
Gross Loss and LAE Reserves as of January 1	3,797	3,638	3,873
Gross Loss and LAE Payments	(225)	(312)	(205)
Change in Loss and LAE Reserves	66	547	(32)
Gross Loss and LAE Reserves as of December 31	3,638	3,873	3,636

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Selected Statistical Information Relating to Our Banking Operations

For the purposes of presenting the following information, our banking operations include Dresdner Bank AG and its subsidiaries (Dresdner Bank), including its asset management operations, which are insignificant in size relative to Dresdner Bank s banking operations, and certain other banking subsidiaries of the Allianz Group. This presentation differs from the presentation in Operating and Financial Review and Prospects , where the asset management operations of Dresdner Bank are included in our asset management segment and excluded from our banking segment. The following information has been derived from the financial records of our banking operations and has been prepared in accordance with IFRS; it does not reflect certain adjustments and consolidations to convert such information to the Allianz Group s consolidated financial statements. In particular, the assets and liabilities of Dresdner Bank do not reflect the purchase accounting adjustments applied for the Allianz Group s consolidated financial statements with respect to Dresdner Bank s assets and liabilities at July 23, 2001, the date of the acquisition of Dresdner Bank by the Allianz Group. Further, the following information does not reflect adjustments necessary to convert such information to U.S. GAAP.

The information presented herein for the years ended December 2004, 2003 and 2002 was revised in 2005 to reflect the required retrospective application

of IAS 39 revised, which became effective January 1, 2005, as if IAS 39 revised had always been used.

Average Balance Sheet and Interest Rate Data

The following table sets forth the average balances of assets and liabilities and related interest earned from interest-earning assets and interest expensed on interest-bearing liabilities, as well as the resulting average interest yields and rates for the years ended December 31, 2006, 2005 and 2004. The average balance sheet and interest rate data is based on consolidated monthly average balances using month-end balances prepared in accordance with IFRS.

In accordance with IAS 39, the fair values of all derivative instruments are included within non-interest-earning assets or non-interest-bearing liabilities. Interest income and interest expense relating to qualifying hedge derivative instruments have been reported within the interest income and interest expense of the hedged item for each period.

The allocation between German and non-German components is based on the location of the office that recorded the transaction. Categories of loans and advances include loans placed on non-accrual status. For a description of our accounting policies on non-accrual loans see Risk Elements Non-accrual Loans and Operating and Financial Review and Prospects Critical Accounting Policies and Estimates.

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Our banking operations do not have a significant balance of tax-exempt investments. Accordingly, interest income on such investments has been included as taxable interest income for purposes of calculating the change in taxable net interest income.

	Years Ended December 31,								
	2006			2005			2004		
	Average Balance mn	Interest Income/ Expense mn	Average Yield/ Rate %	Average Balance mn	Interest Income/ Expense mn	Average Yield/ Rate %	Average Balance mn	Interest Income/ Expense mn	Average Yield/ Rate %
Assets[1]									
Financial assets carried at fair value through income									
In German offices[2]	37,181	1,228	3.3%	88,194	2,626	3.0%	110,316	3,299	3.0%
In non-German offices	55,947	2,364	4.2%	53,059	1,941	3.7%	37,643	1,131	3.0%
Total	93,128	3,592	3.9%	141,253	4,567	3.2%	147,959	4,430	3.0%
Loans and advances to banks									
In German offices	23,205	544	2.3%	19,646	424	2.2%	21,880	455	2.1%
In non-German offices	20,838	668	3.2%	14,276	564	4.0%	8,653	210	2.4%
Total	44,043	1,212	2.8%	33,922	988	2.9%	30,533	665	2.2%
Loans and advances to customers									
In German offices	76,642	4,058	5.3%	77,873	4,313	5.5%	83,950	4,058	4.8%
In non-German offices	50,291	3,165	6.3%	34,371	1,600	4.7%	28,029	1,210	4.3%
Total	126,933	7,223	5.7%	112,244	5,913	5.3%	111,979	5,268	4.7%
Securities purchased under resale agreements									
In German offices	91,242	3,622	4.0%	83,614	2,690	3.2%	110,439	2,896	2.6%
In non-German offices	46,093	2,361	5.1%	59,513	2,324	3.9%	64,030	1,399	2.2%
Total	137,335	5,983	4.4%	143,127	5,014	3.5%	174,469	4,295	2.5%
Investment securities[3]									
In German offices	8,585	307	3.6%	7,304	237	3.2%	5,720	207	3.6%
In non-German offices	4,394	161	3.7%	5,739	237	4.1%	7,670	241	3.1%
Total	12,979	468	3.6%	13,043	474	3.6%	13,390	448	3.3%
Total interest-earning assets	414,418	18,478	4.5%	443,589	16,956	3.8%	478,330	15,106	3.2%
Non-interest-earning assets									
In German offices	50,312			45,974			45,760		
In non-German offices	46,644			43,714			38,008		
Total non-interest-earning assets	96,956			89,688			83,768		
Total assets	511,374			533,277			562,098		
Percent of assets attributable to non-German offices	43.8%			39.5%			32.7%		

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	Years Ended December 31,								
	2006			2005			2004		
	Average Balance mn	Interest Income/ Expense mn	Average Yield/ Rate %	Average Balance mn	Interest Income/ Expense mn	Average Yield/ Rate %	Average Balance mn	Interest Income/ Expense mn	Average Yield/ Rate %
Liabilities and shareholders equity[4]									
Financial liabilities carried at fair value through income									
In German offices	387	22	5.7%	215	16	7.4%	184	15	8.2%
In non-German offices				19	1	4.6%			
Total	387	22	5.7%	234	17	7.2%	184	15	8.2%
Liabilities to banks[4]									
In German offices	60,759	1,913	3.1%	67,698	1,869	2.8%	86,796	1,989	2.3%
In non-German offices	28,438	1,804	6.3%	25,374	1,414	5.6%	21,784	1,066	4.9%
Total	89,197	3,717	4.2%	93,072	3,283	3.5%	108,580	3,055	2.8%
Liabilities to customers[4]									
In German offices	57,860	2,211	3.8%	60,254	1,720	2.9%	57,877	1,576	2.7%
In non-German offices	39,131	2,002	5.1%	39,057	1,139	2.9%	32,792	1,043	3.2%
Total	96,991	4,213	4.3%	99,311	2,859	2.9%	90,669	2,619	2.9%
Securities sold under repurchase agreements									
In German offices	60,896	2,629	4.3%	60,471	2,382	3.9%	75,091	2,019	2.7%
In non-German offices	60,904	2,359	3.9%	59,113	2,226	3.8%	52,942	1,105	2.1%
Total	121,800	4,988	4.1%	119,584	4,608	3.9%	128,033	3,124	2.4%
Subordinated liabilities									
In German offices	3,342	180	5.4%	3,244	163	5.0%	3,433	164	4.8%
In non-German offices	2,734	174	6.3%	3,062	181	5.9%	3,707	220	5.9%
Total	6,076	354	5.8%	6,306	344	5.5%	7,140	384	5.4%
Certificated liabilities[4]									
In German offices	16,539	814	4.9%	18,441	758	4.1%	16,651	604	3.6%
In non-German offices	31,959	1,436	4.5%	32,258	1,205	3.7%	28,392	779	2.7%
Total	48,498	2,250	4.6%	50,699	1,963	3.9%	45,043	1,383	3.1%
Profit participation certificates outstanding									
In German offices	1,892	128	6.8%	1,520	110	7.3%	1,517	111	7.3%
Total	1,892	128	6.8%	1,520	110	7.3%	1,517	111	7.3%
Total interest-bearing liabilities	364,841	15,672	4.3%	370,726	13,184	3.6%	381,166	10,691	2.8%
Non-interest-bearing liabilities									
In German offices	77,271			94,035			116,286		
In non-German offices	56,913			56,582			52,892		
Total non-interest-bearing liabilities	134,184			150,617			169,178		
Shareholders equity	12,349			11,934			11,754		

Total liabilities and shareholders equity	511,374	533,277	562,098
Percent of liabilities attributable to non-German offices	44.1%	41.3%	35.0%

(1) Certain prior year figures have been reclassified to conform to current year presentation.

(2) The decrease in German financial assets carried at fair value through income from 2004 to 2005 is attributable to the application of a new method in calculating the average balances for short-sales in bonds pursuant to which the average net assets are compared to net interest income. The continuing decrease from 2005 to 2006 is primarily attributable to the reduction of our debt securities portfolio.

(3) The average yields for investment securities available-for-sale have been calculated using the fair value balances. These balances are not materially different from the amortized cost balances. The average yields for investment securities held-to-maturity have been calculated using amortized cost balances.

(4) Interest-bearing deposits are presented within liabilities to banks and liabilities to customers; certificates of deposit are presented within certificated liabilities.

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Net Interest Margin

The following table sets forth the average total interest-earning assets, net interest earned and the net interest margin of our banking operations.

	Years Ended December 31, 2006 mn	2005[3] mn	2004[3] mn
Average total interest-earning assets	414,418	443,589	478,330
Net interest earned[1]	2,805	3,771	4,414
Net interest margin in %[2]	0.68%	0.85%	0.92%

(1) Net interest earned is defined as total interest income less total interest expense.
(2) Net interest margin is defined as net interest earned divided by average total interest-earning assets.
(3) The changes in 2005 and 2004 figures result from the changes in figures within the average balance sheet as described in the footnotes related to the average balance sheet.

The following table sets forth an allocation of changes in interest income, interest expense and net interest income between changes in the average volume and changes in the average interest rates for the two most recent years. Volume and interest rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Changes due to a combination of volume and rate are allocated proportionally to the absolute change in volume and rate. Interest income includes loan fees amounting to 181 million in 2006 (2005: 97 million).

	Years Ended December 31, 2006 over 2005 Increase/(Decrease)			2005 over 2004 Increase/(Decrease)		
		due to Change in:			due to Change in:	
	Total Change mn	Average Interest Rate mn	Average Volume mn	Total Change mn	Average Interest Rate mn	Average Volume mn
Interest income[1]						
Financial assets carried at fair value through income						
In German offices	(1,398)	260	(1,658)	(673)	(14)	(659)
In non-German offices	423	313	110	810	281	529
Total	(975)	573	(1,548)	137	267	(130)
Loans and advances to banks						
In German offices	120	39	81	(31)	17	(48)
In non-German offices	104	(121)	225	354	174	180
Total	224	(82)	306	323	191	132
Loans and advances to customers						
In German offices	(255)	(188)	(67)	255	563	(308)
In non-German offices	1,565	676	889	390	100	290
Total	1,310	488	822	645	663	(18)
Securities purchased under resale agreements						

In German offices	932	670	262	(206)	580	(786)
In non-German offices	37	630	(593)	925	1,030	(105)
Total	969	1,300	(331)	719	1,610	(891)
Investment securities						
In German offices	70	26	44	30	(23)	53
In non-German offices	(76)	(25)	(51)	(4)	65	(69)
Total	(6)	1	(7)	26	42	(16)
Total interest income	1,522	2,280	(758)	1,850	2,773	(923)

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	Years Ended December 31,					
	2006 over 2005 Increase/(Decrease)			2005 over 2004 Increase/(Decrease)		
		due to Change in:			due to Change in:	
	Total Change mn	Average Interest Rate mn	Average Volume mn	Total Change mn	Average Interest Rate mn	Average Volume mn
Interest expense[1]						
Financial liabilities carried at fair value through income						
In German offices	6	(4)	10	1	(1)	2
In non-German offices	(1)	(1)				
Total	5	(5)	10	1	(1)	2
Liabilities to banks						
In German offices	44	247	(203)	(120)	364	(484)
In non-German offices	390	208	182	348	159	189
Total	434	455	(21)	228	523	(295)
Liabilities to customers						
In German offices	491	562	(71)	144	78	66
In non-German offices	863	861	2	96	(92)	188
Total	1,354	1,423	(69)	240	(14)	254
Securities sold under repurchase agreements						
In German offices	247	230	17	363	810	(447)
In non-German offices	133	65	68	1,121	979	142
Total	380	295	85	1,484	1,789	(305)
Subordinated liabilities						
In German offices	17	12	5	(1)	8	(9)
In non-German offices	(7)	13	(20)	(39)	(1)	(38)
Total	10	25	(15)	(40)	7	(47)
Certificated liabilities						
In German offices	56	139	(83)	154	85	69
In non-German offices	231	242	(11)	426	309	117
Total	287	381	(94)	580	394	186
Profit participation certificates outstanding						
In German offices	18	(8)	26	(1)	(1)	
Total	18	(8)	26	(1)	(1)	
Total interest expense	2,488	2,566	(78)	2,492	2,697	(205)
Change in taxable net interest income	(966)	(286)	(680)	(642)	76	(718)

[1] The changes in 2005 over 2004 figures result from the changes in figures within the average balance sheet as described in the footnotes related to the average balance sheet.

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Return on Equity and Assets

The following table sets forth the net income, average shareholders equity and selected financial information and ratios of our banking operations.

	Years Ended December 31, 2006 mn	2005 mn	2004 mn
Net income/(loss)	909	1,768	343
Average shareholders equity	12,349	11,934	11,754
Return on assets in %[1]	0.18%	0.33%	0.06%
Return on equity in %[2]	7.36%	14.81%	2.92%
Equity to assets ratio in %[3]	2.41%	2.24%	2.09%

(1) Return on assets is defined as net income/(loss) of our banking operations divided by average total assets of our banking operations.

(2) Return on equity is defined as net income/(loss) of our banking operations divided by average shareholders equity of our banking operations.

(3) Equity to assets ratio is defined as average shareholders equity of our banking operations divided by average total assets of our banking operations.

Financial Assets Carried At Fair Value Through Income and Investment Securities

The following table sets forth the book value of financial assets carried at fair value through income (including trading securities) and investment securities held by our banking operations by type of issuer. The allocation between German and non-German components is based on the domicile of the issuer.

	As of December 31, 2006 mn	2005 mn	2004 mn
Financial assets carried at fair value through income			
German:			
Federal and state government and government agency debt securities	4,247	11,497	33,693
Local government debt securities	1,885	690	1,578
Corporate debt securities	10,135	18,972	31,189[2]
Mortgage-backed securities	162	139	112
Equity securities	2,627	2,656	2,853
German total	19,056	33,954	69,425

	As of December 31, 2006 mn	2005 mn	2004 mn
Non-German:			
U.S. Treasury and other U.S. government agency debt securities	575	915	2,083
Other government and official institution debt securities	12,163	25,534	51,636
Corporate debt securities	30,940	39,425	26,557
Mortgage-backed securities	21,673	13,601	7,059

Equity securities	32,626	28,105	16,301
Non-German total	97,977	107,580	103,636
Total financial assets carried at fair value through income	117,033	141,534	173,061
Securities available-for-sale			
German[1]:			
Federal and state government and government agency debt securities	345	305	77
Local government debt securities	1,347	1,777	2,083
Corporate debt securities	4,068	5,195	5,865
Equity securities	1,261	1,573	2,354
German total	7,021	8,850	10,379
Non-German:			
U.S. Treasury and other U.S. government agency debt securities	79	5	
Other government and official institution debt securities	1,401	1,245	1,430
Corporate debt securities	5,536	3,180	3,061
Mortgage-backed and other debt securities	111	721	424
Equity securities	1,931	1,649	1,552
Non-German total	9,058	6,800	6,467
Total securities available-for-sale	16,079	15,650	16,846
Securities held-to-maturity			
Non-German:			
Other government and official institution debt securities		41	103
Non-German total		41	103
Total securities held-to-maturity		41	103

(1) We did not hold any German mortgage-backed securities available-for-sale during 2004 to 2006.

(2) The change in German corporate debt securities in 2004 is due to reclassification of several trading assets into the corporate debt securities portfolio.

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The Financial assets carried at fair value through income as shown above exclude derivative financial instruments held for trading.

The decrease in German federal and state government and government agency debt securities as well as non-German other government and official institution debt securities is primarily driven by the reduction of government and agency bonds and other fixed-income securities during 2006 and 2005 due to declined earnings prospects in this sector.

The increase in non-German AFS debt securities from 2005 to 2006 is due to the revision of the German covered bond (Pfandbrief) act that allowed us to purchase non-German covered bonds, as well as such German bonds. As a result of this development, we increased our purchase of covered bonds used to hedge positions within our savings business.

The increase in non-German mortgage-backed securities was driven largely by the increased volume of credit derivative trades during 2006 and 2005.

The increase in non-German equity securities reflects the positive developments within the stock markets and indices during 2006 and 2005.

At December 31, 2006, our banking operations held no ordinary shares with a book value in excess of ten percent of the shareholders equity of our banking operations.

Maturity Analysis of Debt Investment Securities

The following table sets forth an analysis of the contractual maturity and weighted average yields of our banking operations debt investment securities. Actual maturities may differ from contractual maturity dates because issuers may have the right to call or prepay obligations. The allocation between German and non-German components is based on the domicile of the issuer. We did not hold any securities held-to-maturity in 2006.

	As of December 31, 2006				
	Due In One Year Or Less mn	Due After One Year Through Five Years mn	Due After Five Years Through Ten Years mn	Due After Ten Years mn	Total mn
Securities available-for-sale					
German:					
Federal and state government and government agency debt securities	17	187	133	8	345
Local government debt securities	202	939	206		1,347
Corporate debt securities	552	2,549	967		4,068

German total	771	3,675	1,306	8	5,760
Non-German:					
U.S. Treasury and other U.S. government agency debt securities		79			79
Other government and official institution debt securities	170	444	725	62	1,401
Corporate debt securities	651	2,591	2,077	217	5,536
Mortgage-backed and other debt securities		2	109		111
Non-German total	821	3,116	2,911	279	7,127
Total securities available-for-sale	1,592	6,791	4,217	287	12,887
Weighted average yield in %	4.1%	4.0%	3.9%	3.8%	4.0%

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Loan Portfolio

The following table sets forth an analysis of our loan portfolio, gross of allocated loan loss allowances and net of unearned income, according to the industry sector of borrowers, excluding reverse repurchase agreements and collateral paid for securities borrowing transactions, short-term investments and certificates of deposit, as well as other advances to banks and customers. The allocation between German and non-German components is based on the domicile of the borrower.

	As of December 31,				
	2006	2005	2004	2003	2002
	mn	mn	mn	mn	mn
German:					
Corporate:					
Manufacturing	6,024	4,953	6,487	8,042	9,728
Construction	744	653	811	1,062	1,226
Wholesale and retail trade	4,282	4,646	4,125	4,275	6,041
Financial institutions (excluding banks) and insurance companies	4,675	3,144	2,005	2,958	2,810
Banks	1,706	1,767	1,152	276	1,499
Service providers:					
Telecommunication	471	599	362	58	611
Transportation	1,339	1,242	1,068	877	847
Other Service Providers	7,872	8,536	10,488	12,017	12,338
Total Service providers	9,682	10,377	11,918	12,952	13,796
Other	2,902	2,142	1,901	2,280	2,911
Corporate total	30,015	27,682	28,399	31,845	38,011
Public authorities	292	286	531	548	572
Private individuals (including self-employed professionals)					
Residential mortgage loans	20,978	21,367	22,361	22,526	23,370
Consumer installment loans	1,505	2,279	2,474	2,818	3,154
Other	15,305	15,328	14,640	15,491	16,517
Total Private individuals (including self-employed professionals)	37,788	38,974	39,475	40,835	43,041
German total	68,095	66,942	68,405	73,228	81,624
Non-German:					
Corporate:					
Manufacturing(1)	4,135	3,114	3,951	4,748	9,236
Construction(1)	409	230	413	2,460	2,203
Wholesale and retail trade	1,301	1,409	1,307	1,067	1,501
Financial institutions (excluding banks) and insurance companies(2)	17,822	10,579	8,886	6,627	6,312
Banks	6,000	5,392	5,095	3,704	3,348
Service providers:					
Telecommunication	125	1,162	622	694	1,972
Transportation	2,192	1,737	976	2,024	1,458
Other Service Providers	4,617	2,915	1,839	3,377	5,476
Total Service Providers	6,934	5,814	3,437	6,095	8,906
Other	5,550	5,087	4,489	5,798	9,144
Corporate total	42,151	31,625	27,578	30,499	40,650
Public authorities	1,520	803	1,819	598	2,065
Private individuals (including self-employed professionals)					
Residential mortgage loans	699	613	662	9,145	8,927
Consumer installment loans	92	81	499	448	469
Other	1,257	1,169	727	1,903	1,650
Total Private individuals (including self-employed professionals)	2,048	1,863	1,888(3)	11,496	11,046

Non-German total	45,719	34,291	31,285	42,593	53,761
Total loans	113,814	101,233	99,690	115,821	135,385

(1) The continued decrease in the non-German Corporate Manufacturing and Corporate Construction loan category from 2002 to 2005 is primarily attributable to the reduction of our foreign non-strategic loan business. The slight increase in these loans from 2005 to 2006 is due to the increase of loan volume to borrowers in the United States.

(2) The continued increase in the non-German Financial institutions (excluding banks) and insurance companies loan categories is primarily attributable to the increasing international activities of our Corporate and Investment Banking division.

(3) The decrease in the mortgage loans balance and the non-German private individuals loans balance from 2003 to 2004 is primarily attributable to the sale of our banking subsidiary Entenial in January 2004.

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The following table sets forth our banking operations mortgage loans and finance leases that are included within the above analysis of loans.

	As of December 31,				
	2006	2005	2004	2003	2002
	mn	mn	mn	mn	mn
Mortgage loans	25,184	25,877	28,193	38,191	39,683
Finance leases	2,081	1,500	1,248	933	1,104

Loan Concentrations

Although our loan portfolio is diversified across more than 152 countries, at December 31, 2006 approximately 59.8% of our total loans were to borrowers in Germany. At December 31, 2006, our largest credit exposures to borrowers in Germany were loans to private individuals (including self-employed professionals) at 55.5%; this category represented 33.2% of our total loans outstanding at December 31, 2006. Approximately 55.5% of these loans are residential mortgage loans, which represent approximately 18.4% of our total loans outstanding at December 31, 2006. Our residential mortgage loans include owner-occupied, single- and two-family homes and apartment dwellings and investment properties. Our residential mortgage loans are well diversified across all German states. Our remaining loans to private individuals in Germany primarily include other consumer installment loans and loans to self-employed professionals, which are also geographically diversified across Germany. We have no other concentrations of loans to private individuals (including self-employed professionals) in Germany in excess of ten percent of our total loans.

Our German corporate customers are broadly diversified within the service providers category, however no one sector is individually significant to our domestic loan portfolio and we have no concentrations of loans to borrowers in any services industry in excess of ten percent of our total loans.

At December 31, 2006, approximately 8.5% of our total loans were to German corporate customers in various service industries, including utilities, media, transportation and other.

At December 31, 2006, approximately 16.1% of our total loans were to non-financial corporate borrowers outside Germany. These loans are well diversified across various commercial industries, including:

	As of December 31, 2006 Percent of Total Loans
Manufacturing	3.63%
Construction	0.36%
Wholesale and retail trade	1.14%
Telecommunications	0.11%
Transportation	1.93%
Other service providers[1]	4.06%
Other[2]	4.88%

[1] Other services providers include media, utilities, natural resources and other services.

(2) There are no significant concentrations of loans in any industry included in other non-financial corporate borrowers outside Germany.

We have no concentrations of loans to non-financial corporate borrowers in any industry in excess of ten percent of our total loans.

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Maturity Analysis of Loan Portfolio

The following table sets forth an analysis of the contractual maturity of our loans at December 31, 2006. The allocation between German and non-German components is based on the domicile of the borrower.

	As of December 31, 2006			
	Due In One Year Or Less mn	Due After One Year Through Five Years mn	Due After Five Years mn	Total mn
German:				
Corporate:				
Manufacturing	3,301	1,751	972	6,024
Construction	472	189	83	744
Wholesale and retail trade	2,923	886	473	4,282
Financial institutions (excluding banks) and insurance companies	2,339	1,672	664	4,675
Banks	229	725	752	1,706
Service providers:				
Telecommunication	448	19	4	471
Transportation	640	354	345	1,339
Other service providers	2,656	3,140	2,076	7,872
Total service providers	3,744	3,513	2,425	9,682
Other	1,237	878	787	2,902
Corporate total	14,245	9,614	6,156	30,015
Public authorities	194	62	36	292
Private individuals (including self-employed professionals):				
Residential mortgage loans	2,095	3,744	15,139	20,978
Consumer installment loans	1,505			1,505
Other	2,275	4,395	8,635	15,305
Total private individuals (including self-employed professionals)	5,875	8,139	23,774	37,788
German total	20,314	17,815	29,966	68,095
Non-German:				
Corporate:				
Manufacturing industry	1,990	1,505	640	4,135
Construction	20	176	213	409
Wholesale and retail trade	590	665	46	1,301
Service Providers:				
Telecommunication	64	53	8	125
Transportation	97	971	1,124	2,192
Other service providers	1,011	1,955	1,651	4,617
Total service providers	1,172	2,979	2,783	6,934
Total manufacturing industry, construction, wholesale and retail trade and service providers	3,772	5,325	3,682	12,779
Financial institutions (excluding banks) and insurance companies	10,556	5,083	2,183	17,822
Banks	4,135	1,761	104	6,000
Other	1,788	3,447	315	5,550
Corporate total	20,251	15,616	6,284	42,151
Public authorities	484	554	482	1,520
Private individuals (including self-employed professionals):				
Residential mortgage loans	158	334	207	699
Consumer installment loans	44	46	2	92

Other	601	316	340	1,257
Total private individuals	803	696	549	2,048
Non-German total	21,538	16,866	7,315	45,719
Total loans	41,852	34,681	37,281	113,814

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The following table sets forth the total amount of loans due after one year with predetermined interest rates and floating or adjustable interest rates at December 31, 2006. Loans with predetermined interest rates are loans for which the interest rate is fixed for the entire term of the loan. All other loans are considered floating or adjustable interest rate loans. The allocation between German and non-German components is based on the domicile of the borrower.

	As of December 31, 2006		
	Loans with Predetermined Interest Rates mn	Loans with Floating or Adjustable Interest Rates mn	Total mn
German:			
Private individuals (including self-employed professionals)	28,435	3,478	31,913
Corporate and public customers	9,171	6,697	15,868
German total	37,606	10,175	47,781
Non-German:			
Private individuals (including self-employed professionals)	383	862	1,245
Corporate and public customers	10,857	12,079	22,936
Non-German total	11,240	12,941	24,181
Total	48,846	23,116	71,962

Risk Elements

Non-performing Loans

The following table sets forth the outstanding balance of our non-performing loans. The allocation between German and non-German components is based on the domicile of the borrower.

	As of December 31,				
	2006 mn	2005 mn	2004 mn	2003 mn	2002 mn
Non-accrual loans[1]:					
German	1,570	1,855	4,774	6,459	7,355
Non-German	231	247	831	2,236	3,097
Total non-accrual loans	1,801	2,102	5,605	8,695	10,452
Loans past due 90 days and still accruing interest[1]:					
German	176	251	390	477	644
Non-German	14	293	321	183	151
Total loans past due 90 days and still accruing interest	190	544	711	660	795

Troubled debt restructurings[1]:					
German	27	31	17	26	65
Non-German	1	1	54	200	313
Total troubled debt restructurings	28	32	71	226	378

[1] The decline in the 2006 and 2005 risk elements is predominantly driven by the disposal of non-strategic assets and the streamlining of the retail portfolio.

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Non-accrual Loans

Non-accrual loans are those for which interest or other income are no longer recognized on an accrual basis. Loans are placed on non-accrual status in the event of being 90 days past due for interest or principal and/or in the event of recording a specific allowance against potential loss related to that loan.

Further, we place loans on non-accrual status when we determine, based on management s judgment, that the payment of interest or principal is doubtful. Management s judgment is applied based on our credit assessment of the borrower.

When a loan is placed on non-accrual status, any interest or other income received is recorded to the allowance for impairment of such loan and does not impact income while the loan remains impaired.

Loans Past Due 90 Days and Still Accruing Interest

Loans past due 90 days and still accruing interest are loans that are contractually past due 90 days or more as to principal or interest on which we continue to recognize interest income on an accrual basis.

Troubled Debt Restructurings

Troubled debt restructurings are loans that we have restructured due to a deterioration in the borrower s financial position and in relation to which, for economic or legal reasons related to the borrower s deteriorated financial position, we have granted a concession to the borrower that we would not have otherwise granted.

Interest Income on Non-performing Loans

The following table sets forth the gross interest income that would have been recorded during the year ended December 31, 2006 on non-accrual loans and troubled debt restructurings had such loans been current in accordance with their original contractual terms and the interest income on such loans that was

actually included in interest income during the year ended December 31, 2006.

	Years Ended December 31, 2006	
		Total

	In German Offices mn	In non-German Offices mn	mn
Interest income that would have been recorded in accordance with the original contractual terms	79	8	87
Interest income actually recorded	13	9	22

Potential Problem Loans

Potential problem loans are loans that are not classified as non-accrual loans, loans past due 90 days and still accruing interest or troubled debt restructurings, but where known information about possible credit problems causes us to have serious doubts as to the ability of the borrower to comply with the present loan repayment terms and which may result in classifying the loans in one of the three categories of non-performing loans described above. The outstanding balance of our potential problem loans was 49 million at December 31, 2006, a decrease of 284 million, or 85.4% from 333 million at December 31, 2005. This decline (of potential problem loans) was primarily attributable to the fact that, during the course of 2005 and as a result of enhanced credit policies and processes, loans were categorized as non-performing loans earlier than in periods prior to 2005. This effect is also the cause for the decline in 2006. Moreover, we do not record potential problem loans within the homogeneous portfolio.

Each of our potential problem loans has been subject to our normal credit monitoring and review procedures. Effective January 1, 2005, in accordance with our policy on loan loss provisioning, no specific loan loss allowance was recorded on potential

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problem loans. Hence, no potential problem loans were recorded for the homogeneous portfolio at December 31, 2006. For further information on the split between homogeneous and non-homogeneous loan portfolio see Summary of Loan Loss Experience.

Approximately 22.7% of our potential problem loans are to private individuals in Germany. The remaining loans are to corporate borrowers in manufacturing, construction, wholesale and retail trade, telecommunication, transportation and other services, including media, utilities, natural resources and other services and other industry sectors. Our potential problem loans to corporate borrowers are diversified across the following geographic regions based on the domicile of the borrower:

	As of December 31, 2006 Percent of Total Potential Problem Loans
Germany	51%
Europe (excluding Germany)	49%

Foreign Outstandings

Cross-border outstandings consist of loans, net of allowances for loan losses, accrued interest receivable, acceptances, interest-bearing deposits

with other banks, other interest-earning investments and other monetary assets that either are recorded in an office that is not in the same country as the domicile of the borrower, guarantor, issuer or counterparty, or are denominated in a currency that is not the local currency of the borrower, guarantor, issuer or counterparty or are net local country claims. Net local country claims are domestic claims recorded in offices outside Germany that are denominated in local or foreign currency and that are not funded by liabilities in the same currency as the claim and recorded in the same office.

Our cross-border outstandings are allocated by country based on the country of domicile of the borrower, guarantor, issuer or counterparty of the ultimate credit risk. We set limits on and monitor actual cross-border outstandings on a country-by-country basis based on transfer, economic and political risks.

The following table sets forth our cross-border outstandings by geographic location for countries that exceeded 0.75% of the total assets of our banking operations. At December 31, 2006 there were no cross-border outstandings that exceeded 0.50% of the total assets of our banking operations in any country currently facing debt restructurings or liquidity problems that we expect would materially impact the borrowers ability to repay their obligations.

	As of December 31, 2006						
	Government and Official Institutions mn	Banks and Financial Institutions mn	Other[1] mn	Net local Country Claims mn	Total Cross-border Outstandings mn	Percent of Total Assets[2]	Cross-border Commitments[3] mn
Country							

United States	45	3,194	13,320		16,559	3.29%	22,751
United Kingdom		4,512	7,178	55	11,745	2.34%	22,104
France	1,465	5,071	3,798		10,334	2.06%	11,714
Italy	1,257	1,413	1,510		4,180	0.83%	9,965
Netherlands		1,779	3,388		5,167	1.03%	5,774
Switzerland	23	4,046	1,790		5,859	1.17%	6,463
Cayman Islands		8	11,349	3	11,360	2.26%	14,698
Ireland	2	1,577	5,094		6,673	1.33%	7,289
Belgium	767	2,948	450		4,165	0.83%	4,289

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	As of December 31, 2005						
	Government and Official Institutions mn	Banks and Financial Institutions mn	Other[1] mn	Net local Country Claims mn	Total Cross-border Outstandings mn	Percent of Total Assets[2]	Cross-border Commitments[3] mn
Country							
United States	60	1,849	16,704		18,613	3.97%	3,325
United Kingdom		2,672	6,665	84	9,421	2.01%	9,423
France	3,443	3,082	3,611	14	10,150	2.17%	2,765
Italy	1,826	1,682	1,665	543	5,716	1.22%	6,428
Netherlands	1	1,452	2,255		3,708	0.79%	913
Switzerland	75	2,005	1,420		3,500	0.75%	857
Cayman Islands	9,656	87	1,114		10,857	2.32%	2,370

	As of December 31, 2004						
	Government and Official Institutions mn	Banks and Financial Institutions mn	Other[1] mn	Net local Country Claims mn	Total Cross-border Outstandings mn	Percent of Total Assets[2]	Cross-border Commitments[3] mn
Country							
United States	512	10,619	6,893		18,024	3.40%	542
United Kingdom	77	6,593	2,208	58	8,936	1.68%	4,141
France	5,361	4,252	2,369		11,982	2.26%	4,051
Italy	163	2,154	519	828	3,664	0.69%	4,849
Netherlands	4	3,193	1,623		4,820	0.91%	1,049
Switzerland	123	1,186	934	13	2,256	0.43%	1,068
Cayman Islands		2,262	1,146		3,408	0.64%	5,974

(1) Other includes insurance, commercial, industrial, service providers and other corporate counterparties.

(2) Percent of total assets is defined as total cross-border outstandings divided by total assets of our banking operations. The total assets of our banking operations were 503 billion, 468 billion and 530 billion at December 31, 2006, 2005 and 2004, respectively.

(3) Cross-border commitments have been presented separately as they are not included as cross-border outstandings unless utilized.

At December 31, 2006 and 2005, there were no material cross-border outstandings disclosed above that were also disclosed within the category of non-performing loans.

At December 31, 2006 and 2005, there were no material cross-border outstandings disclosed above that were also disclosed within the category of potential problem loans.

Summary of Loan Loss Experience

We determine an allowance for loan losses in our loan portfolio that represent management s estimate of probable losses at the balance sheet date. An allowance is recorded when there is objective evidence of a loss event, and due to that loss event, it is probable that the obligor/counterparty/borrower will not be able to partly, or entirely, fulfill the contractually agreed-upon principal and interest terms.

The loan portfolio is divided into a homogenous and an non-homogeneous portion. The homogeneous

portion includes only loans in the domestic private banking business.

We calculate an allowance for each of the following risks that are allocable to identified loans or groups of loans in our portfolio:

- a specific loan loss allowance for impaired loans within the non-homogeneous portfolio;
- a portfolio loan loss allowance for loans within our homogeneous portfolio;
- a general loan loss allowance for impairments that have been incurred but are not yet identified within the non-homogeneous portfolio; and
- an allowance for transfer risk, or country risk allowances.

The loan loss allowance for the homogeneous portfolio is established on a portfolio basis, while the non-homogeneous portfolio is assessed both, on a single transaction and on a portfolio basis.

In order to avoid layering or double counting of specific, portfolio, general and country risk loan loss allowances, only those loans that have not been deemed impaired under International Accounting Standards Board s International Accounting Standard (or IAS) 39, *Financial Instruments: Recognition and Measurement* and the Financial Accounting Standards Board s Statement of Financial Accounting Standard (or SFAS) 114, *Accounting by Creditors for Impairment of a Loan*, or loans from countries for which no country risk allowance exists, are included as part of the portfolio used to establish the general loan loss allowance. We do not maintain any additional reserves.

Specific Loan Loss Allowance

We evaluate our loans based on portfolio segmentation, classified either as homogeneous or non-homogeneous. Loans included within our Corporate & Investment Banking division, as well as loans to borrowers within the Private & Business Clients division with gross risk equal to or greater than 1 million are classified as non-homogeneous, and are therefore evaluated individually. All remaining loans, i.e. loans to borrowers within the Private & Business Clients division with gross risk less than 1 million, form the homogeneous portfolio. These loans are evaluated on a portfolio-based approach. Prior to 2003, we evaluated each of our loans individually. Loans for which a specific loan loss allowance had been previously established were evaluated on an individual basis if the existing specific loan loss allowance was 0.5 million or more. Loans for which a specific loan loss allowance of less than 0.5 million had been previously established were aggregated into homogeneous portfolios by collateral types (portfolio approach) for evaluation under IAS 39 and SFAS 114.

A specific loan loss allowance is established to provide for specifically identified counterparty risks within the non-homogeneous loan portfolio. Loans are identified as impaired if there are serious doubts that borrowers will be able to make their contractually agreed-upon interest and principal payments. We calculate the specific loan loss allowance based on the guidance provided in IAS 39 and SFAS 114 according to which an impaired loan should be recorded at its estimated recoverable amount either directly, or through use of an allowance account by recording a charge to the income statement. The estimated recoverable amount

is the present value of expected future cash flows discounted at the loan s original effective interest rate, or if the loan is secured by collateral and foreclosure on the loan is probable, the fair value of the collateral, or if there is an observable market for the loan, the market value of the loan.

Based on IAS 39 (AG 93), interest income on individually impaired loans is calculated by addition of accrued interest to the loan s present value of future cash flows *(unwinding)*. The interest rate that has been used to determine the impairment, i.e. the historical effective interest rate that has been used for calculating the specific loan loss provision, is applied to determine interest income. Income from unwinding is recorded as interest income, reducing the impairment amount only, and consequently gross loan amount remains unchanged.(1)

If the amount of the impairment subsequently increases or decreases due to an event occurring after the initial impairment measurement, including the recognition of interest in accordance with IAS 39, as discussed above, a change in the allowance is recognized in earnings by a charge or a credit to net loan loss provisions.

We use an internal credit rating system implemented in 2002, to assign ratings from 1 to 16 to each loan within our portfolio, on the basis of specific quantitative and qualitative customer criteria, including financial condition, historical earnings, management quality, and general industry data, among others. Loans that are classified in the rating categories 15 and 16 are loans that are impaired under IAS 39 and SFAS 114. In addition, loans that carry ratings of 13 and 14 are reviewed for potential impairment. See Quantitative and Qualitative Disclosures about Market Risk Risk Controlling in our Banking Business for further information.

Portfolio Loan Loss Allowance

Beginning in 2005, we established loan loss allowances for all loans allocated to the homogeneous portfolio within our Private and Business Clients division (e.g. for mortgage loans and installment loans) with gross risk below 1 million by using the portfolio approach. This

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(1) Unwinding is applied to terminated loans of the impaired loans portfolio of Dresdner Bank AG domestic where collateral has been utilized.

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approach is based on historically derived loss rates for the corresponding sub-portfolio and is dependent upon the respective products as well as geared to the individual overdraft status. The continuous consideration of potential losses helps to ensure an ongoing recalibration of the underlying model. The resulting risk allowance embraces incurred but unidentified losses for loans, which are performing properly. Prior to 2005, we determined the impairment allowance on the homogeneous portfolios by applying a back-testing approach.

General Loan Loss Allowance

General loan loss allowances are established to provide for incurred but unidentified losses that are inherent in the non-homogeneous loan portfolio as of the relevant balance sheet date. General allowances for loan losses are established for loans that are impaired but not yet identified as impaired due to the time lag between the occurrence of an impairment event and the detection of that event by our credit risk monitoring systems and controls. Such a time lag may occur due to intervals between impairment tests, rating reviews and/or a borrower s financial reporting.

The amount of the general loan loss allowance is based on historical loan loss experience, loss ratios as well as management s assessment of current events and economic conditions when determining the general loan loss allowance. This approach includes the consideration of the average period for the identification of impaired loans (loss emergence period).

Country Risk Allowance

Country risk allowances are established for convertibility and transfer risk. Convertibility and transfer risk is a measure of the likely ability of a borrower in a certain country to repay its cross-border obligations. A cross-border transaction exists if the country of cash flow of the lender is not identical with the country of cash flow of the borrower. We establish a country risk allowance for loan exposures if serious doubts exist regarding a counterparty s ability to comply with the payment terms due to the economic or political situation prevailing in the country of cash flow. We believe that this risk represents an additional risk above and beyond the normal counterparty risk.

Country risk allowances are based on our country rating system that incorporates current and historical economic, political and other data to categorize countries by risk profile. Using this system, we define country risk ratings from 1 to 16. Country risk allowances are established only for loans to borrowers in countries that are classified in country risk rating categories 10 to 16 and, in certain circumstances, country risk rating categories 8 and 9. See Quantitative and Qualitative Disclosures about Market Risk Risk Controlling in our Banking Business for further information.

Country risk allowances apply to cross-border loan transactions, acceptances and various forms of import and export financing exceeding one year, such as guarantees and commercial letters of credit. Country risk allowances are not calculated for traded products or off-balance sheet products. We deduct specific loan loss allowances, if any, and the amount of collateral and guarantees provided by parties domiciled in countries for which no country risk allowances are assessed, and loans made in local currency, from the portfolio prior to determining the country risk allowance. In order to avoid layering or double counting of both specific loan loss allowances and country risk allowances, the amount of the specific loan loss allowances are also deducted from the portfolio prior to determining the country risk allowance.

Self-Correcting Mechanisms

The principal self-correcting mechanism used to reduce the difference between estimated and actual observed losses is our practice of basing loss estimates on our historical loss experience. Where actual observed losses differ from estimated losses, information relating to the actual observed losses is incorporated into the historical statistical data on which we base our estimates and is accordingly reflected in our subsequent estimated losses. Similarly, the credit default models that we use in calculating the general loan loss allowance are updated to incorporate newly available statistical evidence on impairment into the default calculations.

In addition, Dresdner Bank reviews its loss estimates on a quarterly basis, and, where such estimates differ from actual observed losses, makes appropriate adjustment to the general loan loss allowance and/or the country risk allowance.

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Movements in Loan Loss Allowance

We record increases to our allowance for loan losses as an expense to our P&L. Releases have a positive impact on income, whereas write-offs of loan balances do not affect income. We write-off loan balances only if all economically sensible means of recovery have been exhausted. Charge-offs directly deduct the total loan amount and reduce income immediately. Recoveries are collections of amounts previously written off, and have direct impact on income.

Our total loan portfolio increased by 12,581 million, or 12.4%, to 113,814 million at December 31, 2006 from 101,233 million at December 31, 2005. As a result of the wind-down of our non-strategic loan portfolio, non-performing loans and potential problem loans have been significantly reduced since 2004. Our non-performing loans decreased by 660 million, or 24.6%, while our potential problem loans were reduced by 284 million, or 85.4%, from December 31, 2005 to December 31, 2006. Likewise, our specific loan loss provisions decreased by 321 million, or 42.7% from 752 million to 431 million at December 31, 2006.

As previously discussed, when we establish a specific loan loss allowance in relation to a particular loan in the non-homogeneous loan portfolio, that loan is removed from the portfolio of loans that is used as a basis for calculating the general loan loss allowance and the country risk allowance. The establishment of

a specific loan loss allowance may therefore result indirectly in a decrease in the general loan loss allowance and the country risk allowance, but no direct reallocation of allowances occurs.

Following the repayment of loans made to borrowers domiciled in countries involving convertibility and transfer risk, country risk allowances decreased by 134 million, or 58.8% to 94 million at December 31, 2006.

Our general loan loss allowance diminished by 132 million, or 21.3 %, during 2006 to 487 million at December 31, 2006, compared to 619 million at December 31, 2005.

The significant reduction of allowances in 2006 compared to 2005 is due to improved loan processes, leading to reduced non-performing and potential problem loans as previously discussed.

The average credit rating of loans in our portfolio based on our internal rating system has shown steady improvement in recent years. Due to the accelerated reduction of highly provisioned, mainly non-strategic loans, our total loan loss allowance as a percentage of total loans has decreased to 0.9% at December 31, 2006, compared to 1.6% at December 31, 2005, and 4.1% at December 31, 2004.

We believe the level of our total loan loss allowance is adequate in comparison to our historical net loan loss experience.

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The following table sets forth an analysis of the loan loss allowances established for our recognized loan volume as of the dates specified. It differentiates by industry sector and geographic category of the borrowers, and the percentage of our total loan portfolio accounted for by those industry and geographic categories. The allocation between German and non-German components is based on the domicile of the borrower.

	As of December 31,									
	2006		2005		2004		2003		2002	
	Amount mn	Percent of total loans in each category to total loans	Amount mn	Percent of total loans in each category to total loans	Amount mn	Percent of total loans in each category to total loans	Amount mn	Percent of total loans in each category to total loans	Amount mn	Percent of total loans in each category to total loans
German:										
Corporate:										
Manufacturing	70	5.3%	105	4.9%	447	6.5%	687	6.9%	884	7.2%
Construction	39	0.7%	63	0.6%	230	0.8%	256	0.9%	301	0.9%
Wholesale and retail trade	29	3.8%	63	4.6%	271	4.1%	382	3.7%	426	4.5%
Financial institutions (excluding banks) and insurance companies	9	4.1%	21	3.1%	83	2.0%	94	2.6%	171	2.1%
Banks		1.5%	1	1.7%	2	1.2%	1	0.2%	7	1.1%
Service providers										
Telecommuni-cation		0.4%		0.6%	4	0.4%	7	0.1%	64	0.5%
Transportation	2	1.2%	4	1.2%	30	1.1%	34	0.8%	45	0.6%
Other Service Providers	67	6.9%	183	8.4%	503	10.5%	726	10.4%	718	9.1%
Total Service Providers	69	8.5%	187	10.3%	537	12.0%	767	11.2%	827	10.2%
Other	14	2.5%	41	2.1%	34	1.9%	39	2.0%	108	2.2%
Corporate total	230	26.4%	481	27.3%	1,604	28.5%	2,226	27.5%	2,724	28.1%
Public authorities		0.3%		0.3%		0.5%		0.5%		0.4%
Private individuals (including self-employed professionals)	76	33.2%	115	38.5%	1,211	39.6%	1,409	35.3%	1,702	31.8%
German total	306	59.8%	596	66.1%	2,815	68.6%	3,635	63.2%	4,426	60.3%

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	As of December 31,									
	2006		2005		2004		2003		2002	
	Amount mn	Percent of total loans in each category to total loans	Amount mn	Percent of total loans in each category to total loans	Amount mn	Percent of total loans in each category to total loans	Amount mn	Percent of total loans in each category to total loans	Amount mn	Percent of total loans in each category to total loans
Non-German:										
Corporate:										
Manufacturing, service providers	13	3.6%	9	3.1%	53	4.0%	105	4.1%	242	6.8%
Construction	15	0.4%	16	0.2%	19	0.4%	67	2.1%	104	1.6%
Wholesale and retail trade	9	1.1%	3	1.4%	93	1.3%	98	0.9%	78	1.1%
Financial institutions (excluding banks) and insurance companies	11	15.6%	12	10.4%	133	8.9%	262	5.7%	33	4.7%
Banks	3	5.3%	59	5.3%	14	5.1%	175	3.2%	244	2.5%
Service providers										
Telecommuni-cation		0.1%		1.1%	19	0.6%	61	0.6%	119	1.5%
Transportation	5	1.9%	10	1.7%	16	1.0%	81	1.7%	8	1.1%
Other Service Providers	11	4.1%	13	2.9%	6	1.8%	80	2.9%	108	4.0%
Total Service Providers	16	6.1%	23	5.7%	41	3.4%	222	5.3%	235	6.6%
Other	44	4.9%	8	5.0%	77	4.5%	157	5.0%	321	6.8%
Corporate total	111	37.0%	130	31.2%	430	27.7%	1,086	26.3%	1,257	30.0%
Public authorities		1.3%		0.8%		1.8%	8	0.5%	14	1.5%
Private individuals (including self-employed professionals)	14	1.8%	26	1.8%	47	1.9%	143	9.9%	182	8.2%
Non-German total	125	40.2%	156	33.9%	477	31.4%	1,237	36.8%	1,453	39.7%
Total specific loan loss allowances	431	100.0%	752	100.0%	3,292	100.0%	4,872	100.0%	5,879	100.0%
Country risk allowances	94		225		252		259		340	
General loan loss allowances	487(1)		619(1)		565		589		747	
Total loan loss allowances	1,012		1,596		4,109		5,720		6,966	

(1) The general loan loss allowances for the years 2006 and 2005 include a portfolio loan loss allowance.

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The following table sets forth the movements in the loan loss allowance according to the industry sector and geographic category of the borrower. The allocation between German and non-German components is based on the domicile of the borrower.

	Years Ended December 31,				
	2006	2005	2004	2003	2002
	mn	mn	mn	mn	mn
Total allowances for loan losses at beginning of the year	1,596	4,109	5,720	6,966	8,038
Gross charge-offs:					
German:					
Corporate:					
Manufacturing	69	366	217	146	314
Construction	33	193	53	72	138
Wholesale and retail trade	53	233	169	113	206
Financial institutions (excluding banks) and insurance companies	22	87	31	28	74
Banks				7	11
Service providers					
Telecommunication		2		41	
Transportation	6	24	11	13	7
Other Service Providers	84	414	475	180	320
Total Service Providers	90	440	486	234	327
Other	5	21	21	53	117
Corporate total	272	1,340	977	653	1,187
Private individuals (including self-employed professionals)	229	1,156	404	590	348
German total	501	2,496	1,381	1,243	1,535
Non-German:					
Corporate:					
Manufacturing		51	51	41	132
Construction	4	2	3	13	12
Wholesale and retail trade	1	31	21	80	20
Financial institutions (excluding banks) and insurance companies	51	28	46	9	12
Banks	43	1	70	52	6
Service providers					
Telecommunication		24	29	44	71
Transportation	1	23	26	9	3
Other Service Providers		26	98	45	31
Total Service Providers	1	73	153	98	105
Other	8	22	107	391	29
Corporate total	108	208	451	684	316
Public authorities			4	1	
Private individuals (including self-employed professionals)	5	22	14	43	38
Non-German total	113	230	469	728	354
Total gross charge-offs	614	2,726	1,850	1,971	1,889
Recoveries:					
German[1]:					
Corporate:					
Manufacturing	11		3	1	
Construction	4				
Wholesale and retail trade	6		2		
Financial institutions (excluding banks) and insurance companies	2				
Service providers[2]					
Transportation		1		1	
Other Service providers	15	26	4	3	
Total Service providers	15	27	4	4	

Other			1		1
Corporate total	38	27	10	5	1
Private individual (including self-employed professionals)	109	61	34	24	28
German total	147	88	44	29	29

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	Years Ended December 31,				
	2006	2005	2004	2003	2002
	mn	mn	mn	mn	mn
Non-German:					
Corporate:					
Manufacturing			1	15	57
Construction				2	
Wholesale and retail trade		2		4	
Financial institutions (excluding banks) and insurance companies		1	1		1
Banks	2		7		
Service providers					
Telecommunication	1		1	3	
Transportation			4		
Other Service Providers			3		
Total Service Providers	1		8	3	
Other	19	8	44	20	32
Corporate total	22	11	61	44	90
Public authorities	9		5		
Private individuals (including self-employed professionals)	2	4	5		56
Non-German total	33	15	71	44	146
Total recoveries	180	103	115	73	175
Net charge-offs[3]	434	2,623	1,735	1,898	1,714
Additions to allowances charged to operations	(2)	(49)	272	979	1,902
(Decreases)/Increases in allowances due to (dispositions)/acquisitions of Allianz Group companies and other increases/(decreases)	(134)	122	(106)[4]	(55)	(1,085)[5]
Foreign exchange translation adjustments	(14)	37	(42)	(272)	(175)
Total allowances for loan losses at end of the year[6]	1,012	1,596	4,109	5,720	6,966
Ratio of net charge-offs during the year to average loans outstanding during the year	0.25%	1.79%	1.23%	1.22%	0.93%

(1) We did not recognize any recoveries for German Banks during the years 2002 to 2006.

(2) We did not recognize any recoveries for German Telecommunication Service providers during the years 2002 to 2006.

(3) The decrease of net charge-offs during 2006 is attributable to the improved quality of the loan portfolio due to the prior year s reduction of the portfolio within our non-strategic business. The increase in net charge-offs and the decline of the total allowances for loan losses at year-end 2005 is primarily attributable to the reduction of the portfolio within our non-strategic business.

(4) In 2004, the impact of dispositions on our allowances was primarily attributable to the sale of our banking subsidiary Entenial in January 2004.

(5) On August 1, 2002, we merged our mortgage banking subsidiary, Deutsche Hyp, which was a part of our former Other division, with the mortgage banking subsidiaries of Commerzbank and Deutsche Bank into a single entity, Eurohypo. The assets and liabilities of the former Deutsche Hyp were accordingly deconsolidated as of August 1, 2002. Therefore, in 2002 the impact of dispositions on our allowances was primarily related to the deconsolidation of Deutsche Hyp.

(6) The decline of allowances in 2005 and 2006 is related to the change in charge-off methodology implemented in 2005 as further discussed in Summary of Loan Loss Experience Portfolio Loan Loss Analysis .

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When we determine that a loan is uncollectible, the loan is charged off against any existing specific loss allowance or directly recognized as expense in the income statement. Subsequent recoveries, if any, are recognized in the income statement as a credit to the net loan loss provisions. Since 2000, we have charged-off loans when, based on management s judgment, all economically sensible means of recovery have been exhausted. Our determination considers information such as the age of specific loss allowances and expected proceeds from liquidation of collateral and other repayment sources. Prior to 2000, we charged-off loans only when all legal means of recovery had been exhausted, for example only after completion of bankruptcy proceedings.

The change in practice has affected both, the timing and amount of charge-offs in the years 2001 to 2003, as well as the level of our non-accrual loans in 2002 and 2003. See Risk Elements Non-performing Loans.

Deposits

The following table sets forth the average balances and the average interest rates on deposit categories in excess of ten percent of average total deposits of our banking operations. The allocation between German and non-German components is based on the location of the office that recorded the transaction.

	Years Ended December 31,					
	2006		2005		2004	
	Average Balance mn	Average Rate	Average Balance mn	Average Rate	Average Balance mn	Average Rate
German:						
Non-interest-bearing demand deposits	27,389		26,805		29,979	
Interest-bearing demand deposits	35,789	3.5%	36,274	2.7%	21,004	4.1%
Savings deposits	4,726	2.5%	4,768	2.5%	4,732	2.7%
Time deposits	78,104	3.3%	86,911	2.7%	118,936	2.1%
German total	146,008		154,758		174,651	
Non-German:						
Non-interest-bearing demand deposits	7,529		7,310		8,334	
Interest-bearing demand deposits	14,657	4.5%	11,769	5.0%	7,927	4.5%
Savings deposits	490	2.3%	513	2.1%	594	1.9%
Time deposits	52,417	5.3%	52,113	3.7%	45,903	3.6%
Non-German total	75,093		71,705		62,758	
Total deposits	221,101		226,463		237,409	

The aggregate amount of deposits by foreign depositors in our German offices was 49,190 million, 48,675 million and 42,272 million at December 31, 2006, 2005 and 2004, respectively.

Time Deposits

The following table sets forth the balance of time certificates of deposit and other time deposits in the amount of 100,000 or more issued by our German offices by time remaining to maturity at December 31, 2006.

	As of December 31, 2006 Time Deposits of 100,000 or more
	mn
Maturing in three months or less	52,452
Maturing in over three months through six months	3,318
Maturing in over six months through twelve months	2,184
Maturing in over twelve months	9,181
Total	67,135

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The amount of time deposits of   100,000 or more issued by our non-German offices was   43,447 million at December 31, 2006.

Short-term Borrowings

Short-term borrowings are borrowings with an original maturity of one year or less. Short-term borrowings are included within liabilities to customers, liabilities to banks and certificated liabilities.

Securities sold under agreements to repurchase and negotiable certificates of deposit are the only significant categories of short-term borrowings within our banking operations.

The following table sets forth certain information relating to the categories of our short-term borrowings.

	Years Ended December 31,		
	2006	**2005**	**2004**
	mn	**mn**	**mn**
Securities sold under repurchase agreements[(1)]:			
Balance at the end of the year	117,588	89,389	121,474
Monthly average balance outstanding during the year	121,800	119,584	128,033
Maximum balance outstanding at any period end during the year	134,627	148,231	157,576
Weighted average interest rate during the year	4.1%	3.9%	2.4%
Weighted average interest rate on balance at the end of the year	4.0%	2.4%	1.9%
Negotiable certificates of deposit:			
Balance at the end of the year	23,733	25,353	23,037
Monthly average balance outstanding during the year	23,686	25,125	21,002
Maximum balance outstanding at any period end during the year	25,689	27,289	23,155
Weighted average interest rate during the year	4.9%	1.9%	1.9%
Weighted average interest rate on balance at the end of the year	4.6%	3.0%	2.5%

(1) Excludes collateral received for securities lending transactions.

Regulation and Supervision

General

Our insurance, banking and asset management businesses are subject to detailed, comprehensive regulation and supervision in all countries in which we do business. In addition, certain EU regulations, which are directly applicable in the EU member states and EU directives, that need to be implemented through local legislation, have had and will continue to have a significant impact on the regulation of the insurance, banking and asset management industries in EU member states. The following discussion addresses significant aspects of the regulatory schemes to which our businesses are subject.

Allianz SE

Allianz SE operates as a reinsurer and holding company for our insurance, banking and asset

management operating entities. As such, Allianz SE is supervised and regulated by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, defined above as BaFin). The BaFin monitors and enforces regulatory standards for banks, financial services institutions and insurance companies by supervising their activities in the financial markets. The BaFin is also responsible for the supervision of the Allianz Group as a financial conglomerate.

Effective January 2005, reinsurance companies in Germany such as Allianz SE are subject to specific legal requirements regarding assets covering their technical reserves. These assets are required to be appropriately diversified to prevent a reinsurer from relying excessively on any particular asset. The introduction of these requirements anticipated the implementation of the EU Reinsurance Directive (2005/68/EC) which was adopted in November 2005. All of the directive s provisions have finally been implemented in Germany effective June 2, 2007.

Although Allianz SE expects to meet the new requirements, there can be no assurances as to the impact on Allianz SE of any future amendments to or changes in the interpretation of the laws and regulations regarding assets covering technical reserves of reinsurance companies, which could require Allianz SE to change the composition of its asset portfolio covering its technical reserves or take other appropriate measures.

Allianz SE is required to submit annual and interim reports, including certain accounting documents, to the BaFin. The BaFin also reviews transactions between Allianz SE and its subsidiaries, including reinsurance relationships and cost sharing agreements.

Regulations for Financial Conglomerates

In December 2004, Germany adopted a law implementing the EU Financial Conglomerates Directive (2002/87/EC). The law provides for additional supervision of financial conglomerates in the following five areas: (i) assessment of capital requirements of financial conglomerates on a group level, (ii) supervision of risk concentration, (iii) supervision of intra-group transactions, (iv) assessment of the good repute and professional competence of the management of a financial conglomerate s holding company and (v) establishment of appropriate internal controls to ensure compliance with the aforementioned components of supervision. The Allianz Group is a financial conglomerate with in the scope of the directive and the related German law.

In the United States, the Gramm-Leach-Bliley Financial Modernization Act of 1999 (Gramm-Leach-Bliley Act) substantially eliminated barriers separating the banking, insurance and securities industries in the United States. The law allows the formation of diversified financial services firms that can provide a broad array of financial products and services to their customers. In addition, the law permits insurers and other financial services companies to acquire banks. On June 30, 2004, Allianz SE acquired financial holding company status pursuant to the Gramm-Leach-Bliley Act.

Regulation by Sector

Financial services providers operating in the insurance, banking or asset management sectors are subject to supplementary supervision specific to their respective sectors. The regulatory framework is established by local law which is in part harmonized as a result of EU directives regulating specific areas.

Insurance

European Union

The EU has adopted a series of insurance directives on life insurance and direct insurance other than life insurance, which have resulted in significant deregulation of the EU insurance markets. Under the directives, the regulation of insurance companies, including insurance operations outside their respective home countries (whether direct or through branches), is the responsibility of the home country insurance regulatory authority. This home country control principle permits an insurance company licensed in any jurisdiction of the EU to conduct insurance business, directly or through branches, in all other jurisdictions of the EU, without being subject to additional licensing requirements

in these countries. In EU member states, insurance contracts will be subject to laws and regulations implementing the so-called anti-discrimination EU directives. In the insurance industry, differences in premiums and benefits of polices will not be permitted unless they are based on actuarial or statistical data. The impact of the directives on Allianz Group companies in EU member states depends on how the directives will be implemented by member states and how courts will interpret the provisions. Consequently, at this stage, we cannot assess the potential impact of the directives.

Germany

German insurance companies are subject to a comprehensive system of regulation under the German Insurance Supervision Act (*Versicherungsaufsichtsgesetz*). The BaFin monitors and enforces compliance with German insurance laws, applicable accounting standards, technical administrative regulations, and investment and solvency provisions. Under the Insurance

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Supervision Act, German insurance companies are subject to detailed requirements with respect to the administration of their assets and liabilities. In general, the actuarial and claims reserves of each insurer must be adequate to allow the insurer to fulfill its contractual commitments to pay upon receipt of claims. To that end, insurers must maintain a certain solvency margin (own funds). This solvency margin is monitored by the BaFin, which has the authority to order the company to take certain action if it considers the available solvency margin inadequate to assure the company s sound financial position.

On January 15, 2003, the EU Insurance Mediation Directive (2002/92/EC) became effective. The directive introduces obligations regarding information of the customers and the documentation of sales of insurance policies and was implemented in Germany on May 22, 2007. The regulations lead to higher costs of administration and may increase the risk of litigation concerning selling practices.

Furthermore, insurance companies that form part of an insurance group, as defined by the German law implementing the EU Insurance Groups Directive (1998/78/EC), are subject to regulatory requirements, including the following three components: (i) the supervision of intra-group transactions, (ii) the monitoring of solvency on a consolidated basis and (iii) the establishment of appropriate internal controls for providing the BaFin with information as part of its monitoring of the first two components.

In addition, in the life and health sectors, German insurance companies are required to disclose to the BaFin the principles they use to set premium rates and establish actuarial provisions and are required to appoint a chief actuary responsible for reviewing and ensuring the appropriateness of actuarial calculation methods. In addition, restrictions apply to the investment of German life and health insurance companies assets. The BaFin closely monitors the calculation of actuarial reserves and the allocation of assets covering actuarial reserves. German law also requires that private health insurance companies offer certain kinds of health insurance, including private compulsory long-term care insurance, to policyholders with substitutive health insurance.

Other European Countries

In other European jurisdictions where our insurance operations are located, insurance

companies are subject to laws and regulations relating to, among other things, statutory accounting principles, asset management, the adequacy of actuarial and claims reserves, solvency margins, minimum capital requirements, internal governance and periodic reporting requirements. The compliance with these laws and regulations, which are in part based on EU directives providing a certain level of harmonization, is enforced by the relevant regulatory and supervisory authority in each jurisdiction in which we operate, including, among others, the Autorité de Contrôle des Assurances et des Mutuelles in France, the Institute for the Supervision of Private and Collective Interest Insurance in Italy, the Swiss Federal Office of Private Insurance in Switzerland and the Financial Services Authority in the United Kingdom. These regulators have supervisory as well as disciplinary authority over our insurance operations in these jurisdictions.

United States

Our insurance subsidiaries in the United States are subject to comprehensive and detailed regulation of their activities under U.S. state and federal laws.

In addition, U.S. property-casualty and life insurance companies are subject to insurance regulation and supervision in the individual states in which they transact business. Supervisory agencies in each state have broad powers to grant or revoke licenses to transact business, regulate trade practices, license agents, approve insurance policy terms and certain premium rates, set standards of solvency and reserve requirements, determine the form and content of required financial reports, examine insurance companies and prescribe the type, concentration, and amount of investments permitted. Insurance companies are subject to a mandatory audit every three to five years by state regulatory authorities, depending on the state of domicile, and every year by independent auditors. In addition, state Attorneys General have broad authority to investigate business practices within their respective states and to initiate legal action as they deem appropriate.

Although the federal government generally does not directly regulate the insurance business, many federal laws affect the insurance business in a variety of ways, including the Federal Fair Credit Reporting Act relating to the privacy of information used in consumer reports, the Do Not Call laws and the

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USA PATRIOT Act of 2001 relating to, among other things, the establishment of anti-money laundering programs. In addition, the National Association of Securities Dealers, Inc. (NASD), a self regulatory organization that is under oversight of the U.S. Securities and Exchange Commission (SEC), regulates the sales practices associated with variable annuities and is currently seeking comments on a proposed new rule, which would impose specific sales practice standards and supervisory requirements on NASD members for transactions in deferred variable annuities. During the past year, the NASD has also sought to expand its regulatory authority to include fixed indexed annuities, a major product line of Allianz Life.

There are a number of proposals for regulation that may significantly affect the U.S. market, such as proposals relating to the establishment of an optional federal charter for insurance and reinsurance companies; employee benefits regulations; changes to pension and retirement savings laws; asbestos litigation; taxation; disclosure requirements; and the creation of private accounts within the Federal social security system. All of these matters are very much in a preliminary stage and the impact upon our operations in the United States remains unknown. In addition, the impact of two recent new federal laws, the Class Action Fairness Act of 2005 and the Pension Protection Act of 2006, upon our U.S. operations will become clearer with time.

Pursuant to industry-wide investigations, several of our U.S. subsidiaries have received requests for information from state insurance regulatory authorities and attorneys general relating to contingent commissions and other industry practices. These activities have led to joint actions and inquiries by these governmental agencies, in the course of which carriers and intermediaries have entered into settlements that may signal a shift in the industry towards more transparency with respect to intermediary compensation. Our U.S. subsidiaries are cooperating fully in these inquiries.

As a result of one market conduct examination, the California Department of Insurance (DOI) has pending an Order to Show Cause against Allianz Life Insurance Company of North America (Allianz Life). Allianz Life is in discussions with the DOI regarding the possible resolution of the issues raised in the Order to Show Cause, including with respect to

certain marketing and sales practices of deferred annuity products. The potential outcome and exposure in this matter is currently uncertain. See Note 46 to the consolidated financial statements for information regarding certain class action lawsuits in California related to the marketing and sale of deferred annuity products.

Other Countries

Our insurance operations in countries other than those discussed above are also subject to detailed regulation and supervision by authorities in the relevant jurisdictions, including but not limited to such matters as corporate governance, solvency, minimum capital, policy forms and rates, reserving, investment and financial practices, as well as marketing, distribution and sales activities.

Banking, Asset Management and Other Investment Services

European Union

The supervision of banking, asset management and other investment services in the EU member states is primarily the responsibility of national authorities within the individual member states. However, the rules governing the regulation and supervision of these financial services have been harmonized by a number of EU directives, which have been or will be implemented in the member states. Most importantly, the national implementation of the EU Markets in Financial Instruments Directive (2004/39/EC) (MiFID) increased the level of harmonization for the operational structures and code of conduct rules for European investment firms. The MiFID is currently expected to become effective throughout the EU by November 1, 2007. The EU Capital Requirements Directive primarily focuses on establishing harmonized minimum capital requirements and the EU Undertakings for Collective Investments in Securities Directive provides a European standard for the core asset management product in Europe. As a result of this harmonization, banking, asset management or investment service licenses granted in one EU member state are to be recognized in all other member states.

Under the MiFID, investment firms can operate branches in all EU member states and also engage in

cross-border services based on their existing home country license. For cross-border business without local presence, the MiFID will introduce the relevance of home country code of conduct rules only. Moreover, EU member states must ensure that financial institutions that are members of a securities exchange in one member state are eligible for admission to trading on the exchanges of all other member states. Another field of harmonization is the offering and the trading of securities. The EU Prospectus Directive (2003/71/EC), which came into force on December 31, 2003, provides for harmonized rules with respect to the contents and filing of prospectuses for publicly traded securities. In addition, the EU Transparency Directive (2004/109/EC) harmonizes the rules for disclosure of financial and other information that publicly traded companies have to provide. The EU Market Abuse Directive (2003/6/EC) sets forth certain rules against market manipulation and insider dealing. There are also EU directives harmonizing investor protection.

Germany

Our banking and other financial services activities in Germany are extensively supervised and regulated by the BaFin and the German Central Bank (*Deutsche Bundesbank*, Bundesbank) in accordance with the German Banking Act (*Kreditwesengesetz*). The BaFin monitors compliance with, among other things, capital adequacy and liquidity requirements, lending limits, restrictions on certain activities imposed by the German Banking Act and coverage by adequate capital of market risk and counterparty risk associated with securities and foreign exchange transactions of banks. The BaFin has the authority to request information and documentation on business matters from the banks and requires banks to file periodic reports. If the BaFin discovers irregularities, it has a wide range of enforcement powers.

In June 2004, the Basle Committee released the Revised Framework (Basle II) to replace the 1988 capital accord with a new capital accord. The two principal objectives of Basle II for measuring risk are (i) to align capital requirements more closely with the underlying risks; and (ii) to introduce a capital charge for operational risk (including, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). Basle II is to be implemented by the

credit institutions in the various countries that participate in the Basle Committee by the beginning of 2007 at the earliest. In Germany, the Solvability Regulation (*Solvabilitätsverordnung*) implements Basle II and includes the new capital requirements. A bank must report its large credits to the Bundesbank and must notify the BaFin and the Bundesbank if it exceeds certain ceilings. Credits exceeding these ceilings may only be granted with the approval of the BaFin, and the amount exceeding these ceilings must be covered by capital of the bank.

In accordance with the German Deposit Guarantee Act (*Einlagensicherungs- und Anlegerentschädigungsgesetz*), the Bundesverband deutscher Banken, the association of the German private sector commercial banks, established a company known as the Compensation Institution (*Entschädigungseinrichtung deutscher Banken GmbH*) to carry out and ensure the deposit guarantee scheme of the German private sector commercial banks. The Deposit Guarantee Act provides certain guarantees for depositors and for claims resulting from securities transactions by customers. In addition, the banking industry has voluntarily set up various protection funds for the protection of depositors such as the Einlagensicherungsfonds, a deposit protection association with a fund which covers most liabilities to the majority of creditors up to a certain amount, as described by the fund s Articles of Association.

Other European Countries

In other European countries, our banking, asset management and other investment services operations are subject to laws and regulations relating to, among other things, listed financial instruments, capital adequacy requirements, shareholdings in other companies, rules of conduct and limitation of risk. Our operations are also subject to ongoing disclosure obligations and may be subject to regulatory audits.

United States

Allianz Investment Company, LLC, Allianz Global Investors of America L.P., Pacific Investment Management Company LLC, Oppenheimer Capital LLC, Nicholas-Applegate Capital Management LLC, RCM Capital Management LLC and other financial services subsidiaries of Allianz SE in the United States are registered as investment advisers under the

Investment Advisers Act of 1940. Many of the investments managed by these financial services subsidiaries, including a variety of mutual funds and other pooled investment vehicles, are registered with the SEC under the Investment Company Act of 1940. The investment advisory activities of these financial services subsidiaries are subject to various U.S. federal and state laws and regulations. These laws and regulations relate to, among other things, limitations on the ability of investment advisers to charge performance-based or non-refundable fees to clients, record-keeping and reporting requirements, disclosure requirements, limitations on principal transactions between an adviser or its affiliates and advisory clients, as well as general anti-fraud provisions.

Federal and state regulators have focused on the mutual fund and variable insurance product industries. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous proposals for legislative and regulatory reforms, including, without limitation, mutual fund governance, new disclosure requirements concerning mutual fund share classes, compensation arrangements, commission breakpoints, revenue sharing, advisory fees, market timing, late trading, portfolio pricing, annuity products, hedge funds, regulation and distribution of equity index products, and other issues. It is difficult to predict at this time whether changes resulting from new laws and regulations will affect the industries or our investment management businesses, and, if so, to what degree.

Some U.S. financial services subsidiaries of Allianz SE are also registered with the SEC as broker-dealers under the Securities Exchange Act of 1934 and are subject to extensive regulation. In addition, some of these subsidiaries are members of, and subject to regulation by, self-regulatory organizations such as the NASD and, in the case of Dresdner Kleinwort Securities LLC, also the New York Stock Exchange. The scope of broker-dealer regulation covers matters such as capital requirements, the use and safekeeping of customers funds and securities, advertising and other communications with the public, sales practices, record-keeping and reporting requirements, supervisory and organizational procedures intended to assure compliance with securities laws and rules of the self-regulatory organizations and to prevent improper trading on material non-public information,

employee-related matters, limitations on extensions of credit in securities transactions, and clearance and settlement procedures.

Dresdner Bank provides commercial banking services in the Unites States through its New York and Grand Cayman Branches. Dresdner Bank s U.S. banking activities are accordingly subject to regulation, supervision and examination by the Federal Reserve Board under the U.S. Bank Holding Company Act of 1956, as amended (BHCA), and the International Banking Act of 1978, as amended (IBA). The New York branch of Dresdner Bank is licensed, supervised and examined by the New York State Banking Department and is also supervised and examined by the Federal Reserve Bank of New York.

The Gramm-Leach-Bliley Act substantially eliminated barriers separating the banking, insurance and securities industries in the United States. According to this law, a bank holding company that has effectively elected to become a financial holding company under the applicable regulation may conduct business activities either directly or through its subsidiaries that were previously prohibited for bank holding companies. Dresdner Bank became a financial holding company under the Gramm-Leach-Bliley Act in 2000. To qualify as a financial holding company, a bank is required to meet the criteria of being well-managed and well-capitalized. See Note 23 to the consolidated financial statements. As a result of its ownership of Dresdner Bank, Allianz SE is also subject to the supervision of the Federal Reserve Board under the BHCA and the IBA and has elected to be treated as a financial holding company. Allianz SE s status as a financial holding company became effective on June 30, 2004.

Other Countries

Our financial services businesses in countries other than those discussed above are also subject to detailed regulation and supervision by authorities in the relevant jurisdictions, including, but not limited to such matters as corporate governance, capital adequacy, investment advisory and securities trading activities, and mutual fund management and distribution activities.

ITEM 4A. Unresolved Staff Comments

None.

ITEM 5. Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our consolidated financial statements including the notes thereto. We prepare our consolidated financial statements in accordance with IFRS, which differ in certain significant respects from U.S. GAAP. For a description of the significant differences between IFRS and U.S. GAAP and a reconciliation of net income and shareholders equity under IFRS to U.S. GAAP, you should read Note 53 to the consolidated financial statements. Unless otherwise indicated, the financial information we have included in this annual report is presented on a consolidated basis under IFRS. Unless otherwise indicated, we have obtained data regarding the relative size of various national insurance markets from annual reports prepared by SIGMA, an independent organization which publishes market research data on the insurance industry. In addition, unless otherwise indicated, insurance market share data are based on gross premiums written and statutory premiums for our Property-Casualty and Life/Health segments, respectively. Data on position and market share within particular countries are based on various third party and/or internal sources as indicated herein.

Critical Accounting Policies and Estimates

Goodwill

Goodwill resulting from business combinations represents the difference between the acquisition cost of the business combination and the Allianz Group s proportionate share of the net fair value of identifiable assets, liabilities and certain contingent liabilities. Goodwill resulting from business combinations is not subject to amortization. It is initially recorded at cost and subsequently measured at cost less accumulated impairments. For impairment testing purposes, goodwill is allocated to the cash generating units that are expected to benefit from the synergies of the business combination as of the acquisition date. Significant judgment is involved in this estimate, and the actual resulting synergies of the business combination may not reflect the original estimate. During 2006, the Allianz Group realigned its cash generating units in the Property-Casualty and Life/Health segments to ensure consistency with the management responsibilities of the Board of Management. As a result, the Allianz Group has

allocated goodwill to nine cash generating units in the Property-Casualty, six cash generating units in the Life/Health segment, three cash generating units in the Banking segment, and one cash generating unit in the Asset Management segment.

The Allianz Group conducts an annual impairment test of goodwill on October 1, or more frequently if there is an indication that goodwill is not recoverable. The impairment test includes comparing the recoverable amount to the carrying amount, including goodwill, of all relevant cash generating units. A cash generating unit is not impaired if the recoverable amount is greater than the carrying amount. A cash generating unit is impaired if the carrying amount is greater than the recoverable amount. Judgment is involved in applying valuation techniques when estimating the recoverable amount. The valuation techniques include discounted cash flows analyses, which rely upon estimates of the amounts and timing of future cash flows, as well as future market conditions, interest rates and discount rates. During 2006, the Allianz Group s annual impairment tests did not indicate a need to reduce the carrying value of goodwill. Should an impairment occur, the resulting impairment loss could be material to the Allianz Group s results of operations.

Fair Value of Financial Instruments

The Allianz Group holds a number of financial instruments that are required to be measured at fair value under IFRS. These include trading assets and liabilities, financial assets and liabilities designated as carried at fair value through income, available-for-sale debt and equity securities and derivative instruments qualifying for hedge accounting treatment. For most of these financial instruments, changes in fair value

are included in net income. For others, such as available-for-sale securities and certain derivatives under hedge accounting rules, the changes in fair value are included in equity.

The fair values of financial instruments traded in active markets are based on quoted market prices or dealer price quotations on the last exchange trading day prior to the balance sheet date. The quoted market price used for financial assets held by the Allianz Group is the current bid price; the quoted market price used for financial liabilities is the current ask price.

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The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which observable market prices exist and valuation models. The Allianz Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Such assumptions include estimates of market prices, discount and volatility rates, as well as market depth and liquidity. In the process, appropriate adjustments are made for credit and measurement risks. Where such factors are not market observable, changes in assumptions could affect the reported fair value of financial instruments.

Impairments of Investments

Investments include held-to-maturity investments, available-for-sale debt and equity investments, investments in associates and joint ventures, and real estate held for investment.

Held-to-maturity securities are recorded at amortized cost using the effective interest method over the life of the security, less any impairment losses. Available-for-sale securities are recorded at fair value, and changes in fair value are recorded within a separate component of equity; impairment losses are recorded in the income statement.

A held-to-maturity or available-for-sale debt security is impaired if there is objective evidence that a loss event has occurred, which has impaired the expected cash flows, i.e. all amounts due according to the contractual terms of the security are not considered collectible. Typically the impairment is due to deterioration in the creditworthiness of the issuer. Factors considered include industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, credit rating declines from a recognized credit rating agency and a breach of contract. A decline in fair value below amortized cost due to changes in risk free interest rates does not represent objective evidence of a loss event.

An available-for-sale equity security is considered to be impaired if there is objective evidence that the cost may not be recovered. Objective evidence that the cost may not be recovered, in addition to qualitative impairment

criteria, includes a significant or prolonged decline in the fair value below cost. The Allianz Group s policy considers a significant decline to be one in which the fair value is below the weighted-average cost by more than 20% and a prolonged decline to be one in which fair value is below the weighted-average cost for greater than nine months. This policy is applied individually by all subsidiaries.

If an available-for-sale equity security is impaired based upon the Allianz Group s qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon the Allianz Group s impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

In a subsequent period, if the amount of the impairment previously recorded on a debt security decreases and the decrease can be objectively related to an event occurring after the impairment, such as an improvement in the debtor s credit rating, the impairment is reversed through other income from investments. Reversals of impairments of available-for-sale equity securities are not recorded.

There are several risks and uncertainties related to the monitoring of investments to determine whether an impairment exists. These risks include the risk that the Allianz Group identifies loss events in a timely manner, that Allianz s assessment of an issuer s ability to meet its contractual obligation will change based on the issuer s credit worthiness, and that the issuer s economic outlook will be worse than expected.

Total unrealized losses on available-for-sale debt securities and held-to-maturity investments were 1,959 million and 811 million as of December 31, 2006 and 2005, respectively. Total unrealized losses on available-for-sale equity securities were 159 million and 188 million as of December 31, 2006 and 2005, respectively.

Loan impairments and provisions

The loan loss allowance represents management s estimate of losses from impaired loans within the loan portfolio and other lending related

commitments. The loan loss allowance is reported in the Allianz Group balance sheet as a reduction of Loans and advances to banks and customers , and the provisions for contingent liabilities such as guarantees, loan commitments and other obligations are reported as Other liabilities . Changes in the loan loss allowance are reported in the Allianz Group income statement under the caption Loan loss provisions .

A loan is considered to be impaired when there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan, and that loss event has an impact on the estimated future cash flows of the loan that can be reasonably estimated. If there is objective evidence that a loan is impaired, the amount of the loss is measured as the difference between the loan s carrying amount and the present value of estimated future cash flows discounted at the loan s original effective interest rate. The amount of the loss is recognized in the income statement.

Loans with an outstanding balance greater than 1 million are considered to be individually significant, and they are assessed individually to determine whether an impairment exists. Individually significant loans that are not impaired are grouped with loans evidencing similar credit characteristics and are collectively assessed for impairment.

At our banking subsidiary, Dresdner Bank, and its subsidiaries (the Dresdner Bank Group), the loan portfolio for which loan loss allowances are to be established is separated into a homogeneous and a non-homogeneous portfolio. The homogeneous portfolio consists of loans made by the Dresdner Bank s Private & Business Clients division with a gross exposure less than 1 million, for which the degree of risk has been calculated at the portfolio-level resulting in collectively evaluated loan loss provisions. All other loans are allocated to the non-homogeneous portfolio, with a distinction made with respect to loan loss allowances between the measurement of individual loans in default (specific loan loss allowances) and allowances for impairments that have incurred but have not been identified (general loan loss allowances / country risk allowance).

The loan loss allowance comprises the following four categories:

Specific allowances

For all individually significant loans, counterparty relationships are periodically reviewed on a case-by-case basis. We consider various factors in this review including, but not limited to, the borrower s financial strength, resources and payment record, the present value of the expected future cash flows, including any net realizable value that may result from the foreclosure of collateral and the likelihood of support from any guarantors.

General allowances

Individually significant loans that do not have specific allowances are segmented into groups of loans with similar risk characteristics, and loan loss allowances for incurred but not identified impairments are calculated using statistical methods of credit risk measurement. Factors that are used in these methods include our internal credit rating results, historical loss experience and a loss emergence period , which adjusts for the time lag between the occurrence of a loss and its identification by a lender. Other qualitative factors considered by management include: levels and trends in delinquencies, levels and trends in recoveries of prior charge-offs, trends in volumes and terms of loans, effects of changes in lending policies and procedures, current national and local economic trends and conditions, and credit concentrations.

Country risk allowances

A country risk allowance is calculated to estimate losses due to transfer risk. Transfer risk is a measure of the likely ability of a borrower in a certain country to repay its foreign currency-denominated debt in light of the economic or political situation prevailing in that country. We establish country risk allowances based on historical loss experience and a country risk rating system that incorporates current and historical economic, political and other data to categorize countries by risk profile.

In order to avoid duplication, specific allowances are excluded from general and country risk allowance calculations. Moreover, countries for

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which a country risk allowance is maintained are excluded from the determination of the transfer risk component of the general allowances.

Portfolio allowances

Loans that are not considered individually significant are not individually assessed but are instead segmented into portfolios of homogeneous loans to assess for impairment. Portfolio loan loss allowances are calculated using the delinquency flow model, which involves separating the homogeneous loan portfolios into distinct groups of loans evidencing similar loss behavior. We consider various factors in defining such portfolio groups, including consistency of underwriting practices, transaction terms and conditions, customer segmentation, product type, existence and types of collateral, similarity in size and number of loans, and loss behavior.

The delinquency flow model provides an estimate of the loss inherent in the portfolio by measuring the historical loss experience of the actual portfolio or a portfolio with similar risk characteristics. The delinquency flow model produces this estimate based on historical loan/commitment volume and loss data. The model also estimates the balance of loans with a delinquency status and the average loss experienced for loans in each delinquency grouping within a given portfolio.

Once an individual loan within a portfolio is identified as impaired, a specific loan loss allowance is recorded, and the loan is removed from the relevant portfolio.

The process for evaluating each of the foregoing categories comprising the total loan loss allowance involves significant judgment and estimates. In our evaluation process, we consider the additional following factors for each applicable allowance category, including the frequency of default, risk ratings, loss recovery rates, the forecasted financial strength of individual large accounts, and the ability of borrowers with foreign currency obligations to obtain the foreign currency necessary for orderly debt servicing. If actual results differ from our estimates or if economic changes occur after the date of our estimation, we may need to adjust our estimates. Significant changes in estimates could materially affect our loan loss provision and could result in a change in the loan loss allowance.

Changes in the loan loss provision on an Allianz Group level totaled 36 million, (109) million and 354 million for the years ended December 31, 2006, 2005 and 2004, respectively. The total loan loss allowance as of December 31, 2006 and 2005 amounted to 1,315 and 1,764 million, respectively.

Deferred Policy Acquisition Costs

DAC and PVFP amortization schedules are determined on a decentralized basis by our local operating entities. The assumptions used (e.g., investment yields, lapses, expenses and demographics) vary not only by geographical market and operating entity but also by line of business and sometimes even generation of business.

With respect to our major life business units, which comprise approximately 90% of reserves, DAC and PVFP, a central control process has been established at the Allianz Group-level in order to ensure that assumptions and calculations used to determine DAC and PVFP are

reasonable, and to monitor potential loss recognition issues.

One method used to monitor trends and sensitivities to changes in assumptions is to compare the recoverability ratio over time and using different levels of inputs. The recoverability ratio provides information regarding the percentage of future profits from the current portfolio that is needed to support the amortization of policy acquisition costs previously capitalized. The recoverability ratio is defined as DAC and PVFP, net of unearned revenue liabilities, divided by a best estimate of present value of future profits. Using best estimate assumptions, the recoverability ratio for the Allianz Group amounted to 55.2 % as of December 31, 2006 and 61.4 % as of December 31, 2005. As the recoverability ratio approaches 100%, it indicates that there is an increased risk of loss. A recoverability ratio of 100% or greater would result in a charge to the Allianz Group s net income, as the deferred acquisition costs would not be recoverable.

The recoverability ratio is most sensitive to changes in the investment yield, which is the rate of return earned on the investment of net cash inflows. The investment yield is generally estimated in determining the recoverability of DAC and PVFP by increasing the relevant yield curves by the expected credit spread net of default risk. The relevant yield

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curves represent the risk free rate of return expected to be earned based upon the risk free interest rate in the country where the insurance contracts were issued (generally referenced by government issued debt instruments). This sensitivity is more pronounced for our local operating entities with significant older portfolios with relatively higher guaranteed interest rates (e.g., Switzerland, Belgium, South Korea and Taiwan).

The following table shows a sensitivity analysis of the impact in Euro that reasonably likely changes of 1% in the relevant yield curve would have on the DAC and PVFP amounts in the major geographical markets of the Allianz Group, which could have a material effect on the Allianz Group s results of operations. The impact of these changes would be recorded in the Allianz Group s net income.

Country	Carrying amount of DAC/PVFP, net of unearned revenue liabilities	Effect of +1% change in the yield curve	Effect of -1% change in the yield curve
Germany	6,410		
France	339		
Italy	689		(1)
US	4,241	28	(86)
South Korea	737	1	(2)
Belgium	108	6	(14)
Switzerland	256	67	(161)
Austria	212	7	(10)

Sensitivities to persistency, expense levels and demographic assumptions are also monitored, but deviations within reasonable limits would not trigger a material loss recognition event for any of the operating entities due to the offsetting effects of changes to policyholder participation rates.

For many of Allianz s Life/Health operating entities within Europe, a large part of such adverse developments can be offset by adjustments to the policyholder participation rates. Therefore, the relevant estimates and as a consequence, the results of operations of operating entities within Europe are relatively insensitive to the effects of changes in assumptions.

Reserves for insurance and investment contracts and Financial liabilities for unit linked contracts

The major components of reserves insurance and investment contracts are aggregate policy reserves and reserves for premium refunds. Financial liabilities for unit linked contracts includes unit linked insurance contracts and unit linked investment contracts.

Contracts issued by insurance subsidiaries of the Allianz Group are classified according to IFRS 4 as insurance or investment contracts. Contracts under which the Allianz Group accepts significant insurance risk from a policyholder are classified as insurance contracts. Contracts under which the Allianz Group does not accept significant insurance risk are classified as investment contracts. Certain insurance and investment contracts include discretionary participation features.

The aggregate policy reserves for long-duration insurance contracts, such as traditional life and health products, are computed in accordance with SFAS 60 using the net level premium method, which represents the present value of estimated future policy benefits to be paid less the present value of estimated future net premiums to be collected from policyholders. The method uses best estimate assumptions adjusted for a provision for adverse deviation for mortality, morbidity, expected investment yields, surrenders and expenses at the policy inception date, which remain locked-in thereafter. DAC and present value of future profits (PVFP) for traditional life and health products are amortized over the premium paying period of the related policies in proportion to the earned premium using assumptions consistent with those used in computing the aggregate policy reserves.

The aggregate policy reserves for traditional participating insurance contracts are computed in accordance with SFAS 120 using the net level premium method. The method uses assumptions for mortality, morbidity and interest rates that are guaranteed in the contract or are used in determining the policyholder dividends. Deferred policy acquisition costs and PVFP for traditional participating products are amortized over the expected life of the contracts in proportion to estimated gross margins (EGMs) based upon historical and anticipated future experience, which is

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determined on a best estimate basis and evaluated regularly. The present value of EGMs is computed using the expected investment yield. EGMs include premiums, investment income including realized gains and losses, insurance benefits, administration costs, changes in the aggregate reserves and policyholder dividends. The effect of changes in EGMs are recognized in net income in the period revised.

The aggregate policy reserves for universal life-type insurance contracts and unit linked insurance contracts in accordance with SFAS 97 is equal to the account balance, which represents premiums received and investment return credited to the policy less deductions for mortality costs and expense charges. Deferred policy acquisition costs and PVFP for universal life-type and investment contracts are amortized over the expected life of the contracts in proportion to estimated gross profits (EGPs) based upon historical and anticipated future experience, which is determined on a best estimate basis and evaluated regularly. The present value of EGPs is computed using the interest rate that accrues to the policyholders, or the credited rate. EGPs include margins from mortality, administration, investment income including realized gains and losses and surrender charges. The effects of changes in EGPs are recognized in net income in the period revised.

Current and historical client data, as well as industry data, are used to determine the assumptions. Assumptions for interest reflect expected earnings on assets, which back the future policyholder benefits. The information used by the Allianz Group s qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies, and profitability analyses.

The interest rate assumptions used in the calculation of aggregate policy reserves were as follows:

	Long-duration Insurance Contracts (SFAS 60)	**Traditional participating insurance Contracts (SFAS 120)**
Aggregate policy reserves	2.5 6%	3 4%
Deferred acquisition costs	5 6%	5 6%

Aggregate policy reserves include liabilities for guaranteed minimum death and similar mortality and morbidity benefits related to non-traditional contracts, annuitization options, and sales inducements. These liabilities are calculated based on contractual obligations using actuarial assumptions. Contractually agreed sales inducements to contract holders include persistency bonuses and are accrued over the period in which the insurance contract must remain in force to qualify for the inducement.

The aggregate policy reserves for unit linked investment contracts is equal to the account balance, which represents premiums received and investment return credited to the policy less deductions for mortality costs and expense charges. The aggregate policy reserves for non unit linked investment contracts is equal to amortized cost, or account balance less deferred policy acquisition costs. Deferred policy acquisition costs and PVFP for unit linked and non unit linked investment contracts are amortized over the expected life of the contracts in proportion to revenues.

Aggregate policy reserves for insurance contracts are computed based on relevant U.S. GAAP standards, except for contracts under which the Allianz Group does not accept significant insurance risk, which are classified as investment contracts. All insurance policies are classified appropriately under U.S. GAAP, and the corresponding valuation methodology is applied accordingly. Aggregate policy reserves are determined based on policyholder data and by applying various projections and reserving systems, either on a policy-by-policy basis or on a model point basis whereby policies are grouped by generation and similar risk and benefit profiles. These systems are also used to DAC, unearned revenue liabilities (URL) and PVFP in a consistent manner.

Local actuaries of each Allianz Group operating entity are responsible for setting aggregate policy reserves and carrying out recoverability and loss recognition tests. The Allianz Group reviews the locally-derived policy reserves, DAC, URL, PVFP and loss recognition tests.

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The table below provide a breakdown of the Allianz Group s aggregate policy reserves by country of our major Life/Health local operating entities as of December 31, 2006 (in millions of euros):

	Aggregate Policy Reserves			Other Reserves				
Country (mn)	**Long-duration insurance contracts**	**Universal-Life type insurance contracts**	**Traditional participating insurance contracts**	**Non-Unit-Linked Reserves**	**Unit-Linked Reserves**	**Market Value of Liability Options[1]**	**Total**	**% of Allianz Group**
German Life		2,866	109,106		1,095		113,067	35,0%
German Health	12,070						12,070	3,7%
France	6,981	34,642			12,430		54,053	16,8%
Italy	8,032	11,529		79	24,779		44,419	13,8%
United States	1,183	31,471		108	15,063	4,252	52,077	16,2%
Switzerland	171	1,952	3,584		558		6,265	1,9%
Spain	4,107	389		141	114		4,751	1,5%
Netherlands	964				3,171		4,135	1,3%
Austria			3,047		194		3,241	1,0%
Belgium	4,109	925			325		5,359	1,7%
South Korea	4,687	1,160			970		6,817	2,1%
Taiwan	673	1,210			1,868		3,751	1,2%
Other countries	2,265	561	1,002	99	1,297		5,224	1,6%
Life/Health Total	**45,242**	**86,705**	**116,739**	**427**	**61,864**	**4,252**	**315,229**	**97,8%**
Other Segment/Consolidation	148	(24)	7,096				7,220	2,2
Allianz Group Total	**45,390**	**86,681**	**123,835**	**427**	**61,864**	**4,252**	**322,449**	**100%**

1 Market Value of Liability Options represents the value of the derivatives embedded in the equity-indexed annuity products of Allianz Life.

Assumptions made at the local operating entity level regarding variables affecting aggregate policy reserves such as expense, lapse and mortality are based on best estimates derived from annually performed experience studies based on company data and are regularly validated by the Allianz Group.

The most significant assumption for deriving Life/Health reserves is the expected investment yields (i.e., the expected return on assets purchased with net cash inflows), as investment rates determine both the expected cash flow as well as the reserve discount factors. This is particularly true for our operations in Belgium, South Korea and Switzerland because certain policies previously sold in these countries included guaranteed interest rates on existing and future premiums. Investment rates are based on the available capital market information, the asset mix and the long term expected yields as set by the management of the local operating entity.

The reserves for premium refunds include the amounts allocated under the relevant local statutory or contractual regulations to the accounts of the policyholders and the amounts resulting from the differences between these IFRS based financial statements and the local financial statements (latent reserve for premium refunds), which will reverse and enter into future profit participation calculations. Unrealized gains and losses recognized in connection with the valuation of securities available-for-sale are recognized in the latent reserve for premium refunds to the extent that policyholders will participate in such gains and losses on the basis of statutory or contractual regulations when they are realized. The profit participation allocated to participating policyholders or disbursed to them reduces the reserve. Any dividends allocated or disbursed over and above the reserve are recorded in other expenses.

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Methods and corresponding percentages for participation in profits by the policyholders are set out below for the most significant countries for latent reserves:

Country	Base	Percentage
Germany		
Life	All sources of Profit	90%
Health	All sources of Profit	80%
France		
Life	Investments	80%
Italy		
Life	Investments	85%
Switzerland		
Group Life	All sources of Profit	90%
Individual Life	All sources of Profit	100%

Liability adequacy tests are performed for each insurance portfolio on the basis of estimates of future claims, costs, premiums earned and proportionate investment income. For short duration contracts, a premium deficiency is recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance expenses exceeds related unearned premiums while considering anticipated investment income. For long duration contracts, if actual experience regarding investment yields, mortality, morbidity, terminations or expense indicate that existing contract liabilities, along with the present value of future gross premiums, will not be sufficient to cover the present value of future benefits and to recover deferred policy acquisition costs, then a premium deficiency is recognized.

Aggregate policy reserves totaled 256,333 million and 249,012 million as of December 31, 2006 and 2005, respectively. Reserves for premium refunds totaled 30,689 million and 28,510 million as of December 31, 2006 and 2005, respectively. For further information regarding reserves for insurance and investment contracts, see Note 18 to our consolidated financial statements.

Reserves for Loss and Loss Adjustment Expenses

Within the Allianz Group, loss and LAE reserves are set locally by qualified individuals close to the business, subject to central monitoring and oversight by the actuarial department in Allianz SE (Group Actuarial). For a detailed description of the methods and approaches commonly used within the

Allianz Group to determine reserves for loss and loss adjustment expenses, please see Overview of Loss Reserving Process within the Property and Casualty Reserves section of the business description within this document. This central oversight process ensures that reserves are set at the local level in accordance with Group-wide standards of actuarial practice regarding methods, assumptions and data. The key components of this central oversight process are:

- Minimum standards for actuarial loss reserving;
- Regular central independent reviews by Group Actuarial of reserves of local operating entities;
- Regular peer reviews by Group Actuarial of reserve reports provided by local operating entities; and

Quarterly quantitative and qualitative reserve monitoring.

Each of these components is described further below.

Group-wide minimum standards of actuarial reserving define the reserving practices which must be conducted by each operating entity. These standards provide guidance regarding all relevant aspects of loss reserving, including organization and structure, data, methods, and reporting. Group Actuarial monitors compliance with these minimum standards through a combination of diagnostic review i.e. formal qualitative assessment of the required components in the reserving process and local site visits. Group Actuarial then communicates the results of this quality review to the local operating entity.

In addition, Group Actuarial performs independent reviews of loss and LAE reserves for key local operating entities on a regular basis. This process is designed such that all significant entities are reviewed once every three years. Such a review typically starts with site visits to ensure that Group Actuarial updates their knowledge of the underlying business as well as the issues related to data and organization. Group Actuarial then conducts an analysis of reserves using data provided by the operating entity. Preliminary conclusions are then discussed with the local operating entity prior to

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being finalized. Any material differences between Group Actuarial s reserve estimates and those of the local operating entity are then discussed, and evaluated to determine if changes in assumptions are needed.

Local operating entities are required to provide Group Actuarial an annual reserve report, documenting the entity s analysis of its loss and LAE reserves. The Allianz Group standard for these reports is that an independent actuary, by analyzing this report and discussing it with the entity, must be capable of forming a similar opinion regarding the appropriateness of the entity s held reserves. In years when Group Actuarial does not perform a complete reserve review of an Allianz Group company, it will perform a process that constitutes a peer review of the entity s own analysis.

In addition, on a quarterly basis, Group Actuarial monitors reserve levels, movements and trends across the Allianz Group. This monitoring is conducted on the basis of quarterly loss data submitted by local operating entities as well as through participation in local reserve committees and frequent dialogue with local actuaries of each operating entity. This quarterly loss data provides information about quarterly reserve movements, as the information is presented by accident year and line of business, as defined by the local operating entity.

The oversight and monitoring of the Group s loss reserves culminate in quarterly meetings of the Group Reserve Committee. This committee, which consists of the Group Chief Executive Officer, Group Chief Financial Officer, Head of Group Financial Reporting, Group Chief Accountant and the Group Chief Actuary, monitors key developments across the Group affecting the adequacy of loss reserves.

There is no adequate statistical data available for some risk exposures in liability insurance, such as environmental and asbestos claims and large-scale individual claims, because some aspects of these types of claims are becoming generally known very slowly and are still evolving. Appropriate provisions have been made for such cases based on the Allianz Group s judgment and an analysis of the portfolios in which such risks occur. These provisions represent the Allianz Group s best estimate. The current reserves for loss and loss adjustment expenses for

asbestos claims in the United States reflect the best estimate of local actuaries based on their assessment of current developments and trends in these claims.

Variability of Reserve Estimates

Loss reserves are estimates and are based on the expected outcome of future events (e.g., court decisions, medical rehabilitation and property damage repair). As such, reserve estimates are subject to uncertainty, particularly for longer-tail lines of business. Our reserving actuaries estimate loss reserves separately by line of business based on many detailed assumptions. Given the small segments of business for which reserve estimates are calculated, and that material accumulations across classes will tend to be offset by those in other independent classes, deviations from assumptions are generally not expected to have a material effect on the loss reserves of the Group.

There are, however, two reserving segments which, due to their volume and/or uncertainty, for which changes in assumptions could have a material impact on the Group:

German motor liability and

Asbestos claims reserves.

German Motor Liability

As a longstanding market leader in German motor insurance, Allianz holds a significant balance of motor liability reserves (4,500 million gross as of December 31, 2006). Moreover, German motor liability claims are particularly long-tailed in nature. We estimate that approximately 62% of claims are paid after one year and 90% after eight years from the occurrence of the claim. Actuaries must rely on long data histories, but data from older accident years may be less predictive for current developments. Furthermore, sufficient data for extremely long development of bodily injury claims for 40 and more years are not available and, therefore, we extrapolate the ultimate loss amounts. As a result, changes in assumptions such as loss development patterns have a significant effect on estimated reserves.

In order to gauge the sensitivity of German motor liability loss reserve estimates to alternative assumptions, we applied statistical methods that allow for both the natural variability in the reserving

process (i.e., process volatility) as well as the potential variability in estimating reserving assumptions (i.e., parameter volatility) and provide quantitative insights into reserve volatility. This analysis provides that it is reasonably likely that future German motor liability loss payments will be 300 million higher or lower than carried reserves.

Asbestos Claims Reserves

Loss reserves for asbestos claims worldwide are subject to greater than usual uncertainty. Asbestos claims have a long latency period, sometimes emerging several decades after the underlying policy was written. Claim emergence is subject to a broad range of legal, epidemiological and socio-economic factors such as court decisions, corporate bankruptcy proceedings and medical advances. Asbestos claim reserves are not amenable to traditional actuarial analysis and are instead based upon an extensive analysis of exposure.

In order to quantify the potential variability of asbestos claim reserves we calculate a point best estimate reserve and a range of reasonable estimates of asbestos loss reserves for U.S. and non-U.S. asbestos in aggregate. This range is calculated by testing the sensitivity of reserve estimates to alternative assumptions. We would consider any estimate within the range to be reasonable. The range does not represent lower and upper bounds, and does not contain all of the possible loss results. Our best estimate represents the expected unpaid loss resulting from assumptions that we consider neither optimistic nor pessimistic. The lower and upper ends of the range represent unpaid losses that would result from optimistic and pessimistic, but reasonable, assumptions. It should be noted that there is a reasonable possibility that the actual loss amounts will fall outside that range. As of December 31, 2006, the high end of this range is 800 million higher than the best estimate; the low end of the range is 800 million lower than the best estimate.

The following alternative assumptions lead to the high end of the range of the reserve estimate:

- The projected level of future claims filings increase compared to the level as predicted by the epidemiological-based models;
- Future values of claims settlements by disease type increase compared to the inflation-adjusted projections;
- The proportion of claims filings leading to claims payments increases compared to the projections;
- The legal interpretation of insurance policies and the outcome of coverage litigation is on the whole adverse to our expectations;
- Claims from coverages not yet affected by asbestos claims and not reflected in our projections emerge;
- The projected level of new policyholders being brought into asbestos litigation increases compared to our estimates in addition to an increase over our estimate of the average cost to settle all future asbestos claims for these policyholders.

The following alternative assumptions lead to the low end of the range of the reserve estimate at:

The projected level of future claims filings for each policyholder decrease compared to the level as predicted by the epidemiological-based models;

Future values of claims settlements by disease type are lower than the inflation adjusted projections;

The proportion of claims filings leading to claims payments decrease compared to the projections;

The legal interpretation of insurance policies and the outcome of coverage litigation is on the whole favorable to our expectations;

The projected level of new policyholders being brought into asbestos litigation is lower than our estimates in addition to a decrease in our estimate of the average cost to settle all future asbestos claims for these policyholders.

Total reserves for loss and loss adjustment expenses amounted to 65,464 million and 67,005 million as of December 31, 2006 and 2005, respectively. For further information regarding reserves for loss and loss adjustment expenses, see Note 17 to our consolidated financial statements.

Deferred Taxes

Deferred taxes are recognized on temporary differences between the tax bases and the carrying

amounts of assets and liabilities in the Allianz Group s IFRS consolidated balance sheet and tax losses carried forward as of the balance sheet date. Deferred taxes are calculated based on the current income tax rates enacted in the respective country. Changes in tax rates that have already been substantially adopted prior to or as of the date of the consolidated balance sheet are taken into consideration.

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, are available for realization. The realization of deferred tax assets on temporary differences depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. The realization of deferred tax assets on tax losses carried forward requires that sufficient taxable profits are available prior to the expiration of such tax losses carried forward. As of each balance sheet date, management evaluates the recoverability of deferred tax assets, whereby projected future taxable profits and tax planning strategies are considered. If management considers it is more likely than not that all or portion of a deferred tax asset will not be realized, a corresponding valuation allowance is taken.

The accounting estimates related to the valuation allowance are based on management s judgment and currently available information, primarily with regards to projected taxable profits. Assumptions about matters which are uncertain and partly beyond management s control are taken into account. Furthermore, these assumptions may change from period to period.

Pension and Similar Obligations

The Allianz Group has a number of defined benefit pension plans covering a significant number of its domestic and international employees, and in Germany, agents too. The calculation of the expense and liability associated with these plans requires the extensive use of assumptions, which include the discount rate, expected rate of return on plan assets, rate of long-term compensation increase, post- retirement pension increase and mortality tables as determined by the Allianz Group. Management

determines these assumptions based upon currently available market and industry data and historical performance of the plans and their assets. The actuarial assumptions used by the Allianz Group may differ materially from actual experience, due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of the participants. Any such differences could have a significant impact on the amount of pension expense recorded in future years.

We are required to estimate the expected rate of return on plan assets, which is then used to compute pension cost recorded in the consolidated statements of income. Estimating future returns on plan assets is particularly subjective as the estimate requires an assessment of possible future market returns based on the plan asset mix and observed historical returns. In 2006, we adjusted the weighted average expected rate of return on plan assets from 5.8% to 5.3%; in 2005, we adjusted the rate from 6.4% to 5.8%.

Changes to Accounting and Valuation Policies

See Note 3 to our consolidated financial statements. Prior year amounts have been reclassified to conform to current year presentation.

Introduction

The following analysis is based on our consolidated financial statements and should be read in conjunction with those statements. We evaluate the results of our Property-Casualty, Life/Health, Banking, Asset Management and Corporate segments using a financial performance measure we refer to herein as operating profit . We define our segment operating profit as income before income taxes and minority interests in earnings, excluding, as applicable for each respective segment, all or some of the following items: income from financial assets and liabilities held for trading (net), realized gains/losses (net), impairments of investments (net), interest expense from external debt, amortization of intangible assets, acquisition-related expenses and restructuring charges.

While these excluded items are significant components in understanding and assessing our

consolidated financial performance, we believe that

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the presentation of operating results enhances the

understanding and comparability of the performance of our segments by highlighting net income attributable to ongoing segment operations and the underlying profitability of our businesses. For example, we believe that trends in the underlying profitability of our segments can be more clearly identified without the fluctuating effects of the realized gains/losses or impairments of investments, as these are largely dependent on market cycles or issuer specific events over which we have little or no control, and can and do vary, sometimes materially, across periods. Further, the timing of sales that would result in such gains or losses is largely at our discretion. Operating profit is not a substitute for income before income taxes and minority interests in earnings or net income as determined in accordance with International Financial Reporting Standards (or IFRS). Our definition of operating profit may differ from similar measures used by other companies, and may change over time. For further information on operating profit, as well as the particular reconciling

items between operating profit and net income, see Note 5 to our consolidated financial statements.

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

We further believe that an understanding of our total revenue(1) performance is enhanced when the effects of foreign currency translation as well as acquisitions and disposals (or changes in scope of consolidation) are excluded. Accordingly, in addition to presenting nominal growth , we also present internal growth , which excludes the effects of foreign currency translation and changes in scope of consolidation. The following table sets forth the reconciliation of nominal total revenue growth to internal total revenue growth for each of our segments(2) and the Allianz Group as a whole for the years ended December 31, 2006 and 2005.

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(1) Total revenues comprise Property-Casualty segment s gross premiums written, Life/Health segment s statutory premiums, Banking segment s operating revenues and Asset Management segment s operating revenues.

(2) Segment growth rates are presented before the elimination of transactions between Allianz Group subsidiaries in different segments.

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	Nominal total revenue growth %	Changes in scope of consolidation %	Foreign currency translation %	Internal total revenue growth %
2006				
Property-Casualty	(0.1)	(0.2)	(0.2)	0.3
Life/Health	(1.8)		(0.2)	(1.6)
Banking	12.2		(0.1)	12.3
thereof: Dresdner Bank	12.8		(0.1)	12.9
Asset Management	11.8	(0.7)	(0.9)	13.4
thereof: Allianz Global Investors	11.7	(0.7)	(0.9)	13.3
Allianz Group	**0.2**	**(0.1)**	**(0.2)**	**0.5**
2005				
Property-Casualty	1.8	(1.2)	0.4	2.6
Life/Health	6.7		0.5	6.2
Banking	(3.9)		(0.1)	(3.8)
thereof: Dresdner Bank	(5.0)		(0.1)	(4.9)
Asset Management	21.2	1.9	0.2	19.1
thereof: Allianz Global Investors	19.5	1.9	0.2	17.4
Allianz Group	**4.1**	**(0.5)**	**0.4**	**4.2**

Executive Summary

Year ended December 31, 2006 compared to year ended December 31, 2005

2006 was a year of success.

Property-Casualty underwriting profitability stands out with a combined ratio of 92.9%.

Operating profit in Life/Health grew by 23%.

Milestone achieved for cost-income ratio of below 80% in Banking.

Asset Management performed strongly again, further improving operating profit to 1.3 billion.

Net income grew by 60% to 7.0 billion.

Shareholders equity stands at 50.5 billion, up almost 28%

Year ended December 31, 2005 compared to year ended December 31, 2004

We exceeded our targets for 2005 and net income increased by 31% to 4.4 billion.

- All segments surpassed their 2005 objectives.
- Property-Casualty achieved a strong combined ratio of 94.3%.
- Operating profit in Life/Health was 2.1 billion.
- Dresdner Bank increased its operating profit by 38.8% to 630 million.
- Asset Management operating profit grew by 34.9%, more than three times our objective.
- Total revenues reached 101 billion.
- Our shareholders equity increased 31.6% to 39.5 billion.

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Total revenues

in bn

Net income

in mn

Shareholders equity[2]

in mn

(1) Compound annual growth rate (or CAGR) is the year-over-year growth rate over a multiple-year period.
(2) Does not include minority interests.

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Allianz Group s Consolidated Results of Operations

Total revenues

Total revenues Segments

in mn

Year ended December 31, 2006 compared to year ended December 31, 2005

Our total revenues remained stable at 101.1 billion. This result reflects the net effect of substantial operating revenue growth in our Banking and Asset Management segments, flat Property-Casualty gross premiums written, combined with a decline in Life/Health statutory premiums. Total internal revenue growth amounted to 0.5%.

Property-Casualty Gross premiums written were flat at 43.7 billion reflecting average constant prices and a slightly increased sales volume. On an internal growth basis, premium volume was up marginally by 0.3%. We continued to manage local market cycles and to write profitable business, while market conditions varied considerably around the world. Our operations in South America, Spain, New Europe and the United States recorded increases in gross premiums written.

Life/Health Most of our operations worldwide continued to record statutory premium growth, such as in Germany, France, Asia-Pacific, New Europe and Spain. In 2006, our growth markets of Asia-Pacific and New Europe, in aggregate, contributed 9.6% of our total Life/Health statutory premium volume. However, due to considerable decreases in the United States and Italy, total Life/Health statutory premiums were down slightly by 1.8% to 47.4 billion. We believe we will regain growth momentum in these markets. Based on internal growth, statutory premiums decreased by 1.6%.

Banking Operating revenues were up substantially by 12.2% to 7.1 billion in 2006. All income categories contributed to this strong development, with double-digit growth rates in Dresdner Bank s net interest income and net trading income. Both operating divisions at Dresdner Bank recorded considerably higher revenues than a year ago.

Asset Management Based on the consistent strong investment performance we achieve, we again ranked in the top quartile based on net inflows in 2006 compared to our peer companies. With net inflows of 36 billion and market-related appreciation of 43 billion, we achieved our growth target for third-party assets of above 10%, excluding currency conversion effects. Overall, our third-party assets amounted to 764 billion as of December 31, 2006, up 2.8% from a year earlier, after unfavorable exchange rate effects of 57 billion. Our strong asset base was a key factor in repeating double-digit operating revenue growth while facing a challenging market environment.

Year ended December 31, 2005 compared to year ended December 31, 2004

During 2005, led by our Life/Health and Asset Management operations, our total revenues increased by 4.1% to 101.0 billion. Internal growth was 4.2%.

Property-Casualty While we continued to focus on profitable growth, we succeeded in growing gross premiums written by 757 million to 43.7 billion, and achieved internal growth of 2.6%. Particularly strong increases were experienced within the United States, Germany, Switzerland and Australia.

Life/Health Statutory premiums increased by 6.7% to 48.3 billion, originating principally from investment-oriented and single-premium products. Strong growth rates were achieved in our core European life markets, particularly in Germany,

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France and Italy, with growth rates in Germany and France well above 10%. In the United States, statutory premiums remained strong. Internal growth was 6.2%.

Banking Operating revenues from our banking operations declined by 3.9% to 6.3 billion primarily due to the faster than planned close of Dresdner Bank s Institutional Restructuring Unit and the negative accounting impacts from IAS 39. In contrast, operating revenues from Dresdner Bank s operating divisions increased.

Asset Management We achieved record net inflows of third-party assets of 65 billion, particularly from our fixed income institutional funds business within the United States and Germany. Market-related appreciation of third-party assets amounted to 33 billion. Overall, third-party assets increased by 27.0% to 743 billion at December 31, 2005. These positive developments led to significant operating revenue growth of 21.2% to 2.7 billion. Internal growth was 19.1%.

Operating profit

Year ended December 31, 2006 compared to year ended December 31, 2005

Property-Casualty Operating profit increased to 6.3 billion, reflecting our strong underwriting profitability. Our combined ratio improved again from an already very competitive level to 92.9% in 2006, 1.4 percentage points better than a year ago. Both lower severity and frequency of claims contributed to this development. In particular, the exceptionally heavy damages in 2005 from major natural catastrophes in the United States, Central Europe and Asia were not repeated in 2006. In addition, our Sustainability Program has helped us improve the effectiveness and efficiency of workstreams.

Life/Health We were again successful in growing our operating profit which increased in 2006 by 22.5% to 2.6 billion. While continuing to grow our asset base, we further improved our investment, expense and technical margins. Our policyholders also benefit from profit growth as, in 2006, we were able to credit them with a higher participation amount than last year. Our Sustainability Program was also an important contributing factor to operating profit growth in Life/Health.

Banking Our Banking segment s operating profit more than doubled to 1.4 billion in 2006. Operating revenue growth was achieved at the same

time as accomplishing improvements in productivity and efficiency, reflected in decreased operating expenses. Thereby, we achieved our milestone for a cost-income ratio of below 80%.

Asset Management We continued to deliver double-digit operating profit growth and improved our cost-income ratio to 57.6% from an already competitive level in 2005. While at the same time making substantial investments in our distribution network and human resources development, key drivers for these developments were our strong and further growing asset base, and effective cost management.

Year ended December 31, 2005 compared to year ended December 31, 2004

Property-Casualty We achieved a strong combined ratio of 94.3%. We continued to adhere to our disciplined underwriting and pricing practices worldwide, thereby successfully improving our combined ratio by 60 basis points compared to 2004. These positive developments were achieved despite the negative impacts of various natural catastrophes, including one of the worst hurricane seasons on record. The combined effects of losses from natural catastrophes produced estimated claims of 1.1 billion, net of reinsurance. Offsetting these losses were decreases in loss estimates for previous underwriting years. Overall, we achieved an increase in operating profit of 6.6% to 5.1 billion.

Life/Health Operating profit strengthened by 17.1% and reached 2.1 billion, exceeding our 2005 target. Improved margins on new business and the increased business volume from the strong growth rates in recent years were important factors in this development. Our statutory expense ratio remained almost stable at 8.4%, down 0.1 percentage point from 2004.

Banking In 2005, Dresdner Bank increased its operating profit by 38.8% to 630 million. This growth was principally due to a favorable development within Dresdner Bank s net loan loss provisions, resulting in a net release of 113 million (2004: net charge of 337 million), driven predominantly by the reductions in our portfolios within our non-strategic Institutional Restructuring Unit and the improved risk profile of Dresdner Bank s strategic loan portfolio.

Asset Management Operating profit grew by 34.9% to 1.1 billion, thereby significantly

surpassing our 2005 target. Commensurate with this development, we succeeded in consistently reducing our cost-income ratio during the course of 2005 to 58.4%, a marked improvement of 4.2 percentage points. These achievements demonstrated our strong market position and performance as the overwhelming majority of the third-party assets we managed outperformed their respective benchmarks in 2005.

Net income

Year ended December 31, 2006 compared to year ended December 31, 2005

We grew net income by 60.3% to 7.0 billion. This development was primarily driven by our segment s operating profit growth, reflecting the high quality of our earnings. In addition, increased restructuring charges were offset by higher realized gains.

The most significant capital gains resulted from the sale of our shareholdings in Schering AG and in Eurohypo AG in the first half of 2006, as well as from the disposal of Four Seasons Health Care Ltd. in the second half.

Restructuring charges amounted to 964 million, 864 million more than last year. This increase primarily reflects the reorganization of our German insurance operations and the Neue Dresdner Plus reorganization program[1].

Net expenses from financial assets and liabilities held for trading was down significantly, as, in the prior year, heavy negative impacts stemmed from derivatives from an equity-linked loan which was issued as a component of financing the cash tender offer for the outstanding RAS shares.

Income tax expenses of 2.0 billion benefited from the tax-exemption of the significant capital gains and the capitalization of the Allianz Group s total

(1) Please see Note 49 to our consolidated financial statements for further information on our restructuring plans.

corporate tax credits as a consequence of the new German Reorganization Tax Act (SEStEG) which entered into force in December 2006. Following this tax law change, current income tax expenses were reduced by 571 million. Please see Note 41 to our consolidated financial statements for further information. As a result of the above, our effective tax rate declined to 19.5% from 26.3%.

Minority interests in earnings were down 97 million to 1.3 billion. This was primarily a result of the acquisition of the minority interest in RAS.

Year ended December 31, 2005 compared to year ended December 31, 2004

Net income increased significantly to 4.4 billion from 2.3 billion. The increase in our segment s operating profit drove the continued strengthening of our earnings power with income before income taxes and minority interests in earnings reaching 7.8 billion.

Net income also benefited from the discontinuance of goodwill amortization due to a change in accounting under IFRS. In 2004, goodwill amortization amounted to 1.2 billion. This led to a decrease in amortization of intangible assets from 1.4 billion to 50 million.

The aggregate income from realized gains/losses and impairments of investments (net) was up significantly, driven by the favorable capital markets conditions in 2005 compared to 2004.

During 2005, restructuring charges declined by 71.2% to 100 million, due primarily to the absence of significant charges at Dresdner Bank.

Our income tax expenses increased by 28.1% to 2.1 billion, representing an overall effective tax rate of 26.3% (2004: 31.9%). In 2005, our effective tax rate benefited from preferable tax treatment on dividend income and realized capital gains at various operating entities, as well as the discontinuation of non-tax deductible goodwill amortization.

Minority interests in earnings increased by 18.7% to 1.4 billion, primarily due to increased earnings at our Italian and French Life/Health operating entities.

Our strong net income growth translates into continuously significantly increasing earnings per

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share. The following graph presents our basic and diluted earnings per share for the years ended December 31, 2006, 2005 and 2004.

Earnings per share[1]

in

[1] See Note 50 to our consolidated financial statements for further details.
[2] Includes goodwill amortization. Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

The following table summarizes the total revenues, operating profit and net income for each of our segments for the years ended December 2006, 2005 and 2004, as well as IFRS consolidated net income of the Allianz Group.

	Property-Casualty mn	Life/Health mn	Banking mn	Asset Management mn	Corporate mn	Consolidation adjustments mn	Allianz Group mn
2006							
Total revenues[1]	**43,674**	**47,421**	**7,088**	**3,044**		**(98)**	**101,129**
Operating profit (loss)	**6,269**	**2,565**	**1,422**	**1,290**	**(831)**		
Non-operating items	1,291	135	(147)	(555)	(156)		
Income (loss) before income taxes and minority interests in earnings	**7,560**	**2,700**	**1,275**	**735**	**(987)**	**(960)**	**10,323**
Income taxes	(2,075)	(641)	(263)	(278)	824	420	(2,013)
Minority interests in earnings	(739)	(416)	(94)	(53)	(16)	29	(1,289)
Net income (loss)	**4,746**	**1,643**	**918**	**404**	**(179)**	**(511)**	**7,021**
2005							
Total revenues[1]	**43,699**	**48,272**	**6,318**	**2,722**		**(44)**	**100,967**
Operating profit (loss)	**5,142**	**2,094**	**704**	**1,132**	**(881)**		
Non-operating items	1,024	177	822	(707)	(1,118)		
Income (loss) before income taxes and minority interests in earnings	**6,166**	**2,271**	**1,526**	**425**	**(1,999)**	**(560)**	**7,829**
Income taxes	(1,804)	(488)	(387)	(129)	741	4	(2,063)
Minority interests in earnings	(827)	(425)	(102)	(52)	(10)	30	(1,386)
Net income (loss)	**3,535**	**1,358**	**1,037**	**244**	**(1,268)**	**(526)**	**4,380**
2004							
Total revenues[1]	**42,942**	**45,233**	**6,576**	**2,245**		**(47)**	**96,949**
Operating profit (loss)	**4,825**	**1,788**	**447**	**839**	**(870)**		
Non-operating items	475	(175)	(539)	(1,114)	(172)		
Income (loss) before income taxes and minority interests in earnings	**5,300**	**1,613**	**(92)**	**(275)**	**(1,042)**	**(460)**	**5,044**
Income taxes	(1,751)	(458)	302	52	263	(18)	(1,610)
Minority interests in earnings	(681)	(333)	(101)	(52)	(28)	27	(1,168)
Net income (loss)	**2,868**	**822**	**109**	**(275)**	**(807)**	**(451)**	**2,266**

[1] Total revenues comprise Property-Casualty segment s gross premiums written, Life/Health segment s statutory premiums, Banking segment s operating revenues and Asset Management segment s operating revenues.

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Recently Adopted and Issued Accounting Pronouncements and Changes in the Presentation of the Consolidated Financial Statements

For information on recently adopted and issued accounting pronouncements please see Note 3 to our consolidated financial statements.

Effective January 1, 2006, we implemented certain revisions to our consolidated financial statements to enhance the reader s understanding of our financial results and to use a more consistent presentation with that of our peers. These revisions reflect certain reclassifications in our consolidated balance sheet and consolidated income statement, changes to our segment reporting, changes to operating profit methodology and changes to our consolidated statements of cash flows. We applied these revisions to all three years of the Allianz

Group s consolidated financial statements presented in this Annual Report on Form 20-F. As a result, we have retrospectively applied these revisions to the Allianz Group s consolidated financial statements as of and for the years ended December 31, 2005 and 2004, as previously issued in connection with our Annual Report on Form 20-F for the year ended December 31, 2005, without any impact on our consolidated net income and shareholders equity for these years. See Note 3 to our consolidated financial statements for detailed information on the changes of our consolidated financial statements and the impact of these revisions.

Events After the Balance Sheet Date

See Recent and Expected Developments Significant Expected Investments and Note 52 to the consolidated financial statements.

Property-Casualty Insurance Operations

Year ended December 31, 2006 compared to year ended December 31, 2005

Underwriting performance drives operating profitability.

- Very competitive combined ratio of 92.9%.
- Further operating profit growth of 22% to 6.3 billion after an already strong year in 2005.
- We sustained our successful strategy of selective use of market opportunities.
- Net income increased 34.3% to 4.7 billion.

Year ended December 31, 2005 compared to year ended December 31, 2004

Combined ratio further improved to 94.3%.

Although we continued to focus on profitable growth, we succeeded in increasing gross premiums written by 2.6%, excluding the effects of exchange rate movements and disposals and acquisitions.

We achieved a combined ratio of 94.3% 60 basis points better than a year earlier despite the effects of natural catastrophes.

Our operating profit grew by 6.6%, reaching 5.1 billion.

Net income grew by 23.3% to 3.5 billion, through our robust operating profitability as well as increased non-operating items.

Earnings Summary

Gross premiums written

Gross premiums written by region[1]

in %

[1] After elimination of transactions between Allianz Group companies in different geographic regions and different segments. Gross premiums written from our specialty lines have been allocated to the respective geographic regions.

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Gross premiums written Growth rates[1]

in %

[1] Before elimination of transactions between Allianz Group companies in different geographic regions and different segments.

Year ended December 31, 2006 compared to year ended December 31, 2005

In 2006, our underwriting strategy of putting profitability ahead of volume was again successful. Gross premiums written were flat at 43,674 million reflecting average constant prices and a slightly increased sales volume, with considerably varying developments across our different markets. Increases in gross premiums written were primarily achieved within Spain (+ 140 million) and the United States (+ 115 million), as well as our emerging markets of New Europe (+ 117 million) and South America (+ 153 million). Lower gross premiums written were recorded within Germany, in Switzerland at Allianz Risk Transfer (or ART) and within our specialty lines at Allianz Global Corporate & Specialty. On an internal growth basis, gross premiums written grew marginally by 0.3%.

We continued to benefit from our global diversification and the measures implemented as part of our Sustainability Program which allow us to take selective advantage of market opportunities and to perform local market cycle management.

At Allianz Sach within Germany, we closely monitored pricing development in order to maintain profitability. Premiums in our motor business were down, reflecting largely lower prices. The development in our casualty lines primarily due to increased sales of accident insurance products with premium refunds, however, compensated partially for the decline in motor. An additional factor contributing to the lower premiums within Germany was that the Allianz Group s Property-Casualty subsidiaries outside of Germany reduced their internal reinsurance cessions to Allianz SE.

In some markets, such as the United States and Spain, we recorded increasing volumes while being able to maintain stable, profitable prices. Two lines of business contributing to the increased business volume at Fireman s Fund Insurance Company (or Fireman s Fund) in the United States were the crop insurance business and specialty casualty lines. The positive development in Spain was attributable to higher sales across all lines of business.

The decrease of 207 million in Switzerland reflected an increase in gross premiums written at Allianz Suisse due to a favorable development in our motor business and lower premium volume at ART. At ART, in 2005, we benefited from a large single premium multi-year contract.

Within New Europe, the increase in gross premiums written took place in a well-performing economy. Our distribution network captured a significant part of the growing market potential. The expanded sales capacity in Poland was the key driver for the growth of our property-casualty portfolio. In contrast, in Hungary, we were willing to forego volume for better prices and thereby protected our profitability.

In South America, our operations benefited predominantly from growth in our Brazilian motor business driven by a continued good performance of the fleet business and an increase of new car sales.

At Allianz Global Corporate & Specialty gross premiums written were down 142 million to 2,802 million. This development was to a large extent brought about by foregoing business volume as a result of declining prices mainly in Europe.

Year ended December 31, 2005 compared to year ended December 31, 2004

Capitalizing on growth opportunities in markets that offered a profitable correlation between premium

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rates and risks meant, we were successful in growing gross premiums written from 42,942 million to 43,699 million, despite the disposal of our Taiwanese, Chilean and Canadian operations in the second half of 2004. Based on internal growth, gross premiums written increased by 2.6%.

Growth varied considerably across our different operations. Positive developments were primarily experienced in the United States and within Germany, as well as at our Swiss and Australian operations with additional gross premiums written of 298 million (7.3%), 274 million (2.4%), 196 million (10.8%), and 145 million (11.0%), respectively. At Fireman s Fund in the United States, increases across all lines of business were achieved, namely in our personal, commercial and specialty lines with a constant focus on disciplined underwriting and increased sales effectiveness in our chosen markets. The higher gross premiums written within Germany resulted primarily from our property-casualty assumed reinsurance business at Allianz SE which benefited from a lower self-retention level at Allianz Global Corporate & Specialty, as well as increased assumed business from Munich Re. Revenues at Allianz Sach were stable as we remained committed to our policy of focusing on profitability rather than volume of business. In Switzerland, growth was driven primarily by Allianz Risk Transfer AG (or ART). The increase at Allianz Australia resulted from its broker and agency channels as well as its financial institutions and direct divisions due to intensified customer relationship management and positive exchange rate effects.

Further increases, albeit to a lesser degree, were also experienced in South America, Spain and Italy with gross premiums written increasing by 117 million (19.5%), 110 million (6.2%) and 98 million (1.9%), respectively. The growth in South America, specifically from our operations in Brazil, stemmed from, among other factors, our motor business as a result of increased sales of new cars. The beneficial development in Spain at Allianz Compañía de Seguros y Reaseguros S.A. was driven by all lines of business, which includes motor, personal and industrial lines. In Italy, the increase in gross premiums written at RAS Group was mainly driven by the development of our non-motor business, and in particular by the significant growth of personal lines and business with small and

medium enterprises. The motor business at RAS Group increased marginally, in line with the market growth in Italy, partially compensated by the development of the direct channel, Genialloyd.

Within our specialty lines, growth within credit insurance at Euler Hermes of 95 million (5.8%) resulted to a large extent from our French, Italian and United States operations, as our customers in these regions increased their sales, producing increased receivables. Similarly, within travel insurance and assistance services, Mondial Assistance Group saw an increase of 91 million (10.1%), primarily driven by increased sales through the internet as well as stronger sales through airline partners.

These increases were offset by decreases primarily in the United Kingdom and France, where gross premiums written declined by 183 million (7.0%) and 178 million (3.4%), respectively.

In the United Kingdom at Allianz Cornhill Insurance plc., this decrease was primarily related to lower premiums in our motor and household lines, a development that was significantly driven by our cycle management efforts, through which we endeavor to balance volume and margin criteria. Our French subsidiary, AGF IART, as result of a more competitive environment, experienced lower gross premiums written especially through its brokerage business with large accounts.

Operating profit

Operating profit

in mn

Year ended December 31, 2006 compared to year ended December 31, 2005

Operating profit showed a strong increase of 21.9% to 6,269 million. The top three contributing operations to our operating profit growth were

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Allianz Global Corporate & Specialty at 658 million, the United States at 328 million and France at 193 million. In Italy and Switzerland we also experienced strong increases of 75 million each. The decrease within Germany by 286 million stemmed from declines of a similar magnitude at both Allianz Sach and Allianz SE. Lower gross premiums written, previously described, were the primary factor for the decline in operating profit at Allianz Sach. At Allianz SE, operating profit was down mainly due to lower premium income as a result of decreased internal cessions from Allianz Group companies outside of Germany, as well as increased loss estimates for Hurricane Katrina in the United States in 2005.

Our significantly improved underwriting profitability was the main driver behind these strong developments, with excellent combined ratios across all markets. Driven by the improvement of our loss ratio, our combined ratio was down to 92.9%, 1.4 percentage points better than a year earlier. Thereby, we surpassed our target of 95% and further solidified our competitive position within the property-casualty market.

In 2006, we recorded both lower severity and frequency of claims. The exceptionally high losses from natural catastrophes in the prior year were not repeated. In addition, our motor business experienced severity increases which were clearly lower than inflation. Accordingly, our accident year loss ratio improved by 2.8 percentage points to 67.6%.

Overall, claims and insurance benefits incurred (net), at 24,672 million in 2006, were down 2.6% from a year ago. As a result, our calendar year loss ratio improved by 2.2 percentage points to 65.0%. The difference between the improvement of our loss ratio based on accident year compared to that based on calendar year is due to lower run-offs in 2006 compared to 2005. We continued to deliver positive net development on prior years loss reserves primarily in Italy, France, the United Kingdom and within our credit insurance business. Partially, we attribute this positive development to the measures we are undertaking in the context of our Sustainability Program, such as improved claims management processes in many companies.

Acquisition and administrative expenses (net), at 10,590 million in 2006, were 374 million higher than last year. This drove our expense ratio up by 80 basis points to 27.9%.

However, in the amount of 109 million, these developments resulted from the inclusion of additional net expenses in acquisition and administrative expenses, previously not included in this item. Further important factors were strategic project-related expenses associated with our initiatives for future profit growth, such as our Sustainability Program, as well as increased accruals for retirements in Germany and additional pension accruals. Increased accruals for retirements arose, among other factors, from the facilitation of the use of early retirement schemes due to pension law changes in Germany, of which many employees at Allianz Sach took advantage.

Interest and similar income rose by 349 million to 4,096 million, reflecting higher dividends received, improved yields from debt securities due to slightly higher coupon payments, and our growing asset base. Realized gains/losses (net) from investments, shared with policyholders, declined by 227 million to 46 million. In 2005, realizations from available-for-sale equity investments in connection with accident insurance products with premium refunds in Germany were exceptionally high due to a strategy change at the fund managing these assets. This had an impact of a similar, but opposite, magnitude on changes in reserves for insurance and investment contracts (net), which amounted to a net expense of 425 million in 2006 compared to a net expense of 707 million a year earlier.

Year ended December 31, 2005 compared to year ended December 31, 2004

Driven by further improvement of our combined ratio to 94.3%, our operating profit grew by 6.6% to 5,142 million, a growth rate stronger than that of our gross premiums written. The strongest improvements occurred within Germany (241 million), at Fireman s Fund in the United States (146 million), at Allianz Australia (101 million), and at our Credit Insurance operations through Euler Hermes (70 million).

In a year that saw a large number of global catastrophes and one of the worst hurricane seasons on record, the insurance and reinsurance markets as a whole incurred multi-billion Euros in damages. Our units most affected by the natural catastrophes included Allianz Global Corporate & Specialty and Allianz SE.

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Total estimated claims from natural catastrophes, net of reinsurance, were 1.1 billion in 2005, increasing our accident year loss ratio to 70.4% (2004: 68.8%). These natural catastrophe losses were mitigated by positive net development on prior years loss reserves largely in the United Kingdom, Italy, Slovakia and within our specialty lines. Consequently, our calendar year loss ratio decreased to 67.2% (2004: 67.6%). In the United States, the planned external review of the asbestos & environmental (or A&E) liability reserves at Fireman s Fund had no net impact at the Allianz Group level as a result of already sufficient reserves, except a USD 65 million loss caused by the increase in provisions for uncollectible reinsurance recoverables and unallocated loss adjustment expenses.

Our expense ratio declined by 20 basis points to 27.1% (2004: 27.3%), due to relatively stable acquisition and administrative expenses (net), and a small increase in premiums earned (net).

Realized gains/losses (net) from investments, shared with policyholders, was up from 58 million to 273 million, primarily resulting from higher realizations from available-for-sale equity investments in connection with German accident insurance products with premium refunds. Interest and similar income increased to 3,747 million, 132 million higher than the previous year, mainly as a result of higher income from debt securities. Other income declined by 235 million compared to the 2004 level of 288 million due to Allianz Sach s sale of real estate used for own use in 2004. Higher investment expenses, up 129 million, resulted principally from increased foreign currency losses. Fee and commission income as well as fee and commission expenses both grew by a similar magnitude (207 million and 245 million, respectively), stemming from the reclassification of certain income and expense items related to our credit insurance business from other income/expenses to fee and commission income/expenses.

Non-operating items

Year ended December 31, 2006 compared to year ended December 31, 2005

Non-operating items, in aggregate, resulted in a gain of 1,291 million, up 267 million from a year ago. This improvement is principally the result of increased realized gains which were only partially

offset by higher impacts from impairments of investments and restructuring charges.

Realized gains/losses (net) from investments, not shared with policyholders, amounted to 1,746 million, 598 million higher than last year. The transactions contributing most to this increase were the sale of Allianz Sach s participation in Schering AG and the disposal of our real estate portfolio in Austria in June 2006, as well as the sale of Lloyd Adriatico s shareholding in Banca Antoniana Popolare Veneta S.p.A. in April 2006, which together accounted for 726 million of the increase.

Non-operating impairments of investments (net) rose by 98 million to 175 million, to a large extent brought about by impairments of available-for-sale equity securities in the second quarter of 2006 at Allianz Sach following at that time the downward trend in the equity capital markets.

Restructuring charges were up 294 million to 362 million, stemming primarily from the reorganization of our German insurance operations[1].

Year ended December 31, 2005 compared to year ended December 31, 2004

Non-operating items, in the aggregate, generated a net positive impact of 1,024 million compared to 475 million in 2004.

Realized gains/losses (net) from investments, not shared with policyholders, were up 15.1% to 1,148 million. This increase stemmed primarily from higher realizations from available-for-sale equity investments.

Amortization of intangible assets was reduced to 11 million from 403 million in 2004 due to the elimination of goodwill amortization brought about by a change in accounting under IFRS.

Restructuring charges of 68 million were incurred during 2005, of which 52 million were attributable to the AGF Group in connection with an early retirement program.

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(1) Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations and Note 49 to our consolidated financial statements for further information.

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Net income

Year ended December 31, 2006 compared to year ended December 31, 2005

Net income increased 34.3% to 4,746 million, driven both by our significantly improved operating profitability and the higher gain from non-operating items.

Income tax expenses rose by 15.0% and amounted to 2,075 million. Our effective tax rate declined from 29.3% to 27.4%, largely due to the capitalization of corporate tax credits in Germany.

Minority interests in earnings decreased by 10.6% to 739 million primarily as a result of the minority buyout at RAS in Italy.

Year ended December 31, 2005 compared to year ended December 31, 2004

Net income rose by 23.3% to 3,535 million, driven by our robust operating profitability and from the improvement in non-operating results as discussed above.

Income tax expenses increased by 3.0% to 1,804 million, which was a smaller increase than for income before income taxes and minority interests in earnings, which was up 16.3%. This is reflected in a decline in our effective tax rate to 29.3% (2004: 33.0%), largely driven by the discontinuation of non-tax-deductible goodwill amortization.

Minority interests in earnings increased by 21.4% to 827 million, primarily as a result of higher income after income taxes in France, Italy and at Euler Hermes.

The following table sets forth our Property-Casualty insurance segment s income statement, loss ratio, expense ratio and combined ratio for the years ended December 31, 2006, 2005 and 2004.

	2006 mn	2005 mn	2004 mn
Gross premiums written[1]	**43,674**	**43,699**	**42,942**
Ceded premiums written	(5,415)	(5,529)	(5,299)
Change in unearned premiums	(309)	(485)	(258)
Premiums earned (net)	37,950	37,685	37,385
Interest and similar income	4,096	3,747	3,615
Income from financial assets and liabilities designated at fair value through income (net) [2]	106	132	5

Realized gains/losses (net) from investments, shared with policyholders[3]	46	273	58
Fee and commission income	1,014	989	782
Other income	69	53	288
Operating revenues	**43,281**	**42,879**	**42,133**
Claims and insurance benefits incurred (net)	(24,672)	(25,331)	(25,271)
Changes in reserves for insurance and investment contracts (net)	(425)	(707)	(611)
Interest expense	(273)	(339)	(417)
Loan loss provisions	(2)	(1)	(7)
Impairments of investments (net), shared with policyholders[4]	(25)	(18)	(37)
Investment expenses	(300)	(333)	(204)
Acquisition and administrative expenses (net)	(10,590)	(10,216)	(10,192)
Fee and commission expenses	(721)	(775)	(530)
Other expenses	(4)	(17)	(39)
Operating expenses	**(37,012)**	**(37,737)**	**(37,308)**
Operating profit	**6,269**	**5,142**	**4,825**
Income from financial assets and liabilities held for trading (net) [2]	83	32	20
Realized gains/losses (net) from investments, not shared with policyholders[3]	1,746	1,148	997
Impairments of investments (net), not shared with policyholders[4]	(175)	(77)	(107)
Amortization of intangible assets	(1)	(11)	(403)
Restructuring charges	(362)	(68)	(32)
Non-operating items	**1,291**	**1,024**	**475**
Income before income taxes and minority interests in earnings	**7,560**	**6,166**	**5,300**
Income taxes	(2,075)	(1,804)	(1,751)
Minority interests in earnings	(739)	(827)	(681)
Net income	**4,746**	**3,535**	**2,868**
Loss ratio[5] in %	65.0	67.2	67.6
Expense ratio[6] in %	27.9	27.1	27.3
Combined ratio[7] in %	**92.9**	**94.3**	**94.9**

(1) For the Property-Casualty segment, total revenues are measured based upon gross premiums written.

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(2) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement included in Note 5 to the consolidated financial statements.
(3) The total of these items equals realized gains/losses (net) in the segment income statement included in Note 5 to the consolidated financial statements.
(4) The total of these items equals impairments of investments (net) in the segment income statement included in Note 5 to the consolidated financial statements.
(5) Represents claims and insurance benefits incurred (net) divided by premiums earned (net).
(6) Represents acquisition and administrative expenses (net) divided by premiums earned (net).
(7) Represents the total of acquisition and administrative expenses (net) and claims and insurance benefits incurred (net) divided by premiums earned (net).

Property-Casualty Operations by Geographic Region

The following tables set forth our property-casualty gross premiums written, premiums earned (net), combined ratio, loss ratio, expense ratio and operating profit by geographic region for the years ended December 31, 2006, 2005 and 2004. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different geographic regions and different segments.

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	Gross premiums written			Premiums earned (net)			Combined ratio		
		mn			mn			%	
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Germany[1]	**11,427**	**11,647**	**11,373**	**9,844**	**10,048**	**9,702**	**92.9**	**89.4**	**93.0**
France	**5,110**	**5,104**	**5,282**	**4,429**	**4,375**	**4,484**	**99.2**	**102.0**	**100.5**
Italy	**5,396**	**5,369**	**5,271**	**4,935**	**4,964**	**4,840**	**91.8**	**93.6**	**94.4**
United Kingdom	**2,396**	**2,449**	**2,632**	**1,874**	**1,913**	**2,012**	**95.7**	**96.2**	**95.7**
Switzerland	**1,805**	**2,012**	**1,816**	**1,706**	**1,708**	**1,659**	**92.8**	**97.8**	**93.4**
Spain	**2,013**	**1,873**	**1,763**	**1,675**	**1,551**	**1,454**	**90.3**	**91.4**	**91.1**
Netherlands	926	930	981	813	823	835	88.7	91.3	99.2
Austria	922	935	926	782	773	710	98.4	98.3	100.6
Ireland	704	733	792	622	653	734	74.4	76.9	77.8
Belgium	356	352	351	298	293	282	104.5	104.1	108.2
Portugal	287	304	315	258	275	271	91.2	92.8	98.8
Luxembourg[2]			108			106			79.7
Greece	74	71	73	46	46	47	92.4	82.0	119.2
Western and Southern Europe	**3,269**	**3,325**	**3,546**	**2,819**	**2,863**	**2,985**	**90.2**	**91.2**	**94.7**
Hungary	576	599	533	499	523	472	97.0	101.6	103.2
Slovakia	289	301	326	251	251	266	86.4	74.5	100.3
Czech Republic	253	242	234	179	160	140	82.6	85.7	83.7
Poland	284	235	196	200	160	104	92.8	93.3	94.8
Romania	292	220	169	132	125	95	92.0	94.8	94.2
Bulgaria	96	92	78	70	37	34	80.2	66.6	51.6
Croatia	71	60	48	53	45	36	95.6	97.7	98.5
Russia	30	25	24	4	12	4	88.5	22.9	42.6
New Europe	**1,891**	**1,774**	**1,608**	**1,388**	**1,313**	**1,151**	**91.2**	**90.9**	**96.8**
Other Europe	**5,160**	**5,099**	**5,154**	**4,207**	**4,176**	**4,136**	**90.5**	**91.1**	**95.3**
United States[1]	4,510	4,395	4,097	3,523	3,478	3,392	88.6	96.0	97.7
Canada[3]			464			354			91.9
Mexico	192	175	260	100	88	155	102.5	104.8	32.1
NAFTA	**4,702**	**4,570**	**4,821**	**3,623**	**3,566**	**3,901**	**88.9**	**96.2**	**94.5**
Australia	1,452	1,469	1,324	1,195	1,159	1,081	96.2	95.2	101.0
Other	310	280	348	141	121	162	93.8	94.5	93.7
Asia-Pacific	**1,762**	**1,749**	**1,672**	**1,336**	**1,280**	**1,243**	**95.9**	**95.2**	**100.0**
South America	**869**	**716**	**599**	**623**	**510**	**378**	**101.2**	**100.8**	**102.7**
Other	**68**	**58**	**63**	**32**	**30**	**33**	[5]	[5]	[5]
Specialty Lines									
Credit Insurance	**1,672**	**1,725**	**1,630**	**1,113**	**997**	**901**	**77.6**	**67.0**	**76.0**
Allianz Global Corporate & Specialty[1]	**2,802**	**2,944**	**2,885**	**1,545**	**1,633**	**1,779**	**92.2**	**122.4**	**99.7**
Travel Insurance and Assistance Services	**1,044**	**991**	**900**	**1,008**	**934**	**863**	**101.8**	**93.3**	**95.5**
Subtotal	**46,226**	**46,306**	**45,861**	**37,950**	**37,685**	**37,385**			
Consolidation adjustments[4]	(2,552)	(2,607)	(2,919)						
Total	**43,674**	**43,699**	**42,942**	**37,950**	**37,685**	**37,385**	**92.9**	**94.3**	**94.9**

(1) We have combined the activities of Allianz Global Risks Re and Allianz Marine & Aviation, previously presented separately under Specialty lines, the corporate customer business of Allianz Sach, previously included within Germany, as well as the activities of Allianz Global Risks US, previously included within the United States, within the newly established operating entity Allianz Global Corporate & Specialty. In addition, we reclassified the life/health business assumed by Allianz SE, previously included within Germany, and now present it within Other in the Life/Health breakdown by geographic region (please see Life/Health Insurance Operations Life/Health Operations by Geographic Region). Prior year balances have been adjusted to reflect these reclassifications and to allow for comparability across periods.

(2) The decline since 2004 is due to the merger of International Reinsurance Company S.A. into Allianz SE. The remaining operating profit amounts reflect run-off.

(3) In December 2004, we sold our Canadian property-casualty insurance business, other than our industrial insurance risks business.

(4) Represents elimination of transactions between Allianz Group companies in different geographic regions.

(5) Presentation not meaningful.

	Loss ratio			Expense ratio			Operating profit		
		%			%			mn	
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Germany[1]	**65.1**	**63.0**	**66.6**	**27.8**	**26.4**	**26.4**	**1,479**	**1,765**	**1,524**
France	**71.0**	**74.0**	**73.5**	**28.2**	**28.0**	**27.0**	**420**	**227**	**245**
Italy	**68.8**	**69.3**	**69.4**	**23.0**	**24.3**	**25.0**	**816**	**741**	**686**
United Kingdom	**64.1**	**65.4**	**65.1**	**31.6**	**30.8**	**30.6**	**281**	**268**	**276**
Switzerland	**69.3**	**74.9**	**72.9**	**23.5**	**22.9**	**20.5**	**228**	**153**	**148**
Spain	**71.0**	**71.4**	**72.2**	**19.3**	**20.0**	**18.9**	**252**	**217**	**197**
Netherlands	57.1	60.5	68.4	31.6	30.8	30.8	150	135	81
Austria	73.1	72.4	72.2	25.3	25.9	28.4	82	92	55
Ireland	50.2	53.8	55.9	24.2	23.1	21.9	222	204	217
Belgium	66.9	66.1	68.9	37.6	38.0	39.3	30	24	23
Portugal	64.4	67.0	70.2	26.8	25.8	28.6	36	32	16
Luxembourg[2]			76.6			3.1	20	(4)	51
Greece	57.7	49.7	87.9	34.7	32.3	31.3	10	11	(9)
Western and Southern Europe	**61.7**	**63.2**	**67.0**	**28.5**	**28.0**	**27.7**	**550**	**494**	**434**
Hungary	64.8	70.7	72.1	32.2	30.9	31.1	68	63	54
Slovakia	55.4	43.2	72.6	31.0	31.3	27.7	52	82	17
Czech Republic	61.4	63.8	63.3	21.2	21.9	20.4	29	27	27
Poland	57.4	59.7	61.2	35.4	33.6	33.6	20	12	13
Romania	72.4	75.8	71.1	19.6	19.0	23.1	11	11	13
Bulgaria	41.7	27.0	12.5	38.5	39.6	39.1	16	14	18
Croatia	63.8	63.0	58.7	31.8	34.7	39.8	4	2	2
Russia	34.7	5.8	14.0	53.8	17.1	28.6	1	2	2
New Europe	**61.0**	**61.6**	**67.7**	**30.2**	**29.3**	**29.1**	**201**	**213**	**146**
Other Europe	**61.5**	**62.7**	**67.2**	**29.0**	**28.4**	**28.1**	**751**	**707**	**580**
United States[1]	57.9	66.8	66.7	30.7	29.2	31.0	810	482	336
Canada[3]			62.6			29.3			57
Mexico	78.8	81.2	19.3	23.7	23.6	12.8	15	13	13
NAFTA	**58.4**	**67.1**	**64.4**	**30.5**	**29.1**	**30.1**	**825**	**495**	**406**
Australia	70.3	69.1	75.1	25.9	26.1	25.9	225	235	134
Other	55.7	57.2	57.1	38.1	37.3	36.6	19	17	20
Asia-Pacific	**68.7**	**68.0**	**72.7**	**27.2**	**27.2**	**27.3**	**244**	**252**	**154**
South America	**64.8**	**64.5**	**64.7**	**36.4**	**36.3**	**38.0**	**47**	**61**	**8**
Other	[5]	[5]	[5]	[5]	[5]	[5]	**(7)**	**7**	**10**
Specialty Lines									
Credit Insurance	**49.7**	**41.3**	**40.8**	**27.9**	**25.7**	**35.2**	**442**	**420**	**350**
Allianz Global Corporate & Specialty[1]	**62.5**	**91.1**	**70.5**	**29.7**	**31.3**	**29.2**	**404**	**(254)**	**178**
Travel Insurance and Assistance Services	**58.7**	**60.3**	**59.7**	**43.1**	**33.0**	**35.8**	**90**	**77**	**59**
Subtotal							**6,272**	**5,136**	**4,821**
Consolidation adjustments[4]							(3)	6	4
Total	**65.0**	**67.2**	**67.6**	**27.9**	**27.1**	**27.3**	**6,269**	**5,142**	**4,825**

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(1) We have combined the activities of Allianz Global Risks Re and Allianz Marine & Aviation, previously presented separately under Specialty Lines, the corporate customer business of Allianz Sach, previously included within Germany, as well as the activities of Allianz Global Risks US, previously included within the United States, within the newly established operating entity Allianz Global Corporate & Specialty. In addition, we reclassified the life/health business assumed by Allianz SE, previously included within Germany, and now present it within Other in the Life/Health breakdown by geographic region (please see Life/Health Insurance Operations Life/Health Operations by Geographic Regions). Prior year balances have been adjusted to reflect these reclassifications and to allow for comparability across periods.

(2) The decline since 2004 is due to the merger of International Reinsurance Company S.A. into Allianz SE. The remaining operating profit amounts reflect run-off.

(3) In December 2004, we sold our Canadian property-casualty insurance business, other than our industrial insurance risks business.

(4) Represents elimination of transactions between Allianz Group subsidiaries in different geographic regions.
(5) Presentation not meaningful.

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Life/Health Insurance Operations

Year ended December 31, 2006 compared to year ended December 31, 2005

Strong operating profit growth sustained, while revenues were nearly flat.

- Statutory premium growth held back by Italy and the United States.
- Dynamic operating profit growth continued.
- Higher investment, expense and technical margins drive operating profit.
- Driven by the higher operating profit, net income rose by 21.0% to 1.6 billion.

Year ended December 31, 2005 compared to year ended December 31, 2004

Strong profitable growth.

- Overall, 6.7% increase in statutory premiums, driven by our key European markets of Germany, France and Italy.
- Operating profit grew even stronger by 17.1%, reaching 2.1 billion, and exceeding our target, reflecting stronger product margins and increased realized gains.
- Net income reached 1.4 billion, a 65.2% increase over 2004, as a result of strong improvements in both operating profit and income from non-operating items.

Earnings Summary

Statutory premiums

Statutory premiums by region[1]

in %

[1] After elimination of transactions between Allianz Group companies in different geographic regions and different segments.

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Statutory premiums Growth rates[1]

in %

[1] Before elimination of transactions between Allianz Group companies in different geographic regions and different segments.

Year ended December 31, 2006 compared to year ended December 31, 2005

Many of our operating entities worldwide, especially in the growth markets of Asia-Pacific and New Europe, increased their statutory premiums with high double-digit growth rates. In 2006, these two markets, in aggregate, contributed 9.6% of our total statutory premiums, compared to 7.8% in 2005. But also most of our established markets continued to grow dynamically, such as Germany Life at 6.4% and France at 9.6%. However, these increases were offset by marked declines particularly in the United States and Italy of 21.2% and 8.1%, respectively. Overall, our statutory premiums, at 47,421 million in 2006, were slightly down 1.8% on a nominal basis and 1.6% on an internal basis compared to 2005. Our new business mix showed an increase in recurring premium products and a decrease in single premium business compared to last year. Given that in the year of sale, a recurring premium contract only contributes a fraction of a single premium contract to annual premiums, this change in new business mix had a negative impact on statutory premium growth year-on-year in 2006. The new recurring premium

contracts will however increase premiums in subsequent years.

Within Germany Life, statutory premiums excelled to 13,009 million, primarily a result of strong new business production in both our individual and group life business.

At our life operating entities of AGF Group in France, we generated statutory premium growth to 5,792 million. This positive development was brought about by strong sales of unit-linked contracts, particularly related to several newly-launched products. Growth was achieved both through our proprietary financial advisors network and partnerships with independent advisors.

Within Asia-Pacific, statutory premiums in South Korea increased to 2,054 million as we recorded strong sales of equity-indexed annuity products and in our variable annuity business. In China, growth was also significant, albeit starting from a low base. Here, we began to benefit from our strategic partnership with Industrial and Commercial Bank of China Ltd. We have received further sales licenses and expanded our branch network.

Within New Europe our growth markets in Central and Eastern Europe our Polish operations recorded a strong increase in statutory premiums from a very successful sales campaign for unit-linked contracts with a bank partner. In addition, in Slovakia, we generated considerable new business production through our tied agents network. In the fourth quarter of 2006, our companies in the region launched a limited-edition index-linked life insurance product across six markets. Overall, our operations within New Europe recorded statutory premiums of 828 million in 2006, 72.9% up from a year earlier.

Conversely, in the United States, statutory premiums declined significantly by 21.2% to 8,758 million. This development is primarily attributable to challenges faced by our sales channels in response to the NASD [1] notice in late 2005 to members regarding the sale of

equity-indexed annuities. However, despite the decrease in statutory premiums, our Life/Health asset base in the United States grew. In Italy, statutory premiums were down considerably by 8.1% to 8,555 million, principally negatively influenced by a difficult market environment which was characterized by, among other factors, decreased overall private demand for life insurance products in

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(1) The National Association of Securities Dealers (or NASD) is a private-sector provider of financial regulatory services in the United States.

the bancassurance channel. In addition, at RAS Group, our share in the total life production of our joint venture partner UniCredit Group decreased. [1]

Year ended December 31, 2005 compared to year ended December 31, 2004

Our statutory premiums rose by 6.7% to 48,272 million, with particularly strong growth in our key European markets resulting from our solid market positions, our ability to reach our customers through a variety of distribution channels and increasing demand for retirement products. Based on internal growth, our statutory premiums increased by 6.2%.

The strongest growth was achieved within Germany Life at 11.8% (+ 1,293 million), France at 12.0% (+ 567 million), Italy at 6.6% (+ 575 million) and the Asia-Pacific region at 29.8% (+ 759 million). In Switzerland, statutory premiums remained relatively unchanged at 1,058 million. Likewise, in the United States, statutory premiums remained strong at 11,115 million. Conversely, in Spain, statutory premiums declined by 19.1% to 547 million primarily due to a large pension contract we acquired in the first quarter of 2004.

Through Allianz Lebensversicherungs-Aktiengesellschaft (or Allianz Leben), Germany Life s 11.8% growth reflected the success it had achieved in the context of the 2004 German Retirement Revenue Act (*Alterseinkünftegesetz*), resulting in a considerable increase in recurring premiums which began in the fourth quarter of 2004 and continued over the course of 2005. Additionally, and equally as important, growth from single premium products, namely our corporate pension solutions business and short-term renewals, were contributing factors to the underlying growth at Allianz Leben.

In France, at AGF Vie, the increase was driven by strong sales of unit-linked products through our well-performing partnership and brokers as well as our agent channels. Additionally, the acquisition of

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[1] Please see Information on the Company Our Largest Insurance Markets and Companies Life/Health Insurance Operations United States Expected Developments and Information on the Company Our Largest Insurance Markets and Companies Life/Health Insurance Operations Italy Expected Developments for information on certain measures to regain growth momentum in the United States and Italy, respectively.

AVIP and Martin Maurel Vie on December 31, 2004 from Dresdner Bank was a contributing factor to France s growth in 2005.

Our Italian operating entities experienced considerable growth of 6.6% from the sale of unit-linked and index-linked products through all distribution channels, particularly through representative agencies and financial planners. In addition, statutory premiums from the bancassurance channel grew, reflecting increased sales at CreditRas Vita. Within Italy, 69% of our total statutory premiums consisted of investment oriented products in 2005 (2004: 65%).

Our Asia-Pacific markets excelled, experiencing an increase of 29.8% to 3,309 million, mainly in South Korea and Taiwan, thus highlighting the strategic importance of this region. The growth at Allianz Life Insurance Co. Ltd. (or Allianz Life Korea) in South Korea was the result of strong sales of variable-life products, a product line which had been launched in 2004.

In the United States, at Allianz Life Insurance Company of North America (or Allianz Life United States), we experienced a 4.6% increase in statutory premiums related to core business lines, led by strong fixed-annuity sales. The overall 1.1% decline in statutory premiums, however, was due to a novation (sale) of a non-core portfolio of reinsurance business in 2005.

Operating profit

Operating profit

in mn

Year ended December 31, 2006 compared to year ended December 31, 2005

We again delivered growth in operating profit which increased to 2,565 million, up 22.5% from a year ago. Key factors in this strong development

were the growth of our Life/Health asset base, our improved margins both from our new and in-force business, as well as efficiency gains in many operating entities following the implementation of our Sustainability Program and other initiatives. Furthermore, in 2006, we increased the shareholders share in our gross earnings while at the same time we credited a higher amount to our policyholders.

Most of our life operating companies exhibited operating profit growth, with the highest absolute increases at our operations in Germany, the United States, South Korea, France and Spain. In addition, we experienced a solid increase in aggregate operating profit within New Europe.

Our improved investment margin was brought about by significantly higher interest and similar income, and the growth in aggregate realized gains/losses and impairments of investments (net). Interest and similar income increased primarily due to higher dividends received from available-for-sale equity investments in Germany and France. In addition, our U.S. operations benefited from higher yields on bonds and growth in asset base. Significant realized gains resulted from the sale of our shareholdings in Schering AG and the disposal of Four Seasons Health Care Ltd. Partially offsetting was the unfavorable net development in our income from financial assets and liabilities carried at fair value through income mainly as Germany Life exhibited significant negative effects from the accounting treatment for certain derivative instruments. In the United States, an increase in market interest rates had an additional negative impact. Furthermore, increased investment expenses stemmed predominantly from the weaker U.S. Dollar compared to the Euro.

Acquisition and administrative expenses (net) rose by 464 million to 4,437 million, partly triggered by adjustments recorded for the unlocking of deferred acquisition costs at various operating entities after the regular review of assumptions for the calculation of our deferred acquisition costs asset. In addition, higher commissions due to the strong new business production within Germany Life, previously mentioned, also contributed to increased acquisition and administrative expenses (net).

Consequently, together with the decline in statutory premiums (net), our statutory expense ratio increased to 9.6% from 8.4% a year ago. Excluding

the adjustments described above, our statutory expense ratio would only have increased 70 basis points from 8.7% in 2005 to 9.4% in 2006.

Claims and insurance benefits incurred (net), and changes in reserves for insurance and investment contracts (net), in aggregate, resulted in charges of 28,150 million, up 1.0% over 2005. While premiums were lower than in 2005, this development in particular reflects the investment income on our assets which benefits our policyholders.

Overall charges of 140 million were recorded for operating restructuring charges in 2006. These charges were incurred in connection with the reorganization of our German insurance operations.[1]

Year ended December 31, 2005 compared to year ended December 31, 2004

Our operating profit increased significantly by 17.1% to 2,094 million, surpassing our target for 2005. Improved margins on new business brought about by enhanced risk management providing a better basis for pricing as well as the increased business volume from the strong growth rates in recent years, were important factors in our operating profit growth.

Strong improvements of operating profit occurred at our French, German and Italian operations, specifically AGF Vie (+ 110 million), Allianz Leben (+ 85 million), Allianz Private Krankenversicherungs-Aktiengesellschaft (+ 22 million) and RAS Group (+ 36 million).

Interest and similar income developed favorably with an increase of 4.9% to 12,057 million, despite lower interest rates in the Euro zone. The main contributors were Allianz Leben (+ 181 million) and Allianz Life United States (+ 171 million), driven predominantly by an increased investment base resulting primarily from significant inflows of funds from new business underwritten. Higher dividend yields on equity investments also had a beneficial impact. Interest expense remained unchanged at 452 million.

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(1) Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations and Note 49 to our consolidated financial statements for further information

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Realized gains/losses (net) from investments, shared with policyholders, increased to 2,523 million. The gains primarily resulted from favorable capital markets conditions, which we sought to leverage to yield increased realizations, with our sale of Gecina S.A. (France) in the first quarter of 2005 being the most significant. Impairments of investments (net), shared with policyholders, also decreased to 199 million.

Claims and insurance benefits incurred (net) were relatively stable at 17,439 million, whereas net expenses from changes in reserves for insurance and investment contracts increased by 19.4% to 10,443 million. This increase was largely attributable to additional aggregate policy reserves mirroring the development in net premiums earned and an overall increase in expenses for premium refunds, attributable to policyholders, due to improved results of operations at Allianz Leben. This effect overcompensated for a slight reduction in the policyholder participation rate, which itself had a positive effect on operating profit.

Acquisition and administrative expenses (net) increased by 7.1% to 3,973 million. This was the net result of a decline in acquisition costs compared to the 2004 level, resulting from the German Retirement Revenue Act in the fourth quarter 2004 and the regular review of assumptions within our deferred acquisition costs in 2005 combined with an increase of administrative expenses (net), resulting from, among other factors, the commutation of an intra-Allianz Group reinsurance contract between Allianz Leben and Allianz SE (formerly Allianz AG).

As a result of the strong growth of our statutory premiums (net) and the increase in acquisition and administrative expenses (net) of a similar magnitude, our statutory expense ratio remained almost unchanged at 8.4%, down 0.1 percentage point from 2004.

Non-operating items

Year ended December 31, 2006 compared to year ended December 31, 2005

Non-operating items, in aggregate, resulted in a gain of 135 million after a gain of 177 million a year ago. This development largely mirrors higher non-operating restructuring charges, at 34 million in

2006, mainly in connection with the reorganization of our German insurance operations.[1]

Year ended December 31, 2005 compared to year ended December 31, 2004

Realized gains/losses (net) from investments, not shared with policyholders, were up to 208 million from 17 million a year ago. Similar to the development of realized gains, shared with policyholders, previously described, the increase was primarily a result of favorable capital markets conditions.

Amortization of intangible assets was positively affected by the elimination of the amortization of goodwill resulting from a change in accounting under IFRS (2004: charge of 159 million).

Non-operating restructuring charges of 18 million in 2005 resulted from an early retirement program at AGF Vie in France.

Net income

Year ended December 31, 2006 compared to year ended December 31, 2005

Driven by the higher operating profit, net income rose by 21.0% to 1,643 million.

With income tax expenses of 641 million in 2006, up 153 million from a year ago, our effective tax rate increased to 23.7% (2005: 21.5%). Both in 2006 and 2005, our effective tax rate benefited from significant tax-exempt income. However, based on a higher income before income taxes, the tax-exempt income in 2006 had a lower impact on our effective tax rate than a year ago. Additional significant one-time factors contributing to the relatively low effective tax rates in both years were the capitalization of corporate tax credits in Germany in 2006 and a beneficial tax settlement in the United States in 2005.

Minority interests in earnings remained stable at 416 million. Higher minority interests in earnings at AGF Group in France, reflecting its increased earnings after income taxes, were offset by lower minority interests in earnings at RAS Group in Italy, stemming from its decreased earnings after income taxes and the acquisition of the minority interest in RAS.

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[1] Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations and Note 49 to our consolidated financial statements for further information.

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Year ended December 31, 2005 compared to year ended December 31, 2004

Driven by strong improvements in both operating profit and non-operating items net income grew significantly by 65.2% to 1,358 million.

With 488 million, our income tax expenses remained relatively stable compared to 458 million in 2004. However, our effective tax rate declined considerably to 21.5% from 28.4%, largely due to tax-exempt income at various operating entities, including tax-exempt income from securities at Allianz Leben, a beneficial tax settlement at Allianz Life United States, the discontinuation of non-tax-deductible goodwill amortization, as well as from the write-down of deferred tax assets at Allianz Life Korea in 2004.

Minority interests in earnings increased to 425 million, primarily due to improved earnings at our Italian and French Life entities.

The following table sets forth our Life/Health insurance segment s income statement and statutory expense ratio for the years ended December 31, 2006, 2005 and 2004.

	2006 mn	2005 mn	2004 mn
Statutory premiums[1]	**47,421**	**48,272**	**45,233**
Ceded premiums written	(840)	(942)	(1,309)
Change in unearned premiums	(221)	(168)	(69)
Statutory premiums (net)	46,360	47,162	43,855
Deposits from SFAS 97 insurance and investment contracts	(25,786)	(27,165)	(24,451)
Premiums earned (net)	20,574	19,997	19,404
Interest and similar income	12,972	12,057	11,493
Income from financial assets and liabilities carried at fair value through income (net)	(361)	258	198
Realized gains/losses (net) from investments, shared with policyholders[2]	3,087	2,523	1,990
Fee and commission income	630	507	224
Other income	43	45	44
Operating revenues	**36,945**	**35,387**	**33,353**
Claims and insurance benefits incurred (net)	(17,625)	(17,439)	(17,535)
Changes in reserves for insurance and investment contracts (net)	(10,525)	(10,443)	(8,746)
Interest expense	(280)	(452)	(452)
Loan loss provisions	(1)		(3)
Impairments of investments (net), shared with policyholders	(390)	(199)	(281)
Investment expenses	(750)	(567)	(649)
	2006 **mn**	**2005** **mn**	**2004** **mn**
Acquisition and administrative expenses (net)	(4,437)	(3,973)	(3,711)
Fee and commission expenses	(223)	(219)	(145)
Other expenses	(9)	(1)	(43)
Operating restructuring charges[3]	(140)		
Operating expenses	**(34,380)**	**(33,293)**	**(31,565)**
Operating profit	**2,565**	**2,094**	**1,788**
Realized gains/losses (net) from investments, not shared with policyholders[2]	195	208	17
Amortization of intangible assets	(26)	(13)	(168)

Non-operating restructuring charges[3]	(34)	(18)	(24)
Non-operating items	**135**	**177**	**(175)**
Income before income taxes and minority interests in earnings	**2,700**	**2,271**	**1,613**
Income taxes	(641)	(488)	(458)
Minority interests in earnings	(416)	(425)	(333)
Net income	**1,643**	**1,358**	**822**
Statutory expense ratio[4] in %	**9.6**	**8.4**	**8.5**

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(1) For the Life/Health segment, total revenues are measured based upon statutory premiums. Statutory premiums are gross premiums written from sales of life insurance policies, as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer s home jurisdiction.

(2) The total of these items equals realized gains/losses (net) in the segment income statement included in Note 5 to the consolidated financial statements.

(3) The total of these items equals restructuring charges in the segment income statement included in Note 5 to the consolidated financial statements.

(4) Represents acquisition and administrative expenses (net) divided by statutory premiums (net).

Life/Health Operations by Geographic Region

The following tables set forth our life/health statutory premiums, premiums earned (net), statutory expense ratio and operating profit by geographic region for the years ended December 31, 2006, 2005 and 2004. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different geographic regions and different segments.

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	Statutory premiums[1]			Premiums earned (net)		
		mn			mn	
	2006	2005	2004	2006	2005	2004
Germany Life	**13,009**	**12,231**	**10,938**	**10,543**	**10,205**	**8,936**
Germany Health[2]	**3,091**	**3,042**	**3,020**	**3,091**	**3,042**	**3,019**
Italy	**8,555**	**9,313**	**8,738**	**1,098**	**1,104**	**1,088**
France[3]	**5,792**	**5,286**	**4,719**	**1,436**	**1,420**	**1,545**
Switzerland	**1,005**	**1,058**	**1,054**	**455**	**470**	**504**
Spain	**629**	**547**	**676**	**400**	**350**	**576**
Netherlands	424	381	430	146	144	154
Austria	380	343	335	283	262	272
Belgium	597	601	532	302	327	337
Portugal	98	83	85	66	60	56
Luxembourg	58	47	87	30	25	25
Greece	98	91	82	62	54	59
United Kingdom[4]			198			79
Western and Southern Europe	**1,655**	**1,546**	**1,749**	**889**	**872**	**982**
Hungary	96	89	77	75	73	61
Slovakia	183	149	134	135	129	123
Czech Republic	76	64	53	54	50	43
Poland	367	99	75	96	53	36
Romania	25	18	11	12	7	3
Bulgaria	25	19	14	23	19	9
Croatia	48	41	25	36	33	24
Russia	8			7		
Cyprus			2			1
New Europe	**828**	**479**	**391**	**438**	**364**	**300**
Other Europe	**2,483**	**2,025**	**2,140**	**1,327**	**1,236**	**1,282**
United States	**8,758**	**11,115**	**11,234**	**533**	**522**	**428**
South Korea	2,054	1,752	1,370	986	972	961
Taiwan	1,336	1,347	988	107	136	64
Malaysia	107	106	111	88	73	58
Indonesia	115	69	59	38	31	28
Other	121	35	22	37	10	20
Asia-Pacific	**3,733**	**3,309**	**2,550**	**1,256**	**1,222**	**1,131**
South America	**147**	**141**	**64**	**42**	**36**	**29**
Other[5]	**439**	**455**	**911**	**393**	**390**	**866**
Subtotal	**47,641**	**48,522**	**46,044**	**20,574**	**19,997**	**19,404**
Consolidation adjustments[6]	(220)	(250)	(811)			
Total	**47,421**	**48,272**	**45,233**	**20,574**	**19,997**	**19,404**

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(1) Statutory premiums are gross premiums written from sales of life insurance policies, as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer s home jurisdiction.

(2) Loss ratios were 68.4%, 69.7% and 68.9% for the years ended December 31, 2006, 2005 and 2004, respectively.

(3) On December 31, 2004, AVIP and Martin Maurel Vie were consolidated within the life/health insurance operations in France.

(4) In December 2004, we sold our life insurance business in the United Kingdom in order to concentrate on our property-casualty insurance business in that region. The remaining operating profit amounts reflect run-off.

(5) Contains, among others, the life/health business assumed by Allianz SE, which was previously included within Germany in the Property-Casualty segment. Prior year balances have been adjusted to reflect this reclassification and allow for comparability across periods.

(6) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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	Statutory expense ratio			Operating profit		
	%			mn		
	2006	2005	2004	2006	2005	2004
Germany Life	**9.1**	**8.1**	**9.9**	**521**	**347**	**262**
Germany Health[1]	**9.3**	**9.1**	**9.6**	**184**	**159**	**137**
Italy	**6.4**	**5.4**	**3.0**	**339**	**334**	**276**
France[2]	**12.6**	**15.1**	**17.8**	**582**	**558**	**359**
Switzerland	**9.9**	**8.7**	**10.2**	**50**	**55**	**35**
Spain	**9.3**	**7.4**	**5.9**	**92**	**71**	**66**
Netherlands	18.4	13.5	17.5	50	41	32
Austria	12.1	9.4	14.3	29	35	39
Belgium	12.5	12.1	15.4	62	76	102
Portugal	15.1	19.1	20.4	25	13	11
Luxembourg	12.2	14.4	8.5	5	5	12
Greece	22.6	25.9	26.3	13	7	7
United Kingdom[3]			34.7	(2)	(11)	3
Western and Southern Europe	**14.8**	**13.3**	**17.6**	**182**	**166**	**206**
Hungary	25.7	26.9	25.3	12	10	5
Slovakia	18.2	24.4	27.5	16	8	3
Czech Republic	20.1	21.5	24.0	9	6	4
Poland	17.6	33.3	29.1	6	3	2
Romania	39.3	28.0	13.1		1	
Bulgaria	14.2	10.5	13.7	3	3	4
Croatia	20.4	22.7	39.4	4	3	5
Russia	28.1	[6]				
Cyprus			17.9			
New Europe	**19.6**	**25.7**	**27.0**	**50**	**34**	**23**
Other Europe	**16.4**	**16.3**	**19.4**	**232**	**200**	**229**
United States	**8.0**	**4.8**	**2.4**	**418**	**257**	**376**
South Korea	13.9	16.6	20.3	64	20	60
Taiwan	5.0	4.3	0.1	14	11	2
Malaysia	19.9	14.0	6.8	10	2	8
Indonesia	19.3	25.0	36.1	3	1	(4)
Other	18.4	36.9	39.5	(10)	(7)	(4)
Asia-Pacific	**11.2**	**12.0**	**12.6**	**81**	**27**	**62**
South America	**16.9**	**17.7**	**26.6**	**1**	**2**	**4**
Other[4]	[6]	[6]	[6]	**74**	**92**	**(8)**
Subtotal				**2,574**	**2,102**	**1,798**
Consolidation adjustments[5]				(9)	(8)	(10)
Total	**9.6**	**8.4**	**8.5**	**2,565**	**2,094**	**1,788**

(1) Loss ratios were 68.4%, 69.7% and 68.9% for the years ended December 31, 2006, 2005 and 2004, respectively.
(2) On December 31, 2004, AVIP and Martin Maurel Vie were consolidated within the life/health insurance operations in France.
(3) In December 2004, we sold our life insurance business in the United Kingdom in order to concentrate on our property-casualty insurance business in that region. The remaining operating profit amounts reflect run-off.
(4) Contains, among others, the life/health business assumed by Allianz SE, which was previously included within Germany in the Property-Casualty segment. Prior year balances have been adjusted to reflect this reclassification and allow for comparability across periods.
(5) Represents elimination of transactions between Allianz Group companies in different geographic regions.
(6) Presentation not meaningful.

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Banking Operations

Year ended December 31, 2006 compared to year ended December 31, 2005

Ambitious 2006 targets surpassed.

- Strong growth of operating revenues and operating profit, outperforming our expectations.
- Milestone for cost-income ratio of below 80% achieved.
- Both operating divisions improved strongly.
- Net income amounted to 918 million.

Year ended December 31, 2005 compared to year ended December 31, 2004

Dresdner Bank increased its operating profit by 38.8% to 630 million.

- Operating revenues from our Banking segment decreased by 3.9% to 6.3 billion, primarily due to the close of our non-strategic Institutional Restructuring Unit and negative impacts from IAS 39 at Dresdner Bank.
- In line with our expectations, operating profit increased by 57.5% to 704 million, of which Dresdner Bank contributed 630 million, an increase of 38.8%.
- Operating profit and high realized gains resulted in net income of 1.0 billion.

Earnings Summary

The results of operations of our Banking segment are almost exclusively represented by Dresdner Bank, accounting for 96.1% of our total Banking segment s operating revenues for the year ended December 31, 2006 (2005: 95.6%, 2004: 96.7%). Accordingly, the discussion of our Banking segment s results of operations relates solely to the operations of Dresdner Bank.

Operating revenues

Year ended December 31, 2006 compared to year ended December 31, 2005

Dresdner Bank s operating revenues strongly increased to 6,811 million, up 12.8% from a year ago. All income categories contributed to this

development, with double-digit growth rates in net interest income and net trading income. Both operating divisions, Private & Business Clients (or PBC) and Corporate & Investment Banking (or CIB) recorded higher operating revenues compared to 2005.

Net interest income was 2,645 million, an increase of 19.3%, with significant growth from CIB, largely driven by its increased loan book from structured finance and syndicated loan transactions. PBC recorded stable net interest income, as higher revenues in the deposit business were offset by lower net interest income from the loan business. The increase in our net interest income was aided by the development of the impact from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting, amounting to a positive effect of 66 million in 2006 compared to a negative effect of 346 million in 2005.

At 2,841 million, we grew net fee and commission income by 5.5% over the 2005 level. This development was mainly a result of our growing securities business in PBC which benefited from both higher turnover-related commissions and increased assets under management. In addition, PBC s positively developing life and pension insurance business contributed, with particularly strong sales of Riester pension products. Net fee and commission income from CIB also improved. Here, our advisory business benefited from increased merger and acquisition activities. In contrast, our Corporate Other division experienced a decline in net fee and commission income, principally impacted by the closure of our Institutional Restructuring Unit (or IRU) in September 2005.

Trading income (net), at 1,248 million in 2006 and up 11.1% compared to a year ago, benefited from a growth momentum across all product groups, particularly within the derivatives and the foreign exchange business. Contrary to the development of net interest income, net trading income was negatively affected by the impact from the accounting treatment for derivative instruments which do not qualify for hedge accounting, amounting to a negative effect of 113 million in 2006, after a positive effect of 132 million in 2005.

Year ended December 31, 2005 compared to year ended December 31, 2004

Strategic Business[1] Operating revenues improved in our two operating divisions, PBC and CIB.

In PBC, operating revenues increased by 2.0% to 3,033 million. Our Business Models 2 and 3, which consist of the sale of banking products through insurance agents, were successfully implemented with an improvement in revenues and growing client base. In 2005, we acquired approximately 360,000 new bank clients through this sales channel, which was well above our target of 300,000. Additionally, PBC benefited from the improved securities business, specifically from closed-end funds.

Operating revenues in CIB increased slightly by 33 million to 3,038 million. This increase resulted primarily from favorable developments within our client business, with an improvement in our capital markets and mergers & acquisitions business more than offsetting the substantial decrease in trading income (net), largely due to the difficult capital market conditions in April and May. In the second half of 2005, CIB s trading income (net) increased significantly, driven primarily by its strong client and customer business.

In our Corporate Other division, operating revenues were strongly negatively affected by the adverse development of the impact from the accounting treatment for derivative instruments which do not qualify for hedge accounting. In aggregate, this impact resulted in a negative effect of 214 million (2004: positive effect of 7 million). On

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[1] Dresdner Bank s strategic business in 2005 included its Personal Banking, Private & Business Banking, Corporate Banking, Dresdner Kleinwort Wasserstein and Corporate Other divisions, but did not include its Institutional Restructuring Unit (or IRU). Effective September 30, 2005, Dresdner Bank s IRU was closed after the winding-down of its non-strategic portfolios. In 2006, Dresdner Bank started the Neue Dresdner Plus reorganization program, by integrating its former four operating divisions into two operating divisions. Our reporting by divisions reflects the organizational changes within Dresdner Bank in 2006, resulting in the presentation of two operating divisions. Prior year balances have been adjusted to reflect these organizational changes and allow for comparability across periods. For further information see Banking Operations by Division and Information on the Company Important Group Organizational Changes Neue Dresdner Plus Reorganization Program .

September 30, 2005, the remaining risk assets of our former IRU, of which we have reclassified the 2005 and 2004 results of operations into our Corporate Other division, amounted to 1.4 billion. As of that date, the IRU closed. During the fourth quarter of 2005, the majority of these remaining risk assets were sold, resulting in a decrease to approximately one-third at December 31, 2005. The remaining portfolios were transferred to the operating divisions.

Operating Revenues by Type Net interest income remained relatively stable at 2,218 million. Positive developments were primarily recorded in our structured finance business.

Net fee and commission income grew by 4.6% to 2,693 million, principally driven by the securities business in PBC. In CIB, client business also contributed to our increased net fee and commission income.

Trading income (net) declined by 26.3% to 1,123 million, largely due to the difficult capital market conditions in April and May, as well as the negative impacts from IAS 39.

In summary, despite the revenue growth experienced by our operating divisions, the faster than planned completion of the wind-down of our non-strategic IRU, which was closed effective September 30, 2005, as well as the negative impacts from IAS 39 of 214 million, resulted in a decrease in operating revenues by 5.0% to 6,039 million at Dresdner Bank.

Operating profit

Operating profit Dresdner Bank

in mn

Year ended December 31, 2006 compared to year ended December 31, 2005

We more than doubled our operating profit, up 116.0% to 1,361 million in 2006, primarily resulting from the positive revenue development previously described. With our higher operating revenues and lower operating expenses, our cost-income ratio improved significantly to 79.6% in 2006, down 11.8 percentage points compared to 2005.

Operating expenses, at 5,423 million, were down 1.8% from a year earlier due to decreased administrative expenses. Administrative expenses amounted to 5,384 million, of which personnel expenses were 3,400 million, up 3.8%, and non-personnel expenses were 1,984 million, down 8.9%.

Higher personnel expenses were entirely driven by increased performance-related bonuses, reflecting the strong growth of our operating revenues. On the other hand, further staff reductions and efficiency gains, helped to decrease both non-performance-related personnel expenses and non-personnel expenses. The decline in non-personnel expenses stemmed from materially lower office space expenses.

Within our loan loss provisions we continued to benefit from the improved quality of our loan portfolio. In aggregate, loan loss provisions experienced moderate net additions of 27 million, compared to net releases of 113 million a year ago. Net releases in the prior year were driven by recoveries and substantial releases in connection with the wind-down of the IRU. Our coverage ratio[(1)] improved to 61.5% as of December 31, 2006 from 56.8% a year ago.

Year ended December 31, 2005 compared to year ended December 31, 2004

Dresdner Bank s operating profit significantly improved by 38.8% to 630 million. However, given lower operating revenues and an almost unchanged expense base, our cost-income ratio increased from 87.6% to 91.4%, substantially burdened by the negative impact from the application of the IAS 39 hedge accounting rules on derivative financial instruments.

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(1) Represents total loan loss allowance as a percentage of total non-performing loans and potential problem loans.

The increase in operating profit was driven by the positive developments within our net loan loss provisions, resulting in a net release of 113 million (2004: net charge of 337 million). While gross releases and recoveries decreased, the decline in gross new additions was even stronger. Gross releases and recoveries reached 849 million (2004: 1,061 million), stemming principally from exits from large debtors, mainly within our former IRU. Gross new additions to allowances of 736 million were significantly lower compared to 1,398 million in 2004, predominantly due to the reductions in our non-strategic business within the former IRU and the significantly improved risk profile of Dresdner Bank s strategic loan portfolio. The net release in loan loss provisions, together with the reduction of our non-performing loan portfolio by approximately 58%, led to a coverage ratio at December 31, 2005 of 56.8% (2004: 60.4%).

Both personnel and non-personnel expenses remained stable at 3,275 million (2004: 3,244 million) and 2,177 million (2004: 2,171 million), despite focused investments in certain growth areas, such as infrastructure established for our Business Models 2 and 3.

PBC experienced a strong improvement in 2005. Operating revenues increased 2.0% to 3,033 million and operating profit was more than twice as high as compared to 2004, reaching 470 million. These positive developments primarily reflect strict cost control while loan loss provisions reached normal levels. Our cost-income ratio strengthened by 6.5 percentage points to 80.0%.

Conversely, CIB s cost-income ratio rose to a 83.6% from 81.1%, primarily reflecting decreased trading income (net) and increased operating expenses. Operating profit remained almost stable at 513 million.

Non-operating items

Year ended December 31, 2006 compared to year ended December 31, 2005

In aggregate, the impact from non-operating items declined from 825 million profit to a loss of 146 million, as expected.

Realized gains/losses (net) decreased by 529 million to 491 million, primarily due to a

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reduced number of significant sale transactions compared to a year ago. Realized gains in 2006 included a tax-exempt gain from the sale of Dresdner Bank s remaining 2.3% shareholdings in Munich Re to Allianz SE (formerly Allianz AG) as well as a gain from the disposal of our remaining participation in Eurohypo AG.

Impairments of investments (net) was up 17.5% to 215 million, largely attributable to write-downs on real estate properties used by third-parties.

Restructuring charges increased by 410 million to 422 million, mainly reflecting the Neue Dresdner Plus reorganization program.[1]

Year ended December 31, 2005 compared to year ended December 31, 2004

Realized gains/losses (net) of Dresdner Bank rose by 487 million. This increase resulted principally from the transfer of 5% of Dresdner Bank s 7.3% shareholding in Munich Re to Allianz SE (formerly Allianz AG) in the first quarter of 2005, the complete sale of our shareholding in Bilfinger Berger in the second quarter of 2005, the sale of 7.35% of our 28.48% shareholding in Eurohypo AG to Commerzbank AG, as well as the sale of the majority of our real estate portfolio in the forth quarter of 2005, most of which was subsequently leased back to Dresdner Bank. The sales of various assets in 2005 was in line with Dresdner Bank s focus on its core business.

Further, net impairments of investments decreased heavily from 505 million to 183 million, primarily due to improved capital market conditions.

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(1) Please see Information on the Company Important Group Organizational Changes Neue Dresdner Plus Reorganization Program and Note 49 to our consolidated financial statements for further information.

The absence of significant restructuring charges and the discontinuation of goodwill amortization under IFRS (2004: charge of 244 million) also benefited our non-operating items.

Net income

Year ended December 31, 2006 compared to year ended December 31, 2005

Net income amounted to a strong 895 million, evidencing the high quality of our earnings. Our significantly improved operating profit almost compensated for the expected decline in non-operating items.

With income tax expenses down 35.9%, our effective tax rate decreased from 25.6% to 19.7%. This development was mainly attributable to higher tax exempt income and the capitalization of corporate tax credits in Germany, while income before income taxes was lower in 2006.

Year ended December 31, 2005 compared to year ended December 31, 2004

Net income increased significantly to 1,000 million, including a tax-exempt gain of 343 million from the aforementioned transfer of Munich Re shareholdings to Allianz SE. In addition to the positive operating profit development, the growth in net income was attributable to our improved non-operating results.

These developments led to income tax expenses of 373 million in 2005, compared to a tax benefit of 296 million in the previous year, including a one-off tax benefit. Accordingly, our effective tax rate was 25.6% in 2005.

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The following table sets forth the income statements and cost-income ratios for both our Banking segment as a whole and Dresdner Bank for the years ended December 31, 2006, 2005 and 2004.

	2006		2005		2004	
	Banking Segment[(1)] mn	Dresdner Bank mn	Banking Segment[(1)] mn	Dresdner Bank mn	Banking Segment[(1)] mn	Dresdner Bank mn
Net interest income[(2)]	2,720	2,645	2,294	2,218	2,356	2,264
Net fee and commission income[(3)]	3,008	2,841	2,850	2,693	2,707	2,574
Trading income (net)[(4)]	1,282	1,248	1,170	1,123	1,518	1,524
Income from financial assets and liabilities designated at fair value through income (net)[(4)]	53	53	(7)	(6)	(9)	(9)
Other income	25	24	11	11	4	4
Operating revenues[(5)]	**7,088**	**6,811**	**6,318**	**6,039**	**6,576**	**6,357**
Administrative expenses	(5,605)	(5,384)	(5,661)	(5,452)	(5,643)	(5,416)
Investment expenses	(47)	(53)	(30)	(37)	(25)	(32)
Other expenses	14	14	(33)	(33)	(117)	(118)
Operating expenses	**(5,638)**	**(5,423)**	**(5,724)**	**(5,522)**	**(5,785)**	**(5,566)**
Loan loss provisions	(28)	(27)	110	113	(344)	(337)
Operating profit	**1,422**	**1,361**	**704**	**630**	**447**	**454**
Realized gains/losses (net)	492	491	1,020	1,020	543	533
Impairments of investments (net)	(215)	(215)	(184)	(183)	(509)	(505)
Amortization of intangible assets			(1)		(281)	(281)
Restructuring charges	(424)	(422)	(13)	(12)	(292)	(290)
Non-operating items	**(147)**	**(146)**	**822**	**825**	**(539)**	**(543)**
Income (loss) before income taxes and minority interests in earnings	**1,275**	**1,215**	**1,526**	**1,455**	**(92)**	**(89)**
Income taxes	(263)	(239)	(387)	(373)	302	296
Minority interests in earnings	(94)	(81)	(102)	(82)	(101)	(60)
Net income	**918**	**895**	**1,037**	**1,000**	**109**	**147**
Cost-income ratio[(6)] in %	**79.5**	**79.6**	**90.6**	**91.4**	**88.0**	**87.6**

(1) Consists of Dresdner Bank and non-Dresdner Bank banking operations within our Banking segment, as well as the elimination of trading income (net) of 6 mn at Dresdner Bank resulting from Dresdner Bank s trading activities in Allianz SE shares during the year ended December 31, 2006.
(2) Represents interest and similar income less interest expense.
(3) Represents fee and commission income less fee and commission expense.
(4) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement included in Note 5 to the consolidated financial statements.
(5) For the Banking segment, total revenues are measured based upon operating revenues.
(6) Represents operating expenses divided by operating revenues.

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Banking Operations by Division

The following table sets forth our banking operating revenues, operating profit and cost-income ratio by division for the years ended December 31, 2006, 2005 and 2004. Consistent with our general

practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different segments.

	Operating revenues			Operating profit (loss)			Cost income ratio		
	2006 mn	2005 mn	2004 mn	2006 mn	2005 mn	2004 mn	2006 %	2005 %	2004 %
Private & Business Clients[1]	3,204	3,033	2,974	653	470	187	76.6	80.0	86.5
Corporate & Investment Banking[1]	3,525	3,038	3,005	692	513	515	80.0	83.6	81.1
Corporate Other[2]	82	(32)	378	16	(353)	(248)	[3]	[3]	[3]
Dresdner Bank	**6,811**	**6,039**	**6,357**	**1,361**	**630**	**454**	**79.6**	**91.4**	**87.6**
Other Banks[4]	277	279	219	61	74	(7)	76.0	72.4	100.0
Total	**7,088**	**6,318**	**6,576**	**1,422**	**704**	**447**	**79.5**	**90.6**	**88.0**

(1) Our reporting by division reflects the organizational changes within Dresdner Bank in 2006, resulting in two operating divisions. Private & Business Clients combines all banking activities for private and corporate customers formerly provided by the Personal Banking and Private & Business Banking divisions. Furthermore, Corporate & Investment Banking combines the former Corporate Banking and Dresdner Kleinwort Wasserstein divisions. Prior year balances have been adjusted accordingly to reflect these reorganization measures and allow for comparability across periods. Effective starting with the first quarter of 2007, the future business model of Dresdner Bank will consist of two new operating divisions Private & Corporate Clients and Investment Banking. According to this future business model, we will integrate our business activities with medium-sized corporate clients into that with private and business clients. In the table above, our medium-sized business clients remain in Corporate & Investment Banking. The future business model with the two new business divisions Private & Corporate Clients and Investment Banking is not reflected in the table above.

(2) The Corporate Other division contains income and expense items that are not assigned to Dresdner Bank s operating divisions. These items include, in particular, impacts from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting as well as provisioning requirements for country and general risks. For the years ended December 31, 2006, 2005 and 2004 the impact from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting on Corporate Other s operating revenues amounted to (47) mn, (214) mn and 7 mn, respectively. With effect from the first quarter of 2006, the majority of expenses for support functions and central projects previously included within Corporate Other have been allocated to the operating divisions. Additionally, the non-strategic Institutional Restructuring Unit was closed down effective September 30, 2005, having successfully completed its mandate to free-up risk capital through the reduction of non-strategic risk-weighted assets. Furthermore, effective in the first quarter of 2006, and as a result of Dresdner Bank restructuring its divisions, the Institutional Restructuring Unit s 2005 and 2004 results of operations were reclassified into Corporate Other. Prior year balances have been adjusted accordingly to reflect these reclassifications and allow for comparability across periods.

(3) Presentation not meaningful.

(4) Consists of non-Dresdner Bank banking operations within our Banking segment, as well as the elimination of trading income (net) of 6 mn at Dresdner Bank resulting from Dresdner Bank s trading activities in Allianz SE shares in the year ended December 31, 2006.

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Banking Operations by Geographic Region

The following table sets forth our banking operating revenues and operating profit by geographic region for the years ended December 31, 2006, 2005 and 2004. Consistent with our general

practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different segments.

	Operating revenues			Operating profit (loss)		
	2006	2005	2004	2006	2005	2004
	mn	mn	mn	mn	mn	mn
Germany	4,312	4,340	4,290	853	814	38
Rest of Europe	2,006	1,620	1,557	237	(105)	(27)
NAFTA	560	176	603	251	(78)	411
Rest of World	210	182	126	81	73	25
Total	**7,088**	**6,318**	**6,576**	**1,422**	**704**	**447**

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Asset Management Operations

Year ended December 31, 2006 compared to year ended December 31, 2005

Another year of substantial improvement across all key performance indicators.

- Strong net inflows of 36 billion despite challenging capital market environment.
- Further double-digit operating profit growth to 1.3 billion.
- Very competitive cost-income ratio at 57.6%.
- Net income reached 404 million, up 65.6%.

Year ended December 31, 2005 compared to year ended December 31, 2004

Record net inflows to third-party assets under management of 65 billion.

- Inclusive of record net inflows of 65 billion, our third-party assets under management rose by 27.0% to 743 billion.
- Commensurate with the marked 4.2 percentage point improvement of our cost-income ratio, which reached 58.4%, our operating profit grew by 34.9% to 1.1 billion.
- Net income experienced strong growth of 519 million, reaching 244 million.

Third-Party Assets Under Management of the Allianz Group

Year ended December 31, 2006 compared to year ended December 31, 2005

In 2006, we faced a volatile and challenging capital market environment. Whereas in the first, third and fourth quarter, equity capital markets developed favorably worldwide, the second quarter showed substantial declines in market values. In the fixed income capital markets, substantial decreases in fixed income indices occurred throughout the first half of the year, following the increases in market interest rates, and values only recovered slowly during the second half of the year.

This capital market environment led to mixed developments in the asset management industry. For example, net flows in the fixed income mutual fund

market in the United States turned negative during the second quarter of 2006. In Germany, the equity and fixed income mutual fund markets recorded net outflows in 2006, whereas balanced and money market products saw net inflows of a similar magnitude.

Despite this challenging environment and also dampened private demand for third-party asset management products and services, we achieved net inflows to third-party assets of 36 billion, primarily stemming from the United States and Europe, compared to 65 billion in 2005. Both fixed income and equity products contributed to net inflows in 2006, which again affirms our strong position as one of the largest asset managers worldwide, based on total assets under management.[1]

A key success factor continued to be our competitive investment performance. The overwhelming majority of the third-party assets we manage again outperformed their respective benchmarks in 2006. Market-related appreciation was 43 billion. Net inflows and positive market effects were partly offset by negative currency conversion effects of 57 billion, resulting primarily from a weaker U.S. Dollar versus the Euro. Overall, on a Euro-basis, our third-party assets increased by 21 billion[2] to 764 billion as of December 31, 2006, compared to 743 billion as of December 31, 2005.

Year ended December 31, 2005 compared to year ended December 31, 2004

The growth in third-party assets under management to 743 billion as of December 31, 2005, up 158 billion[3] from a year earlier includes record net inflows of 65 billion (2004: 36 billion). Net inflows were particularly strong in our fixed income institutional business in the United States at PIMCO and in Germany at AGI Germany. Of the total increase in our third-party assets, market-related appreciation amounted to 33 billion, primarily attributable to favorable equity capital markets and, to a lesser extent, bond capital markets. These achievements continued to strengthen our position as

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[1] Source: Own internal analysis and estimates.
[2] Including a negative deconsolidation effect of 1 bn.
[3] Including a negative deconsolidation effect of 6 bn.

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one of the world s largest asset managers, based on total assets under management. A major success factor has been our competitive performance, as the overwhelming majority of the third-party assets we manage outperformed their respective benchmarks in 2005. Further, we benefited from positive effects of 66 billion from exchange rate movements, resulting primarily from the strengthening of the U.S. Dollar compared to the Euro.

We operate our third-party asset management business primarily through Allianz Global Investors (or AGI). As of December 31, 2006, AGI managed

approximately 94.6% (December 31, 2005: 95.2%) of the Allianz Group s third-party assets. The remaining third-party assets are managed by Dresdner Bank (approximately 2.7% and 2.3% as of December 31, 2006 and December 31, 2005, respectively) and other Allianz Group subsidiaries (approximately 2.7% and 2.5% as of December 31, 2006 and December 31, 2005, respectively).

The following graphs present the third-party assets managed by the Allianz Group by geographic region, investment category and investor class as of December 31, 2006 and 2005.

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Third-party assets under management   Fair values by geographic region[1]

in   bn

[1] Based on the origination of the assets.
[2] Consists of third-party assets managed by Dresdner Bank (approximately   21 bn and   17 bn as of December 31, 2006 and 2005, respectively) and by other Allianz Group companies (approximately   20 bn and   19 bn as of December 31, 2006 and 2005, respectively).

Third-party assets under management   Fair values by investment category

in   bn

Third-party assets under management   Fair values by investor class

in   bn

United States

Third-party assets under management   Composition of fair value development

in   bn

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Year ended December 31, 2006 compared to year ended December 31, 2005

Our major achievements in 2006 included:

Allianz/PIMCO Funds were named Best Mutual Fund Family in the 2006 Lipper/Barron s Fund Families Survey.

Particularly strong net inflows of approximately 7 billion at our equity fund manager NFJ Investment Group.

PIMCO CommodityRealReturn Funds began trading on June 29, 2006 and already successfully raised USD 773 million in assets to December 31, 2006.

PIMCO was named Investor of the Year in the 2006 Securitization News survey.

Year ended December 31, 2005 compared to year ended December 31, 2004

Our major achievements in 2005 included:

PIMCO, our entity specializing in fixed income investments, significantly increased third-party assets by 36.8% to 468 billion, with record high net inflows of 60 billion, market-related appreciation of 12 billion and a positive foreign currency effect of 54 billion.

Our PIMCO Total Return Fund continued to be the largest actively-managed fixed income fund in the world, with assets under management of USD 90.6 billion at December 31, 2005.[1]

In February 2005, we launched the then largest closed-end equity fund, raising USD 2.5 billion.[2] This fund s investment strategy combines the expertise of our equity managers NFJ Investment Group, Nicholas Applegate and PEA Capital.

Allianz Global Distributors continued to remain in the top 5 market positions in the U.S. retail market based on net inflows.[3] Our mutual funds product family captured first place in Lipper/ Barron s Fund Family survey for 2005.

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(1) Financial Research Corporation, press release 12/05.
(2) New York Stock Exchange.
(3) Financial Research Corporation, press release 12/05.

Germany

Third-party assets under management Composition of fair value development

in bn

Year ended December 31, 2006 compared to year ended December 31, 2005

Our major achievements in 2006 included:

- Allianz Global Investors Germany is market leader in the innovative segment of certificate funds.[4]
- Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH (or dit) ranked first in the Most Improved Group of Standard & Poor s German Fund Awards 2006.
- dit was awarded five stars by the German financial magazine Capital , the highest possible score.

Effective January 1, 2007, our German retail fund company dit and our German special fund company dresdnerbank investment management Kapitalanlagegesellschaft mbH (or dbi) were merged to form Allianz Global Investors Kapitalanlagegesellschaft mbH. In connection with this merger, the new brand image of the combined company will focus on the global expertise and presence of AGI.

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(4) Source: Bundesverband Investment und Asset Management (or BVI), an association representing the German investment fund industry.

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Year ended December 31, 2005 compared to year ended December 31, 2004

Our major achievements in 2005 included:

- Record high net inflows, primarily in our fixed income institutional business at AGI Germany.
- AGI ranked first and fourth among German asset management companies based on net inflows for 2005 and assets under management at December 31, 2005, respectively.[1]
- Net inflows from mutual funds through both third-party distributors, as well as the Allianz Group s tied agents network and Dresdner Bank s branch offices, increased significantly to 13.8 billion (2004: 2.3 billion), largely resulting from fixed income products. These numbers include net inflows from mutual funds at PIMCO Europe Ltd.
- The dit-Euro Bond Total Return Funds were once again Germany s best selling fixed income funds, based on net inflows of more than 4.3 billion.[2]
- AGI further increased its market share in the institutional special funds (or Spezialfonds) business to 14.7% based on assets under management.[3]

Earnings Summary

The results of operations of our Asset Management segment are almost exclusively represented by AGI, accounting for 98.2% of our total Asset Management segment s operating revenues for the year ended December 31, 2006 (2005: 98.3%, 2004: 99.8%). Accordingly, the discussion of our Asset Management segment s results of operations relates solely to the operations of AGI.

Operating revenues

Year ended December 31, 2006 compared to year ended December 31, 2005

At 2,989 million, operating revenues reflect a solid growth of 11.7% at stable revenue margins, primarily attributable to strict pricing discipline and a further improved responsiveness to our clients

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(1) Source: BVI.
(2) Source: BVI.
(3) Source: BVI.

needs. Net fee and commission income was up 277 million to 2,874 million, predominantly due to higher management fees as a result of the growing third-party asset under management base, as previously discussed. Internal operating revenue growth of 13.3% was even stronger, as nominal operating revenue growth was impacted by the weaker U.S. Dollar compared to the Euro.

Year ended December 31, 2005 compared to year ended December 31, 2004

Our operating revenues increased 19.5% to 2,677 million. This positive development reflects favorable business developments worldwide, as previously discussed, namely resulting in significant increases of management and loading fees as well as performance fees. Management and loading fees, net of commissions, and performance fees rose by 17.2% to 2,462 million and 117.9% to 122 million, respectively. Overall, net fee and commission income improved by 19.3% to 2,597 million.

The following table sets forth the composition of AGI s net fee and commission income for the years ended December 31, 2006, 2005 and 2004.

	2006	**2005**	**2004**
	mn	**mn**	**mn**
Management fees	3,368	2,941	2,491
Loading and exit fees	334	333	315
Performance fees	107	122	56
Other income	309	294	228
Fee and commission income	**4,118**	**3,690**	**3,090**
Commissions	(895)	(812)	(706)
Other expenses	(349)	(281)	(208)
Fee and commission expenses	**(1,244)**	**(1,093)**	**(914)**
Net fee and commission income	**2,874**	**2,597**	**2,176**

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Operating profit

Operating profit Allianz Global Investors

in mn

Year ended December 31, 2006 compared to year ended December 31, 2005

Operating profit grew by 14.2% to 1,276 million.

Administrative expenses, excluding acquisition-related expenses, at 1,713 million in 2006, were up 9.8%, representing a considerably less than proportionate increase compared to that in our operating revenues due to effective cost control. As a result, our cost-income ratio decreased by 1.0 percentage point to 57.3%.

This success was achieved despite substantial investments in our distribution network and human resources development.

Year ended December 31, 2005 compared to year ended December 31, 2004

Operating profit increased significantly by 33.9% to 1,117 million, primarily resulting from the aforementioned growth in our operating revenues. Operating profit development was particularly strong in the United States and Germany.

Due in large part to strict cost management, the increase of our operating expenses was proportionally smaller compared to that of our operating revenues. As a result, our cost-income ratio improved considerably to 58.3% (2004: 62.8%). The 10.9% rise in operating expenses to 1,560 million was largely due to increased performance-related

compensation in the United States and Germany as a result of our strong business developments.

Non-operating items

Year ended December 31, 2006 compared to year ended December 31, 2005

In aggregate, the net loss from non-operating items decreased significantly from 708 million to 556 million. Thereof, at 532 million, acquisition related expenses declined 22.6%. This decrease was mainly driven by a lower number of outstanding PIMCO LLC Class B Units (or Class B Units) in 2006 as compared to 2005. As of December 31, 2006, the Allianz Group had acquired 21,762 of the 150,000 Class B Units originally outstanding. Going forward, we expect acquisition-related expenses to be mainly driven by the number of Class B Units outstanding and our operating profit development at PIMCO. Please see Note 48 to our consolidated financial statements for further information on the Class B Units. Amortization of intangible assets of 23 million in 2006 was related to the merger of dit and dbi to Allianz Global Investors Kapitalanlagegesellschaft mbH, previously mentioned. Thereby, our dit brand was fully written off in 2006.

Year ended December 31, 2005 compared to year ended December 31, 2004

Acquisition-related expenses increased by 10.6% to 687 million. Thereof, 677 million, up 35.1%, was due to the deferred purchases of interests in PIMCO related to the PIMCO LLC Class B Unit Purchase Plan (or Class B Plan). The increase was commensurate with the strong profit development at PIMCO in 2005 and the higher number of vested units according to the vesting schedule of the purchase plan. The Class B Plan was agreed upon at the time this company was acquired. Of the total acquisition-related expenses, a further 10 million was incurred due to retention payments for the management and employees of PIMCO and Nicholas Applegate. These retention payments were down 110 million as they largely expired in 2005.

During 2005, a subsidiary of Allianz SE purchased a total of approximately USD 250 million of the remaining minority interest in Allianz Global Investors of America L.P. (or AGI L.P.), with

payment therefore made in April 2005. Following this transaction, the remaining ownership interest that is held by AGI L.P. s former parent company, Pacific Life, was reduced to approximately 2% at December 31, 2005 (December 31, 2004: 6%). Further, and also during 2005, a subsidiary of Allianz AG called 5,427 Class B equity units from former and current members of the management of PIMCO under the Class B Plan. The total amount paid related to the call of the Class B equity units was 71 million. Under the plan, participants acquired Class B equity units annually through 2004 for a total of 150,000 units. Please see Note 48 to our consolidated financial statements for further information on the Class B Units.

Amortization of intangible assets benefited from the elimination of goodwill amortization under IFRS, effective January 1, 2005 (2004: charge of 380 million), and from the expiration of amortization charges relating to capitalized bonuses for PIMCO management in 2005.

Net income

Year ended December 31, 2006 compared to year ended December 31, 2005

Net income reached 395 million, exceeding previous year s level by 68.8%. Primarily as a result of higher taxable income in the United States income tax expenses increased 117.3% to 276 million, representing a rise of our effective tax rate from 31.1% to 38.3%.

Year ended December 31, 2005 compared to year ended December 31, 2004

Net income reached 234 million, a 513 million improvement from prior year s net loss of 279 million. Income tax expenses amounted to 127 million, resulting in an effective tax rate of 31.1%, compared to a tax benefit of 53 million in 2004. Income tax expenses increased due predominantly to improved operating profitability, inclusive of higher taxable income in the United States, partially offset by a one-off deferred tax credit of 37 million related to tax deductible goodwill amortization.

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The following table sets forth the income statements and cost-income ratios for both our Asset Management segment as a whole and AGI for the years ended December 31, 2006, 2005 and 2004.

	2006		2005		2004	
	Asset Management Segment mn	**Allianz Global Investors mn**	**Asset Management Segment mn**	**Allianz Global Investors mn**	**Asset Management Segment mn**	**Allianz Global Investors mn**
Net fee and commission income[1]	2,924	2,874	2,636	2,597	2,178	2,176
Net interest income[2]	71	66	56	51	42	41
Income from financial assets and liabilities carried at fair value through income (net)	38	37	19	18	11	10
Other income	11	12	11	11	14	14
Operating revenues[3]	**3,044**	**2,989**	**2,722**	**2,677**	**2,245**	**2,241**
Administrative expenses, excluding acquisition-related expenses[4]	(1,754)	(1,713)	(1,590)	(1,560)	(1,405)	(1,406)
Other expenses					(1)	(1)
Operating expenses	**(1,754)**	**(1,713)**	**(1,590)**	**(1,560)**	**(1,406)**	**(1,407)**
Operating profit	**1,290**	**1,276**	**1,132**	**1,117**	**839**	**834**
Realized gains/losses (net)	7	5	6	5	17	17
Impairments of investments (net)	(2)	(2)				
Acquisition-related expenses, thereof:[4]						
Deferred purchases of interests in PIMCO	(523)	(523)	(677)	(677)	(501)	(501)
Other acquisition-related expenses[5]	(9)	(9)	(10)	(10)	(120)	(120)
Subtotal	(532)	(532)	(687)	(687)	(621)	(621)
Amortization of intangible assets[6]	(24)	(23)	(25)	(25)	(510)	(510)
Restructuring charges	(4)	(4)	(1)	(1)		
Non-operating items	**(555)**	**(556)**	**(707)**	**(708)**	**(1,114)**	**(1,114)**
Income (loss) before income taxes and minority interests in earnings	**735**	**720**	**425**	**409**	**(275)**	**(280)**
Income taxes	(278)	(276)	(129)	(127)	52	53
Minority interests in earnings	(53)	(49)	(52)	(48)	(52)	(52)
Net income (loss)	**404**	**395**	**244**	**234**	**(275)**	**(279)**
Cost-income ratio[7] in %	**57.6**	**57.3**	**58.4**	**58.3**	**62.6**	**62.8**

(1) Represents fee and commission income less fee and commission expense.
(2) Represents interest and similar income less interest expense and investment expenses.
(3) For the Asset Management segment, total revenues are measured based upon operating revenues.
(4) The total of these items equals acquisition and administration expenses (net) in the segment income statement included in Note 5 to the consolidated financial statements.
(5) Consists of retention payments for the management and employees of PIMCO and Nicholas Applegate. These retention payments largely expired in 2005.
(6) Includes primarily the impairment of the dit brand name in 2006 and amortization charges relating to capitalized bonuses for PIMCO management. These amortization charges expired in 2005. Until December 31, 2005, these amortization charges were classified as acquisition-related expenses. Prior year balances have been reclassified to allow for comparability across periods.

(7) Represents operating expenses divided by operating revenues.

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Corporate Activities

Effective January 1, 2006, in addition to our four operating segments Property-Casualty, Life/Health, Banking and Asset Management, and with retrospective application, the Allianz Group introduced a fifth segment named Corporate. The activities included in the Corporate segment were previously reported in the Property-Casualty segment. Generally, the Corporate segment includes all Group activities that are not allocated to one of our operating segments. In particular, it includes the following activities:

Holding Function Comprises Group Center functions carried out by the Allianz Group s holding company Allianz SE, as well as regional management companies and special investment vehicles. In particular, the Holding Function works with the operating entities to guide the Allianz Group towards effective operation using a common set of values and corporate governance processes. It supports the growth of the Allianz Group s businesses through its risk, corporate finance, treasury, financial control, communication, legal, human resources strategy and technology functions.

Private Equity Includes the income and expense items associated with the private equity investments held in particular by Allianz Capital Partners GmbH and Allianz Private Equity Partners GmbH.

Earnings Summary

Year ended December 31, 2006 compared to year ended December 31, 2005

While operating loss, down 50 million to 831 million in 2006, remained relatively stable, net expenses from non-operating items declined significantly by 962 million. As a result, loss before income taxes and minority interests in earnings was down 1,012 million to 987 million.

Year ended December 31, 2005 compared to year ended December 31, 2004

In 2005, operating loss remained relatively stable. However, net expense from non-operating items, at 1,118 million in 2005, was up significantly from the prior year level of 172 million. As a result,

loss before income taxes and minority interests in earnings increased by 957 million to 1,999 million.

The following table sets forth Corporate s operating profit and non-operating items by activity for the years ended December 31, 2006, 2005 and 2004. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different segments. See Note 5 to the consolidated financial statements for our Corporate segment s income statement for the years ended December 31, 2006, 2005 and 2004.

	Operating profit (loss)			Non-operating items		
	2006	2005	2004	2006	2005	2004
	mn	mn	mn	mn	mn	mn
Holding Function	(838)	(923)	(618)	(455)	(1,109)	(649)
Private Equity	7	42	(252)	299	(9)	477
Total	**(831)**	**(881)**	**(870)**	**(156)**	**(1,118)**	**(172)**

Holding Function

Year ended December 31, 2006 compared to year ended December 31, 2005

Operating profit The considerable decrease in operating loss stemmed primarily from higher interest and similar income due to higher dividends received from equity investments. Further key operating items included within Holding Function are administrative expenses to run our Group Center, expenses associated with our pension plans, and expenses for certain Allianz Group-wide growth initiatives.

Non-operating items Net expenses from non-operating items decreased by 654 million, predominantly from higher realized gains brought about by various sales transactions. With net realized gains of 434 million the sale of our shareholding in Schering AG in June 2006 contributed most. In addition, non-operating items benefited from a lower net loss from financial assets and liabilities held for trading in comparison to 2005 when the effects of derivatives from an equity-linked loan issued in connection with financing the cash tender offer for the outstanding RAS shares made a significant

negative impact. Interest expense from external debt, at 775 million in 2006, remained relatively constant.

Year ended December 31, 2005 compared to year ended December 31, 2004

Operating profit Operating loss was up primarily due to higher investment expenses stemming from unfavorable movements of foreign currency exchange rates.

Non-operating items In aggregate, non-operating items amounted to a loss of 1,109 million in 2005, after a loss of 649 million in the prior year. This increase was mainly attributable to significantly decreased realized gains. In 2004, we particularly benefited from a gain from the reduction of our shareholdings in Munich Re which was not repeated in 2005. Furthermore, in 2005, we recorded a higher net loss from financial assets and liabilities held for trading. To a large extent this was a result of negative changes in fair values of certain derivatives issued in connection with our All-in-One capital market transactions in January 2005. Additionally, the effects of embedded derivatives from the equity-linked loan which was issued in connection with the Allianz-RAS merger contributed signficantly to the higher net loss.

Partially offsetting were lower impairments of investments (net) and declined interest expense from external debt. Impairments of investments (net) were down, as, in 2004, this line item was impacted by high write-downs of real estate. Interest expense from external debt benefited to a large extent from the maturation of two bond issues.

Private Equity

Year ended December 31, 2006 compared to year ended December 31, 2005

Operating profit Operating profit decreased 35 million from the 2005 level. In August 2006, the Allianz Group acquired 100.0% of MAN Roland Druckmaschinen AG. The full consolidation of this private equity investment had impacts of a similar magnitude both on operating revenues and operating expenses, namely income and expenses from fully consolidated private equity investments.

Non-operating items Non-operating items improved from a loss of 9 million to a gain of 299 million. The disposal of Four Seasons Health Care Ltd. (or Four Seasons) in August 2006 contributed 287 million to this development.

Year ended December 31, 2005 compared to year ended December 31, 2004

Operating profit Income and expenses from fully consolidated private equity investments were each up by a similar magnitude after the acquisition of Four Seasons in August 2004.

Non-operating items Non-operating items amounted to a loss of 9 million in 2005 after a gain of 477 million in 2004 primarily as realized gains/losses (net) were down significantly. In 2004, we benefited from considerable realized gains