ALLIANZ SE
Form 20-F
March 20, 2008
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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, 2007

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)

Burkhard Keese

ALLIANZ SE

Königinstrasse 28, 80802 Munich, Germany

Telephone: +49 89 3800-16596

Facsimile: +49 89 3800-16598

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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, 2007:

Ordinary shares, without par value	452,350,000 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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨

International Financial Reporting Standards as issued by the International Accounting Standards Board x

Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 ¨

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, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007, which have been audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft. The consolidated financial statements of the Allianz Group have been prepared in conformity with International Financial Reporting Standards (IFRS), as adopted under European Union (EU) regulations in accordance with section 315a of the German Commercial Code (HGB). The consolidated financial statements of the Allianz Group have also been prepared in accordance with IFRS as issued by the International Accounting Standard Board (IASB). The Allianz Group s application of IFRSs results in no differences between IFRS as adopted by the EU and IFRS as issued by the IASB. 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 $1.5369 = 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 March 10, 2008. 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, 2003 through March 10, 2008.

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. V 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, 2007. We derived the selected financial data for each of the years in the five-year period ended December 31, 2007 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. Our selected financial data as of and for the years ended December 31, 2005, 2004 and 2003 presented below also reflect these revisions, with the exception of total revenues and operating profit for the year ended December 31, 2003. 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.

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As of or For the Years ended December 31,		2007 $[1]	2007	Change from previous year %	2006	2005	2004	2003
				(in millions, except per share data)				
Income Statement								
Total revenues[2]								
Property-Casualty	mn	68,068	44,289	1.4	43,674	43,699	42,942	43,420[3]
Life/Health	mn	75,872	49,367	4.1	47,421	48,272	45,233	42,319[3]
Banking	mn	8,793	5,721	(19.3)	7,088	6,318	6,576	6,704[3]
Asset Management	mn	5,009	3,259	7.1	3,044	2,722	2,245	2,226[3]
Consolidation	mn	(58)	(38)	not meaningful	(98)	(44)	(47)	(929)[3]
Total Group	mn	157,683	102,598	1.5	101,129	100,967	96,949	93,740[3]
Operating profit[4]								
Property-Casualty	mn	9,681	6,299	0.5	6,269	5,142	4,825	2,397[3]
Life/Health	mn	4,603	2,995	16.8	2,565	2,094	1,788	1,265[3]
Banking	mn	1,188	773	(45.6)	1,422	704	447	(396)[3]
Asset Management	mn	2,089	1,359	5.3	1,290	1,132	839	716[3]
Corporate	mn	(499)	(325)	not meaningful	(831)	(881)	(870)	[3]
Income (loss) before income taxes and minority interests in earnings	mn	17,779	11,568	12.1	10,323	7,829	5,044	3,812
Net income (loss)[5]	mn	12,243	7,966	13.5	7,021	4,380	2,266	2,691
Balance Sheet								
Investments	mn	441,017	286,952	(3.8)	298,134	285,015	254,085	237,682
Loans and advances to banks and customers[6]	mn	609,691	396,702	(6.4)	423,765	359,610	406,218	382,590
Total assets[6]	mn	1,630,880	1,061,149	(4.4)	1,110,081	1,054,656	1,058,612	971,076
Liabilities to banks and customers[6]	mn	517,158	336,494	(10.6)	376,565	333,118	377,480	337,201
Reserves for loss and loss adjustment expenses	mn	97,910	63,706	(2.7)	65,464	67,005	62,331	62,782
Reserves for insurance and investment contracts[6]	mn	449,150	292,244	1.8	287,032	277,647	251,497	233,896
Shareholders equity[6]	mn	73,392	47,753	(3.8)	49,650	38,656	29,995	27,993
Minority interests[6]	mn	5,576	3,628	(49.5)	7,180	8,386	7,696	7,266
Returns								
Return on equity after income taxes[6][7]	%	16.4	16.4	0.5pts	15.9	12.9	7.8	11.0
Return on equity after income taxes and before goodwill amortization[6][7]	%	16.4	16.4	0.5pts	15.9	12.9	11.6	16.5
Share Information								
Basic earnings per share		27.66	18.00	5.3	17.09	11.24	6.19	7.96
Diluted earnings per share		27.22	17.71	5.5	16.78	11.14	6.16	7.93
Weighted average number of shares outstanding								
Basic	mn	442.5	442.5	7.7	410.9	389.8	365.9	338.2
Diluted	mn	449.6	449.6	7.5	418.3	393.3	368.1	339.8
Shareholders equity per share[6]		166	108	(10.7)	121	99	82	83
Dividend per share		8.45	5.50	44.7	3.80	2.00	1.75	1.50
Dividend payment	mn	3,805	2,476	50.8	1,642	811	674	551
Share price as of December 31[8]		227.38	147.95	(4.4)	154.76	127.94	97.60	100.08
Market capitalization as of December 31	mn	102,358	66,600	(0.4)	66,880	51,949	35,936[9]	36,743[9]
Other data								
Employees		181,207	181,207	8.8	166,505	177,625	176,501	173,750
Third-party assets under management as of December 31	mn	1,175,146	764,621	0.1	763,855	742,937	584,624	564,714

(1) Amounts given in Euros have been translated for convenience only into U.S. Dollars at the rate of $1.5369 = 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 March 10, 2008.

(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. Please refer to Operating and Financial Review and Prospects Introduction for a reconciliation of total revenues to premiums written for the Allianz Group.

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

(4) 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.

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

(6)

The Allianz Group identified prior period errors through an analysis of various balance sheet accounts (the Errors). The Errors resulted primarily from the accounting for the purchase of Dresdner Bank in 2001 and 2002, consolidation of special funds in 2001 and other errors related to minority interest and policyholder participation occurred in combination with mergers. The Errors had the effect of reducing net income by 78 mn in 2006, 42 mn in 2005, and 157 mn for the 4 years from 2001 through 2004. As the majority of the Errors related to the years 2001 through 2004, the Errors from these periods have been accounted for in 2007 by adjusting the opening balance sheet as of January 1, 2005. The Errors for 2005 and 2006 have been corrected through an out-of-period adjustment to net income in 2007. Certain financial instruments that were previously presented on a net presentation are now presented on a gross basis, due to contractual limitations to the right of offset. Partially offsetting these reclassifications from net to gross presentation is a change in the presentation of Collateral paid for securities borrowing transactions and Collateral received for securities lending transactions from gross to net presentation. The net effect is an increase in total assets and total liabilities of 57,610 mn, 66,123 mn, 67,654 mn and 37,274 mn in 2006, 2005, 2004 and 2003, respectively. For further information, see Note 3 to the consolidated financial statements.

(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 declared in 2007 and paid in prior years per ordinary share and American Depositary Share (or ADS) equivalent for 2003 through 2007. 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	
		$		$
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	3.80	5.13	0.380	0.513
2007(1)	5.50	8.45	0.550	0.845

(1) Dividend amounts given in Euros have been translated for convenience only into U.S. Dollars at the rate of $1.5369 = 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 March 10, 2008. 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)	
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
2007	1.4862	1.2904	1.3797	1.4603
September	1.4219	1.3606	1.3913	1.4219
October	1.4468	1.4092	1.4349	1.4468
November	1.4862	1.4435	1.4562	1.4688
December	1.4759	1.4344	1.4630	1.4603
2008				
January	1.4877	1.4574	1.4790	1.4841
February	1.5187	1.4495	1.5019	1.5187
March (until March 10, 2008)	1.5369	1.5195	1.5282	1.5369

(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 March 10, 2008, the noon buying rate for the Euro was $1.5369.

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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 15% of Allianz Group s financial assets at December 31, 2007, 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.

Allianz Group s financial condition may be affected by adverse developments in the financial markets

The ability of Allianz Group to meet its financing needs depends on the availability of funds in the international capital markets. The financing of Allianz Group s activity includes funding through commercial papers and medium term notes. A sustained break-down of such markets could have a materially adverse impact on the cost of funding as well as on the refinancing structure of Allianz Group. Furthermore, the illiquidity or sustained volatility of certain market segments may affect the mark-to-market valuation of certain assets and may lead to valuation losses and an increased risk of counterparty defaults.

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, 2007, Allianz Group has recorded goodwill in an aggregate amount of 12,453 million, of which 6,165 million relates to its asset management business, 4,433 million relates to its insurance business, 1,714 million relates to its banking business, and 141 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 2007.

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 2007.

As of December 31, 2007, Allianz Group had a total of 4,771 million in net deferred tax assets and 3,973 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, 2007, 3,227 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.

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Loss reserves for Allianz Group s property-casualty insurance and reinsurance policies are based on estimates as to future claims payments. 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, 2007. 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

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such products, which could in turn have a material adverse effect on Allianz Group s results of operations.

In the United States, and to a lesser extent in Europe and Asia we have a 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 our 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

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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 and annuity 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 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

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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 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 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 were implemented in Germany effective June 2, 2007. Although Allianz SE expects to continue 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, discussions on a new solvency regime for insurance companies in the EU (Solvency II) are ongoing. As those discussions are not yet finalized, its potential future impact for capital requirements can not currently be assessed. For more information, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Outlook .

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 the 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 law 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

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to continue as we expand our business into growing non-Euro zone markets. For the year ended December 31, 2007, approximately 34.2% of our gross premiums written in our property-casualty segment and 27.9% of our statutory premiums in our life/health segment originated in currencies other than the Euro. Furthermore, as of December 31, 2007, 56.1% of the third-party assets under management at the Asset Management segment are in the United States, and 44.2% of the assets in our Banking Operations are located outside of Germany.

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 Allianz AG s conversion into a European Company (Societas Europaea) and from the completed mergers with RAS S.p.A. and AGF could be materially different from our current expectations.

The benefits that Allianz SE may realize from Allianz AG s conversion into a European Company (Societas Europaea, SE) and the subsequent reorganization of its European operations, including the acquisition of minority interests in the Italian subsidiary, RAS S.p.A. and its French subsidiary AGF could be materially different from our current expectations. For more information about these transactions and reorganization, see Information on the Company Legal Structure AGF minorities buy-out procedure completed and Information on the Company Important Group Organizational Changes Reorganization in Italy. 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 a conversion to an SE and full ownership of these subsidiaries could be materially different from our current expectations.

The Allianz Group has been and may continue to be adversely affected by ongoing turbulence and volatility in the world s financial markets.

Starting in the second half of 2007, the crisis in the mortgage market in the United States, triggered by a serious deterioration of credit quality, led to a revaluation of credit risks. These conditions have resulted in greater volatility, less liquidity, widening of credit spreads and overall tightening of financial markets throughout the world. In addition, the prices for many types of asset-backed securities (ABS) and other structured products have deteriorated. Although most of Allianz s insurance operations have not been significantly affected by this crisis, Allianz has been materially impacted as a result of our investment banking operations exposures to U.S. mortgage-

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related structured investment products, including subprime, midprime and prime residential mortgage-backed securities (RMBS), collateralized debt obligations (CDOs), monoline insurer guarantees, structured investment vehicles (SIVs) and other investments. As a result, in late 2007, we recorded significant negative revaluations on the investment portfolio of our subsidiary, Dresdner Bank. For details regarding the impact of the financial market crisis on the Allianz Group s 2007 results, please see Operating and Financial Review and Prospects Executive Summary Impact of the financial markets turbulence.

The valuation of ABS and other affected instruments is a complex process, involving the

consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. While we continue to monitor our exposures in this area, in light of the ongoing market environment and the resulting uncertainties concerning valuations, it is difficult to predict how long these volatile conditions will exist and how the Allianz Group s markets, business and operations will be affected. Continuation or worsening of the turbulence in the world s financial markets could have a material adverse effect on the Allianz Group s financial position, shareholders equity and results of operations in future periods.

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ITEM 4. Information on the Company

The Allianz Group

Founded in 1890 and with 117 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- 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.

The Allianz Group s Business Model

As an integrated and globally operating financial services provider we seek to offer our clients considerable value by providing a wide range of insurance and financial products as well as an 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 consider ourselves well-positioned to anticipate and successfully respond to competitive forces affecting our various operations.

Property-Casualty & Life/Health insurance operations

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.[(1)] We are also among the largest insurance companies in a number of the other countries in which we operate. Our product portfolio

(1) Source: As published by Gesamtverband der deutschen Versicherungswirtschaft e.V. (or GDV) in 2007. The GDV is a private association representing the German insurance industry.

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

Product portfolio of the insurance segments

We conduct business in almost every European country, with Germany, Italy and France being our most important markets. We also run operations in the United States and in Central and Eastern Europe as well as in Asia-Pacific.[2]

We distribute our insurance products via a broad network of self-employed agents, brokers, banks and other channels. Increasingly, we distribute our insurance products in cooperation with car manufacturers and dealers in Europe and Asia-Pacific and also have direct distribution operations in Central Europe, India and Australia. The particular distribution channels vary by product and geographic market.

Our more mature insurance markets (e.g. Germany, France, Italy and the United States) are highly competitive. In recent years, we have also experienced increasing competition in emerging markets, as large insurance companies and other financial service 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.

(2) For a more detailed discription of our geographic diversification, please refer to Global Diversification of our Insurance Business .

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The investments of most Allianz insurance companies are managed internally through specialists within the Allianz Group (Allianz Investment Management).

Allianz SE, the Allianz Group s parent company, acts on an arm s length basis as reinsurer for most of our insurance operations and assumed 26.9%, 33.3% and 35.6% of all reinsurance ceded by Allianz Group companies for the years ended December 31, 2007, 2006 and 2005, respectively. Allianz SE also assumes a relatively small amount of reinsurance from external cedents and cedes risk to third-party reinsurers. The Allianz Group has established a pooling arrangement that offers reinsurance coverage to the Group s subsidiaries against natural catastrophes, which provides the benefit of internal Group diversification.

Banking operations

Our banking activities are primarily conducted through the Dresdner Bank Group (or Dresdner Bank), one of the leading commercial banks in Germany[(1)], accounting for 94.8% of our total Banking segment s operating revenues in fiscal year 2007 (2006: 96.0%). While Dresdner Bank focuses on selected geographic regions worldwide, Germany is its primary market. Dresdner Bank is present in the world s major financial centers and operates its banking business mainly through 1,074 (as of December 31, 2007) branch offices, of which 1,019 are located in Germany and 55 outside of Germany.

Dresdner Bank s focus is on serving the financial needs of private and corporate, as well as multinational and institutional clients according to the following business model.

Business model of Dresdner Bank

(1) Based on total assets as of December 31, 2007.

The Private & Corporate Clients division offers integrated financial solutions for private and corporate clients. These solutions are provided by dedicated sales and product units.

The Investment Banking division, known as Dresdner Kleinwort, focuses on German and multinational groups, financial investors and institutions requiring access to the capital markets and to global banking services.

In addition to our bankassurance activities, the distribution of Dresdner Bank products through our German insurance agents network is of increasing importance. By offering both insurance and banking services in 120 (as of December 31, 2007) selected agencies, an innovative and successful distribution channel is evolving.

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, saving 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.

Asset Management operations

We are one of the five largest asset managers in the world.[2]

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.

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.

(2) Based on total assets under management as of December 31, 2007, own source.

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AGI s customer and selected product range

Our retail asset management business is primarily conducted under the brand name Allianz Global Investors (AGI) through our operating companies worldwide. In our institutional asset management business, we operate under the brand names of our investment management entities, with AGI serving as an endorsement brand. With 725 billion of third-party assets as of December 31, 2007, AGI managed 94.8% (2006: 94.6%) of our total third-party assets on a worldwide basis, which includes fixed income, equity, money market and sector products, as well as alternative investments.

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

Our distribution channels vary by product and geographic market. In Europe and in the United States, AGI markets and services its institutional products through specialized operations and personnel. Retail products in Europe are mostly distributed through proprietary Allianz Group channels. In the United States, AGI s local asset management operating entities also offer a wide range of retail products. In addition we have committed substantial resources to the expansion of the third-party asset management business in the Asia-Pacific region.

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

Corporate segment

Our Corporate segment s activities include the management and support of Allianz Group s businesses through its strategy, risk, corporate finance, treasury, financial control, communication, legal, human resources and technology functions. The Corporate segment also includes the Group s alternative investments coordinated by Allianz Alternative Assets Holding GmbH.

Legal Structure

AGF minorities buy-out procedure completed

As of December 31, 2006 Allianz SE owned 57.5% of the share capital and 60.2% of the voting rights of its French-based subsidiary, Assurances Générales de France S.A. (AGF). In order to achieve full ownership of AGF, Allianz announced a tender offer for the outstanding AGF shares on January 18, 2007.

The acceptance period for the tender offer started on March 23, 2007 and ended on April 20, 2007. The consideration for one AGF share provided in the offer was 0.25 of an Allianz SE share and 87.50 in cash, which was increased to 88.45 to reflect the dividend per Allianz SE share for 2006 multiplied by 0.25, as Allianz SE shares issued due to the tender offer did not carry the rights to dividends for 2006.

On April 27, 2007 the French stock market authority, the Autorité des Marchés Financiers (AMF) announced, that following the closing of the tender offer for the outstanding shares of AGF, Allianz SE (directly and indirectly through its subsidiary Allianz Holding France SAS) held 178,030,698 AGF shares representing 92.18% of AGF s share capital and voting rights. Taking into account the 6,199,392 treasury shares held by AGF representing 3.21% of the share capital, minority shareholders held 8,895,695 shares representing 4.61% of AGF, less than 5%, the threshold for a subsequent squeeze-out procedure of the AGF share capital and voting rights.

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In order to achieve 100% ownership of AGF, Allianz SE and its subsidiary Allianz Holding France SAS subsequently launched a mandatory squeeze-out procedure of the AGF shares still held by minority shareholders. In accordance with the General Regulations of the AMF, and subject to review and prior authorization by the AMF, the squeeze-out was implemented on the basis of a price of 125.00 in cash per AGF share. Additionally, AGF s minority shareholders also received the 2006 AGF dividend of 4.25 per share.

On July 10, 2007, the Allianz Group completed the squeeze-out procedure for AGF and now holds 100% of the shares of AGF. As a result, the AGF shares are no longer listed on the Paris stock exchange Euronext.

Concurrent with the AGF transaction, and in order to provide the share component of the consideration to AGF shareholders, Allianz completed a capital increase involving the issuance of approximately 16.97 million new Allianz SE shares. The total cash component of the consideration for the acquisition of the outstanding AGF shares amounted to approximately 7.1 billion.

Acquisition in 2007

On February 21, 2007 Sistema and Allianz signed a share purchase agreement, whereby Allianz became a major shareholder of ROSNO Group, one of the four leading insurance companies in Russia. Allianz now holds approximately 97% in ROSNO, which is active in the Property-Casualty, Life/Health and Asset Management business. With this acquisition, we improved our strategic position in Central and Eastern Europe and expect to become by far the most important foreign majority owner of an insurance company in our strategic market Russia.

Squeeze-out of Allianz Lebensversicherungs-AG announced

On January 18, 2008 we announced the start of the squeeze-out process for the remaining shares in Allianz Lebensversicherungs-AG, having reached the required threshold of 95%.

Important Group Organizational Changes[1]

In order to realize the potential for operational and strategic synergies, we continued to pursue the

(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, 2007, 2006 and 2005.

reorganization projects started in recent years and complemented these with additional new activities:

Reorganization of German Insurance Operations

We continued the reorganization of our German insurance operations which was announced in 2005, by consolidating our major insurance subsidiaries under the Allianz SE wholly-owned holding company Allianz Deutschland AG and revising our regional sales and service structure. This process is part of our ongoing effort to simplify structures and reduce complexity within the Allianz Group, enabling 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. The reorganization is part of our strategy to further develop our leading position in the German insurance market.

At the beginning of 2007, we completed negotiations with the works councils, such negotiations being an important prerequisite for the implementation of the new operating model.

The German insurance operations are now organized according to the following business structure.

Business model of Allianz Deutschland AG

We are continuing this reorganization program and expect the reduced complexity to allow us to reduce costs in the long-term.

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In the framework of the reorganization back-office functions were lined up based on a shared services approach. This process was already started in 2006 and was further implemented in 2007 according to schedule. In the course of the year 2007 the Allianz north-east service region tested the functionality of the new business model in a pilot phase. In the financial year 2008 the remaining three regions will also be reorganized.

Reorganization in Italy

On October 1, 2007 the integration of Riunione Adriatica di Sicurtà (RAS), Lloyd Adriatico and Allianz Subalpina, which are as a group the

second largest composite insurer in Italy[(1)], was completed successfully. The newly formed Allianz S.p.A. is now able to realize the chance to exploit new opportunities for growth. To support this, the brands of the sales networks were reinforced with the Allianz brand, so e.g. the former RAS brand is now called Allianz RAS .

(1) Based on gross premiums written and statutory premiums written; source Italian Insurers Association, ANIA.

Global Diversification of our Insurance Business[1)]

As an integrated financial services provider we offer insurance, banking and asset management products and services to more than 80 million customers in over 70 countries. We are one of the leading global services providers of insurance, banking and asset management. Based on our market capitalization[2)], we are the largest financial institution in Germany.

Germany

In Germany, we have more than 100 years of experience in the insurance business. Today, together with Dresdner Bank and Allianz Global Investors we offer a complete spectrum of financial services.

Operations

We operate in the German market mainly through our insurance companies Allianz Versicherungs-Aktiengesellschaft (Allianz Sach), Allianz Lebensversicherungs-Aktiengesellschaft (Allianz Leben) and Allianz Private Krankenversicherungs-Aktiengesell-schaft (Allianz Private Kranken). In addition, Allianz Beratungs- und Vertriebs-AG serves as a distribution company. All entities are organized under the umbrella of the holding company Allianz Deutschland AG.[3)] At the end of 2007, Allianz Deutschland AG had a total of 19.8 million customers.

As the market leader in Germany based on gross premiums written in 2007[4)], Allianz Sach develops and provides **property-casualty.**

For **life insurance**, with Allianz Leben we are also market leader based on statutory premiums in 2007.[4)] In addition to Allianz Leben, we operate through a variety of smaller operating entities in the German market.

Through Allianz Private Kranken, we are the third-largest private **health** insurer in Germany based on statutory premiums in 2007.[4)]

Our German results of operations also include our property-casualty assumed reinsurance business, which is primarily attributable to Allianz SE.

(1) Please see ITEM 18. Financial Statements Notes to the Allianz Group s Consolidated Financial Statements Selected subsidiaries and other holding for a breakdown of selected operating entities.
(2) As of March 1, 2008. Source: Deutsche Börse Group.
(3) Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations for further information.
(4) Source: Based on data provided by German Insurance Association, GDV.

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Products & Distributions

We offer products not only for all three insurance lines but also with a clear focus on products combining coverage from life, health and property-casualty insurance designed to better respond to customer needs. In addition we distribute products from Dresdner Bank and Allianz Global Investors Germany.

Our products are distributed mainly through a network of full-time tied agents, while distribution through our new bankagencies and brokers is increasing.

In **property-casualty**, we offer a wide variety of insurance products for financial coverage for risks to private and business clients. Our main lines of business are motor liability and own damage, accident, general liability and property insurance.

In the **life** business, 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 arrangements and defined contribution plans.

In the **health insurance** business, we provide a wide range of products, including full private health care coverage for salaried employees and the self-employed, supplementary insurance for individuals insured under statutory health insurance plans, supplementary care insurance and foreign travel medical insurance.

Outlook

In order to strengthen our market position, we intend to further develop our customer-focused organization and aim to provide our clients with more integrated products for every stage of their lives.

For the **property-casualty** business, we see Germany being a rather mature market with a high degree of competition. One of the key challenges is achieving growth while also maintaining an appropriate level of profitability. To deliver all-encompassing service in emergency cases we will further develop our assistance-services for individuals and corporate customers.

For our **life** business, we expect strong growth opportunities as we see an increasing demand for private retirement products and retirement provisions in general.

Our **health insurance** business with its two basic products full health care coverage and supplementary insurance is expected to be impacted by the German health care reform during the upcoming years. As a result of the reforms, we expect demand for full health care coverage to grow only slightly. On the other side, we believe that supplementary insurance will further increase, though we will also face competition arising from statutory health insurers which have been allowed to offer special supplementary insurance (so called Wahltarif) from 2007 onwards.

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Europe

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

2007 in review:

April 30: Allianz Cornhill Insurance plc in the UK was renamed Allianz Insurance plc
July 10: AGF minorities buy-out procedure completed
October 1: Integration of all Allianz operations in Italy into Allianz S.p.A. completed (RAS, Lloyd Adriatico and Subalpina)
December 3: AGF Belgium changed its name to Allianz Belgium S.A.
November 21: Announcement of AGF Asset Management name change to Allianz Global Investors (France) SA effective January 1, 2008.

France

Operations

In France, we operate through the Assecurances Générales de France (or AGF) Group, a major participant in insurance and financial services. We are ranked third in the French **property-casualty** market and eighth in the **life/health** insurance market, based on gross premiums written and statutory premiums, respectively, in 2006.[1)] AGF s activities encompass several areas, including: property-

casualty insurance, life/health insurance, asset management and banking.

The acquisition of the minority interest in AGF carried out in 2007 is designed to reduce the complexity of our organization and to allow us to further implement Allianz Group-wide programs and initiatives, as well as to strengthen our market position in France.[2)]

Products & Distributions

The broad range of AGF-branded products for both individuals and corporate customers, including property, injury and liability insurance as well as short-term investment and savings products, are distributed primarily through a network of tied agents, brokers and partnership channels. Furthermore, we market our products through AGF Banque. An important portion of our life statutory premiums in France is generated through the sale of unit-linked policies.

Outlook

Operating in a property-casualty market that has seen limited growth in recent years, we seek to focus on maintaining operating profitability while simultaneously implementing selective initiatives aimed at generating growth. For example, we introduced a new motor tariff at the end of 2006 together with special marketing operations in 2007.

We consider AGF s life business to be a growth area.

(1) Source : French Insurers Association, FFSA
(2) Please see Information on the Company Legal structure AGF minorities buy-out procedure completed for further information.

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Italy

Operations

In October 2007, the former operations of the RAS S.p.A., Lloyd Adriatico S.p.A. and Allianz Subalpina S.p.A were integrated into one single company, Allianz S.p.A., in an effort to better serve the Italian market with a broad range of insurance and financial products, more effective customer service and best practice solutions. Allianz S.p.A. is the second[1)] largest Italian insurance group based on gross premiums written and statutory premiums written, respectively.

Products & Distributions

We operate in most major personal and commercial property-casualty lines in Italy. The most important one is motor. Other important business lines are fire, general liability and personal accident insurance. We sell our products through traditional and direct sales channels as well as via our joint-venture Credit RAS.

In the life/health business, we offer individual life policies, primarily in the form of endowment policies. Additionally, we offer annuity products and an increasing number of unit/index-linked policies, in which policyholders participate directly in the performance of policy-related investments. In 2007, these products contributed three-fourths of our combined statutory premiums in Italy. A large percentage of our contracts are marketed through our bancassurance channel.

Outlook

We view the Italian market, having a lower penetration rate for non-motor insurance products compared to other European markets, as a potential growth market. The currently weak economic environment in Italy, however has led to slower market growth compared to past trends. Additionally, several regulatory reforms, such as the so-called Bersani Law , aimed at increasing competition and reducing market prices might challenge insurers profitability. Nevertheless, we seek to grow via a multi-channel distribution strategy that comprises of agents, bancassurance and financial advisors.

United Kindom

Operations

We serve the market in the United Kingdom primarily through our subsidiary Allianz Insurance plc. (formerly Allianz Cornhill Insurance plc.).

Products & Distributions

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

Outlook

Operating in a highly competitive market, Allianz Insurance continues to concentrate on active 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 areas with increasing pricing pressures, as a measure to support operating profitability.

Switzerland

Operations

We serve the Swiss **property-casualty** market through Allianz Suisse and Allianz Risk Transfer AG. Allianz Suisse acts as the umbrella brand for our four general legal entities in Switzerland. Based on gross premiums written in 2006, Allianz Suisse ranks fourth in Switzerland.[2)]

We conduct our **life/health** operations in this region primarily through Allianz 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 2006.[2)]

Products & Distributions

Allianz Risk Transfer AG offers conventional reinsurance and a variety of alternative risk transfer products. In the general **property-casualty** market in Switzerland served through Allianz Suisse, the most important line of business for Allianz Suisse is motor, contributing nearly 40% of its gross premiums written in 2007.

In the **life/health** market, we provide a wide range of individual and group life insurance products, including retirement, death and disability products.

(1) Source : Italian Insurers Association, ANIA
(2) Source : Statistics of the Swiss Federal Bureau of Private Insurers

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Outlook

In the very competitive **property-casualty** business in Switzerland, we will continue to focus on profitability, while simultaneously attempting to achieve attractive growth.

We believe there is potential for growth in our **life/health** business through enhancement of agent and broker networks and, given our relatively high market share in property-casualty, through cross-selling between our segments.

Spain

Operations

We serve the Spanish **property-casualty** market through our operating entities Allianz Compañía de Seguros y Reaseguros S.A. and Fénix Directo S.A. We rank third in the Spanish market, based on gross premiums written in 2007.[1)]

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 & Distributions

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 2007.

Additionally, we provide a broad **life/health** insurance 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.

Outlook

Market conditions in Spain are characterized by intense price competition especially in the motor business. Nevertheless, we expect further above market growth in the **property-casualty** segment, also supported by our direct sales channel.

In **life/health** insurance business we experience profitable growth. Despite recent tax reforms resulting in many life products losing their tax privileges, we expect to sustain our competitive position.

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 2007, the largest are our operations in the Netherlands, Austria and Ireland.

We also provide **life/health** insurance in most of the other Western and Southern European countries, of which, based on statutory premiums 2007, the largest are in Belgium and the Netherlands.

Products & Distributions

The most important lines of business in the Netherlands are motor and fire insurance. Our Dutch subsidiary distributes its products through independent agents and brokers. In Austria, we offer a broad range of **property-casualty** products to individual and group customers primarily through salaried sales forces, tied agents and brokers. Our Irish subsidiary offers a wide variety of products, mainly motor and property insurance for commercial and private customers, distributing predominantly through brokers and banks as well as telephone- and internet-based direct sales channels. In Belgium, we market a wide range of **life insurance** products, which won awards several times, 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.

Outlook

The Dutch insurance market is characterized by intense competition. Here we expect further price decreases in the motor business, whereas in Ireland, we expect the market to become more favorable in 2008, both in commercial and in personal lines.

The larger **life insurance** markets in our Western and Southern European region are mature and provide only limited growth opportunities.

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

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New Europe

Our presence in New Europe dates back to the acquisition of the Hungarian state-run insurance company Hungaria Biztosito in 1989. Today, we operate our business in this region through more than 25 companies in 10 countries, and we are the largest foreign insurer based on statutory premiums and gross premiums written in 2006[1)], respectively. We offer life, health, property and casualty insurance, as well as pension fund products.

2007 in review:

- February 21: Allianz acquires 49.2% of the shares of the ROSNO Group
- May 21: Allianz acquires Russian insurer Progress-Garant
- September 20: Market entry in Kazakhstan through the acquisition of 100% of the shares of ATF-Polis from ATF Bank

Operations

Based on gross premiums written in 2006[1)], we are the leading **property-casualty** international insurance company in New Europe, 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, Croatia, Ukraine and Russia. Further expansion in the region has begun with the acquisition of ATF Polis insurance company in Kazakhstan.

In the **life/health** segment, we are present in all key markets in this region and are one of the top four life insurance providers, based on statutory premiums in 2006[1)].

Products & Distributions

The primary **property-casualty** products sold in these countries are mandatory motor third-party liability and motor own damage coverage as well as industrial, commercial and private property lines. In 2007, we continued to expand our **life/health** product range and sales capacity throughout New Europe by following a multi-channel distribution approach, and sell both unit-linked and traditional life insurance products. Following the 2006 launch of a limited-edition index-linked life insurance product, we have continued expanding offerings of investment-oriented products. Our Hungarian insurer, Allianz Hungária Biztositó Rt., is transforming into an integrated financial services provider operating under an assurbanking model.

Outlook

Motor business products and, increasingly, other personal lines continue to be the primary source of our growth. We also expect to expand and further develop our sales network. We believe we are well-positioned to capture the opportunities from the growing demand that we expect for **property-casualty** insurance products.

New Europe represents one of the fastest growing **life insurance** markets in the world, primarily resulting from low penetration levels. In anticipation of the expected growth, we continue to strengthen our sales capacity and product range.

(1) Source: Own estimate based on published statistics from regulatory bodies and insurance associations.

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Asia-Pacific and Africa

We consider Asia Pacific to be one of our major growth regions. Allianz has been present in the region since 1917, when we began providing fire and marine insurance in the coastal cities of China.

Today, Allianz is active in all key markets of the region, offering its core businesses of property and casualty insurance, life and health insurance, asset management and banking. With more than 13,000 staff, Allianz serves over 18.5 million customers in the region.

To elevate our presence in the Middle East region to a new level and to set the course for further internal and external growth, we established the Middle East as our third major growth region from October 1 onwards. The regional unit assembles Allianz s entities in Bahrain, Egypt, India, Jordan, Lebanon, Pakistan, Saudi Arabia and Sri Lanka and is directed from a central office in Bahrain.

Allianz also operates in several countries in Africa.

2007 in review:

January 15: Acquisition of Commerce Assurance Berhad in Malaysia
January 18: Majority take over in Taiwan at Allianz President Life and re-branding as Allianz Taiwan Life on July 7
March 12: New joint venture Bajaj Allianz Financial Distributors Ltd. for distribution of financial products, such as mutual funds, credit cards and loans, throughout India
July 30: Licence to expand into Jiangsu province granted to Allianz China Life
November 20: Licence to enter Beijing life markets to Allianz China Life

Asia-Pacific

Operations

In the Asia-Pacific region we maintain **property-casualty** operations in Malaysia (recently expanded through the acquisition of Commerce Assurance Berhad), Indonesia and other Asia-Pacific countries, including China, Thailand, Japan, Hong Kong, Singapore, Laos and India.

The majority of our **life/health** business in this region is conducted in South Korea through Allianz Life Insurance Co. Ltd. (Allianz Life Korea) and in Taiwan through Allianz Taiwan Life Insurance Company. Allianz Life Korea was the sixth-largest life insurance company in South Korea based on statutory premiums in 2007.[1)] We also maintain operations in Malaysia, Indonesia, as well as in China, Thailand, Pakistan and

India.

Products & Distributions

We offer a full suite of products through our distribution network of approximately 320,000 agents in the region. Another important distribution channel is via our bank partners.

Our South Korean operations market a wide range of **life insurance** products. Due to the interest rate risk and a favorable equity market in South Korea, Allianz Life Korea has increasingly shifted its focus to variable and equity-indexed products. Allianz Taiwan Life primarily sells investment-oriented products through its bank channels.

(1) Source: South Korean Life Insurance Association.

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Outlook

We are seeking to expand in all of our selected markets in the region through internal growth and selected acquisitions.

China and India, in particular, are strategic growth markets for Allianz.

In China, 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.

We are also targeting additional growth in India through our joint venture with Bajaj Allianz Financial Distributors Ltd.

Australia

Operations

The large majority of our **property-casualty** business in Asia-Pacific is generated by Allianz Australia, which serves the Australian and New Zealand markets.

Since 2006 Allianz has sold **life insurance** products in Australia under the company name Allianz Australia Life Insurance Ltd.

Products & Distributions

Our Australian insurance operations include a variety of products and services, with 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 products through brokers and non-tied agents, as well as directly to customers.

Outlook

In Australia, we expect to continue to employ market segmentation techniques, which include diversifying the portfolio outside of the traditionally cyclical areas.

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The Americas

Allianz first established its presence in the Americas in 1974 when an office was opened in Brazil. In 1976, we commenced our property-casualty insurance business in the US. Today, we are active in North and South America, with companies based in the US, Canada, Mexico, Argentina, Brazil and Colombia.

2007 in review[1)]:

July 2: Sale of our business in Venezuela
September 17: AGF Allianz Argentina renamed Allianz Argentina

United States

Operations

Our **property-casualty** insurance business in the United States is operated through Fireman s Fund Insurance Company (Fireman s Fund). Our **Life and annuity** business is operated through Allianz Life Insurance Company of North America (Allianz Life US).

We reorganized our business lines in the United States by organizing our operating entities under the umbrella of Allianz of America Inc. This reorganization is designed to allow our U.S. companies to leverage all of their available resources and assets and to enable them more effectively anticipate and deliver on customer needs.

Products & Distributions

Through Fireman s Fund we underwrite personal, commercial and specialty lines, selling these products primarily through independent agents. Our commercial business unit offers specialized **property and casualty** coverage for businesses, while our Personal business unit focuses on high net worth individuals and the Specialty business unit provides marine and casualty products as well as multiperil crop/hail insurance.

Our **life and annuity** business primarily underwrites fixed, fixed- indexed and variable annuities, which are sold through independent distribution channels.

Outlook

Fireman s Fund expects to continue to grow in its target markets by enhancing customer solutions introducing new products and services, and leveraging cross selling through strengthened distribution management.

After a slowdown in business in 2006 and 2007, Allianz Life U.S. 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 development of fixed-indexed and variable products.

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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 2007, we are the eighth-largest property-casualty insurance provider in Brazil.[1)] We also sell property-casualty products in Colombia and Argentina.

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

Products & Distributions

In Brazil, we write mainly motor insurance, furthermore, we sell fire, transportation and other insurance coverage. Distribution is organized primarily through independent agents and brokers. In Colombia and Argentina, we offer a broad range of products.

Our **life insurance** activities in Colombia include traditional group life insurance as well as investment-oriented products such as savings, pension and annuity products.

Outlook

We expect growth in the **property-casualty** business to continue, primarily in Brazil and Argentina, mainly driven by the motor market.

We expect that growth rates in the South American **life insurance** market will remain attractive over the coming years.

Worldwide Speciality Lines

Operations

Through our subsidiary Euler Hermes, a global leader in **credit insurance**, we underwrite credit insurance in major markets around the world.[2)]

Allianz Global Corporate & Specialty primarily serves as the Allianz Group s **international corporate insurance business**.

Through Mondial Assistance Group, we are among the world s largest providers of **travel insurance and assistance** services based on gross premiums written in 2006.[3)]

In contrast to our other geographically-focused insurance businesses, we manage and offer these services on a worldwide basis.

Products & Distributions

Euler Hermes provides enterprises protection against the risk of non-payment of receivables and customer insolvency. Euler Hermes has developed a comprehensive range of services for the management of companies accounts receivables.

Through Allianz Global Corporate & Specialty, we offer a variety of other specialty lines of business, namely marine, aviation and industrial transport insurance and international industrial risks reinsurance.

Our Mondial Assistance Group offers travel insurance and assistance services.

Outlook

For credit insurance we see growth potential in Europe, North America and emerging markets. By providing high quality services, maintaining an information database and high financial strength rating, Euler Hermes aims to consolidate its leadership.

Through the combination of our international corporate business within Allianz Global Corporate & Specialty, managing 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 new markets and develop new products.

(1) Source: Based on data provided by National Association for Private Insurance Companies, FENASEG.
(2) Source: Own estimate based on information from International Credit Insurance and Surety Association, ICISA.

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

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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 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 on case reserves (incurred but not enough reported, IBNER). IBNR reserves, similar to case reserves for reported claims, are established to recognize the estimated costs, including LAE, necessary to bring claims to final settlement. The 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 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 on claim frequency, severity and time-lag in reporting are examples of factors used in projecting 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 of these variables are internal to the Allianz Group, such as changes in claims handling procedures, introduction of new IT systems or company acquisitions and divestitures. Others are external to the Allianz Group, such as inflation, judicial trends and legislative and regulatory changes. The Allianz Group attempts to reduce the uncertainty in reserve estimates through the use of multiple actuarial reserving techniques and analysis of the assumptions underlying each technique.

During 2007, there were no significant changes in the mix of business written across Allianz Group. Moreover, there were no material changes to the amount and type of reinsurance placed in respect of the Group s business.

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. For more information, see Risk Factors 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.

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 Allianz Group.

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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 estimate 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 years or more is used, while for shorter-tailed lines such as property, data going back five to ten 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 versus 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 prior 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 reserving 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 reserving decisions and to select the best estimate of the ultimate amount of reserves within a 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.

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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 diagnostic reviews 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 or reserves reports provided by local operating entities: 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 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, 2005, 2006 and 2007, 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 10% short-tail, 62% medium-tail and 28% long-tail business.

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Allianz Group

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

IFRS Basis

Euro in millions

	Automobile Insurance			General Liability			Property			Other Short-Tail Lines[(2)]			Other Medium-Tail Lines[(2)]			Other Long-Tail Lines[(2)]			Total		
of December 31, 2007	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**
rmany[(3)]	4,696	4,681	4,778	1,826	1,875	1,879	748	556	570				2,731	2,454	2,276	2,051	2,017	1,940	12,053	11,583	11,44
se Reserves[(1)]	4,579	4,555	4,650	1,251	1,300	1,309	592	452	455				1,984	1,631	1,279	679	695	719	9,085	8,632	8,41
NR	117	126	128	574	575	570	156	104	115				748	824	997	1,373	1,322	1,221	2,968	2,951	3,03
ance	2,180	2,224	2,240	1,901	1,924	1,884	1,161	1,103	1,117	306	316	509	2,144	2,182	1,433	1,052	997	1,589	8,744	8,746	8,77
se Reserves[(1)]	1,610	1,511	1,490	1,541	1,534	1,480	963	921	932	95	114	156	785	763	157	54	66	460	5,049	4,910	4,67
NR	571	713	750	359	390	404	197	182	186	211	202	353	1,359	1,419	1,276	997	931	1,130	3,695	3,836	4,09
ly	4,175	4,192	4,360	1,579	1,716	1,833	449	521	464	142	134	168	430	459	419	12	14	19	6,786	7,035	7,26
se Reserves[(1)]	2,927	3,091	3,401	1,023	1,067	1,182	422	510	470	119	110	132	385	407	376	11	13	18	4,886	5,197	5,57
NR	1,249	1,101	959	556	649	651	27	10	(6)	23	24	36	45	53	43	1	1	1	1,900	1,838	1,68
ited Kingdom	1,029	1,005	883	418	503	520	615	485	384	73	77	77	194	259	245	927	935	789	3,257	3,265	2,89
se Reserves[(1)]	836	847	809	306	356	403	456	356	342	30	29	25	116	179	176	607	577	500	2,350	2,344	2,25
NR	193	157	74	112	147	117	159	129	42	44	48	52	79	80	69	320	359	288	907	921	64
itzerland	824	842	873	236	233	228	146	104	98	82	74	74	872	836	692	1,119	1,080	1,070	3,278	3,169	3,03
se Reserves[(1)]	718	683	679	189	191	186	126	74	72	59	53	50	675	725	597	791	764	742	2,557	2,490	2,32
NR	106	159	193	47	42	42	20	29	26	24	22	24	197	111	95	328	315	329	721	679	71
ain	1,036	1,134	1,217	264	280	298	135	142	147	2	3	3	69	82	136	189	183	207	1,695	1,824	2,00
se Reserves[(1)]	992	1,072	1,163	219	208	226	117	117	121	2	2	3	51	64	115	168	151	179	1,550	1,614	1,80
NR	44	62	54	44	72	72	17	25	26	0	0	0	19	19	20	21	32	28	145	210	20
her Europe	2,742	2,864	2,927	1,033	1,051	1,117	485	538	630	302	197	210	174	146	82	604	592	653	5,340	5,388	5,61
se Reserves[(1)]	2,379	2,378	2,445	781	786	838	441	433	535	247	132	141	133	121	71	432	436	485	4,414	4,287	4,51
NR	363	486	482	252	265	279	44	104	95	54	65	69	41	25	11	172	157	168	926	1,102	1,10
AFTA Region[(3), (4)]	533	419	294	4,001	3,575	3,079	148	145	175	414	270	177	1,080	1,103	1,048	1,345	1,077	954	7,519	6,589	5,72
se Reserves[(1)]	311	230	164	1,261	1,250	918	28	89	115	257	47	95	571	270	129	1,057	846	693	3,485	2,730	2,11
NR	221	189	130	2,740	2,325	2,161	120	57	60	156	224	82	509	833	920	288	231	261	4,034	3,859	3,61
ia - Pacific Region	1,384	1,381	1,508	379	379	403	219	184	221	39	40	1	110	119	182	671	665	694	2,802	2,768	3,01
se Reserves[(1)]	782	899	998	110	113	128	147	114	168	3	2	0	49	49	55	217	221	229	1,307	1,398	1,57
NR	602	483	509	270	266	275	72	70	53	36	38	0	61	70	127	454	444	466	1,495	1,371	1,43
uth America & other	165	176	167	56	59	63	110	149	187				77	68	72				407	452	49
se Reserves[(1)]	130	127	129	55	57	59	91	136	182				52	46	39				328	366	40
NR	34	48	38	1	2	4	19	13	5				25	22	34				80	86	8
btotal of countries / regions	18,764	18,919	19,247	11,691	11,595	11,303	4,216	3,926	3,992	1,361	1,111	1,218	7,882	7,709	6,586	7,969	7,560	7,916	51,882	50,818	50,26
se Reserves[(1)]	15,264	15,393	15,929	6,736	6,862	6,728	3,384	3,203	3,391	813	488	603	4,800	4,254	2,994	4,015	3,767	4,024	35,010	33,968	33,66
NR	3,500	3,525	3,318	4,956	4,732	4,575	832	723	601	548	622	615	3,082	3,455	3,591	3,954	3,793	3,892	16,872	16,850	16,59
edit Insurance										688	691	656	424	351	387				1,112	1,042	1,04
se Reserves[(1)]										445	452	424	663	586	622				1,108	1,038	1,04
NR										243	239	232	(239)	(235)	(235)				4	4	(

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	Automobile Insurance			General Liability			Property			Other Short-Tail Lines[(2)]			Other Medium-Tail Lines[(2)]			Other Long-Tail Lines[(2)]			Total		
of December 31, 2007	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**	**2005**	**2006**	**200**
llianz Global Corporate Specialty[(3)]				1,632	1,399	1,229	1,930	1,594	1,165	72	131	152	2,819	2,921	2,870	685	616	54	7,137	6,662	5,4
ase Reserves[(1)]				713	719	483	1,305	966	828	33	78	75	1,622	1,463	1,617	441	408	27	4,114	3,633	3,0
NR				919	681	746	625	629	337	39	53	77	1,197	1,458	1,253	244	208	27	3,023	3,028	2,4
avel Insurance and ssistance Services										128	143	169							128	143	1
ase Reserves[(1)]										108	117	140							108	117	1
NR										20	26	28							20	26	[illegible]
btotal of specific usiness (global)				1,632	1,399	1,229	1,930	1,594	1,165	888	964	976	3,243	3,272	3,257	685	616	54	8,377	7,846	6,6
ase Reserves [(1)]				713	719	483	1,305	966	828	586	647	639	2,285	2,049	2,239	441	408	27	5,330	4,789	4,2
NR				919	681	746	625	629	337	302	317	337	958	1,223	1,018	244	208	27	3,047	3,057	2,4
llianz Group Total	**18,764**	**18,919**	**19,247**	**13,323**	**12,994**	**12,532**	**6,146**	**5,520**	**5,157**	**2,248**	**2,075**	**2,194**	**11,125**	**10,981**	**9,842**	**8,654**	**8,176**	**7,970**	**60,259**	**58,664**	**56,9**
ase Reserves[(1)]	**15,264**	**15,393**	**15,929**	**7,448**	**7,581**	**7,211**	**4,689**	**4,169**	**4,219**	**1,399**	**1,136**	**1,242**	**7,085**	**6,303**	**5,233**	**4,456**	**4,175**	**4,051**	**40,340**	**38,757**	**37,8**
NR	**3,500**	**3,525**	**3,318**	**5,875**	**5,413**	**5,321**	**1,457**	**1,352**	**938**	**850**	**939**	**952**	**4,040**	**4,678**	**4,609**	**4,198**	**4,001**	**3,920**	**19,919**	**19,908**	**19,0**

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

(2) For 2007 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.

(4) For NAFTA lines of business are allocated following an updated definition.

Prior year balances have been adjusted to reflect these reclassifications and allow for comparability across periods.

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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, such as property, claims are generally reported immediately after occurrence and settled in a period of only a few years. For long-tail lines of business, such as 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 according to 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, 2007 on an IFRS basis.

Changes in the reserves for Loss and loss adjustment expenses for the Property-Casualty segment

	2007			2006			2005		
	Gross mn	Ceded mn	Net mn	Gross mn	Ceded mn	Net mn	Gross mn	Ceded mn	Net mn
Balance as of January 1	58,664	(9,333)	49,331	60,259	(10,604)	49,655	55,528	(10,049)	45,479
Plus incurred related to:									
Current year	29,839	(2,994)	26,845	28,214	(2,572)	25,642	30,111	(3,580)	26,531
Prior years[1]	(1,708)	348	(1,360)	(1,186)	217	(969)	(1,632)	433	(1,199)
Total incurred	28,131	(2,646)	25,485	27,028	(2,355)	24,673	28,479	(3,147)	25,332
Less paid related to:									
Current year	(13,749)	1,118	(12,631)	(12,436)	675	(11,761)	(12,742)	861	(11,881)
Prior years	(14,206)	1,952	(12,255)	(14,696)	2,455	(12,241)	(13,284)	2,568	(10,716)
Total paid	(27,955)	3,070	(24,885)	(27,132)	3,130	(24,002)	(26,026)	3,429	(22,597)
Effect of foreign exchange and other	(2,022)	666	(1,356)	(1,491)	496	(995)	2,277	(837)	1,440
Effect of (divestitures)/acquisitions	125	(23)	102	0	0	0	1	0	1
Balance as of December 31	56,943	(8,266)	48,677	58,664	(9,333)	49,331	60,259	(10,604)	49,655

(1) The 1,360 million of favorable development during 2007 was the result of many individual developments by region and line of business. See Changes in Loss and LAE Reserves During 2007.

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Changes in Loss and LAE Reserves During 2007

As noted above, net loss and LAE reserves of the Allianz Group at December 31, 2007 included a 1,360 million reduction in incurred loss and LAE relating to favorable development on prior years, representing 2.8 % of net loss and LAE reserves at December 31, 2006. The following table provides a breakdown of this amount by region.

Allianz Group

Changes in Loss and LAE Reserves During 2007 Gross and Net of Reinsurance

IFRS Basis

Euros in millions

	Gross Reserves as of December 31, 2006	Gross Development related to Prior Years	in%[1]	Net Reserves as of December 31, 2006	Net Development related to Prior Years	in%[2]
Germany	11,583	(194)	(1.7)%	9,719	(220)	(2.3)%
France	8,746	(277)	(3.2)%	7,659	(139)	(1.8)%
Italy	7,035	(113)	(1.6)%	6,709	(91)	(1.4)%
United Kingdom	3,265	(257)	(7.9)%	2,721	(162)	(5.9)%
Switzerland	3,169	60	1.9%	3,015	54	1.8%
Spain	1,824	(137)	(7.5)%	1,641	(86)	(5.2)%
Other Europe	5,388	(255)	(4.7)%	5,045	(211)	(4.2)%
NAFTA Region	6,589	(4)	(0.1)%	5,473	113	2.1%
Asia Pacific	2,768	(175)	(6.3)%	2,509	(116)	(4.6)%
South America & Other	452	10	2.2%	316	(8)	(2.7)%
Subtotal of countries /regions	**50,818**	**(1,340)**	**(2.6)%**	**44,808**	**(866)**	**(1.9)%**
Credit Insurance	1,042	(165)	(15.8)%	800	(132)	(16.5)%
AGCS	6,662	(184)	(2.8)%	3,583	(341)	(9.5)%
Travel Insurance	143	(20)	(13.7)%	140	(21)	(15.2)%
Allianz Group	**58,664**	**(1,708)**	**(2.9)%**	**49,331**	**(1,360)**	**(2.8)%**

(1) In percent of gross reserves as of December 31, 2006
(2) In percent of net reserves as of December 31, 2006

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 in each jurisdiction. Most of the 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. Individual explanations of amounts in the following discussion, which are based only on significant developments of our major operating entities, do not fully reconcile to those in the above table.

Germany

In Germany, gross loss and LAE reserves developed favorably during 2007 by approximately 194 million, or 1.7% of reserves as of December 31, 2006.

At our German entity that writes direct insurance, gross loss and LAE reserves developed favorably by 62 million. This development was the result of multiple effects.

Unfavorable developments included:

 23 million for motor own damage due to an improvement in the methodology to allocate unallocated loss adjustment expenses (ULAE) to accident years and higher than expected payments; and

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27 million for legal protection, due to an improvement in the methodology to allocate ULAE to accident years and because of an increase in VAT in 2007.

Favorable developments included:

40 million for motor third party liability (TPL), mainly because of an update of assumptions due to data improvements for LAE;

21 million for property, because of a change in data segmentation which led to a change in actuarial assumptions resulting in a favorable change in selected ultimate losses; and

24 million for general TPL, because of the lower number of late reported claims.

Also during 2007, our reinsurance entity experienced 127 million of favorable reserve development. The main drivers for the favorable development were:

105 million for non-US asbestos exposures based on our on-going reserve analysis for these types of claims;

35 million on non-proportional business mainly due to better than expected historical loss experience; and

38 million for motor, liability and other proportional business from external German cedants because of favorable historical loss development.

These developments were partially offset by an increase of 51 million for German property and certain non-German external cedants because of actuarial assumptions being adjusted because of worse than expected historical loss emergence.

France

In France, gross loss and LAE reserves developed favorably by 277 million, or 3.2% of the reserves as at December 31, 2006.

Favorable developments in France included:

86 million on its property and satellite business, mainly driven by reductions in the estimated ultimate loss for corporate business for which actual development has been less than expected;

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

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

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

Unfavorable developments in France included:

74 million for construction business mainly due to an underestimation for prior years because of significant portfolio growth;

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

Italy

In Italy, gross loss and LAE reserves developed favorably by 113 million, or 1.6% of the reserves at December 31, 2006.

Favorable developments in Italy included:

99 million on motor liability due to better than expected historical claims emergence and subsequent adjustment of actuarial assumptions; and

82 million on short-tail lines because of positive case reserve run-off.

Unfavorable developments included 29 million on general liability due to worse than expected historical claims emergence and subsequent adjustment of actuarial assumptions.

United Kingdom

In the United Kingdom, gross loss and LAE reserves developed favorably during 2007 by 257 million, or 7.9% of the reserves at December 31, 2006.

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In the United Kingdom, gross loss and LAE reserves developed favorably primarily due to the following factors:

- 53 million on personal lines, the majority of which arose from the motor account and, in particular, the favorable development of bodily injury claims. In the motor account, we have benefited in 2007 from changes in motor claims pattern in terms of the speed at which claims are notified, the improved manner in which reserves are handled by claims specialists and the savings realized on settlements;

- 183 million on commercial lines, a third of which arose from the motor account for the same reasons as listed above. A further third came from property-based accounts as weather-related reserves for December 2006 were released and favorable development was experienced on a number of individual losses. The final third of the release derived from liability accounts. As with the motor account, we have benefited in 2007 from changes in the liability claims patterns in terms of the speed at which claims are notified, the manner in which reserves are handled by claims specialists and savings realized on settlements. The various claims initiatives are also continuing to deliver benefits faster than anticipated in the reserving last year, resulting in run-off surplus;

- 42 million on corporate property business, primarily due to the unexpectedly favorable development on a few large claims and the release of related reserves.

Unfavorable developments included 29 million on run-off business due to a higher number of mesothelioma claims received in 2007 than expected, and this being reflected in revised future expectations.

Switzerland

In Switzerland, gross loss and LAE reserves experienced unfavorable development of 60 million, or 1.9% of the reserves at December 31, 2006, primarily due to the settlement of an old aviation claim.

Spain

Gross loss and LAE reserves for Allianz Seguros developed favorably by 137 million, or 7.5% of the reserves at December 31, 2006. This favorable development is mainly due to a refinement of methodology. Due to a limited history of data, in the past, estimates have been based on incurred loss development in prior reserve reviews. In 2007, more 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 255 million, or 4.7% of reserves at December 31, 2006. This figure includes the result of favorable and unfavorable developments for numerous individual companies. As the business is written in different currencies, these developments were also affected by foreign exchange rate movements.

Our Irish subsidiary experienced favorable development of 68 million for several reasons:

- 34 million for motor and liability business due to savings on injury claims, primarily as a result of better than anticipated levels of savings following the introduction of the Personal Injury Assessment Board (the PIAB); and

- 36 million in aggregate on other business lines.

Gross loss and LAE reserves for our Dutch subsidiary, Allianz Nederland Schade, experienced favorable development of 65 million in 2007, primarily due to:

- 34 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; and

- 20 million from property caused by less than expected large claims for accident year 2006 and positive development of incurred amounts for accident years 2004 and 2005.

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Gross loss and LAE reserves for our Hungarian subsidiary experienced favorable development of 17 million in 2007, including:

- 20 million unfavorable development on motor third party liability due to the implementation of a new IT system that generates more precise development data, resulting in higher actuarial reserve estimates; and

- 37 million favorable development on other lines of business due to lower than expected claims emergence and to the settlement of certain large industrial claims.

Gross loss and LAE reserves for our Slovakian subsidiary, Allianz Slovenská, experienced favorable development of 53 million in 2007, due primarily to an update of actuarial assumptions based on better than expected claims emergence mainly on motor third party liability.

NAFTA Region

For the entire NAFTA region, Allianz Group s gross loss and LAE reserves developed unfavorably during 2007 by 4 million, or 0.1% of the reserves at December 31, 2006. The largest Allianz Group company in this region is Fireman s Fund Insurance Company (Fireman s Fund).

At Fireman s Fund, gross loss and LAE reserves estimates increased by 5 million primarily driven by the following factors:

- 24 million unfavorable development on workers compensation because of an increase in actuarial reserve estimates in 2007 due primarily to changes to tail development (e.g., development after 10 years) assumptions reviewed in the fourth quarter of 2007. The tail development change contributed 17 million of the total increase;

- 20 million unfavorable development on extra-contractual business because of an increase in actuarial reserve estimates in 2007, due primarily to the recognition of a higher extra-contractual payment run-rate, as well as to the recognition of a greater than previously recognized lag time between occurrence and the payment of an extra-contractual claim; and

- 27 million unfavorable development on catastrophe reserves due to changes in estimates on accident year 2005 hurricanes.

These adverse developments were offset by a favorable development of 75 million resulting from a Fifth Circuit Court of Appeal s decision in 2007 that overturned a lower court ruling in 2006 regarding flood versus wind coverage in connection with Hurricane Katrina.

Asia-Pacific

Gross loss and LAE reserves for the Asia-Pacific region developed favorably during 2007 by approximately 175 million or 6.3% of reserves as at December 31, 2006. The largest Allianz Group property-casualty insurer in the region is our Australian operating entity, representing approximately 93% of the region s total reserves.

In Australia we experienced favorable development of 162 million during 2007. This result arose from partially favorable developments from different lines of business:

- 61 million for motor TPL primarily as a result of positive development in long-tail classes where the impact of prior years legislative changes continues to be better than assumed in the prior reporting years;

- 40 million for property and other short tail business, partly due to the positive movement in a single large claim, but also to better than expected historical claims experience;

- 25 million on general liability primarily due to the same reasons as for motor TPL; and

- 23 million from workers compensation, mainly due to legislative changes having a favorable impact on reserves, which was offset in part by an increase in the workers compensation run-off portfolio where an increase in the assumed number of asbestos-related claims was made.

Credit Insurance

Credit insurance is underwritten in the Allianz Group by Euler Hermes. During 2007, Euler Hermes experienced favorable development of 165 million, or 15.8% of the reserves as at December 31, 2006. Of

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this amount, 46 million is attributable to Euler Hermes Germany, which experienced favorable loss trends and unexpected salvage and subrogation recovery in commercial credit. In France, the favorable development of 74 million was mainly attributable to an increase in salvage and subrogation and decrease of average claim cost. The remainder comprises favorable developments of a lesser magnitude in the United Kingdom, Belgium, Italy, Spain, Greece, Hungary, Morocco, Mexico, The Netherlands and Sweden.

Allianz Global Corporate and Specialty

Allianz Global Corporate and Specialty (AGCS) is the Allianz Group s global carrier for corporate and specialty risks and also includes the corporate branch of the German business.

Overall, AGCS experienced 184 million of favorable development in 2007. This was mainly caused by the following partly offsetting effects:

The aviation line of business recorded a release of 107 million across all countries and sub-lines of business due to a new assessment of the development pattern based on better than expected claims experience and a release of 6 million in case reserves on two large claims. Our marine lined of business recorded a release of 23 million due to better than expected development, including a release of 3.5 million from two large claims and a release of 2 million related to hurricane Katrina and a certain fleet account.

These releases were offset by a 98 million increase in ultimate losses from two claims affecting the liability and D&O accounts. Both of these losses are now paid and settled.

In our U.S. property lines, 120 million in reserves were released as a result of internal reserve studies performed in 2007 which indicated more favorable development than had been assumed in prior estimates. The estimates of this run-off included a release of 27 million of loss and allocated loss adjustment expenses (ALAE) for hurricanes Katrina, Rita and Wilma, as more claims are settling and more information becomes known about the expected outcomes of the individual remaining open cases. This favorable development also included a release of 20 million from discontinued property lines.

In 2007, AGCS North America assumed the net liabilities of Jefferson and Monticello insurance companies, which were then sold. As a function of these assumptions, prior year losses and ALAE developed adversely by 23 million.

AGCS experienced a 25 million favorable technical runoff in the assumed business of their corporate book because of a reporting lag between AGCS AG and other Allianz operating entities. AGCS estimates IBNR for the losses, which is then adjusted when the operating entities report case reserves.

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 eleven years. As the Allianz Group adopted IFRS in 1997, historical loss development data is available on an IFRS basis for the ten years 1997 to 2007 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, 2007. 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.

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The 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.

Allianz Group

IFRS Basis

Euro in Millions

As of December 31,[1]	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Gross liability for unpaid claims and claims expense	34,323	45,564	51,276	54,047	61,883	60,054	56,750	55,528	60,259	58,664	56,943
Cumulative Paid as of											
one year	9,010	12,273	15,114	16,241	15,945	16,357	14,384	13,282	14,696	14,206	
two years	14,113	18,847	22,833	23,077	24,567	24,093	21,157	20,051	21,918		
three years	17,812	23,407	27,242	28,059	29,984	29,007	26,149	24,812			
four years	20,591	26,327	30,698	31,613	33,586	32,839	29,859				
five years	22,522	28,738	33,263	34,218	36,431	35,845					
six years	24,233	30,550	35,194	36,317	38,823						
seven years	25,536	32,051	36,930	38,129							
eight years	26,699	33,344	38,387								
nine years	27,670	34,463									
ten years	28,408										
Gross Liability re-estimated as of											
one year	40,651	46,005	52,034	55,200	58,571	56,550	54,103	56,238	57,932	55,266	
two years	38,058	46,043	52,792	53,535	56,554	55,704	55,365	53,374	54,270		
three years	37,909	46,780	51,265	52,160	56,056	57,387	53,907	51,760			
four years	38,530	45,307	49,929	52,103	57,640	56,802	53,068				
five years	37,342	44,196	50,058	53,675	57,006	56,053					
six years	36,346	44,524	51,432	53,204	56,447						
seven years	36,648	45,679	51,263	53,051							
eight years	37,696	45,478	51,002								
nine years	37,647	45,102									
ten years	37,125										
Cumulative surplus (deficiency)	(2,802)	462	274	996	5,436	4,001	3,682	3,768	5,989	3,398	
effect of disposed/(acquired) portfolios[2]	(5,514)	(2,147)	0	0	(93)	0	540	0	0	0	
effect of foreign exchange	794	(3,307)	282	936	2,466	1,520	(916)	235	2,340	1,690	
excluding both effects	1,918	5,916	(8)	60	3,063	2,481	4,058	3,533	3,649	1,708	
Percent	5.6%	13.0%	0.0%	0.1%	4.9%	4.1%	7.2%	6.4%	6.1%	2.9%	

(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 have been AGF (consolidated 1998), Allianz Australia and Allianz Ireland (consolidated 1999) and Allianz Slovenská (consolidated 2001). A major disposal was Allianz Canada (de-consolidated 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.

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In 2007, loss and LAE reserves decreased by 1,722 million or 2.9% to 56,943 million. Important contributors to this decline were the positive development on prior years loss reserves primarily in Italy, France, the United Kingdom, Germany and within the credit insurance business, as well as the weakening of the U.S. Dollar and British Pound relative to the Euro, which were offset in part by claims related to the windstorm Kyrill and floods in the United Kingdom. Reserve developments during 2007 are described in further detail in the preceding section Changes in Loss and LAE Reserves During 2007 .

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 relatively low reserve in 2006 as compared to 2005 was due to the relative absence of natural catastrophe claims in 2006.

Discounting of Loss and LAE Reserves

As of December 31, 2007, 2006 and 2005, the Allianz Group consolidated property-casualty reserves reflected discounts of 1,466 million, 1,377 million and 1,325 million respectively.

Reserves are discounted to varying degrees in the United States, the United Kingdom, Germany, Hungary, Switzerland, Portugal, France and Belgium. 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 the United States, 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 mn			**Amount of Discount mn**			**Interest Rate used for discounting**		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
France	1,321	1,325	1,404	400	349	357	3.25%	3.25%	3.25%
Germany	559	504	445	372	346	298	2.25% to 4.00%	2.75% to 4.00%	2.75% to 4.00%
Switzerland	430	427	414	258	253	236	3.00%	3.25%	3.25%
United States	155	181	213	170	200	230	5.25%	6.00%	6.00%
United Kingdom	160	139	116	163	133	110	4% to 4.75%	4.00% to 4.25%	4.00% to 4.25%
Belgium	94	91	91	28	26	28	4.50%	3.20% to 4.68%	4.68%
Portugal	64	79	57	49	47	44	4.00%	4.00%	4.00%
Hungary	79	74	67	26	23	22	1.40%	1.40%	1.40%
Total	**2,862**	**2,820**	**2,807**	**1,466**	**1,377**	**1,325**			

Asbestos and Environmental (A&E) Loss Reserves

There are significant uncertainties in estimating A&E reserves for loss and LAE. 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.

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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 Allianz Group, 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 and 2007. The results of our ongoing non-U.S. A&E reserve analysis resulted in a decrease of non-U.S. A&E reserves of 105 million in 2007.

The following table summarizes the gross and net loss and LAE 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**	
2005	3,147	3,873	6.4%
2006	2,990	3,636	6.2%
2007	2,764	3,287	5.8%

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

Total Asbestos and Environmental:	**Year Ended December 31,**		
	2005	**2006**	**2007**
	mn	**mn**	**mn**
Loss + LAE Reserves as of January 1	3,638	3,873	3,636
Less Loss and LAE Payments	(312)	(205)	(175)
Plus Change in Loss and LAE Reserves	546	(32)	(175)
Loss + LAE Reserves as of December 31	3,873	3,636	3,287

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) and certain other banking subsidiaries of the Allianz Group. 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.

In accordance with the Allianz Group policy, certain financial instruments are presented on a net basis when there is a legally enforceable right to offset with the same counter-party, and the Allianz Group intends to settle on a net basis. At Dresdner Bank, certain master netting agreements give Dresdner Bank the legal right of offset, but only under certain conditions. The financial instruments related to these agreements, consisting of derivatives, repurchase agreements and reverse repurchase agreements, have previously been reported on a net basis. These agreements have been evaluated and it has been determined that due to the limits to the right of offset, the relevant financial assets and liabilities should be reported on a gross basis.

Partially offsetting these reclassifications from net to gross presentation is a change in the presentation of Collateral paid for securities borrowing transactions and Collateral received for securities lending transactions from gross to net presentation. In this case, the logic in the relevant system did not distinguish between open trades and offsetting borrowing/lending activities with the same counterparty.

We have retrospectively applied these revisions to prior years. The data presented herein reflects those adjustments and resulted in adjustments to the line items Loans and advances to banks, Loans and advances to customers, Securities purchased under resale agreements, Liabilities to banks,

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Liabilities to customers and Securities sold under repurchase agreements on the Average Balance Sheet previously published for the years ended December 31, 2006 and 2005, as well as to figures derived therefrom. These revisions had no impact on our net income or shareholders equity reported for those years.

The information presented herein for the years ended December 2004 and 2003 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, 2007, 2006 and 2005. The average balance sheet and interest rate data is based

on consolidated monthly average balances using month-end balances prepared in accordance with IFRS. For further information, see Note 3 to the consolidated financial statements.

In accordance with IAS 39 revised, 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,								
	2007			2006			2005		
	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]	23,461	1,002	4.3%	37,181	1,228	3.3%	88,194	2,626	3.0%
In non-German offices	48,664	1,894	3.9%	55,947	2,364	4.2%	53,059	1,941	3.7%
Total[3]	72,125	2,896	4.0%	93,128	3,592	3.9%	141,253	4,567	3.2%
Loans and advances to banks									
In German offices	26,178	962	3.7%	23,205	768	3.3%	19,646	424	2.2%
In non-German offices	24,537	1,418	5.8%	18,417	668	3.6%	13,322	564	4.2%
Total	50,715	2,380	4.7%	41,622	1,436	3.5%	32,968	988	3.0%
Loans and advances to customers									
In German offices	81,343	4,004	4.9%	76,642	3,834	5.0%	77,873	4,313	5.5%
In non-German offices	49,921	2,903	5.8%	45,993	3,165	6.9%	32,261	1,600	5.0%
Total	131,264	6,907	5.3%	122,635	6,999	5.7%	110,134	5,913	5.4%
Securities purchased under resale agreements									
In German offices	89,847	4,635	5.2%	91,242	3,622	4.0%	83,614	2,690	3.2%
In non-German offices	78,623	3,685	4.7%	68,300	2,361	3.5%	85,379	2,324	2.7%
Total	168,470	8,320	4.9%	159,542	5,983	3.8%	168,993	5,014	3.0%
Investment securities[4]									
In German offices	8,108	331	4.1%	8,585	307	3.6%	7,304	237	3.2%
In non-German offices	4,436	182	4.1%	4,394	161	3.7%	5,739	237	4.1%
Total	12,544	513	4.1%	12,979	468	3.6%	13,043	474	3.6%
Total interest-earning assets	435,118	21,016	4.8%	429,906	18,478	4.3%	466,391	16,956	3.6%
Non-interest-earning assets									
In German offices	97,118			92,435			89,295		
In non-German offices	51,780			46,644			43,714		
Total non-interest -earning assets	148,898			139,079			133,009		
Total assets	584,016			568,985			599,400		
Percent of assets attributable to non-German offices	44.2%			42.1%			39.0%		

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	Years Ended December 31,								
	2007			2006			2005		
	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	569	26	4.6%	387	22	5.7%	215	16	7.4%
In non-German offices	304	13	4.3%				19	1	5.3%
Total	873	39	4.5%	387	22	5.7%	234	17	7.3%
Liabilities to banks[5]									
In German offices	54,722	2,262	4.1%	60,759	2,096	3.5%	67,698	1,869	2.8%
In non-German offices	21,160	1,431	6.8%	26,017	1,804	6.9%	24,420	1,414	5.8%
Total	75,882	3,693	4.9%	86,776	3,900	4.5%	92,118	3,283	3.6%
Liabilities to customers[5]									
In German offices[6]	67,446	2,997	4.4%	57,860	2,028	3.5%	60,254	1,720	2.9%
In non-German offices	40,947	2,031	5.0%	34,833	2,002	5.7%	36,947	1,139	3.1%
Total	108,393	5,028	4.6%	92,693	4,030	4.3%	97,201	2,859	2.9%
Securities sold under repurchase agreements									
In German offices	58,019	3,202	5.5%	60,895	2,629	4.3%	60,471	2,382	3.9%
In non-German offices	89,373	3,575	4.0%	83,111	2,359	2.8%	84,979	2,226	2.6%
Total	147,392	6,777	4.6%	144,006	4,988	3.5%	145,450	4,608	3.2%
Subordinated liabilities									
In German offices	3,503	200	5.7%	3,343	180	5.4%	3,244	163	5.0%
In non-German offices	2,478	162	6.5%	2,734	174	6.4%	3,062	181	5.9%
Total	5,981	362	6.1%	6,077	354	5.8%	6,306	344	5.5%
Certificated liabilities[5]									
In German offices	15,167	658	4.3%	16,539	814	4.9%	18,441	758	4.1%
In non-German offices	29,636	1,521	5.1%	31,959	1,436	4.5%	32,258	1,205	3.7%
Total	44,803	2,179	4.9%	48,498	2,250	4.6%	50,699	1,963	3.9%
Profit participation certificates outstanding									
In German offices	1,924	128	6.7%	1,892	128	6.8%	1,520	110	7.2%
Total	1,924	128	6.7%	1,892	128	6.8%	1,520	110	7.2%
Total interest-bearing liabilities	385,248	18,206	4.7%	380,329	15,672	4.1%	393,528	13,184	3.4%
Non-interest-bearing liabilities									
In German offices	118,246			119,394			137,356		
In non-German offices	68,238			56,913			56,582		
Total non-interest-bearing liabilities	186,484			176,307			193,938		
Shareholders equity	12,284			12,349			11,934		

Total liabilities and shareholders equity	584,016	568,985	599,400
Percent of liabilities attributable to non-German offices	44.1%	42.3%	40.6%

(1) Certain prior year figures have been revised to conform to current year presentation.
(2) The decrease in German financial assets carried at fair value through income from 2005 to 2006 is primarily attributable to the reduction of our debt securities portfolio.
(3) The decrease in German and non- German financial assets carried at fair value from 2006 to 2007 is mainly attributable to decreases in the value of our bond portfolio driven by the impact of the current worldwide financial market crisis.
(4) The average yields for investment securities available-for-sale have been calculated using the fair value balances and are not materially different compared to the results from using the amortized cost balances.
(5) Interest-bearing deposits are presented within liabilities to banks and liabilities to customers; certificates of deposit are presented within certificated liabilities.
(6) The increase in liabilities to customers in German offices is attributable to the increase in our deposit business.

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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, 2007 mn	2006[3] mn	2005[3] mn
Average total interest-earning assets	435,118	429,906	466,391
Net interest earned[1]	2,810	2,806	3,772
Net interest margin in %[2]	0.65%	0.65%	0.81%

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

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 those caused by 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 154 million in 2007 (2006: 181 million; 2005: 97 million).

	Years Ended December 31, 2007 over 2006 Increase/(Decrease) due to Change in:			2006 over 2005 Increase/(Decrease) 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	(226)	301	(527)	(1,398)	260	(1,658)
In non-German offices	(469)	(177)	(292)	423	313	110
Total	(695)	124	(819)	(975)	573	(1,548)
Loans and advances to banks						
In German offices	194	90	104	344	257	87
In non-German offices	750	480	270	103	(90)	193
Total	944	570	374	447	167	280
Loans and advances to customers						
In German offices	170	(63)	233	(479)	(412)	(67)
In non-German offices	(262)	(517)	255	1,565	746	819
Total	(92)	(580)	488	1,086	334	752
Securities purchased under resale agreements						
In German offices	1,013	1,069	(56)	932	670	262
In non-German offices	1,324	929	395	37	555	(518)

Total	2,337	1,998	339	969	1,225	(256)
Investment securities						
In German offices	23	41	(18)	70	26	44
In non-German offices	22	20	2	(76)	(25)	(51)
Total	45	61	(16)	(6)	1	(7)
Total interest income	2,539	2,173	366	1,521	2,300	(779)

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	Years Ended December 31,					
	2007 over 2006			2006 over 2005		
	Increase/(Decrease) due to Change in:			Increase/(Decrease) 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	4	(5)	9	6	(4)	10
In non-German offices	13	6	7	(1)	(1)	
Total	17	1	16	5	(5)	10
Liabilities to banks						
In German offices	165	387	(222)	228	433	(205)
In non-German offices	(372)	(43)	(329)	390	293	97
Total	(207)	344	(551)	618	726	(108)
Liabilities to customers						
In German offices	969	599	370	308	379	(71)
In non-German offices	29	(296)	325	863	932	(69)
Total	998	303	695	1,171	1,311	(140)
Securities sold under repurchase agreements						
In German offices	574	703	(129)	247	230	17
In non-German offices	1,216	1,027	189	133	183	(50)
Total	1,790	1,730	60	380	413	(33)
Subordinated liabilities						
In German offices	20	11	9	17	12	5
In non-German offices	(11)	6	(17)	(7)	13	(20)
Total	9	17	(8)	10	25	(15)
Certificated liabilities						
In German offices	(156)	(92)	(64)	56	140	(84)
In non-German offices	86	195	(109)	231	242	(11)
Total	(70)	103	(173)	287	382	(95)
Profit participation certificates outstanding						
In German offices		(2)	2	18	(7)	25
Total		(2)	2	18	(7)	25
Total interest expense	2,537	2,496	41	2,489	2,845	(356)
Change in taxable net interest income	2	(323)	325	(968)	(545)	(423)

[1] Certain prior year figures have been revised to conform to current year presentation.

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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, 2007	2006[4]	2005[4]
	mn	mn	mn
Net income/(loss)	443	909	1,768
Average shareholders equity	12,284	12,349	11,934
Return on assets in %[1]	0.08%	0.16%	0.29%
Return on equity in %[2]	3.61%	7.36%	14.81%
Equity to assets ratio in %[3]	2.10%	2.17%	1.99%

(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.
(4) Certain prior year figures have been revised to conform to current year presentation.

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, 2007	2006	2005
	mn	mn	mn
Financial assets carried at fair value through income			
German:			
Federal and state government and government agency debt securities	4,658	4,247	11,497
Local government debt securities	1,717	1,885	690
Corporate debt securities	4,342	10,135	18,972
Mortgage-backed securities	90	162	139
Equity securities	3,627	2,627	2,656
German total	14,434	19,056	33,954

	As of December 31, 2007	2006	2005
	mn	mn	mn
Non-German:			
U.S. Treasury and other U.S. government agency debt securities	852	575	915
Other government and official institution debt securities	9,306	12,163	25,534
Corporate debt securities[1]	22,187	29,263	39,170
Mortgage-backed securities[1]	14,442	23,085	13,601
Other debt securities[2]	118	265	255

Equity securities	33,298	32,626	28,105
Non-German total	80,203	97,977	107,580
Total financial assets carried at fair value through income	94,637	117,033	141,534
Securities available-for-sale			
German[3]:			
Federal and state government and government agency debt securities	280	345	305
Local government debt securities	547	1,347	1,777
Corporate debt securities	4,246	4,068	5,195
Equity securities	1,043	1,261	1,573
German total	6,116	7,021	8,850
Non-German:			
U.S. Treasury and other U.S. government agency debt securities	4	79	5
Other government and official institution debt securities	1,315	1,401	1,245
Corporate debt securities	5,490	5,536	3,180
Mortgage-backed securities	13	11	266
Other debt securities		100	455
Equity securities	2,234	1,931	1,649
Non-German total	9,056	9,058	6,800
Total securities available-for-sale	15,172	16,079	15,650
Securities held-to-maturity			
Non-German:			
Other government and official institution debt securities			41
Non-German total			41
Total securities held-to-maturity			41

(1) The change in non-German fair value corporate debt securities and mortgage-backed securities in 2006 is attributable to a reclassification of such securities to provide a more accurate disclosure.

(2) The change in non-German fair value other debt securities in 2006 and 2005 is attributable to RAS Bank s reclassification of such securities from the non-German corporate fair value debt securities category to provide a more accurate disclosure.

(3) We did not hold any German mortgage-backed securities available-for-sale from 2005 to 2007.

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

The decreases in the 2007 and 2006 fair values for non-German corporate debt securities, mortgage-backed securities, other debt securities, as well as in the German corporate debt securities are mainly driven by the impact of the current worldwide financial market crisis.

The decrease in German federal and state government, local government debt 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 reduced earnings prospects in this sector.

The increase in non-German mortgage-backed-securities carried at fair value through income from 2005 to 2006 was driven largely by an increase of the volume of super senior trades and intermediation trades during the years which have both required

increases in the levels of ABS holdings. The decrease of such securities during 2007 is mainly attributable to the developments in connection with the general financial market crisis.

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

At December 31, 2007, 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 operation s 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 2007.

	As of December 31, 2007				
	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	8	101	167	4	280
Local government debt securities	138	341	68	0	547

Corporate debt securities	480	3,016	730	20	4,246
German total	626	3,458	965	24	5,073
Non-German:					
U.S. Treasury and other U.S. government agency debt securities	4				4
Other government and official institution debt securities	221	469	523	102	1,315
Corporate debt securities	507	2,841	1,961	181	5,490
Mortgage-backed and other debt securities		2	8	3	13
Non-German total	732	3,312	2,492	286	6,822
Total securities available-for-sale	1,358	6,770	3,457	310	11,895
Weighted average yield in %	4.4%	4.6%	4.1%	4.5%	4.4%

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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, loans carried at fair value through income, 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,				
	2007	2006	2005	2004	2003
	mn	mn	mn	mn	mn
German:					
Corporate:					
Manufacturing	6,726	6,024	4,953	6,487	8,042
Construction	1,108	744	653	811	1,062
Wholesale and retail trade	4,935	4,282	4,646	4,125	4,275
Financial institutions (excluding banks) and insurance companies	4,955	4,675	3,144	2,005	2,958
Banks	2,102	1,706	1,767	1,152	276
Service providers:					
Telecommunication	89	471	599	362	58
Transportation	1,762	1,339	1,242	1,068	877
Other Service Providers	7,295	7,872	8,536	10,488	12,017
Total Service providers	9,146	9,682	10,377	11,918	12,952
Other	4,148	2,902	2,142	1,901	2,280
Corporate total	33,120	30,015	27,682	28,399	31,845
Public authorities	182	292	286	531	548
Private individuals (including self-employed professionals)					
Residential mortgage loans	20,331	20,978	21,367	22,361	22,526
Consumer installment loans	1,299	1,505	2,279	2,474	2,818
Other	14,854	15,305	15,328	14,640	15,491
Total Private individuals (including self-employed professionals)	36,484	37,788	38,974	39,475	40,835
German total	69,786	68,095	66,942	68,405	73,228
Non-German:					
Corporate:					
Manufacturing[(1)]	3,615	4,135	3,114	3,951	4,748
Construction[(1)]	354	409	230	413	2,460
Wholesale and retail trade	992	1,301	1,409	1,307	1,067
Financial institutions (excluding banks) and insurance companies	14,639	17,822	10,579	8,886	6,627
Banks	9,883	6,000	5,392	5,095	3,704
Service providers:					
Telecommunication	173	125	1,162	622	694
Transportation	2,769	2,192	1,737	976	2,024
Other Service Providers	4,573	4,617	2,915	1,839	3,377
Total Service Providers	7,515	6,934	5,814	3,437	6,095
Other	4,664	5,550	5,087	4,489	5,798
Corporate total	41,662	42,151	31,625	27,578	30,499
Public authorities	335	1,520	803	1,819	598
Private individuals (including self-employed professionals)					
Residential mortgage loans	714	699	613	662(2)	9,145
Consumer installment loans	116	92	81	499	448
Other	1,360	1,257	1,169	727	1,903
Total Private individuals (including self-employed professionals)	2,190	2,048	1,863	1,888(2)	11,496

Non-German total	44,187	45,719	34,291	31,285	42,593
Total loans	113,973	113,814	101,233	99,690	115,821

(1) The decrease in the non-German Corporate Construction and Manufacturing loan category from 2003 to 2004 is primarily attributable to the reduction of our foreign non-strategic loan business.

(2) The decrease in the residential 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,				
	2007	2006	2005	2004	2003
	mn	mn	mn	mn	mn
Mortgage loans	24,145	25,184	25,877	28,193	38,191
Finance leases	1,218	2,081	1,500	1,248	933

Loan Concentrations

Although our loan portfolio is diversified across more than 138 countries, at December 31, 2007 approximately 61.2% of our total loans were to borrowers in Germany. At December 31, 2007, our largest credit exposures to borrowers in Germany were loans to private individuals (including self-employed professionals) constituting 52.3% of German loans; this category represented 32.0% of our total loans outstanding at December 31, 2007. Approximately 55.7% of these loans are residential mortgage loans, which represent approximately 17.8% of our total loans outstanding at December 31, 2007. 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, and no one sector is individually significant to our domestic loan portfolio. We have no concentrations of loans to borrowers in any services industry in excess of ten percent of our total loans.

At December 31, 2007, approximately 8.0% of our total loans were to German corporate customers in various service industries, including utilities, media, transportation and other.

At December 31, 2007, approximately 15.0% 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, 2007 Percent of Total Loans
Manufacturing	3.2%
Construction	0.3%
Wholesale and retail trade	0.9%
Telecommunications	0.2%
Transportation	2.4%
Other service providers[(1)]	4.0%
Other[(2)]	4.1%

(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, 2007. The allocation between German and non-German components is based on the domicile of the borrower.

	As of December 31, 2007			
	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	3,433	1,946	1,347	6,726
Construction	416	604	88	1,108
Wholesale and retail trade	3,042	1,275	618	4,935
Financial institutions (excluding banks) and insurance companies	2,149	2,511	295	4,955
Banks	558	819	725	2,102
Service providers:				
Telecommunication	40	23	26	89
Transportation	710	558	494	1,762
Other service providers	2,148	2,980	2,167	7,295
Total service providers	2,898	3,561	2,687	9,146
Other	1,988	1,433	727	4,148
Corporate total	14,484	12,149	6,487	33,120
Public authorities	91	58	33	182
Private individuals (including self-employed professionals):				
Residential mortgage loans	1,982	3,483	14,866	20,331
Consumer installment loans	1,299			1,299
Other	2,357	4,052	8,445	14,854
Total private individuals (including self-employed professionals)	5,638	7,535	23,311	36,484
German total	20,213	19,742	29,831	69,786
Non-German:				
Corporate:				
Manufacturing industry	1,144	1,656	815	3,615
Construction	21	186	147	354
Wholesale and retail trade	258	214	520	992
Service Providers:				
Telecommunication	65	18	90	173
Transportation	497	977	1,295	2,769
Other service providers	1,908	1,833	832	4,573
Total service providers	2,470	2,828	2,217	7,515
Total manufacturing industry, construction, wholesale and retail trade and service providers	3,893	4,884	3,699	12,476
Financial institutions (excluding banks) and insurance companies	7,484	5,191	1,964	14,639
Banks	7,613	2,114	156	9,883
Other	1,369	2,214	1,081	4,664
Corporate total	20,359	14,403	6,900	41,662
Public authorities	214	61	60	335
Private individuals (including self-employed professionals):				
Residential mortgage loans	73	444	197	714
Consumer installment loans	48	65	3	116

Other	600	324	436	1,360
Total private individuals	721	833	636	2,190
Non-German total	21,294	15,297	7,596	44,187
Total loans	41,507	35,039	37,427	113,973

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The following table sets forth the total amount of loans with predetermined interest rates and floating or adjustable interest rates that, at December 31, 2007, are due after one year. 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, 2007		
	Loans with Predetermined Interest Rates mn	Loans with Floating or Adjustable Interest Rates mn	Total mn
German:			
Private individuals (including self-employed professionals)	27,503	3,343	30,846
Corporate and public customers	13,156	5,571	18,727
German total	40,659	8,914	49,573
Non-German:			
Private individuals (including self-employed professionals)	568	901	1,469
Corporate and public customers	9,225	12,199	21,424
Non-German total	9,793	13,100	22,893
Total	50,452	22,014	72,466

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,				
	2007 mn	2006 mn	2005 mn	2004 mn	2003 mn
Non-accrual loans[1]:					
German	1,231	1,570	1,855	4,774	6,459
Non-German[2]	324	231	247	831	2,236
Total non-accrual loans	1,555	1,801	2,102	5,605	8,695
Loans past due 90 days and still accruing interest[1]:					
German	176	176	251	390	477
Non-German	23	14	293	321	183
Total loans past due 90 days and still accruing interest	199	190	544	711	660

Troubled debt restructurings[1]:					
German	24	27	31	17	26
Non-German	1	1	1	54	200
Total troubled debt restructurings	25	28	32	71	226

(1) The overall decline in the risk elements is predominantly driven by the disposal of non-strategic assets and the streamlining of the retail portfolio.

(2) The increase in non-German non-accrual loans from 2006 to 2007 is primarily attributable to impairments in connection with the failure of two major credit exposures.

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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 when we determine, based on management s judgment, that the payment of interest or principal is doubtful. Management s judgment is applied based on its 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 90 days or more past due 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 that, 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, 2007 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, 2007.

	Years Ended December 31, 2007		
	In German Offices mn	In non-German Offices mn	Total mn
Interest income that would have been recorded in accordance with the original contractual terms	65	13	78
Interest income actually recorded	11	3	14

Potential Problem Loans

Potential problem loans are loans that are not classified as non-performing loans, but for which 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.

Each of our potential problem loans has been subject to our regular credit-monitoring and review procedures.

The outstanding balance of our potential problem loans was 37 million at December 31, 2007, a decrease of 12 million, or 24.5% from 49 million at December 31, 2006. As a result of enhanced credit policies and processes adopted during the course of 2005, loans are now being categorized as non-performing loans earlier than in periods prior to 2005 which has contributed to the decline in potential problem loans. Moreover, we do not record potential problem loans within the homogeneous portfolio. The decline in the 2007 potential problem loans is mainly attributable to a reclassification of such loans at Banque AGF into the non-performing loans category.

Effective January 1, 2005, in accordance with our policy on loan loss provisioning, no specific loan loss allowance was recorded on potential problem loans. Hence, no potential problem loans were recorded for the homogeneous portfolio at December 31, 2007. For further information on the split between homogeneous and non-homogeneous loan portfolio see Summary of Loan Loss Experience.

Approximately 5.5% 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 concentrated in the following geographic regions based on the domicile of the borrower:

	As of December 31, 2007 Percent of Total Potential Problem Loans
Asia / Pacific	67%
Latin America	16%

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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, 2007, 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, 2007						
	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), (3)	Cross-border Commitments(4) mn
Country							
United States	7	7,614	7,480	7,185	22,286	4.40%	4,332
United Kingdom	891	17,882	9,320	314	28,407	5.61%	10,691
France	376	5,302	2,886		8,564	1.69%	2,137
Italy	1,516	1,499	3,027	134	6,176	1.22%	5,648
Netherlands	3	1,929	2,093		4,025	0.80%	592
Switzerland	67	2,239	1,682		3,988	0.79%	706
Cayman Islands		136	9,746		9,882	1.95%	3,286
Ireland		1,151	7,110		8,261	1.63%	531
Luxemburg		2,533	2,347	29	4,909	0.97%	568

	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), (3)	Cross-border Commitments(4) mn
Country							
United States	45	3,194	13,320		16,559	2.96%	22,751
United Kingdom		4,512	7,178	55	11,745	2.1%	22,104
France	1,465	5,071	3,798		10,334	1.85%	11,714
Italy	1,257	1,413	1,510		4,180	0.75%	9,965

Netherlands		1,779	3,388		5,167	0.92%	5,774
Switzerland	23	4,046	1,790		5,859	1.05%	6,463
Cayman Islands		8	11,349	3	11,360	2.03%	14,698
Ireland	2	1,577	5,094		6,673	1.19%	7,289

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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], [3]	Cross-border Commitments[4] mn
Country							
United States	60	1,849	16,704		18,613	3.49%	3,325
United Kingdom		2,672	6,665	84	9,421	1.76%	9,423
France	3,443	3,082	3,611	14	10,150	1.90%	2,765
Italy	1,826	1,682	1,665	543	5,716	1.07%	6,428
Cayman Islands	9,656	87	1,114		10,857	2.03%	2,370

(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 506 billion, 560 billion and 534 billion at December 31, 2007, 2006 and 2005, respectively.

(3) Prior year figures for total assets have been revised to conform to current year presentation.

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

At December 31, 2007 and 2006, there were no material cross-border outstandings disclosed above that were also disclosed within the category of non-performing and 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 it is probable that, due to that loss event, 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 non-homogeneous portion. The homogeneous portion includes only loans in the domestic private banking business with gross risk less than 1 million.

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 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 and general 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* 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 Investment Banking division, as well as loans to borrowers within the Private & Corporate 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 & Corporate Clients division with gross risk less than 1 million, form the homogeneous portfolio. These loans are evaluated on a portfolio-based approach. Prior to 2005, we evaluated each of our loans individually. Loans for which a specific loan loss allowance had been previously established were

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evaluated on an individual basis if the existing specific loan loss allowance was 0.5 million or more.

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 for impaired loans by using the present value method based on the guidance provided in IAS 39 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.

Based on IAS 39 (AG 93) interest income on individually impaired loans that have been called in only results from unwinding the discount of the cash flows expected to be received on those loans. The interest rate that has been used to determine the impairment, i.e. the historical effective interest rate, is applied to determine interest income. Income from unwinding is recorded as interest income, reducing the impairment amount only, and consequently the gross loan amount remains unchanged.

We use an internal credit rating system 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 lowest rating categories 15 and 16 are impaired loans under IAS 39. Our internal rating system is subject to continuous improvement to reflect current market conditions.

Portfolio Loan Loss Allowance

As commenced in 2005, we determine loan loss allowances for all loans allocated to the homogeneous portfolio within our Private and Corporate Clients division (e.g. for mortgage loans and installment loans) with gross risk below 1 million by using a portfolio approach. This 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 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. Portfolio allowances are presented within the respective risk category.

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 well as in the total (homogeneous and non-homogeneous) transfer risk portfolio as of the relevant balance sheet date. The general loan loss allowance includes 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

We establish country risk allowances 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. Country risk allowances are presented within the specific or general risk category, as appropriate.

Self-Correcting Mechanisms

The principal self-correcting mechanism used to reduce the difference between estimated and actual

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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 regularly updated to reflect current market conditions.

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.

Movements in Loan Loss Allowance

We record increases to our allowance for loan losses as an expense. 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 or, depending on the type of collateral, internal write off takes place within a clearly defined period. 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 159 million, or 0.1%, to 113,973 million at December 31, 2007 from 113,814 million at

December 31, 2006. 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 238 million, or 11.8%, while our potential problem loans were reduced by 12 million, or 23.8%, from December 31, 2006 to December 31, 2007. Our specific loan loss provisions slightly increased by 17 million, or 3.9% from 431 million to 448 million at December 31, 2007, related to provisions in connection with a single major credit exposure.

Our general loan loss allowance diminished by 142 million, or 29.2%, during 2007 to 345 million at December 31, 2007, compared to 487 million at December 31, 2006.

Furthermore, following the approval of new internal models for expected losses which we also use for Basel II, our assumptions regarding the provisioning for the general loan loss provision turned out to be more cautious than necessary and were revised accordingly.

The average credit rating of loans in our portfolio based on our internal rating system has shown steady improvement in recent years. Our total loan loss allowance as a percentage of total loans has decreased to 0.7% at December 31, 2007, compared to 0.9% at December 31, 2006, and 1.6% at December 31, 2005.

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,									
	2007		2006		2005		2004		2003	
	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	39	5.9%	70	5.3%	105	4.9%	447	6.5%	687	6.9%
Construction	32	1.0%	39	0.7%	63	0.6%	230	0.8%	256	0.9%
Wholesale and retail trade	26	4.3%	29	3.8%	63	4.6%	271	4.1%	382	3.7%
Financial institutions (excluding banks) and insurance companies	17	4.3%	9	4.1%	21	3.1%	83	2.0%	94	2.6%
Banks		1.8%		1.5%	1	1.7%	2	1.2%	1	0.2%
Service providers										
Telecommuni- cation		0.1%		0.4%		0.6%	4	0.4%	7	0.1%
Transportation	1	1.5%	2	1.2%	4	1.2%	30	1.1%	34	0.8%
Other Service Providers	24	6.4%	67	6.9%	183	8.4%	503	10.5%	726	10.4%
Total Service Providers	25		69	8.5%	187	10.3%	537	12.0%	767	11.2%
Other	16	3.6%	14	2.5%	41	2.1%	34	1.9%	39	2.0%
Corporate total	155	29.1%	230	26.4%	481	27.3%	1,604	28.5%	2,226	27.5%
Public authorities		0.2%		0.3%		0.3%		0.5%		0.5%
Private individuals (including self-employed professionals)	59	32.0%	76	33.2%	115	38.5%	1,211	39.6%	1,409	35.3%
German total	214	61.2%	306	59.8%	596	66.1%	2,815	68.6%	3,635	63.2%

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	As of December 31,									
	2007		2006		2005		2004		2003	
	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	14	3.2%	13	3.6%	9	3.1%	53	4.0%	105	4.1%
Construction	15	0.3%	15	0.4%	16	0.2%	19	0.4%	67	2.1%
Wholesale and retail trade	3	0.9%	9	1.1%	3	1.4%	93	1.3%	98	0.9%
Financial institutions (excluding banks) and insurance companies	116	12.8%	11	15.7%	12	10.5%	133	8.9%	262	5.7%
Banks	3	8.7%	3	5.3%	59	5.3%	14	5.1%	175	3.2%
Service providers										
Telecommunication		0.2%		0.1%		1.1%	19	0.6%	61	0.6%
Transportation	30	2.4%	5	1.9%	10	1.7%	16	1.0%	81	1.7%
Other Service Providers	35	4.0%	11	4.1%	13	2.9%	6	1.8%	80	2.9%
Total Service Providers	65	6.6%	16	6.1%	23	5.7%	41	3.4%	222	5.3%
Other	9	4.1%	44	4.9%	8	5.0%	77	4.5%	157	5.0%
Corporate total	225	36.6%	111	37.0%	130	31.2%	430	27.7%	1,086	26.3%
Public authorities		0.3%		1.3%		0.8%		1.8%	8	0.5%
Private individuals (including self-employed professionals)	9	1.9%	14	1.8%	26	1.8%	47	1.9%	143	9.9%
Non-German total	234	38.8%	125	40.2%	156	33.9%	477	31.4%	1,237	36.8%
Total specific loan loss allowances	448	100%	431	100.0%	752	100.0%	3,292	100.0%	4,872	100.0%
General loan loss allowances(2)	345(1)		582(1)		844(1)		817		848	
Total loan loss allowances	793		1,013		1,596		4,109		5,720	

(1) The general loan loss allowances for the years 2007, 2006 and 2005 include the portfolio loan loss allowance.

(2) For reasons of simplicity and materiality and to reflect our current reserving process, the category Country Risk Allowance, disclosed separately in previous years´ financial statements, will be from now on allocated to the categories of specific and general allowances, using objective criteria. The amounts of 95 mn, 225 mn, 252 mn and 259 mn as of December 31, 2006, 2005, 2004 and 2003 have been re-allocated to general 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,				
	2007	2006	2005	2004	2003
	mn	mn	mn	mn	mn
Total allowances for loan losses at beginning of the year	1,012	1,596	4,109	5,720	6,966
Gross charge-offs:					
German:					
Corporate:					
Manufacturing	43	69	366	217	146
Construction	15	33	193	53	72
Wholesale and retail trade	21	53	233	169	113
Financial institutions (excluding banks) and insurance companies	3	22	87	31	28
Banks					7
Service providers					
Telecommunication			2		41
Transportation	3	6	24	11	13
Other Service Providers	41	84	414	475	180
Total Service Providers	44	90	440	486	234
Other	6	5	21	21	53
Corporate total	132	272	1,340	977	653
Private individuals (including self-employed professionals)	200	229	1,156	404	590
German total	332	501	2,496	1,381	1,243
Non-German:					
Corporate:					
Manufacturing	3		51	51	41
Construction		4	2	3	13
Wholesale and retail trade	5	1	31	21	80
Financial institutions (excluding banks) and insurance companies		51	28	46	9
Banks		43	1	70	52
Service providers					
Telecommunication			24	29	44
Transportation		1	23	26	9
Other Service Providers			26	98	45
Total Service Providers		1	73	153	98
Other		8	22	107	391
Corporate total	8	108	208	451	684
Public authorities				4	1
Private individuals (including self-employed professionals)	4	5	22	14	43
Non-German total	12	113	230	469	728
Total gross charge-offs	344	614	2,726	1,850	1,971
Recoveries:					
German:					
Corporate:					
Manufacturing	18	11		3	1
Construction	7	4			
Wholesale and retail trade	9	6		2	
Financial institutions (excluding banks) and insurance companies	1	2			
Service providers					
Transportation	1		1		1
Other Service providers	12	15	26	4	3
Total Service providers	13	15	27	4	4

Other	1			1	
Corporate total	49	38	27	10	5
Private individual (including self-employed professionals)	120	109	61	34	24
German total	169	147	88	44	29

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	Years Ended December 31,				
	2007	2006	2005	2004	2003
	mn	mn	mn	mn	mn
Non-German:					
Corporate:					
Manufacturing	1			1	15
Construction					2
Wholesale and retail trade			2		4
Financial institutions (excluding banks) and insurance companies	12		1	1	
Banks		2		7	
Service providers					
Telecommunication		1		1	3
Transportation				4	
Other Service Providers				3	
Total Service Providers		1		8	3
Other	15	19	8	44	20
Corporate total	28	22	11	61	44
Public authorities		9		5	
Private individuals (including self-employed professionals)	(1)	2	4	5	
Non-German total	27	33	15	71	44
Total recoveries	196	180	103	115	73
Net charge-offs[(1)]	148	434	2,623	1,735	1,898
Additions to allowances charged to operations	(77)	(2)	(49)	272	979
(Decreases)/Increases in allowances due to (dispositions)/acquisitions of Allianz Group companies and other increases/(decreases)	20	(134)	122	(106)[(2)]	(55)
Foreign exchange translation adjustments	(14)	(14)	37	(42)	(272)
Total allowances for loan losses at end of the year[(3)]	793	1,012	1,596	4,109	5,720
Ratio of net charge-offs during the year to average loans outstanding during the year[(4)]	0.08%	0.26%	1.83%	1.23%	1.22%

(1) The decrease of net charge-offs since 2005 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.

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

(3) The decline of allowances since 2005 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 .

(4) Certain prior year figures have been revised to conform to current year presentation.

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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,					
	2007		2006		2005	
	Average Balance mn	Average Rate	Average Balance mn	Average Rate	Average Balance mn	Average Rate
German:						
Non-interest-bearing demand deposits	29,961		27,389		26,805	
Interest-bearing demand deposits	38,579	3.7%	35,789	3.5%	36,274	2.7%
Savings deposits	4,560	2.5%	4,726	2.5%	4,768	2.5%
Time deposits	79,029	4.5%	78,104	3.3%	86,911	2.7%
German total	152,129		146,008		154,758	
Non-German:						
Non-interest-bearing demand deposits	7,933		7,529		7,310	
Interest-bearing demand deposits	12,561	5.5%	14,657	4.5%	11,769	5.0%
Savings deposits	487	2.7%	490	2.3%	513	2.2%
Time deposits[1]	49,053	5.2%	45,698	6.0%	49,049	3.9%
Non-German total	70,034		68,374		68,641	
Total deposits	222,163		214,382		223,399	

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

The aggregate amount of deposits by foreign depositors in our German offices was 43,437 million, 49,190 million and 48,675 million at December 31, 2007, 2006 and 2005, 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, 2007.

	As of December 31, 2007
	Time Deposits of 100,000 or more mn
Maturing in three months or less	66,345
Maturing in over three months through six months	6,798
Maturing in over six months through twelve months	3,628
Maturing in over twelve months	2,795
Total	79,566

The amount of time deposits of 100,000 or more issued by our non-German offices was 29,998 million at December 31, 2007.

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.

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

	Years Ended December 31, 2007 mn	2006 mn	2005 mn
Securities sold under repurchase agreements[1], [2]:			
Balance at the end of the year	93,070	139,794	115,255
Monthly average balance outstanding during the year	147,392	144,007	145,450
Maximum balance outstanding at any period end during the year	167,132	156,833	174,097
Weighted average interest rate during the year	4.6%	3.3%	3.2%
Weighted average interest rate on balance at the end of the year	4.5%	4.0%	2.7%
Negotiable certificates of deposit:			
Balance at the end of the year	17,751	23,733	25,353
Monthly average balance outstanding during the year	24,112	23,686	25,125
Maximum balance outstanding at any period end during the year	27,926	25,689	27,289
Weighted average interest rate during the year	5.1%	4.9%	1.9%
Weighted average interest rate on balance at the end of the year	4.6%	4.6%	3.0%

(1) Excludes collateral received for securities lending transactions.
(2) Certain prior year figures have been revised to conform to current year presentation.

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 within 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 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

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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.

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 USA PATRIOT Act of 2001 relating to, among other things, the establishment of anti-money laundering programs. In addition, our property-casualty operations are subject to the requirements of the Terrorism Reinsurance Act which is administered by the U.S. Department of Treasury and provides for reinsurance from the U.S. government for major acts of terrorism.

Variable annuity insurance comes under the jurisdiction of the Financial Industry Regulatory Authority (FINRA), a self-regulatory organization that is under oversight of the U.S. Securities and Exchange Commission (SEC). FINRA regulates the sales practices associated with variable annuities and is currently seeking comments on a variety of proposed new rules, which would impose specific sales practice standards and supervisory requirements on FINRA members for transactions in deferred variable annuities. Recently, FINRA and its predecessor organization, the National Association of Securities Dealers, sought to expand its regulatory authority to include fixed indexed annuities, a major product line of Allianz Life. These efforts are still ongoing, and it is unclear whether or not such authority will be granted by the SEC.

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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 allowing the automatic enrollment of employees for Income Retirement Accounts for small employers. 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. The last of these requests was received by Allianz entities in mid-2006. Other carriers and intermediaries have entered into settlements that required more transparency with respect to intermediary compensation and in many cases required discontinuance of the use of contingent commissions. See Note 46 of the consolidated financial statements for more information regarding contingent commission related litigation pending against several insurers and intermediaries, including some Allianz entities.

As a result of one market conduct examination, the California Department of Insurance (DOI) imposed an Order to Show Cause against Allianz Life Insurance Company of North America (Allianz Life) with respect to certain marketing and sales practices of deferred annuity products. The potential outcome and exposure in this matter is currently uncertain. In February 2007, Allianz Life reached a settlement with the DOI regarding the issues raised in the Order to Show Cause. See Note 46 to the consolidated financial statements for information regarding certain class action lawsuits and some settlements in California and Minnesota 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 EU Capital Requirements Directive (2006/48/EC and 2006/49/EC) primarily focuses on establishing harmonized minimum capital requirements for financial institutions and the EU Undertakings for Collective Investments in Securities Directive (1985/611/EEC), as amended from time to time, 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. Further, the directive on payment services in the internal market (2007/64/EC) represents the legal framework for the realization of the Single Euro Payments Area (SEPA).

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 introduces 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

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(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. The EU Anti Money Laundering Directive (2005/60/EC) introduces new rules on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing to be implemented by the EU member states. 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). Credit institutions in the various countries that participate in the Basle Committee began implementing Basle II in the beginning of 2007. In Germany, the Solvability Regulation (*Solvabilitätsverordnung*) implemented Basle II and included 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 Global Investors of America 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

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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 continue to focus on the mutual fund and variable insurance product industries. As a result of publicity relating to widespread perceptions of industry abuses and the recent subprime crisis, there have been numerous proposals for legislative and regulatory reforms, including, without limitation, mutual fund governance, new disclosure requirements, compensation arrangements, advisory fees, 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 asset management industry, 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 FINRA 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 and investment 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.

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 since June 30, 2004, Allianz SE has the status of a financial holding company. See Note 23 to the consolidated financial statements for further information with respect to capital requirements Dresdner Bank must meet to enable Allianz SE to keep the status of a financial holding company.

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, anti-corruption, capital adequacy, investment advisory and securities trading activities, and mutual fund management and distribution activities.

ITEM 4A. Unresolved Staff Comments

None

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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. The consolidated financial statements of the Allianz Group have been prepared in conformity with International Financial Reporting Standards (IFRS), as adopted under European Union (EU) regulations in accordance with section 315a of the German Commercial Code (HGB). The consolidated financial statements of the Allianz Group have also been prepared in accordance with IFRS as issued by the International Accounting Standard Board (IASB). The Allianz Group s application of IFRSs results in no differences between IFRS as adopted by the EU and IFRS as issued by the IASB. 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 2007, 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, one cash generating unit in the Asset Management segment and one cash generating unit in the Corporate 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 recoverable amounts of cash generating units generally are determined on the basis of value in use calculations.

The Allianz Group utilizes the capitalized earnings method to derive the value in use for all cash generating units in the Property-Casualty, Banking and Asset Management segments, as well as for the Germany Health and Private Equity cash generating units. Generally, the basis for the determination of the capitalized earnings value is the business plan (detailed planning period) as well as the estimate of the sustainable returns which can be assumed to be realistic on a long term basis (terminal value) of the companies included in the cash generating units. The capitalized earnings value is calculated by discounting the future earnings using an appropriate discount rate.

The business plans applied in the value in use comprise a planning horizon of three years. The terminal values are largely based on the expected profits of the final year of the detailed planning period. Where necessary, the planned profits are adjusted so that long term sustainable earnings are reflected. The financing of the assumed growth in the terminal values is accounted for by appropriate profit retention.

The discount rate is based on the capital asset pricing model. The assumptions, including the risk free interest rate, market risk premium, segment beta and leverage ratio, used to calculate the discount rates are consistent with the parameters used in the Allianz Group s planning and controlling process.

For all cash generating units in the Life/Health segment, with the exception of Insurance Germany Health, the Market Consistent Embedded Value, specifically Appraisal Value, approach is utilized to determine the value in use. The Market Consistent Embedded value is an industry-specific valuation method and is in compliance with the general principles of the discounted earnings methods. The Market Consistent Embedded Value approach utilized is based on the Allianz Group s Market Consistent Embedded Value guidelines.

The value in use calculations are sensitive to the assumptions used in selecting the appropriate discount rates, as well as the key value drivers of the business plans. For example, the capitalized earnings values of Property-Casualty cash generating units depend on the application of long term sustainable combined ratios, and Banking and Asset Management cash generating units are sensitive to changes in assumptions regarding cost income ratios. Moreover, a severe or prolonged period of global or regional economic weakness could adversely affect our business plans and result in the need for the impairment of goodwill at one or more cash generating units. Should an impairment occur, the resulting impairment loss could be material to the Allianz Group s results of operations.

During 2007, the Allianz Group s annual impairment tests did not indicate a need to reduce the carrying value of goodwill. Sensitivity analyses with regards to discount rates and / or key value drivers of the business plans were performed. For all cash generating units, respective capitalized earnings value sensitivities in combination with fair value analysis still exceeded respective carrying values.

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. 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 that are traded in active markets are based on quoted market prices or dealer price quotations on the last exchange trading day prior to and including the balance sheet date. The quoted market price used for a financial asset held by the Group is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. Valuation techniques are used which are based on market observable inputs when available. Such market inputs include references to recently quoted prices for identical instruments from an active market, quoted prices for identical instruments from an inactive market, quoted prices for similar instruments from active markets, quoted prices for similar instruments from inactive markets. Markets observable inputs also include interest rate yield curves, option volatilities and foreign currency exchange rates. Where observable market prices are not available, fair value is based on appropriate valuation techniques using non-market observable inputs. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which observable market prices exist and other valuation models. In the process, appropriate adjustments are made for credit and measurement risks.

Due to the worldwide financial market crisis, some markets faced a significant shortage of liquidity, which affected the valuation techniques used by the Allianz Group to measure fair value. For certain financial instruments, the market has been completely illiquid and market prices were no longer available. In addition, the market prices of certain ABS-based products declined significantly.

For the portfolio of ABS-based products, primarily consisting of RMBS and CDOs that were affected by the financial market crisis, the availability of price quotations from a functioning market was limited during the second half of 2007 and as of December 31, 2007. Therefore, the valuations for these financial instruments were derived based on the market values of similar financial instruments. The market quotations used were taken from other market participants and competitors, which management believes are representative of the market. If this was not possible due to a lack of price quotations, the vintage and rating-specific valuations of the ABX.HE (Home Equity) index were used.

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 necessarily 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 4,264 million and 1,959 million as of December 31, 2007 and 2006, respectively. Total unrealized losses on available-for-sale equity securities were 467 million and 159 million as of December 31, 2007 and 2006, 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, a loan loss allowance is recognized as the difference between the loan s carrying amount and the present value of future cash flows, which includes all contractual interest and principal payments, discounted at the loan s original effective interest rate and a corresponding impairment charge 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 of up to 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 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

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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 (113) million, 36 million and (109) million for the years ended December 31, 2007, 2006 and 2005, respectively. The total loan loss allowance as of December 31, 2007 and 2006 amounted to 1,031 and 1,315 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 51.5% as of December 31, 2007 and 52.8 % as of December 31, 2006, both including updated figures for the German health business. 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 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

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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 mn	Effect of +1% change in the yield curve mn	Effect of -1% change in the yield curve mn
Germany	6,716		
France	395		
Italy	628		
US	3,820	16	(56)
South Korea	688	11	(19)
Belgium	100		(1)
Switzerland	229	45	(89)
Austria	221	14	(20)

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 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.

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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%	2.8 4.3%
Deferred acquisition costs	2.5 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, 2007 (in millions of euros):

	Aggregate Policy Reserves				Other Reserves			
Country	**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**
				(mn)				
German Life	18	4,526	112,765		1,831		119,140	35.6%
German Health	13,339						13,339	4.0%
France	6,924	35,907			14,285		57,116	17.0%
Italy	7,737	11,271		112	25,682		44,802	13.4%
United States	1,201	31,079		94	13,954	4,312	50,640	15.1%
Switzerland	166	2,031	3,486	11	583		6,277	1.9%
Spain	4,068	574		216	92		4,950	1.5%
Netherlands	969	28			3,356		4,353	1.3%
Austria			3,194		277		3,471	1.0%
Belgium	4,152	1,175			302		5,629	1.7%
South Korea	4,340	1,639			904	14	6,897	2.1%
Taiwan	776	1,063		2	2,710		4,551	1.4%
Other countries	2,472	570	643	130	2,085		5,900	1.8%
Life/Health Total	**46,162**	**89,864**	**120,088**	**564**	**66,060**	**4,326**	**327,064**	**97.8%**
Other Segment/Consolidation	175	(24)	7,413				7,564	2,2.3
Allianz Group Total	**46,337**	**89,840**	**127,502**	**564**	**66,060**	**4,326**	**334,628**	**100.0%**

(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	All sources of Profit	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 264,243 million and 256,333 million as of December 31, 2007 and 2006, respectively. Reserves for premium refunds totaled 27,225 million and 30,689 million as of December 31, 2007 and 2006, 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 being finalized. Any material differences between

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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.

Appropriate provisions have been made for environmental and asbestos claims and large-scale individual liability claims 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 (4,526 million gross as of December 31, 2007). 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

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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, 2007, the high end of this range is 880 million higher than the best estimate; the low end of the range is 700 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 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 63,706 million and 65,464 million as of December 31, 2007 and 2006, 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.

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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 judgements 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 2007, the weighted average expected rate of return on plan assets was 5.3%; in 2006, we adjusted the rate from 5.8% to 5.3%.

Changes to Accounting and Valuation Policies

See Note 3 to our consolidated financial statements.

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 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

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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 as adopted by the EU and as issued by the IASB (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.

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The Allianz Group uses total revenues in its analysis and discussion of the consolidated results of operations. Total revenues is a non-GAAP financial measure as defined by the rules of the SEC, which management uses to assess and measure the top line results of the core businesses within the Allianz Group. 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. By providing a top line measure of sales revenues from the insurance products and financial services provided by all of the various core businesses of the Allianz Group, total revenues provide useful information to the investor. The following table reconciles total revenues to premiums written, the most comparable IFRS measure.

	PC	LH	Banking	AM	Cons	Group
2007						
Premiums written	**44,289**	**21,522**			**(23)**	**65,788**
Add: Deposit premium for FAS 97 products		27,845			(15)	27,830
Total revenues P-C and L/H	**44,289**	**49,367**			**(38)**	**93,618**
Add: Interest and similar income			8,370	135		8,505
Less: Interest expense			(5,266)	(54)		(5,320)
Add: Fee and commission income			3,651	4,403		8,054
Less: Fee and commission expense			(603)	(1,270)		(1,873)
Income from financial assets and liabilities designated at fair value through income (net)			(431)	31		(400)
Other income				14		14
Total revenues Banking and Asset Management			**5,721**	**3,259**		**8,980**
Total revenues	**44,289**	**49,367**	**5,721**	**3,259**		**102,598**

	PC	LH	Banking	AM	Cons	Group
2006						
Premiums written	**43,674**	**21,614**			**(13)**	**65,275**
Add: Deposit premium for FAS 97 products		25,807			(85)	25,722
Total revenues P-C and L/H	**43,674**	**47,421**			**(98)**	**90,997**
Add: Interest and similar income			7,312	112		7,424
Less: Interest expense			(4,592)	(41)		(4,633)
Add: Fee and commission income			3,598	4,186		7,784
Less: Fee and commission expense			(590)	(1,262)		(1,852)
Income from financial assets and liabilities designated at fair value through income (net)			1,335	38		1,373
Other income			25	11		36
Total revenues Banking and Asset Management			**7,088**	**3,044**		**10,132**
Total revenues	**43,674**	**47,421**	**7,088**	**3,044**		**101,129**

	PC	LH	Banking	AM	Cons	Group
2005						
Premiums written	**43,699**	**21,093**			**(26)**	**64,766**
Add: Deposit premium for FAS 97 products		27,179			(18)	27,161
Total revenues P-C and L/H	**43,699**	**48,272**			**(44)**	**91,927**
Add: Interest and similar income			7,321	90		7,411
Less: Interest expense			(5,027)	(34)		(5,061)

Add: Fee and commission income			3,397	3,746	7,143
Less: Fee and commission expense			(547)	(1,110)	(1,657)
Income from financial assets and liabilities designated at fair value through income (net)			1,163	19	1,182
Other income			11	11	22
Total revenues Banking and Asset Management			**6,318**	**2,722**	**9,040**
Total revenues	**43,699**	**48,272**	**6,318**	**2,722**	**100,967**

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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, 2007 and 2006.

	Nominal total revenue growth %	Changes in scope of consolidation %	Foreign currency translation %	Internal total revenue growth %
2007				
Property-Casualty	1.4	1.3	(1.0)	1.1
Life/Health	4.1	0.1	(2.3)	6.3
Banking	(19.3)		(1.0)	(18.3)
thereof: Dresdner Bank	(20.3)		(1.1)	(19.2)
Asset Management	7.1	0.8	(7.0)	13.3
thereof: Allianz Global Investors	6.3		(7.5)	13.8
Allianz Group	**1.5**	**0.6**	**(1.7)**	**2.6**
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**

(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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Executive Summary[1)]

Year ended December 31, 2007 compared to year ended December 31, 2006

- Strong earnings with net income of 8.0 billion.
- Our sustainable underlying profitability helped to compensate for the impact from the financial markets turbulence.
- High quality asset base and a strong capitalization with shareholders equity of 47.8 billion.

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

2006 was a year of success.

- Property-Casualty underwriting profitability stood 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 stood at 49.7 billion, up almost 28%.

Total revenues

in bn

Net income

in mn

Shareholders equity[3)]

in mn

(1) The Allianz Group operates and manages its activities primarily through four operating segments: Property-Casualty, Life/Health, Banking and Asset Management. Effective January 1, 2006, in addition to our four operating segments and with retrospective application, we introduced a fifth business segment named Corporate. For detailed information on the Allianz Group, our activities and structures, as well as the environment in which we operate please see Information on the Company .

(2) Compound annual growth rate (CAGR) is the year-over-year growth rate over a multiple-year period.

(3) Does not include minority interests.

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Allianz Group s Consolidated Results of Operations

***Total revenues*[1]**

Total revenues Segments

in mn

Year ended December 31, 2007 compared to year ended December 31, 2006

Our total revenues were up 1.5% to 102.6 billion. Foreign currency translation effects were a significant feature of fiscal year 2007, depressing total revenues by 1.8 billion. Total internal revenue growth[2] amounted to 2.6%. While Life/Health and Asset Management grew strongly, with revenues increasing by 6.3% and 13.3% respectively, on an internal basis, Property-Casualty premiums grew modestly. In contrast, the Banking segment was heavily impacted by the turbulence in financial markets, which led to a significant shortfall in net trading income.

(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. Please refer to Introduction for a reconciliation of total revenues to premiums written of the Allianz Group.

(2) Internal total revenue growth excludes the effects of foreign currency translation as well as acquisitions and disposals. Please refer to Introduction for a reconciliation of nominal total revenue growth to internal total revenue growth for each of our segments and the Allianz Group as a whole.

Property-Casualty Gross premiums written of 44.3 billion were up 1.4% on a nominal basis and 1.1% on an internal basis. With 635 million, our acquisitions in Russia and Kazakhstan contributed significantly to revenue growth. Foreign currency translation effects had a negative impact of 448 million.

We maintained our selective underwriting policy, focusing on diligent risk selection and profitable growth. In several of our core European markets, pricing trends were flat or negative, limiting the growth opportunities. Conversely, we were able to take advantage of strong profitable growth opportunities in emerging markets[3] which now make up more than 9% of total gross premiums written.

Life/Health At 49.4 billion, statutory premiums were up by 4.1%, ahead of expectations. Based on internal growth, revenues were up 6.3%. We achieved double-digit growth rates in most of our markets worldwide, with substantial contributions from emerging markets in New Europe and Asia-Pacific. While the situation in the United States remained challenging, other established markets such as France and Italy also experienced dynamic growth, while Germany, though at lower growth rates, outperformed the market.

The considerable growth in statutory premiums added to our asset base, which increased by 8.7 billion to 350.0 billion, despite negative impacts from foreign currency translation, higher interest rates and the weakening stock market towards year-end.

Banking Operating revenues in our Banking segment were down by 19.3% to 5.7 billion. Core product lines not impacted by the credit crisis performed in line with expectations. Net interest income grew by 14.1%, while net fee and commission income increased modestly. The financial markets turbulence resulted in markdowns of 1.3 billion on asset backed securities relating only to a limited number of business lines in the Investment Bank, driving Dresdner Bank s net trading income to a loss of 0.5 billion. The remaining shortfall in these business lines was indirectly related to the credit crisis. This decline outweighed the growth in the other revenue components.

(3) New Europe, Asia-Pacific, South America, Mexico and Middle East & Northern Africa.

Asset Management In asset management we again outperformed the vast majority of our performance benchmarks. Operating revenues were up 7.1%, before negative foreign currency translation effects of 0.2 billion.

At 765 billion, third-party assets under management recorded net inflows and positive market effects totalling 62 billion. Offsetting this was 59 billion of negative foreign currency translation effects. As a result, the asset base remained flat, though it experienced internal growth of 8.1%.

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

Our total revenues remained stable at 101.1 billion. This result reflected 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 achieved, 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.

Operating profit

Year ended December 31, 2007 compared to year ended December 31, 2006

Property-Casualty At 6.3 billion, operating profit growth was relatively flat compared to the prior year period. Claims from natural catastrophes were 0.6 billion higher than in 2006, a year that was marked by exceptionally low claims from natural catastrophes. Higher current investment income compensated for the high losses incurred in connection with windstorm Kyrill, the floods in the United Kingdom and severe storms in several parts of the world.

Life/Health Operating profit grew by 16.8% to almost 3.0 billion with most operations contributing to this growth. The key drivers behind this improvement were strong revenue growth, especially in the second half of the year. Our investment result also contributed significantly based on a higher asset base that led to higher dividend and investment payments. Furthermore the expense result and the technical result improved as well.

Banking Our Banking segment s operating profit was down 45.6% to 0.8 billion due to the major impact of the credit crisis. Although most lines of business in the Investment Bank were not impacted by the financial markets turbulence, a number of business

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lines experienced a markdown of 1.3 billion due to the credit crisis. The remaining shortfall in these business lines was also related to the credit crisis. In lines of business which were not impacted by the credit crisis, operating profit increased by 0.3 billion, or 57.8%.

Asset Management Operating profit increased by 5.3% to 1.4 billion as we continued to benefit from a growing asset base and tight cost control. Investments in business expansion and infrastructure projects to secure future growth resulted in operating expenses increasing at a slightly higher rate than operating revenues. This is reflected in a 0.7 percentage point increase in our cost-income ratio, which is still at a very competitive level of 58.3%.

Corporate Segment Due to higher investment income and lower expenses the operating loss was significantly reduced to 0.3 billion.

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 benefited 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.

Corporate Segment At 831 million, down 50 million from a year ago, operating loss remained relatively stable.

Net income

Year ended December 31, 2007 compared to year ended December 31, 2006

Net income grew by 13.5% to almost 8.0 billion.

Compared to 2006, net capital gains were slightly lower, and interest expense from external debt was higher. These negative impacts were more than compensated by lower restructuring charges.

Realized gains (net) which are not shared with policyholders, were 144 million lower than last year, albeit still at a high level of 2,538 million. This was mainly driven by large harvesting transactions in the first quarter of 2007, when we took advantage of market conditions. With write-downs amounting to 381 million, impairments on investments are at the same level as in 2006.

The remaining net unrealized gains on equity securities amounts to 11.0 billion, net of tax and policyholder participation.

Interest expense from external debt increased by 276 million to 1,051 million, mainly in connection with bridge financing for the acquisition of the outstanding minority interests in AGF.

Restructuring charges amounted to 216 million, 608 million less than last year. In 2006, restructuring charges stemmed primarily from our restructuring plan for the Allianz Group s insurance operations in

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Germany. The charges in 2007 related mainly to the restructuring of our local subsidiaries in Italy, and the set-up of a shared IT services infrastructure in Europe.[1]

The charge of 429 million in 2006 was related to reclassification of policyholder participation in tax benefits arising in connection with tax-exempt income in the Life/Health segment. In the segment reporting, this effect is represented within operating items.

Our effective tax rate of 24.7% and income tax expense of 2,854 million were significantly higher than a year ago, where the one-off benefit of 571 million from capitalization of corporate tax credits in Germany significantly reduced the effective tax rate. Furthermore, a higher income before income taxes and minority interests in earnings of 11,568 million (2006: 10,323 million) contributed to this development. The German corporate tax reform 2008 (Unternehmensteuergesetz 2008) leads to a reduction of income tax rates for German corporations from fiscal year 2008. The resulting revaluation of deferred tax positions resulted in a positive effect on net income in 2007 of 152 million.

Minority interests were 541 million lower, primarily due to the RAS minority buy-out completed in 2006 and the AGF minority buy-out in 2007.

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 segments 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 2005. This increase primarily

(1) Please see Note 49 to our consolidated financial statements for further information on our restructuring plans.

reflects the reorganization of our German insurance operations and the New Dresdner Plus reorganization program.[2]

Net expenses from financial assets and liabilities held for trading was down significantly, as, in 2005, 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 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.

Earnings per share

Our net income growth translates into continuously increasing earnings per share. The following graph presents our basic and diluted earnings per share for the years ended December 31, 2007, 2006 and 2005.

Earnings per share [1]

in

(1) See Note 50 to our consolidated financial statements for further details.

(2) Please see Note 49 to our consolidated financial statements for further information on our restructuring plans.

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The following table summarizes the total revenues, operating profit and net income for each of our segments for the years ended December 31, 2007, 2006 and 2005, as well as the IFRS consolidated net income of the Allianz Group.

	Property-Casualty mn	Life/ Health mn	Banking mn	Asset Management mn	Corporate mn	Consolidation mn	Group mn
2007							
Total revenues[1]	**44,289**	**49,367**	**5,721**	**3,259**		**(38)**	**102,598**
Operating profit (loss)	**6,299**	**2,995**	**773**	**1,359**	**(325)**		
Non-operating items	962	107	(59)	(494)	(29)		
Income (loss) before income taxes and minority interests in earnings	**7,261**	**3,102**	**714**	**865**	**(354)**	**(20)**	**11,568**
Income taxes	(1,656)	(897)	(266)	(342)	217	90	(2,854)
Minority interests in earnings	(431)	(214)	(71)	(25)	(21)	14	(748)
Net income (loss)	**5,174**	**1,991**	**377**	**498**	**(158)**	**84**	**7,966**
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**

(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. Please refer to Introduction for a reconciliation of total revenues to premiums written of the Allianz Group.

Impact of the financial markets turbulence

In the second half of 2007, the crisis in the mortgage market in the United States, triggered by serious disruption of credit quality, led to a revaluation of credit risks. As a result, prices for various asset-backed securities (ABS), even for those with a high rating, were devalued significantly. Primarily, this affected collateralized debt obligations (CDO), and residential mortgage-backed securities especially those originating in the United States (U.S. RMBS). Furthermore, this turbulence in the financial markets resulted in illiquidity in the primary markets where the placement of structured products e.g. asset-backed commercial papers (ABCP) almost came to a near stop. The liquidity shortage prompted central banks to provide the capital markets with additional liquidity.

The turbulences on the financial markets also impacted our business development. However, the impact varied depending on the different business segments.

Most of our insurance operations were not affected by these developments. The investment activities of the insurance segments were only impacted to a very limited extent, reflecting the high quality of the asset bases with no material CDO and subprime exposure. Similarly, the impact on our Asset Management segment was marginal. In contrast, we had to record a significant impact of this crisis within the Banking segment, with the substantial portion being attributable to some business units of Dresdner Bank s investment banking activities.

Impact on insurance operations

Of our average Property-Casualty asset base, ABS made up 4.9 billion, as of December 31, 2007, which is around 5%. CDOs accounted for 0.2 billion of this amount, of which 8 million are subprime-related. Losses on CDOs of 2 million were recorded in our equity. Realized losses of 12 million were reflected in the segment s income.

Within our Life/Health asset base, ABS amounted to 13.8 billion, as of December 31, 2007, less than 4% of total average Life/Health assets. Of these, 0.3 billion are CDOs of which none are subprime-related. No unrealized losses on CDOs were recorded in our equity. Realized losses of 7 million were reflected in the segment s income.

Impact on investment banking activities of Dresdner Bank

Dresdner Bank is engaged in various business activities involving structured products. These comprise asset-backed securities of the trading book, credit enhancements, conduits, leveraged buy-out commitments and structured investment vehicles. Furthermore, Dresdner Bank has sold credit protection for third party ABS and has re-insured these positions with monoline insurers (monoliners).

Asset-backed securities of the trading book

The underlying collateral of asset-backed securities is a pool of assets.

As of December 31, 2007, Dresdner Bank carried ABS within trading assets on the balance sheet of 15.1 billion and was, due to short derivative positions, economically exposed by 10.5 billion (comprising only drawn liquidity facilities) as of December 31, 2007. The majority of these ABS is of a high quality, as 89% of them were rated A or better. Only 1.6 billion of the net exposure is subprime.

Breakdown of exposure by rating class

in %

After write-downs of 1.3 billion the net exposure amounts to 9.2 billion as of December 31, 2007. It contains 1.5 billion CDOs, 1.4 billion U.S. RMBS and 6.3 billion other ABS. Because the financial markets turbulence mainly affected CDOs and U.S. RMBS, these net exposures are classified as critical ABS . We took substantial write-downs on CDOs and U.S. RMBS, recognizing the different quality and characteristics of the assets. The following table summarizes the write-downs on CDOs and U.S. RMBS.

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Exposure type	Exposure as of 31/12/2007 mn	Write-downs 2007 mn	in % of exposure
U.S. RMBS			
Prime	713	71	10%
Midprime	336	50	15%
Subprime	617	206	33%
Total U.S. RMBS	**1,666**	**327**	**20%**
CDO			
High grade	1,615	225	14%
Mezzanine	667	534	80%
CDO-squared[1)]			
Total CDO	**2,282**	**759**	**33%**

1) CDO-squared: CDO that is predominantly composed of other CDOs

Credit enhancements

Credit enhancements are one or more initiatives taken by the originator in a securitization structure to enhance the security, credit or the rating of the securitized instrument. In this context, Dresdner Bank offers protection against the risk of sharp and sudden decline of ratings of assets (so called risk gap protection) for conduit asset financing entities (CAFE) and second loss protection for credit investment related conduits (CIRC). Both structures primarily contain ABS.

The CAFE structures, primarily contain certain assets for which the Bank provides protection. Furthermore, the Bank is entitled to take assets that run the risk of being downgraded out of the portfolio. Thus, the Bank can only be drawn on if significant rating deteriorations occur. During the second half of 2007, the exposure was reduced significantly to 0.1 billion.

Under the CIRC structures, Dresdner Bank provides second loss protection, whereas the first loss stays with the client. Additionally, the Bank is entitled to sell the portfolio to the market, if the value of this portfolio falls below a pre-defined threshold. Here as well, the exposure was reduced and, at December 31, 2007 was a notional amount of 2.8 billion.

Conduits

A conduit is a special purpose entity that securitizes its financial assets, e.g. receivables, by means of commercial papers.

Since the late nineties, Dresdner Bank arranges the securitization of third party and own asset portfolios through asset-backed commercial paper programmes (ABCP) via several conduits. The underlying pool of assets exhibits a good quality, with 74% having at least an A rating. Furthermore, none of the underlying assets are CDOs or subprime-related. Dresdner Bank has provided liquidity back-up lines of 12.4 billion of which 8.4 billion were undrawn at December 31, 2007.

Leveraged buy-out

A leveraged buy-out is a financing transaction involving a significant amount of debt.

Dresdner Bank provides credit lines for these transactions, the bulk of which are typically syndicated. As of December 31, 2007, Dresdner Bank has reduced its LBO exposure to 4.5 billion containing drawn and undrawn amounts, which includes 1.1 billion of loans held within Dresdner Bank s loan portfolio. In 2007, provisions were recorded for this business of 30 million.

Monoliner

Dresdner Bank has entered into business relations with monoliners companies that guarantee the repayment of a security and the corresponding interest in the event that the issuer defaults in order to hedge the exposure from credit protection sold for third party ABS.

Dresdner Bank has provided credit protection via Credit Default Swaps (CDS) for ABS exposures. According to our risk policies, these CDS positions are re-insured with monoliners; only in case of a default of payment from the underlying assets and a breach of contractual duties of the monoliners will an ultimate loss occur. This loss amounts to the difference between the guaranteed amount from the monoliner and the value of the underlying assets. Dresdner Bank bought credit protection for counterparty risks on monoliners of notional 0.4 billion, reducing the net counterparty risk to 0.8 billion as of December 31, 2007. Considering both, the quality of the underlying assets as well as the credit risk of the monoline coverage bought, we believe our monoline related critical assets amount to approximately 1.1 billion.

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Structured Investment Vehicles (SIV)

A structured investment vehicle is an entity that primarily invests in long-term, high quality securities. The investments are refinanced by medium term notes (MTN) or commercial papers (CP).

For the structured, not consolidated SIV K2 , in which Dresdner Bank holds a share of 3.5%, the Bank serves as an asset manager and provides liquidity back-up lines and repurchase agreements on an arms-length basis. This SIV is refinanced by CPs, MTNs, repos and capital notes. Since September 2007, the volume of K2 has been reduced by almost 30% to 16.4 billion.

On March 18, 2008, Dresdner Bank and K2 Corporation entered into an agreement through which Dresdner Bank will provide a support facility to the Structured Investment Vehicle, K2. The agreement, which consists of a U.S.$1,500,000,000 committed revolving mezzanine credit facility and a backstop facility, follows the announcement by Dresdner Bank on **February 21, 2008** that it intended to offer support to K2.

The mezzanine credit facility provides K2 with immediate additional liquidity, allowing K2 to draw-down funds for terms up to the maturity date of its longest dated senior debt obligations. Under the terms of the backstop facility, Dresdner Bank has undertaken to provide to K2 firm prices at which it will purchase assets from K2 in the event that K2 is unable to obtain better prices for such assets on the open market. The aggregate of such prices provided by Dresdner Bank will at all times equate to an amount that ensures K2 has sufficient funds to repay its senior debt in full.

Valuation methods

Due to the worldwide financial market crisis, some markets faced a significant shortage of liquidity, which affected the valuation techniques used by the Allianz Group to measure fair value. For certain financial instruments, the market has been completely illiquid and market prices were no longer available. In addition, the market prices of other ABS-based products declined significantly. Although the steep decline of certain market prices might not always have been rational from an economic perspective (e.g. due to forced sales), the Allianz Group has adhered to strict principles in measuring the affected financial instruments at fair value.

Whenever possible the fair value is determined using the market prices available in active markets. If there is no quoted market price available, valuation techniques are used which are based on market prices of comparable instruments or parameters from comparable active markets (market observable inputs). If no observable market inputs are available valuation models are used (non-market observable inputs).

As a benchmark for the ABS of the trading book, the ABX index was applied. Because the ABX.HE (Home Equity) index represents a standardized basket of Home Equity ABS reference obligations, the Allianz Group believes that it provides an adequate valuation standard. The ABS portfolio was divided into sub-portfolios based on certain criteria, such as the underlying product category, the rating or the vintage. The valuation was based on the respective ABX-prices. For a large part of the RMBS portfolio, market quotes were available and used for valuation purposes. For the so-called prime assets (only certain RMBS), the Allianz Group has not used the ABX index, because the index only represents the subprime market. In this case, the Allianz Group took the midpoint of prices provided by other market participants for prime assets and used them as a valuation input.

Because there are no generally valid market standards existing in these areas, the valuation methods are naturally limited, so that alternative assumptions and input parameters would generate different results.

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.

Events After the Balance Sheet Date

See Recent and Expected Developments Economic Outlook and Note 52 to the consolidated financial statements.

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Property-Casualty Insurance Operations

Year ended December 31, 2007 compared to year ended December 31, 2006

- Emerging markets contributed more than 4 billion to steadily growing premiums.
- Profitability sustained throughout the cycle.
- Combined ratio of 93.6%.

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

Underwriting performance drove 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.

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.

Gross premiums written Growth rates[1]

in %

(1) Before elimination of transactions between Allianz Group companies in different geographic regions and different segments.
(2) Together with our property-casualty assumed reinsurance business, primarily attributable to Allianz SE, the decline within Germany was (6.0)% (2006: (1.9)%).

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Year ended December 31, 2007 compared to year ended December 31, 2006

Gross premiums written were 1.4% ahead of previous year at 44,289 million. Our acquisitions in Russia and Kazakhstan contributed significantly to premium volume, while large foreign currency translation effects of 448 million almost offset this increase. Therefore, on an internal basis, premiums grew by 1.1%. Furthermore, in 2007, our strategy of selective underwriting proved to be again successful as we were able to limit pricing impacts while at the same time achieving slight organic growth.

The revenue development remained mixed across our different regions. We recorded strong premium growth of 962 million in our emerging markets[1] which compensated for flat or even negative revenue trends in the more mature markets. This shows that our strategy of expansion into emerging markets is paying off. Together, these markets contributed 4,286 million (2006: 3,324 million) or 9.2% (2006: 7.2%) to total gross premiums written.

Increases in gross premiums written were primarily achieved in New Europe and Spain as well as in the global travel and assistance business at Mondial and credit insurance at Euler Hermes. In contrast, as we intentionally forewent premium growth in order to protect our underwriting profitability, revenues were down in the United States and in Italy.

With 838 million additional premium volume, New Europe contributed the highest portion to revenue growth. The first time consolidation of ROSNO and Progress Garant in Russia and ATF-Polis in Kazakhstan were the main drivers for this development. Additionally, motor insurance business in Poland and Romania added to the increase in gross premiums.

In Spain, revenues increased by 123 million. Here, our operations outperformed the market in all lines of business despite the weakness situation in the motor market. Main contributions came from industrial and personal lines.

(1) New Europe, Asia-Pacific, South America, Mexico, Middle East and Northern Africa.

Increase in gross premiums written in our Travel and Assistance business by 95 million was driven by growth in most regions coming mainly from e-commerce partnerships in travel insurance.

Premium growth within the credit insurance business was due to higher business volume. Despite the weak U.S. Dollar compared to the Euro and price declines which are due to high competition and very low claims ratios in the market, total revenues were up by 90 million.

At Allianz Sach within Germany, we closely monitored pricing development in order to maintain profitability. Due to a weak market environment and higher no claims bonuses in motor insurance, revenues declined by 114 million. Furthermore, internal reinsurance business at Allianz SE, which we also show within Germany, was significantly reduced as we optimized internal reinsurance arrangements in the year under review. Overall premiums in Germany were down by 681 million.

In the United States we recorded revenues of 4,306 million. At Fireman s Fund Insurance Company (Fireman s Fund) we saw a decline of 206 million from the prior year, primarily reflecting the decline in the U.S. Dollar compared to the Euro. On a U.S. Dollar basis, growth amounted to 3.8% and we saw a satisfying business performance, coming predominantly from crop insurance business and personal lines.

Our operations in Italy showed a decline in gross premiums written of 167 million mainly due to stagnation in the motor market and the impact from a new regulation, the so-called Bersani law, which resulted in an overall price reduction.

In the United Kingdom the decrease of 160 million in revenues was due to the internal transfer of large risk business to Allianz Global Corporate & Specialty (AGCS). Otherwise, premium volume increased by 185 million mainly coming from personal motor and commercial lines.

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 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 AGCS 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.

Operating profit

Operating profit

in mn

Year ended December 31, 2007 compared to year ended December 31, 2006

At 6,299 million operating profit was above the targeted level. Compared to 2006, a year that was characterized by exceptionally low losses from natural catastrophes, operating profit growth was relatively flat at 0.5%.

Claims and insurance benefits incurred were up by 3.3% to 25,485 million and the calendar year loss ratio was up by 1.1 percentage points to 66.1%. Of the total claims 774 million (2006: 211 million), or 2.0 percentage points of the loss ratio, were attributable to severe losses from natural catastrophes such as windstorm Kyrill, the floods in the United Kingdom and storms in several parts of the world. Also contributing to the increase were higher large claims incurred at AGCS as well as our newly consolidated entities in Russia and Kazakhstan.

The accident year loss ratio increased by 2.0 percentage points to 69.6% . Furthermore, previous year s loss ratio was on a generally lower level.

Acquisition and administrative expenses were almost stable, up 0.2% to 10,616 million. These expenses also contain significant investments in group initiatives. Our administrative costs came down, showing that our tight cost control and efficiency measures have started to pay-off. Slightly higher acquisition costs stem from an increase in profitable, higher-commission business and the acquisition of our Russian subsidiaries. In total, our expense ratio of 27.5% was down 0.4% on the previous year.

Our combined ratio increased by 0.7 percentage points to 93.6%.

Interest and similar income was up by 9.2% to 4,473 million, as the higher asset base resulted in a rise in dividends received and increased interest income.

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 AGCS 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 in 2005. 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 undertook 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.

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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.

Non-operating result

Year ended December 31, 2007 compared to year ended December 31, 2006

In total, non-operating items decreased by 25.5% to 962 million mainly coming from lower net realized gains, a negative trading result and higher impairments of investments. These effects could not be balanced by lower restructuring charges.

Net realized gains from investments decreased significantly by 17.9% to 1,433 million from a year earlier largely as a result of the sale of our participation in Schering AG and the disposal of a real estate portfolio in Austria at that time. Conversely, no major single sales transactions were recorded in 2007.

Non-operating net impairments of investments increased to 276 million, reflecting impairments of available-for-sale equity securities.

Restructuring charges were down by two thirds to 122 million as the prior year s figure reflected the impact from the reorganization of our German insurance operations that was not repeated in 2007.

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.

Net income

Year ended December 31, 2007 compared to year ended December 31, 2006

Net income increased by 9.0% to 5,174 million. Our effective tax rate further declined from 27.4% to 22.8%. Income tax expenses were down significantly to 1,656 million. This development benefited particularly from the German tax reform. Additionally lower minority interests in earnings contributed 308 million to income growth. This resulted primarily from the minority buy-out at RAS in Italy and at AGF in France.

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.

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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, 2007, 2006 and 2005.

as of and for the years ended December 31,	2007 mn	2006 mn	2005 mn
Gross premiums written[1]	**44,289**	**43,674**	**43,699**
Ceded premiums written	(5,320)	(5,415)	(5,529)
Change in unearned premiums	(416)	(309)	(485)
Premiums earned (net)	**38,553**	**37,950**	**37,685**
Interest and similar income	4,473	4,096	3,747
Income from financial assets and liabilities designated at fair value through income (net)[2]	136	106	132
Income from financial assets and liabilities held for trading (net), shared with policyholder[2]	8		
Realized gains/losses (net) from investments, shared with policyholders[3]	46	46	273
Fee and commission income	1,178	1,014	989
Other income	122	69	53
Operating revenues	**44,516**	**43,281**	**42,879**
Claims and insurance benefits incurred (net)	(25,485)	(24,672)	(25,331)
Changes in reserves for insurance and investment contracts (net)	(339)	(425)	(707)
Interest expense	(402)	(273)	(339)
Loan loss provisions	(6)	(2)	(1)
Impairments of investments (net), shared with policyholders[4]	(67)	(25)	(18)
Investment expenses	(322)	(300)	(333)
Acquisition and administrative expenses (net)	(10,616)	(10,590)	(10,216)
Fee and commission expenses	(967)	(721)	(775)
Other expenses	(13)	(4)	(17)
Operating expenses	**(38,217)**	**(37,012)**	**(37,737)**
Operating profit	**6,299**	**6,269**	**5,142**
Income from financial assets and liabilities held for trading (net), not shared with policyholders[2]	(59)	83	32
Realized gains/losses (net) from investments, not shared with policyholders[3]	1,433	1,746	1,148
Impairments of investments (net), not shared with policyholders[4]	(276)	(175)	(77)
Amortization of intangible assets	(14)	(1)	(11)
Restructuring charges	(122)	(362)	(68)
Non-operating items	**962**	**1,291**	**1,024**
Income before income taxes and minority interests in earnings	**7,261**	**7,560**	**6,166**
Income taxes	(1,656)	(2,075)	(1,804)
Minority interests in earnings	(431)	(739)	(827)
Net income	**5,174**	**4,746**	**3,535**
Loss ratio[5] in %	66.1	65.0	67.2
Expense ratio[6] in %	27.5	27.9	27.1
Combined ratio[7] in %	**93.6**	**92.9**	**94.3**

(1) For the Property-Casualty segment, total revenues are measured based upon gross premiums written.
(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).

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Property-Casualty Operations by Geographic Region

The following table sets 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, 2007, 2006 and 2005. 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.

	Gross premiums written mn			Premiums earned (net) mn			Operating profit mn		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Germany	**10,746**	**11,427**	**11,647**	**9,245**	**9,844**	**10,048**	**1,628**	**1,479**	**1,765**
Italy	**5,229**	**5,396**	**5,369**	**4,902**	**4,935**	**4,964**	**719**	**816**	**741**
France	**5,086**	**5,110**	**5,104**	**4,422**	**4,429**	**4,375**	**486**	**420**	**227**
United Kingdom	**2,236**	**2,396**	**2,449**	**1,989**	**1,874**	**1,913**	**208**	**281**	**268**
Spain	**2,136**	**2,013**	**1,873**	**1,820**	**1,675**	**1,551**	**253**	**252**	**217**
Switzerland	**1,804**	**1,805**	**2,012**	**1,595**	**1,706**	**1,708**	**218**	**228**	**153**
Netherlands	927	926	930	809	813	823	108	150	135
Austria	915	922	935	748	782	773	86	82	92
Ireland	691	704	733	614	622	653	180	222	204
Belgium	374	356	352	301	298	293	40	30	24
Portugal	283	287	304	246	258	275	38	36	32
Greece	79	74	71	50	46	46	9	10	11
Western and Southern Europe[1)]	**3,269**	**3,269**	**3,325**	**2,768**	**2,819**	**2,863**	**482**	**550**	**494**
Russia[2)]	678	30	24	574	4	12	7	1	2
Hungary	580	575	598	502	499	523	73	68	63
Poland	367	283	235	246	200	160	24	20	12
Romania	341	291	219	155	132	125	11	11	11
Slovakia	319	288	300	273	251	251	112	52	82
Czech Republic	249	253	242	183	179	160	41	29	27
Bulgaria	103	95	91	70	70	37	16	16	14
Croatia	86	70	60	63	53	45	2	4	2
New Europe[3)]	**2,723**	**1,885**	**1,769**	**2,067**	**1,388**	**1,313**	**256**	**184**	**213**
Other Europe	**5,992**	**5,154**	**5,094**	**4,835**	**4,207**	**4,176**	**738**	**734**	**709**
United States	4,306	4,510	4,395	3,341	3,523	3,478	651	810	482
Mexico[4)]	201	192	175	86	100	88	12	15	13
NAFTA	**4,507**	**4,702**	**4,570**	**3,427**	**3,623**	**3,566**	**663**	**825**	**495**
Australia	1,543	1,452	1,469	1,245	1,195	1,159	296	225	235
Other	349	310	280	170	141	121	16	19	17
Asia-Pacific	**1,892**	**1,762**	**1,749**	**1,415**	**1,336**	**1,280**	**312**	**244**	**252**
South America	**918**	**869**	**716**	**692**	**623**	**510**	**55**	**47**	**61**
Other	**95**	**68**	**58**	**50**	**32**	**30**	**9**	**9**	**7**
Specialty lines									

Allianz Global Corporate & Specialty	**2,811**	**2,802**	**2,944**	**1,800**	**1,545**	**1,633**	**414**	**404**	**(254)**
Credit Insurance	**1,762**	**1,672**	**1,725**	**1,268**	**1,113**	**997**	**496**	**442**	**420**
Travel Insurance and Assistance Services	**1,139**	**1,044**	**991**	**1,093**	**1,008**	**934**	**97**	**90**	**77**
Subtotal	**46,353**	**46,220**	**46,301**	**38,553**	**37,950**	**37,685**	**6,296**	**6,271**	**5,138**
Consolidation[6)	(2,064)	(2,546)	(2,602)				3	(2)	6
Total	**44,289**	**43,674**	**43,699**	**38,553**	**37,950**	**37,685**	**6,299**	**6,269**	**5,142**

1) Contains run-off of 21 mn, 20 mn and (4) mn in 2007, 2006 and 2005 respectively from a former operating entity located in Luxembourg.

2) Effective February 21, 2007, Russian People s Insurance Society Rosno was consolidated following the acquisition of approximately 49.2% of the shares in ROSNO by the Allianz Group, increasing our holding to approximately 97%. Effective May 21, 2007, we consolidated Progress Garant for the first time.

3) Contains income and expense items from a management holding in both 2007 and 2006.

4) Effective 1Q 2007, life business in Mexico is shown within the Life/Health segment.

5) Presentation not meaningful.

6) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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	Combined ratio %			Loss ratio %			Expense ratio %		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Germany	**91.6**	**92.9**	**89.4**	**64.8**	**65.1**	**63.0**	**26.8**	**27.8**	**26.4**
Italy	**94.8**	**91.8**	**93.6**	**71.2**	**68.8**	**69.3**	**23.6**	**23.0**	**24.3**
France	**97.3**	**99.2**	**102.0**	**70.9**	**71.0**	**74.0**	**26.4**	**28.2**	**28.0**
United Kingdom	**99.6**	**95.7**	**96.2**	**66.3**	**64.1**	**65.4**	**33.3**	**31.6**	**30.8**
Spain	**91.4**	**90.3**	**91.4**	**71.6**	**71.0**	**71.4**	**19.8**	**19.3**	**20.0**
Switzerland	**95.1**	**92.8**	**97.8**	**69.5**	**69.3**	**74.9**	**25.6**	**23.5**	**22.9**
Netherlands	94.1	88.7	91.3	62.0	57.1	60.5	32.1	31.6	30.8
Austria	95.8	98.4	98.3	73.1	73.1	72.4	22.7	25.3	25.9
Ireland	95.1	74.4	76.9	69.6	50.2	53.8	25.5	24.2	23.1
Belgium	102.3	104.5	104.1	65.7	66.9	66.1	36.6	37.6	38.0
Portugal	91.6	91.2	92.8	65.9	64.4	67.0	25.7	26.8	25.8
Greece	88.7	92.4	82.0	58.2	57.7	49.7	30.5	34.7	32.3
Western and Southern Europe[(1)]	**95.4**	**90.2**	**91.2**	**67.4**	**61.7**	**63.2**	**28.0**	**28.5**	**28.0**
Russia[2)]	104.2	88.5	22.9	64.7	34.7	5.8	39.5	53.8	17.1
Hungary	96.7	97.0	101.6	67.1	64.8	70.7	29.6	32.2	30.9
Poland	94.4	92.8	93.3	58.6	57.4	59.7	35.8	35.4	33.6
Romania	101.2	92.0	94.8	79.7	72.4	75.8	21.5	19.6	19.0
Slovakia	66.8	86.4	74.5	38.2	55.4	43.2	28.6	31.0	31.3
Czech Republic	79.5	82.6	85.7	56.7	61.4	63.8	22.8	21.2	21.9
Bulgaria	85.5	80.2	66.6	43.6	41.7	27.0	41.9	38.5	39.6
Croatia	100.1	95.6	97.7	65.1	63.8	63.0	35.0	31.8	34.7
New Europe[(3)]	**94.3**	**92.0**	**91.0**	**60.8**	**61.1**	**61.7**	**33.5**	**30.9**	**29.3**
Other Europe	**94.4**	**90.5**	**91.1**	**64.5**	**61.5**	**62.7**	**29.9**	**29.0**	**28.4**
United States	91.1	88.6	96.0	61.3	57.9	66.8	29.8	30.7	29.2
Mexico[(4)]	95.0	102.5	104.8	71.6	78.8	81.2	23.4	23.7	23.6
NAFTA	**91.2**	**88.9**	**96.2**	**61.6**	**58.4**	**67.1**	**29.6**	**30.5**	**29.1**
Australia	95.7	96.2	95.2	70.8	70.3	69.1	24.9	25.9	26.1
Other	98.6	93.8	94.5	60.2	55.7	57.2	38.4	38.1	37.3
Asia-Pacific	**96.0**	**95.9**	**95.2**	**69.5**	**68.7**	**68.0**	**26.5**	**27.2**	**27.2**
South America	**99.0**	**101.2**	**100.8**	**62.9**	**64.8**	**64.5**	**36.1**	**36.4**	**36.3**
Other	[(5)]	[(5)]	[(5)]	[(5)]	[(5)]	[(5)]	[(5)]	[(5)]	[(5)]
Specialty lines									
Allianz Global Corporate & Specialty	**96.0**	**92.2**	**122.4**	**67.9**	**62.5**	**91.1**	**28.1**	**29.7**	**31.3**
Credit Insurance	**76.5**	**77.6**	**67.0**	**47.9**	**49.7**	**41.3**	**28.6**	**27.9**	**25.7**
Travel Insurance and Assistance Services	**93.7**	**101.8**	**93.3**	**58.1**	**58.7**	**60.3**	**35.6**	**43.1**	**33.0**
Subtotal									
Consolidation[(6)]									
Total	**93.6**	**92.9**	**94.3**	**66.1**	**65.0**	**67.2**	**27.5**	**27.9**	**27.1**

(1) Contains run-off of 21 mn, 20 mn and (4) mn in 2007, 2006 and 2005 respectively from a former operating entity located in Luxemburg.
(2) Effective February 21, 2007, Russian People s Insurance Society Rosno was consolidated following the acquisition of approximately 49.2% of the shares in ROSNO by the Allianz Group, increasing our holding to approximately 97%. Effective May 21, 2007, we consolidated Progress Garant for the first time.
(3) Contains income and expense items from a management holding in both 2007 and 2006.
(4) Effective 1Q 2007, life business in Mexico is shown within the Life/Health segment.
(5) Presentation not meaningful.
(6) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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Life/Health Insurance Operations

Year ended December 31, 2007 compared to year ended December 31, 2006

- Strong statutory premium development showing double-digit growth rates in many countries.
- Strong operating profit growth continued resulting in almost 3 billion.
- Operating asset base increased to 350.0 billion.

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.

Earnings Summary

Statutory premiums[1]

Statutory premiums by region[1]

in %

(1) After elimination of transactions between Allianz Group companies in different geographic regions and different segments.

(1) A reconciliation of premiums written to statutory premiums for the years ended December 31, 2007, 2006 and 2005 can be found within the total revenues table on page 82.

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, 2007 compared to year ended December 31, 2006

At 49,367 million statutory premiums increased by 4.1% over the prior year, despite impacts from unfavorable foreign currency movements of 1,062 million. On an internal basis, statutory premiums were up by 6.3%.

Most of our operating entities worldwide, especially our emerging markets [2] but also some of the more mature markets, showed high double-digit growth rates. For the emerging markets growth came to 22.6%. Asia-Pacific and New Europe contributed 5,677 million or 11.4% to total statutory premiums.

(2) New Europe, Asia-Pacific, South America, Mexico, Middle East and Northern Africa.

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The highest absolute growth was achieved in Italy, where revenues increased from 8,555 million to 9,765 million in spite of poor market conditions. This resulted mainly from a sound sales performance of our bancassurance channel at CreditRAS. Additionally, we successfully launched new products during the year.

In Asia-Pacific, premiums increased by 905 million or 24.2%. We recorded dynamic growth all over the region. In Taiwan, which, with 476 million, contributed the most to premium growth in this region, we recorded dynamic sales of unit-linked products. Furthermore, our local bancassurance channel continued to perform well. Within South Korea, we saw a further strong increase in single premium business, adding to the rise of 134 million. In China, revenue increase amounted to 168 million. Furthermore, we expanded our sales network in China, benefiting from our strategic partnership with Industrial and Commercial Bank of China Limited (ICBC).

Total revenues in France were up 13.1% or 758 million mostly driven by group insurance business and increased sales of individual life insurance policies. Unlike in the past, the highest share of new business now comes from proprietary sales channels.

Statutory premium volume in our German life insurance business grew by 3.9% or 503 million mainly coming from a significant increase in single premium business. While growth during the first quarters of 2007 was weak due to a difficult market environment, we experienced a very strong fourth quarter growing by more than 20% through a pick-up in single premium business.

In the United States, statutory premium development still reflected the legal and regulatory environment limiting our sale of indexed annuity products. However, during the last months we made progress in closing pending litigations. Year over year, revenues declined by 20.9% or 1,827 million. In addition, business was affected by the weakening of the U.S. Dollar compared to the Euro. On a local currency basis, the decline amounted to 13.2% or USD 1,445 million.

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 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

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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 s 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 the bancassurance channel. In addition, at RAS Group, our share in the total life production of our joint venture partner UniCredit Group decreased.

Operating profit

Year ended December 31, 2007 compared to year ended December 31, 2006

Year over year, operating profit increased by 16.8% to 2,995 million benefiting from top-line growth and improvements in all sources of profit. Most of our life insurance companies, with the notable exception of the U.S. business, worldwide contributed to this development.

Operating profit

in mn

Our income from investments again provided the largest absolute contributor to operating profit growth. It improved based on a higher asset base

resulting from inflows of funds. These inflows more than compensated the impact from unfavorable foreign currency movements, higher interest rates and a stock market that weakened towards the end of the year. Thus, interest and similar income increased by 3.4% due to higher interest payments on debt securities as well as higher dividend payments on equity securities.

Asset base(1)

fair values(2) *in bn*

1) For further information on the composition of our Life/Health asset base please refer to Balance Sheet Review Assets and Liabilities of the Life/Health Segment .
2) Loans and advances to banks and customers, held-to-maturity investments, and real estate held for investment are stated at amortized cost. Investments in associates and joint ventures are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage. For further information see note 2 to the consolidated financial statements.

Net realized gains on investments improved by 492 million coming from an already high level in the prior year that was marked by a major single transaction namely the disposal of our participation in Schering AG. In the current year, gains stemmed from several transactions that mostly generated higher realized gains on equities and real estate. However, these gains were offset by net impairments on investments due to write-downs on public stock shares. The considerably increased net loss from financial assets and liabilities carried at fair value through income of 584 million stemmed largely from freestanding derivatives in connection with our German life insurance business.

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Furthermore, we benefited from an extraordinary reserve release of 170 million in South Korea. In the past we had formed a reserve due to uncertainty in respect of data accuracy in our old actuarial systems. The introduction of a new system did not reveal any issues. Hence, the reserve had to be released.

Acquisition and administrative expenses increased by 3.4% or 151 million and thus slightly less than growth of statutory premiums. Administrative expense included integration costs in Italy and further investments in operations in Asia-Pacific (China and Japan). Our statutory expense ratio improved slightly by 0.2 percentage points to 9.4%.

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 ad