Annual Report
Allianz Group 2005

Allianz

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Financial Calendar 2006/2007

Important dates for shareholders and analysts

May 3, 2006	Annual General Meeting
May 12, 2006	Interim report first quarter of 2006
August 11, 2006	Interim report first half of 2006
November 10, 2006	Interim report first three quarters of 2006
February 22, 2007	Financial press conference for the 2006 fiscal year
February 23, 2007	Analysts' conference for the 2006 fiscal year
May 2, 2007	Annual General Meeting
May 11, 2007	Interim report first quarter of 2007
August 10, 2007	Interim report first half of 2007
November 14, 2007	Interim report first three quarters of 2007

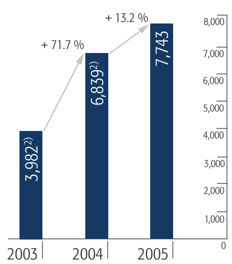
As we cannot rule out changes or dates, we recommend to check them on the Internet at www.allianz.com/financialcalendar.

Allianz Group Selected Consolidated Financial Data

Years ended December 31,		2005	Change from prev. year in %	2004[2]	2003[2]	More details on p.
Income Statement						
Total revenues[1]	€ mn	100,897	4.2	96,875	93,740	40
Operating profit	€ mn	7,743	13.2	6,839	3,982	40
Earnings from ordinary activities before taxes[3]	€ mn	7,880	54.6	5,096	3,866	41
Net income[3]	€ mn	4,380	93.3	2,266	2,691	41
Balance sheet						
Investments	€ mn	282,920	13.9	248,327	231,397	141
Loans and advances to banks and customers	€ mn	336,808	(10.7)	377,223	378,295	145
Total assets	€ mn	997,881	0.8	990,318	933,213	43
Shareholders' equity before minority interests	€ mn	39,487	31.6	29,995	27,993	151
Minority interests in shareholders' equity	€ mn	7,615	(1.1)	7,696	7,266	151
Reserves for insurance and investment contracts	€ mn	359,137	10.0	326,380	309,460	156
Liabilities to banks and customers	€ mn	310,316	(11.0)	348,484	332,906	160
Returns						
Return on equity after taxes[4]	%	12.6	4.8 pts	7.8	11.0	
Return on equity after taxes and before goodwill amortization[4]	%	12.6	1.0 pts	11.6	16.5	
Share information						
Basic earnings per share[3]	€	11.24	81.6	6.19	7.96	198
Diluted earnings per share[3]	€	11.14	80.8	6.16	7.93	198
Dividend per share	€	2.00	14.3	1.75	1.50	27
Dividend payment	€ mn	811	20.3	674	551	27
Share price at December 31[5]	€	127.94	31.1	97.60	100.08	26
Market capitalization at December 31	€ bn	51.9	44.6	35.9[6]	36.7[6]	26
Other data						
Employees		177,625	0.6	176,501	173,750	93
Third-party assets under management at December 31	€ bn	743	27.0	585	565	71

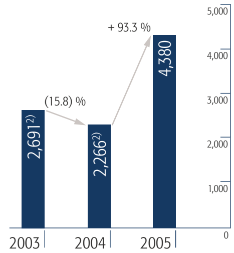
Operating profit

in € mn



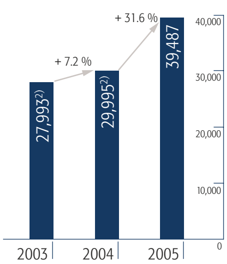
Net income[3]

in € mn



Shareholders' equity before minority interests

in € mn



[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] Beginning January 1, 2005, under IFRS, various existing accounting standards changed and additional new accounting standards became effective, both of which impacted the Allianz Group's consolidated financial statements prospectively and, to a certain extent, retrospectively, which required revisions of prior year periods as if those accounting principles had always been used. For further information concerning the impact of these accounting standards, see "Effects of Recently Adopted Accounting Pronouncements" within our Group Management Report and Note 3 to our consolidated financial statements.

[3] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

[4] Based on average shareholders' equity before minority interests. Average shareholders' equity before minority interests has been calculated based upon the average of the current and preceding year's shareholders' equity before minority interests.

[5] Retrospectively adjusted for transactions affecting our share capital, specifically capital increases.

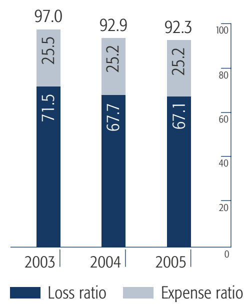
[6] Excluding treasury shares.

PROPERTY-CASUALTY INSURANCE

Our combined ratio reached a record low of 92.3 %, largely due to continued adherence to our disciplined underwriting and pricing practices worldwide, thereby surpassing our combined ratio target for fiscal year 2005. We were successful in counterbalancing the losses from various natural catastrophes and achieved an increase in operating profit of 4.6 %.

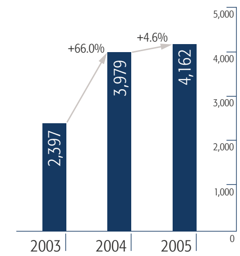
Combined Ratio

in %



Operating Profit

in € mn

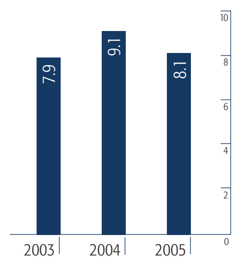


LIFE/HEALTH INSURANCE

Operating profit strengthened by 13.0 % and reached € 1.6 billion, exceeding our 2005 target. Strong margins on new business and the increased business volume from the strong growth rates in recent years were important factors in this development. A decline in net acquisition costs and administrative expenses and growth in current income from investments also helped to improve operating profit.

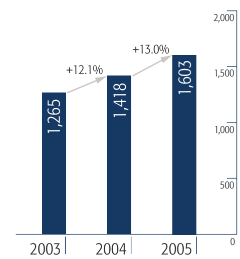
Statutory Expense Ratio

in %



Operating Profit

in € mn

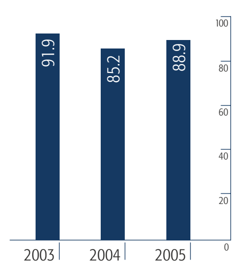


BANKING (DRESDNER BANK)

In 2005, Dresdner Bank earned its cost of capital for the first time since it was acquired by the Allianz Group in 2001. Operating profit increased by 33.2 % to € 775 million, and operating revenues from our strategic business*) at Dresdner Bank, excluding the negative impacts from IAS 39, improved by 4.1 %.

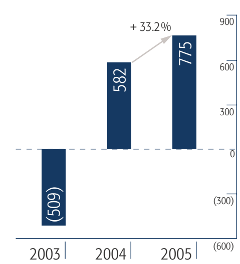
Cost-Income Ratio

in %



Operating Profit

in € mn

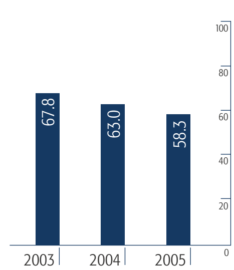


ASSET MANAGEMENT (ALLIANZ GLOBAL INVESTORS, AGI)

We achieved record net inflows to our third-party assets of € 64 billion. AGI's operating profit grew by 32.1 % to € 1.1 billion, thereby significantly surpassing our 2005 target. Commensurate with this development, we succeeded in consistently reducing our cost-income ratio during the course of 2005 to 58.3 %, an improvement of 4.7 percentage points.

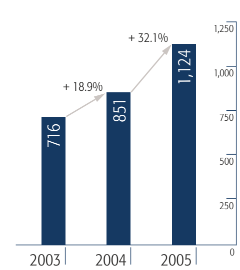
Cost-Income Ratio

in %



Operating Profit

in € mn



*) Dresdner Bank's strategic business includes its Personal Banking, Private & Business Banking, Corporate Banking, DrKW and Corporate Other divisions, but does not include IRU.

The goal of the Allianz Group is to achieve sustainable growth of our competitive strength and value. Our performance in 2005 is a testament of our continued progress towards that goal.

PROTECTING AND STRENGTHENING OUR CAPITAL BASE

Continued growth of shareholders' equity*) by ..... + € 9.5 bn

SIGNIFICANT INCREASE OF OUR OPERATING PROFITABILITY

Operating profit ..... € 7.7 bn

Combined ratio in Property-Casualty insurance ..... 92.3 %

Operating profit in Life/Health insurance ..... € 1.6 bn

Operating profit in Banking ..... € 845 mn

Cost-income ratio in Asset Management ..... 58.5 %

LEANER PORTFOLIO AND REDUCTION OF COMPLEXITY

Merger of RAS with and into Allianz AG and conversion of Allianz AG into Allianz SE

Reorganization of German insurance operations

*) Before minority interests

SUSTAINABLE INCREASE OF OUR COMPETITIVE STRENGTH AND VALUE

Share price increase of 31.1 %

First wave of our sustainability program has been implemented

Customer focus initiative further strengthened

“Euro Efficiency“: leverage strong European base

← CONTENT

Dear Shareholders,

When we look back on fiscal 2005, it is fascinating to observe the close interaction of light and darkness. Please forgive me if I cannot resist turning first to the brighter side. There are strong reasons for doing so.

Although this year will go down in history as the year in which natural disasters caused the highest amount of insured damage ever, Allianz has kept all of its promises. We exceeded our objectives, significantly increased the value of your investment and made decisions that are of great importance to the future of your company.

There is, however, a side that glows less brightly. While we experienced in relative terms moderate losses from the hurricanes in the U.S., we were in absolute terms still too heavily exposed to this risk. It is also true that the gain you made on your Allianz shares followed the general market trend, meaning that their performance was not really exceptional. Finally, I view as a negative that our restructuring plans for the German insurance business were so critically received by the public, specifically by the German public. Why were we not able to generate enthusiasm among our employees in Germany for the pending changes? As the owners of Allianz, should you be concerned that our brand is not as compelling as it used to be, or that we will not be able to implement the improvements sought with these measures?

Along with my colleagues on the Board of Management, I am convinced that we will master the challenges ahead. Your company has since reclaimed its position at the top among its international competitors. Now the objective is to build on this position. Why do we think we will be successful in doing so?

We already have all the strengths we need for this. We are now positioning ourselves so that our competitive advantages will be used considerably more effectively than they have been to date and achieve even better results for you, our shareholders. The size, reach and multi-local competence of this company give us an exceptionally effective tool for winning market share profitably and being successful in new markets and generating competitive advantages for us as a financial services group. In the meantime, our sustainability program and, closely related to that, our customer focus project, are gaining momentum. Both initiatives seek to improve our competitiveness and increase the value of the company in a sustainable manner, i.e., the “+One” in our “3+One” program.

We are systematically exploiting the expertise that we already have to become even better. We will never stop testing whether the good we have achieved is good enough. Perhaps there is still just a bit more potential somewhere that can be harnessed to create additional value for you, our investors. The most obvious change, even to a casual observer, let alone a watchful insider, is the change that Allianz is undergoing as a team. The company has become more transnational and more nimble; we are now able to work together effectively and smoothly, across borders, units and hierarchies. This is good news for you, the shareholder.

In fiscal 2005, this idea not only started to take shape at Allianz, but also found acceptance in the financial markets. Our concept of a closely cooperating cross-border Group that continuously seeks out the best business practices and the most effective way to implement them Group-wide is being acknowledged and received with approval by the market. Since my last letter to you, the value of the Allianz share has risen by 46.2 % to € 135.4 by the end of February 2006, and analysts are forecasting even higher prices. I take this as a sign that our key idea has been understood and that we are considered capable of actually implementing what we say.

In the 2004 shareholder letter I made a few announcements. I promised additional impetus for our “3+One” program in fiscal 2005 and set the objective that our insurance agents in Germany would win 300,000 new bank customers. In the outlook section of the annual report, we forecast operating results of at least the 2004 level, a combined ratio in property and casualty insurance of under 95 % and operating results of at least € 1.5 billion in life/health insurance. Dresdner Bank pledged to earn its cost of capital, and we aimed for an increase in operating results of 10 % in asset management.

Today I am very pleased to report that we have exceeded all of these goals. Operating results rose to a respectable € 7.7 billion, and the combined ratio again improved to 92.3 % in spite of an unprecedented series of natural disasters, including Hurricane Katrina, which resulted in the biggest amount of insured damage to date. Life/health insurance achieved excellent results with earnings of € 1.6 billion, and asset management increased this figure by no less than 32 %. The bank earned its cost of capital for the first time since its acquisition by Allianz, establishing a solid basis for strong increases in earnings in the coming years. Our insurance agents in Germany have demonstrated, with 360,000 new bank customers at year-end, how much power the idea of an integrated financial services provider can generate. All of these factors, along with favorable conditions in the capital markets, contributed to a significant strengthening of our capital base, which totalled € 39.5 billion at year-end. This renewed financial strength allows us to strategically develop your company and to invest in profitable growth.

When I write about promises kept, I do not forget that we were able to keep these promises only because our 177,625 employees in more than 70 countries, many of them Allianz shareholders themselves, once again worked unusually hard, showing commitment and professionalism, as was the case with our sales force and brokers. They have earned my most heartfelt thanks. Under difficult conditions, in a time of fundamental changes, they have worked together to bring back the company to its former position of strength and to broaden its business perspectives. I salute them for what they have done; it makes me proud when I hear the high regard in which our people are held by other market participants. This strengthens my confidence that we will also be able to master the next difficult steps.

We have achieved a lot in 2005 and I hope we have demonstrated to you that your Allianz management team is not a storehouse of old values but rather a factory that creates new values for shareholders. But 2005 is now over, and of course we have long been looking at the future. In spite of the great progress we have made, we see that going forward we are still facing considerable challenges.

You may very well ask:

- Why Allianz?
- Why now?
- What comes next?

Those are very good questions. I asked myself those same questions 17 years ago when I joined Allianz, and once again after I was named Chairman of the Board of Management. To answer them, I must take into consideration additional aspects that go beyond the internal advantages of our Group. In the end it is this diversity of factors that makes an investment in this company worthwhile. In this respect, our actions are driven by four key insights:

- We know that the long-term and sustainable increase in the value of your equity stake is not only a critical mandate but also the basis for all future positive measures that a company can initiate for employees, clients and society. Here I am specifically speaking about the creation of value in an appropriate timeframe, not overnight. If Allianz is healthy and profitable in this respect, then this would have a positive effect on all stakeholders. An example: in 2003, which will remain unforgettable to us all as a rather unsatisfactory year for business, our tax payments in Germany financed on average the annual operating costs of 8 hospitals. In 2004, thanks to a considerably more robust and improved business model, we paid enough taxes for about 55 hospitals to operate for a year, and in 2005 this rose to 69. But if we get bogged down and unintentionally neglect the spirit and content of our employment contract with you, the owners of Allianz, we are endangering jobs, wasting opportunities and will not be able to serve our clients and society the way we would like to.

- We know that we are neither in a position to direct the global economy nor do we have the power to influence the weather or to influence the erratic movements in the financial markets. But what we can control are our own business policies and the way that your money is spent. We are maintaining our cost containment policy and are not being tempted into trying to gain market share by competing on price. We charge a fair price for our services and we know when to say "NO" if the premiums do not reflect the risks. Consequently, we are only seeking growth where there are real opportunities for profitable growth.

- We want to rid ourselves of excessive complexity because it is inimical to growth. With the conversion of Allianz AG into a company under European law and with the purchase of the outstanding shares of the Italian RAS Group, we are the first DAX company to pass this innovation milestone. We are creating the legal and organisational framework for eliminating overlaps, achieving trans-European synergies and growing into a pan-European structure that is marked by efficiency, transparency and growth dynamic. Our principal bodies – the Supervisory Board and the Board of Management – will be significantly more international in the future.

  In Germany we are also working with a complex structure that has become artificial and impractical. The existing structure is: Too difficult for customers to understand; too difficult for our agents to deal with; and too difficult for our managers to steer. In short: too difficult. Now we are acting before time and market forces prevent us from doing so and because we also want to achieve strong organic growth and gain market share in Germany again. The incorporation of Allianz Deutschland AG is a great opportunity in the medium and long term also for our employees to benefit from our market positioning.

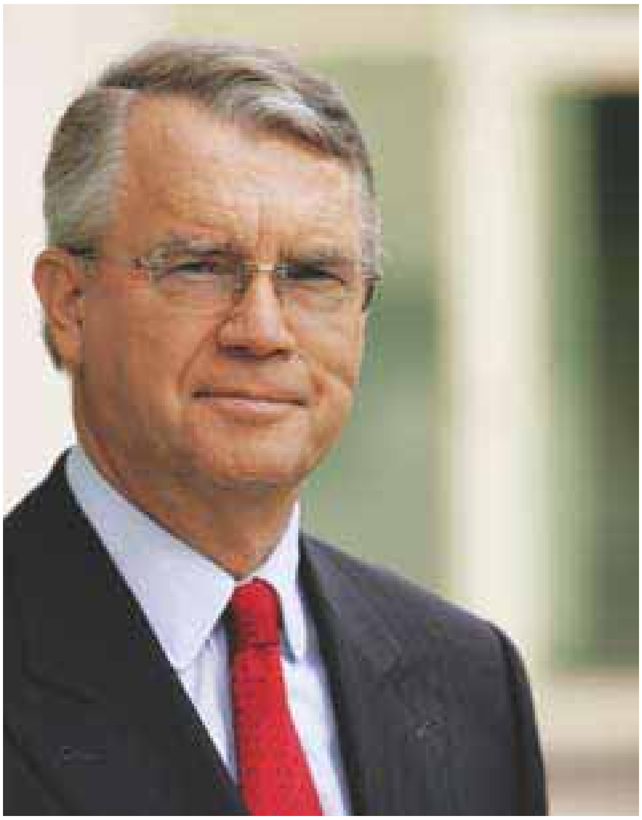
  Finally, we have decided to restructure certain aspects of the international commercial and industrial insurance business and within Dresdner Bank: some of these changes are already being implemented. The purpose of this is to make the organization more transparent and leaner, allow for increased effectiveness in the daily business and direct the attention of management more towards opportunities for profitable growth.

- We know that the steady trend towards an ageing society around the world creates a demand for providers like us and that the concept of an integrated financial services provider will take off, even if it takes a while until all aspects of the business and earnings are satisfactory. The sales success of our agents with bank products in 2005 and the dynamic growth and the solid increases in operating results in life insurance and in asset management provide you with an idea of what sort of growth trend can result from the demographic changes and the integrated business model.

This means that in spite of the impressive results, there is still much to do. After entering 2006 with optimism and a thirst for action, we look back once again on what we have accomplished. Allianz has fundamentally changed its approach. We have our risks under control. Business is again fundamentally strong. Our management is disciplined in the implementation of our plan for profitable growth. These are all prerequisites for smart investors to put our stock on their buy list. I hope that 2006 and the following years will be profitable for you and that all stakeholders will benefit from the continued success of Allianz. We shall not rest.

Sincerely yours,

Michael Diekmann
Chairman of the Board of Management



Ladies and Gentlemen,

During the entire reporting year, the Supervisory Board observed the duties incumbent upon it in accordance with the law and the Articles of Association. It supervised the conduct of the Company's business, advised the Board of Management with respect to the management of the Company and was directly involved in decisions of fundamental importance.

In the framework of its monitoring and advising activities, the Supervisory Board was regularly provided by the Board of Management with timely and comprehensive information on the economic and financial development of Allianz AG and the Allianz Group, including the risk situation, important business transactions and corporate strategy. At the meetings of the Supervisory Board and on the basis of reporting by the Board of Management, we discussed in detail the business development and important decisions and business transactions and, as far as required by law or the Articles of Association, passed resolutions. In addition, we dealt with the planning of the Board of Management for fiscal year 2006 and medium-term planning. For the past fiscal year, explanations of any deviations from plans and objectives in the course of business were presented to us and taken into account by us.

The Supervisory Board held four meetings during the reporting period. Between meetings, the Board of Management informed us in writing on important matters. In addition, the Chairman of the Supervisory Board was kept up-to-date on major developments and decisions.

Merger of RAS and Allianz AG, change of legal form of Allianz AG into a European Company (SE)

An important topic of our advisory and monitoring activities was the intended merger of Italian Allianz subsidiary Riunione Adriatica di Sicurtà S.p.A. (RAS) into Allianz AG, which we discussed and reviewed using detailed verbal reports by the Board of Management and comprehensive written documentation. We passed a resolution approving the merger. The Board of Management reported to us on the planned transaction structure, which called for the issue of an offer to acquire the outstanding RAS shares and the hive-down of nearly all of the RAS business to a wholly owned subsidiary, followed by the cross-border merger of RAS into Allianz AG with the conversion of Allianz AG into a European Company (Societas Europaea, SE). The Board of Management also reported to us on the financing of the transaction, the corporate valuations of RAS and Allianz AG to determine the exchange ratio with respect to the merger and the business and synergy objectives pursued by the merger. We held extensive discussions on the consequences of the change of legal form for corporate governance, particularly for the employee co-determination in the Supervisory Board. The merger audit was explained to us by the court-appointed merger auditor Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich. The meetings of RAS ordinary and savings shareholders on February 3, 2006 and the extraordinary General Meeting of Allianz AG on February 8, 2006 approved the merger plan. The merger will become effective with its entry in the commercial register of Allianz AG; at the same time Allianz AG will change its legal form into an SE.

Reorganization of the insurance business in Germany

The Board of Management informed us about the reorganisation of the insurance business in Germany through the consolidation of German insurance activity under a new holding company, Allianz Deutschland AG. In this context, the Board of Management also informed us about the merger of the Allianz Group companies Frankfurter Versicherungs-AG and Bayerische Versicherungsbank AG into Allianz Versicherungs-AG. The explanations also covered the creation of a joint distribution company for the German insurance business and its future strategic orientation.

Strengthening profitability

The Board of Management gave account to us in all of the meetings of the development of Group sales and profits, developments in the individual business segments and the financial situation, and these were discussed in our meetings. The positive trend of fiscal year 2004 continued in the year under review in spite of the negative effects of hurricanes and other natural catastrophes. We found that operating profitability improved overall. This is also reflected in the encouraging performance of Allianz share prices.

We actively monitored the continued development of Dresdner Bank and in addition to regular reporting, we had the Board of Management make a special report to us on this. We were able to ascertain that it had achieved its objective of earning its capital costs in 2005. The Board of Management explained the introduction of a new, client-oriented business model with two strong divisions: Private & Business Clients and Corporate & Investment Banking. The objective of winning 300,000 new Dresdner Bank customers through the Allianz distribution organisation was even exceeded.

Strengthening our capital base

Allianz Group's capital resources were regularly discussed by the Supervisory Board. The explanations of the Board of Management convinced us that the capital base had been strengthened and that the Group's high rating had been secured. In August 2005 the rating agency Standard & Poor's raised its outlook for Allianz AG to "stable".

Other topics of discussion

We addressed the effects on the results of the hurricanes and other natural catastrophes in 2005 and discussed the consequences for the insurance business of the Allianz Group.

We received a special report by the Board of Management on Allianz Global Investors AG, which is responsible for the Asset Management segment in the Allianz Group.

We dealt with the planned acquisition of a participation in the Industrial and Commercial Bank of China Ltd. (ICBC) by Allianz Group. In January 2006 the respective agreements with ICBC were signed in China.

In the course of reporting on significant legal matters, the Supervisory Board was informed about the fine imposed on Allianz Versicherungs-AG by the Bundeskartellamt (Federal Cartel Office) in the proceedings against a large number of German industry insurers. The company has appealed the decision.

We were unanimous in welcoming the decision by the Board of Management to again offer discounted Allianz share purchases to employees of the Allianz Group in 21 countries.

Corporate Governance and Declaration of Compliance

We were continuously involved in the further development of the corporate governance standards in the Company. Allianz AG is complying with all the recommendations of the German Corporate Governance Code. This is expressed in the Declaration of Compliance, which was passed by the Board of Management and the Supervisory Board in December 2005. Under the new version of the Code dated June 2, 2005, Allianz AG will continue to comply with all the recommendations made by the Government Commission on the German Corporate Governance Code.

As part of the regular efficiency review, we submitted written questions this year to all members of the Supervisory Board on important aspects of the Supervisory Board activities. The major results of these inquiries and the consequent opportunities for improvement were discussed in the December meeting.

Further information on corporate governance within the Allianz Group is contained in the report jointly approved by the Board of Management and the Supervisory Board that can be found on pages 12 to 19 of this Annual Report. More information on this subject is also available at the Allianz website at **www.allianz.com/corporate-governance**.

Activities of the committees

The Supervisory Board formed the Audit Committee, the Standing Committee, the Personnel Committee and the Mediation Committee as called for by the German Co-Determination Act (Mitbestimmungsgesetz). The current composition of the committees can be found in the following list.

Committees of the Supervisory Board of Allianz AG

As of December 31, 2005

Chairman of the Supervisory Board

Dr. Henning Schulte-Noelle

Deputy Chairman of the Supervisory Board

Norbert Blix

Audit Committee

Dr. Manfred Schneider (Chairman)
Dr. Gerhard Cromme
Claudia Eggert-Lehmann
Prof. Dr. Rudolf Hickel
Dr. Henning Schulte-Noelle

Personnel Committee

Dr. Henning Schulte-Noelle (Chairman)
Norbert Blix
Dr. Gerhard Cromme

Standing Committee

Dr. Henning Schulte-Noelle (Chairman)
Norbert Blix
Dr. Gerhard Cromme
Peter Haimerl
Dr. Manfred Schneider

Mediation Committee

Dr. Henning Schulte-Noelle (Chairman)
Dr. Wulf H. Bernotat
Norbert Blix
Hinrich Feddersen

In the year under review, the Standing Committee held three meetings, dealing mainly with the merger of RAS into Allianz AG, the reorganization of the German insurance business, Group financing, the employee share purchase program, questions of corporate governance and the changes in the remuneration of the Supervisory Board that were approved by the General Meeting on May 4, 2005. The Personnel Committee convened four times. The issues addressed were the personnel issues involved in the change in the Board of Management, individual rules in the Board of Management contracts and the structure and amount of the remuneration of the Board of Management. There was no need for the Mediation Committee to convene.

The Audit Committee held five meetings in the course of 2005. In the presence of the independent auditor, it discussed the annual financial statements of Allianz AG and of the Allianz Group, the audit reports and the "Form 20-F" filing required in the USA. It also reviewed the quarterly reports and, in the presence of the independent auditor, discussed the inspection by the independent auditor of the consolidated interim financial statements for the first half of 2005 and for the first nine months of 2005. It also dealt with the assignment of the mandate to the independent auditor and the setting of priorities for the audit. Other subjects of deliberation were the measures taken to comply with the requirements of the U.S. Sarbanes-Oxley Act on the effectiveness of internal control systems for financial reporting. The award of contracts to the auditors for non-auditing services was also discussed. The committee received special reports on the main results of internal audits in fiscal years 2004 and 2005.

The Supervisory Board was regularly informed about the work of the committees.

Annual accounts and consolidated financial statements

KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, audited the financial statements of Allianz AG and the Allianz Group as well as the respective management reports and issued their certification without any reservations. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). In addition, the consolidated interim financial statements for the first half of 2005 and for the first nine months of 2005 were reviewed by KPMG and the interim balance sheet of Allianz AG as at September 30, 2005 was audited by KPMG in preparation of the merger of RAS and Allianz AG.

The financial statements and the auditor's reports submitted by KPMG were made available to all members of the Supervisory Board in a timely manner. These documents were discussed by the Audit Committee on March 10, 2006, as well as by the Supervisory Board at a meeting held for that purpose on March 15, 2006. The independent auditors participated in these discussions. They presented the results of the audits and were available to respond to questions and provide supplementary information.

On the basis of our own review of the financial statements of Allianz AG and the Allianz Group, the management report, the Group management report and the recommendation for appropriation of earnings, we made no objections and concurred with the findings of the audit by KPMG. We approved the financial statements of Allianz AG and the Allianz Group prepared by the Board of Management; the individual accounts are thereby adopted. We consented to the appropriation of earnings as proposed by the Board of Management.

Members of the Supervisory Board and the Board of Management

A number of changes have taken place in the Supervisory Board. On the shareholder representative side, the court appointments of Prof. Dennis J. Snower and Igor Landau as members of the Supervisory Board were confirmed by the General Meeting held on May 4, 2005. Dr. Albrecht Schäfer and Prof. Dr.-Ing. Hermann Scholl have resigned from the Supervisory Board as shareholder representatives with effect from the end of the General Meeting on May 4, 2005. The General Meeting elected Franz Fehrenbach and Dr. Franz B. Humer as new members of the Supervisory Board in their place.

On the employee representative side, Frank Ley ended his service in the Supervisory Board at the end of the General Meeting on May 4, 2005. His seat on the Supervisory Board was taken by Iris Mischlau-Meyrahn as elected substitute member.

We thank the departing members of the Supervisory Board for their valuable work in our body.

The mandates of the members of the Supervisory Board of Allianz AG will end when the merger of RAS into Allianz AG and the accompanying change of legal form into an SE becomes effective. The six shareholder representatives in the Supervisory Board of the future Allianz SE will be appointed under the Statutes of Allianz SE, which form part of the merger plan passed by the General Meeting on 8 February 2006. The shareholder representatives in the first Supervisory Board of Allianz SE will according to this be Prof. Dr. Renate Köcher, Dr. Wulf H. Bernotat, Dr. Gerhard Cromme, Dr. Franz B. Humer, Igor Landau and Dr. Henning Schulte-Noelle. The employee representatives in the Supervisory Board of Allianz SE will be appointed after completion of the negotiations on the involvement of the employees in the SE.

At the end of 2005 Detlev Bremkamp left the Board of Management and retired. The Board of Management mandate of Dr. Reiner Hagemann also ended, at his request, at the end of 2005. The Supervisory Board appointed Dr. Gerhard Rupprecht to be his successor as Personnel Director in accordance with clause 33 of the German Co-Determination Act. The appointment of Dr. Mario Greco was rescinded at his request after he decided to accept a position outside the Allianz Group before assuming office on May 1, 2005.

Effective January 1, 2006 the Supervisory Board appointed Enrico Tomaso Cucchiani, Jean-Philippe Thierry and Clement B. Booth to the Board of Management. Mr. Cucchiani, who is also Chairman of the Board of Directors of Italian Allianz subsidiary Lloyd Adriatico S. p. A., is responsible in the Board of Management for the insurance markets Italy, Spain, Switzerland, Austria, Portugal, Turkey and Greece, as well as for the sustainability program in property-casualty insurance. Mr. Thierry, who is also Chairman of the Board of Directors of French Group company AGF S. A., has taken over responsibility for the markets in France, Benelux, the Middle East, South America and Africa, for credit insurance, assistance and travel insurance and for the sustainability program in life insurance. The responsibilities of Mr. Booth, formerly Chairman and CEO of Aon Re International in London, includes the UK, Ireland and Australia, the reinsurance business and Allianz Global Risks, Allianz Marine & Aviation and Alternative Risk Transfer.

In our capacity as members of the Supervisory Board, we would like to take this opportunity to thank all members of the Allianz Group companies for their great personal effort and commitment in the past year.

Munich, March 15, 2006

For the Supervisory Board:

Dr. Henning Schulte-Noelle
Chairman

Supervisory Board

Dr. Henning Schulte-Noelle Chairman
Former Chairman of the Board of Management Allianz AG

Norbert Blix Deputy Chairman
Employee, Allianz Versicherungs-AG

Dr. Wulf H. Bernotat
Chairman of the Board of Management E.ON AG

Dr. Diethart Breipohl
Former Member of the Board of Management Allianz AG

Dr. Gerhard Cromme
Chairman of the Supervisory Board ThyssenKrupp AG

Claudia Eggert-Lehmann
Employee, Dresdner Bank AG

Hinrich Feddersen
Former Member of the Board of Managment at ver.di

Franz Fehrenbach since May 4, 2005
Chairman Robert Bosch GmbH

Peter Haimerl
Employee, Dresdner Bank AG

Prof. Dr. Rudolf Hickel
Professor of finance, University of Bremen

Dr. Franz B. Humer since May 4, 2005
President of the Board of Directors and
Chief Executive Officer F. Hoffmann-La Roche AG

Prof. Dr. Renate Köcher
Chairman Institut für Demoskopie Allensbach

Igor Landau since January 1, 2005
Member of the Board of Directors Sanofi-Aventis S. A.

Frank Ley until May 4, 2005
Employee, Allianz Lebensversicherungs-AG

Dr. Max Link
Employee, Allianz Versicherungs-AG

Iris Mischlau-Meyrahn since May 4, 2005
Employee, Allianz Lebensversicherungs-AG

Karl Neumeier
Employee, Allianz Versicherungs-AG

Sultan Salam
Employee, Dresdner Bank AG

Dr. Albrecht E. H. Schäfer until May 4, 2005
Corporate Vice President, Head Corporate Personnel World, Siemens AG

Dr. Manfred Schneider
Chairman of the Supervisory Board Bayer AG

Margit Schoffer
Employee, Dresdner Bank AG

Prof. Dr. Hermann Scholl until May 4, 2005
Chairman of the Supervisory Board Robert Bosch GmbH

Prof. Dr. Dennis J. Snower
President Institut für Weltwirtschaft, University of Kiel

Board of Management

Michael Diekmann
Chairman of the Board of Management

Dr. Paul Achleitner
Finance

Clement B. Booth since January 1, 2006
Insurance Anglo Broker Markets, Global Lines

Detlev Bremkamp until December 31, 2005
Europe II, Assistance, Allianz Global Risks, Allianz Marine Aviation, Alternative Risk Transfer, Reinsurance

Jan R. Carendi
Insurance NAFTA

Enrico Tomaso Cucchiani since January 1, 2006
Insurance Europe I

Dr. Joachim Faber
Asset Management

Dr. Reiner Hagemann until December 31, 2005
Europe I, Director responsible for Labour Relations

Dr. Helmut Perlet
Controlling, Reporting, Risk

Dr. Gerhard Rupprecht
Insurance Germany, Director responsible for Labour Relations

Jean-Philippe Thierry since January 1, 2006
Insurance Europe II

Dr. Herbert Walter
Banking

Dr. Werner Zedelius
Insurance Growth Markets

Corporate Governance

We govern our business based on principles of responsible corporate management and control.

Through this, we strive to maintain the confidence and trust of our shareholders, customers and staff on a lasting basis. We stand for transparency and guarantee immediate and comprehensive communication of all information concerning the company. The high level of our corporate governance standards has been recognized repeatedly in the trade press. This spurs us to further provide for good corporate governance.

In this context we have revised our Group-wide "Code of Conduct". It establishes obligatory rules of conduct for all employees. Members of the Board of Management of Allianz AG and senior employees of certain divisions, mainly in the field of finance, are subject further to a "Code of Ethics", which contains rules that ensure in particular that high accounting and disclosure standards are met and potential conflicts of interest are avoided. In addition, in the past fiscal year, with the Allianz Group Policy, the Allianz AG Board of Management has finalised a Group-internal framework to support the governance and coordination of Group companies in selected divisions.

In 2005, the German Government Commission has amended and changed the German Corporate Governance Code, particularly in regard to the Supervisory Board. In addition, the legislature has introduced further regulations that should strengthen corporate integrity and investor protection. Moreover, for fiscal year 2006 and beyond, disclosure of individual remuneration of Board of Management members will be obligatory. Allianz AG already satisfies to a large extent the requirements contained in the relevant legal regulations.

The Allianz AG constitution

The corporate constitution of Allianz AG, as controlling company of the Allianz Group, is marked by its two-tier management system, which consists of the Board of Management and the Supervisory Board.

Board of Management

The Allianz AG Board of Management currently consists of 11 members, and is multinationally staffed, in keeping with our international orientation. It is responsible for the management of Allianz AG and the Group. The managerial tasks of the Board of Management are primarily to determine the strategic direction and to manage the Group, and the planning, establishment and monitoring of a risk management system. The Chairman of the Board of Management coordinates its work.

The Board of Management works closely with the Supervisory Board. It keeps the Supervisory Board regularly and comprehensively informed of the company's business development, financial position and results, planning and achievement of goals, as well as of the strategy and any existing risks. Some specific decisions by the Board of Management require the approval of the Supervisory Board. For further information on the composition of the Board of Management, see page 11 of this report.

Supervisory Board

The Supervisory Board has 20 members and under the German Co-Determination Act (Mitbestimmungsgesetz) is composed equally of representatives of the shareholders and of the employees. The last election to the Supervisory Board took place in 2003, for a five-year term of office. The Supervisory Board monitors and advises the Board of Management in the management of the business. It is also responsible, among other duties, for appointing the members of the Board of Management, for setting the remuneration of the Board of Management, for reviewing the annual financial statements of Allianz AG and the Group, and for dealing with the quarterly reports. An essential part of the Supervisory Board's work is performed by its committees.

The **Audit Committee** is responsible for the preliminary examination of the annual financial statement and the Group's consolidated financial statement as well as the management report and the recommendation for appropriation of earnings. In addition, it examines the quarterly reports and the filing "Form 20-F" required in the United States. Finally, the Audit Committee is an important contact for the independent auditor, whose independence it also monitors.

The **Standing Committee** is responsible for the approval of certain transactions that require the consent of the Supervisory Board. Moreover, it is responsible for drawing up the Declaration of Compliance pursuant to clause 161 of the German Stock Corporation Act (Aktiengesetz), and for regularly examining the corporate governance and the effectiveness of the work of the Supervisory Board.

The **Personnel Committee** prepares the appointment of members of the Board of Management and is responsible for personnel matters of members of the Board of Management, including their remuneration. It is also involved in the long-term succession planning for the Board of Management.

Pursuant to the German Co-Determination Act, the statutory **Mediation Committee** meets only if the Supervisory Board fails to obtain the required two-thirds majority in a vote on the appointment or removal of a member of the Board of Management.

The composition of the Supervisory Board and its committees is shown on pages 8 and 10.

General Meeting

Shareholders exercise their rights in the General Meeting. Each share confers one vote in adoption of resolutions at the General Meeting ("one share, one vote"). To facilitate the exercise of shareholder rights, we offer shareholders the opportunity to follow the General Meeting on the Internet and to vote by proxy. The General Meeting elects the shareholder representatives to the Supervisory Board and passes resolutions granting discharge to the Board of Management and the Supervisory Board. It decides on the appropriation of earnings, capital measures, approval of agreements between business enterprises, remuneration of the Supervisory Board and changes to the company's Articles of Association. An ordinary General Meeting is held every year, at which the Board of Management and the Supervisory Board report on the past fiscal year. In special cases, the German Stock Corporation Act provides for the convocation of an extraordinary General Meeting.

Accounting and Auditing

The Allianz Group's accounting is based on International Financial Reporting Standards (IFRS).

As a company quoted on the New York Stock Exchange (NYSE), we are also bound to submit to the American supervisory body, the Securities and Exchange Commission (SEC), a filing ("Form 20-F") complying with the U.S. rules for foreign issuers. This is based on the IFRS consolidated financial statements and contains a further reconciliation statement in accordance with the United States' GAAP accounting standards.

Based on a special regulation for insurance companies (clause 341 k para. 2 of the German Commercial Code – Handelsgesetzbuch), the appointment of the independent auditor is carried out by the Supervisory Board and not through the General Meeting. The Audit Committee of the Supervisory Board prepares this appointment. The financial statements audit includes the individual financial statement of Allianz AG and the German and U.S. consolidated financial statements. Provisions that became effective in 2005 provide for establishing independent professional supervision of the auditors of the financial statements. In addition, there is now the possibility to examine by way of supervision the annual financial statement (the so-called enforcement method).

A look at the future Allianz SE

In the course of the contemplated merger of Riunione Adriatica di Sicurtà S.p.A. (RAS) into Allianz AG, which was resolved at the RAS shareholders' meetings on February 3, 2006, and at the extraordinary General Meeting of Allianz AG on February 8, 2006, Allianz AG will take the legal form of a European Company (Societas Europaea, SE), and have the company name Allianz SE. This will also involve some changes in the corporate constitution.

According to the Statutes of the future Allianz SE, which were approved together with the merger plan by the extraordinary General Meeting of Allianz AG on February 8, 2006, Allianz SE will retain its two-tier management system of a Board of Management and a Supervisory Board. Upon effectiveness of the merger, the mandates of the current members of the Board of Management and the Supervisory Board of Allianz AG will expire.

The Statutes of the future Allianz SE provide for reducing the size of the Supervisory Board from 20 members to 12, with six members representing the employees to maintain parity. The shareholder representatives on the initial Allianz SE Supervisory Board are determined in the articles of corporation. In future, the employee representatives on the Supervisory Board will no longer exclusively be representatives of the German employees, but also representatives of the employees of other European countries. They will be named according to the rules effective in their respective countries, and later be elected by the first General Meeting of Allianz SE. For the period prior to the first election by the General Meeting, the employee representatives will be court appointed.

The German Co-Determination Act will not apply to the future Allianz SE. A special negotiating body will negotiate the scope of employee involvement on the Supervisory Board with the management bodies of Allianz AG and RAS. If no agreement is reached by the established deadline, a statutorily-imposed solution provided for in the German Act on Employee Involvement in a European Company (Gesetz über die Beteiligung der Arbeitnehmer in einer Europäischen Gesellschaft) will apply. This statutorily-imposed solution can also be agreed upon in full or in part by the negotiating parties as a result of the negotiations.

The members of the Board of Management of Allianz SE will be appointed by the Supervisory Board with a majority of its members participating in the resolution. In the case of a tie, the Chairman's vote shall be decisive.

German Corporate Governance Code and Declaration of Compliance

The German Corporate Governance Code applies in its June 2, 2005 version. In addition to legal regulations, it contains recognized corporate governance standards in the form of recommendations and suggestions. There is no statutory duty to comply with these standards; compliance is a matter of self-regulation by business. However, under clause 161 of the German Stock Corporation Act, Boards of Management and Supervisory Boards of all listed companies in Germany are bound to issue an annual Declaration of Compliance regarding the recommendations in the Code, along the lines of "comply or explain".

The Code is increasingly being adopted in Germany as a yardstick of good business management and control. Analyses show that compliance with the German Corporate Governance Code is steadily increasing. At the end of 2005, the DAX 30 companies had implemented an average of 97 % of all recommendations, while the companies in the M-DAX complied with about 91 % and the companies in the S-DAX with around 86 % of the recommendations.

Allianz AG's Declaration of Compliance with the German Corporate Governance Code in accordance with clause 161 of the German Stock Corporation Act was published on December 15, 2005, and in its English convenience translation reads as follows:

1. Allianz AG will comply with all recommendations made by the Government Commission on the German Corporate Governance Code (Code version as of June 2, 2005).
2. Since the last Declaration of Compliance as of December 15, 2004, which referred to the German Corporate Governance Code in its May 21, 2003 version, Allianz AG has complied with all recommendations made by the Government Commission on the German Corporate Governance Code then in force.

The wording is also available on our website at **www.allianz.com/corporate-governance**.

Furthermore, we comply with all but one of the non-binding suggestions of the German Corporate Governance Code. The exception is that the shareholder representatives on the Supervisory Board are in principal not elected to staggered terms, as suggested in the Code. It is preferable in our view for a Supervisory Board with employee co-determination to retain a simultaneous term of office.

The two listed Group companies Allianz Lebensversicherungs-AG and Oldenburgische Landesbank AG issued their own Declarations of Compliance on December 6, 2005 and December 5, 2005, respectively. Allianz Lebensversicherungs-AG discloses therein, as in the previous year, the deviations from the recommendations concerning the individual disclosure of remuneration for the Board of Management and the Supervisory Board, and from the recommendation of a performance-based remuneration component for the Supervisory Board. The Declaration notes that the remuneration of the Chairman of the Board of Management was shown individually in the Group financial statement of Allianz AG. The Declaration of Compliance of the Oldenburgische Landesbank AG contains the same restrictions as in the previous year (no individualized disclosure of remuneration of members of the Board of Management and Supervisory Board, and no deductible in the Directors and Officers liability insurance).

Remuneration Report

The remuneration of the Board of Management of Allianz AG supports sustainable value-oriented management. In the last several years, it has been enhanced in order to arrive at a balanced structure, whose level is appropriate and competitive, and achieves the intended management purpose.

The remuneration of the Board of Management is determined by the Personnel Committee of the Supervisory Board. The remuneration structure is regularly discussed and examined in the plenary meetings of the Supervisory Board. See Note 45 to our consolidated financial statements for more information.

The individual remuneration components for the Board of Management include:

Fixed remuneration

The amount of the fixed remuneration is, on the one hand, determined by the delegated function or responsibility. On the other hand, it is influenced by external market conditions.

Variable remuneration

This component consists of an annual and a mid-term three-year bonus, each of which is performance- and success-related and limited to a maximum amount.

Group Equity Incentive

This consists of stock appreciation rights (SAR) and restricted stock units (RSU). More detailed information on the stock-based remuneration components can be found at Note 43 to our consolidated financial statements or on the Internet at www.allianz.com/cg.

The valuation of the stock-based remuneration is merely a mathematically calculated reference value. If and when the stock-based remuneration actually leads to payment depends on the future development of the share price, the strike price and the date of exercise. Exercise of SARs is possible, at the earliest, two years after their granting, and of RSUs after five years. The exercise, the number of rights issued and the development of the value of stock-based remuneration are shown in the income statement.

Variable remuneration and stock-based remuneration together form a three-tier incentive system.

Yearly bonus (short-term)	3-year-bonus (medium-term)	Stock-based remuneration (long-term)
Target categories	**Target categories**	**Target category**
Group objectives Group/department objectives Individual objectives	Meeting defined strategic objectives Sustained achievement of annual EVA® objectives	Sustainable increase in share price

Miscellaneous

Income-equivalent ancillary benefits vary with the function and position of the recipient and are subject to personal income tax. They essentially include insurance coverage generally granted in the industry and the use of a company car. In 2005, income-equivalent ancillary benefits amounted to €0.2 million (2004: €0.3 million).

The members of the Board of Management either receive no remuneration from mandates at Allianz Group companies or the remuneration paid to them from such mandates is turned over to the company in full. Of the remuneration received from positions in companies outside the Allianz Group, 50 % is turned over to the company and, in the year under review, this amounted to €0.5 million (2004: €0.5 million). This remuneration is shown in the annual reports of the companies concerned. A list of supervisory mandates in companies outside the Allianz Group is provided on pages 210 to 211 of this Annual Report.

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The individual members of the Board of Management each received the following remuneration:

Board of Management	Fixed remuneration		Annual bonus[1]		Cash remuneration[2]		Reserves 3-year-bonus[3]		Group Equity-Incentive
	2005 € thou	Change from previous year in %	2005 € thou	Change from previous year in %	2005 € thou	Change from previous year in %	2005 € thou	Change from previous year in %	2005 SARs/ RSUs granted
Michael Diekmann (Chairman)	900	–	1,494	(10)	2,394	(6)	540	–	45,343
Dr. Paul Achleitner	700	–	1,065	(14)	1,765	(9)	360	–	34,497
Detlev Bremkamp	600	–	886	(19)	1,486	(12)	300	(17)	29,987
Jan R. Carendi	600	–	867	(24)	1,467	(16)	300	(17)	30,896
Dr. Joachim Faber	600	–	916	(17)	1,516	(11)	330	(8)	30,172
Dr. Reiner Hagemann[4]	700	–	1,079	(28)	1,779	(19)	270	(25)	38,859
Dr. Helmut Perlet	600	–	920	(15)	1,520	(10)	360	–	29,874
Dr. Gerhard Rupprecht[5]	600	–	910	(13)	1,510	(8)	360	–	29,235
Dr. Herbert Walter[6]	700	–	1,051	(34)	1,751	(24)	310	(14)	54,998
Dr. Werner Zedelius	600	25	975	17	1,575	20	270	(25)	25,471

[1] Paid in 2006 for fiscal year 2005.
[2] Total from fixed remuneration and annual bonus.
[3] Pro rated share of provisions for reporting.
[4] Total remuneration from Allianz Group Board mandates. Allianz AG has a 62.5% share in this remuneration.
[5] Total remuneration from Allianz Group Board mandates. Allianz AG has a 50% share in this remuneration.
[6] Total remuneration from Allianz Group Board mandates. Allianz AG has a 25% share in this remuneration.

The individual members of the Board of Management each received the following stock-related remuneration:

	Number of rights granted		Mathematical value of GEI at the date of grant		
	SAR[1]	RSU[2]	SAR[1] € thou	RSU[2] € thou	Total € thou
Michael Diekmann (Chairman)	30,048	15,295	802	1,304	2,106
Dr. Paul Achleitner	22,860	11,637	610	992	1,603
Detlev Bremkamp	19,872	10,115	530	863	1,393
Jan R. Carendi	20,474	10,422	546	889	1,435
Dr. Joachim Faber	19,994	10,178	534	868	1,402
Dr. Reiner Hagemann[3]	25,751	13,108	687	1,118	1,805
Dr. Helmut Perlet	19,797	10,077	528	859	1,388
Dr. Gerhard Rupprecht[4]	19,373	9,862	517	841	1,358
Dr. Herbert Walter[5]	27,077	27,921	723	2,381	3,104
Dr. Werner Zedelius	16,879	8,592	451	733	1,183

1) Following a vesting period, the SARs may be exercised at any time between May 18, 2007 and May 17 2012 at the latest, provided that the Allianz Share price stands at a minimum of € 111.44 and has outperformed Dow Jones EURO STOXX Price Index (600) at least once for a period of five consecutive days during the contractual term. For more detailed information about SAR, see Note 43 to our consolidated financial statements.

2) RSUs are exercised the day following expiration of afive-year period; i.e. on May 18, 2010, at the Allianz AG share price applicable on that date. For more detailed information about the RSUs see Note 43 to our consolidated financial statements.

3) Total remuneration from Allianz Group Board mandates. Allianz AG has a 62.5 % share in this remuneration.

4) Total remuneration from Allianz Group Board mandates. Allianz AG has a 50 % share in this remuneration.

5) Total remuneration from Allianz Group Board mandates. Allianz AG has a 25 % share in this remuneration.

Pensions and similar benefits

The pension agreements for members of the Board of Management stipulate retirement benefits of a fixed amount that is not linked to the development of the fixed or variable remuneration components. The agreements are examined and revised at irregular intervals. In 2005 we changed to a contribution-oriented system. This involves savings contributions and a fixed interest rate of 2.75 % per year, which is also the actuarial interest rate for life insurance companies in Germany. In the case of an insured event, the accumulated capital is converted to equal annuity payments that are then paid out for the rest of the member's life. If the net return on investment exceeds the actuarial interest rate, a corresponding profit share will be credited in the following year.

When a member of the Board of Management retires from the Board at the end of his mandate, old age pension is paid no earlier than upon completion of the 60th year of age, except for cases of professional disability or general disability for medical reasons, or payments to a beneficiary in the case of death. If the mandate is terminated for other reasons before the retirement age has been reached, a non-expiring pension claim is maintained. This does not mean, however, claim to pension payments must begin immediately.

The Allianz Group paid € 1.4 million (2004: € 1.2 million) to increase pension reserves and reserves for similar benefits for active members of the Board of Management in the past financial year. On December 31, 2005, the corresponding provisions amounted to € 26.1 million (2004: € 25.8 million).

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is based on the size of the company, the functions and responsibilities of the members of the Supervisory Board and the financial situation of the company. On May 4, 2005, they were rearranged by resolution of the Annual General Meeting. The relevant provisions are contained in clause 9 of the Articles of Association.

The relationship between the fixed and variable remuneration components is now more balanced. In addition, merit-based remuneration is no longer determined by the dividend, but by corporate earnings per share.

Three components make up the Supervisory Board's remuneration: a fixed sum of € 50,000 and two merit-based components. One has a short-term orientation and depends on corporate earnings per share in the previous fiscal year. The other is long-term and focuses on the cumulative trend in this indicator over the past three years.

The maximum sum for each of the two variable remuneration components is limited to € 24,000. This means that the maximum total compensation for a Supervisory Board member is € 98,000. This maximum limit would take effect when the previous year's earnings per share have risen by more than 16 %, or when this indicator has improved by a total of 40 % over the past three years. If there has been no improvement in corporate profits per share during the applicable review period (i.e. the previous fiscal year or the past three years), no merit-based remuneration will be awarded.

For the reporting year, both merit-based remuneration components reached € 24,000, because corporate earnings per share rose by more than 16 % in 2005, and by more than 40 % between 2002 and 2005.

The chairman and the deputy chairman of the Supervisory Board as well as the chairmen and members of its committees receive additional remuneration as follows: The chairman of the Supervisory Board receives double, and his deputy one and a half times the remuneration of an ordinary member of the Supervisory Board. Members of the Personnel Committee and Standing Committee receive an additional 25 %, and their respective chairmen 50 %. Members of the Audit Committee are entitled to a fixed sum of € 30,000 per year, and the committee's chairman receives € 45,000.

The additional remuneration of the committee members is capped by an upper limit. This limit takes effect when the remuneration of the chairman of the Supervisory Board has reached triple and that of the other members of the Supervisory Board double the basic remuneration.

The members of the Supervisory Board receive a € 500 attendance fee for each Supervisory Board or committee meeting that they personally attend. This sum remains unchanged if several meetings occur on one day or when various meetings are held on consecutive days. The total expenditure for attendance fees in the reporting year amounted to € 38,500.

The individual members of the Supervisory Board each received the following remuneration:

	Fixed remuneration	Variable remuneration		Committee remuneration	Total remuneration
		short-term	long-term		
	€	€	€	€	€
Dr. Henning Schulte-Noelle (Chairman)	100,000	48,000	48,000	98,000	294,000
Norbert Blix (Deputy Chairman)	75,000	36,000	36,000	49,000	196,000
Dr. Wulf H. Bernotat	50,000	24,000	24,000	–	98,000
Dr. Diethart Breipohl	50,000	24,000	24,000	–	98,000
Dr. Gerhard Cromme	50,000	24,000	24,000	79,000	177,000
Claudia Eggert-Lehmann	50,000	24,000	24,000	20,000	118,000
Hinrich Feddersen	50,000	24,000	24,000	–	98,000
Franz Fehrenbach (since May 4, 2005)	33,333	16,000	16,000	–	65,333
Peter Haimerl	50,000	24,000	24,000	24,500	122,500
Prof. Dr. Rudolf Hickel	50,000	24,000	24,000	30,000	128,000
Dr. B. Humer (since May 4, 2005)	33,333	16,000	16,000	–	65,333
Prof. Dr. Renate Köcher	50,000	24,000	24,000	–	98,000
Igor Landau (since January 1, 2005)	50,000	24,000	24,000	–	98,000
Frank Ley (until May 4, 2005)	20,833	10,000	10,000	12,500	53,333
Dr. Max Link	50,000	24,000	24,000	–	98,000
Iris Mischlau-Meyrahn (since May 4, 2005)	33,333	16,000	16,000	–	65,333
Karl Neumeier	50,000	24,000	24,000	–	98,000
Sultan Salam	50,000	24,000	24,000	–	98,000
Dr. Albrecht Schäfer (until May 4, 2005)	20,833	10,000	10,000	–	40,833
Dr. Manfred Schneider	50,000	24,000	24,000	69,500	167,500
Margit Schoffer	50,000	24,000	24,000	–	98,000
Dr. Hermann Scholl (until May 4, 2005)	20,833	10,000	10,000	–	40,833
Prof. Dr. Dennis J. Snower	50,000	24,000	24,000	–	98,000
Total	**1,087,500**	**522,000**	**522,000**	**382,500**	**2,514,000**

Securities transactions that require reporting ("Directors' Dealings")

Members of the Board of Management and of the Supervisory Board are obligated under clause 15a of the German Securities Trading Law (WpHG) to report the acquisition or sale of Allianz AG securities, if the value of the acquisitions and sales by the member or parties closely related to it reaches or exceeds € 5,000 in one calendar year. These reports are published on our website at www.allianz.com/corporate-governance. On November 25, 2005, Mr. Sultan Salam, a member of the Allianz AG Supervisory Board, sold 102 shares of Allianz AG at a price of € 122.77.

Holdings of the Supervisory Board and the Directors

On December 31, 2005, the total holdings of all members of the Board of Management and the Supervisory Board of shares in Allianz AG amounted to less than 1 % of the company's issued shares.

Mandates

Memberships of Supervisory Board members and of Board of Management members in other corporate supervisory bodies are listed on pages 210 to 213 of this Annual Report.

U.S. Corporate Governance Rules

As a company listed on the New York Stock Exchange (NYSE), Allianz AG is subject to U.S. corporate governance rules inasmuch as these are applicable to foreign issuers.

The Sarbanes-Oxley Act (SOA) of 2002 in particular has a significant effect on our corporate governance. We have worked intensively also in the past year on the implementation of Section 404 of the SOA. This rule compels companies to document fully their financial reporting internal control system and to verify its effectiveness annually. Like most comparable companies, we have expended considerable resources in complying with these requirements. However, intensively examining and documenting the financial reporting control systems in this way also provides an opportunity to identify and remedy any weak points. For fiscal year 2006, for the first time, according to the rules of the U.S. Securities and Exchange Commission (SEC), foreign issuers must pass an audit and evaluation of their compliance with Section 404 SOA, through an auditor.

To meet the requirements of the SOA, we had already amended the internal rules of procedure of the Audit Committee of our Supervisory Board in past years. In particular, procedures for handling complaints relating to accounting or financial reporting have been introduced, as have special procedures for ensuring the independence of the auditors.

The Supervisory Board of Allianz AG has determined that Dr. Manfred Schneider meets the requirements that U.S. law places upon the Audit Committee Financial Expert. As part of compliance with the rules of the SOA, Allianz AG has also adopted a "Code of Ethics" for members of the Board of Management and senior employees of certain divisions, mainly in field of finance.

Since 2004, a Disclosure Committee has operated at the management levels of Allianz AG. In this body the heads of the departments that are essential for the financial reporting examine and discuss the draft reports. The Disclosure Committee thus supports the Board of Management in financial reporting and especially the Chairman of the Board of Management and the Chief Financial Officer in certifying the financial statements towards the SEC, as required by the SOA.

The NYSE has also further developed its corporate governance standards. For foreign issuers, the greater part of these rules are not mandatory. Nonetheless, there is a duty to disclose the main differences between a company's own corporate governance and the NYSE standards, in the form of a brief summary. These differences are mainly based on our two-tier management system, the applicable co-determination law as well as differing legal regulations and best practice standards in Germany and the EU. The summary of these differences is published on our website at www.allianz.com/corporate-governance.

Current information on corporate governance is also available on our website at www.allianz.com/corporate-governance.

International Executive Committee

In addition to members of the Allianz AG's Board of Management, the International Executive Committee includes the heads of the major subsidiaries. Chaired by Michael Diekmann, this body discusses overall strategic issues at an Allianz Group level.

Wolfram Littich, Allianz Elementar, Vienna
Michael Diekmann, Allianz AG, Munich
Thomas Pleines, Allianz Deutschland AG, Munich

Herbert Walter, Dresdner Bank, Frankfurt/Main
Andrew Torrance, Allianz Cornhill Insurance, London
Manfred Knof, Allianz Suisse, Zurich

Mark Zesbaugh, Allianz Life Insurance, Minneapolis
Jan R. Carendi, Allianz AG, Munich
Enrico Tomaso Cucchiani, Allianz AG, Munich

Ulrich Rumm, Allianz Deutschland AG, Munich
Vicente Tardío Barutel, Allianz Compañía de Seguros y Reaseguros, Barcelona
Jean-Philippe Thierry, Allianz AG, Munich

Paul Achleitner, Allianz AG, Munich
Werner Zedelius, Allianz AG, Munich

Charles Kavitsky, Fireman's Fund, Novato
Axel Theis, Allianz Global Risks, Munich
Terry Towell, Allianz Australia, Sydney

Laurent Mignon, AGF, Paris
Gerhard Rupprecht, Allianz AG, Munich

Helmut Perlet, Allianz AG, Munich
William S. Thompson, PIMCO, Newport Beach
Joachim Faber, Allianz AG, Munich

Maximilian Zimmerer, Allianz Deutschland AG, Munich
Hansjörg Cramer, Allianz Deutschland AG, Munich
Clement B. Booth, Allianz AG, Munich

Strategy

We are gearing up for profitable growth.

We are a leading global financial services provider that delivers on our promises and intends to exceed expectations. This is our commitment and objective, even in times of fundamental change. Directly linked to this is the further development of our growth strategy. Our “3+One” program is a significant component which we are driving forward through close cooperation between our operating units. Our group-wide initiatives “Customer Focus” and “Sustainability” in particular are increasing our competitiveness and thus the value of the company. In addition, we began in 2005 to significantly reduce the complexity of the Group. Beginning in 2006, our structures in Europe will be radically simplified, streamlined and made more efficient so that costs can be reduced and profitable growth can be further increased. We are also working on growth initiatives to take better advantage of market potential over the medium term and to further improve our return on equity.

Our “3+One” program is working towards creating an improved Allianz with a higher value and growth in every possible environment. Everyone connected with the company will benefit from this: customers, shareholders, employees and society. The program is based on four main initiatives:

1 Protecting and strengthening our capital base

2 Giving a significant boost to our operating profitability

3 Reducing complexity

+One Sustainably increasing of our competitive strength and value

At the beginning of this annual report, we gave a brief overview of just how far we have come in the realization of our plan.

“Euro Efficiency”: the new Allianz SE

We intend to better and more efficiently exploit the business opportunities offered by our home market of Europe in order to drive our profitable growth. This is why we have decided to fully integrate our Italian subsidiary group company RAS into the Group. This means first taking over the minority interests in RAS, merging RAS into Allianz AG, and converting Allianz AG into a company under European law, a Societas Europaea, or SE. By doing so, we can reorganize our Group activities in Europe and simplify our ownership structure. This enables us to dispense with disruptive complexity and to achieve a more manageable and leaner structure with clear responsibilities.

Sustained increase in competitiveness

We are pressing ahead with our efforts to leverage on the size, international reach and competence of Allianz. To this end, we are combining our resources into a transparent organisation in which everybody learns from each other and whose local businesses are well-tuned to each other. Your Allianz is evolving into a single entity; an entity that, despite continuing to work on a “multi-local” basis, is more unified than it used to be, thanks to its shared operating systems, co-initiatives and corporate culture. These common goals ensure that Allianz is more than the sum of its parts.

We steer our activities based on the following questions:

- How can we meet or surpass the expectation of our costumers, based on our products, customer service, and advisory services, so that we become costumers first choice?
- How do we achieve the same level of operating excellence across all subsidiaries to achieve a performance level that is far superior to that of any competitor?
- How will we become a high-performance organization in which our employees are motivated and work professionally in an exemplary management culture?
- How can we take advantage of and increase the value of the Allianz brand?

We address the first question through our Costumer Focus Program, which is being implemented across the entire group. The objective is to take a more customer-oriented approach towards our product and service offerings, and our flexibility and awareness. We want our customers to perceive us to be excellent, recommend us to others, and see us as the first answer to their financial service needs.

Another group-wide initiative is our Sustainability Program. Under this initiative, our top experts search systematically to seek out outstanding successes in product offerings, processes and service offerings within both property and casualty insurance as well as life insurance. The highest Allianz standard is then made obligatory for all companies.

We are working intensively on measures that motivate our employees to excellent performance and to increase the reach of the Allianz brand. These initiatives and the organizational restructuring in Europe, in particular the new business model for our insurance activities in Germany, should allow the "3+One" program to thrive.

Further internationalization

We are further differentiating our global portfolio and increasing its international orientation, particularly by expanding our presence in the U.S. and Asia, while not neglecting the home market of Europe.

We bring together the risk management of the global industrial insurance business, marine and aviation insurance, reinsurance and our alternative risk transfer offerings to make it even more effective.

We intend to transfer the success of our asset management units in the U.S. and in the German consumer business to all of Europe and Asia.

In banking, in addition to investment- and corporate-banking, we will further expand our wealth management for wealthy retail clients. In Germany, Italy and France, our most important markets, we are improving the conditions for the sale of investment and banking products through our insurance providers, the so-called assurbanking.

Future growth areas

We continually analyze the largest trends and their influence on our markets as well as opportunities for continued development of our business models.

Here are a few examples: climate change and, related to this, trading in emissions rights and the promotion of renewable energy, will boost demand for alternative forms of insurance and financing. Anticipated legislative changes in various Asian markets will make the pension and health insurance business there more lucrative and establishing a market position in those countries more promising. The increase in the standard of living in Muslim regions will boost the development of financial products that are consistent with Islamic law. The aging societies in Europe and the U.S. offer considerable potential for growth and profitability. The consumption of assets and the transfer of a large volume of inheritances to the next generation provide financial service providers with a broad basis for completely new business opportunities, such as offering new investment classes or providing special services for older customers.

To better position ourselves for current and future demand and to meet our customers' high expectations of service, we are investing in the expansion and qualification of our sales channels and strengthening our market position in our strategic growth markets.

We consider our employees' ability to innovate to be an important value driving our profitable growth. Each promising idea for improvement should be given a chance. We promote employee loyalty and intend to strengthen it further, as it is an important driver of new ideas and effective innovations, even during a time of great changes in the company.

The strength of our business model, our operating excellence and the sustainability with which we drive profitable growth are the best premises to offer attractive employment opportunities.

We are confident that all of the initiatives described here will bring us considerably closer to living up to our claim that we are a leading global financial service provider that does not just deliver on its promises, but also exceeds expectations.

Value-Based Management

The key issue: our shareholders' expected returns.

The goal of value-based management is to consistently meet the expectations of our shareholders over the long-term. We want shareholders, employees, customers and our community to profit from the value our company creates.

Basic idea

What do we mean when we talk about the creation of value? The capital that is employed by a company must yield a higher return than a comparable alternative investment. In order to reach this objective, we apply the EVA® (Economic Value Added) concept company-wide. Adapted to the specific requirements of our industry and the needs of the Allianz Group, EVA® determines our company's economic goals. It provides a measure of our performance and is a component in setting the remuneration of management.

The basic idea behind EVA® involves comparing profit with the cost of capital. EVA® – whether positive or negative – is the difference between the two. It tells us whether or not our profits exceed the return expected by our shareholders. Thus, EVA® is the result of the following calculation:

EVA® = profit – (capital employed x cost of capital)

The cost of capital represents the return an investor can expect from an alternative investment with comparable risk. An EVA® greater than zero indicates that an added value for the shareholder has been created. If, on the other hand, the EVA® becomes negative, that means a shareholder would have received a greater return from another risk adequate investment than from Allianz AG shares. In this case, his investment has destroyed value instead of increasing it.

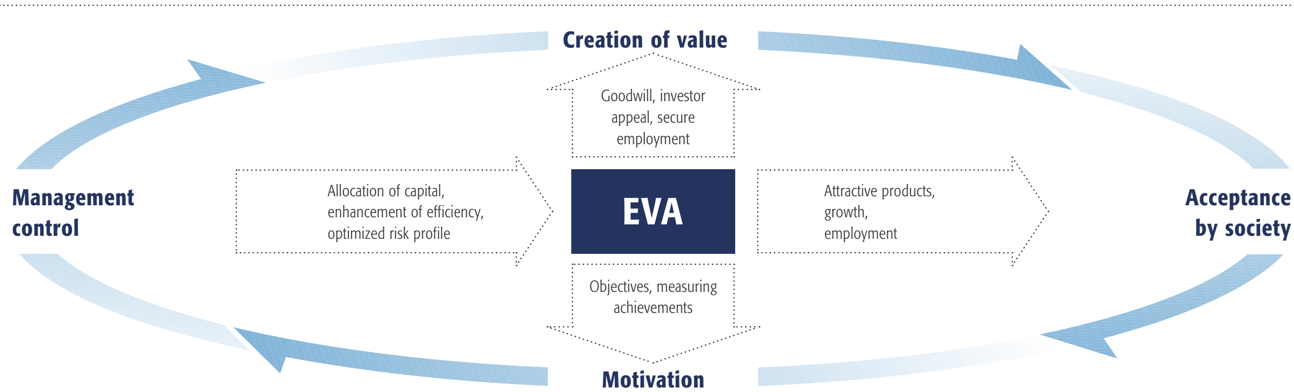
With EVA®, we have a measuring instrument that

- takes into account our industry-specific risks, and
- establishes a relationship between corporate profit and the minimum return our investors expect from the capital they have invested.

Central and decentral elements

These considerations are important because they support value-based management of the Allianz Group and at the same time allow us to retain a decentralized structure. Why do we need decentralization? We are convinced that the management of our operating entities worldwide is in the best position to determine what measures are appropriate for making their companies more profitable. They have to decide what risks they can take – for example, when they underwrite insurance policies, extend loans, invest funds or make other managerial decisions – to generate a specific profit.

Economic Value Added (EVA®): an all-encompassing steering and coordination process



EVA® is a registered Trademark of Stern Stewart & Co.

The Allianz Group, on the other hand – and this is where the central management instrument comes in – must look after the interests of shareholders and make sure that the sum of the total risks entered into remains acceptable for the company as a whole and that the actual profit realized justifies the investment of capital.

Risk capital

In calculating risk capital the amount of capital each individual operational entity requires to cover the financial risks involved in ongoing business activities is first determined. The required capital depends upon the risks that are typical for the products offered by our operating entities, i. e., premium, reserve and credit risks plus risks in connection with capital investment and operational risks. Additionally, the amount of capital needed is also geared to the mandatory level of security that is centrally prescribed for the Allianz Group as a whole. Uniform standards are also applied when determining risk capital; through the use of an internal risk model which allows us to precisely determine company-specific risk factors.

Value added

Through Allianz AG, our holding company, we assign available capital on the basis of the risk-return profile and the value proposition of our operating companies. In this process, only those operating entities

- which operate in a profitable market or business segment,
- which transform their market position into sustainable creation of value and achieve a leading market position;
- whose orientation and competency fit within the long-term strategy of the Allianz Group; and
- which are able to generate distributable earnings that are at least equal to their capital costs

can count on growth capital.

Profits that exceed capital costs can be retained by our operating entities to finance their internal growth. That means: Our most profitable entities have direct access to considerable funds to finance their growth. This dividend model, which has been in use since 2004, provides for two exceptions:

- When an operating entity must be restructured, it can temporarily be exempted from the dividend rule in order to be able to build equity.
- Certain operating entities that are currently building up business in strategically important future markets are, for the time being, not required to pay dividends – such as our operating entities in China and India.

The Allianz AG uses the liquidity from dividend payments to finance growth. In addition, the capital is used to pay dividends to our shareholders and meet obligations, e. g. servicing debt.

All Allianz Group operating entities are thus responsible for generating a return on their risk capital that covers at least the cost of capital. Added value results only when this threshold is exceeded. But that is only the minimum we demand. Over the medium term, we expect to generate a return of 15 % or more on the capital employed. That means that the units must know which business activities will increase the value of their companies and concentrate their efforts and resources on these activities. New value drivers must also be created, for example, through new products, more cost-effective processes and optimized distribution channels. Local management must also prevent value from being diminished along the value chain. If this happens, countermeasures must be immediately implemented.

In measuring our success, we minimize the impact of equity market fluctuations by basing our calculations on “normalized” long-term average returns.

Management remuneration

Since EVA® is an important factor in managing our business, the remuneration of senior management is based to a significant extent upon this factor. That means we have opted for an incentive-based system that helps make the continuous increase in the value of the Allianz Group a priority across our entire organization.

Our plan for achieving economic value added does not only benefit our shareholders: our customers, employees and the communities in which we operate benefit as well. After all, sustainable success can only be achieved by offering excellent products at attractive prices that satisfy our customers, generate sales to secure jobs and produce profits that allow us to continue to, and increase our contribution to society.

EVA® is a registered Trademark of Stern Stewart & Co.

Allianz Share

A significant increase in share price.

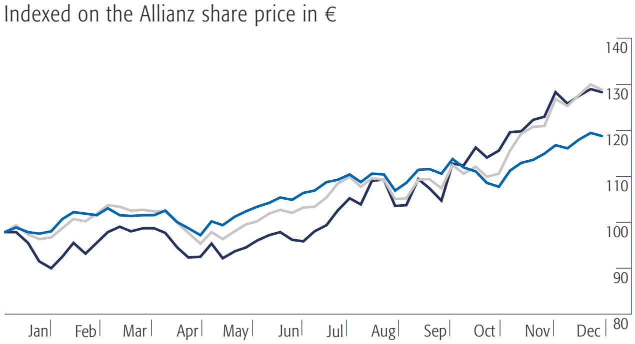
The value of Allianz shares grew by 31.1 % during 2005 to € 127.94. From this we can see that the market has recognized the significant operational improvements in our business and that it attributes sustainability to this development. The stock markets especially rewarded our announcement in late summer of 2005 that we were to merge the Italian subsidiary RAS into Allianz, to reduce complexity, and thereby give an extra push to our "3+One" program.

Recovery in the second half of the year

With a price rise of 31.1 %, markedly better than the Dow Jones EURO STOXX 50 (21.3 %) and the German DAX index (27.1 %), our shares virtually matched the level of the Dow Jones EURO STOXX Insurance (31.7 %). This price trend over 2005 as a whole is even more notable when one considers the disappointing performance of the first half year. Particularly as of July, the price took a steep upswing, showing that our operational improvements and our strategic course were accepted and endorsed.

Development of the Allianz share price versus Dow Jones EURO STOXX 50 and Dow Jones EURO STOXX Insurance

Indexed on the Allianz share price in €



Source: Thomson Financial Datastream

Current information on the development of the Allianz share price is available on the Internet at www.allianz.com/stock.

The 2005 gain increases the average three-year return on our shares to an attractive 16.6 % per year. To track the performance of your own investment in Allianz shares, you can use the share calculator that is available at **www.allianz.com/stock**.

Allianz share performance in comparison

Average annual performance in %

Performance	1 year 2005	3 years 2003-05	5 years 2001-05	10 years 1996-05
Allianz (excluding dividends)	31.1	16.6	(18.5)	0.2
Allianz (including dividends)	33.5	18.9	(17.3)	1.1
DAX	27.1	23.2	(3.4)	9.1
Dow Jones EURO STOXX 50	21.3	14.5	(5.6)	9.0
Dow Jones EURO STOXX Insurance	31.7	18.1	(10.6)	6.2

Source: Thomson Financial Datastream

With a market capitalization of € 52 billion at the end of 2005, Allianz is one of the most highly valued financial services providers in Europe. Our shares are included in all the major European indexes: the DAX, the Dow Jones EURO STOXX 50 and the MSCI Europe. Our stock is also in the MSCI World Index. The Allianz share is in the FTSE-4-Good and Dow Jones Sustainability indexes. The latter index lists only the 10 % of companies in a given industry that have obtained the best rankings in a sustainability rating. The ranking is based on economic, environmental and social criteria. For more information, visit **www.allianz.com/sustainability**.

Weighting of the Allianz share in major indexes on December 31, 2005

	Weighting in %	Ranking
DAX	8.7	3
Prime Insurance	65.1	1
Dow Jones EURO STOXX 50	2.8	13
Dow Jones EURO STOXX Insurance	18.9	2
MSCI Europe	0.8	27
MSCI Europe Insurance	16.2	1
MSCI World	0.3	73

Sources: Deutsche Börse Group, Dow Jones Indexes/STOXX Ltd., Morgan Stanley Capital International

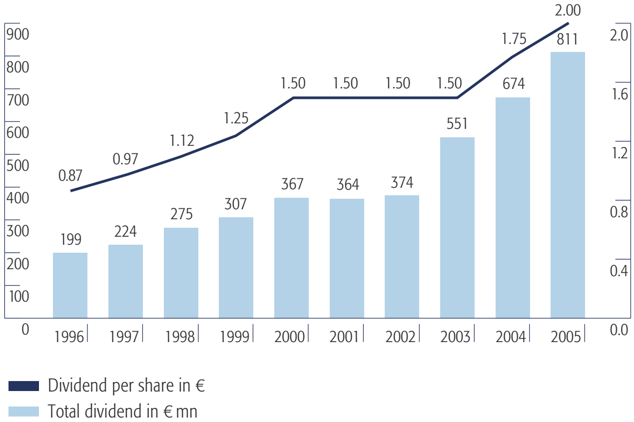
Increased earnings per share

Further operational business improvements brought net income up 93.3 % to € 4.4 billion. With this, basic earnings per share increased by 81.6 % to € 11.24, although at the same time the number of shares also increased. Adjusted for goodwill amortization in the previous year, net income rose by 30.7 %, and basic earnings per share by 22.7 %.

Higher dividend

We would like our shareholders to benefit from the improved business development and will therefore propose, at the Annual General Meeting, to issue a dividend of € 2.00 per share, which represents a € 0.25 increase or 14 % per share. With this we confirm our dividend policy, which rests on continuity. Because of the higher number of shares, the dividend payment will rise by 20 % to € 811 million.

Total dividend and dividend per share

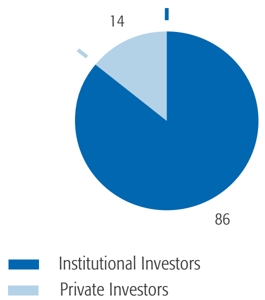


All Allianz shares are in free float

Meanwhile, 100 % of our shares are in free float. This proportion was only 86 % at the end of financial year 2004. Two especially important events influenced this outcome. First, Munich Re decreased its holdings in our company from the previous 9 % to less than 5 %. Secondly, at the beginning of 2005, we divested ourselves of 17.2 million treasury shares in our "All-in-One" capital market transactions (more details appear on page 89). Allianz shares are held by about 495,000 investors, making us one of the largest publicly held corporations in Europe. Higher free float increases liquidity, as shown by our average daily share turnover of 3.1 million. Moreover, a higher free float gives our shares a greater weighting in the most of the major indexes. For up-to-date information on our shareholder structure, visit **www.allianz.com/investor-relations.**

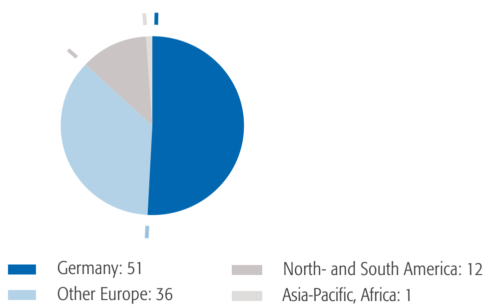
Shareholder structure on December 31, 2005*)

in % of subscribed capital



Regional distribution on December 31, 2005*)

in % of subscribed capital



*) Source: Allianz AG share register

Since the end of 2000, Allianz shares have also been traded on the New York Stock Exchange in the form of American Depositary Receipts (ADR). Ten ADRs are equivalent to one Allianz share. For detailed information, visit **www.allianz.com/investor-relations.**

Allianz share key indicators at a glance

		2005	2004	2003
Subscribed capital on December 31	€	1,039,462,400	987,584,000	984,880,000
Number of shares outstanding on December 31		406,040,000	385,775,000	384,718,750
Number of shares outstanding on December 31[1)]		405,615,965	368,195,957	367,139,707
Average number of shares outstanding in the fiscal year[1)]		389,756,350	365,930,584	338,201,031
Market capitalization on December 31	€ bn	51.9	35.9	36.7
Average number of shares traded per day	mn	3.1	2.6	4.1
Beta-Factor (versus Dow Jones EURO STOXX 50)[2)]		1.30	1.32	1.52
Share price on December 31	€	127.94	97.60	100.08
High for the year	€	129.70	111.15	101.50
Low for the year	€	89.72	73.87	40.47
Share price performance in the year (excluding dividend)	%	31.1	(2.5)	23.9
Dividend per share	€	2.00	1.75	1.50
Dividend yield	%	1.6	1.8	1.5
Basic earnings per share	€	11.24	6.19	7.96
Basic earnings per share pro forma[3)]	€	11.24	9.16	11.96
Price-earnings ratio		11.4	15.8	12.6
Price-earnings ratio pro forma[3)]		11.4	10.7	8.4
Return on equity after taxes[4)]	%	12.6	7.8	11.0

1) Excluding treasury shares.
2) Source: Bloomberg.
3) Adjusted for amortization of goodwill after taxes.
4) Based on average shareholders' equity before minority interests. Average shareholders' equity before minority interests has been calculated based upon the average of the current and preceding year's shareholders' equity before minority interests.

Value-oriented management

Our foremost objective is profitable growth. That is why we use "Economic Value Added" (EVA®) as the key indicator for controlling our business. This indicator also determines the stock-related compensation of our senior management. For more information on this subject, see pages 15 to 18 or pages 24 to 25 of this Annual Report.

Basic Allianz share information

Share type	Registered share with restricted transfer
Denomination	No-par-value share
Stock exchanges	All German stock exchanges, London, Paris, Zurich, New York
Security codes	WKN 840 400 ISIN DE 000 840 400 5
Bloomberg	ALV GY
Reuters	ALVG.DE

Annual General Meeting well attended

Our fiscal 2004 Annual General Meeting once again attracted lively interest. With approximately 5,300 shareholders, the meeting was well attended. The proportion of subscribed capital represented at the Annual General Meeting decreased by 2 %-points to 35 %. This was mainly due to the higher proportion of free float. To counter this trend, we are communicating with our large investors and depositary banks of foreign investors even more strongly than before. We have also engaged an external consultant to support our shareholders outside Germany in exercising their voting rights, if required. Meanwhile, the presence of foreign investors has risen by about 3 %-points.

Our Internet service during the Annual General Meeting was also quite popular. As in previous years, shareholders could follow the entire meeting live over the Internet and change their instructions until shortly before voting began. About 40,000 shareholders have meanwhile taken advantage of our offer to send the Annual General Meeting documents by e-mail. This saves money and protects the environment, and the shareholder receives his or her documents considerably faster. For more details on the Annual General Meeting, visit **www.allianz.com/agm**.

Even stronger Investor Relations

During the reporting year, we further improved our service to private and institutional investors. Our Road Show now visits Tokyo and Sydney to serve better to investors in the Asia-Pacific region. Altogether we have met with investors in 17 cities and dedicated 29 days to discussions on current business development and to answering questions. Our "Capital Markets Day", which takes place once a year separately from our analysts' conference, has attracted lively interest. In 2005 we reported on our German and U.S. life insurance business to approximately 80 participants. The number of discussions we held with analysts and institutional investors during the reporting year grew again by just under 10 %, to about 300.

Our web portal was expanded and restructured in 2005, so that investors could find the information which is important to them even more quickly. The pages contain the online annual report and supplementary information on our strategy, business, share and management. We report on analyst and investor conferences, and provide presentations and important publications for download. We broadcast our analyst conferences and teleconferences live over the Internet. There is a "Shareholder Service" section, in which we answer frequently asked questions and publish newsletters. Beyond this, we offer services online in relation to the Annual General Meeting, and publications can be ordered. We have recently begun sending current information directly to the shareholder's handheld computer or mobile phone, if desired. For telephone queries, our "Allianz Investor Line" is available round the clock, seven days a week. In 2005 our investor relations team fielded approximately 8,000 questions from private investors.

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Comprehensive service

We like to keep our shareholders up to date on all company developments. Our Investor Relations Team is pleased to answer any questions you may have on Allianz shares, bonds or the development of the Allianz Group.

Allianz AG
Investor Relations
Koeniginstrasse 28
80802 Munich
Germany

Allianz Investor Line:	+ 49 1802 2554269
	+ 49 1802 ALLIANZ
Fax:	+ 49 89 3800 3899
E-Mail:	investor.relations@allianz.com
Internet:	www.allianz.com/investor-relations

Financial Calendar 2006/2007

Important dates for shareholders and analysts

May 3, 2006	Annual General Meeting
May 12, 2006	Interim report first quarter of 2006
August 11, 2006	Interim report first half of 2006
November 10, 2006	Interim report first three quarters of 2006
February 22, 2007	Financial press conference for the 2006 fiscal year
February 23, 2007	Analysts' conference for the 2006 fiscal year
May 2, 2007	Annual General Meeting
May 11, 2007	Interim report first quarter of 2007
August 10, 2007	Interim report first half of 2007
November 14, 2007	Interim report first three quarters of 2007

As we cannot rule out changes of dates, we recommend to check them on the Internet at **www.allianz.com/financialcalendar.**

Group Management Report

Contents

The Allianz Group

We are among the world's largest financial services providers.

› Founded in 1890, with 115 years of experience in the financial services industry and operations in over 70 countries worldwide, we continue our legacy of commitment in providing financial security to our more than 60 million customers across the globe.

› We are among the world's largest financial services providers, offering insurance, banking and asset management products and services through our property-casualty, life/health, banking and asset management business segments.

› We are the largest German financial institution, based on market capitalization at March 1, 2006[1].

Insurance Operations

› We are one of the leading insurance groups in the world. We rank number one in the German property-casualty and life insurance markets based on gross premiums written and statutory premiums, respectively, in 2005[2].

› Of the more than 70 countries in which we operate, we are among the largest insurance companies in a number of them, including France, Italy, Spain, Switzerland and the United Kingdom.

In our Property-Casualty segment, we provide a wide array of products, including, among others, motor, homeowners, travel and other personal lines products. Furthermore, we are a leading provider of commercial and industrial coverage to enterprises of all sizes, including many of the world's largest companies. Through our specialty lines of business, we offer credit insurance, marine, aviation and industrial transport insurance, international industrial risks reinsurance, as well as travel insurance and assistance services, which we manage on a worldwide basis.

Our Life/Health segment provides, among others, traditional life, endowment, annuity, including equity-indexed annuities, and term insurance products. Additionally, we serve individuals with a wide range of health, disability and related coverage and provide group life, group health and pension products to employers.

Within our home market of Europe, France, Germany, Italy, Spain, Switzerland and the United Kingdom comprise our primary insurance markets, with Germany as our most important single market, although we operate in almost every European country. We also consider the United States as one of our primary markets. Please see "International Presence" for a breakdown of selected operating entities within our primary markets and others.

We distribute our property-casualty and life/health insurance products through a broad network of self-employed full-time tied agents, part-time tied agents, brokers, banks and other channels. The particular distribution channels we use vary based on product and geographic market. Within our primary market of Germany, we rely predominantly on full-time tied agents. Our insurance products are marketed in Germany primarily under the "Allianz" brand name. In other countries, we operate through our subsidiary insurers' brand names, which are identified as part of the Allianz Group.

Allianz AG, the parent company of the Allianz Group, acts as the Allianz Group's reinsurer for almost all of our insurance operations, other than international industrial risks reinsurance. For the years ended December 31, 2005, 2004 and 2003, Allianz AG assumed 39.6 %, 37.6 % and 39.1 %, respectively, of all reinsurance ceded by Allianz Group companies, while Munich Re is our primary third-party reinsurer. Allianz AG also provides centralized advice to subsidiaries on structuring their own reinsurance programs and establishing lists of permitted reinsurers. In addition, the Allianz Group, through Allianz AG, has a pooling concept in place whereby natural catastrophe reinsurance cover is offered to Allianz Group's subsidiaries allowing the Allianz Group to benefit from internal diversification effects. Allianz AG also assumes a relatively small amount of reinsurance from external cedents.

Please see the respective sections of "Property-Casualty Insurance Operations" and "Life/Health Insurance Operations" for breakdowns of our insurance operations by geographic region, including gross premiums written, statutory premiums, earnings and various key performance indicators, as well as a description of our largest property-casualty and life/health markets and companies.

[1] Source: Deutsche Börse Group.
[2] Source: Gesamtverband der Deutschen Versicherungswirtschaft e.V. (or "GDV") and our own internal analysis and estimates. The GDV is a private association representing the German insurance industry.

Banking Operations

› **Dresdner Bank is one of the largest banks in Germany, based on total assets at December 31, 2005.**

Our banking operations consist primarily of those of Dresdner Bank, through which we offer a wide range of private, commercial and investment banking products and services for corporate, governmental and individual customers, primarily in the European market. Please see "International Presence" for a breakdown of selected operating entities within our primary markets and others.

While Dresdner Bank focuses on selected geographic regions worldwide, Germany is its primary market, which contains 66.1 % of its loan portfolio. The largest credit exposures to borrowers in Germany are loans to private individuals (including self-employed professionals) at 58.2 %; this category represented 38.5 % of Dresdner Bank's total loans outstanding at December 31, 2005. Dresdner Bank operates and distributes its products primarily through 959 branch offices, of which 927 are located in Germany and 32 outside of Germany. In 2005, we conducted our Dresdner Bank operations through six divisions:

› **Personal Banking** provides personalized financial services such as payments transactions, financing, investment advice, financial planning and insurance products.

› **Private & Business Banking** provides access for its worldwide clients to its range of private banking services, such as wealth management, portfolio management, real estate investment advice and trust and estate advice, as well as business banking advisory services to assist corporate clients in arranging their private and business finances in an integrated and customized manner.

› **Corporate Banking** offers corporate loans, structured financing, as well as treasury, securities and insurance products, and provides corporate customers with cash management solutions, payment services, global documentary services and advice on occupational pension plans.

› **Dresdner Kleinwort Wasserstein (or "DrKW")** offers corporate finance advisory services on mergers and acquisitions, divestitures, restructurings and other strategic matters, and provides securities underwriting and market-making, securitization products and services, securities and derivatives trading, portfolio management, and other capital markets products and services.

› **Institutional Restructuring Unit (or "IRU")** closed down effective September 30, 2005 having successfully completed its mandate to free-up risk capital through the reduction of risk-weighted assets.

› **Corporate Other** contains income and expense items that are not directly assigned to our operating divisions, such as income and expenses from the Dresdner Bank-wide treasury function, as well as provisioning requirements for country and general risks.

In November 2005, we announced that, effective 1Q 2006, we will reorganize our banking business. Our newly-formed Private & Business Clients division will combine all banking activities formerly provided by the Personal Banking and Private & Business Banking divisions. Additionally, our Corporate Banking and DrKW divisions will be combined within a single organizational unit, Corporate & Investment Banking, to further improve the leverage of the market potential in our corporate client and capital markets business. In the future, we expect to increase the part of banking products sold through insurance agents.

Please see "Banking Operations" for a breakdown of our banking operations by division and geographic region, respectively.

Asset Management Operations

Allianz Global Investors is one of the largest asset managers in the world, based on total assets under management.

Our asset management operations act as a global provider of institutional and retail asset management products and services to third-party investors and provide investment management services to our insurance operations. We managed approximately €743 billion of third-party assets on a worldwide basis at December 31, 2005, which includes fixed income, equity, money market and sector products, as well as alternative investments.

We conduct our retail asset management business primarily through our operating companies worldwide under the brand name, Allianz Global Investors (or "AGI"). In our institutional asset management business, we operate under the brand names of our investment management entities; AGI serves as an endorsement brand. Please see "International Presence" for a breakdown of selected operating entities within our primary markets and others.

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

The particular distribution channels we use vary by product and geographic market. In Europe and the United States, AGI markets and services its institutional products through specialized personnel located primarily in its Frankfurt, London, Munich, Paris and Milan, as well as San Francisco, San Diego and Newport Beach (California) offices. European retail distribution is provided primarily through the proprietary channels of the Allianz Group, including branch bank advisors, full-time agents employed by affiliated insurance companies and other Allianz Group financial planners and advisors. In the United States, AGI asset managers also offer a wide range of retail products. AGI has committed substantial resources to the expansion of the third-party asset management business in the Asia-Pacific region with offices in Tokyo, Hong Kong, Shanghai, Singapore, Taipei, Seoul and Sydney.

For a discussion of investment portfolios of our insurance, banking and asset management operations, which we refer to as "group's own investments", see "Executive Summary – Group Asset Allocation".

Competition

We believe that we are well-positioned in our markets to anticipate and successfully respond in the face of competitive forces within our various operations.

Insurance Competition is most pronounced in our more mature markets (Germany, France, Italy and the United States), while in recent years, competition in emerging markets has also increased as large insurance and other financial services participants from more developed countries have sought to establish themselves in markets perceived to offer higher growth potential, and as local institutions have become more sophisticated and have sought alliances, mergers or strategic relationships with our competitors.

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

Asset Management Competition stems from all major international financial institutions and peer insurance companies, which have large, multi-jurisdictional and multi-product asset management operations and compete for both retail and institutional clients.

International Presence

The following table sets forth selected Allianz Group companies by geographic region at December 31, 2005, including our ownership percentage. It does not contain all subsidiaries of the Allianz Group, nor does it indicate whether an interest is held directly or indirectly by the Allianz AG. Further, the ownership percentage presented in the following table includes equity participations held by dependent enterprises of the Allianz Group in full, even if the Allianz Group's ownership in the dependent enterprise is below 100 %. Please see pages 201 to 206 of this annual report for a more extensive list of Allianz Group operating subsidiaries, associated enterprises and other selected holdings in listed companies.

GERMANY

■	Allianz Capital Partners GmbH	100.0%
■	Allianz Dresdner Bauspar AG	100.0%
■	Allianz Global Investors Advisory GmbH	100.0%
■	Allianz Global Investors AG	100.0%
■	Allianz Global Risks Rückversicherungs-AG	100.0%
■	Allianz Lebensversicherungs-Aktiengesellschaft	91.0%
■	Allianz Marine & Aviation Versicherungs-AG	100.0%
■	Allianz Private Krankenversicherungs-Aktiengesellschaft	100.0%
■	Allianz Versicherungs-Aktiengesellschaft	100.0%
■	Bayerische Versicherungsbank AG (was merged in January 2006 retroactively effective October 1, 2005 into Allianz Versicherungs-Aktiengesellschaft)	100.0%
■	DEGI Deutsche Gesellschaft für Immobilienfonds mbH	94.0%
■	Deutsche Lebensversicherungs-AG	100.0%
■	Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH	100.0%
■	Dresdner Bank AG	100.0%
■	dresdnerbank investment management Kapitalanlagegesellschaft mbH	100.0%
■	Euler Hermes Kreditversicherungs-AG	100.0%
■	Frankfurter Versicherungs-AG (was merged in January 2006 retroactively effective October 1, 2005 into Allianz Versicherungs-Aktiengesellschaft)	100.0%
■	Oldenburgische Landesbank AG	89.4%
■	Reuschel & Co. Kommanditgesellschaft	97.5%

EUROPE

Austria

■	Allianz Elementar Lebensversicherungs-Aktiengesellschaft	100.0%
■	Allianz Elementar Versicherungs-Aktiengesellschaft	100.0%

Belgium

■■	AGF Belgium Insurance S. A.	100.0%

France

■	AGF Asset Management S. A.	99.9%
■	Assurances Générales de France IART S. A.	100.0%
■	Assurances Générales de France Vie S. A.	100.0%
■	Assurances Générales de France	61.0%
■	Banque AGF S. A.	100.0%
■	Euler Hermes SFAC S. A.	100.0%
■	Mondial Assistance S. A. S.	100.0%

Greece

■	Allianz General Insurance Company S. A.	100.0%
■	Allianz Life Insurance Company S. A.	100.0%

Ireland

■	Allianz Irish Life Holdings p. l. c.	66.4%
■	Allianz Worldwide Care Ltd.	100.0%

Italy

■■	ALLIANZ SUBALPINA S. p. A. SOCIETA' DI ASSICURAZIONI E RIASSICURAZIONI	98.0%
■■	Lloyd Adriatico S. p. A.	99.7%
■	RAS ASSET MANAGEMENT Società di gestione del risparmio S. p. A.	100.0%
■■	Riunione Adriatica di Sicurtà S. p. A.	76.3%

Luxemburg

■	Allianz Global Investors Luxembourg S. A.	100.0%
■	Dresdner Bank Luxembourg S. A.	100.0%

Netherlands

■	Allianz Nederland Levensverzekering N. V.	100.0%
■	Allianz Nederland Schadeverzekering N. V.	100.0%

Portugal

■■	Companhia de Seguros Allianz Portugal S. A.	64.8%

Spain

■■	Allianz Compañía de Seguros y Reaseguros S. A.	99.9%

Switzerland

■	Allianz Risk Transfer AG	100.0%
■	Allianz Suisse Lebensversicherungs-Gesellschaft	100.0%
■	Allianz Suisse Versicherungs-Gesellschaft	100.0%
■	Dresdner Bank (Schweiz) AG	99.8%
■	ELVIA Reiseversicherungs-Gesellschaft AG	100.0%

United Kingdom

■	Allianz Cornhill Insurance plc.	98.0%[1]
■	Four Seasons (JDM) Ltd. (former: Four Seasons Health Care Ltd.)	100.0%
■	RCM (UK) Ltd.	100.0%

EMERGING MARKETS (EUROPE)

Bulgaria

Allianz Bulgaria Insurance and Reinsurance Company Ltd.	78.0 %
Allianz Bulgaria Life Insurance Company Ltd.	99.0%
Commercial Bank Allianz Bulgaria Ltd.	99.6 %

Croatia

Allianz Zagreb d. d.	80.1 %

Czech Republic

Allianz pojist'ovna, a. s.	100.0%

Hungary

Allianz Hungária Biztosító Rt.	100.0%

Poland

TU Allianz Polska S. A.	100.0%
TU Allianz Polska Zycie S. A.	100.0%

Romania

Allianz Tiriac Insurance S .A.	51.6%

Russian Federation

Insurance Joint Stock Company "Allianz"	100.0%

Slovakia

Allianz-Slovenská poist'ovna a. s.	84.6%

THE AMERICAS

Argentina

AGF Allianz Argentina Compania de Seguros Generales S. A.	100.0%

Brazil

AGF Brasil Seguros S. A.	72.5 %

Colombia

Colseguros Generales S. A.	100.0%

Mexico

Allianz México S. A. Compañía de Seguros	100.0%

United States

Allianz Global Investors of America L.P.	97.0 %
Allianz Global Investors Distributors LLC	100.0%
Allianz Global Risks US Insurance Company	100.0%
Allianz Life Insurance Company of North America	100.0%
Fireman's Fund Insurance Company	100.0%
NFJ Investment Group L.P.	100.0%
Nicholas Applegate Capital Management LLC	100.0%
Oppenheimer Capital LLC	100.0%
Pacific Investment Management Company LLC	85.0 %
RCM Capital Management LLC	100.0%

Venezuela

Adriática de Seguros C. A.	97.0 %

ASIA-PACIFIC/AFRICA

Australia

Allianz Australia Limited	100.0%

China

Allianz Dazhong Life Insurance Company Ltd.	51.0 %
Allianz Global Investors Hong Kong Ltd.	100.0%
Allianz Insurance (Hong Kong) Ltd.	100.0%

Indonesia

PT Asuransi Allianz Utama Indonesia Ltd.	75.4 %
PT Asuransi Allianz Life Indonesia p.l.c.	99.8 %

Japan

Allianz Fire and Marine Insurance Japan Ltd.	100.0%
Dresdner Kleinwort Wasserstein (Japan) Limited	100.0%

Laos

Assurances Générales du Laos Ltd.	51.0 %

South Korea

Allianz Global Investors Korea Limited	100.0%
Allianz Life Insurance Co. Ltd.	100.0%

Malaysia

Allianz General Insurance Malaysia Berhad p.l.c.	98.7 %
Allianz Life Insurance Malaysia Berhad p.l.c.	100.0%

Singapore

Allianz Insurance Company of Singapore Pte. Ltd.	100.0%

Taiwan

Allianz President Life Insurance Co. Ltd.	50.0%[2]
Allianz Global Investors Taiwan (SITE) Ltd.	100.0%

Egypt

Allianz Egypt Insurance Company S. A. E.	85.0%
Allianz Egypt Life Company S. A. E.	96.0%

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

Business segments
- Property-Casualty
- Life/Health
- Banking
- Asset Management

[1] 99.99 % of the voting share capital.

[2] Controlled by the Allianz Group.

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 insurance, Life/Health insurance, Banking and Asset Management segments using a financial performance measure we refer to herein as "operating profit". We define our segment operating profit as earnings from ordinary activities before taxes, excluding, as applicable for each respective segment, all or some of the following items: net capital gains and impairments on investments, net trading income, intra-Allianz Group dividends and profit transfer, interest expense on external debt, restructuring charges, other non-operating income/(expenses), acquisition-related expenses and amortization of goodwill.

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 operating segments by highlighting net income attributable to ongoing segment operations and the underlying profitability of our businesses. For example, we believe that trends in the underlying profitability of our segments can be more clearly identified without the fluctuating effects of the realized capital gains and losses or impairments on investment securities, 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 earnings from ordinary activities before taxes or net income as determined in accordance with International Financial Reporting Standards (or "IFRS"). Our definition of operating profit may differ from similar measures used by other companies, and may change over time. For further information on operating profit, as well as the particular reconciling items between operating profit and net income, see Note 5 to the consolidated financial statements.

In the following analysis, we analyze the Allianz Group's consolidated results of operations for the year ended December 31, 2005 as compared to December 31, 2004, using operating profit and net income as the relevant performance measures, as permitted under IFRS.

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

Composition of total revenue growth for the year ended December 31, 2005

Segment*)	Nominal growth %	Changes in scope of consolidation %	Foreign currency translation %	Internal growth %
Property-Casualty	0.6	(2.5)	0.4	2.7
Life/Health	6.5	–	0.5	6.0
Banking	(3.3)	–	(0.1)	(3.2)
thereof: Dresdner Bank	(4.4)	–	(0.1)	(4.3)
Asset Management	18.4	1.9	0.2	16.3
thereof: Allianz Global Investors	17.3	(0.4)	0.2	17.5
Total Group	**4.2**	**(0.5)**	**0.4**	**4.3**

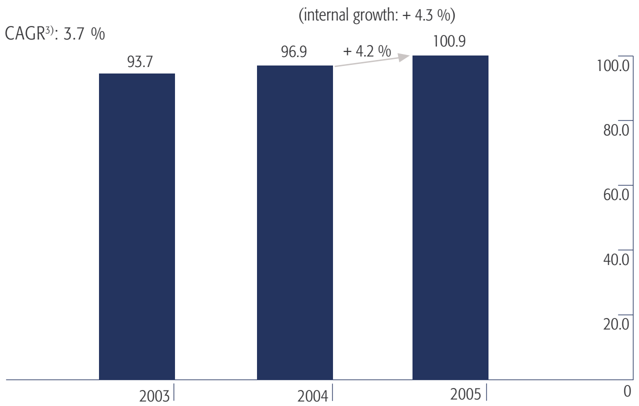
*) Before the elimination of transactions between Allianz Group companies in different segments.

Executive Summary

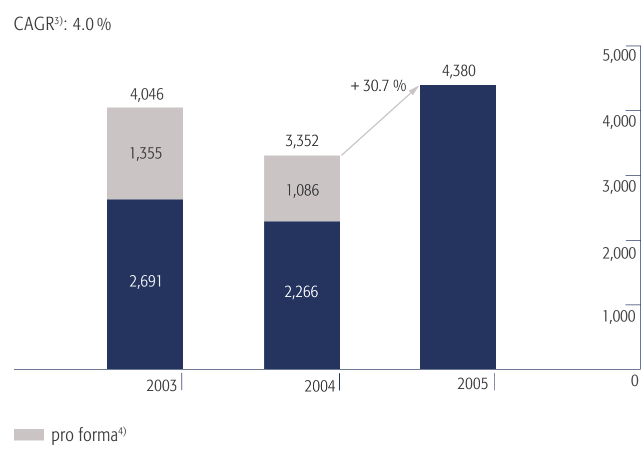
We exceeded our targets for 2005 and net income increased by 31 % to € 4.4 billion.

- All segments exceeded their 2005 targets:
  - Property-Casualty achieved a new low combined ratio[1] of 92.3 %, 2.7 percentage points better than the 95 % target.
  - Operating profit in Life/Health was € 1.6 billion, exceeding our goal by € 100 million.
  - Dresdner Bank increased its operating profit by 33.2 % to € 775 million and earned its cost of capital[2].
  - Asset Management operating profit grew by 32.4 %, more than three times our target.
- Total revenues hit € 100.9 billion.
- Net income rose significantly, driven by the increase in operating profit of 13.2 % to € 7.7 billion.
- Our shareholders' equity, before minority interests, increased by 31.6 % to € 39.5 billion.

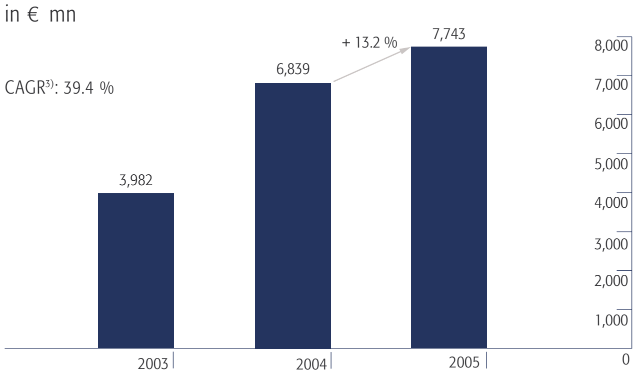
Total Revenues
in € bn



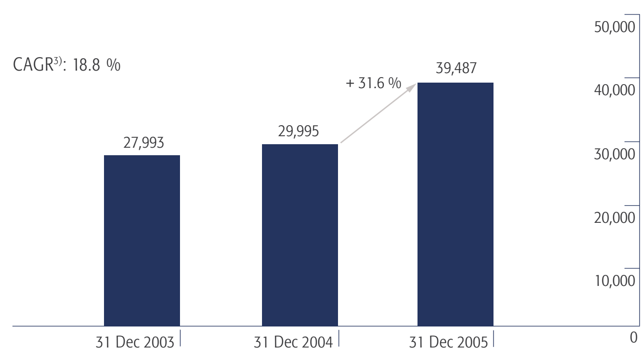
Net Income
in € mn



Operating Profit
in € mn



Shareholders' Equity Before Minority Interests
in € mn



1) Represents ratio of net claims incurred and net acquisition costs and administrative expenses, excluding expenses for service agreements, to net premiums earned.

2) Cost of Capital (or "CoC") represents the return an investor can expect from an alternative investment with comparable risk. Other companies that use CoC may define and calculate CoC differently.

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

4) Net income contained goodwill amortization (net of tax).

Allianz Group's Consolidated Results of Operations

Total Revenues

Led by our Life/Health and Asset Management operations, our total revenues increased by 4.2% to €100.9 billion. Internal growth was 4.3%.

Property-Casualty While we continued to put profitability first, we succeeded in growing gross premiums written by €281 million to €44.1 billion, and achieved internal growth of 2.7%. Particularly strong increases were experienced within the United States, Switzerland, Allianz Marine & Aviation and Australia.

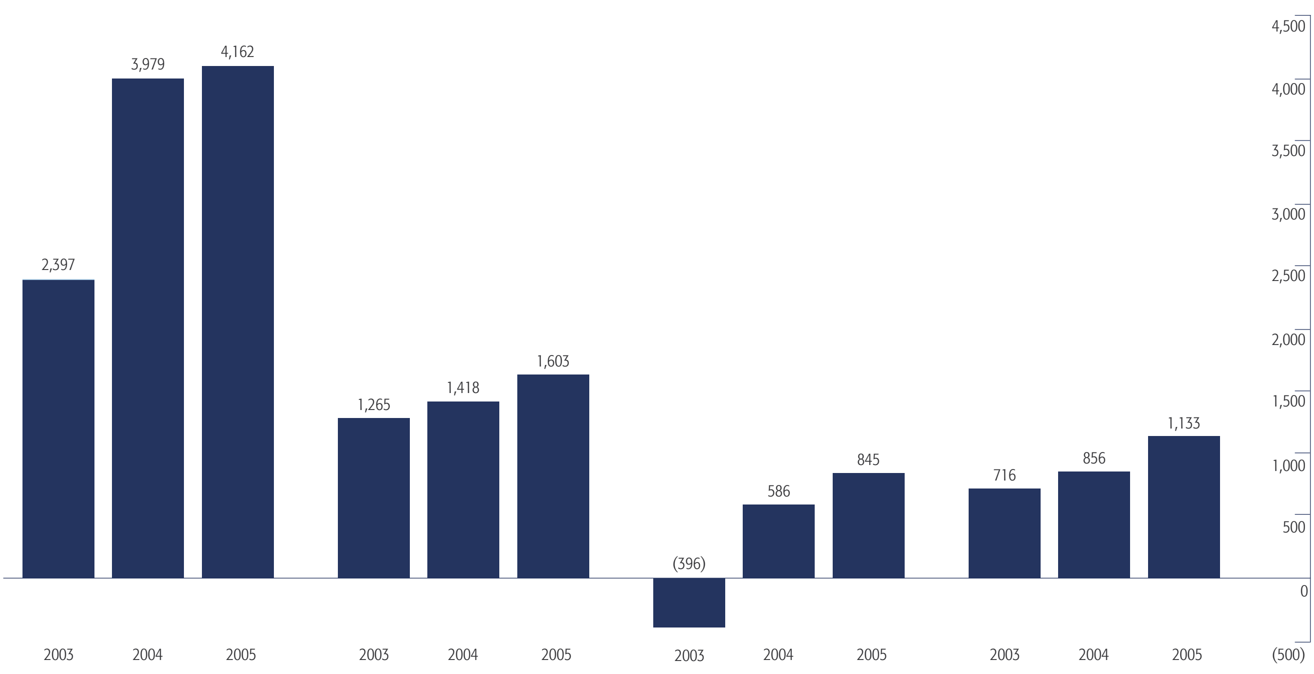
Life/Health Statutory premiums increased by 6.5% to €48.1 billion, originating principally from investment-oriented and single-premium products. Strong growth rates were achieved in our core European life markets, particularly in Germany, France and Italy, with growth rates in Germany and France well above 10%. In the United States, statutory premiums remained strong. Internal growth was 6.0%.

Banking Operating revenues from our banking operations declined by 3.3% to €6.2 billion primarily due to the faster than planned close of Dresdner Bank's IRU and negative accounting impacts from IAS 39. In contrast, operating revenues from Dresdner Bank's strategic business[*)], excluding the negative impacts from IAS 39, increased by 4.1% to €6.1 billion.

Asset Management We achieved record net inflows of third-party assets of €64 billion, particularly from our fixed income institutional funds business within the United States and Germany. Market-related appreciation of third-party assets amounted to €33 billion. Overall, third-party assets increased by 27.0% to €743 billion at December 31, 2005. These positive developments led to significant operating revenue growth of 18.4% to €2.7 billion. Internal growth was 16.3%.

Operating Profit

Operating Profit – Segments
in €mn



*) Dresdner Bank's strategic business includes its Personal Banking, Private & Business Banking, Corporate Banking, DrKW and Corporate Other divisions, but does not include IRU.

In 2005, our operating profit increased by 13.2 % to € 7.7 billion, thereby demonstrating our commitment to **continued operational discipline.** All segments contributed to this development.

Property-Casualty We achieved a new low combined ratio of 92.3 %, 2.7 percentage points better than our target. We continued to adhere to our disciplined underwriting and pricing practices worldwide, thereby successfully improving our combined ratio by 60 basis points compared to 2004. These positive developments were achieved despite the negative impacts of various natural catastrophes, including one of the worst hurricane seasons on record. The combined effects of losses from natural catastrophes produced estimated claims of € 1.1 billion, net of reinsurance. Offsetting these losses were decreases in loss estimates for previous underwriting years that resulted in an increase in operating profit of 4.6 % to € 4.2 billion.

Life/Health Operating profit strengthened by 13.0 % and reached € 1.6 billion, exceeding our 2005 target by approximately € 100 million. Strong margins on new business and the increased business volume from the strong growth rates in recent years were the most important factors in this development. Our statutory expense ratio[1] declined by 1.0 percentage point to 8.1 %, resulting from statutory premium growth, while net acquisition costs and administrative expenses decreased.

Banking In 2005, Dresdner Bank was successful in earning its cost of capital for the first time since it was acquired by the Allianz Group in 2001. Operating profit contributed in large part to this, increasing by 33.2 % to € 775 million. This growth was principally due to a favorable development within Dresdner Bank's net loan loss provisions, resulting in a net release of € 113 million (2004: net charge of € 337 million), driven predominantly by the reductions in our portfolios within our non-strategic IRU and the improved risk profile of Dresdner Bank's strategic loan portfolio.

Asset Management Operating profit grew by 32.4 % to € 1.1 billion, thereby significantly surpassing our 2005 target. Commensurate with this development, we succeeded in consistently reducing our cost-income ratio[2] during the course of 2005 to 58.5 %, a marked improvement of 4.4 percentage points. These achievements demonstrate our strong market position and attest to our superior performance as the overwhelming majority of the third-party assets we manage outperformed their respective benchmarks in 2005.

Net Income

Net income increased significantly to € 4.4 billion from € 2.3 billion.

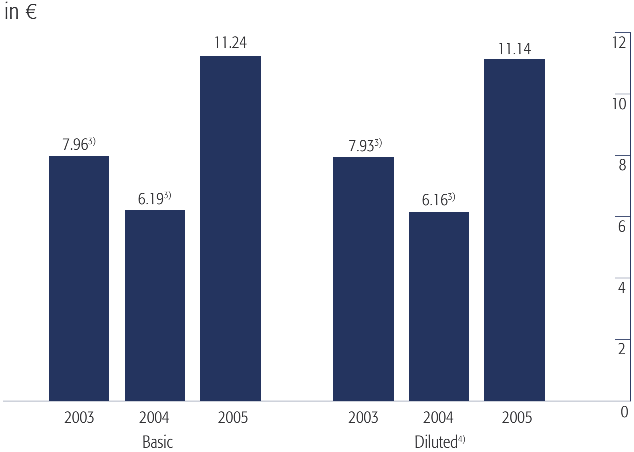
Our operating profit of € 7.7 billion drove the **continued strengthening of our earnings power** with earnings from ordinary activities reaching € 7.9 billion. Non-operating items, in aggregate, amounted to € 137 million, benefiting from the discontinuance of goodwill amortization due to a change in accounting under IFRS (2004: charge of € 1.2 billion).

The impact of net capital gains and impairments, including non-operating net trading income, remained relatively stable at € 1.8 billion. Other non-operating items, in aggregate, improved by more than € 300 million to a net charge of € 1.7 billion, with restructuring charges declining by 71.2 % to € 100 million, due primarily to the absence of significant charges at Dresdner Bank.

Our tax expenses increased by € 27.2 to € 2.1 billion, representing an overall effective tax rate of 26.3 % (2004: 31.9 %). In 2005, our effective tax rate benefited from preferable tax treatment on dividend income and realized capital gains at various operating entities, as well as the discontinuation of non-tax deductible goodwill amortization. Minority interests in earnings increased by 18.7 % to € 1.4 billion, primarily due to increased earnings at our Italian and French Life/Health operating entities.

The following table sets forth our basic and diluted earnings per share for the years ended December 31, 2005, 2004 and 2003.

Earnings per Share
in €



GROUP MANAGEMENT REPORT EXECUTIVE SUMMARY

[1] Represents ratio of net acquisition costs and administrative expenses, excluding expenses for service agreements, to net statutory premiums.
[2] Represents ratio of operating expenses to operating revenues.
[3] Includes goodwill amortization. Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
[4] See Note 44 to our consolidated financial statements for further details regarding the dilutive effect of certain outstanding securities.

The following table sets forth the total revenues, operating profit and net income for each of our business segments for the years ended December 2005, 2004 and 2003, as well as consolidated net income of the Allianz Group[1)].

	Property-Casualty € mn	Life/Health € mn	Banking € mn	Asset Management € mn	Consolidation adjustments € mn	Total Group € mn
Year ended December 31, 2005						
Total revenues[2)]	44,061	48,129	6,235	2,733	(261)	100,897
Operating profit	4,162	1,603	845	1,133	–	7,743
Earnings from ordinary activities before taxes	**5,672**	**2,274**	**1,537**	**420**	**(2,023)**	**7,880**
Taxes	(1,126)	(463)	(396)	(132)	3	(2,114)
Minority interests in earnings	(997)	(462)	(102)	(51)	226	(1,386)
Net income	**3,549**	**1,349**	**1,039**	**237**	**(1,794)**	**4,380**
Year ended December 31, 2004						
Total revenues[2)]	43,780	45,177	6,446	2,308	(836)	96,875
Operating profit	3,979	1,418	586	856	–	6,839
Earnings from ordinary activities before taxes	**6,137**	**1,704**	**(67)**	**(275)**	**(2,403)**	**5,096**
Taxes	(1,520)	(469)	294	52	(19)	(1,662)
Minority interests in earnings	(1,151)	(368)	(101)	(52)	504	(1,168)
Net income (loss)	**3,466**	**867**	**126**	**(275)**	**(1,918)**	**2,266**
Year ended December 31, 2003						
Total revenues[2)]	43,420	42,319	6,704	2,226	(929)	93,740
Operating profit	2,397	1,265	(396)	716	–	3,982
Earnings from ordinary activities before taxes	**6,418**	**1,244**	**(1,936)**	**(385)**	**(1,475)**	**3,866**
Taxes	(756)	(639)	1,025	80	41	(249)
Minority interests in earnings	(451)	(386)	(104)	(92)	107	(926)
Net income (loss)	**5,211**	**219**	**(1,015)**	**(397)**	**(1,327)**	**2,691**

[1)] Effective January 1, 2005, under IFRS, various existing accounting standards changed and additional new accounting standards became effective, both of which impacted the Allianz Group's consolidated financial statements prospectively and, to a certain extent, retrospectively, which required revisions of prior year periods as if those acconting principles had always been used. For further information concerning the impact of these accounting standards, see "Effects of Recently Adopted Accounting Pronouncements" and Note 3 to our consolidated financial statements.

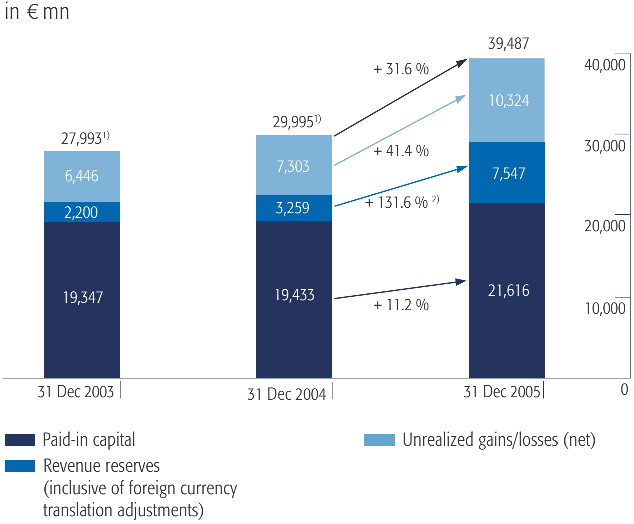
[2)] Total revenues comprise Property-Casualty segment's gross premiums written, Life/Health segment's statutory premiums, Banking segment's operating revenues, and Asset Management segment's operating revenues.

Allianz Group's Consolidated Assets, Liabilities and Shareholders' Equity

In 2005, our shareholders' equity increased by 25.0 % to € 47.1 billion at December 31, 2005, further **strengthening our capital base**. Our shareholders's equity before minority interests grew by 31.6 % to € 39.5 billion. This increase resulted primarily from our strong net income for 2005, growth in unrealized gains on investments due to favorable equity market conditions and lower interest rates in Europe, as well as reduced negative foreign currency translation effects from the strengthening of the U.S. Dollar against the Euro. Additionally, the reduction in treasury shares (net € 352 million) and the issuance of warrants on Allianz AG shares, of which 9 million were exercised in 3Q 2005 raising capital of € 828 million, increased our shareholders' equity before minority interests. In connection with the purchase of the minority interest of Riunione Adriatica di Sicurtà S.p.A. (or "RAS"), our shareholders' equity before minority interests also increased by € 1.1 billion through the issuance of shares out of authorized capital without pre-emptive rights, offset by € 1.3 billion related to the acquisition cost for additional interest in RAS. See "Allianz-RAS Merger/European Company (SE)" for further information on the contemplated merger of RAS with and into Allianz AG.

Shareholders' Equity Before Minority Interests

in € mn



1) Revised as a result of the implementation of new and revised IFRS with retrospective application effective January 1, 2005. See "Effects of Recently Adopted Accounting Pronouncements" and Note 3 to our consolidated financial statements.

2) Consists of the following developments (in € mn): foreign currency translation 1,601; treasury shares 352; net income 4,380; shareholders' dividend (674); changes in the group of consolidated companies (1,741) miscellaneous 370.

In 2005, total assets increased by € 7.6 billion (0.8 %), while total liabilities decreased by € 1.8 billion (0.2 %). Increases within our total assets were primarily experienced within cash and cash equivalents due to our strong operating cash flow, as well as investments, where balances rose by € 16.0 billion (102.5 %) and € 34.6 billion (13.9 %), respectively. These increases were offset in part by declines predominantly in loans and advances to banks of € 30.2 billion (16.6 %). Additionally, investments in associated enterprises and joint ventures declined by € 3.7 billion (63.6 %). Increases within our total liabilities, primarily our reserves for insurance and investment contracts, which rose by € 32.8 billion (10.0 %), were more than offset by the € 39.4 billion (20.6 %) decrease within liabilities to banks.

See "Group Asset Allocation" and "Liquidity and Capital Resources" for detailed information on our investments and investments in associated enterprises and joint ventures, as well as the development of our cash and cash equivalents, respectively. Decreases in loans and advances to banks and in liabilities to banks primarily reflect reduced volumes of repurchase and reverse repurchase operations at Dresdner Bank. The growth in reserves for insurance and investment contracts was driven predominantly by aggregate policy reserves at € 19.7 billion (8.6 %) and reserves for premium refunds at € 7.3 billion (34.2 %). Our aggregate policy reserves increased primarily due to strong sales of unit- and indexed-linked life insurance contracts (see "Life/Health Insurance Operations" for further discussion). The growth within our reserves for premium refunds principally resulted from changes due to fluctuations in fair value associated with group's own investments.

The following table presents the Allianz Group's consolidated balance sheets as of December 31, 2005, and 2004, and the respective changes[*)].

ASSETS	12/31/2005 € mn	12/31/2004 € mn	Change %
Intangible assets	15,385	15,147	1.6
Investments in associated enterprises and joint ventures	2,095	5,757	(63.6)
Investments	282,920	248,327	13.9
Loans and advances to banks	151,384	181,543	(16.6)
Loans and advances to customers	185,424	195,680	(5.2)
Financial assets carried at fair value through income	235,007	240,574	(2.3)
Cash and cash equivalents	31,647	15,628	102.5
Amounts ceded to reinsurers from reserves for insurance and investment contracts	22,120	22,310	(0.9)
Deferred tax assets	14,596	14,139	3.2
Other assets	57,303	51,213	11.9
Total assets	**997,881**	**990,318**	**0.8**

SHAREHOLDERS' EQUITY AND LIABILITIES	12/31/2005 € mn	12/31/2004 € mn	Change %
Shareholders' equity before minority interests	39,487	29,995	31.6
Minority interests in shareholders' equity	7,615	7,696	(1.1)
Shareholders' equity	**47,102**	**37,691**	**25.0**
Participation certificates and subordinated liabilities	14,684	13,230	11.0
Reserves for insurance and investment contracts	359,137	326,380	10.0
Liabilities to banks	151,957	191,347	(20.6)
Liabilities to customers	158,359	157,137	0.8
Certificated liabilities	59,203	57,752	2.5
Financial liabilities carried at fair value through income	144,640	145,137	(0.3)
Other accrued liabilities	14,302	13,984	2.3
Other liabilities	31,383	31,271	0.4
Deferred tax liabilities	14,621	14,350	1.9
Deferred income	2,493	2,039	22.3
Total shareholders' equity and liabilities	**997,881**	**990,318**	**0.8**

[*)] Effective January 1, 2005, under IFRS, various existing accounting standards changed and additional new accounting standards became effective, both of which impacted the Allianz Group's consolidated financial statements prospectively and, to a certain extent, retrospectively, which required revisions of prior year periods as if those acconting principles had always been used. For further information concerning the impact of these accounting standards, see "Effects of Recently Adopted Accounting Pronouncements" and Note 3 to our consolidated financial statements.

Group Asset Allocation

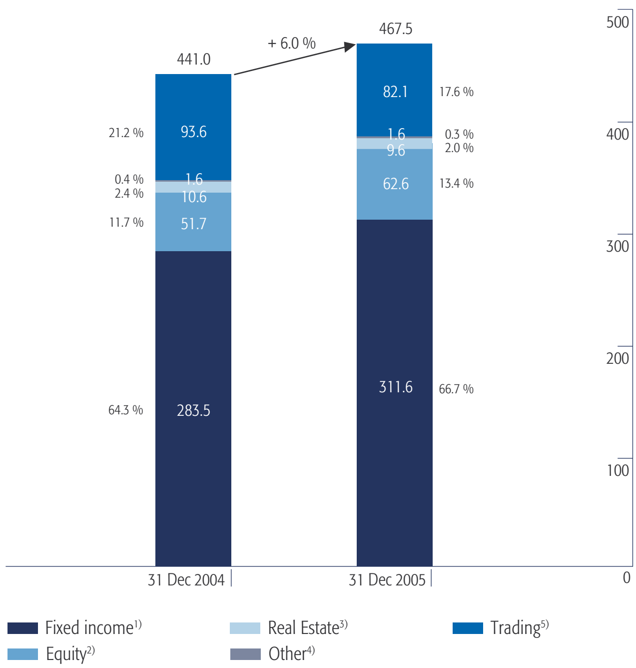
Of the total group's own investments, the majority are invested in fixed income securities and, to a lesser extent, equities. At December 31, 2005, group's own investments amounted to € 467.5 billion, an increase of 6.0 % compared to December 31, 2004. This increase was mainly due to higher balances of fixed income and equity available-for-sale securities, resulting predominantly from favorable capital market conditions, lower interest rates in Europe, and strong growth in sales of our life operations. See "Life/Health Insurance Operations" for further discussion of our Life/Health segment's results of operations. Growth in our group's own investments was partially offset by decreased financial assets held for trading, net. Additionally, investments in associated enterprises and joint ventures, which are classified as equity investments within group's own investments, decreased principally as a result of sales of our shareholdings in MAN AG and Gecina S.A. in 1Q 2005, Bilfinger Berger AG in 2Q 2005, as well as the sale of 7.35 % of our 28.48 % shareholding in Eurohypo AG to Commerzbank AG in 4Q 2005. During 4Q 2005, Eurohypo AG was reclassified as held-for-sale and presented within "Other assets". The sale of the remaining 21.13 % participation in Eurohypo AG to Commerzbank AG is scheduled for 1Q 2006, subject to the fulfilment of customary conditions.

The following table and graphs set forth our assets under management, excluding third-party assets.

Fair values as of	12/31/2005 € mn	12/31/2004 € mn
Group's own investments[1)]	467,459	441,033[2)]
Financial assets for unit-linked contracts[3)]	54,661	41,409[2)]

[1)] Real estate used by third parties and securities held-to-maturity are stated at amortized cost. Investments in associated enterprises and joint ventures are stated at either amortized cost or equity, depending upon, among others, our ownership percentage.
[2)] As a result of a revised IFRS accounting standard, IAS 39 revised, certain unit-linked contracts previously classified as trading assets within group's own investments were reclassified to financial assets for unit-linked contracts, which had no impact on net income.
[3)] Represents assets owned by, and managed on the behalf of, policyholders of the Allianz Group, with all appreciation and depreciation in these assets accruing to the benefit of policyholders.

Allocation of Group's Own Investments
in € bn



[1)] Consists of available-for-sale fixed income securities (€ 209.8 bn and € 186.7 bn at December 31, 2005 and December 31, 2004, respectively), loans and advances to banks and customers (€ 88.5 bn and € 89.9 bn at December 31, 2005 and December 31, 2004, respectively), fixed income financial assets designated at fair value through income (€ 8.5 bn and € 1.7 bn at December 31, 2005 and December 31, 2004, respectively), and securities held-to-maturity (€ 4.8 bn and € 5.2 bn at December 31, 2005 and December 31, 2004, respectively). Securities held-to-maturity are stated at amortized cost. Loans and advances to banks and customers exclude loans from our banking and asset management operations (€ 248.3 bn and € 295.8 bn at December 31, 2005 and December 31, 2004, respectively). See Notes 8, 9 and 10 to our consolidated financial statements for further details.

[2)] Consists of available-for-sale equity securities (€ 57.1 bn and € 44.2 bn at December 31, 2005 and December 31, 2004, respectively), investments in associated enterprises and joint ventures (€ 2.1 bn and € 5.8 bn at December 31, 2005 and December 31, 2004, respectively), and equity financial assets designated at fair value through income (€ 3.4 bn and € 1.7 bn at December 31, 2005 and December 31, 2004, respectively). Investments in associated enterprises and joint ventures are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage. See Notes 7, 8 and 10 to our consolidated financial statements for further details.

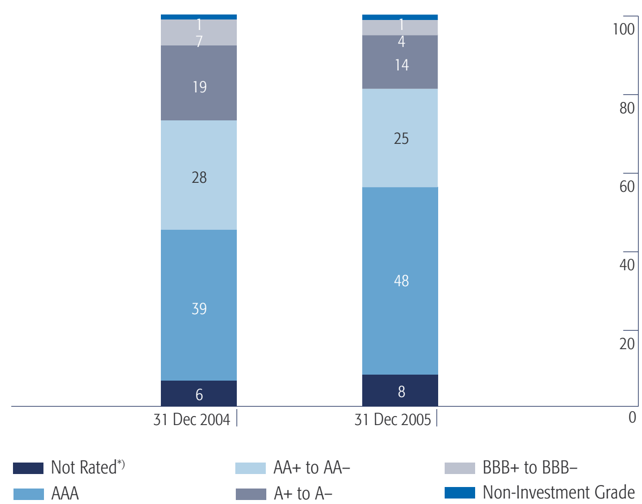
[3)] Real estate used by third parties is stated at amortized cost. See Note 8 to our consolidated financial statements for further details.

[4)] Consists primarily of funds held by others under reinsurance contracts assumed (€ 1.6 bn and € 1.6 bn at December 31, 2005 and December 31, 2004, respectively). See Note 8 to our consolidated financial statements for further details.

[5)] Consists of financial assets held for trading (€ 166.2 bn and € 194.4 bn at December 31, 2005 and December 31, 2004, respectively), financial liabilities held for trading (€ 86.4 bn and € 102.1 bn at December 31, 2005 and December 31, 2004, respectively), and financial assets designated at fair value through income from our banking and asset management operations (€ 2.3 bn and € 1.3 bn at December 31, 2005 and December 31, 2004, respectively). See Notes 10 and 20 to our consolidated financial statements for further details.

Insurance Operations – Investments We limit our fixed income investment risk by establishing high thresholds on the creditworthiness of our debtors and by spreading our risk accordingly. The credit quality of our insurance operations' fixed income securities portfolio has been, and continues to be, strong. At December 31, 2005, approximately 91 % of the fixed income investments of the insurance companies of the Allianz Group had an investment grade rating. Approximately 87 % were distributed over obligors that had been assigned at least an "A" rating by Standard & Poor's. Additionally, of the not rated fixed income investments, which amounted to approximately 8 % at December 31, 2005, the majority were invested in instruments of high credit quality, consisting of asset and mortgage-backed securities (e.g. Pfandbriefe), as well as loans to banks and customers. See "Risk Report" for further information on risk management within our insurance business.

Group's Own Investments – Insurance Operations
Fixed Income Investments by Rating Classes
in %

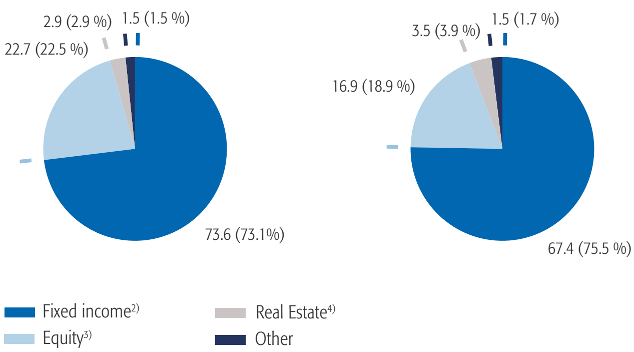


*) Investments for which no individual rating information is available.

Group's Own Investments – Property-Casualty Segment Asset Allocation

in € bn

At December 31, 2005 (Total: € 100.7 billion)[1] — **At December 31, 2004** (Total: € 89.3 billion)[1]

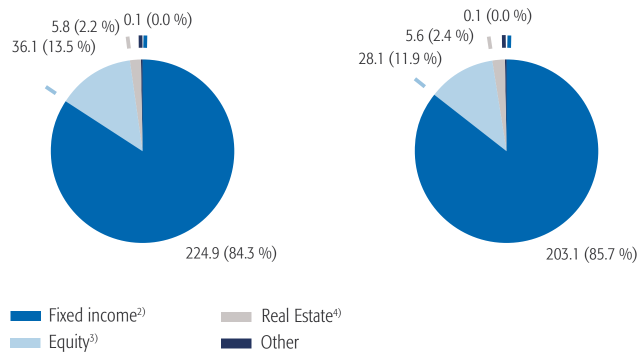


[1] Excludes trading portfolio of € 0.1 bn and € 0.3 bn at December 31, 2005 and December 31, 2004, respectively.
[2] Includes securities held-to-maturity that are stated at amortized cost.
[3] Includes investments in associated enterprises and joint ventures that are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage.
[4] Real estate used by third parties is stated at amortized cost.

Group's Own Investments – Life/Health Segment Asset Allocation

in € bn

At December 31, 2005 (Total: € 266.9 billion)[1] — **At December 31, 2004** (Total: € 236.9 billion)[1]



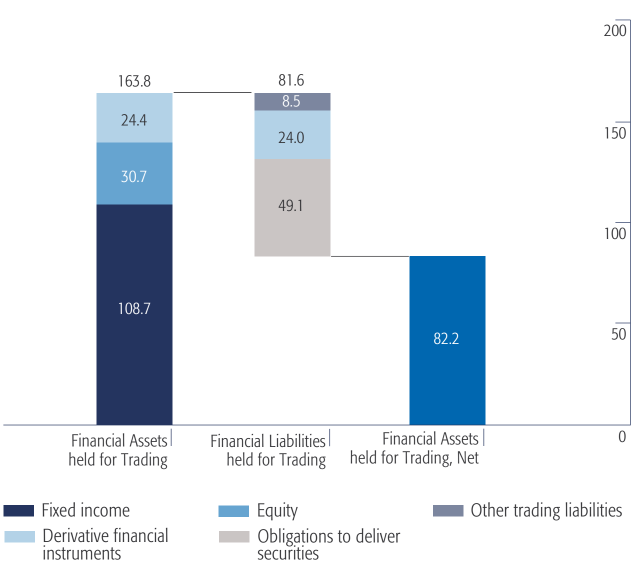
[1] Excludes trading portfolio of € (2.5) bn and € 0.1 bn at December 31, 2005 and December 31, 2004, respectively.
[2] Includes securities held-to-maturity that are stated at amortized cost.
[3] Includes investments in associated enterprises and joint ventures that are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage.
[4] Real estate used by third parties are stated at amortized cost.

Banking Operations – Investments The majority of our group's own investments within our Banking segment are invested in financial assets and financial liabilities held for trading. At December 31, 2005, financial assets held for trading, net, amounted to approximately 81 % (2004: approximately 81 %) of group's own investments, net, within our Banking segment. See "Risk Report" for a discussion of risk management in connection with our trading activities within our banking business.

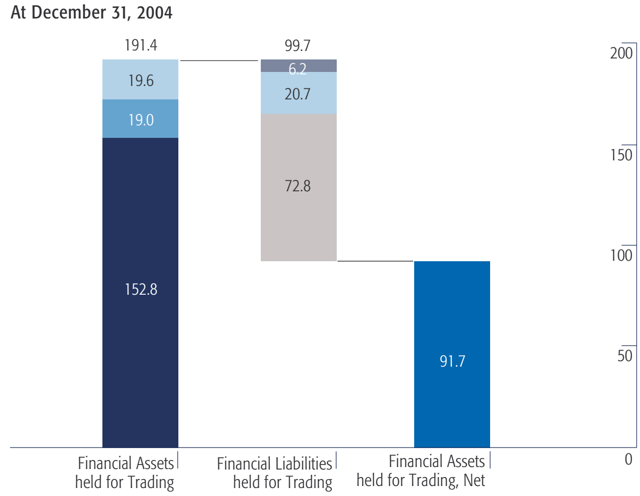
Group's Own Investments – Banking Segment Trading Portfolio Asset Allocation

in € bn

At December 31, 2005



At December 31, 2004



Significant Allianz Group Equity Investments For a list of significant associated enterprises and other selected holdings in listed companies, including our ownership percentage, please see pages 205 und 206 of this Annual Report.

Off-Balance Sheet Arrangements

In the ordinary course of business, the Allianz Group enters into arrangements that, under IFRS, are not recognized on the consolidated balance sheet and do not affect the consolidated income statement. Such arrangements remain off-balance sheet as long as the Allianz Group does not incur an obligation from them or become entitled to an asset itself. As soon as an obligation is incurred, it is recognized on the Allianz Group's consolidated balance sheet, with the corresponding loss recorded in the consolidated income statement. However, in such cases, the amount recognized on the consolidated balance sheet may or may not, in many instances, represent the full loss potential inherent in such off-balance sheet arrangements. The importance of such arrangements to the Allianz Group as it concerns liquidity, capital resources or market and credit risk support, is not significant. Additionally, the Allianz Group does not rely on off-balance sheet arrangements as a significant source of revenue. Similarly, the Allianz Group has not incurred significant expenses from such arrangements and does not reasonably expect to do so in the future.

Distinct areas the Allianz Group is involved in off-balance sheet arrangements as of December 31, 2005, which are all conducted through the normal course of our business, include various irrevocable loan commitments, leasing commitments, purchase obligations and various other commitments. Additionally, we extend market value guarantees to customers, as well as execute indemnification contracts under existing service, lease or acquisition transactions. See Note 42 to our consolidated financial statements for further information.

Furthermore, through Dresdner Bank, and in order to seek a Tier I capital release, we conducted a synthetic securitization to place credit risk from a designated loan portfolio on the open market. As of December 31, 2005, credit risks in the amount of € 1.0 billion had been transferred to third-parties using a special purpose vehicle, which is not consolidated within our consolidated financial statements.

Effects of Recently Adopted Accounting Pronouncements

Our Annual Report for the year ended December 31, 2004 was prepared in conformity with IFRS effective as of December 31, 2004 as adopted under EU regulations in accordance with clause 292a of the German Commercial Code (or "HGB"), which we refer to below as "pre-2005 IFRS." Effective January 1, 2005, a number of new and revised IFRS were introduced, some of which required retrospective application to all years presented within our consolidated financial statements. Our Annual Report for the year ended December 31, 2005 is prepared in accordance with the new and revised IFRS effective January 1, 2005 as adopted under EU regulations in accordance with clause 315a of the HGB, which we refer to below as "2005 IFRS." Retrospective application has the effect of applying the new and revised IFRS to prior periods as if those accounting principles had always been used. We present below a brief overview of the major impacts from the retrospective application of 2005 IFRS. For more detailed information regarding the quantitative impacts of new and revised standards under 2005 IFRS at the Allianz Group consolidated level, as well as a description of each 2005 IFRS compared to pre-2005 IFRS, please refer to Note 3 of our consolidated financial statements.

The following table sets forth the impacts of 2005 IFRS on the Allianz Group's consolidated total revenues, operating profit and net income for the years ended December 31, 2004 and 2003.

Years ended December 31,	2004 € mn	2003 € mn
Total revenues under pre-2005 IFRS*)	96,892	93,779
IAS 39 revised	(17)	(39)
Total impact of 2005 IFRS	(17)	(39)
Total revenues under 2005 IFRS	**96,875**	**93,740**
Operating profit under pre-2005 IFRS	6,856	4,066
IAS 39 revised	(17)	(84)
Total impact of 2005 IFRS	(17)	(84)
Operating profit under 2005 IFRS	**6,839**	**3,982**
Net income under pre-2005 IFRS	2,199	1,890
IAS 39 revised	209	915
IFRS 4	(19)	6
IFRS 2	(123)	(120)
Total impact of 2005 IFRS	67	801
Net income under 2005 IFRS	**2,266**	**2,691**

*) 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.

The following table sets forth the impacts of 2005 IFRS on the Allianz Group's consolidated assets, liabilities and shareholders' equity as of December 31, 2004.

	12/31/2004 € mn
Total assets under pre-2005 IFRS	994,698
IAS 39 revised	(3,984)
IFRS 2	(396)
IFRS 4	–
Total impact of 2005 IFRS	(4,380)
Total assets under 2005 IFRS	**990,318**
Total liabilities under pre-2005 IFRS	963,870
IAS 1 revised	(7,696)
IAS 39 revised	(3,408)
IFRS 2	(147)
IFRS 4	8
Total impact of 2005 IFRS	(11,243)
Total liabilities under 2005 IFRS	**952,627**
Shareholders' equity under pre-2005 IFRS	30,828
IAS 1 revised	7,696
IAS 39 revised	(576)
IFRS 2	(249)
IFRS 4	(8)
Total impact of 2005 IFRS	6,863
Shareholders' equity under 2005 IFRS	**37,691**

IAS 1 revised

The adoption of IAS 1 revised required the inclusion of minority interests in shareholders' equity. Hence, shareholders' equity increased, while total liablities decreased by the same amount.

IAS 39 revised

IAS 39 revised required several changes to the Allianz Group's accounting policies. One of the most significant of these changes relates to the recognition of impairments of available-for-sale equity securities. In particular, the changes in the Allianz Group's impairment policy led to the following effects on our consolidated financial statements:

- **Income Statements** Accelerated impairments in 2002, caused by weak equity markets, led to a rise in net realized gains on available-for-sale equity securities in 2003 and 2004, resulting in increased net income in 2003 and 2004, with our Property-Casualty, Life/Health and Banking segments most heavily impacted. The increase in net realized gains in 2003 and 2004 was offset in part by a decrease in reversals of impairments on available-for-sale equity securities, since such reversals are no longer permitted under IAS 39 revised, and an increase in insurance and investment contract benefits due to policyholder participation in the increased net realized gains.

- **Balance Sheets** Unrealized gains (net of unrealized losses) were increased in 2003 and 2004, while revenue reserves were reduced by the same amount.

IFRS 2

As a result of the adoption of IFRS 2, the PIMCO LLC Class B Unit Purchase Plan (or "Class B Plan") is considered a cash settled plan as the equity instruments issued are puttable at the holder's option, resulting in changes in the fair value of the shares issued to be recognized as expense. The adoption of IFRS 2 led to additional charges in 2003 and 2004, shown as additional acquisition-related expenses and administrative expenses in our Asset Management segment.

Events After the Balance Sheet Date

See Note 46 to our consolidated financial statements.

Property-Casualty Insurance Operations

Combined ratio further improved to 92.3 %.

› Although we continued to put profitability first, we succeeded in increasing gross premiums written by 2.7 %, excluding the effects of exchange rate movements and disposals and acquisitions.

› We achieved a record low combined ratio of 92.3 % – 2.7 percentage points better than our target – despite the effects of natural catastrophes.

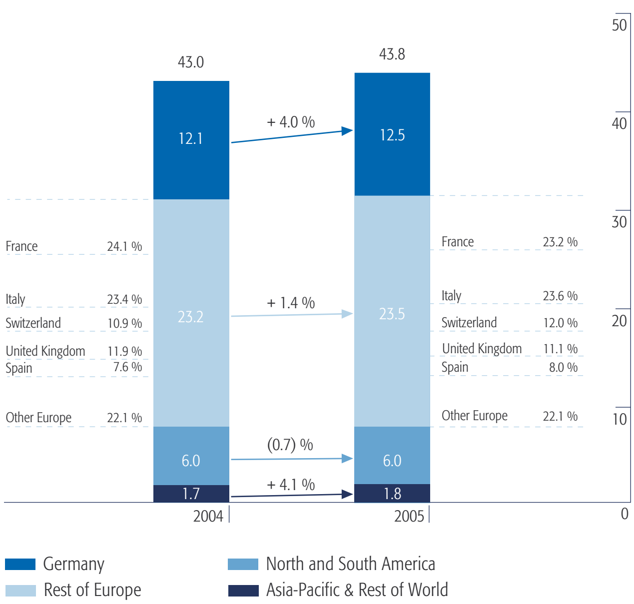
› Our operating profit achieved a 4.6 % growth, reaching € 4.2 billion.

› Net income grew by 2.4 % to € 3.5 billion, founded on our robust operating profitability.

Earnings Summary

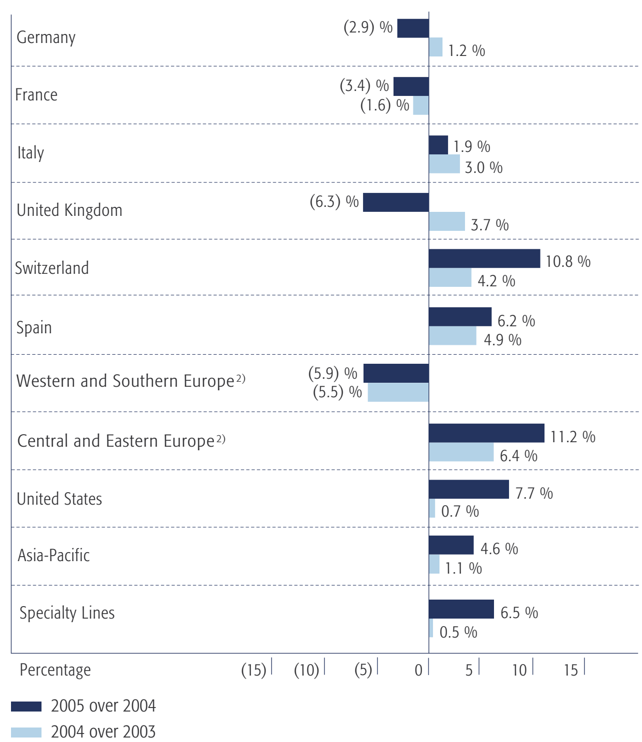
Gross Premiums Written by Region*)

in € bn



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

Gross Premiums Written – Growth Rates[1)]



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

2) Comprise "Other Europe".

Gross premiums written

Capitalizing on growth opportunities in markets that offered a profitable correlation between premium rates and risks and our willingness to forego premium growth in markets with increasing pricing pressures, we were successful in slightly growing gross premiums written from € 43,780 million to € 44,061 million, despite the disposal of our Taiwanese, Chilean and Canadian operations in the second half of 2004. Based on internal growth, gross premiums written increased by 2.7 %.

Growth varied considerably across different markets. Positive developments were primarily experienced by our operations in the United States, our Swiss operations, Allianz Marine & Aviation within our specialty lines, and Allianz Australia with additional gross premiums written of € 355 million (7.7 %), € 196 million (10.8 %), € 185 million (19.5 %) and € 145 million (11.0%), respectively. At Fireman's Fund Insurance Company (or "Fireman's Fund") in the United States, increases across all lines of business were achieved, namely in our personal, commercial and specialty lines with a constant focus on disciplined underwriting and increased sales effectiveness in our chosen markets. In Switzerland, growth was driven primarily by Allianz Risk Transfer (or "ART"). At Allianz Marine & Aviation, the positive development was driven by our marine and aviation business in the United Kingdom, largely as a result of additional business generated from a fairly new branch office, as well as the strengthening of the British Pound against the Euro. The increase at Allianz Australia resulted from its broker and agency channels as well as its financial institutions and direct divisions due to intensified customer relationship management and positive exchange rate effects.

Further increases, albeit to a lesser degree, were also experienced in South America, Spain and Italy with gross premiums written increasing by 19.5 % (€ 117 million), 6.2 % (€ 110 million) and 1.9 % (€ 98 million), respectively. The growth in South America, specifically from AGF Seguros in Brazil, stemmed from, among other factors, our motor business as a result of increased sales of new cars. The beneficial development in Spain at Allianz Seguros was driven by all lines of business, namely our motor, personal and industrial lines. In Italy, the increase in gross premiums written at RAS was mainly driven by the develpoment of our non-motor business, and in particular by the significant growth of personal lines and business with small and medium enterprises. Furthermore, motor business at RAS increased marginally, in line with the market growth in Italy, partially compensated by the development of the direct channel, Genialloyd. Within our specialty lines, growth within credit insurance at Euler Hermes of € 71 million (4.4%) resulted from our French, Italian and United States operations, as our customers in these regions increased their sales, producing increased receivables. Similarly, within travel insurance and assistance services, Mondial Assistance Group saw an increase of € 92 million (10.2 %), primarily driven by increased sales through the Internet as well as stronger sales through airline partners.

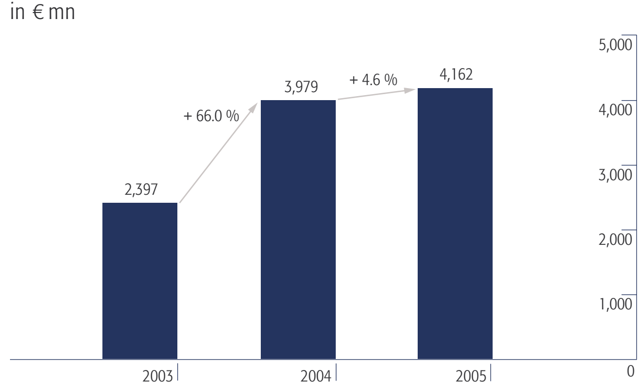
These increases were offset by decreased gross premiums written primarily in Germany, the United Kingdom, France, as well as at Allianz Global Risks Re, where gross premiums written decreased by € 373 million (2.9 %), € 166 million (6.3 %), € 178 million (3.4%) and € 35 million (2.6%), respectively.

The decline in Germany resulted largely from the commutation of an intra-Allianz Group reinsurance agreement between Allianz AG and Allianz Lebensversicherungs-AG (or "Allianz Leben") in 1Q 2005. Furthermore, at Sachgruppe Deutschland (or "SGD"), we remained committed to our policy of focusing on profitability and not volume. Additionally, SGD undertook a range of portfolio measures in our motor business resulting in higher "no claims bonuses", which reduced gross premiums written on these contracts. As a consequence, gross premiums written at SGD declined by 1.3 % to € 10,035 million.

In the United Kingdom at Allianz Cornhill, this decline was primarily related to lower premiums in our motor and household lines, a development that was significantly driven by our cycle management efforts, through which we endeavor to balance volume and margin criteria. Our French subsidiary, AGF IART, as result of a more competitive environment, experienced decreases in gross premiums written especially through its brokerage business with large accounts. The decline in gross premiums written at Allianz Global Risks Re resulted from a more competitive environment in the global property market, leading primarily to a decrease of new business volume.

Operating Profit

in € mn



Operating profit

Driven by further improvement of our **combined ratio**[1] to a new low of 92.3%, our **operating profit** grew by 4.6% to € 4,162 million, a growth rate stronger than that of our gross premiums written. The strongest improvements occurred at Fireman's Fund in the United States (€ 154 million), Allianz Australia (€ 101 million), Credit Insurance through Euler Hermes (€ 73 million), SGD (€ 67 million), as well as RAS in Italy (€ 42 million).

In a year that saw a large number of global catastrophes and one of the worst hurricane seasons on record, the insurance and reinsurance markets as a whole incurred multi-billion Euros in damages. Our operating entities most affected by the natural catastrophes included Allianz Marine & Aviation, Allianz Global Risks Re, Allianz AG, Fireman's Fund, SGD and Allianz Suisse. Total estimated claims from natural catastrophes, net of reinsurance, were € 1.1 billion in 2005, increasing our accident year **loss ratio**[2] to 70.2 % (2004: 69.0 %). These natural catastrophe losses were mitigated by positive net development on prior years' loss reserves largely in the United Kingdom, Italy, Slovakia, and in our specialty lines, comprising 2.6 % of our total carried net loss reserves at January 1, 2005; our calendar year loss ratio decreased to 67.1 % (67.7 %). However, our net loss reserve position remains sound. Moreover, our ratio of loss reserves expressed as a percentage of net premiums earned has increased from 119.2 % to 130.7 % over the prior year. In the United States, the planned external review of the asbestos & environmental (or "A&E") liability reserves at Fireman's Fund had no net impact at the Allianz Group level as a result of already sufficient reserves, absent a USD 65 million loss caused by the increase in provisions for uncollectible reinsurance recoverables and unallocated loss adjustment expenses.

Our **expense ratio**[3] remained stable at 25.2 % (2004: 25.2 %), although our administrative expenses declined by € 55 million. **Net acquisition costs and administrative expenses** rose slightly by 4.6% to € 10,840 million, due to increased expenses for service agreements from the consolidation of a non-insurance entity acquired in the latter part of 3Q 2004, which are not included in the calculation of our expense ratio.

Current income from investments remained relatively unchanged at € 3,901 million. **Investment management and interest expenses** decreased significantly to € 488 million due to a reclassification of interest expenses attributable to investments financed by borrowed funds, which is now classified in **other operating income/(expenses) (net)**.

[1] Represents ratio of net claims incurred and net acquisition costs and administrative expenses, excluding expenses for service agreements, to net premiums earned.
[2] Represents ratio of net claims incurred to net premiums earned.
[3] Represents ratio of net acquisition costs and administrative expenses, excluding expenses for service agreements, to net premiums earned.

Net income

Net income increased by 2.4% to € 3,549 million, driven by our robust operating profitability, despite a decline in non-operating results of more than € 600 million.

Net capital gains and impairments on investments were relatively unchanged, as our strong operating profitability allowed us to reduce the realization of net capital gains by € 538 million, while net impairments were € 519 million lower due to strong capital markets and the absence of a large real estate impairment recorded in 2004.

Net trading income declined to a loss of € 426 million, driven by negative changes in fair values of € 220 million from certain derivatives in connection with our "All-in-One" capital market transactions. However, economically, these negative fair value changes were offset by the increased market prices of shares of DAX companies we own, although the development of these available-for-sale securities is reflected in unrealized gains and losses within shareholders' equity, and not net income. Additionally, the effects of embedded derivatives from an equity-linked loan, which was issued in connection with the Allianz-RAS merger, contributed € 243 million to the significant decline in our net trading income.

Intra-group dividends and profit transfer was € 432 million lower than in 2004, due primarily to our French operating entity, AGF Holding, receiving in 2004 a one-off dividend from our life/health operating entity, AGF Vie. The intra-group dividends and profit transfer were eliminated at the Allianz Group level.

Interest expense on external debt decreased slightly by 3.4 % resulting primarily from the maturation of two bond issues during 1Q and 3Q 2005.

Conversely, **restructuring charges** of € 67 million were incurred during 2005, of which € 52 million are attributable to the AGF Group as a result of an early retirement program.

Other non-operating income/(expenses) (net) declined by € 163 million due to the sale of real estate used for own use in the prior year by SGD. Net income was positively impacted by the elimination of goodwill amortization brought about by a change in accounting under IFRS (2004: € 381 million).

Tax expenses decreased by 25.9 % to € 1,126 million, leading to an effective tax rate of 19.4 % (2004: 24.3 %), largely driven by the discontinuation of non-tax deductible goodwill amortization.

Minority interests in earnings decreased by 13.4 % to € 997 million, primarily as a result of reduced earnings at our French operating entities.

The following table sets forth our Property-Casualty insurance segment's income statement and key operating ratios for the years ended December 31, 2005, 2004 and 2003.

Years ended December 31,	2005 € mn	2004 € mn	2003 € mn
Gross premiums written	44,061	43,780	43,420
Premiums earned (net)[1]	38,017	38,193	37,277
Current income from investments	3,901	3,935	3,854
Investment management and interest expenses	(488)	(834)	(1,295)
Insurance benefits (net)[2]	(26,076)	(26,650)	(27,261)
Net acquisition costs and administrative expenses[3]	(10,840)	(10,360)	(9,814)
Other operating income/(expenses)(net)	(352)	(305)	(364)
Operating profit	**4,162**	**3,979**	**2,397**
Net capital gains and impairments on investments[4]	1,306	1,325	6,049[5]
Net trading income/(expenses)[6]	(426)	(49)	(1,490)
Intra-group dividends and profit transfer	1,531	1,963	676
Interest expense on external debt	(834)	(863)	(831)
Amortization of goodwill[7]	–	(381)	(383)
Restructuring charges	(67)	–	–
Other non-operating income/(expenses)(net)	–	163	–
Earnings from ordinary activities before taxes	**5,672**	**6,137**	**6,418**
Taxes	(1,126)	(1,520)	(756)
Minority interests in earnings	(997)	(1,151)	(451)
Net income	**3,549**	**3,466**	**5,211**
Loss ratio[8] in %	67.1	67.7	71.5
Expense ratio[9] in %	25.2	25.2	25.5
Combined ratio in %	**92.3**	**92.9**	**97.0**

[1] Net of earned premiums ceded to reinsurers of € 5,411 mn (2004: € 5,298 mn, 2003: € 5,539 mn).
[2] Comprises net claims incurred of € 25,519 mn (2004: € 25,867 mn, 2003: € 26,659 mn), net expenses from changes in other net underwriting provisions of € 187 mn (2004: € 458 mn, 2003: € 269 mn) and net expenses for premium refunds of € 370 mn (2004: € 325 mn, 2003: € 333 mn). Net expenses for premium refunds were adjusted for income of € 111 mn (2004: income of € 210 mn, 2003: expenses of € 138 mn), related to policyholders' participation of net capital gains and impairments on investments, as well as net trading income/(expenses), that were excluded from the determination of operating profit.
[3] Comprises net acquisition costs of € 5,771 mn (2004: € 5,781 mn, 2003: € 5,509 mn), administrative expenses of € 3,794 mn (2004: € 3,849 mn, 2003: € 4,002 mn) and expenses for service agreements of € 1,275 mn (2004: € 730 mn, 2003: € 303 mn). Net acquisition costs and administrative expenses do not include expenses for the management of investments and, accordingly, do not reconcile to the acquisition costs and administrative expenses as presented in the consolidated financial statements.
[4] Comprises net realized gains on investments of € 1,340 mn (2004: € 1,878 mn, 2003: € 7,517 mn) and net impairments on investments of € 34 mn (2004: € 553 mn, 2003: € 1,468 mn). These amounts are net of policyholders' participation.
[5] Includes significant net realized gains from sales of certain shareholdings.
[6] Net trading income/(expenses) are net of policyholders' participation.
[7] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
[8] Represents ratio of net claims incurred to net premiums earned.
[9] Represents ratio of net acquisition costs and administrative expenses, excluding expenses for service agreements, to net premiums earned.

Property-Casualty Operations by Geographic Region

The following table sets forth our property-casualty gross premiums written, combined ratio, loss ratio, expense ratio, as well as earnings after taxes and before minority interests in earnings, which we refer to herein as "earnings after taxes and before minority interests", by geographic region. Applicable only for 2004 and 2003, earnings after taxes and before minority interests excludes amortization of goodwill. Consistent with our general practice, gross premiums written, combined ratio, loss ratio, expense ratio as well as earnings after taxes and before minority interests by geographic region 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			Combined ratio %			Loss ratio %
Years ended December 31,	2005	2004	2003	2005	2004	2003	2005
Germany	12,424	12,797	12,646	89.5	93.6	97.4	64.2
France	5,104	5,282	5,367	99.0	98.4	104.2	74.0
Italy	5,369	5,271	5,117	90.5	90.5	93.8	68.0
United Kingdom	2,466	2,632	2,538	94.0	93.4	96.1	64.1
Switzerland	2,012	1,816	1,742	96.4	92.6	96.3	74.9
Spain	1,873	1,763	1,681	90.8	90.9	95.5	71.4
Other Europe, thereof	5,125	5,154	5,262	87.4	91.9	96.5	61.7
Netherlands[1]	930	981	1,093	89.9	97.4	99.6	60.5
Austria	935	926	906	94.9	96.4	98.6	72.4
Ireland	742	792	856	77.1	77.2	85.6	54.9
Belgium	352	351	374	102.8	103.7	105.1	66.1
Portugal	304	315	305	91.5	94.0	100.6	66.9
Luxembourg[2]	3	108	142	125.9	79.1	135.6	1.3
Greece	71	73	75	80.8	116.4	106.3	49.7
Western and Southern Europe	3,337	3,546	3,751	89.6	84.4	98.1	63.4
Hungary	599	533	546	94.9	96.2	92.0	69.9
Slovakia	301	326	324	51.6	94.9	97.7	25.1
Czech Republic	248	234	227	84.1	82.1	88.1	63.6
Poland	246	196	158	91.4	95.3	100.1	60.0
Romania	220	169	131	90.2	88.9	76.3	75.7
Bulgaria	89	78	64	52.6	32.3	46.3	27.0
Croatia	60	48	40	93.8	91.0	99.5	63.0
Russia	25	24	21	23.4	42.5	20.1	5.8
Central and Eastern Europe	1,788	1,608	1,511	82.5	91.2	91.4	57.9
NAFTA, thereof	5,157	5,351	5,380	94.7	92.7	98.2	68.3
United States	4,982	4,627	4,597	94.5	96.0	99.2	68.0
Canada	–	464	568	–	87.0	100.0	–
Mexico	175	260	215	104.6	32.1	51.7	81.2
Asia-Pacific, thereof	1,749	1,672	1,654	92.1	96.5	95.5	68.0
Australia	1,469	1,324	1,253	91.9	97.1	95.6	69.1
Other	280	348	401	93.5	92.6	94.7	57.2
South America	716	599	614	96.8	98.0	103.9	64.5
Other	61	63	61	–[3]	–[3]	–[3]	–[3]
Specialty Lines							
Credit Insurance	1,701	1,630	1,564	66.5	69.0	82.0	41.2
Allianz Global Risks Re	1,310	1,345	1,346	99.9	97.7	98.8	71.3
Allianz Marine & Aviation	1,134	949	1,073	148.5	93.6	87.3	123.5
Travel Insurance and Assistance Services	992	900	818	91.5	91.6	91.9	60.3
Subtotal	**47,193**	**47,224**	**46,863**	**92.3**	**92.9**	**97.0**	**67.1**
Consolidation adjustments[4]	(3,132)	(3,444)	(3,443)	–	–	–	–
Subtotal	**44,061**	**43,780**	**43,420**	**92.3**	**92.9**	**97.0**	**67.1**
Amortization of goodwill[5]	–	–	–	–	–	–	–
Minority interests	–	–	–	–	–	–	–
Total	**44,061**	**43,780**	**43,420**	**92.3**	**92.9**	**97.0**	**67.1**

[1] Earnings after taxes and before goodwill amortization in the Netherlands includes the results of operations of the holding and financing entities that are domiciled in this country, which amounted to 323 mn in 2005 (2004: € 272 mn; 2003: € 489 mn).

[2] The decline in 2005 is due to the merger of International Reinsurance Company S.A. into Allianz AG.

[3] Presentation not meaningful.

[4] Represents adjustment of transactions between Allianz Group companies in different geographic regions. Additionally, we have excluded a number of significant non-operating intra-Allianz Group transactions from various country and specialty lines above and instead have reflected such transactions in the consolidation line, as well as the impacts of the September 30, 2002 reinsurance agreement between Fireman's Fund in the United States and Allianz AG in Germany, providing cover for asbestos and environmental exposures, for the year ended December, 31, 2005.

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

Loss ratio %		Expense ratio %			Earnings after taxes and before minority interests € mn			
2004	2003	2005	2004	2003	2005	2004	2003	Years ended December 31,
68.5	71.7	25.3	25.1	25.7	1,398	1,850	4,612	Germany
73.5	79.8	25.0	24.9	24.4	975	1,540	358	France
68.1	70.9	22.5	22.4	22.9	892	703	513	Italy
63.6	67.1	29.9	29.8	29.0	283	228	198	United Kingdom
72.9	71.0	21.5	19.7	25.3	153	156	97	Switzerland
72.2	75.9	19.4	18.7	19.6	170	180	101	Spain
67.1	72.6	25.7	24.8	23.9	1,138	921	632	Other Europe, thereof
68.4	74.7	29.4	29.0	24.9	441	382	479	Netherlands[1]
72.2	75.4	22.5	24.2	23.2	157	109	48	Austria
55.9	64.9	22.2	21.3	20.7	175	185	105	Ireland
68.9	68.0	36.7	34.8	37.1	115	80	44	Belgium
70.2	76.3	24.6	23.8	24.3	28	16	8	Portugal
76.6	133.7	124.6	2.5	1.9	24	43	(146)	Luxembourg[2]
87.9	69.0	31.1	28.5	37.3	4	(15)	(2)	Greece
59.3	74.3	26.2	25.1	23.8	944	800	536	Western and Southern Europe
71.2	67.1	25.0	25.0	24.9	59	46	53	Hungary
72.6	76.8	26.5	22.3	20.9	64	10	5	Slovakia
63.3	69.2	20.5	18.8	18.9	20	20	5	Czech Republic
61.2	59.5	31.4	34.1	40.6	19	12	7	Poland
71.1	61.6	14.5	17.8	14.7	9	10	14	Romania
12.4	31.2	25.6	19.9	15.1	19	19	10	Bulgaria
58.7	61.9	30.8	32.3	37.6	3	3	0	Croatia
14.0	(0.2)	17.6	28.5	20.3	1	1	2	Russia
67.3	67.5	24.6	23.9	23.9	194	121	96	Central and Eastern Europe
64.7	70.0	26.4	28.0	28.2	826	538	(57)	NAFTA, thereof
67.0	70.2	26.5	29.0	29.0	813	486	(82)	United States
62.6	76.7	–	24.4	23.3	–	41	14	Canada
19.3	33.4	23.4	12.8	18.3	13	11	11	Mexico
72.8	71.7	24.1	23.7	23.8	173	139	109	Asia-Pacific, thereof
75.1	73.9	22.8	22.0	21.7	167	98	91	Australia
57.1	58.5	36.3	35.5	36.2	6	41	18	Other
64.7	71.3	32.3	33.3	32.6	57	50	13	South America
–[3]	–[3]	–[3]	–[3]	–[3]	6	7	9	Other
								Specialty Lines
40.8	49.3	25.3	28.2	32.7	290	214	125	Credit Insurance
68.9	70.9	28.6	28.8	27.9	38	52	73	Allianz Global Risks Re
64.4	65.5	25.0	29.2	21.8	(186)	88	68	Allianz Marine & Aviation
59.8	60.6	31.2	31.8	31.3	51	23	20	Travel Insurance and Assistance Services
67.7	**71.5**	**25.2**	**25.2**	**25.5**	**6,264**	**6,689**	**6,871**	**Subtotal**
–	–	–	–	–	(1,718)	(1,691)	(826)	Consolidation adjustments[4]
67.7	**71.5**	**25.2**	**25.2**	**25.5**	**4,546**	**4,998**	**6,045**	**Subtotal**
–	–	–	–	–	–	(381)	(383)	Amortization of goodwill[5]
–	–	–	–	–	(997)	(1,151)	(451)	Minority interests
67.7	**71.5**	**25.2**	**25.2**	**25.5**	**3,549**	**3,466**	**5,211**	**Total**

Our Largest Markets & Companies[1)]

- We are one of the leading property-casualty insurers in the world covering all major global insurance markets. While we have our strongest positions in our home market of Europe, we strive for leading market positions in all markets or market segments in which we are active.
- Our successful strategy to capitalize on growth opportunities where risk-adequate premiums could be achieved has resulted in a significant improvement of operational profitability over the last three years.

Germany

Within our most important market, we market our "Allianz" brand through various operating entities combined under SGD. SGD is the market leader in Germany based on gross written premiums in 2005[2)], accounting for €10.0 billion, or 21%, of our gross premiums written. SGD offers a wide variety of insurance products, of which our main lines of business include motor - liability and own damage - general liability, homeowner and accident. SGD distributes our products mainly through a network of full-time tied agents. However, distribution through Dresdner Bank branches and the Internet is increasing in relative importance. With Germany being a rather mature market with a high degree of competition, one of the key challenges is successfully managing the trade-off between achieving growth while maintaining profitability. Please refer to "Reorganization of German Insurance Operations" for a description of initiatives we have undertaken to further strengthen our position in the German market going forward.

France

In France, we are represented through our "AGF" brand. AGF IART comprised 11% of our gross premiums written in 2005, with a volume of €5.1 billion. AGF IART offers a broad range of products for both individuals and corporate customers including property, injury and liability insurance. AGF IART distributes primarily through a network of general agents, brokers and other direct sales channels. AGF IART is ranked third in France, based on gross premiums written in 2004[3)]. Operating in a market which has seen only limited growth in recent years, AGF IART has focused intensively on maintaining operating profitability while simultaneously implementing selective growth initiatives.

Italy

We operate in the Italian market through our "RAS" and "Lloyd Adriatico" brands. The Italian non-motor market, which has a lower penetration rate for insurance products in comparison to other European markets, provides us with great growth potential. With a combined €5.4 billion in gross premiums written, RAS and Lloyd Adriatico contributed more than 11% to our gross premiums written. RAS operates in most major personal and commercial property and casualty lines in Italy, while Lloyd Adriatico underwrites mainly personal lines. RAS's most important business line is motor, which contributes heavily to its results of operations. Other important business lines include fire, general liability and personal accident. Among other channels, distribution through direct telephone and the Internet exhibit signs of healthy growth and profitability. On a combined basis, RAS and Lloyd Adriatico continued to rank third in Italy based on gross written premiums in 2004[4)]. Although operating in a highly competitive market, our Italian operating entities have recorded strong operating profits and combined ratios below the average of our property-casualty segment.

United Kingdom

We serve the U.K. market primarily through our subsidiary Allianz Cornhill plc, which generated gross premiums written of €2.5 billion, or 5%, of our gross written premiums. Allianz Cornhill offers a broad range of property-casualty products, including a number of specialty products, which we offer through our personal, commercial and specialty lines. Allianz Cornhill distributes our products through a range of distribution channels, including affinity groups. Operating in a highly competitive market, Allianz Cornhill has concentrated on active cycle management as a measure to maintain its operating profitability, even if, at times, it requires forgoing business volume. Allianz Cornhill ranks seventh in the United Kingdom based on gross premiums written in 2003[5)].

Switzerland

In the Swiss market we are represented by Allianz Suisse and ART. Jointly, these two operating entities generated premiums of €2.0 billion in 2005. While Allianz Suisse operates in the general property-casualty market, ART offers conventional reinsurance as well as a variety of alternative risk transfer products. The most important line of business for Allianz Suisse is motor, comprising approximately 40% of its gross premiums written. Allianz Suisse

1) See "International Presence" for the Allianz Group's ownership percentages in these consolidated operating entities.
2) Source: German Insurance Association, GDV.
3) Source: French Insurers Association, FFSA.
4) Source: Italian Insurers Association, ANIA.
5) Source: Financial Services Authority, FSA.

ranks fourth in Switzerland based on gross premiums written in 2004[6]. Though operating in a very competitive market, Allianz Suisse has recently been able to increase gross premiums written in motor primarily through a rise in the number of contracts sold and, to a lesser degree, higher pricing.

Spain

We serve the Spanish market through our operating entities Allianz Compañía de Séguros and Fénix Directo, which are united under the name "Allianz Spain", with gross premiums written of € 1.9 billion. Allianz Spain offers 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 2005, Allianz Spain continued to hold its second place rank in the Spanish market, based on gross premiums written in 2004[7]. Market conditions have been characterized, however, by intense price competition in motor business, including decreasing average premiums.

Central and Eastern Europe

We have very strong positions in key property-casualty markets in Central and Eastern Europe, one of the fastest growing insurance markets in the world. Based on gross premiums written in 2004, we are one of the five leading insurers in the following markets: Hungary, Czech Republic, Slovakia, Poland, Bulgaria, Romania and Croatia[8]. We also market property-casualty insurance in Russia. In the Central and Eastern European region, we recorded premiums of € 1.8 billion, a growth rate of 11.2 % over 2004. Motor business and increasingly other personal lines products continue to be the main drivers for profitable growth.

United States

Our operations in the United States are organized under the umbrella of Allianz of America, Inc. (or "Allianz of America"), which contributed approximately 11 %, or € 5.0 billion, of our gross premiums written. Allianz of America comprises a group of operating entities underwriting a wide, but focused, variety of lines of business. Through Fireman's Fund, we underwrite personal, commercial and specialty lines. Fireman's Fund has increasingly implemented a focused business strategy, targeting a segment of the market that addresses the needs of high net worth customers. Through Allianz Global Risks US Insurance Company, we operate in the international industrial insurance market.

Asia-Pacific

In Asia-Pacific, the large majority of our operations are conducted through Allianz Australia, which contributed € 1.5 billion, or 3 %, of our gross premiums written. Allianz Australia serves the markets of Australia, New Zealand and Papua New Guinea and its insurance operations include a variety of products and services. Allianz Australia has strong positions in the workers compensation market and in rehabilitation and occupational health, safety and environment services, as well as operates in certain niche markets, including premium financing and pleasure craft insurance. Allianz Australia markets our products through brokers, the major distribution channel for commercial business in Australia, as well as non-tied agents, including automobile dealers, accountants, banks and directly to customers. Allianz Australia is driving further its successful market segmentation technique, which includes diversifying its portfolio outside of the traditionally cyclical areas. We also maintain operations in Malaysia, Indonesia, as well as other Asia-Pacific countries, including China, Thailand and India.

Specialty Lines

We offer a variety of specialty lines of business, namely credit/trade insurance, marine, aviation and industrial transport insurance, international industrial risks reinsurance, as well as travel insurance and assistance service. In contrast to our other insurance businesses, we offer these services on a worldwide basis. Through Euler Hermes, the largest credit insurer in the world based upon gross premiums written in 2004[9], we underwrite credit insurance in major markets around the world. In 2005, Euler Hermes contributed € 1.7 billion to our gross premiums written. Allianz Global Risks Re acts as our industrial reinsurance clearing house, assuming industrial insurance from Allianz Group operating entities and centralizing the placement of outgoing reinsurance with third-party carriers in the reinsurance market. Allianz Global Risks Re achieved gross premiums written of € 1.3 billion in 2005. Our marine, aviation and industrial transport business in Germany, France and the United Kingdom is bundled under our Allianz Marine & Aviation operating entity, which recorded gross premiums written of € 1.1 billion in 2005. Through Mondial Assistance Group, we are among the world's largest providers of travel insurance and assistance services based on gross premiums written in 2005 of €1.0 billion.

[6] Source: Statistics of the Swiss Federal Bureau of Private Insurers.
[7] Source: Research and Statistics Bureau of Spanish Insurers and Pension Funds, ICEA.
[8] Source: Local supervisory authorities / insurance associations.
[9] Source: Own estimate based on published annual reports.

Life/Health Insurance Operations

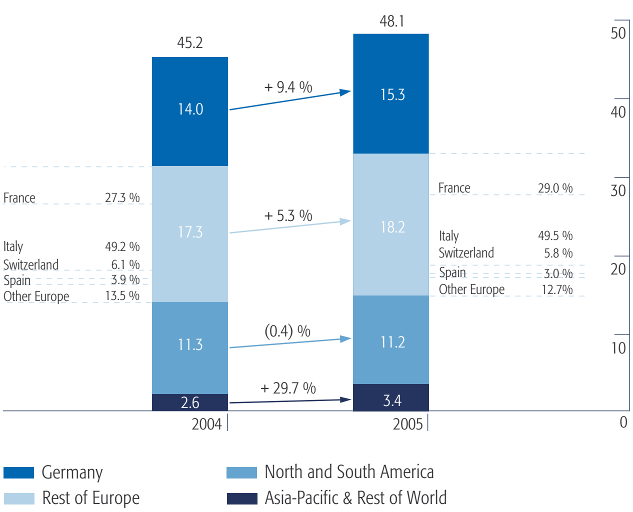
Strong profitable growth.

- Overall, 6.5 % increase in statutory premiums, driven by our key European markets of Germany, France and Italy.
- Operating profit grew even stronger by 13.0 %, reaching € 1.6 billion, and exceeding our target of € 1.5 billion, reflecting stronger product margins.
- Net income reached € 1.3 billion, a 55.6 % increase over 2004, as a result primarily of strong operating profitability, increased net capital gains and the elimination of goodwill amortization.

Earnings Summary

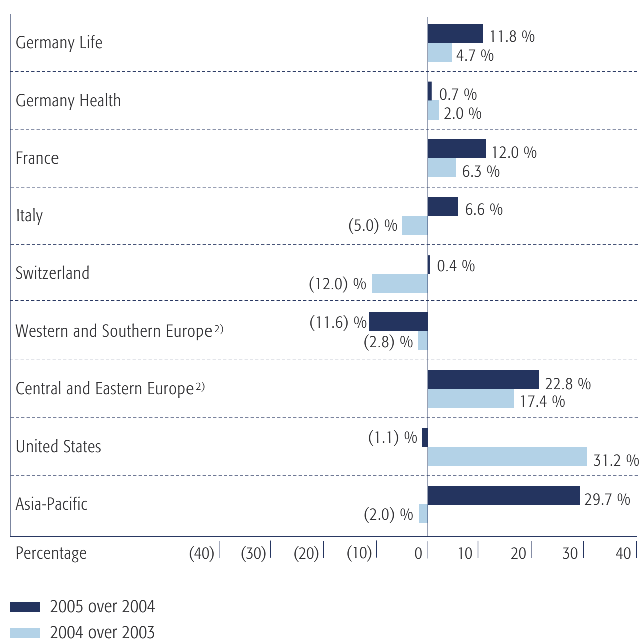
Statutory Premiums by Regions*)

in € bn



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

Statutory Premiums – Growth Rates[1]



[1] Before elimination of transactions between Allianz Group companies in different geographic regions and different segments.

[2] Comprise "Other Europe".

Statutory premiums

Our statutory premiums rose by 6.5 % to € 48.1 billion, with particularly strong growth in our key European markets resulting from our solid market positions, our ability to reach our customers through a variety of distribution channels and increasing demand for retirement products. Based on internal growth, our statutory premiums increased by 6.0 %. The strongest growth rates were achieved within Germany Life at 11.8 % (€ 1,293 million), France at 12.0 % (€ 567 million), Italy at 6.6 % (€ 575 million) and the Asia-Pacific region at 29.7 % (€ 758 million). In Switzerland, statutory premiums remained relatively unchanged at € 1,058 million. Likewise, in the United States, statutory premiums remained strong at € 11,115 million. Conversely, in Spain, statutory premiums at Allianz Seguros declined by 19.1 % to € 547 million primarily due to a large pension contract we acquired in 1Q 2004.

Through Allianz Leben, Germany Life's 11.8 % growth reflected the success it had achieved in the context of last year's German "Retirement Revenue Act" ("Alterseinkünftegesetz"), resulting in a considerable increase in recurring premiums which began in 4Q 2004 and continued over the course of 2005. Additionally, and equally as important, growth from single premium products, namely our corporate pension solutions business and short-term renewals, were contributing factors to the underlying growth at Allianz Leben.

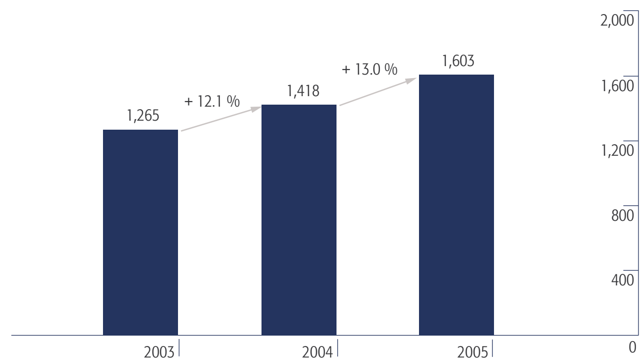
In France, at AGF Vie, the increase was driven by strong sales of unit-linked products through our well-performing partnership and broker as well as our agent channels. Additionally, the acquisition of AVIP and Martin Maurel Vie on December 31, 2004 from Dresdner Bank was a contributing factor to France's growth in 2005.

Our Italian operating entities, RAS and Lloyd Adriatico, experienced considerable growth of 6.6 % from the sale of unit-linked and index-linked products through all distribution channels, particularly through representative agencies and financial planners. In addition, statutory premiums from the RAS's bancassurance channel grew, reflecting increased sales at CreditRas Vita. Within Italy, 69 % of our total statutory premiums were comprised of investment oriented products in 2005 (2004: 65 %).

Our Asia-Pacific business excelled by 29.7 % to € 3,309 million, mainly in South Korea and Taiwan, thus highlighting the strategic importance of this region. The growth at Allianz Life Insurance Korea Co. Ltd., Seoul (or "Alliance Life Korea") was the result of strong sales of variable life products, a product line which had been launched in 2004.

In the United States, at Allianz Life of North America (or "Allianz Life") we experienced a 4.6 % increase in statutory premiums related to core business lines, led by strong fixed annuity sales. The overall 1.1 % decline in statutory premiums, however, was due to a novation (sale) of a non-core block of reinsurance business in 2005.

Operating Profit
in € mn



Operating Profit

Our **operating profit** increased significantly by 13.0 % to € 1,603 million, surpassing our target of € 1.5 billion for 2005. The strongest improvements occurred at our German and Italian operations, specifically Allianz Leben (€ 75 million), Allianz Private Krankenversicherung (€ 33 million) and RAS (€ 39 million). Improved margins on new business brought about by enhanced risk management providing a better basis for pricing and the increased business volume from the strong growth rates in recent years, were important factors in this development.

Current income from investments developed favorably with an increase of 4.3 % to € 11,826 million, despite lower interest rates in the Euro zone. Main contributors were Allianz Life (€ 334 million) and Allianz Leben (€ 84 million), driven predominantly by an increased investment base resulting primarily from significant inflows of funds from new business underwritten. Higher dividend yields on equity investments also had a beneficial impact. **Investment management and interest expenses** remained relatively unchanged at € 478 million.

Insurance benefits (net) increased by 4.9 % to € 25,023 million. This increase was largely attributable to additional aggregate policy reserves mirroring the development in net premiums earned and an overall increase in expenses for premium refunds, attributable to policyholders, due to improved results of operations at Allianz Leben. This effect overcompensated for a slight reduction in the policyholder participation rate, which itself had a positive effect on operating profit.

Net acquisition costs and administrative expenses decreased by 2.9 % to € 3,921 million, despite a € 95 million increase at Allianz Life resulting from increased wages and fees. Major drivers of this decline included reduced acquisition costs compared to the 2004 level which was impacted by the German Retirement Revenue Act in 4Q 2004 and the regular unlocking of assumptions within our deferred policy acquisition cost assets in 2005. As a result of the strong growth of our statutory premiums and the decline in net acquisition costs and administrative expenses, our **statutory expense ratio** declined by 1.0 percentage point to 8.1 %.

Net trading income, which is almost exclusively attributable to policyholders, decreased significantly to a loss of € 326 million, primarily from changes in fair values from freestanding derivatives at Allianz Leben, as well as embedded and freestanding derivatives at Allianz Life in connection with equity-indexed annuities it sold.

Net Income

Driven by strong operating profitability and increased net capital gains **net income** grew significantly by 55.6 % to € 1,349 million.

Net capital gains and impairments on investments attributable to shareholders increased to € 608 million. This was primarily the result of favorable capital markets conditions, which we sought to leverage to yield increased realizations, with our sale of Gecina S.A. (France) in 1Q 2005 as the most significant. At the same time, net impairments remained low at € 63 million.

Net income was also positively affected by the elimination of the amortization of goodwill resulting from a change in accounting under IFRS (2004: € 159 million). **Restructuring charges** of € 19 million resulted from an early retirement program at AGF Group.

Our **tax expenses** remained stable at € 463 million. However, our effective tax rate declined considerably to 20.1 % from 27.3 %, largely due to tax-exempt income at various operating entities, including tax-exempt income from securities at Allianz Leben, a beneficial tax settlement at Allianz Life, the discontinuation of non-tax deductible goodwill amortization, as well as from the write-down of deferred tax assets at Allianz Life Korea in 2004.

Minority interests in earnings increased to € 462 million, primarily due to improved earnings at our Italian and French Life entities.

The following table sets forth our Life/Health insurance segment's income statement and key operating ratio for the years ended December 31, 2005, 2004 and 2003.

Years ended December 31,	2005 € mn	2004 € mn	2003 € mn
Statutory premiums[1]	48,129	45,177	42,319
Gross premiums written	20,950	20,716	20,689
Premiums earned (net)[2]	19,730	18,596	18,701
Current income from investments	11,826	11,335	11,260
Investment management and interest expenses	(478)	(483)	(516)
Insurance benefits (net)[3]	(25,023)	(23,845)	(24,189)
Net acquisition costs and administrative expenses[4]	(3,921)	(4,039)	(3,416)
Net trading income/(expenses)	(326)	117	218
Other operating income/(expenses)(net)	(205)	(263)	(793)
Operating profit	**1,603**	**1,418**	**1,265**
Net capital gains and impairments on investments[5]	608	282	274[6]
Intra-group dividends and profit transfer	82	163	103
Amortization of goodwill[7]	–	(159)	(398)
Restructuring charges	(19)	–	–
Earnings from ordinary activities before taxes	**2,274**	**1,704**	**1,244**
Taxes	(463)	(469)	(639)
Minority interests in earnings	(462)	(368)	(386)
Net income	**1,349**	**867**	**219**
Statutory expense ratio[8] in %	**8.1**	**9.1**	**7.9**

1) Under the Allianz Group's accounting policies for life insurance contracts, for which we have adopted U.S. GAAP accounting standards, gross premiums written include only the cost- and risk-related components of premiums generated from unit-linked and other investment-oriented products, but do not include the full amount of statutory premiums written on these products. Statutory premiums are gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.

2) Net of earned premiums ceded to reinsurers of € 1,125 mn (2004: € 2,048 mn; 2003: € 1,953 mn).

3) Net insurance benefits were adjusted for income of € 2,541 mn (2004: € 1,548 mn; 2003: € 1,015 mn), related to policyholders' participation of net capital gains and impairments on investments that were excluded from the determination of operating profit.

4) Comprises net acquisition costs of € 2,358 mn (2004: € 2,635 mn; 2003: € 1,885 mn), administrative expenses of € 1,426 mn (2004: € 1,270 mn; 2003: € 1,307 mn) and expenses for service agreements of € 137 mn (2004: € 134 mn; 2003: € 224 mn). Net acquisition costs and administrative expenses do not include expenses for the management of investments and, accordingly, do not reconcile to the acquisition costs and administrative expenses as presented in the consolidated financial statements.

5) Comprises net realized gains on investments of € 671 mn (2004: € 331 mn; 2003: € 602 mn) and net impairments on investments of € 63 mn (2004: € 49 mn; 2003: € 328 mn). These amounts are net of policyholders' participation.

6) Includes realized gains of € 743 mn from sales of Crédit Lyonnais shares in 2003.

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

8) Represents ratio of net acquisition costs and administrative expenses, excluding expenses for service agreements, to net statutory premiums (2005: € 46,895 mn; 2004: € 43,031 mn; 2003: € 40,276 mn).

Life/Health Operations by Geographic Region

The following table sets forth our life/health statutory premiums, gross premiums written, statutory expense ratio, as well as earnings after taxes and before minority interests in earnings, which we refer to herein as "earnings after taxes and before minority interests", by geographic region. Applicable only for 2004 and 2003, earnings after taxes and before minority interests excludes amortization of goodwill. Consistent with our general practice, statutory premiums, gross premiums written, statutory expense ratio as well as earnings after taxes and before minority interests by geographic region are presented before consolidation adjustments representing the elimination of transactions between Allianz Group companies in different geographic regions and different segments.

	Statutory premiums[1] € mn			Gross premiums written € mn		
Years ended December 31,	2005	2004	2003	2005	2004	2003
Germany Life	12,231	10,938	10,446	10,825	10,182	9,924
Germany Health[2]	3,042	3,020	2,960	3,042	3,020	2,960
France[3]	5,286	4,719	4,438	1,583	1,629	1,572
Italy	9,313	8,738	9,197	1,167	1,142	1,239
Switzerland	1,058	1,054	1,197	475	516	557
Spain	547	676	611	361	588	540
Other Europe, thereof	2,026	2,140	2,133	1,324	1,453	1,355
Netherlands	356	371	396	140	156	137
Austria	343	335	316	298	311	305
Belgium	601	532	453	328	345	324
Portugal	83	85	90	63	61	59
Luxembourg	72	146	166	42	36	40
Greece	91	82	82	79	82	70
United Kingdom	–	198	297	–	149	143
Western and Southern Europe	1,546	1,749	1,800	950	1,140	1,078
Hungary	89	77	66	74	62	53
Slovakia	149	134	126	132	125	121
Czech Republic	64	53	45	52	44	43
Poland	99	75	66	54	38	30
Romania	18	11	3	8	3	3
Bulgaria	19	14	8	19	14	8
Croatia	41	25	19	34	25	19
Cyprus	1	2	–	1	2	–
Central and Eastern Europe	480	391	333	374	313	277
United States	11,115	11,234	8,566	746	889	1,078
Asia–Pacific, thereof	3,309	2,551	2,603	1,343	1,228	1,372
South Korea	1,752	1,370	1,609	993	980	1,135
Taiwan	1,347	988	827	216	126	122
Malaysia	106	111	72	80	66	51
Indonesia	69	59	74	39	34	43
Other	35	23	21	15	22	21
South America	141	64	129	42	33	58
Other	83	67	61	63	61	57
Subtotal	**48,151**	**45,201**	**42,341**	**20,971**	**20,741**	**20,712**
Consolidation adjustments[5]	(22)	(24)	(22)	(21)	(25)	(23)
Subtotal	**48,129**	**45,177**	**42,319**	**20,950**	**20,716**	**20,689**
Amortization of goodwill[6]	–	–	–	–	–	–
Minority interests	–	–	–	–	–	–
Total	**48,129**	**45,177**	**42,319**	**20,950**	**20,716**	**20,689**

[1] Under the Allianz Group's accounting policies for life insurance contracts, for which we have adopted U.S. GAAP accounting standards, gross written premiums include only the cost- and risk-related components of premiums generated from unit-linked and other investment-oriented products, but do not include the full amount of statutory premiums written on these products. Statutory premiums are gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.

[2] Loss ratios were 69.7 %, 68.9 % and 68.7 % for the years ended December 31, 2005, 2004 and 2003, respectively.

[3] On December 31, 2004, AVIP and Martin Maurel Vie were consolidated within the Life/Health insurance operations of France.

[4] Presentation not meaningful.

[5] Represents elimination of transactions between Allianz Group companies in different geographic regions.

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

Statutory expense ratio %			Earnings after taxes and before minority interests € mn			
2005	2004	2003	2005	2004	2003	Years ended December 31,
7.0	10.4	6.8	329	223	84	Germany Life
8.8	9.3	10.4	96	80	26	Germany Health[2)]
15.4	17.3	16.5	384	265	336	France[3)]
5.1	4.4	3.5	400	298	230	Italy
8.5	9.8	8.6	44	30	21	Switzerland
7.2	5.8	6.3	48	45	33	Spain
17.1	19.2	19.6	160	174	95	Other Europe, thereof
16.4	19.7	23.3	52	26	17	Netherlands
11.3	15.0	12.5	11	15	8	Austria
11.8	14.0	15.0	62	95	(18)	Belgium
18.8	17.6	20.5	9	9	8	Portugal
29.2	15.1	14.0	7	8	(8)	Luxembourg
23.5	19.8	28.2	4	(2)	1	Greece
–	35.8	26.6	(10)	3	67	United Kingdom
14.6	17.7	18.6	135	154	75	Western and Southern Europe
25.4	23.9	22.9	8	5	5	Hungary
23.5	26.3	22.5	6	3	6	Slovakia
21.2	24.2	23.4	4	3	2	Czech Republic
34.0	29.0	25.6	3	2	1	Poland
25.7	11.2	135.0	–	–	–	Romania
9.1	(1.3)	28.9	2	3	1	Bulgaria
21.6	30.4	28.2	2	4	5	Croatia
46.1	15.7	–	–	–	–	Cyprus
25.1	25.2	24.6	25	20	20	Central and Eastern Europe
5.4	5.2	4.6	295	274	152	United States
10.5	13.2	10.8	55	7	34	Asia-Pacific, thereof
14.5	18.7	13.1	53	–	(34)	South Korea
3.8	4.3	2.9	8	6	72	Taiwan
12.5	5.0	19.7	1	7	5	Malaysia
22.1	34.8	35.2	–	(2)	(5)	Indonesia
34.2	36.1	33.9	(7)	(4)	(4)	Other
17.4	23.2	24.3	1	2	4	South America
–[4)]	–[4)]	–[4)]	2	3	(2)	Other
8.1	**9.1**	**7.9**	**1,814**	**1,401**	**1,013**	**Subtotal**
–	–	–	(3)	(7)	(10)	Consolidation adjustments[5)]
8.1	**9.1**	**7.9**	**1,811**	**1,394**	**1,003**	**Subtotal**
–	–	–	–	(159)	(398)	Amortization of goodwill[6)]
–	–	–	(462)	(368)	(386)	Minority interests
8.1	**9.1**	**7.9**	**1,349**	**867**	**219**	**Total**

Our Largest Markets & Companies[1)]

- Similar to our property-casualty operations, we are one of the leading life/health insurers in the world covering all major global insurance markets. We strive for leading market positions in the markets in which we are active.
- The globally increasing demand for wealth accumulation and pension services and products leads us to expect that the life/health market will enjoy dynamic growth in the coming years, and we believe our market positions will allow us to capitalize on this emerging trend.

Germany Life

In Germany, Allianz Leben is the market leader for life insurance based on statutory premiums in 2005[2)]. Besides Allianz Leben, we operate through a variety of smaller operating entities in the German market. Together, our German life operating entities contributed €12.2 billion, or 25%, of our statutory premiums. We are active both in the private and commercial markets and offer a comprehensive range of life insurance and life insurance-related products on both an individual and group basis. The main classes of coverage offered include endowment, annuity and term insurance, which are provided as riders to other policies and on a stand-alone basis. Our private lines have enjoyed favorable development, especially though retirement savings products, also driven by recent changes in legislation. In particular, the German "Retirement Revenue Act" ("Alterseinkünftegesetz") led to a strong increase of recurring premiums in 2005. In our commercial lines, we are offering group life insurance and are providing companies with services and solutions in connection with pension schemes and defined contribution plans.

Germany Health

Through Allianz Private Krankenversicherungs-AG (or "Allianz Private Health"), we are the third-largest private health insurer in Germany based on statutory premiums in 2004[2)] with more than 2 million customers. In 2005, Allianz Private Health contributed €3.0 billion, or 6%, of our statutory premiums. Allianz Private Health provides a wide range of health insurance products, including full private healthcare coverage for the self-employed, supplementary insurance for individuals insured under statutory health insurance plans, supplementary care insurance as well as foreign travel medical insurance.

France

In France, we operate through the companies of AGF. AGF is the eighth-largest life insurance provider in France based on statutory premiums in 2004[3)] and experienced significant growth of 12.0% in 2005, also driven by the acquisition of AVIP and Martin Maurel Vie in 4Q 2004. AGF contributed €5.3 billion, or 11%, to our statutory premiums in 2005. AGF provides a broad line of life insurance and other financial products, including short-term investment and savings products. An important portion of AGF's life statutory premiums is generated through the sale of unit-linked policies. Life statutory premiums growth was strong in January 2006 and we expect this positive trend to continue in 2006.

Italy

Through RAS and Lloyd Adriatico, we maintain a strong position in Italy, where the life market is increasingly focusing on investment-related products. RAS and Lloyd Adriatico contributed 15% and 4% of our statutory premiums in 2005, respectively. Together, these two operating entities generated a statutory premium volume of €9.3 billion in 2005. Products offered through these operating entities include individual life policies, primarily endowment policies, but also annuities and unit-linked products. Consistent with general trends in the Italian market, our business includes an increasing amount of unit-linked policies, where policyholders participate directly in the performance of policy-related investments. At December 31, 2005, two-thirds of our combined statutory premiums at RAS and Lloyd Adriatico comprise unit-linked products. Jointly, and on the basis of statutory premiums in 2004, RAS and Lloyd Adriatico ranked second in Italy[4)]. A large percentage of our contracts are marketed through our bancassurance channel.

Switzerland

We conduct our life/health operations in Switzerland primarily through the Allianz Suisse Lebensversicherungs-Gesellschaft and Phénix Vie. Together, these operating entities contributed €1.1 billion, or 2%, to our statutory premiums in 2005 and, in aggregate, represent the sixth largest life insurance provider in Switzerland based on statutory premiums in 2004[5)] . Through these operating entities, we market a wide range of individual and group life insurance products, including retirement, death and disability products. Despite a challenging political and regulatory environment, coupled with low interest rates, our Swiss operations have experienced a positive trend in their results of operation through cost and pricing discipline.

1) See "International Presence" for the Allianz Group's ownership percentages in these consolidated operating entities.
2) Source: German Insurance Association, GDV.
3) Source: French Insurers Association, FFSA.
4) Source: Italian Insurers Association, ANIA.
5) Source: Statistics of the Swiss Federal Bureau of Private Insurers.

United States

In the United States, we are represented by Allianz Life, which contributed € 11.1 billion, or 23 %, to our total statutory premiums in 2005 and is the market leader in equity-indexed annuities, with approximately one-third of the market share based on statutory premiums in 2005[6]. Allianz Life holds a 12 % share of the overall fixed annuity market and also maintains a 3 % market share of the large variable annuity market based on statutory premiums in 2005[6]. Its smaller but growing lines of business include individual life, long-term care, and health excess of loss insurance. We believe Allianz Life is well positioned for the expected growth in demand for retirement income & longevity protection.

Asia-Pacific

In Asia-Pacific, the majority of our operations are conducted through Allianz Life Korea and Hana Life, our bancassurance joint venture with Hana Financial Group, Seoul. Overall, our South Korean operations contributed € 1.8 billion, or 4 %, of our statutory premiums in 2005. Allianz Life Korea is the fifth-largest life insurance company in South Korea based on statutory premiums in 2005[7]. Allianz Life Korea is faced with the challenge of identifying growth opportunities within a mature marketplace. Our South Korean operations market a wide range of life insurance products, including unit-linked products, variable life, individual whole life insurance polices, annuities and endowments. Due to the very low interest rate environment in South Korea since 2000, Allianz Life Korea has increasingly shifted its focus to variable life products. As a result, we have achieved a strong increase in statutory premiums and, more importantly, new business in 2005 has been more profitable than in recent years. Additionally, due to strict expense management, improved commission schemes and cutbacks in agency costs, Allianz Life Korea posted strong results of operations in 2005.

We are also represented in Taiwan by Allianz President Life Insurance, Taipeh (or "Allianz President Life"), which contributed € 1.3 billion, or 3 %, of our statutory premiums in 2005. Allianz President Life markets term life, whole life and endowment products. In addition, Allianz President Life increasingly offers investment-linked products. We also maintain operations in Malaysia, Indonesia, as well as other Asia-Pacific countries, including China, Thailand and India.

[6] Source: LIMRA.
[7] Source: Korean Life Insurance Association.

Banking Operations

Cost of capital earned.

- Operating revenues decreased by 3.3 % to € 6.2 billion, primarily due to the close of our non-strategic IRU at Dresdner Bank and negative impacts from IAS 39. In contrast, operating revenues from Dresdner Bank's strategic business*), excluding the negative impacts from IAS 39, grew by 4.1 % to € 6.1 billion.
- In line with our expectations, operating profit increased by 44.2 % to € 845 million, of which Dresdner Bank contributed € 775 million, an increase of 33.2 %.
- Operating profit and high net capital gains resulted in net income of € 1.0 billion.

Earnings Summary

The results of operations of our Banking segment are almost exclusively represented by Dresdner Bank, accounting for 95.5 % of our total Banking segment's operating revenues for the year ended December 31, 2005 (2004: 96.6 %, 2003: 93.2 %). Accordingly, the discussion of our Banking segment's results of operations relates solely to the operations of Dresdner Bank.

Operating Revenues

Strategic Business*) Operating revenues improved in our four operating divisions (Personal Banking, Private & Business Banking, Corporate Banking and DrKW). In aggregate, operating revenues from our strategic business increased by 4.1 % to € 6,098 million, excluding the aggregate negative accounting effects from IAS 39 of € 214 million (2004: income of € 7 million).

In our Personal Banking division, operating revenues increased by 2.0 % to € 1,883 million. Our Business Models 2 and 3, which comprise the sale of banking products through insurance agents, were successfully implemented with an improvement in revenues and growing client base. In 2005, we acquired approximately 360,000 new bank clients through this sales channel, which was well above our target of 300,000.

Additionally, our Personal Banking division benefited from the improved securities business, specifically from closed-end funds, as did our Private & Business Banking division, which experienced an increase in operating revenues of 3.0 % to € 1,179 million.

While operating revenues in our Corporate Banking division increased slightly by 1.3 % to € 1,027 million, at DrKW, operating revenues rose by 2.8 % to € 2,102 million. The increase at DrKW resulted primarily from favorable developments within our client business, with an improvement in our capital markets and mergers & acquisitions business more than offsetting the substantial decrease in net trading income, largely due to the difficult capital market conditions in April and May. In the second half of 2005, DrKW's net trading income increased significantly, driven primarily by strong client and customer business.

Operating Revenues by Type of Revenues Net interest income remained relatively stable at € 2,228 million. Excluding the negative effects from the reduction of our non-strategic IRU portfolio and from IAS 39, net interest income increased by 11.0 %, in particular driven by our structured finance business. At September 30, 2005, the IRU's remaining risk assets amounted to € 1.4 billion, of which the majority was sold in 4Q 2005, resulting in a further decrease of these risk assets to approximately one-third at December 31, 2005.

Net fee and commission income grew by 6.1 % to € 2,610 million, principally driven by the securities business in our Personal Banking and Private & Business Banking divisions. At DrKW, client business also contributed to our increased net fee and commission income.

Net trading income declined by 25.6 % to € 1,116 million, largely due to the difficult capital market conditions in April and May, as well as the negative impacts from IAS 39.

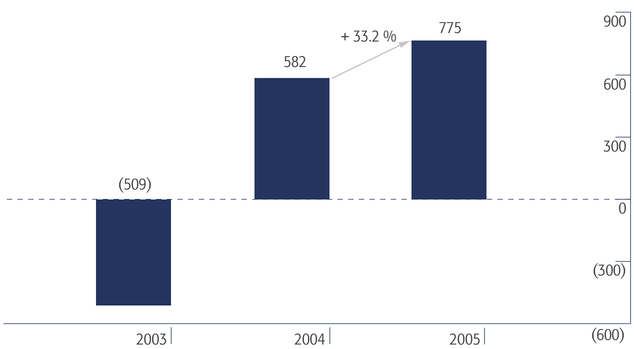
In summary, despite the revenue growth experienced by our strategic business, the faster than planned completion of the wind-down of our non-strategic IRU, which was closed effective September 30, 2005, as well as the negative impacts from IAS 39 of € 214 million, resulted in a decrease in operating revenues by 4.4 % to € 5,954 million at Dresdner Bank.

*) Dresdner Bank's strategic business includes its Personal Banking, Private & Business Banking, Corporate Banking, DrKW and Corporate Other divisions, but does not include IRU.

Operating Profit

Dresdner Bank's **operating profit** significantly improved by 33.2 % to € 775 million. However, given lower operating revenues and an almost unchanged expense base, our **cost-income ratio**[1] increased from 85.2 % to 88.9 %, substantially burdened by the negative impact from the application of the IAS 39 hedge accounting rules on derivative financial instruments.

Operating Profit – Dresdner Bank
in € mn



The increase in operating profit was driven by the positive developments within our **net loan loss provisions**, resulting in a net release of € 113 million (2004: net charge of € 337 million). While gross releases and recoveries decreased, the decline in gross new additions was even stronger. Gross releases and recoveries reached € 850 million (2004: € 1,061 million), stemming principally from exits from large debtors, mainly within our IRU. Gross new additions to allowances of € 737 million were significantly lower compared to € 1,398 million in 2004, predominantly due to the reductions in our non-strategic business within our IRU and the significantly improved risk profile of Dresdner Bank's strategic loan portfolio. The net release in loan loss provisions, together with the reduction of our non-performing loan portfolio by approximately 58 %, led to a coverage ratio[2] at December 31, 2005 of 56.8 % (2004: 60.4 %). Both personnel and non-personnel expenses remained stable at € 3,246 million (2004: € 3,247 million) and € 2,046 million (2004: € 2,060 million) despite focused investments in certain growth areas, such as infrastructure established for our Business Models 2 and 3.

Our Personal Banking division experienced a strong improvement in 2005. Operating revenues increased by 2.0 % to € 1,883 million and operating profit was more than three times higher compared to 2004, reaching € 210 million. These positive developments reflect primarily strict cost control while loan loss provisions reached normalized levels. Our cost-income ratio strengthened by 5.0 percentage points to 84.2 %.

Private & Business Banking and Corporate Banking also increased operating revenues and further improved their operating profitability, with cost-income ratios decreasing by 6.5 and 2.3 percentage points, respectively. These positive developments led to increases in operating profit by 35.4 % to € 440 million and by 14.8 % to € 551 million, respectively.

Conversely, DrKW's cost-income ratio rose to a disappointing 91.7 % from 89.4 %, primarily reflecting decreased net trading income and increased expenses. Accordingly, operating profit declined by 6.4 % to € 204 million.

These developments underline the need for a better re-alignment between our corporate banking and investment banking activities, a decision recently undertaken at Dresdner Bank; see "The Allianz Group – Banking Operations."

Net Income

Net income increased significantly to € 1,003 million, including a tax-exempt gain of € 343 million from the transfer of 5 % of Dresdner Bank's 7.3 % shareholding in Munich Re to Allianz AG in 1Q 2005 as part of the Allianz Group's "All-in-One" capital market transactions. In addition to the positive operating profit development, the growth in net income was attributable to our improved non-operating results.

Net capital gains and impairments on investments of Dresdner Bank rose by € 547 million. This increase resulted principally from the aforementioned Munich Re transfer, the complete sale of our shareholding in Bilfinger Berger in 2Q 2005, as well as the sale of 7.35 % of our 28.48 % shareholding in Eurohypo AG to Commerzbank AG and of the majority of our real estate portfolio in 4Q 2005, largely of which was subsequently leased back. Further, net impairments on investments decreased heavily, primarily from improved capital market conditions. The sales of various assets in 2005 was in line with Dresdner Bank's focus on its core business. The sale of the remaining 21.13 % participation in Eurohypo AG to Commerzbank AG is subject to the fulfilment of customary conditions, in particular the approval by the German and various European antitrust authorities and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht or "BaFin").

The absence of significant **restructuring charges** and the elimination of goodwill amortization (2004: charge of € 244 million) also benefited our net income. **Other non-operating income/expenses (net)** in 2005 improved significantly to an expense of € 9 million (2004: expense of € 278 million), resulting from, among other factors, impairments on certain non-strategic assets in 2004. The increase in operating profit and non-operating results led to **tax expenses** of € 382 million in 2005, compared to a tax credit of € 288 million in the previous year, including a one-off tax benefit. Accordingly, our effective tax rate was 25.6 % in 2005.

[1] Represents the ratio of administrative expenses to operating revenues.
[2] Represents total loan loss allowances as a percentage of total non-performing loans and potential problem loans.

The following table sets forth the income statements and key operating ratio for both our Banking segment as a whole and Dresdner Bank on a stand-alone basis for the years ended December 2005, 2004 and 2003.

Years ended December 31,	2005		2004		2003	
	Banking Segment € mn	Dresdner Bank € mn	Banking Segment € mn	Dresdner Bank € mn	Banking Segment € mn	Dresdner Bank € mn
Net interest income	2,305	2,228	2,359	2,267	2,728	2,325
Net fee and commission income	2,767	2,610	2,593	2,460	2,452	2,387
Net trading income	1,163	1,116	1,494	1,499	1,524	1,533
Operating revenues[1]	**6,235**	**5,954**	**6,446**	**6,226**	**6,704**	**6,245**
Administrative expenses	(5,500)	(5,292)	(5,516)	(5,307)	(6,086)	(5,739)
Net loan loss provisions	110	113	(344)	(337)	(1,014)	(1,015)
Operating profit	**845**	**775**	**586**	**582**	**(396)**	**(509)**
Net capital gains and impairments on investments	710[2]	713	172[2]	166	166[2]	120
Restructuring charges	(13)	(12)	(292)	(290)	(892)	(840)
Other non-operating income/(expenses)(net)	(5)	(9)	(289)	(278)	(551)	(613)
Amortization of goodwill[3]	–	–	(244)	(244)	(263)	(270)
Earnings from ordinary activities before taxes	**1,537**	**1,467**	**(67)**	**(64)**	**(1,936)**	**(2,112)**
Taxes	(396)	(382)	294	288	1,025	1,075
Minority interests in earnings	(102)	(82)	(101)	(60)	(104)	(5)
Net income	**1,039**	**1,003**	**126**	**164**	**(1,015)**	**(1,042)**
Cost-income ratio[4] in %	**88.2**	**88.9**	**85.6**	**85.2**	**90.8**	**91.9**

[1] Operating revenues is a measure used by management to calculate and monitor the activities and operating performance of its banking operations. This measure is used by other banks, but other banks may calculate operating revenues on a different basis and accordingly may not be comparable to operating revenues as used herein.

[2] Comprises primarily net realized gains on investments of €930 mn (2004: €604 mn, 2003: €709 mn) and impairments on investments of €225 mn (2004: €467 mn, 2003: €591 mn). Impairments on investments includes €37 mn (2004: €32 mn, 2003: €23 mn) of scheduled depreciation of real estate used by third parties.

[3] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

[4] Represents ratio of administrative expenses to operating revenues.

Banking Operations by Division

The following table sets forth our banking operating revenues, cost-income ratio, as well as earnings after taxes and before minority interests in earnings, which we refer to herein as "earnings after taxes and before minority interests", by division. Applicable only for 2004 and 2003, earnings after taxes and before minority interests by division excludes amortization of goodwill. Consistent with our general practice, operating revenues, cost-income ratio and earnings after taxes and before minority interests by division are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different segments.

Years ended December 31,	2005			2004			2003		
	Operating revenues[1]	Cost-income ratio	Earnings after taxes and before minority interests	Operating revenues[1]	Cost-income ratio	Earnings after taxes and before minority interests	Operating revenues[1]	Cost-income ratio	Earnings after taxes and before minority interests
	€ mn	%	€ mn	€ mn	%	€ mn	€ mn	%	€ mn
Personal Banking	1,883	84.2	136	1,846	89.2	(6)	1,856	93.5	(130)
Private & Business Banking	1,179	58.5	293	1,145	65.0	188	1,100	68.2	146
Corporate Banking	1,027	44.9	335	1,014	47.2	282	1,041	48.1	197
DrKW	2,102	91.7	132	2,045	89.4	152	2,141	87.6	209
IRU	70	232.6	91	362	79.1	5	598	77.6	(896)
Corporate Other[2]	(307)	–[3]	98	(186)	–[3]	(153)	(491)	–[3]	(293)
Dresdner Bank	**5,954**	**88.9**	**1,085**	**6,226**	**85.2**	**468**	**6,245**	**91.9**	**(767)**
Other Banks[4]	281	73.9	56	220	94.9	3	459	75.7	119
Subtotal	**6,235**	**–**	**1,141**	**6,446**	**–**	**471**	**6,704**	**–**	**(648)**
Amortization of goodwill[5]	–	–	–	–	–	(244)	–	–	(263)
Minority interests in earnings	–	–	(102)	–	–	(101)	–	–	(104)
Total	**6,235**	**88.2**	**1,039**	**6,446**	**85.6**	**126**	**6,704**	**90.8**	**(1,015)**

[1] Consists of net interest income, net fee and commission income, and net trading income. Operating revenues is a measure used by management to calculate and monitor the activities and operating performance of its banking operations. This measure is used by other banks, but other banks may calculate operating revenues on a different basis and accordingly may not be comparable to operating revenues as used herein.

[2] The Corporate Other division contains income and expense items that are not assigned to Dresdner Bank's operating divisions. These items include, in particular, impacts from the application of IAS 39, as well as expenses for central functions and projects affecting Dresdner Bank as a whole which are not allocated to the operating divisions. Further, provisioning requirements for country and general risks, as well as realized gains and losses from Dresdner Bank's non-strategic investment portfolio. In 2005, the impact from the application of IAS 39 on Corporate Other's operating revenues amounted to a charge of €214 mn (2004: income of €7 mn).

[3] Presentation not meaningful.

[4] Consists of non-Dresdner Bank banking operations within our Banking segment.

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

Banking Operations by Geographic Region

The following table sets forth our banking operating revenues and earnings after taxes and before minority interests in earnings, which we refer to herein as "earnings after taxes and before minority interests", by geographic region. Applicable only for 2004 and 2003, earnings after taxes and before minority interests by geographic region excludes amortization of goodwill. Consistent with our general practice, operating revenues and earnings after taxes and before minority interests by geographic region are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different geographic regions and different segments.

	Operating revenues[1]			Earnings after taxes and before minority interests[2]		
Years ended December 31,	2005 € mn	2004 € mn	2003 € mn	2005 € mn	2004 € mn	2003 € mn
Germany	4,084	4,238	3,377	1,553	724	(32)
Rest of Europe	1,662	1,698	2,394	(28)	(138)	39
NAFTA	347	359	385	184	143	(351)
Rest of world	184	151	548	67	89	198
Subtotal	**6,277**	**6,446**	**6,704**	**1,776**	**818**	**(146)**
Consolidation adjustments[3]	(42)	–	–	(635)	(347)	(502)
Total	**6,235**	**6,446**	**6,704**	**1,141**	**471**	**(648)**

[1] Consists of net interest income, net fee and commission income, and net trading income. Operating revenues is a measure used by management to calculate and monitor the activities and operating performance of its banking operations. This measure is used by other banks, but other banks may calculate operating revenues on a different basis and accordingly may not be comparable to operating revenues as used herein.

[2] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

[3] Represents elimination of transactions between Allianz Group subsidiaries in different geographic regions.

Asset Management Operations

Record net inflows to third-party assets under management of € 64 billion.

- Inclusive of record net inflows of € 64 billion, our third-party assets under management rose by 27.0 % to € 743 billion.
- Commensurate with the marked 4.4 percentage point improvement of our cost-income ratio, which reached 58.5 %, our operating profit grew by 32.4 % to € 1.1 billion.
- Net income experienced strong growth of € 512 million, reaching € 237 million.

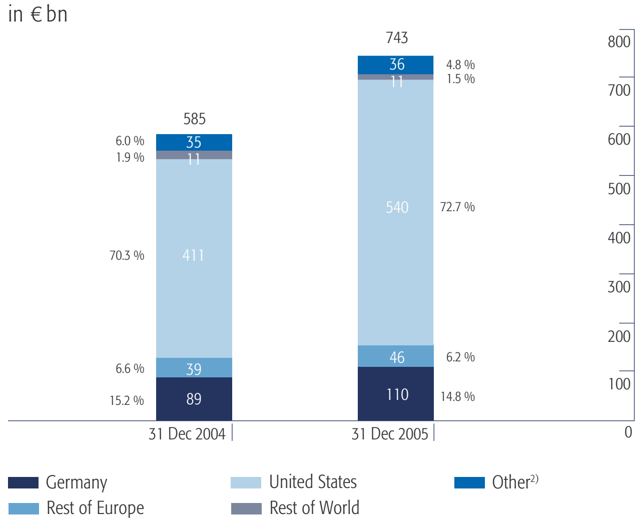
Third-Party Assets Under Management of the Allianz Group

The growth in third-party assets under management includes record net inflows of € 64 billion (2004: € 31 billion). Net inflows were particularly strong in our fixed income institutional business within the United States at PIMCO and within Germany at AGI Germany. Of the total increase in our third-party assets, market-related appreciation amounted to € 33 billion, primarily attributable to favorable equity capital markets and, to a lesser extent, bond capital markets. These achievements continue to strengthen our position as one of the world's largest asset managers, based on total assets under management. A major success factor has been our competitive performance, as the overwhelming majority of the third-party assets we manage outperformed their respective benchmarks in 2005. Further, positive effects of € 66 billion from exchange rate movements were incurred, resulting primarily from the strengthening of the U.S. dollar compared to the Euro.

Overall, third-party assets accounted for approximately 59 % and 55 % of total assets under management of the Allianz Group at December 31, 2005 and 2004, respectively. We operate our third-party asset management business primarily through AGI. At December 31, 2005, AGI managed approximately 95.2 % (December 31, 2004: 94.0 %) of our third-party assets. The remaining assets are managed by Dresdner Bank (approximately 2.3 % and 3.2 % at December 31, 2005 and 2004, respectively) and other Allianz Group companies (approximately 2.5 % and 2.8 % at December 31, 2005 and 2004, respectively).

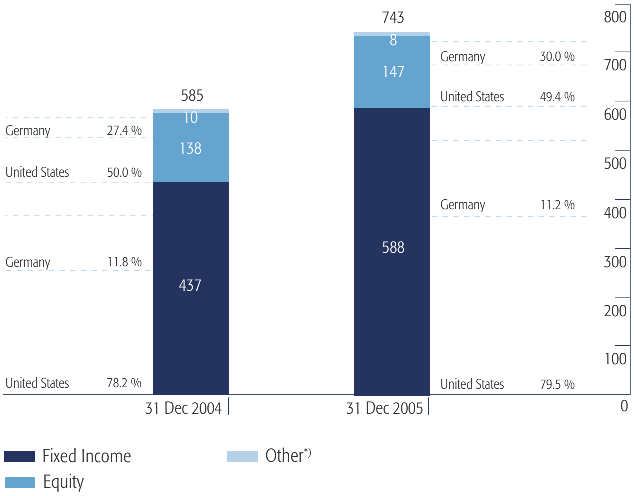
The following graphs present the third-party assets managed by the Allianz Group by geographic region, investment category and investor class at December 31 for the years indicated.

Third-party assets under management – Fair values by geographic region[1)]
in € bn



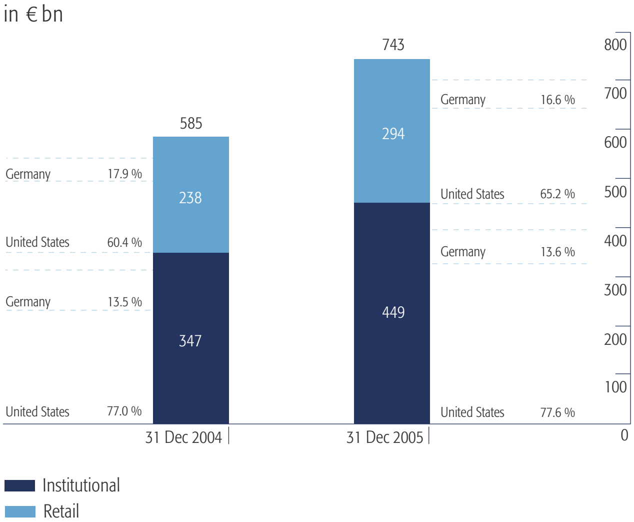
[1)] Based on the domicile of respective investment companies.
[2)] Consists of third-party assets managed by Dresdner Bank (approximately € 17 billion and € 19 billion at December 31, 2005 and 2004, respectively) and by other Allianz Group companies (approximately € 19 billion and € 16 billion at December 31, 2005 and 2004, respectively).

Third-party assets under management – Fair values by investment category
in € bn



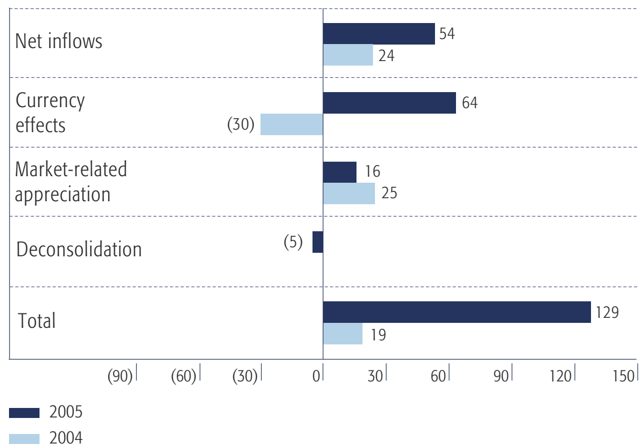
*) Includes primarily investments in real estate.

Third-party assets under management – Fair values by investor class
in € bn



United States

Third-party assets under management – Composition of fair value development for the years ended December 31, 2005 and 2004
in € bn

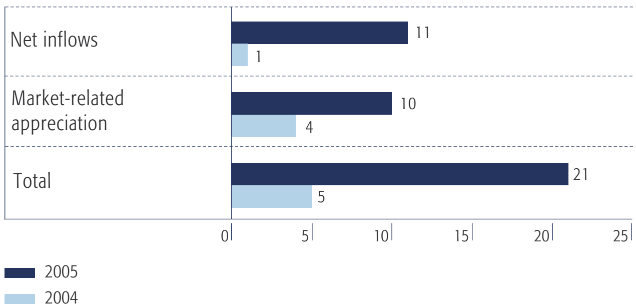


Our major achievements in 2005 included:

- PIMCO, our entity specializing in fixed income investments, significantly increased third-party assets by 36.8 % to € 468 billion, with record high net inflows of € 60 billion, market-related appreciation of € 12 billion and a positive foreign currency effect of € 54 billion.
- Our PIMCO Total Return Fund continued to be the largest actively-managed fixed income fund in the world, with assets under management of USD 90.6 billion at December 31, 2005.
- In February 2005, we launched the then largest closed-end equity fund, raising USD 2.5 billion. This fund's investment strategy combines the expertise of our equity managers NFJ Investment Group, Nicholas Applegate and PEA Capital.
- Allianz Global Distributors continued to remain in the top 5 market positions in the U.S. retail market based on net inflows. Our mutual funds product family captured first place in Lipper/Barron's Fund Family survey for 2005.

Germany

Third-party assets under management – Composition of fair value development for the years ended December 31, 2005 and 2004
in € bn



Our major achievements in 2005 included:

- Record high net inflows, primarily in our fixed income institutional business at AGI Germany.
- AGI ranked first and fourth among German asset management companies based on net inflows for 2005 and assets under management at December 31, 2005, respectively[1].
- Net inflows from mutual funds through both third-party distributors, as well as the Allianz Group's tied agents network and Dresdner Bank's branch offices, increased significantly to € 13.8 billion (2004: € 2.3 billion), largely resulting from fixed income products. These numbers include net inflows from mutual funds at PIMCO Europe Ltd.
- The dit-Euro Bond Total Return Funds were once again Germany's best selling fixed income funds, based on net inflows of more than € 4.3 billion.
- AGI further increased its market share in the institutional special funds (or "Spezialfonds") business to 14.7 % based on assets under management[1].

Earnings Summary

Our Asset Management segment's results of operations are almost exclusively represented by AGI, which accounted for 98.7 % and 98.3 % of our total Asset Management segment's operating revenues and net income, respectively, for the year ended December 31, 2005. Accordingly, the discussion of our Asset Management segment's results of operations relates solely to the operations of AGI.

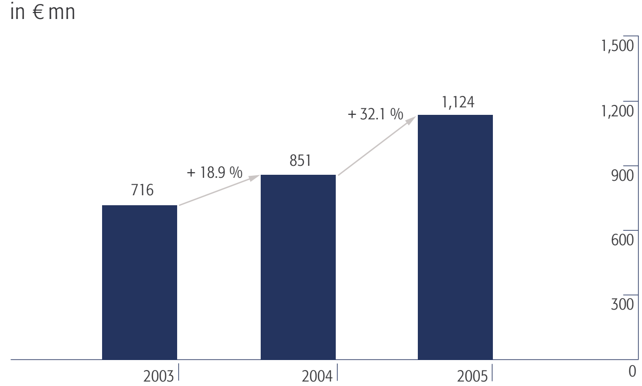
Operating Revenues

Our operating revenues increased by 17.3 % to € 2,698 million. Internal growth was comparable at 17.5 %. As previously noted, these positive developments reflect favorable business developments worldwide, namely resulting in significant increases of management and loading fees as well as performance fees. Management and loading fees, net of commission, and performance fees rose by 16.5 % to € 2,423 million and 117.0 % to € 122 million, respectively. Overall, fees, net of commission, improved by 19.2 % to € 2,597 million, whereas other income remained relatively stable.

Operating Profit

Operating profit increased significantly by 32.1 % to € 1,124 million, primarily resulting from the aforementioned growth in our **operating revenues**. Operating profit development was particularly strong in the United States and Germany. Due in large part to strict cost management, the increase of our operating expenses was proportionally smaller compared to that of our operating revenues. As a result, our **cost-income ratio**[2] improved considerably to 58.3 % (2004: 63.0 %). The 8.6 % rise in operating expenses to € 1,574 million was due largely to increased performance-related compensation in the United States and Germany as a result of our strong business developments.

Operating Profit – Allianz Global Investors
in € mn



[1] Source: Bundesverband Investment und Asset Management (or "BVI"), an association representing the German investment fund industry.
[2] Represents ratio of operating expenses to operating revenues.

Net Income

Net income reached €233 million, a € 512 million improvement from prior year's net loss of €279 million. **Acquisition-related expenses** declined by 5.1% to €713 million. Thereof, €676 million was due to the deferred purchases of interests in PIMCO related to the Class B Plan, which increased by 34.9%. The rise was commensurate with the strong profit development at PIMCO in 2005 and the increased number of vested units according to the vesting schedule of the purchase plan. The Class B Plan was agreed upon at the time this company was acquired. Of the total acquisition-related expenses, a further €12 million was incurred due to retention payments for the management and employees of PIMCO and Nicholas Applegate, and €25 million resulted from amortization charges relating to capitalized loyalty bonuses for PIMCO management. These expenses, in aggregate, decreased by €213 million as they largely expired in 2005. Our net income also benefited from the elimination of goodwill amortization under IFRS, effective January 1, 2005 (2004: charge of €380 million). **Tax expenses** amounted to €130 million, resulting in an effective tax rate of 31.2%, compared to a tax credit of €53 million in 2004. Taxes increased due predominantly to improved operating profitability, inclusive of higher taxable income in the United States, partially offset by a one-off deferred tax credit of €37 million related to tax deductible goodwill amortization.

During 2005, a subsidiary of Allianz AG purchased a total of approximately USD 250 million of the remaining minority interest in Allianz Global Investors of America L.P. (or "AGI L.P."), with payment therefore made in April 2005. Following this transaction, the remaining ownership interest that is held by AGI L.P.'s former parent company, Pacific Life, was reduced to approximately 2% at December 31, 2005 (December 31, 2004: 6%). Further, and also during 2005, a subsidiary of Allianz AG called 5,427 Class B equity units from former and current members of the management of PIMCO under the Class B Plan. The total amount paid related to the call of the Class B equity units was €71 million. Under the plan, participants acquired Class B equity units annually through 2004 for a total of 150,000 units. Please see Note 43 to our consolidated financial statements for further information.

The following table sets forth the income statements and key operating ratio for both our Asset Management segment as a whole and AGI on a stand-alone basis for the years ended December 2005, 2004 and 2003.

Years ended December 31,	2005		2004		2003	
	Asset Management Segment € mn	Allianz Global Investors € mn	Asset Management Segment € mn	Allianz Global Investors € mn	Asset Management Segment € mn	Allianz Global Investors € mn
Operating revenues	2,733	2,698	2,308	2,301	2,226	2,226
Operating expenses	(1,600)	(1,574)	(1,452)	(1,450)	(1,510)	(1,510)
Operating profit	**1,133**	**1,124**	**856**	**851**	**716**	**716**
Acquisition-related expenses	(713)	(713)	(751)	(751)	(732)	(732)
thereof:						
Deferred purchases of interests in PIMCO[1]	(676)	(676)	(501)	(501)	(448)	(448)
Retention payments for the management and employees of PIMCO and Nicholas Applegate	(12)	(12)	(125)	(125)	(147)	(147)
Amortization charges relating to capitalized bonuses for PIMCO management	(25)	(25)	(125)	(125)	(137)	(137)
Amortization of goodwill[2]	–	–	(380)	(380)	(369)	(369)
Earnings from ordinary activities before taxes	**420**	**411**	**(275)**	**(280)**	**(385)**	**(385)**
Taxes	(132)	(130)	52	53	80	80
Minority interests in earnings	(51)	(48)	(52)	(52)	(92)	(92)
Net income (loss)	**237**	**233**	**(275)**	**(279)**	**(397)**	**(397)**
Cost-income ratio[3] in %	**58.5**	**58.3**	**62.9**	**63.0**	**67.8**	**67.8**

[1] Effective January 1, 2005, and applied retrospectively, under IFRS, the Class B Plan is considered a cash settled plan, resulting in changes in the fair value of the equity units issued to be recognized as expense.
[2] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
[3] Represents ratio of operating expenses to operating revenues.

Allianz-RAS Merger / European Company (SE)

Reducing complexity and increasing profitability and customer service.

On September 11, 2005, Allianz AG announced its intention to merge Riunione Adriatica di Sicurtà S.p.A. (or "RAS", and taken together with its subsidiaries, the "RAS Group") with and into Allianz AG. This merger is part of a comprehensive transaction, resulting in the full acquisition of RAS by Allianz AG. In connection with this transaction Allianz AG will convert into a European Company (Societas Europaea or "SE") and subsequently adopt the corporate name Allianz SE[1]. As a preparatory step, Allianz AG placed a voluntary tender offer to purchase all RAS ordinary shares and RAS savings shares it did not already own. The offer period began on October 20 and the acceptance period closed on November 23, 2005. Through this voluntary tender offer, Allianz AG purchased 139,719,262 RAS ordinary shares at a price of € 19 per share and 328,867 RAS savings shares at a price of € 55 per share. As another preparative step of the merger, RAS will, prior to the effectiveness of the merger, contribute its business with the exception of the participation in certain foreign subsidiaries to a newly incorporated (in October 2005), wholly-owned Italian subsidiary that, subsequently to the merger, will continue the corporate name "RAS S.p.A.".

By fully integrating RAS, Allianz AG expects to increase profitability and customer service and to take a significant step forward in reducing complexity of the entire Allianz Group. In 2005, the Allianz Group generated € 5.4 billion in gross premiums written and € 9.3 billion in statutory premiums from its Italian property-casualty and life/health insurance operations, respectively. Additionally, Italy is the Allianz Group's second most important European insurance market after Germany. The Allianz Group is represented in Italy by RAS and Lloyd Adriatico. Taken together, RAS and Lloyd Adriatico are the third-largest property-casualty and second-largest life insurer in the Italian market, based on gross premiums written and statutory premiums, respectively, in 2004[2].

Following completion of the tender offer and further purchases of RAS shares outside the tender offer, the Allianz Group increased its ownership to 76.3 % of the total ordinary and savings shares of RAS at December 31, 2005 from 55.4 % at December 31, 2004. The total cost to the Allianz Group of the tender offer and the additional purchases of RAS shares outside the tender offer, including transaction-related costs, amounted to approximately € 2.7 billion. Thereof, € 2.2 billion, in aggregate, was secured in 3Q 2005 from equity-based financing and the issuance of an equity-linked loan. In this context, approximately € 1.1 billion was placed out of authorized capital without pre-emptive rights and a € 1.1 billion equity-linked loan was executed with a variable redemption amount linked to the share price of Allianz AG, which can be settled, at the Allianz Group's option, in cash or 10.7 million Allianz AG shares. The remaining amount was financed through internal funds.

On December 15 and 16, 2005, the Board of Management of Allianz AG and the Board of Directors of RAS accomplished the merger plan for the merger of RAS with and into Allianz AG. This merger plan was notarially certified on December 16, 2005. On February 3, 2006, the extraordinary shareholders' meetings of holders of RAS ordinary shares and holders of RAS savings shares and on February 8, 2006, the extraordinary shareholders' meeting of Allianz AG agreed to the merger plan. Against the resolution of the shareholders' meeting of Allianz AG regarding the agreements to the merger plan and the capital increase to implement the merger, contestation suits have been filed. The entry of the merger in the commercial register of Allianz AG may only take place once the competent court rejects the lawsuits, or if such lawsuits are withdrawn or if the competent court rules finally and conclusively that the lawsuits do not prevent the entry of the merger in the commercial register (so-called "Freigabeverfahren"). We are confident that we will achieve the entry of the merger in the course of such release ruling. As a further prerequisite for the effectiveness of the merger and the accompanying conversion of Allianz AG into an SE, a procedure for the employee involvement in decisions of the Allianz SE must be conducted. We expect the merger to become effective in September 2006 at the earliest.

The exchange ratio for the remaining RAS shares is 3 Allianz AG shares for 19 RAS ordinary shares or 19 RAS savings shares. To implement the merger, the remaining RAS shares will be exchanged for Allianz AG shares through an increase of Allianz AG's issued capital by up to € 64.3 million, which was approved by the extraordinary shareholders' meeting on February 8, 2006. The capital increase will be accomplished by the issuance of up to 25,123,259 new registered no-par value Allianz AG shares. Allianz AG expects the cost of the entire transaction, including the voluntary tender offer, to be approximately € 5.9 billion. However, this amount may vary, depending upon the market price of Allianz AG shares at the time of the share exchange.

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

[2] Source: Italian Insurers Association, ANIA.

Reorganization of German Insurance Operations

Enhanced customer orientation and service, cost reduction and reduced complexity.

As part of our repositioning plan, in September 2005, we announced our decision to reorganize our major German operating entities which are active in our insurance operations. The new structure is designed to further develop our leading position in the German insurance market by a joint presence, thus allowing us to provide an enhanced customer orientation and improved service, while at the same time cutting costs in the long-term through reduced complexity.

In Germany, and through the end of 2005, our property-casualty and our life/health insurance operations were essentially conducted through five different corporations, each with its own sales organization. This structure had grown historically and had become complex. Consequently, and effective November 2005, the German insurance operations have been consolidated under a new holding company, Allianz Deutschland AG. This new holding company is a wholly-owned subsidiary of Allianz AG, the future Allianz SE. Allianz Versicherungs-AG (property-casualty insurance), Allianz Lebensversicherungs-AG (life insurance) and Allianz Private Krankenversicherungs-AG (health insurance) are subsidiaries of Allianz Deutschland AG since November 2005. In connection with this reorganization, on January 30, 2006, and effective October 1, 2005, two property-casualty subsidiaries, Frankfurter Versicherungs-AG and Bayerische Versicherungsbank AG, were merged into Allianz Versicherungs-AG. Prior to this, Allianz Versicherungs-AG had increased its interest in Bayerische Versicherungsbank AG in November 2005 from 90 % to 100 %. In addition, the sales activities of the said German property-casualty and life/health insurance companies are to be consolidated into a separate sales company as the fourth subsidiary of Allianz Deutschland AG.

Effective January 1, 2006, the previous regional structure of the property-casualty operations in Germany as well as of the branch offices of Allianz Lebensversicherungs-AG and Allianz Private Krankenversicherungs-AG has been replaced by the establishment of four sales and service regions, which include the “northwest” (Schleswig-Holstein, Hamburg, Bremen, Lower Saxony, North Rhine-Westphalia), the “northeast” (Mecklenburg-Western Pommerania, Brandenburg, Berlin, Saxony-Anhalt, Saxony, Thuringia), the “southwest” (Hesse, Rhineland-Palatine, Baden-Wuerttemberg, Saarland) and the “southeast” (Bavaria).

Risk Report

Our risk management is targeted at protecting our capital base and supporting our value based management.

- As providers of financial services, we consider risk management one of our core competencies. Risk management is therefore an integrated part of our business controlling process.
- Risks arise due to insufficient information concerning possible adverse developments affecting our business targets or plans.
- We identify and measure, aggregate and manage risks. The result of this process determines, among other things, how much capital is allocated to the Allianz Group's various segments.

Risk Governance Structure

In our business, successful risk management means controlling risks in order to protect the financial strength of the Allianz Group and increase its value on a sustainable basis. Therefore, the Board of Management of Allianz AG formulates the business objectives and allocates the capital resources of the Allianz Group according to return on investment and risk criteria.

The Group Risk Committee monitors the capitalization and risk profile of the Allianz Group to ensure a reasonable ratio between these two criteria. Its role is to ensure comprehensive risk awareness within the Allianz Group and to further improve risk control. It also provides timely information to the Board of Management of Allianz AG about risk relevant developments, sets risk limits, and is responsible for recommending and coordinating risk-containment measures. In 2005, we established a Group Insurance Risk Committee to support the Group Risk Committee in matters concerning property-casualty insurance. This committee is responsible for updating our underwriting guidelines and monitoring the development of our property-casualty insurance portfolio.

Group Risk Control, which reports to the Chief Financial Officer, develops methods and processes for risk assessment and control on an Allianz Group-wide basis. An important instrument to assess the Allianz Group's risk profile is our internal risk capital model. In 2005, we also introduced a system for systematic qualitative risk evaluation. On this basis, it forms an overview of local and global risks, derives the risk situation of the Allianz Group, and regularly informs management about the current situation. In addition, Group Risk Control ensures that the risk governance principles of the Allianz Group are fully adhered to and further develops these principles. Group Risk Control is also responsible for the centralized monitoring of accumulation risk over all business lines, in particular with respect to natural disasters, market and credit risks. This structure ensures that we control our local and global risks equally and are not exposed to the danger of overall risk increasing unnoticed.

Within our risk governance policy, local units assume independent responsibility for their own risk control, as ultimately, it is they who have to respond quickly to risk changes in a market-oriented manner. At the same time, this independent responsibility enables operating units to meet the applicable legal requirements at their respective locations. In 2005, local risk monitoring was further accelerated. Our large operating entities have established local risk committees and risk control units managed by the Chief Risk Officer of the respective business unit and monitor local risks.

Investment risk management is implemented jointly with local units as part of a structured investment process. The Allianz Group Finance Committee, which is comprised of the members of the Board of Management of Allianz AG, delegates broad decision-making authority to the regional Finance Committees, which monitor the activities in their respective regions or countries. These regional Finance Committees compile local investment guidelines for their particular locations. Operational responsibility for investment portfolios lies within the local units.

Insurance, banking and asset management are all heavily influenced by legal factors; legislative changes in particular have a primary influence on our activities. Legal risks also include major litigation and disputes, regulatory proceedings, and contractual clauses that are unclear or construed differently by the courts. Limitation of such legal risks is a major task of our Legal Department, carried out with support from other departments. The objective is to ensure laws are observed, to react appropriately to all impending legislative changes or new court rulings, attend to legal disputes and litigation, and provide legally appropriate solutions for transactions and business processes.

The Trend Assessment Committee is responsible for the early recognition of new risks. Their role is to study and evaluate changes that may have a significant impact on the Allianz Group's risk situation. In 2005, we established a panel of experts consisting of representatives from our insurance, banking and asset management segments, which is examining the possible effects of climate change on our business. Its task is to develop risk management strategies and identify potential opportunities resulting from climate change. We also belong to the Emerging Risk Initiative of the CRO Forum's task force, which examines methods to identify, analyze and manage potential risks. The task force is comprised of representatives from ten international insurance and reinsurance companies.

Independent risk oversight

The principle of independent risk oversight is well-established within the Allianz Group. There is a clear distinction between risk assumption (i.e. the responsibility for the business including associated risk management) and independent risk monitoring. The latter also analyzes alternative courses of action and proposes recommendations to the Risk Committee and the Board of Directors or Board of Management of the local operating entity or Allianz AG, respectively.

Risk policies

The Group Risk Policy establishes the minimum requirements that are binding for all operating units. Specific minimum risk standards for our insurance, banking and asset management segments translate these requirements into action. In 2005, we supplemented our risk guidelines with standards for addressing natural disaster risks. Such standards are implemented by the operating entities worldwide and are monitored on a regular basis by Group Risk Control through a structured process.

Risk Management Tools

Risk capital

We manage our business activities through our respective local entities. The most important parameters used in our risk-oriented controlling process are Economic Value Added (or "EVA"®) and risk capital. Risk capital is used to hedge against unexpected economic losses. In 2005, we used our internal risk capital model as input for the value-oriented management framework of our insurance companies and Dresdner Bank. For asset management, we used a model based on a concept developed by the Standard & Poor's rating agency.

Our internal risk capital model evaluates quantifiable risks within a set timeframe and calculates a potential loss. This model allows us to systematically evaluate internal data using methods based on the theory of probability. This process takes into account the special characteristics of our operating entities as well as the specific nature of their risks. The model is based on the value-at-risk approach. Value-at-risk estimates the maximum loss which cannot be exceeded with a certain probability at a specified confidence level within a set holding period. The capital we allocate to our operating entities in accordance with our internal risk capital model meets the requirements for the one-year target shortfall of an "A" rating from Standard & Poor's. Diversification effects from balancing portfolio risks result in a capitalization of the Allianz Group equivalent to an "AA" rating from Standard & Poor's. Risk balancing effects result from the fact that not all potential losses are realized at the same time. With the internal risk capital model, we are able to evaluate risks more precisely and optimize allocation of capital within the Allianz Group.

Our risk capital model quantifies the following risk categories:

- **Market risks** Possible losses caused by changes in interest rates, exchange rates, share prices and other relevant market prices (such as raw materials);
- **Credit risks** Possible losses caused by the inability to pay or a downgrade in the credit rating of debtors or counterparties;
- **Actuarial risks** Unexpected financial losses from the sale of insurance protection; and
- **Business risks** Cost and lapse risks, as well as operational risks, i.e. risks associated with external events or arising from insufficient or failing internal processes, procedures and systems.

EVA® is a registered trademark of Stern Stewart & Co.

The risk capital after Group diversification effects and before minority interests amounted to €37.5 billion at December 31, 2005.

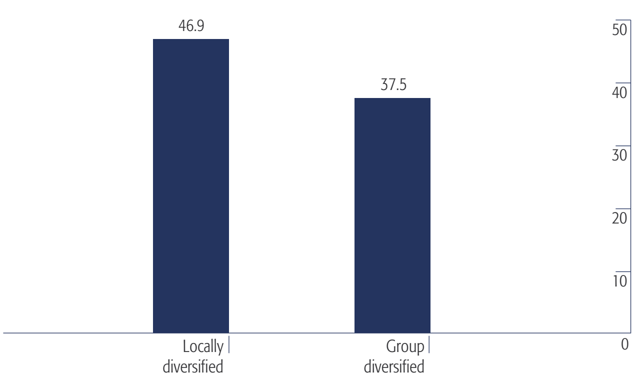
Risk capital (after Group diversification) by risk category

As of December 31,	2005 € bn	2004 € bn
Market risks	18.5	15.2
Credit risks	5.7	5.9
Actuarial risks	7.4	8.0
Business risks	5.9	5.2
Total	**37.5**	**34.3**

Risk capital (after Group diversification) by segment

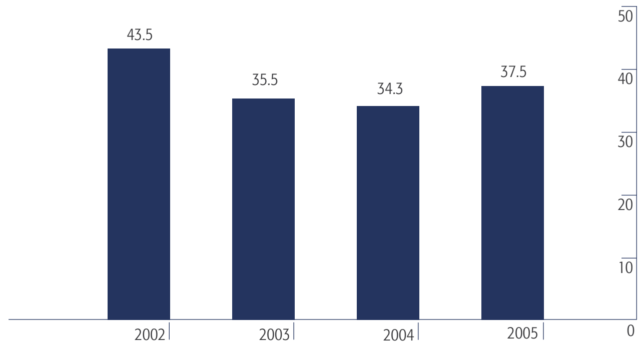
As of December 31,	2005 € bn	2004 € bn
Property-Casualty	19.0	17.7
Life/Heath	5.4	4.5
Banking	6.1	6.8
Asset Management	2.5	2.0
Holding	4.5	3.3
Total	**37.5**	**34.3**

Risk capital before and after Group diversification
in € bn



The risk profile of the Allianz Group is managed actively. Under the "3+One program", we reduced risk capital from €43.5 billion at December 31, 2002 to €37.5 billion at December 31, 2005, thereby significantly strengthening the Allianz Group's capitalization.

Risk capital development as of December 31, (after Group diversification)
in € bn



There are certain risks that cannot be quantified in our risk capital model. For these risks, we pursue a systematic approach with regard to identification, analysis, assessment and monitoring. The assessment is based on qualitative criteria or using scenario analyses. For example, these risks include:

- **Liquidity risks** These are risks that the business is unable to meet its current or future payment obligations in full or on a timely basis. These risks also include risks that, in the event of a liquidity crisis, refinancing funds could only be obtained at higher market rates (refinancing risk) or assets could only be sold at lower market prices (market liquidity risk).
- **Reputational risks** Unexpected losses due to a loss of reputation of our subsidiaries or the Allianz Group. Reputational risks derive from Allianz Group actions, transactions or products. They may be caused by or result from losses in other risk categories.

Limit System We monitor and manage credit risks with a limit system that is applicable for the entire Allianz Group. The limit system aggregates major risks of Allianz Group-wide significance from credit insurance, lending and our capital investments and serves as the basis for controlling the risk on an Allianz Group-wide basis in detecting credit risks at an early stage. In 2005, this system assisted in identifying critical developments at an early stage and making adjustments accordingly. The number of counterparties monitored by the limit system was significantly increased in 2005, and we also reinforced the automation of our internal reporting on credit risk and improved our procedures (for example, in relation to reducing risks in a crisis situation).

Stress tests

In addition to risk capital analyses, we also carry out stress tests, which act as early-warning indicators to secure external capital requirements. This affects capital requirements from the viewpoint of our supervisory authorities and rating agencies.

A 10 % price decline in our available-for-sale equity securities at December 31, 2005 would have resulted in a € 2.4 billion decline in shareholders' equity. If the interest rate had increased by 100 basis points, shareholders' equity would have decreased by € 3.6 billion, if we consider the available-for-sale fixed income securities at December 31, 2005. A 10 % devaluation of the U.S. dollar against the Euro at December 31, 2005 would have decreased shareholders' equity by € 1.1 billion. These model calculations do not take into account derivatives.

Risk Controlling - Insurance Business

Market risks

We monitor market risks by means of sensitivity analyses and stress testing. As protection against exchange rate fluctuations, we back our insurance commitments, to a very large extent, with funds of the same currency.

In certain insurance lines, there is a direct link between investments and obligations to our customers. For example, life insurance is subject to the guaranteed interest risk in that we must credit interest to our customers pursuant to the underlying contracts. The close relationship between insurance obligations and investment of the capital related to these obligations is monitored by using specific models for asset-liability management which involves integrated management of investment and insurance liabilities. We are continuously developing our asset-liability management. In 2005, we revised our internal model for life insurance with the objective of creating an integrated system to assess our portfolio, calculate risk capital and conduct sensitivity analyses. Once completed, this model will provide significant support to the management of our life insurance business.

In individual cases, we use derivative financial instruments to hedge against price risks, credit risks and risks associated with interest rate changes. We include derivative risks within our investment and monitoring guidelines, which, in our insurance segments, are based on the stricter regulations imposed by supervisory authorities for banks.

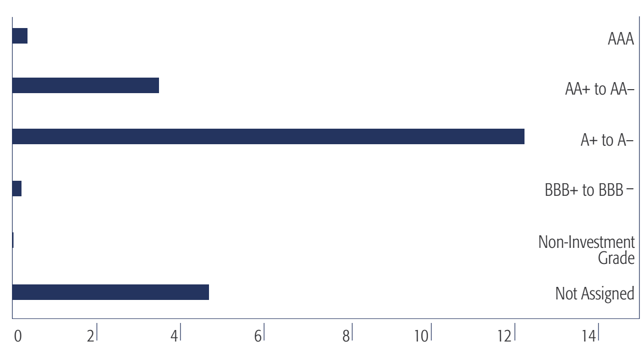
Liquidity risks

We limit liquidity risk by continually reconciling the cash flow from our investment portfolio with our commitment to pay liabilities. We employ actuarial methods for estimating our liabilities arising from insurance contracts. The quality of our investments also guarantees that we can also meet high liquidity requirements, for example, in the event of a natural disaster.

Credit risks

We limit our liability from insurance business by ceding part of the risks we assume to the international reinsurance market. When selecting our reinsurance partners, we consider only companies that offer excellent security. To control this credit risk, we compile Allianz Group-wide data on receivables from insurance losses. At December 31, 2005, approximately 78 % of the Allianz Group's reinsurance recoverables are distributed over reinsurers with an investment grade rating. Additionally, more than 77 % were distributed over reinsurers who have been assigned at least an "A" rating by Standard & Poor's. We may also require letters of credit, deposits, or other financial measures to further minimize our exposure to credit risk. See Note 12 to our consolidated financial statements for further information.

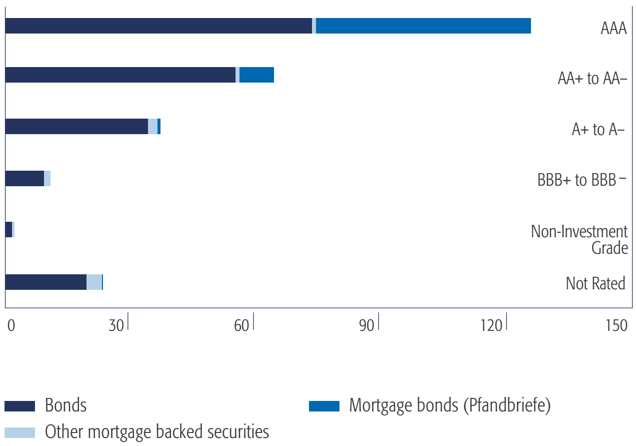
Ceded reserves by rating classes as of December 31, 2005*)
in € bn



*) Net of amounts due to reinsurers.

We limit our fixed income investment credit risk by setting high requirements on the creditworthiness of our debtors and by spreading the risk. Through our central credit risk management, we consolidate our exposure according to debtors and across all investment categories and business segments, and monitor the exposure of the Allianz Group on a monthly basis. At December 31, 2005, approximately 91 % of the fixed income investments of the insurance companies of the Allianz Group had an investment grade rating. More than 87 % were distributed over obligors that had been assigned at least an "A" rating by Standard & Poor's.

Fixed income investments by rating classes as of December 31, 2005
in € bn



Actuarial risks

Premium risks are controlled primarily with the assistance of actuarial models used to calculate premiums and monitor claim patterns. In addition, we issue guidelines for underwriting insurance contracts and assuming insurance risks. Natural disasters such as earthquakes, storms and floods represent a special challenge for risk management. In order to manage such risks and better estimate the potential effects of natural disasters, we use special modelling techniques in which we combine data about our portfolio (e.g., the geographic distribution of insurance amounts), with simulated natural disaster scenarios in order to estimate the magnitude of potential damage. Where such models do not exist (e.g., flood risk in Germany), we utilize a scenario-based methodology.

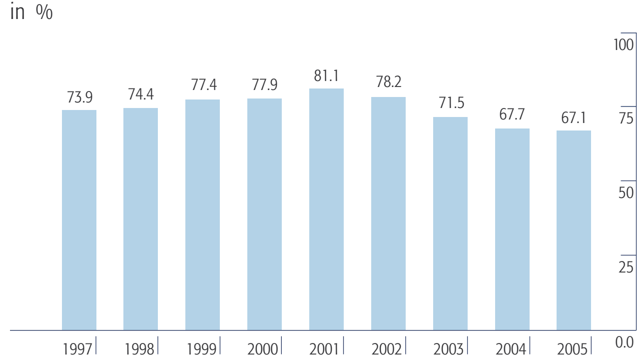
2005 was characterized by a large number of violent hurricanes in the Atlantic Ocean. The three largest hurricanes, Katrina, Rita and Wilma, caused record losses to the insurance industry, in particular Hurricane Katrina with its disastrous impact on New Orleans. The total loss for the Allianz Group was lower than the total risk capital budget of our operating entities for natural disasters, yet the disasters in 2005 and its results must be examined closely so that our simulation systems used to estimate the possible effects of natural disasters can be continually improved.

In 2005, for the first time, we aggregated risk peaks from natural disasters in our portfolio and reinsured such risks. By doing so, we implemented the conclusions suggested by our internal risk capital model. We also continued to develop a limit system arising from natural disaster and terrorism risks, which we plan to further improve in 2006.

Reserve risks We control reserve risks by constantly monitoring the development of the provisions for insurance claims that have been submitted but not yet settled in all companies, and amend the provisions as necessary. For calculating insurance provisions in life insurance, the biometric assumptions, such as life expectancy, disability and illness, play a major role. If available, we use assumptions approved by supervisory authorities and actuarial associations.

Actuarial risks in property-casualty insurance have led to fluctuations of the loss ratio in our property-casualty segment over time, as shown below.

Loss ratios years ended December 31,
in %



Business risks

Our **operational risks** are limited by a wide range of technical and organizational measures. We attempt to reduce any such risks by installing a comprehensive system of internal controls and security systems within each operational entity. In 2005, we introduced a self-assessment system to establish a uniform procedure to detect potential errors and identify internal control weaknesses. Each operating entity evaluates its key processes and existing controls at least once annually. Another instrument to identify weaknesses is through the systemic collection and recording of realized operational losses. An analysis of the causes of such losses assists the operating entity in adopting appropriate measures in order to avoid or limit such losses in the future. The measures to prevent and limit such operational risks are varied, including developing emergency plans, designing appropriate insurance policies, revising processes and adopting additional controls and responsibility assignments.

We understand the **lapse risk** in our life insurance business to mean the unexpected economic losses due to early cancellation of contracts by our customers. We assess this risk by calculating technical reserves using probability data based on historic rates of cancellation in our respective local markets.

Risk capital

At December 31, 2005, the risk capital of our insurance companies, based on local solvency requirements and before Allianz Group diversification and minority interests, was €23.1 billion for property-casualty insurance (2004: €21.9 billion) and €9.5 billion for life/health insurance (2004: €8.7 billion).

Risk Controlling – Banking Business

Market risks

The market risks in our banking business are broken down into risks arising in our trading portfolio, banking book and equity holdings (i.e., shareholder risks).

In 1998, the German Federal Financial Supervisory Authority (or "BaFin") approved Dresdner Bank's value-at-risk model for purposes of reporting **market risks within the trading portfolio** in accordance with Principle I of the German Banking Act. The BaFin also approved the improvements made to this model in 2001, 2002 and 2004. This value-at-risk model, which is used to evaluate capital adequacy for regulatory purposes, must take into account market fluctuations which can occur at a confidence level of 99 % and a 10-day holding period. The value-at-risk model is supplemented by stress tests which estimate the potential loss under extreme market conditions.

For the purpose of setting internal limits and risk management, we calculate a value-at-risk with a confidence level of 95 % and a one-day holding period. Unlike the value-at-risk calculation required by the supervisory authority, which is based on historical market data, we thus assign greater weight to the most recent market fluctuations. By doing so, we ensure that the current market trends are reflected in the value-at-risk calculation on a timely basis.

Value-at-risk is only one of the instruments used to characterize and control the risk profile of Dresdner Bank. In addition, Dresdner Bank also uses operational risk indicators and limits, which are specifically adapted to the risk situation of the trading units. Trading is controlled by setting value-at-risk and operational market risk limits. Current limit utilization is determined and monitored by Group Risk Controlling on a daily basis. Limit breaches are immediately indicated to management so that corrective action can be taken.

Market risks within Dresdner Bank's trading portfolio had a value-at-risk, with a 99 % confidence level and a 10-day holding period, of €66 million at December 31, 2005, compared to €50 million at December 31, 2004.

Value-at-Risk Statistics (Dresdner Bank)
(99 % confidence level, 10-day holding period)

	As of December 31,		Years ended December 31, Average		Maximum		Minimum	
	2005 € mn	2004 € mn	2005 € mn	2004 € mn	2005 € mn	2004 € mn	2005 € mn	2004 € mn
Aggregate risk	66	50	49	95	105	155	26	46
Interest-rate risk	71	57	52	99	121	159	25	49
Equity risk	12	15	19	20	36	36	10	12
Currency risk	9	9	7	11	21	37	1	2
Commodity risk	1	–	3	–	10	–	0	–
Diversification effect	(27)	(31)	(32)	(35)	–*)	–*)	–*)	–*)

*) No diversification effect can be taken into account since the maximum and minimum values were measured on different dates.

Market risks within Dresdner Bank's banking book These risks mainly comprise the risk of interest changes and is analyzed on the basis of sensitivity and value-at-risk indicators. As in the case for Dresdner Bank's trading portfolio, Dresdner Bank manages this risk by setting value-at-risk limits. At December 31, 2005, the value-at-risk, with a 99 % confidence level and 10-day holding period, for interest rate risks at Dresdner Bank amounted to €10.0 million, compared to €8.6 million at December 31, 2004.

Currency risks in the banking book of Dresdner Bank are limited by applying the principle that all loans and deposits in foreign currencies are refinanced or reinvested in the same currency with matching maturities.

Market risks within Dresdner Bank's equity investments These risks comprise unanticipated economic losses which can arise from providing equity capital to third parties. Following the reduction of substantially all of the equity investments held by the Institutional Restructuring Unit (or "IRU"), our risk exposure was significantly reduced compared to 2004. The IRU was closed on September 30, 2005.

Liquidity risks

Liquidity control and liquidity risk management are the responsibility of Treasury and Risk Controlling within Dresdner Bank, which establish principles for liquidity management within the framework of the Allianz Group's liquidity policy. This liquidity policy meets both regulatory requirements and Allianz Group standards. The liquidity risk limits set include a reporting process for limit breaches and provisions for emergency planning. Liquidity risk measurement is based on Dresdner Bank's liquidity management system. This system models the maturities of all cash flows and compiles a scenario-based liquidity balance sheet, taking into account available prime-rated securities. Limits on liquidity gaps are established to manage short-term liquidity risk.

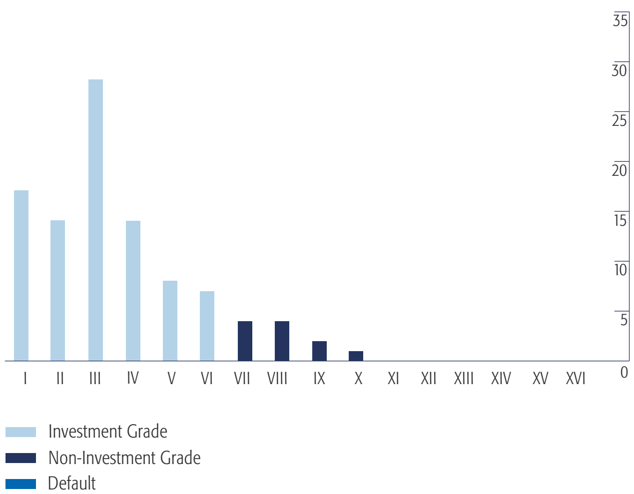
Credit risks

Credit risks include credit and counterparty risks from loans and advances, country risks, counterparty risks from trading activities and issuer risks from our securities business.

The central element of approval, monitoring and control process is the rating of our customers. In this process, the various creditworthiness characteristics of our customers are presented in the form of rating classes. To categorize the default probability of a borrower, a system with 16 different rating classes is used. The first six classes correspond to "investment grade", classes VII to XIV signify "non-investment grade". Rating classes XV and XVI are default classes according to the Basle II definition. The rating procedures utilized are assessed and improved on an ongoing basis. In 2005, Dresdner Bank further optimized this procedure in light of the Basle II requirements and aims at utilizing the Advanced Internal Ratings-Based (or "IRB") Approach for the calculation of future regulatory capital requirements.

At December 31, 2005, approximately 87 % of overall limits in the trading and banking portfolios of Dresdner Bank were included in rating classes I to VI, compared to 86 % at December 31, 2004. Furthermore, approximately 13 % were included in rating classes VII to XVI (2004: 14 %). Dresdner Bank's trading business represented 70 % of the overall limits and approximately 86 % (2004: 91 %) of Dresdner Bank's trading business involved primarily transactions with counterparties from rating classes I to VI, i.e., with state and local agencies and financial services providers, at December 31, 2005.

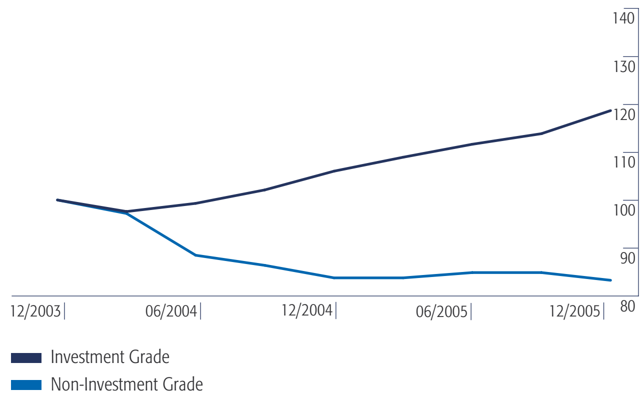
Overall portfolio view by rating class as of December 31, 2005 (Dresdner Bank)
in %



Credit and counterparty risks from loans and advances Of the total credit and counterparty risks from loans and advances of Dresdner Bank's lending activities at December 31, 2005, 33 % was accounted for by the Personal Banking division, 13 % by the Private & Business Banking division, 35 % by the Corporate Banking division, and 19 % by the Dresdner Kleinwort Wasserstein division.

In 2005, credit risk management worked towards systematically reducing our non-strategic loan portfolio, lowering concentration risks and focusing the loan portfolio on certain regions and industries. At December 31, 2005, approximately 64 % of the loan portfolio of Dresdner Bank were included in ratings classes I through VI (investment grade). In our loan business, the probability of average default was below the probability of default of the loan portfolio. The overall quality of our loan portfolio has improved significantly in recent years, as shown in the graph below.

Development of Dresdner Bank's loan portfolio by ratings classes
Index 12/2003 = 100 %



Dresdner Bank's IRU, which was responsible for reducing our non-strategic loan portfolio, completed its task faster than planned and was closed on September 30, 2005. The IRU's remaining risk assets were re-transferred primarily to Dresdner Bank's Corporate Other division on October 1, 2005. Streamlining the loan portfolio has resulted in a significant improvement in portfolio quality. Our total non-performing loans and potential problem loans, which are two measurements utilized to assess the quality of the loan portfolio, decreased from € 7.4 billion at December 31, 2004 to € 3.0 billion at December 31, 2005.

Country risks These risks comprise exchange rate and transfer risks relating to cross-border transactions. We manage country risks using internal country ratings. These ratings are based upon macroeconomic data and key qualitative indicators. The latter takes into account the economic, social and political environment. The country rating system comprises 16 ratings classes. The country rating system divides countries into those without any discernible risk and those with increased or high risk potential. The country risk management at the Dresdner Bank is intended to limit transfer and local risks on the basis of a comprehensive country limit system.

Counterparty risk from trading activities Counterparty risks from the derivative trading business arise mainly from over-the-counter (or "OTC") transactions. The resulting risk exposure cannot be directly traced to the nominal values of the transactions. In assessing current counterparty risk, positive replacement values from Dresdner Bank's position is the determining factor. These correspond to the additional expense or lower yield that would result from restoring an equivalent position in the event of a trading partner defaulting. The banking sector, other financial services provider sectors, insurance companies and governments accounted for a large proportion (96.7 %) of the positive replacement values at December 31, 2005.

In order to reduce the counterparty risk from trading activities, we entered into inter-product framework netting agreements with our business partners. Netting makes it possible to balance all outstanding receivables and payables with a counterparty if the counterparty defaults. In addition to these framework agreements, exposure from counterparty risk (positive replacement values after netting) is secured using so-called collateral management.

Counterparties – positive replacement values by market segment (Dresdner Bank)

As of December 31,	2005 € mn	2004 € mn
Credit institutions	49,701	46,014
Other financial services providers	33,968	19,752
Insurance companies	274	115
Small business	717	669
Telecommunications, media, technology	236	3,159
Transportation	294	492
Raw materials	30	19
Real estate	60	126
Government	926	59
Other	1,601	2,925
Total – before netting	**87,807**	**73,330**
Total – after netting and security	**16,260**	**13,926**

Issuer risks Issuer risks arise from Dresdner Bank's own holdings in securities such as fixed income and equity securities, as well as from synthetic positions assumed through purchasing credit derivatives. Such risks reflect the maximum possible loss in the event of an unexpected loss of a particular issuer. Issuer risks are managed comprehensively, in particular risks arising from credit-sensitive issuers. In 2005, the share of issuer risks of the total loss risk for Dresdner Bank´s trading activities decreased 7 percentage points to 57 % at December 31, 2005.

Business risks

Dresdner Bank has a process for the systematic identification, measuring and controlling of **operational risks**. The essential risk factors are evaluated in the framework of a structured self-assessment. A loss database is employed to record and analyze losses that actually occur. An internal risk model was developed for calculating the risk capital requirement using the criteria of the Advanced Measurement Approach (or "AMA"), which shall also be used in the future to determine capital adequacy pursuant to Basle II.

Cost risks Cost risks comprise unanticipated fluctuations in earnings that arise due to a decline in income without a corresponding decrease in expenses. Cost-cutting measures implemented in the past have significantly reduced risks associated with fixed costs.

Risk capital

At December 31, 2005, the risk capital of Dresdner Bank before Allianz Group diversification was €7.0 billion, compared to €7.9 billion at December 31, 2004.

Risk Controlling – Asset Management

Risk control in asset management is an integral part of the processes of our operating entities and investment platform. The Allianz Global Investors Corporate Center is responsible for ensuring that Allianz Group-wide standards for asset management are applied at the local level. The individual asset management companies continually monitor the portfolio risks of the customer assets they manage by using analytical tools specifically adapted to the risk profile of the product concerned. At the same time, the performance of the various product lines is periodically monitored and analyzed at the Allianz Group level. At December 31, 2005, risk capital in our asset management segment, calculated according to the Standard & Poor's model and before minority interests, was €2.5 billion, compared to €2.0 billion at December 31, 2004.

Risk Monitoring by Third Parties

Supervisory authorities and rating agencies are additional risk monitoring bodies. Supervisory authorities stipulate the minimum precautions and capital requirements that must be accounted for in individual countries and on an international level. Rating agencies determine the relationship between the required risk capital of a company and the available safeguards. In their evaluation of capital resources, rating agencies include equity shown in the balance sheet, minority interests and other items representing additional securities in times of crisis. At December 31, 2005, this total was at a level that corresponds to our current ratings. At December 31, 2005, the financial strength of the Allianz Group was rated by Standard & Poor's as "AA–" (outlook stable), by A. M. Best as "A+" (outlook stable), and by Moody's as "Aa3" (outlook stable).

Outlook

We will continue to strengthen our risk management system in 2006. For example, we will introduce standards for underwriting large insurance risks and for developing and marketing new products. We will complete the analytical model for our life insurance business and introduce the limit system for natural disaster risks.

In addition, we will continue to make progress in our project to evaluate derivatives on the basis of an Allianz Group-wide uniform IT system. We will also strengthen and clarify our guidelines for handling derivatives.

We are monitoring the Solvency II Project to prepare for the anticipated changes to the European insurance solvency requirements. In particular, we are continuously improving the methodology of our internal risk model to meet future requirements on internal models (Solvency II).

In order for the risk management at Dresdner Bank to continue to meet the highest standards, we are continually refining and optimizing our internal bank risk assessment procedures, including data entry and associated processes (Basle II). Dresdner Bank is implementing, on schedule, the supervisory requirements of the Capital Accord of Basle II and the related German implementing regulation, the Solvency Regulation (Solvency Order/SolvV). Dresdner Bank is targeting to implement advanced approaches by applying the Advanced IRB Approach for credit risks and the AMA for operational risks. Dresdner Bank already uses a comparable process for its internal risk management.

Finally, Dresdner Bank will introduce in 2006 a new validation process for its rating process, which will meet growing internal and external demands.

Liquidity and Capital Resources

Organization, Capital Allocation and Liquidity Planning

Allianz AG operates as both a holding company for the Allianz Group's insurance, banking and other subsidiaries and as a reinsurance company, primarily for other Allianz Group companies. As such, Allianz AG not only has to cover the funding needs of its own reinsurance operations but also acts as the central coordinating function for the liquidity and capital allocation of Allianz Group companies.

Our operating entities require capital to run their businesses. The amount of necessary capital depends on, among other factors, local capital and regulatory requirements, rating agency capital requirements and our own internal risk capital standards. As our operating entities grow, local requirements change or other factors intervene, the need for additional capital can arise. To the extent that these requirements cannot be financed by results from operations from the respective operating entities, in excess of dividends, Allianz AG can and does allocate additional capital. Decisions as to which operating entities should receive additional capital, including the amount thereof, or whether capital should rather be withdrawn, are taken by the Board of Management of Allianz AG during our annual management dialogues.

In order to finance capital provisioning to our operating entities, Allianz AG uses the intra-Allianz Group dividend funding it receives from operating entities. Furthermore, Allianz AG will also from time to time raise funds on the capital markets through the issue of debt or other financial instruments in order to finance any capital or liquidity requirement in excess of the Allianz Group-internal financing capacity.

Liquidity planning is an important process at both the operating entity and Allianz AG levels, and is integrated into the financial planning process of the Allianz Group. The financial planning process is based on strategic decisions and includes, for example, solvency planning, dividend targets and merger & acquisition expenditures. Liquidity risks can result from operational risks, planning risks, system risks, adverse developments in solvency levels of operating entities, contingent liabilities as well as requirements caused by natural catastrophes, financial markets, political crises or any other significant adverse developments. Strategic liquidity risks and resources are monitored on a regular basis. Liquidity risks are managed continuously through a variety of instruments to ensure short- and long-term financial flexibility for the Allianz Group. In the context of a financial services company, where our working capital is largely representative of our liquidity, we believe our working capital is sufficient for our present requirements.

Capital Requirements

Our capital requirements are primarily dependent on our growth and the type of business that we underwrite, as well as the industry and geographic locations in which we operate. In addition, the allocation of our investments plays an important role. During our annual management planning dialogues with our operating entities, capital requirements are forecasted through business plans regarding the levels and timing of capital expenditures and investments. Regulators impose minimum capital rules on the level of both our operating entities and the Allianz Group as a whole.

At December 31, 2005, our eligible capital for the solvency margin, required for insurance groups under German law, was €43.6 billion (2004: €29.1 billion), surpassing the minimum legally stipulated level by €29.4 billion. This margin resulted in a cover ratio[1] of 307% (2004: 217%). In 2005, this solvency margin requirement applied only to our insurance segments and did not contain any capital requirements for our banking business.

On January 1, 2005, the Financial Conglomerates Directive, a supplementary EU directive, became effective in Germany. Under this directive, a financial conglomerate is defined as any financial parent holding company that, together with its subsidiaries, has significant cross-border and cross-sector activities. The Allianz Group is a financial conglomerate within the scope of the directive and the related German law. The law requires that the financial conglomerate calculates the capital needed to meet the respective solvency requirements on a consolidated basis. The calculation methodology for the financial conglomerates solvency margin is still subject to uncertainties.

At December 31, 2005, based on the current status of discussion, our eligible capital for the solvency margin, required for our insurance segments and our banking and asset management business, was €40.0 billion including off-balance sheet reserves[2], surpassing the minimum legally stipulated level by €16.3 billion. This margin resulted in a cover ratio of 169% in 2005. In 2005, all Allianz Group companies also have met their local solvency requirements.

[1] Represents the ratio of eligible capital to required capital.

[2] Representative of the difference between fair value and amortized cost of real estate used by third parties and investments in associated enterprises and joint ventures, net of deferred taxes, policyholders' participation and minority interests.

Dresdner Bank is subject to the risk-adjusted capital guidelines (or "Basle Accord") promulgated by the Basle Committee on Banking Supervision (or "BIS-rules") and therefore calculates and reports under such guidelines to the German Federal Financial Supervisory Authority (the Bundesanstalt für Finanzdienstleistungsaufsicht, or "BaFin") and the Deutsche Bundesbank, the German central bank. These guidelines are used to evaluate capital adequacy based primarily on the perceived credit risk associated with balance sheet assets, as well as certain off-balance sheet exposures such as unfunded loan commitments, letters of credit, and derivative and foreign exchange contracts. In addition, for Allianz AG to maintain its status as a "financial holding company" under the U.S. Gramm-Leach-Bliley Financial Modernization Act of 1999, Dresdner Bank must be considered "well capitalized" under guidelines issued by the Board of Governors of the Federal Reserve System. To be considered "well capitalized" for these purposes, Dresdner Bank must have a Tier I Capital Ratio of a least 6 % and a combined Tier I and Tier II Capital Ratio of at least 10 %, and not be subject to a directive, order or written agreement to meet and maintain specific capital levels. As shown in the table below, Dresdner Bank maintained a "well capitalized" position during both 2005 and 2004.

The following table sets forth Dresdner Bank's BIS capital ratios:

As of December 31,	2005[*] € mn	2004 € mn
Tier I capital (core capital)	**11,126**	**6,867**
Tier I & Tier II capital (supplementary capital)	18,211	13,734
Tier III capital	–	226
Total capital	**18,211**	**13,960**
Risk-weighted assets–banking book	108,659	100,814
Risk-weighted assets–trading book	2,875	3,963
Total risk-weighted assets	**111,534**	**104,777**
Tier I capital ratio (core capital) in %	9.98	6.55
Tier I & Tier II capital ratio in %	16.33	13.11
Total capital ratio in %	**16.33**	**13.32**

[*] Effective June 2005, Dresdner Bank changed the accounting basis for calculation and disclosure of BIS-figures from HGB to IFRS.

The distinction between "core capital" and "supplementary capital" in the table above reflects the ability of the capital components to cover losses. Core capital, with the highest ability to cover losses, corresponds to Tier I capital, while supplementary capital corresponds to Tier II capital as such terms are defined in applicable U.S. capital adequacy rules.

In addition to regulatory capital requirements, Allianz AG also uses an internal risk capital model to determine how much capital is required to absorb any unexpected volatility in results of operations. For further information regarding our internal risk capital model, please refer to our "Risk Report."
In addition to regulatory requirements and our internal risk capital model, rating agencies use distinct methodologies to determine if our capital base is adequate. During the course of 2005, the rating agencies "Standard & Poor's" and "A.M. Best" have recognized the considerable strengthening of our capital base and updated the outlooks for our ratings during 2005 accordingly. At December 31, 2005, we had the following ratings with the major rating agencies:

Allianz AG Ratings as of December 31, 2005

	Standard & Poor's	Moody's	A.M. Best
Insurer financial strength	AA–	Aa3	A+
Outlook	Stable	Stable	Stable
Counterparty credit	AA–	not	aa–
Outlook	Stable	rated	Stable (issuer credit rating)
Senior unsecured debt	AA–	Aa3	aa–
Outlook		Stable	Stable
Subordinated debt	A/A–[*]	A2	a+/a[*]
Outlook		Stable	Stable
Commercial paper (short term)	A-1+	P-1 Stable	not rated

[*] Ratings vary on the basis of maturity period and terms.

Liquidity

Our liquidity results from the operating activities generated by our property-casualty, life/health, banking and asset management operations, as well as the financing activities from Allianz AG, the holding company for the Allianz Group.

Insurance Operations

The principal sources of liquidity for our operating activities within our insurance operations include primary and reinsurance premiums collected (primarily from our operating entities), collected reinsurance receivables, as well as investment income and proceeds generated from the sale of investments. Our major uses of funds within our insurance operations include paying property-casualty claims and related claims expenses, providing life policy benefits, paying surrenders and cancellations, as well as other operating costs.

We generate substantial cash flow from our insurance operations as a result of most premiums being received in advance of the time when claim payments or policy benefits are required, thereby allowing us to invest these funds in the interim to generate future investment income and realized gains. However, the liquidity of our insurance operations is impacted by, among other factors, the duration of our investments, development of equity markets, the interest rate environment and our ability to realize the carrying value of our investment portfolio to meet insurance claims and policyholder benefits as they become due.

Additionally, the liquidity of our property-casualty insurance operations is affected by the frequency and severity of losses under its policies, as well as by the persistency of its products. Future catastrophic events, the timing and effect of which are inherently unpredictable, may also create increased liquidity requirements for our property-casualty operations. The liquidity needs of our life operations are generally affected by trends in actual mortality experience relative to the assumptions with respect thereto included in the pricing of our life insurance policies, by the extent to which minimum returns or crediting rates are provided in connection with our life insurance products, as well as by the level of surrenders and withdrawals.

Banking and Asset Management Operations

For our banking operations, our primary sources of liquidity include customer deposits and interest and similar income from our lending transactions, while our major uses of funds are for the issuance of new loans and advances to banks and customers, and the payment of interest on deposits and other operating costs. The liquidity of our banking operations is largely subject to the ability of individual customers, and various other enterprises to which we extend credit, to make payments to us based on their outstanding commitments and could, therefore, be negatively affected by unforeseeable losses due to problem loans.

Within our asset management operations, our primary sources of liquidity include fees generated from asset management activities, while the principal use of these funds is for the payment of operating costs.

Financing

From time to time, the Allianz Group, through Allianz AG, will raise funds on the capital markets through the issue of debt or other financial instruments in order to fund any liquidity need which cannot fully be covered by our operating or investment cash flows. See “Debt and Capital Funding” below for further information. We also have access to commercial paper, medium-term notes and other credit facilities as additional sources of liquidity. At December 31, 2005, we had access to unused credit lines as a source of further liquidity.

While Allianz AG receives internal funding from Allianz Group operating entities through the payment of dividends, it also paid dividends of € 674 million and € 551 million to our shareholders in 2005 and 2004 with respect to the fiscal years 2004 and 2003, respectively. The Board of Management and the Supervisory Board propose to pay a dividend of € 2.00 per eligible share in 2006 for fiscal year 2005, which will approximate € 811 million of dividend payments in 2006.

Certain of the operating entities within the Allianz Group are subject to legal restrictions on the amount of dividends they can pay to their shareholders. In addition to the restrictions in respect of minimum capital and solvency requirements that are imposed by insurance and other regulators in the countries in which these companies operate, other limitations exist in certain countries. For example, the operations of our insurance company subsidiaries located in the United States are subject to limitations on the payment of dividends to their parent company under applicable state insurance laws. Dividends paid in excess of these limitations generally require prior approval of the insurance commissioner of the state of domicile.

Debt and Capital Funding

Allianz AG coordinates and executes external debt financing, securities issues and other capital raising transactions for the Allianz Group. At December 31, 2005, the majority of Allianz AG’s external debt financing was in the form of debentures and money market securities. Our total certificated liabilities outstanding at December 31, 2005 and 2004 were € 59,203 million and € 57,752 million, respectively. Of the certificated liabilities outstanding at December 31, 2005, € 33,097 million are due within one year. See Note 19 to our consolidated financial statements for further information. Our total participation certificates and subordinated liabilities outstanding at December 31, 2005 and 2004 were € 14,684 million and € 13,230 million, respectively. Of the participation certificates and subordinated liabilities at December 31, 2005, € 1,077 million are due within one year. See Note 15 to our consolidated financial statements for further information. Additionally, see Note 39 to our consolidated financial statements for information regarding how we use certain derivatives to hedge our exposure to interest rate and foreign currency risk related to certificated and subordinated liabilities.

Allianz AG owns several finance companies. Among those, primarily Allianz Finance B.V. and Allianz Finance II B.V., both incorporated in The Netherlands, are used from time to time for external debt financing and other corporate financing purposes. In addition, in December 2003, Allianz AG established a Medium Term Note (or "MTN") program which is used from time to time for purposes of external and internal debt issuance. The volume of debt issued by Allianz Finance B.V. and Allianz Finance II B.V. for the years ended December 31, 2005 and 2004 was €2.7 billion and zero, respectively. At December 31, 2005, Allianz AG had money market securities outstanding with a carrying value of €1,131 million.

In January 2005, we successfully completed our "All-in-One" capital market transactions. The All-in-One capital market transactions (1) reduced the Allianz Group's equity gearing, (2) included the issuance of a subordinated bond, and (3) helped Dresdner Bank to further reduce its non-strategic asset portfolio.

- **Reduction of equity gearing** In order to further reduce our exposure to equities, Allianz AG, through Allianz Finance II B.V., issued a three-year index linked exchangeable bond of €1.3 billion. The redemption value of this security, BITES (or "Basket Index Tracking Equity-linked Securities"), is linked to the performance of the DAX Index and was issued at a DAX-reference level of 4,205.115. During the three-year term of this instrument, Allianz AG may choose to redeem the bond with shares of BMW AG, Munich Re or Siemens AG. Investors will receive an annual out-performance premium of 0.75 % on the prevailing future DAX level and a repayment premium of 1.75 %, based on the DAX level at redemption.
- **Subordinated bond** Allianz AG refinanced part of its 2005 €2.7 billion maturing bonds through the issuance of a subordinated bond in the amount of €1.4 billion. The subordinated bond bears a coupon of 4.375 % for the first twelve years and was issued at a price of 98.923 %, yielding 4.493 %. While this is a perpetual bond, it is callable by Allianz AG for the first time in 2017. Attached to the bond are 11.2 million warrants on Allianz AG shares with a maturity of three years. The bond ex-warrants were placed with institutional investors. In 3Q 2005, warrants representing 9 million Allianz AG shares were exercised. The premiums received thereof were accounted for within shareholders' equity.
- **Reduction of non-strategic assets by Dresdner Bank** Dresdner Bank accomplished a further step in its strategy of reducing its non-strategic equity holdings. Dresdner Bank sold 17,155,008 Allianz AG shares at €88.75 per share to an investment bank, which placed these shares in the form of a Mandatory Exchangeable. This structure enabled the Allianz Group to benefit from a portion of Allianz AG's future share price appreciation.

In connection with financing the merger of RAS with and into Allianz AG, approximately €2.2 billion, in aggregate, was secured in 3Q 2005 from equity-based financing and the issuance of an equity-linked loan. In this context, approximately €1.1 billion was placed out of authorized capital without pre-emptive rights and a €1.1 billion equity-linked loan was issued with a variable redemption amount linked to the share price of Allianz AG, which can be settled, at our option, in cash or Allianz AG shares.

On March 23, 2005, we repaid the Siemens exchangeable bond issued in 2000. The issue amount of the exchangeable bond of €1.7 billion was repaid in cash as the share price of Siemens AG was below the exercise price. Additionally, on August 26, 2005, we repaid the CHF 1.5 billion senior bond issued in 1999 and 2000. Our use of commercial paper as a short-term financing instrument was reduced by 21.4 % to €1.1 billion in 2005 from €1.4 billion in 2004. Interest expense on commercial paper declined marginally to €31.3 million (2004: €31.6 million) due to increasing interest rates in 2005.

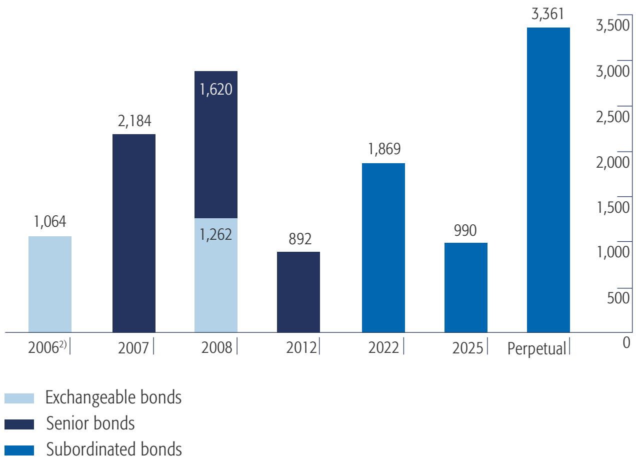
In March 2006, Allianz Finance II B.V. issued €800 million of subordinated perpetual bonds, guaranteed by Allianz AG, with a coupon rate of 5.375 %. Allianz Finance II B.V. has the right to call the bonds after five years.

Outstanding Allianz AG issued debt[1] – Overview as of December 31, 2005

	Volume	Carrying value	Interest expense in 2005
	€ mn	€ mn	€ mn
Senior bonds[2]	4,732	4,696	250.3
Subordinated bonds	6,324	6,220	355.7
Exchangeable bonds	2,337	2,326	103.1
Bonds total	**13,393**	**13,242**	**709.1**

[1] Bonds and exchangeable bonds issued or guaranteed by Allianz AG in the capital market, presented at nominal and carrying values. Excludes €85.1 mn of participation certificates with interest expense of €6.3 mn in 2005.
[2] Excludes €85 mn related to a private placement due in 2006.

Certificated liabilities and subordinated bonds[1] by maturity – Overview as of December 31, 2005
in € mn



[1] Bonds and exchangeable bonds issued or guaranteed by Allianz AG in the capital market, presented at carrying values. Excludes € 85.1 mn of participation certificates.
[2] Excludes € 85 mn related to a private placement.

The following table describes the Allianz AG issued debt outstanding at December 31, 2005 at nominal values. For further information, see Notes 15, 19 and 32 to our consolidated financial statements.

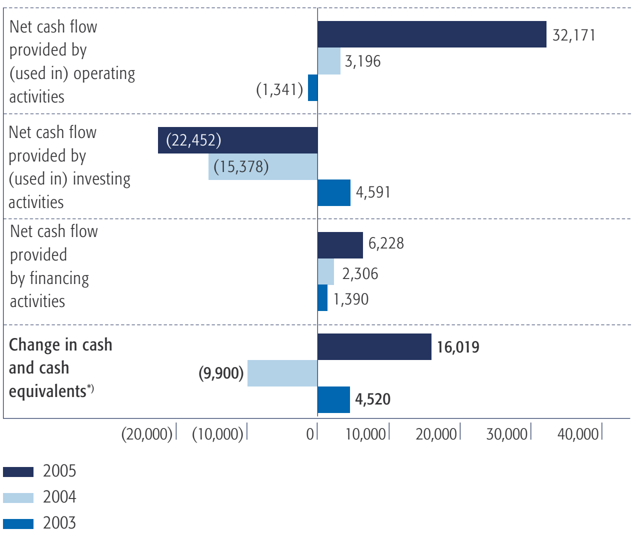
Allianz AG Issued Debt[1)]

		Interest expense in 2005 € mn
1. Senior bonds[2)]		
5.75 % bond issued by Allianz Finance B.V., Amsterdam		
Volume	€ 1.1 bn	
Year of issue	1997/2000	
Maturity date	7/30/2007	
SIN	194 000	
ISIN	DE 000 194 000 5	
Interest expense		63.6
5.0 % bond issued by Allianz Finance B.V., Amsterdam		
Volume	€ 1.6 bn	
Year of issue	1998	
Maturity date	3/25/2008	
SIN	230 600	
ISIN	DE 000 230 600 8	
Interest expense		83.7
4.625 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 1.1 bn	
Year of issue	2002	
Maturity date	11/29/2007	
SIN	250 035	
ISIN	XS 015 878 835 5	
Interest expense		52.2
5.625 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 0.9 bn	
Year of issue	2002	
Maturity date	11/29/2012	
SIN	250 036	
ISIN	XS 015 879 238 1	
Interest expense		50.8
Total interest expense for senior bonds		250.3
2. Subordinated bonds		
6.125 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 2 bn	
Year of issue	2002	
Maturity date	5/31/2022	
SIN	858 420	
ISIN	XS 014 888 756 4	
Interest expense		122.8
7.25 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	USD 0.5 bn	
Year of issue	2002	
Maturity date	Perpetual Bond	
SIN	369 290	
ISIN	XS 015 915 072 0	
Interest expense		29.9
6.5 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 1 bn	
Year of issue	2002	
Maturity date	1/13/2025	
SIN	377 799	
ISIN	XS 015 952 750 5	
Interest expense		65.0
5.5 % bond issued by Allianz AG		
Volume	€ 1.5 bn	
Year of issue	2004	
Maturity date	Perpetual Bond	
SIN	A0A HG3	
ISIN	XS 018 716 232 5	
Interest expense		83.3
4.375 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 1.4 bn	
Year of issue	2005	
Maturity date	Perpetual Bond	
SIN	A0DX0V	
ISIN	XS 021 163 783 9	
Interest expense		54.7
Total interest expense for subordinated bonds		355.7
3. Exchangeable bonds		
1.25 % exchangeable bond issued by Allianz Finance II B. V., Amsterdam		
Exchangeable for	RWE AG shares	
Volume	€ 1.1 bn	
Year of issue	2001	
Maturity date	12/20/2006	
Current exchange price	€ 50.16	
SIN	825 371	
ISIN	XS 013 976 180 2	
Interest expense[3)]		45.9
Received option premium at issue	€ 178.1 mn	
0.75 % Basket Index Tracking Equity Linked Securities (BITES) issued by Allianz Finance II B. V., Amsterdam		
Underlying	DAX®	
Volume	€ 1.3 bn	
Year of issue	2005	
Maturity date	2/18/2008	
SIN	A0DX0F	
ISIN	XS 021 157 635 9	
Interest expense[3)]		57.2
Total interest expense for exchangeable bonds		103.1
4. Participation certificates		
Allianz AG participation certificate		
Volume	€ 85.1 mn	
SIN	840 405	
ISIN	DE 000 840 405 4	
Interest expense		6.3
Total interest expense for participation certificates		6.3
5. Issues that matured in 2005		
3.0 % issued by Allianz Finance B. V., Amsterdam		
Volume	CHF 1.5 bn	
ISIN	CH 000 830 806 3	
Matured on	8/26/2005	
Interest expense		21.1
2.0 % exchangeable bond issued by Allianz Finance B. V., Amsterdam		
Volume	€ 1.7 mn	
ISIN	DE 000 452 540 7	
Maturity date	3/23/2005	
Interest expense[3)]		18.8
Total interest expense 2005 for matured issues		39.9
Total interest expense		755.3

1) Bonds and exchangeable bonds issued or guaranteed by Allianz AG in the capital market.
2) Excludes € 85 mn related to a private placement due in 2006.
3) Includes coupon payment and option premium at amortized cost.

Allianz Group Consolidated Cash Flows

Change in cash and cash equivalents for the years ended December 31, in € mn



*) Includes effect of exchange rate changes on cash and cash equivalents of € 72 mn, € (24) mn and € (120) mn in 2005, 2004 and 2003 respectively.

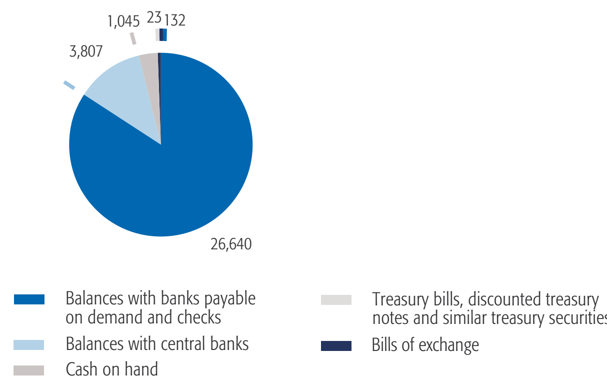
Net cash flow provided by operating activities increased by € 28,975 million to € 32,171 million (2004: € 3,196 million) in 2005. Of which, the decrease in financial assets and liabilities held for trading contributed € 11,885 million (2004: reduction of € 30,209 million), mainly resulting from a decline in the trading business and the reduction in trading liabilities. In addition, assets from reverse repurchase agreements and collateral paid for securities borrowing transactions contributed € 43,656 million (2004: reduction of € 10,136 million), largely as a result of reduced business volume. Conversely, the reduction of liabilities from repurchase agreements and collateral received from securities lending transactions reduced operating cash flow by € 18,692 million (2004: increase of € 35,255 million). This development was primarily caused by declining business volume, which lead to a reduction in the respective liabilities.

Net cash flow used in investing activities amounted to € 22,452 million (2004: € 15,378 million), primarily due to an increase in investments held at fair value by € 28,983 million (2004: € 12,661 million), resulting from a significant inflow of funds from business underwritten.

Net cash flow provided by financing activities increased by € 3,922 million to € 6,228 million (2004: € 2,306 million). Cash inflow from capital increases amounted to € 2,183 million (2004: € 86 million). Further, the issuance of subordinated debt and the sale of treasury shares contributed to the increased cash flow provided by financing activities.

In total, cash and cash equivalents increased by € 16,019 million (2004: decrease of € 9,900 million).

Cash and cash equivalents as of December 31, 2005
in € mn (Total: € 31,647 mn)



The Allianz Group holds cash and cash equivalents in more than 30 different currencies, although such cash and cash equivalents are held primarily in Euros, followed by U.S. Dollars, Swiss Francs and British Pounds. At December 31, 2005, 2004 and 2003, the Allianz Group held € 31,647 million, € 15,628 million and € 25,528 million, respectively, of cash and cash equivalents. See Note 11 to our consolidated financial statements for additional information on the Allianz Group's cash and cash equivalents.

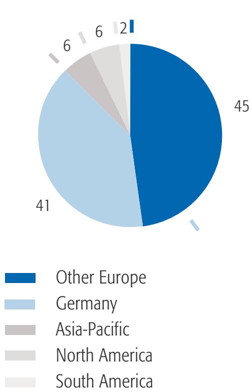
Our Employees

Human Resource activities lend support to the "3+One" program, promote the culture of leadership and performance, and contribute to the improvement in operational efficiency.

The customer-orientation, commitment and professionalism of its employees have helped Allianz to achieve its place in the world today. Human resource (or "HR") activities at the Allianz Group foster the high standards of its employees at two levels. Responsibility for all operational personnel issues is at the level of the operating entitites. International strategic human resource policies are under the lead of the Group Center.

At December 31, 2005, we had 177,625 employees in more than 70 countries; that is 1,124 more than in the previous year. The following chart and associated table provide an overview of Allianz employees broken down by country.

Employees by region
in %



Employees by country

	2005	2004
Germany	72,195	75,667
United Kingdom	27,661	23,817
France	17,246	17,129
United States	10,840	10,313
Italy	7,706	7,715
Australia	3,673	3,283
Austria	3,024	3,006
Hungary	2,839	2,941
Switzerland	2,823	2,930
Spain	2,762	2,664
Slovakia	2,645	2,858
Brazil	2,345	2,259
Netherlands	1,851	1,844
Romania	1,749	1,598
South Korea	1,711	1,785
Belgium	1,563	1,672
Other	14,992	15,020
Total	**177,625**	**176,501**

International HR activities and "3+One"

Our international HR activities lend support to the "3+One" program and the initiatives resulting from it (see page 22 of this Annual Report). Tying the "3+One" initiatives into our personnel development models forms as much a part of this as consistently integrating the program's goals and issues into our management seminars. Beyond that, we also implement the basic "3+One" ideas in core processes of our HR activities. For instance, skills profiles, tools for agreeing on targets and assessment procedures that are carried out throughout the Allianz Group and improve the efficiency of our HR activities around the globe.

Corporate culture and leadership values

We promote a corporate culture that is directed towards our internationality as well as our performance and customer-orientation. This includes identifying young staff with potential for management and specialist responsibilities within the Group and systematically developing them. This way we are an attractive employer to talents both inside and outside Allianz.

In 2003 we introduced our "Leadership Values" that are uniform throughout the world. These have at their heart a culture of leadership and performance that is oriented towards customers and employees. Year after year we check whether and to what extent these Leadership Values are working in our company. The results of the last poll in October 2005, which showed further improvement, demonstrate that the Leadership Values give a sense of direction to managers in the Allianz Group around the world. Those involved in management broadly support and began implementing the "3+One" initiatives in 2005.

Performance base and pay

Managing staff at the Allianz Group is a matter of agreeing on individual objectives. We want to create a noticeable link between the achievement of objectives and pay. Compensation for upper and middle management is already largely tied to the realization of operating and strategic goals accordingly.

Total wages and salaries paid by the Allianz Group in 2005 to its employees worldwide amounted to €9.6 billion (2004: €9 billion). Of this amount, €1.6 billion or 16.7 % was performance-related. Social security contributions, pensions and other employee benefits amounted to €2.3 billion (2004: €2.1 billion).

In the year under review, we once again launched an employee stock purchase plan, which offered Allianz AG shares on preferential conditions to 122,000 employees in 21 countries. The number of employees opting for Allianz AG shares raised by 5.1 percentage points to 29.9 % of those entitled.

Our senior management participates in the Group Equity Incentive Plan, which is made up of restricted stock units (or "RSUs") and stock appreciation rights (or "SARs"). The potential return of those plans depends on the performance of the Allianz AG share price. The calculation takes into account the Economic Value Added (or "EVA®") of the Allianz Group and the EVA® of the respective Group company, as well as fulfilment of objectives related to the risk capital employed. The Group Equity Incentive Plan meets all requirements and recommendations of the German Corporate Governance Code.

More detailed information on stock-based remuneration and Board of Management remuneration is provided on pages 15 to 17 of this Annual Report.

Management development

The Allianz Group Management Institute (or "AMI Group") has the task of developing our top managers and candidates for senior management responsibilities. This task has three components:

- "Top Management Dialog" ensures that the uppermost level of management at Allianz throughout the world has a common understanding of Allianz Group strategy and its implementation.
- "Leadership Development" provides our top performers with the best training and development currently available anywhere in the world at the time.
- "Cultural Change" program promotes an international corporate culture amongst our managers.

AMI Group programs regularly link management development to the advancement of the Allianz Group. The "Allianz Excellence Program" is a good example of this. It is directed at experienced managers working on strategic projects to solve business policy issues with one of the top business schools. The projects are sponsored by members of the Allianz AG's Board of Management. When a project is completed, it is discussed in the Board of Management and introduced into the Allianz Group's operations.

EVA® is a registered Trademark of Stern Stewart & Co.

Promoting operational efficiency

"Operational Excellence" (or "OPEX") is the name we give to all measures and procedures for improving the efficiency of business processes and project tasks, as well as change management. The approach is based on the Six Sigma method that has been introduced in the industrial field, i. e. at the General Electric Company. We have modified this method and adapted it to the requirements of a financial service provider. 450 of our employees around the world have already received training in applying this approach and have been certified. We shall significantly increase this number, so that we are able to rapidly and competently improve the processes and methods employed in our work environment on a continuous and sustainable basis.

International deployment

International experience and intercultural competence are a key qualification for Allianz Group employees and an advantage in international competition. As a result, we promote international deployment and exchange of specialists and managers. Cross-border deployment between Group companies is also an effective instrument for taking advantage of the superior business concepts and procedures of one unit and introducing them throughout the Group. This is used intensively as part of our Sustainability Program. Today there are about 400 experts from 30 countries working on this project that spans the globe. The internationally oriented development of our employees improves in particular the potential of our internal labour market and the attractiveness of the Allianz Group as an employer.

Acknowledging cultural diversity

We desire promote cooperation between employees from diverse cultural backgrounds, as well as those of different ages, levels of experience and ability. We are convinced that diversity is well suited to finding outstanding solutions for heterogeneous and constantly changing markets. Our Diversity Policy lays down a framework for this cooperation. The newly formulated Code of Conduct describes the general rules, and prohibits any kind of discrimination.

Innovative presence in the labour market

Our technical platform on the Internet "Allianz Global Job Markets" for finding and attracting new talent and to fill positions, is now in its third year of operation. It has significantly reduced our recruitment costs and contributed substantially to our positive image as an employer in Europe and the United States. The site allows anyone interested from inside or outside the company to obtain information on and apply for open positions anywhere in the world. It is also possible to register interest in positions that are not yet open. The development of a corresponding platform for Asia starts in 2006.

Report on Expected Developments

Positive business prospects.

Economic Outlook

Economic growth to improve our business prospects.

For 2006, we expect the global economy to maintain a rate of growth consistent with the previous year, but with decreasing differences between the industrialized countries. The current trade deficit in the United States and the effect it will have on future exchange rates against the U.S. dollar remain uncertain. While the more restrictive monetary policy of the various central banks around the world are working to thwart off the risk of inflation, it is also restricting economic growth. Overall this is a positive business environment for financial service providers.

Our economists forecast world economic growth in 2006 at 3.2 % (2005: 3.2 %). This should allow world trade to maintain its current dynamic and increase by approximately 8 %. We consider the emerging markets, with growth of 5.5 %, to have particular potential. Industrialized countries should see expansion of approximately 2.6 %, consistent with the previous year.

Growth in Asia of 6.7 % will continue to drive the global economy. We assume that the expansion in South Korea in 2006 will accelerate further. In contrast, economic growth in India will decline slightly to 7.0 % (2005: 7.5 %), and in China to 8.5 % (2005: 9.9 %); this will reduce the risk of the economies in these countries from expanding at an over-accelerated pace. In Japan, the largest economy in Asia, we predict continued stable growth of 2.5 % (2005: 2.6 %).

While economic growth in the United States is predicted to slow to 3.2 % (2005: 3.7 %), primarily as a result of the restrictive interest rate policy of the Federal Reserve Bank, it should increase slightly in Europe. We believe that most of the EU countries will slightly exceed the growth of the previous year, except in Spain, where we expect the pace of growth to slow. We expect the German economy to perform positively in 2006. We expect increased investment and increases in consumer spending as a response to the changes in tax policy by the German federal government, largely as a result of the increase in value added tax in 2007. We estimate economic growth in Germany will reach approximately 2 %, doubling that of the previous year. With minor deviations, EU countries and the Euro zone should also see a comparable level of growth.

On the financial markets, we expect higher interest rates on short maturities as a result of a restrictive monetary policy by the various central banks across the globe. There is great uncertainty as to the strength of the U.S. dollar, as well as, among others, the effects of the substantial trade deficit of the U.S. economy, which may also slow growth. Initial signs seem to indicate that the profitability of U.S. companies will weaken in the second half of 2006, which would negatively affect the performance of the U.S. stock markets.

Industry Outlook

Favorable business environment for financial service providers.

These macroeconomic conditions improve the business outlook for financial service providers.

Following a year plagued with a large number of natural catastrophes, including one of the worst hurricane seasons on record, we expect the **property-casualty insurance** sector to experience an improved year in 2006, further major natural catastrophes notwithstanding. However, as competition for market share is ever-increasing, there exists an inherent risk that insurance companies will adopt a less than disciplined approach in underwriting new business in order to gain market share. The rapid growth in the economy, income levels and the value of property in Asia make the market in this region increasingly interesting for the property-casualty insurance business.

We expect the **life insurance** business to continue to benefit from the continued necessity of individuals and companies making provisions for retirement. This need will be predominantly covered by life insurance and related retirement products. Demand for products of this type should continue to rise, as in many countries reforms of state retirement systems have not yet been completed, consequently additional cuts in anticipated retirement income promised by these government-sponsored plans are expected. Equally significant are the effects of the aging society on the state healthcare systems, but there appears to be little sign of political will for effective reforms in this area. With this in mind, it appears evident that sooner or later it will be unavoidable that citizens themselves will have to bear a portion of their healthcare costs, thereby creating attractive business opportunities for private **health insurance** providers.

The need for people to make provisions for their retirement and the virtually worldwide increase in the standard of living are also leading to a rise in the **asset management** business. The total assets that must be managed for personal or corporate retirement schemes is steadily increasing. The U.S. and European markets present particular opportunities, where "baby boomers" are nearing retirement age. While this transition will occur in the United States in five to ten years, Europeans still have fifteen to twenty years to make their own provisions for retirement. Another growth area is Asia, whose middle class is increasingly gaining importance with its economic upturn.

Banking, even in Germany, should present encouraging figures because of the solid growth outlook, as this is a more cyclical industry than, for example, insurance. We expect that a higher corporate propensity to invest will noticeably increase demand for credit.

Outlook for the Allianz Group

» **In 2006, and as we did in 2005, we will continue to advance our comprehensive initiatives to further increase the competitive strength and sustainable value of the Allianz Group over the long-term.**

Strategy

Please see "Strategy" on pages 22 to 23 of this Annual Report for information on our growth strategy.

Outlook 2006

We expect an overall increase in operating profit and net income of 10 %. Within our Property-Casualty segment we are striving to maintain a strong combined ratio of approximately 93 %. We are also confident that our Life/Health and Banking segments will achieve an operating profit of € 1.7 billion and € 1.3 billion, respectively. For our Asset Management segment, we are targeting an increase of third-party assets under management of more than 10 %, when adjusting for currency impacts. However, as always, natural catastrophes and adverse developments in the capital markets, as well as the factors stated below in our cautionary note regarding forward-looking statements, may severely impact our profitability.

Outlook 2007

In 2007, we expect to continue to drive forward our initiatives of sustainable competitiveness and value for our shareholders and policyholders by capitalizing on, among others, the advancement of our Sustainability and Customer Focus programs in order to benefit the performance of all segments.

Reporting Changes Effective January 1, 2006

Through the implementation of the following reporting changes effective January 1, 2006, and applied retrospectively, we will further improve transparency.

» **Operating profit methodology** We will fully align operating profit methodology across all segments, with the exception of the consolidation of intra-Allianz Group dividends. Life/Health segment's operating profit will be different from our other operations' operating profit with respect to the consolidation of intra-Allianz Group dividends. Intra-Allianz Group dividends received by our Life/Health segment will be further consolidated on the segment level, due to policyholder participation in these dividends. By refining our operating profit methodology, we will further improve its reflection of our business mechanics. Our definition of operating profit in our various segments may differ from similar measures used by other companies, and may change further over time.

- **Consolidation of intra-Allianz Group dividends** Effects within the consolidation column will be significantly reduced as intra-Allianz Group dividends will be eliminated at the recipient. As previously stated, this does not apply to our Life/Health segment.
- **Introduction of re-defined combined ratio** Other income and other expenses will be minimized as they will be, to a significant extent, reflected within our re-defined combined ratio. Accordingly, our Property-Casualty segment's re-defined combined ratio for 2005 will be approximately two percentage points higher compared to that calculated based on the methodology used herein.
- **Introduction of a Corporate segment** Clear distinction between results of operations of our Property-Casualty segment and corporate activities through the introduction of a Corporate segment.
- **New structure of Allianz Group income statement** All key performance indicators, including a re-defined combined ratio encompassing additional costs, will be able to be directly derived from the income statement.

Munich, February 22, 2006
Allianz Aktiengesellschaft

The Board of Management

Diekmann	Dr. Achleitner
Booth	Carendi
Cucchiani	Dr. Faber
Dr. Perlet	Dr. Rupprecht
Thierry	Dr. Walter
Dr. Zedelius	

Recommendation for Appropriation of Profit

The Board of Management and the Supervisory Board propose that the unappropriated earnings of Allianz AG for fiscal 2005 in the amount of € 820,000,000 be appropriated as follows:

- Distribution of a dividend of € 2.00 per eligible share: € 811,231,930; and
- Allocation of € 8,768,070 to other appropriated retained earnings.

The recommendation for appropriation of earnings takes into account own shares held directly or indirectly by the company, which in accordance with the German Stock Corporation Act (clause 71 b AktG) are not entitled to receive a dividend. Further purchases or sales of own shares during the period prior to the Annual General Meeting may increase or decrease the number of shares eligible for dividends. In this case, an amended proposal for the appropriation of profit based upon an unchanged dividend in the amount of € 2.00 per eligible share will be submitted to the Annual General Meeting for ratification.

Munich, February 10, 2005
Allianz Aktiengesellschaft

Sustainability and the Global Compact

Corporate responsibility is a traditional part of our business practice.

We have committed ourselves to reporting on the sustainability of our business, including on social and environmental consequences, and are a signatory of the Global Compact, an initiative of UN Secretary General Kofi Annan. The Global Compact has established ten principles that govern human rights, labour standards, environmental protection and bribery. They provide valuable orientation in achieving sustainability.

In brief, our progress in 2005 was as follows:

Code for Business Ethics and Compliance

In June 2005, we issued a new Code for Business Ethics and Compliance that updates the rules that had been in place and aligns them with the principles of the Global Compact and OECD guidelines for multinational companies. This code of conduct assists us in achieving our objective of considering our business, sustainability and social responsibility as a whole, and of orienting our activities accordingly. These standards provide our employees around the world with ethical guidelines. They demand honest and fair behaviour and prohibit corruption, insider trading and discrimination. Rules are also established with respect to behaviour towards clients, business partners and journalists, as well as to sponsorships, donations and environmental protection.

Ethical Investment

We offer four investment funds that are managed in accordance with ethically and environmentally sound principles. A total of €200 million is invested in these funds. Including the sustainability funds we manage for institutional investors and other sustainable capital investments, our total investment for third parties in this growth market is €3.8 billion. 67 % of the Group's own capital investments are invested in companies classified as "sustainable".

Sustainability Indices

Shares in Allianz AG or their Group companies are included in the Indexes Dow Jones Sustainability World and Dow Jones Sustainability STOXX (where shares of Allianz AG, RAS and AGF are represented). Only 10 % of the companies with the best sustainability ranking in an industry are included in these indices. Our shares are also in the Financial Times Sustainability Indexes FTSE-4-Good Global and FTSE-4-Good Europe. One in three European sustainability funds holds Allianz shares.

Foundations

Our Group has a total of twelve foundations working for environmental, social and cultural objectives in almost every region of the world. As a Group holding, we manage the Allianz Environmental Foundation, the Allianz Cultural Foundation, the Allianz Foundation of North America and Allianz Direct Help. Our subsidiaries also hold the Jürgen-Ponto-Stiftung, RAS Fondazione Umana Mente, Kulturstiftung Dresden, Allianz Care Foundation Indonesia, AGF Athena Foundation, Fireman's Fund Foundation, PIMCO Foundation and AGF Brasil Charity and Relief Association. In addition to the work of our foundations, we initiated two special projects in 2005 dedicated to environmental protection and fighting poverty.

Climate Change

After preparing a report together with the Worldwide Funds for Nature (or "WWF") on the opportunities and risks of climate change for the financial services industry, we formed a core task force in the year under review, which is examinating these climatic effects in-depth. It is evaluating risks and new business opportunities, for example in trading emissions rights and in the area of renewable energies.

Microinsurance

In cooperation with the "Gesellschaft für Technische Zusammenarbeit" (or "GTZ"), we have developed microinsurance schemes, that are suitable to ease poverty in emerging markets and developing countries, such as India or Indonesia. Microinsurance is life insurance that offers protection for only a few euro cents a month. Our Indian company, Bajaj Allianz, sold 80,000 such polices in 2005 in cooperation with Activists for Social Alternatives (or "ASA"), a local non-governmental organization. We are currently reviewing whether we should also offer microinsurance in other Asian markets.

Principal Accountant Fees and Services

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (or "KPMG DTG") serves as the external auditing firm for the Allianz Group.

The table set forth below contains the aggregate fees billed for each of the last two fiscal years by KPMG DTG or KPMG DTG and the worldwide member firms of KPMG International (or "KPMG") in each of the following categories: (i) Audit Fees, which comprise fees billed for services rendered for the audit of the Allianz Group's consolidated financial statements, the statutory audits of the financial statements of Allianz AG and its subsidiaries or services that are normally provided in connection with statutory and regulatory filings or engagements; (ii) Audit-Related Fees, which comprise fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and which are not reported under (i); (iii) Tax Fees, which comprise fees billed for professional services rendered for tax compliance, tax advice and tax planning; and (iv) All Other Fees, which comprise fees billed for all other products and services provided other than the services reported under (i) through (iii).

Fees of KPMG worldwide

Years ended December 31,	2005 € mn	2004 € mn
Audit fees	60.1	38.6
Audit-related fees	11.0	16.1
Tax fees	4.0	3.2
All other fees	12.1	12.1
Total	**87.2[*)]**	**70.0[*)]**

[*)] Fees attributable to KPMG DTG for audit fees were € 26.3 mn (2004: € 16.4 mn), audit-related fees € 3.6 mn (2004: € 6.9 mn), tax fees € 1.0 mn (2004: € 0.4 mn) and all other fees € 3.7 mn (2004: € 6.2 mn) for the year ended December 31, 2005.

Audit Fees KPMG billed the Allianz Group an aggregate of € 60.1 million in 2005 and € 38.6 million in 2004 in connection with professional services rendered for the audit of our annual consolidated financial statements and services normally provided by KPMG in connection with statutory and regulatory filings or engagements. These services consisted mainly of periodic review engagements and the annual audit.

Audit-Related Fees KPMG billed the Allianz Group an aggregate of € 11.0 million in 2005 and € 16.1 million in 2004 for assurance and related services. These services consisted primarily of advisory and consulting services related to accounting and financial reporting standards, financial due diligence services, and review procedures associated with SOX 404 implementation.

Tax Fees KPMG billed the Allianz Group an aggregate of € 4.0 million in 2005 and € 3.2 million in 2004 for professional services, primarily for tax advice and tax compliance.

All Other Fees KPMG billed the Allianz Group an aggregate of € 12.1 million in 2005 and € 12.1 million in 2004 for other services, which consisted primarily of general consulting services and other services such as assistance in documenting internal control policies and procedures under the guidance of Allianz Group management.

All services provided by KPMG to Allianz Group companies, other than audit services, must be pre-approved separately by the Audit Committee of the Allianz AG Supervisory Board. The Audit Committee pre-approval process is based on the use of a "Positive List" of activities decided by the Audit Committee and, in addition, a "Guiding Principles and User Test" is applied. All internal control-related services are specifically pre-approved by the Audit Committee. Group Compliance and KPMG report to the Audit Committee periodically with respect to services performed.

Index to the Consolidated Financial Statements

Consolidated Balance Sheets
As of December 31, 2005 and 2004

ASSETS	Note	2005 € mn	2004 € mn
Intangible assets	6	15,385	15,147
Investments in associated enterprises and joint ventures	7	2,095	5,757
Investments[1]	8	282,920	248,327
Loans and advances to banks	9	151,384	181,543
Loans and advances to customers	9	185,424	195,680
Financial assets carried at fair value through income[2]	10	235,007	240,574
Cash and cash equivalents	11	31,647	15,628
Amounts ceded to reinsurers from reserves for insurance and investment contracts	12	22,120	22,310
Deferred tax assets	37	14,596	14,139
Other assets	13	57,303	51,213
Total assets		**997,881**	**990,318**

SHAREHOLDERS' EQUITY AND LIABILITIES	Note	2005 € mn	2004 € mn
Shareholders' equity before minority interests		39,487	29,995
Minority interests in shareholders' equity		7,615	7,696
Shareholders' equity	14	47,102	37,691
Participation certificates and subordinated liabilities	15	14,684	13,230
Reserves for insurance and investment contracts	16	359,137	326,380
Liabilities to banks	17	151,957	191,347
Liabilities to customers	18	158,359	157,137
Certificated liabilities	19	59,203	57,752
Financial liabilities carried at fair value through income	20	144,640	145,137
Other accrued liabilities	21	14,302	13,984
Other liabilities	22	31,383	31,271
Deferred tax liabilities	37	14,621	14,350
Deferred income	23	2,493	2,039
Total shareholders' equity and liabilities		**997,881**	**990,318**

[1] of which € 5,079 mn and € 540 mn are pledged to creditors and can be sold or repledged
[1] ofwhich € 77,954 mn and € 99,082 mn are pledged to creditors and can be sold or repledged

Consolidated Income Statements
For the Years ended December 31, 2005, 2004 and 2003

	Note	2005 € mn	2004 € mn	2003 € mn
Premiums earned (net)	24	57,747	56,789	55,978
Interest and similar income	25	22,341	20,956	22,510
Income from investments in associated enterprises and joint ventures (net)	26	1,257	777	3,014
Other income from investments	27	4,710	5,179	10,490
Income from financial assets and liabilities carried at fair value through income (net)	28	1,159	1,658	519
Fee and commission income, and income from service activities	29	8,310	6,823	6,060
Other income	30	2,182	2,533	3,803
Total income		**97,706**	**94,715**	**102,374**
Insurance and investment contract benefits (net)	31	(53,797)	(52,255)	(52,240)
Interest and similar expenses	32	(6,370)	(5,703)	(6,871)
Other expenses from investments	33	(1,679)	(2,672)	(7,452)
Loan loss provisions	34	109	(354)	(1,027)
Acquisition costs and administrative expenses	35	(24,447)	(23,380)	(22,917)
Amortization of goodwill	6	–	(1,164)	(1,413)
Other expenses	36	(3,642)	(4,091)	(6,588)
Total expenses		**(89,826)**	**(89,619)**	**(98,508)**
Earnings from ordinary activities before taxes		7,880	5,096	3,866
Taxes	37	(2,114)	(1,662)	(249)
Minority interests in earnings	14	(1,386)	(1,168)	(926)
Net income		**4,380**	**2,266**	**2,691**

		€	€	€
Basic earnings per share	44	11.24	6.19	7.96
Diluted earnings per share	44	11.14	6.16	7.93

Consolidated Statements of Changes in Shareholders' Equity
For the Years ended December 31, 2005, 2004 and 2003

	Paid-in capital € mn	Revenue reserves € mn	Foreign currency translation adjustments € mn	Unrealized gains and losses (net) € mn	Share-holders' equity before minority interests € mn	Minority interests in share-holders' equity € mn	Share-holders' equity € mn
Balance as of 12/31/2002, as previously reported	**14,785**	**5,914**	**(342)**	**1,317**	**21,674**	**8,314**	**29,988**
Effect of implementation of new accounting standards (Note 3)	–	(3,306)	27	2,651	(628)	(349)	(977)
Balance as of 12/31/2002	**14,785**	**2,608**	**(315)**	**3,968**	**21,046**	**7,965**	**29,011**
Foreign currency translation adjustments	–	–	(1,578)	(125)	(1,703)	(25)	(1,728)
Changes in the consolidated subsidiaries of the Allianz Group	–	(1,117)	–	876	(241)	–	(241)
Capital paid in	4,562	–	–	–	4,562	–	4,562
Treasury shares	–	1,413	–	–	1,413	–	1,413
Unrealized gains and losses (net)	–	–	–	1,727	1,727	623	2,350
Net income	–	2,691	–	–	2,691	926	3,617
Dividends paid	–	(374)	–	–	(374)	(302)	(676)
Miscellaneous	–	(1,128)	–	–	(1,128)	(1,921)	(3,049)
Balance as of 12/31/2003	**19,347**	**4,093**	**(1,893)**	**6,446**	**27,993**	**7,266**	**35,259**
Foreign currency translation adjustments	–	–	(805)	(12)	(817)	(2)	(819)
Changes in the consolidated subsidiaries of the Allianz Group	–	(73)	64	(27)	(36)	–	(36)
Capital paid in	86	–	–	–	86	–	86
Treasury shares	–	(59)	–	–	(59)	–	(59)
Unrealized gains and losses (net)	–	–	–	1,156	1,156	315	1,471
Net income	–	2,266	–	–	2,266	1,168	3,434
Dividends paid	–	(551)	–	–	(551)	(518)	(1,069)
Miscellaneous	–	217	–	(260)	(43)	(533)	(576)
Balance as of 12/31/2004	**19,433**	**5,893**	**(2,634)**	**7,303**	**29,995**	**7,696**	**37,691**
Foreign currency translation adjustments	–	–	1,601	50	1,651	33	1,684
Changes in the consolidated subsidiaries of the Allianz Group	–	(1,742)	1	277	(1,464)	(1,328)	(2,792)
Capital paid in	2,183	–	–	–	2,183	–	2,183
Treasury shares	–	352	–	–	352	–	352
Unrealized gains and losses (net)	–	–	–	2,694	2,694	416	3,110
Net income	–	4,380	–	–	4,380	1,386	5,766
Dividends paid	–	(674)	–	–	(674)	(729)	(1,403)
Miscellaneous	–	370	–	–	370	141	511
Balance as of 12/31/2005	**21,616**	**8,579**	**(1,032)**	**10,324**	**39,487**	**7,615**	**47,102**

Consolidated Cash Flow Statements
For the Years ended December 31, 2005, 2004 and 2003

	2005 € mn	2004 € mn	2003 € mn
Operating activities			
Net income	4,380	2,266	2,691
Change in unearned premiums	671	234	596
Change in aggregate policy reserves (without unit linked contracts)*)	17,475	13,570	12,042
Change in reserve for loss and loss adjustment expenses	3,288	2,476	1,016
Change in other insurance reserves (without unit linked liabilities)	3,146	1,806	(446)
Change in deferred acquisition costs	(2,093)	(1,174)	(2,460)
Change in funds held by others under reinsurance business assumed	31	412	32
Change in funds held under reinsurance business ceded	(1,690)	175	234
Change in accounts receivable/payable on reinsurance business	(386)	194	219
Change in financial assets and liabilities held for trading	11,885	(30,209)	8,156
Change in loans and advances to banks and customers	(2,451)	(726)	14,768
Change in liabilities to banks and customers	(18,418)	(16,926)	19,842
Change in assets from reverse repurchase agreements and collateral paid for securities borrowing transactions	43,656	(10,136)	(65,122)
Change in liabilities from repurchase agreements and collateral received from securities lending transactions	(18,692)	35,255	28,824
Change in certificated liabilities	1,569	5,786	(14,393)
Change in other receivables and liabilities	(3,772)	5,291	(4,554)
Change in deferred tax assets/liabilities (without change in deferred tax assets/liabilities from unrealized investment gains and losses)	(99)	446	(648)
Adjustment for investment income/expenses not involving movements of cash	(5,402)	(4,400)	(5,125)
Amortization of goodwill	–	1,164	1,413
Other	(927)	(2,308)	1,574
Net cash flow provided by (used in) operating activities	**32,171**	**3,196**	**(1,341)**
Investing activities			
Change in investments held at fair value	(28,983)	(12,661)	(5,520)
Change in investments held-to-maturity	373	(493)	1,754
Change in real estate	989	(772)	157
Change in investments in associated enterprises and joint ventures	5,576	1,379	7,668
Change in cash and cash equivalents from the acquisition of subsidiaries	(2,932)	(1,302)	–
Other	2,525	(1,529)	532
Net cash flow provided by (used in) investing activities	**(22,452)**	**(15,378)**	**4,591**
Financing activities			
Change in participation certificates and subordinated liabilities	1,449	999	(1,943)
Cash inflow from capital increases	2,183	86	4,562
Dividends	(1,403)	(1,069)	(676)
Other from shareholders' capital and minority interests (without change in revenue reserve from unrealized investment gains and losses)	3,999	2,290	(553)
Net cash flow provided by financing activities	**6,228**	**2,306**	**1,390**
Effect of exchange rate changes on cash and cash equivalents	72	(24)	(120)
Change in cash and cash equivalents	**16,019**	**(9,900)**	**4,520**
Cash and cash equivalents at beginning of period	15,628	25,528	21,008
Cash and cash equivalents at end of period	**31,647**	**15,628**	**25,528**
Supplementary information:			
Income taxes (paid) received	(1,369)	(1,785)	596

*) Reclassification of non unit linked reserves for SFAS 97 contracts from financing activities into operating activities.

Notes to the Allianz Group's Consolidated Financial Statements

1 Issuance of the Declaration of Compliance with the German Corporate Governance Code according to clause 161 AktG, nature of operations and basis of presentation

Issuance of the Declaration of Compliance with the German Corporate Governance Code according to clause 161 AktG

On December 15, 2005, the Board of Management and the Supervisory Board of Allianz AG issued the Declaration of Compliance according to clause 161 AktG and made it available on a permanent basis to the shareholders on the company's website. The text of the Declaration of Compliance is also reproduced in the section Corporate Governance beginning on page 12 of this Annual Report.

The Declaration of Compliance of the two publicly traded group companies Allianz Lebensversicherungs-Aktiengesellschaft and Oldenburgische Landesbank AG were issued in December 2005, respectively, and were made permanently available to the shareholders.

Nature of operations

Allianz Aktiengesellschaft ("Allianz AG") and its subsidiaries ("the Allianz Group") have global Property-Casualty insurance, Life/Health insurance, Banking and Asset Management operations in more than 70 countries, with the largest of its operations in Europe. The Allianz Group's headquarters are located in Munich, Germany. The parent company of the Allianz Group is Allianz AG, Munich. Allianz AG is a public stock corporation ("Aktiengesellschaft") incorporated in Germany. It is recorded in the Commercial Register of the municipal court Munich under its registered address at Königinstraße 28, 80802 München.

Basis of presentation

The consolidated financial statements of the Allianz Group have been prepared in conformity with International Financial Reporting Standards ("IFRS"), as adopted under European Union regulations in accordance with section 315a of the German Commercial Code ("HGB"). Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board ("IASB"). Already approved standards continue to be cited as International Accounting Standards ("IAS"). For years through 2004, IFRS did not provide specific guidance concerning the reporting of insurance and reinsurance contracts. Therefore, as envisioned in the IFRS Framework, the provisions embodied under accounting principles generally accepted in the United States of America ("US GAAP") have been applied. See Note 3 regarding changes to IFRS effective January 1, 2005. The consolidated financial statements are presented in Euros (€).

2 Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements of the Allianz Group include those of Allianz AG, its subsidiaries and certain investment funds and special purpose entities ("SPEs"). Subsidiaries, investment funds and SPEs, hereafter "subsidiaries", which are directly or indirectly controlled by the Allianz Group are consolidated. Subsidiaries are consolidated from the date control is obtained by the Allianz Group. Subsidiaries are consolidated until the date that the Allianz Group no longer maintains control. The Allianz Group has used interim financial statements for certain subsidiaries whose fiscal year is other than December 31, but not exceeding a lag of three months. The effects of intra-Allianz Group transactions have been eliminated.

A business combination occurs when the Allianz Group obtains control over a business. Business combinations are accounted for by applying the purchase method. The purchase method requires that the Allianz Group allocate the cost of a business combination on the date of acquisition by recognizing the acquiree's identifiable assets, liabilities and certain contingent liabilities at their fair values. The cost of a business combination represents the fair value of the consideration given and any costs directly attributable to the business combination. If the acquisition cost of the business combination exceeds the Allianz Group's proportionate share of the fair value of the net assets of the acquiree, the difference is recorded as goodwill. Any minority interest is recorded at the minority's proportion of the fair value of the net assets of the acquiree.

For business combinations with an agreement date before March 31, 2004, minority interests are recorded at the minority's proportion of the pre-aquisition carrying amounts of the identifiable assets and liabilities.

Acquisitions and disposals of minority interests are treated as transactions between equity holders. Therefore, any difference between the acquisition cost of the minority interest and the carrying amount of the minority interest is recognized as an increase or decrease in equity.

Foreign currency translation

Foreign currency is translated by the functional currency method. The functional currencies for the Allianz Group's subsidiaries are usually the local currency of the relevant company, e.g., the prevailing currency in the environment where the subsidiary conducts its ordinary activities. In accordance with the functional currency method, assets and liabilities are translated at the closing rate on the balance sheet date and income and expenses are translated at the quarterly average rate in all financial statements of subsidiaries not reporting in Euro. Any foreign currency translation differences, including those arising from the equity method, are recorded directly in shareholders' equity, as foreign currency translation adjustments.

Currency gains and losses arising from foreign currency transactions, transactions in a currency other than the functional currency of the entity, are reported in other income and other expenses, respectively.

Use of estimates and assumptions

The preparation of consolidated financial statements requires that the Allianz Group makes estimates and assumptions that affect items reported in the consolidated balance sheets and consolidated income statements, in addition to contingent liabilities. The actual values may differ from those reported. The most important of such items are the reserve for loss and loss adjustment expenses, the aggregate policy reserves, the loan loss allowance, fair value and impairments of investments, goodwill, brand names, deferred policy acquisition costs, deferred taxes and reserves for pensions and similar obligations.

Supplementary information on the Allianz Group's assets

Intangible assets

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 and is recorded at cost less accumulated impairments.

The Allianz Group conducts an annual impairment test of goodwill on October 1, in addition to whenever there is an indication that goodwill is not recoverable. The impairment test includes comparing the recoverable amount to the carrying amount, including goodwill, for all 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. The impairment of a cash generating unit is equal to the difference between the carrying amount and recoverable amount and is allocated to reduce any goodwill, followed by allocation to the carrying amount of any remaining assets. Impairments of goodwill are not reversed. Gains or losses realized on the disposal of subsidiaries include any related goodwill.

Intangible assets acquired in business combinations are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. Intangible assets with an indefinite useful life are not subject to amortization and are recorded at cost less accumulated impairments. Intangible assets with a definite useful life are amortized over their useful lives and are recorded at cost less accumulated amortization and impairments.

Present value of future profits ("PVFP") is the present value of net cash flows anticipated in the future from insurance and investment contracts in force at the date of acquisition and is amortized over the life of the related contracts. PVFP was determined using discount rates ranging from 12 % to 15 %. Interest accrues on the PVFP balance based upon the policy liability rate or contract rate. Interest accrues on PVFP at rates between 3.5 % and 8.5 %.

Software includes software purchased from third parties or developed internally, which are amortized on a straight-line basis over their useful service lives or contractual terms, generally over 3 to 5 years. Costs for repairs and maintenance are expensed, while improvements, if they extend the useful life of the asset, are capitalized. For the Allianz Group's Property-Casualty and Life/Health segments amortization of software is allocated amongst several line items according to cost allocation. Amortization of software related to the Allianz Group's Banking and Asset Management segments is included in administrative expenses.

The **brand names** "Dresdner Bank" and "dit" (Deutscher Investment-Trust) have an indefinite life; therefore, are not subject to amortization and are recorded at cost less accumulated impairments. The fair values for the brand names, registered as trade names, were determined using a royalty savings approach.

Similar to goodwill, an intangible asset is subject to an annual impairment test, in addition to whenever there is an indication that it is not recoverable. The impairment test includes comparing the recoverable amount to the carrying amount. An intangible asset is not impaired if the recoverable amount is greater than the carrying amount. An intangible asset is impaired if the carrying amount is greater than the recoverable amount. The impairment of an intangible asset is equal to the difference between the carrying amount and recoverable amount. Impairments of intangible assets are not reversed.

Investments in associated enterprises and joint ventures

Associated enterprises are enterprises over which the Allianz Group can exercise a significant influence and which are not joint ventures. A significant influence is presumed to exist where the Allianz Group directly or indirectly has at least 20 % but no more than 50 % of the voting rights. **Joint ventures** are enterprises over which the Allianz Group and one or more other parties have joint control.

Investments in associated enterprises and joint ventures are generally accounted for using the equity method, such that the carrying amount of the investment represents the Allianz Group's proportionate share of the entity's net assets. The Allianz Group accounts for all material investments in associates on a time lag of no more than three months.

Income from investments in associated enterprises and joint ventures is included as a separate component of total income.

Investments

Investments include securities held-to-maturity, securities available-for-sale, real estate used by third parties and funds held by others under reinsurance contracts assumed.

Securities held-to-maturity are comprised of debt securities, which the Allianz Group has the positive intent and ability to hold to maturity. These securities are recorded at amortized cost and any premium or discount is amortized using the effective interest method over the life of the security. Amortization of premium or discount is included in interest income and similar income.

Securities available-for-sale are securities that are not classified as held-to-maturity, loans and advances to banks or customers, financial assets held for trading, or financial assets designated at fair value through income. Securities available-for-sale are recorded at fair value. Unrealized gains and losses, which are the difference between fair value and cost or amortized cost, are included as a separate component of shareholders' equity, net of deferred taxes and 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. Realized gains and losses on securities are generally determined by applying the average cost method at the subsidiary level.

A held-to-maturity or available-for-sale debt security is impaired if there is objective evidence that the cost may not be recovered. If all amounts due according to the contractual terms of the security are not considered collectible, typically due to deterioration in the creditworthiness of the issuer, the security is considered to be impaired. An impairment is not recorded as a result of declines in fair value resulting from general market interest or exchange rate movements unless the Allianz Group intends to dispose of the security.

If there is objective evidence that the cost may not be recovered, an available-for-sale equity security is considered to be impaired. 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 established a policy that an available-for-sale equity security is considered impaired if the fair value is below the weighted-average cost by more than 20 % or if the fair value is below the weighted-average cost for greater than nine months, to define the significant criteria and the prolonged criteria, respectively. 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. These reversals do not result in a carrying amount of a debt security that exceeds what would have been, had the impairment not been recorded, at the date of the impairment is reversed. Reversals of impairments of available-for-sale equity securities are not recorded.

Available-for-sale equity securities include investments in limited partnerships. The Allianz Group records its investments in limited partnerships at cost, where the ownership interest is less than 20 %, as the limited partnerships do no have a quoted market price and fair value cannot be reliably measured. The Allianz Group accounts for its investment in limited partnerships with ownership interests of 20 % or greater using the equity method.

Real estate used by third-parties (i.e., real property and equivalent rights and buildings, including buildings on leased land) is carried at cost less accumulated depreciation and impairments. Real estate used by third parties is depreciated on a straight-line basis over its estimated life, with a maximum of 50 years. When testing for impairment, the fair value of real estate used by third parties is determined by the discounted cash flow method. Improvement costs are capitalized if they extend the useful life or increase the value of the asset, otherwise they are recognized as an expense.

Funds held by others under reinsurance contracts assumed relate to cash deposits to which the Allianz Group is entitled, but which the ceding insurer retains as collateral for future obligations of the Allianz Group. The cash deposits are recorded at face value, less any impairments for balances that are deemed to not be fully recoverable.

Loans and advances to banks and customers

Loans and advances to banks and customers are financial assets with fixed and determinable payments, not quoted in an active market, that are not classified as securities available-for-sale or held-to-maturity, financial assets held for trading, or financial assets designated at fair value through income. Loans to banks and customers are recorded at amortized cost, or generally their outstanding unpaid principal balance, net of the loan loss allowance, deferred fees and costs on origination, and unamortized premiums or discounts. Interest income is accrued on the unpaid principal balance, net of charge-offs. Using the effective interest method, net deferred fees and premiums or discounts are recorded as an adjustment of interest income yield over the lives of the related loans.

Loans are placed on non-accrual status when the payment of principal or interest is doubtful based on the credit assessment of the borrower. Non-accrual loans consist of loans on which interest income is no longer recognized on an accrued basis, and loans for which a specific provision is recorded for the entire amount of accrued interest receivable. When a loan is placed on non-accrual status, any accrued interest receivable is reversed against interest and similar income. Loans can only be restored to accrual status when interest and principal payments are made current (in accordance with the contractual terms), and future payments in accordance with those terms are reasonably assured. When there is a doubt regarding the ultimate collectibility of the principal of a loan placed in non-accrual status, all cash receipts are applied as reductions of principal. Once the recorded principal amount of the loan is reduced to zero, future cash receipts are recognized as interest income.

Loans and advances to banks and customers include reverse repurchase ("reverse repo") transactions and securities borrowing transactions. Reverse repos involve the purchase of securities by the Allianz Group from a counterparty, subject to a simultaneous obligation to sell these securities at a certain later date, at an agreed upon price. If control of the securities remains with the counterparty over the entire lifetime of the agreement of the transaction, the securities concerned are not recognized as assets. The amounts of cash disbursed are recorded under loans and advances to banks and customers, as appropriate. Interest income on reverse repo agreements is accrued over the duration of the agreements and is reported in interest and similar income.

Securities borrowing transactions generally require the Allianz Group to deposit cash with the security's lender. Fees paid are reported as interest expense.

Loans and advances to customers include the Allianz Group's gross investment in leases, less unearned finance income, related to lease financing transactions for which the Allianz Group is the lessor. The gross investment in leases is the aggregate of the minimum lease payments and any unguaranteed residual value accruing to the Allianz Group. Lease financing transactions include direct financing leases and leveraged leases. The unearned finance income is amortized over the period of the lease in order to produce a constant periodic rate of return on the net investment outstanding in respect of finance leases.

Loan impairments and provisions

Impaired loans represent loans for which, based upon current information and events, it is probable that the Allianz Group will not be able to collect all interest and principal amounts due in accordance with the contractual terms of the loan agreements.

The loan loss allowance represents the estimate of probable losses that have occurred in the loan portfolio and other lending-related commitments. The loan loss allowance is reported 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.

To determine the appropriate level of the loan loss allowance, all significant counterparty relationships are periodically reviewed. A specific allowance is established to provide for specifically identified counterparty risks. Specific allowances are established for impaired loans. The amount of the impairment is based on the present value of expected future cash flows or based on the fair value of the collateral if the loan is collateralized and foreclosure is probable. If the amount of the impairment subsequently increases or decreases due to an event occurring after the initial measurement of impairment, a change in the allowance is recognized in earnings by a charge or a credit to the loan loss provisions.

A country risk allowance is established for transfer risk. Transfer risk is a measure of the likely ability of a borrower in a country to repay its foreign currency-denominated debt in light of the economic or political situation prevailing in the country. Country risk allowances are based on a country risk rating system that incorporates current and historical economic, political and other data to categorize countries by risk profile.

A particular allowance is established for all loans with an outstanding balance of € 1 mn or less for incurred but unidentified losses by the Dresdner Bank Group. The particular allowance methodology categorizes loans into homogeneous portfolios and establishes the particular allowance based upon historical loss rates which are continuously updated.

A general allowance is established to provide for incurred but unidentified losses for loans with an outstanding balance greater than € 1 mn for the Dresdner Bank Group and for all other loans held by subsidiaries of the Banking segment. General allowances are established for loans not specifically identified as impaired. The amount of the allowance is based on historical loss experience and the evaluation of the loan portfolio under current events and economic conditions.

Loans are charged-off when all economically sensible means of recovery have been exhausted. At the point of charge-off, the loan as well as any specific allowance associated with the loan is removed from the consolidated balance sheet or a charge may be recorded to directly charge-off the loan. A charge-off may be full or partial. Subsequent to a charge-off, recoveries, if any, are recognized as a credit to the loan loss provisions.

The loan loss provisions are the amount necessary to adjust the loan loss allowance to a level determined through the process described above.

Financial assets carried at fair value through income

Financial assets carried at fair value through income include financial assets held for trading, financial assets for unit linked contracts and financial assets designated at fair value through income.

Financial assets held for trading consists of debt and equity securities, promissory notes and precious metal holdings, which have been acquired principally for the purpose of generating a profit from short-term fluctuations in price and derivative financial instruments that do not meet the criteria for hedge accounting with positive fair values. Financial assets held for trading are reported at fair value. Changes in fair value are recognized directly in net income. Exchange-traded financial instruments are valued at the exchange prices prevailing on the last exchange trading day of the year. To determine the fair values of unlisted financial instruments, quotations of similar instruments or other valuation models (in particular present value models or option pricing models) are used. In the process, appropriate adjustments are made for credit and measurement risks.

Financial assets for unit linked contracts and **financial assets designated at fair value through income** are recorded at fair value with changes recorded together with the changes in the corresponding financial liabilities for unit linked contracts in net income.

Derivative financial instruments

The Allianz Group's Property-Casualty and Life/Health segments use derivative financial instruments such as swaps, options and futures to hedge against changes in prices or interest rates in their investment portfolios.

In the Allianz Group's Banking segment, derivative financial instruments are used both for trading purposes and to hedge against movements in interest rates, currency and other price risks of investments, loans, deposit liabilities and other interest sensitive assets and liabilities.

Derivative financial instruments that do not meet the criteria for hedge accounting are reported at fair value as financial assets held for trading or financial liabilities held for trading. Gains or losses from these derivative financial instruments arising from valuation at fair value are included in income from financial assets and liabilities held for trading. This treatment is also applicable for bifurcated embedded derivatives of a hybrid financial instrument.

For derivative financial instruments used for hedging purposes that meet the criteria for hedge accounting, the Allianz Group designates the derivative financial instrument as a fair value hedge, cash flow hedge, or hedge of a net investment in a foreign entity. The Allianz Group documents the hedge relationship, as well as its risk management objective and strategy for entering into various hedge transactions. The Allianz Group also assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used for hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Derivative financial instruments used in hedge transactions that meet the criteria for hedge accounting are recognized as follows:

Fair value hedges

The risk of changes of a specific risk in the fair value of assets or liabilities is hedged by a fair value hedge. Changes in the fair value of a derivative financial instrument together with the pro rata share of the change in fair value of the hedged item are recognized in net income.

Cash flow hedges

Cash flow hedges reduce the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or attributable to future cash flows from a firm commitment or a forecasted transaction. Changes in the fair value of derivative financial instruments that represent an effective hedge are recorded in unrealized gains and losses (net) in shareholders' equity, and recognized in net income when the offsetting gain or loss associated with the hedged item is recognized. The ineffective part of the cash flow hedge is recognized directly in net income.

Hedges of a net investment in a foreign entity

Hedge accounting may be applied to hedge a net investment in a foreign entity. Derivative financial instruments are used to hedge currency risk. The proportion of gains or losses arising from valuation of the derivative financial instrument, which is classified as an effective hedge, is recognized in unrealized gains and losses (net) in shareholders' equity, while the ineffective part is recognized in net income.

For all fair value hedges, cash flow hedges, and hedges of a net investment in a foreign entity, the derivative financial instruments are included in other assets or other liabilities.

The Allianz Group discontinues hedge accounting prospectively when it is determined that the derivative financial instrument is no longer highly effective, the derivative financial instrument or the hedged item expires, or is sold, terminated or exercised, or when the Allianz Group determines that designation of the derivative financial instrument as a hedging instrument is no longer appropriate. When a fair value hedge is discontinued, the Allianz Group continues to report the derivative financial instrument at its fair value, and no longer recognizes changes in fair value of the hedged item in net income. When hedge accounting for a cash flow hedge is discontinued, the Allianz Group continues to record the derivative financial instrument at its fair value and any net unrealized gains and losses accumulated in shareholders' equity are recognized when the planned transaction occurs. When a hedge of a net investment in a foreign entity is discontinued, the Allianz Group continues to report the derivative financial instrument at its fair value and any net unrealized gains or losses accumulated in shareholders' equity remain in shareholders' equity until the disposal of the foreign entity.

Derivative financial instruments are netted when there is a legally enforceable right to offset and when the Allianz Group intends to settle on a net basis.

Cash and cash equivalents

Cash and cash equivalents include balances with banks payable on demand, balances with central banks, checks and cash on hand, treasury bills to the extent they are not included in financial assets held for trading, and bills of exchange which are eligible for refinancing at central banks, subject to a maximum term of six months from the date of acquisition.

Reinsurance

Premiums ceded for reinsurance and reinsurance recoveries on benefits and claims incurred are deducted from premiums earned and insurance and investment contract benefits. Assets and liabilities related to reinsurance are reported on a gross basis. Amounts ceded to reinsurers from reserves for insurance and investment contracts are estimated in a manner consistent with the claim liability associated with the reinsured risks. Accordingly, revenues and expenses related to reinsurance agreements are recognized consistent with the underlying risk of the business reinsured.

Income taxes

Income tax expense consists of the taxes actually charged to the individual Allianz Group subsidiaries and changes in deferred tax assets and liabilities.

The calculation of deferred tax is based on temporary differences between the Allianz Group's carrying amounts of assets or liabilities in its consolidated balance sheet and their tax bases. The tax rates used for the calculation of deferred taxes are the local rates applicable in the countries concerned; changes to tax rates already adopted prior to or as of the consolidated balance sheet date are taken into account. Deferred tax assets are recognized if sufficient future taxable income is available for realization.

Other assets

Other assets, amongst others, consist of real estate owned by the Allianz Group and used for its own activities, equipment, accounts receivable, deferred policy acquisition costs, deferred sales inducements, prepaid expenses and miscellaneous assets.

Real estate owned by the Allianz Group used for its own activities (e.g., real property and buildings, including buildings on leased land) is carried at cost less accumulated depreciation and impairments. The capitalized cost of buildings is calculated on the basis of acquisition cost and depreciated on a straight-line basis over a maximum of 50 years in accordance with their useful lives. Costs for repairs and maintenance are expensed, while improvements if they extend the useful life or increase the value of the asset are capitalized. An impairment is recognized when the recoverable amount of these assets is less than their carrying amount.

Real estate used by the Allianz Group is to be accounted for as corporate assets within a cash-generating unit (CGU). An impairment loss is recognized if the recoverable amount of the CGU is less than the carrying amount of the CGU.

Equipment is carried at cost less accumulated depreciation and impairments. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life of equipment ranges from 2 to 10 years, except for purchased information technology equipment, which is 2 to 8 years.

Receivables are recorded at face value less any payments received, net of appropriate valuation allowances.

Deferred policy acquisition costs generally consist of commissions, underwriting expenses and policy issuance costs, which vary with and are directly related to the acquisition and renewal of insurance contracts. These acquisition costs are deferred, to the extent they are recoverable, and amortized over the life of the related contracts.

For investment contracts, acquisition costs are only deferred if the costs are incremental. Acquisition costs are incremental if the costs would not have been incurred if the related contracts would not have been issued.

Sales inducements on insurance contracts that meet the following criteria are deferred and amortized using the same methodology and assumptions used to amortize deferred policy acquisition costs:

- recognized as part of reserves for insurance and investment contracts,
- explicitly identified in the contract at inception,
- incremental to amounts the Allianz Group credits on similar contracts without sales inducements, and
- higher than the contract's expected ongoing crediting rates for periods after the inducement.

Asset securitizations

The Allianz Group transfers financial assets to certain SPEs in revolving securitizations of commercial mortgage or other loan portfolios. The Allianz Group consolidates these SPEs as the Allianz Group continues to control the financial assets transferred and retains the servicing of such loans.

Leases

Payments made under operating leases to the lessor are charged to administrative expenses using the straight-line method over the period of the lease. When an operating lease is terminated before the lease period has expired, any penalty is recognized in full as an expense at the time when such termination takes place.

Supplementary information on the Allianz Group's shareholders' equity and liabilities

Shareholders' equity

Paid-in capital includes issued capital and capital reserves. Issued capital represents the mathematical per share value received from the issuance of shares. Capital reserves represent the premium, or additional paid in capital, received from the issuance of shares.

Revenue reserves include the retained earnings of the Allianz Group and treasury shares. Treasury shares are deducted from shareholders' equity at cost. Upon disposal any difference between proceeds and costs is recorded in revenue reserves, net of any applicable taxes.

Any translation differences, including those arising in the application of the equity method of accounting, are recorded as **foreign currency translation adjustments** directly in shareholders' equity without affecting earnings.

Unrealized gains and losses include unrealized gains and losses from securities available-for-sale and derivative financial instruments used for hedge purposes that meet the criteria for hedge accounting, including cash flow hedges and hedges of a net investment in a foreign entity.

Minority interests in shareholders' equity represent the proportion of shareholders' equity that is attributable to minority shareholders.

Comprehensive income is defined as the change in shareholders' equity of the Allianz Group excluding transactions with shareholders such as the issuance of common or preferred shares, payment of dividends and purchase of treasury shares. Comprehensive income has two major components: net income and other comprehensive income. Other comprehensive income includes such items as unrealized gains and losses on foreign currency translation, securities available-for-sale, and gains and losses on derivatives involved in cash flow hedges and hedges of a net investment in a foreign entity, net of applicable deferred income taxes. It also includes, where applicable, adjustments to insurance policyholder liabilities, PVFP and deferred policy acquisition costs.

Certificated liabilities, participation certificates and subordinated liabilities

Certificated liabilities, participation certificates and subordinated liabilities are initially recorded at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is at amortized cost, using the effective interest method to amortize the premium or discount to the redemption value over the life of the liability.

Reserves for insurance and investment contracts

Reserves for insurance and investment contracts include unearned premiums, aggregate policy reserves, reserves for loss and loss adjustment expenses, the reserve for premium refunds, premium deficiency reserves and other insurance reserves.

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. All insurance contracts and investment contracts with discretionary participating features are accounted for under the provisions of US GAAP, including SFAS 60, SFAS 97 and SFAS 120.

For short-duration insurance contracts, such as property-casualty contracts, in accordance with SFAS 60, premiums written to be earned in future years, are recorded as **unearned premiums**. These premiums are earned in subsequent years in relation to the insurance coverage provided. Unearned premiums for reinsurance business assumed are generally based on the calculations of the cedent. Deferred policy acquisition costs for short-duration insurance contracts are amortized over the periods in which the related premiums are earned.

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. Deferred policy acquisition costs and 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 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.

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 effect 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 – 7 %	3 – 4 %
Deferred acquisition costs	5 – 7 %	5 – 6 %

In connection with the adoption of SOP 03-1 effective January 1, 2004, insurance 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.

Reserves for loss and loss adjustment expenses are established for the payment of losses and loss adjustment expenses ("LAE") on claims which have occurred but are not yet settled. Reserves for loss and loss adjustment expenses fall into two categories: case reserves for reported claims and reserves for incurred but not reported reserves ("IBNR").

Case reserves for reported claims are based on estimates of future payments that will be made in respect of claims, including LAE relating to such claims. 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. IBNR reserves, similar to case reserves for reported claims, are established to recognize the estimated costs, including expenses, necessary to bring claims to final settlement. Since nothing is known about the occurrence, the Allianz Group relies on its past experience, adjusted for current trends and any other relevant factors. IBNR reserves are estimates based on actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The analyzes 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 and actual claims are reported.

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, such as changes in claims handling procedures, introduction of new IT systems or company acquisitions and divestitures. Others are external, such as inflation, judicial trends, and legislative changes. The Allianz Group attempts to reduce the uncertainty in reserve estimates through the use of multiple actuarial and reserving techniques and analysis of the assumptions underlying each technique.

There is no adequate statistical data available for some risk exposures in liability insurance, such as environmental and asbestos claims and large-scale individual claims, because some aspects of these types of claims are becoming generally known very slowly and are still evolving. Appropriate provisions have been made for such cases based on the Allianz Group's judgment and an analysis of the portfolios in which such risks occur. These provisions represent the Allianz Group's best estimate. The current reserves for loss and loss adjustment expenses for asbestos claims in the United States reflect loss developments since the most recent external independent actuarial report which was completed during the year ended December 31, 2005.

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.

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

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

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

Other insurance reserves include experience-rated and other premium refunds in favor of policyholders.

Liabilities to banks and customers

Liabilities to banks and customers include repurchase ("repo") transactions and securities lending transactions. Repo transactions involve the sale of securities by the Allianz Group to a counter-party, subject to the simultaneous agreement to repurchase these securities at a certain later date, at an agreed price. If control of the securities remains with the Allianz Group over the entire lifetime of the transaction, the securities concerned are recognized as assets and are recorded in accordance with the accounting principles for financial assets held for trading or investments. The proceeds of the sale are reported under liabilities to banks or liabilities to customers. Interest expenses from repo transactions are accrued over the durations of the agreements and reported in interest and similar expenses.

In securities lending transactions the Allianz Group generally receives cash collateral which is recorded as liabilities to banks or liabilities to customers. Fees received are recognized as interest income.

Financial liabilities carried at fair value through income

Financial liabilities carried at fair value through income include financial liabilities held for trading, financial liabilities for unit linked contracts, liabilities for puttable equity instruments and financial liabilities designated at fair value through income.

Financial liabilities held for trading primarily include derivative financial instruments that do not meet the criteria for hedge accounting with negative fair values and obligations to deliver assets arising from short sales of securities, which are carried out in order to benefit from short-term price fluctuations. The securities required to close out short sales are obtained through securities borrowing or reverse repurchase agreements. These liabilities are valued the same as financial assets held for trading.

Financial liabilities for unit linked contracts and **financial liabilities designated at fair value through income** are recorded at fair value with changes recorded together with the changes in the corresponding financial assets in net income.

Liabilities for puttable financial instruments include the minority interests in shareholders' equity of certain consolidated investment funds. These minority interests qualify as a financial liability of the Allianz Group, as they give the holder the right to put the instrument back to the Allianz Group for cash or another financial asset (a "puttable instrument"). These liabilities are required to be recorded at redemption amount with changes recognized in net income. As the redemption amount of these liabilities is their fair value, these liabilities are included in financial liabilities carried at fair value through income as liabilities for puttable equity instruments.

Other accrued liabilities

The Allianz Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related service cost and, where applicable, past service cost. The principal assumptions used by the Allianz Group are included in Note 21. The census date for the primary pension plans is October or November, with any significant changes through December 31, taken into account.

For each individual defined benefit pension plan, the Allianz Group recognizes a portion of its actuarial gains and losses in income or expense if the unrecognized actuarial net gain or loss at the end of the previous reporting period exceeds the greater of: a) 10 % of the projected benefit obligation at that date; or b) 10 % of the fair value of any plan assets at that date. Any unrecognized actuarial net gain or loss exceeding the greater of these two values is generally recognized in net periodic benefit cost in the consolidated income statement over the expected average remaining working lives of the employees participating in the plans.

Accrued taxes are calculated in accordance with relevant local tax regulations.

Miscellaneous accrued liabilities primarily include provisions for restructuring, anticipated losses arising from non-insurance business, litigation, employees (e.g., early retirement, phased retirement, employee awards for long service, vacation and cash settled share compensation plans) and agents (e.g., unpaid commissions).

Provisions for restructuring are recognized when the Allianz Group has a detailed formal plan for the restructuring and has started to implement the plan or has communicated its main features. The detailed formal plan includes the business concerned, approximate number of employees who will be compensated for terminating their services, the expenses to be incurred and the time period over which the plan will be implemented. The detailed plan must be communicated such that those affected have an expectation that the plan will be implemented.

Other liabilities

Other liabilities include funds held under reinsurance business ceded, accounts payable on direct insurance business, accounts payable on reinsurance business, and miscellaneous liabilities. These liabilities are reported at redemption value.

Supplementary information on the Allianz Group's income statement

Premiums

Property-casualty insurance premiums are recognized as revenues over the period of the contract in proportion to the amount of insurance protection provided. Unearned premiums are calculated separately for each individual policy to cover the unexpired portion of written premiums.

Health insurance premiums for long-duration contracts such as noncancelable and guaranteed renewable contracts that are expected to remain in force over an extended period of time are recognized as earned when due. Premiums for short-duration health insurance contracts are recognized as revenues over the period of the contract in proportion to the amount of insurance protection provided. Unearned premiums are calculated separately for each individual policy to cover the unexpired portion of written premiums.

Life insurance premiums from traditional life insurance policies are recognized as earned when due. Premiums from short-duration life insurance policies are recognized as revenues over the period of the contract in proportion to the amount of insurance protection provided. Unearned premiums are calculated separately for each individual policy to cover the unexpired portion of written premiums. Benefits are recognized when incurred.

Revenues for universal life-type and investment contracts, such as universal life and variable annuity contracts, represent charges assessed against the policyholders' account balances for the cost of insurance, surrenders and policy administration and are included within premiums earned (net). Benefits charged to expense include benefit claims incurred during the period in excess of policy account balances and interest credited to policy account balances.

Interest and similar income/expense

Interest income and interest expense are recognized on an accrual basis. Interest income from lending business is recognized using the effective interest method. This line item also includes dividends from available-for-sale equity securities and interest recognized on finance leases. Dividends are recognized in income when declared. Interest on finance leases is recognized in income over the term of the respective lease so a constant period yield based on the net investment is attained.

Income from financial assets and liabilities carried at fair value through income (net)

Income from financial assets and liabilities carried at fair value through income principally comprises all investment income and realized and unrealized gains and losses from financial assets and liabilities carried at fair value through income. In addition, commissions attributable to trading operations and related interest expense and transaction costs are included in this line item.

Income from investments in associated enterprises and joint ventures (net)

Income from investments in associated enterprises and joint ventures includes dividends from equity securities and the share of net income from enterprises accounted for using the equity method. Dividends are recognized in income when received. Further, realized gains and losses from the disposal of subsidiaries are included in income from investments in associated enterprises and joint ventures. Income from investments in associated enterprises and joint ventures is presented net of related expenses.

Fee and commission income and expenses

In addition to traditional commission income received on security transactions, fee and commission income in the securities business also includes commissions received in relation to private placements, syndicated loans and financial advisory services. Other fees reflect commissions received for trust and custody services, for the brokerage of insurance policies, credit cards, home loans, savings contracts and real estate. Fee and commission income is recognized in Allianz Group's Banking segment when the corresponding service is provided.

Assets and liabilities held in trust by the Allianz Group in its own name, but for the account of third parties, are not reported in its consolidated balance sheet. Commissions received from such business are shown in fee and commission income.

Investment advisory fees are recognized as the services are performed. Such fees are primarily based on percentages of the market value of the assets under management. Investment advisory fees receivable for private accounts consist primarily of accounts billed on a quarterly basis. Private accounts may also generate a fee based on investment performance, which are recognized at the end of the respective contract period if the prescribed performance hurdles have been achieved.

Distribution and servicing fees are recognized as the services are performed. Such fees are primarily based on percentages of the market value of assets under management.

Administration fees are recognized as the services are performed. Such fees are primarily based on percentages of the market value of assets under management.

Other supplementary information

Share compensation plans

The share based compensation plans of the Allianz Group are required to be classified as equity settled or cash settled plans. Equity settled plans are measured at fair value on the grant date and recognized as an expense, with an increase in shareholders' equity, over the vesting period. Further, equity settled plans include a best estimate of the number of equity instruments that are expected to vest in determining the amount of expense to be recognized. For cash settled plans the Allianz Group accrues the fair value of the award as compensation expense over the vesting period. Upon vesting, any change in the fair value of any unexercised awards is recognized as compensation expense. If the shares issued are redeemable, either mandatorily or at the counter-party's option, the share based compensation plan is required to be classified as a cash settled plan by the Allianz Group. In this respect, IFRS 2 has incorporated the "puttable instrument" concept of IAS 32 revised, which requires such instruments to be classified as liabilities rather than equity instruments.

Reclassifications

For reasons of comparability with the current reporting year, some prior-year amounts were adjusted in the consolidated balance sheet and the consolidated income statements through reclassifications that do not affect net income or shareholders' equity.

3 Recently adopted and issued accounting pronouncements

Recently adopted accounting pronouncements with retrospective application (effective January 1, 2005)

IAS 1 revised

Effective January 1, 2005, the Allianz Group adopted IAS 1 revised, Presentation of Financial Statements ("IAS 1 revised"). The adoption of IAS 1 required that the Allianz Group reclassify minority interests in shareholders' equity as equity. Therefore, minority interests in shareholders' equity were reclassified from liabilities into shareholders' equity in the consolidated balance sheet and consolidated statement of changes in shareholders' equity.

IAS 1 revised required retrospective application of this change to the Allianz Group's accounting policy; therefore, the Allianz Group's consolidated financial statements for the years ended December 31, 2004 and 2003 were adjusted to include the effect of this change.

IAS 32 revised and IAS 39 revised

Effective January 1, 2005, the Allianz Group adopted IAS 32 revised, Financial Instruments: Disclosure and Presentation ("IAS 32 revised") and IAS 39 revised, Financial Instruments: Recognition and Measurement ("IAS 39 revised").

Impairments

The adoption of IAS 39 revised required several changes to the Allianz Group's accounting policies for the recognition of impairments of available-for-sale equity securities. In accordance with IAS 39 revised, if there is objective evidence that the cost may not be recovered, an available-for sale equity security is considered to be impaired. 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. Previously under IFRS, objective evidence that the cost may not be recovered included a significant **and** prolonged decline in the fair value below cost. As a result, the Allianz Group established new quantitative impairment criteria to define a significant or prolonged decline. The Allianz Group established a policy that an available-for-sale equity security is considered impaired if the fair value is below the weighted-average cost by more than 20 % or if the fair value is below the weighted-average cost for greater than nine months, to define the significant criteria and the prolonged criteria, respectively. This policy is applied individually by all subsidiaries.

In addition, IAS 39 revised does not allow an adjusted cost basis to be established upon impairment of an available-for-sale equity security. Therefore, if an available-for-sale equity security is impaired based upon the Allianz Group's qualitative or quantitative impairment criteria, any further declines in fair values at subsequent reporting dates are recognized as impairments. Previously, IFRS allowed an adjusted cost basis to be established upon the recognition of an impairment of an available-for-sale equity. Therefore, at each reporting period, if the fair value was less than the adjusted cost basis, the available-for-sale equity security was analyzed for impairment based upon the Allianz Group's qualitative or quantitative impairment criteria.

Finally, IAS 39 revised does not allow reversals of an impairment of available-for-sale equity securities. Previously, IFRS required that if an impairment of an available-for-sale equity security decreases, the impairment was reversed.

IAS 39 required retrospective application of these changes to the Allianz Group's accounting policies; therefore, the Allianz Group's consolidated financial statements for the years ended December 31, 2004 and 2003 were adjusted to include the effects of these changes.

Loans and receivables

The adoption of IAS 39 revised allowed a change to the Allianz Group's accounting policy for non-quoted financial assets to qualify for accounting as "loans and receivables". For non-quoted financial assets to qualify for accounting as "loans and receivables", IAS 39 revised does not require that the financial asset is originated by the Allianz Group. Previously, IFRS required that a financial asset is originated by the Allianz Group to qualify for similar accounting. Non-quoted financial assets which qualify for this accounting, and are classified by the Allianz Group, as "loans and receivables", are measured at amortized cost using the effective interest method. In addition, IAS 39 revised does not include prohibitions for disposing of "loans and receivables", dissimilar to financial assets classified as held-to-maturity debt securities.

As a result of the adoption of IAS 39 revised, the Allianz Group reclassified certain available-for-sale debt securities to loans and advances to banks and loans and advances to customers. IAS 39 revised required retrospective application of this change to the Allianz Group's accounting policies; therefore, the Allianz Group's consolidated financial statements for the years ended December 31, 2004 and 2003 were adjusted to include the effect of this change.

Financial assets and liabilities designated at fair value through income
IAS 39 revised created a new category, "designated at fair value through income", for financial assets and liabilities. Financial assets and liabilities designated at fair value through income are measured at fair value with changes recognized in net income. In June 2005, the IASB issued an amendment to IAS 39 revised, which adjusted the qualifications for classification as "designated at fair value through income" as a result of concerns of the EU. The EU endorsed this amendment in November 2005. The Allianz Group has adopted the amendment to IAS 39 revised related to financial assets and liabilities designated at fair value through income.

As a result of the adoption of IAS 39 revised, the Allianz Group reclassified certain available-for-sale securities to financial assets designated at fair value through income as a result of the change as described in the following paragraph regarding adoption of IAS 32 revised. In addition, the Allianz Group reclassified the financial assets and liabilities related to its unit linked insurance and investment contracts to financial assets designated at fair value through income and financial liabilities designated at fair value through income, respectively.

As a result of the adoption IAS 32 revised, a financial instrument qualifies as a financial liability of the Allianz Group, if it gives the holder the right to put the instrument back to the Allianz Group for cash or another financial asset (a "puttable instrument"). The classification as a financial liability is independent of considerations such as when the right is exercisable, how the amount payable or receivable upon exercise of the right is determined, and whether the puttable instrument has a fixed maturity. As a result of the adoption of IAS 32 revised, the Allianz Group was required to reclassify the minority interests in shareholders' equity of certain consolidated investment funds to liabilities. These liabilities are required to be recorded at redemption amounts with changes recognized in net income. As the redemption amount of these liabilities is their fair value, these liabilities are included in financial liabilities carried at fair value through income as liabilities for puttable equity instruments.

IAS 39 revised and IAS 32 revised required retrospective application of these changes to the Allianz Group's accounting policies; therefore, the Allianz Group's consolidated financial statements for the years ended December 31, 2004 and 2003 were adjusted to include the effects of these changes.

IFRS 4

Effective January 1, 2005, the Allianz Group adopted IFRS 4, Insurance Contracts ("IFRS 4"). IFRS 4 represents the completion of phase I and is a transitional standard until the IASB has more fully addressed the recognition and measurement of insurance contracts. IFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts. Contracts with significant insurance risk are considered insurance contracts. IFRS 4 permits a company to continue with its previously adopted accounting policies with regard to recognition and measurement of insurance contracts. Only in the case of presentation of more reliable figures should a change in accounting policy be carried out. As a result, the Allianz Group principally continues to apply the provisions of US GAAP for the recognition and measurement of insurance contracts. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with IAS 39 revised. As a result of the adoption of IFRS 4, certain contracts were reclassified as investment contracts.

In addition, IFRS 4 contains specific guidance for contracts with discretionary participation features. As a result of this guidance, the Allianz Group recorded additional liabilities for its individual life insurance business in Switzerland.

IFRS 4 required retrospective application of these changes to the Allianz Group's accounting policies; therefore, the Allianz Group's consolidated financial statements for the years ended December 31, 2004 and 2003 were adjusted to include the effects of these changes.

IFRS 2

Effective January 1, 2005, the Allianz Group adopted IFRS 2, Share Based Payments ("IFRS 2"). In accordance with IFRS 2, the share based compensation plans of the Allianz Group are required to be classified as equity settled or cash settled plans. Equity settled plans are measured at fair value on the grant date and recognized as an expense, with an increase in shareholders' equity, over the vesting period. For cash settled plans the Allianz Group accrues the fair value of the award as compensation expense over the vesting period. Upon vesting, any change in the fair value of any unexercised awards is recognized as compensation expense. If the shares issued are redeemable, either mandatorily or at the counter-party's option, the share based compensation plan is required to be classified as a cash settled plan by the Allianz Group. In this respect, IFRS 2 has incorporated the "puttable instrument" concept of IAS 32 revised, which requires such instruments to be classified as liabilities rather than equity instruments. As a result of the adoption of IFRS 2, the PIMCO LLC Class B Unit Purchase Plan ("Class B Plan") is considered a cash settled plan as the equity instruments issued are puttable at the holder's option. Before IFRS 2 was introduced by the IASB, no IFRS covered the accounting for share-based compensation plans. Therefore the Allianz Group applied previously appropriate US GAAP standards, which required, that the Class B Plan be classified as an equity settled plan.

Further, IFRS 2 requires that equity settled plans include a best estimate of the number of equity instruments that are expected to vest in determining the amount of expense to be recognized. Previously, the Allianz Group's accounting policy required that forfeitures of equity instruments be recognized when incurred.

IFRS 2 revised required retrospective application of these changes to the Allianz Group's accounting policies; therefore, the Allianz Group's consolidated financial statements for the years ended December 31, 2004 and 2003 were adjusted to include the effects of these changes.

Impact on the Allianz Group's consolidated financial statements

The impact of these recently adopted accounting principles on the Allianz Group's consolidated financial statements is presented on the following pages.

Impact of recently adopted accounting standards on the consolidated balance sheet as of December 31, 2004:

	Balance as of 12/31/2004 as previously reported	IAS 32 revised and IAS 39 revised			IFRS 4	IFRS 2	Balance as of 12/31/2004
		Impair-ments	Loans and receivables	Financial assets and liabilities designated at fair value			
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
ASSETS							
Intangible assets	15,147	–	–	–	–	–	15,147
Investments in associated enterprises and joint ventures	5,832	–	(75)	–	–	–	5,757
Investments	319,552	–	(66,504)	(4,721)	–	–	248,327
Separate account assets	15,851	–	–	(15,851)	–	–	–
Loans and advances to banks	126,618	–	54,925	–	–	–	181,543
Loans and advances to customers	188,168	–	7,512	–	–	–	195,680
Financial assets carried at fair value through income	220,001	–	–	20,573	–	–	240,574
Cash and cash equivalents	15,628	–	–	–	–	–	15,628
Amounts ceded to reinsurers from insurance reserves	22,310	–	–	–	–	–	22,310
Deferred tax assets	13,809	151	(4)	29	–	154	14,139
Other assets	51,782	(19)	–	–	–	(550)	51,213
Total assets	**994,698**	**132**	**(4,146)**	**30**	**–**	**(396)**	**990,318**
SHAREHOLDERS' EQUITY AND LIABILITIES							
Shareholders' equity before minority interests	30,828	–	(543)	(33)	(8)	(249)	29,995
Minority interests in shareholders' equity	9,531	–	(30)	(1,389)	(6)	(410)	7,696
Shareholders' equity	**40,359**	**–**	**(573)**	**(1,422)**	**(14)**	**(659)**	**37,691**
Participation certificates and subordinated liabilities	13,230	–	–	–	–	–	13,230
Reserves for insurance and investment contracts	355,195	–	(3,290)	(25,560)	35	–	326,380
Separate account liabilities	15,848	–	–	(15,848)	–	–	–
Liabilities to banks	191,354	–	–	(7)	–	–	191,347
Liabilities to customers	157,274	–	–	(137)	–	–	157,137
Certificated liabilities	57,771	–	–	(19)	–	–	57,752
Financial liabilities carried at fair value through income	102,141	–	–	42,996	–	–	145,137
Other accrued liabilities	13,168	–	–	–	–	816	13,984
Other liabilities	31,833	(10)	–	1	–	(553)	31,271
Deferred tax liabilities	14,486	142	(283)	26	(21)	–	14,350
Deferred income	2,039	–	–	–	–	–	2,039
Total shareholders' equity and liabilities	**994,698**	**132**	**(4,146)**	**30**	**–**	**(396)**	**990,318**

Impact of recently adopted accounting standards and reclassifications on the consolidated income statement for the year ended December 31, 2004:

		IAS 32 revised and IAS 39 revised						
	Balance as of 12/31/2004 as previously reported	Impairments	Loans and receivables	Financial assets and liabilities designated at fair value	IFRS 4	IFRS 2	Reclassifications	Balance as of 12/31/2004
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Premiums earned (net)	56,789	–	–	–	–	–	–	56,789
Interest and similar income	21,053	–	–	(97)	–	–	–	20,956
Income from investments in associated enterprises and joint ventures (net)	777	–	–	–	–	–	–	777
Other income from investments	4,816	519	6	(162)	–	–	–	5,179
Income from financial assets and liabilities carried at fair value through income (net)	2,813	–	–	(1,155)	–	–	–	1,658
Fee and commission income, and income from service activities	6,823	–	–	–	–	–	–	6,823
Other income	2,556	–	(5)	–	–	(18)	–	2,533
Total income	**95,627**	**519**	**1**	**(1,414)**	**–**	**(18)**	**–**	**94,715**
Insurance and investment contract benefits (net)	(53,326)	(105)	–	1,213	(37)	–	–	(52,255)
Interest and similar expenses	(5,437)	–	–	44	–	–	(310)	(5,703)
Other expenses from investments	(2,745)	(77)	51	99	–	–	–	(2,672)
Loan loss provisions	(354)	–	–	–	–	–	–	(354)
Acquisition costs and administrative expenses (net)	(22,240)	–	–	–	–	(311)	(829)	(23,380)
Amortization of goodwill	(1,164)	–	–	–	–	–	–	(1,164)
Other expenses	(5,178)	–	(52)	–	–	–	1,139	(4,091)
Total expenses	**(90,444)**	**(182)**	**(1)**	**1,356**	**(37)**	**(311)**	**–**	**(89,619)**
Earnings from ordinary activities before taxes	**5,183**	**337**	**–**	**(58)**	**(37)**	**(329)**	**–**	**5,096**
Taxes	(1,727)	(55)	–	22	11	87	–	(1,662)
Minority interests in earnings	(1,257)	(67)	–	30	7	119	–	(1,168)
Net income	**2,199**	**215**	**–**	**(6)**	**(19)**	**(123)**	**–**	**2,266**

Impact of recently adopted accounting standards and reclassifications on the consolidated income statement for the year ended December 31, 2003:

		IAS 32 revised and IAS 39 revised						
	Balance as of 12/31/2003 as previously reported	Impairments	Loans and receivables	Financial assets and liabilities designated at fair value	IFRS 4	IFRS 2	Reclassifications	Balance as of 12/31/2003
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Premiums earned (net)	55,978	–	–	–	–	–	–	55,978
Interest and similar income	22,592	–	–	(82)	–	–	–	22,510
Income from investments in associated enterprises and joint ventures (net)	3,030	(16)	–	–	–	–	–	3,014
Other income from investments	10,002	790	(53)	(249)	–	–	–	10,490
Income from financial assets and liabilities carried at fair value through income (net)	243	–	–	276	–	–	–	519
Fee and commission income, and income from service activities	6,060	–	–	–	–	–	–	6,060
Other income	3,750	–	53	–	–	–	–	3,803
Total income	**101,655**	**774**	**–**	**(55)**	**–**	**–**	**–**	**102,374**
Insurance and investment contract benefits (net)	(50,432)	(1,677)	–	(141)	10	–	–	(52,240)
Interest and similar expenses	(6,561)	–	–	–	–	–	(310)	(6,871)
Other expenses from investments	(9,848)	2,012	26	358	–	–	–	(7,452)
Loan loss provisions	(1,027)	–	–	–	–	–	–	(1,027)
Acquisition costs and administrative expenses (net)	(22,117)	–	–	–	–	(276)	(524)	(22,917)
Amortization of goodwill	(1,413)	–	–	–	–	–	–	(1,413)
Other expenses	(7,396)	–	(26)	–	–	–	834	(6,588)
Total expenses	**(98,794)**	**335**	**–**	**217**	**10**	**(276)**	**–**	**(98,508)**
Earnings from ordinary activities before taxes	2,861	1,109	–	162	10	(276)	–	3,866
Taxes	(146)	(109)	–	(58)	(1)	65	–	(249)
Minority interests in earnings	(825)	(98)	–	(91)	(3)	91	–	(926)
Net income	**1,890**	**902**	**–**	**13**	**6**	**(120)**	**–**	**2,691**

Impact of recently adopted accounting standards on shareholders' equity as of December 31, 2002:

	Balance as of 12/31/2002, as previously reported	Impairments	Loans and receivables	IFRS 4	IFRS 2	Balance as of 12/31/2002
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Paid-in capital	14,785	–	–	–	–	14,785
Revenue reserves	5,914	(3,270)	–	16	(52)	2,608
Foreign currency translation adjustments	(342)	–	–	–	27	(315)
Unrealized gains and losses (net)	1,317	3,270	(609)	(10)	–	3,968
Shareholders' equity before minority interests	**21,674**	**–**	**(609)**	**6**	**(25)**	**21,046**
Minority interests in shareholders' equity	8,314	–	(26)	2	(325)	7,965
Total	**29,988**	**–**	**(635)**	**8**	**(350)**	**29,011**

Recently adopted accounting pronouncements with prospective application (effective January 1, 2005)

IFRS 3

Effective January 1, 2005, the Allianz Group adopted IFRS 3, Business Combinations ("IFRS 3"). In accordance with IFRS 3, the Allianz Group is no longer required to amortize of goodwill and intangible assets with an indefinite life. Instead, the Allianz Group is required to perform impairment tests on an annual basis in addition to whenever there is an indication that the carrying amount is not recoverable. As a result of the adoption on IFRS 3 on January 1, 2005, the Allianz Group ceased amortization of goodwill and brand names.

Further, the Allianz Group revised its accounting policy for accounting for the acquisition of a minority interest in shareholders' equity for subsidiaries, companies under control, of the Allianz Group. IFRS 3 does not specifically address these transactions, as the scope of IFRS is limited to accounting for acquisitions in which the Allianz Group obtains control over a company. Therefore, as a result of the adoption of IAS 1 as noted above, the Allianz Group has adopted an accounting policy to treat these acquisitions as transactions between equity holders. Therefore, the acquisition of a minority interest in shareholders' equity does not result in an allocation of the acquisition cost to the respective fair value of the assets and liabilities acquired. Rather, the excess of the acquisition cost over the Allianz Group's carrying amount of the minority interest in shareholders' equity is recognized as a reduction of equity. Similarly, the excess of the Allianz Group's carrying amount of the minority interest in shareholders' equity over acquisition cost is recognized as an increase of equity. The Allianz Group has applied this accounting policy to any acquisition of a minority interest in shareholders' equity on or after January 1, 2005.

IFRS 5

Effective January 1, 2005, the Allianz Group adopted IFRS 5, Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"). In accordance with IFRS 5, a non-current asset or a disposal group is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. On the date a non-current asset or disposal group meet the criteria as held for sale, it is measured at the lower of its carrying amount and fair value less costs to sell. If the carrying amount is greater than the fair value less costs to sell, a loss is recognized. If the fair value less costs to sell is greater than carrying amount, the gain is recognized upon derecognition of the non-current asset or disposal group.

In addition, IFRS 5 requires that income from discontinued operations be presented separately from income from continuing operations. A discontinued operation is a component of an entity that either has or will be disposed of or is classified as held for sale and: represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

If a component of an entity qualifies as a discontinued operation, the Allianz Group will present a single amount on its consolidated statements of income for the net income of the discontinued operation, including any gain or loss from the disposal of a non-current asset or a disposal group, for all periods presented.

Recently adopted accounting pronouncement (effective before January 1, 2005)

SOP 03-1

Effective January 1, 2004, the Allianz Group adopted American Institute of Certified Public Accountants ("AICPA") Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for certain Nontraditional Long-Duration Contracts and for Separate Accounts ("SOP 03-1"). The most significant accounting implications of SOP 03-1 for the Allianz Group are as follows:

- capitalizing sales inducements that meet specified criteria and amortizing such amounts over the life of the contracts using the same methodology as used for amortizing deferred policy acquisition costs, and immediately expensing those sales inducements not meeting such criteria,
- recognizing a liability for guaranteed minimum death and similar mortality and morbidity benefits only for contracts determined to incorporate mortality and morbidity risk that is other than nominal and when the risk charges made for a period are not proportionate to the risk borne for the period,
- for contracts containing an annuitization benefit option contract feature, an additional liability is established, if a provision for such a contract feature is not required under other applicable accounting standards and if the present value of expected annuitization payments at the expected annuitization date exceeds the expected account balance at the expected annuitization date, and
- recognizing contract holder liabilities for persistency bonuses and other sales inducements.

The effect of initially adopting SOP 03-1 was reported in the consolidated statements of changes in shareholders' equity in the amount of € 10 mn, net of taxes.

Recently issued accounting pronouncements (effective on or after January 1, 2006)

In December 2004, the IASB issued an amendment to IAS 19, Employee Benefits, relating to the recognition of actuarial gains and losses and disclosure requirements for detailed benefits plans. The amendment allows the Allianz Group the election to adopt an accounting policy to recognize actuarial gains and losses in the period which they occur outside of net income. As a result, the Allianz Group would no longer be required to amortize actuarial gains and losses in excess of the corridor over the expected average remaining working lives of the employees participating in the plans in net income. However, if the Allianz Group elects to adopt this accounting policy, it must present the recognized actuarial gains and losses, along with any other items required to be recognized directly in equity, in a statement of recognized income and expenses. This option may be used for reporting periods ending on or after December 16, 2004. The Allianz Group did not elect to utilize this option for the reporting periods ending during the year ended December 31, 2005; however, it is considering the option for reporting period ending during the year ended December 31, 2006. In addition, this amendment incorporates additional disclosure requirements with regards to defined benefit plans that are effective for the year ended December 31, 2006.

In April 2005, the IASB issued an amendment to IAS 39 related to the cash flow hedge accounting of intragroup transactions. The amendment is effective for the Allianz Group's reporting periods ending on or after January 1, 2006. The adoption is not expected to have a material impact on the Allianz Group's financial results or financial position.

In August 2005, the IASB issued amendments to IAS 39 and IFRS 4 relating to the recognition and measurement of financial guarantee contracts. The amendments require that financial guarantee contracts be initially measured at fair value. After initial recognition, the financial guarantee contracts are measured at the higher of the amount determined in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognized less cumulative amortization recognized in accordance with IAS 18, Revenues. The amendment is effective for the Allianz Group's reporting periods ending on or after January 1, 2006; however, the Allianz Group will be required to retrospectively apply the provisions of the amendments to reporting periods prior to January 1, 2006. As the Allianz Group previously applied US GAAP to its credit insurance contracts, the amendments will not impact the insurance segments. Therefore, the new rule mainly impacts the banking segment. These adoptions are not expected to have a material impact on the Allianz Group's financial results or financial position.

In August 2005, the IASB issued an amendment to IAS 1, Presentation in the Financial Statements. The amendment requires additional disclosures relating to the Allianz Group's capital. In addition, in August 2005, the IASB issued IFRS 7, Financial Instruments: Disclosures. This standard requires additional disclosures relating to the Allianz Group's financial instruments and insurance contracts. The amendment to IAS 1 and IFRS 7 are effective for the year ended December 31, 2007. The adoptions are expected to have no impact on the Allianz Group's financial results or financial position.

4 Consolidation

Scope of the consolidation

As of December 31, 2005, in addition to Allianz AG, 169 (2004: 156; 2003: 193) German and 840 (2004: 907; 2003: 972) foreign subsidiaries have been consolidated. As of December 31, 2005, 67 (2004: 68; 2003: 61) German and 26 (2004: 29; 2003: 39) foreign investment funds and 35 (2004: 24) SPEs were also consolidated.

As of December 31, 2005, of the entities that have been consolidated, 9 (2004: 9; 2003: 10) subsidiaries have been consolidated where the Allianz Group owns less than majority of the voting power of the subsidiary, including CreditRas Vita S. p. A. ("CreditRas") and Antoniana Veneta Popolare Vita S. p. A. ("Antoniana"). The Allianz Group controls these entities on the basis of shareholder agreements between the Allianz Group subsidiary owning 50 % of each such entity and the other shareholder. Pursuant to these shareholder agreements, the Allianz Group has the power to govern the financial and operating policies of these subsidiaries and the right to appoint the general manager, in the case of CreditRas, and the CEO, in the case of Antoniana, who have been given unilateral authority over all aspects of the financial and operating policies of these entities, including the hiring and termination of staff and the purchase and sale of assets. In addition, all management functions of these subsidiaries are performed by the employees of the Allianz Group and all operations are undertaken in Allianz Group's facilities. The Allianz Group also develops all insurance products written through these subsidiaries. Although the Allianz Group and the other shareholder each have the right to appoint half of the directors of each subsidiary, the rights of the other shareholders are limited to matters specifically reserved to the board of directors and shareholders under Italian law, such as decisions concerning capital increases, amendments to articles and similar matters. In addition, in the case of Antoniana, the Allianz Group has the right to appoint the Chairman, who has double board voting rights, thereby giving the Allianz Group a majority of board votes. The shareholder agreements for CreditRas and Antoniana are subject to automatic renewal and are not terminable prior to their stated terms.

As of December 31, 2005, there were 10 (2004: 11; 2003: 13) joint ventures that were accounted for using the equity method; each of these entities is managed by the Allianz Group together with a third party not consolidated in the Allianz Group's consolidated financial statements. As of December 31, 2005, there were 150 (2004: 181; 2003: 170) associated enterprises accounted for using the equity method.

All subsidiaries, joint ventures, and associated enterprises are individually listed in the disclosure of equity investments filed with the Commercial Register in Munich. All private companies are also listed and identified separately in this disclosure of equity investments, for which the consolidated financial statements and the Allianz Group management report are exempt in accordance with the application of clause 264b of the German Commercial Code ("HGB"). Selected subsidiaries and associated enterprises are listed in the selected subsidiaries and other holdings section.

Acquisitions

		Effects on the Consolidated Financial Statements in the Year of Acquisition[1]			
For the years ended 12/31/	Date of First-time Consolidation	Turnovers	Net Income	Goodwill[2]	Amortization of Goodwill
		€ mn	€ mn	€ mn	€ mn
2004					
Four Seasons Health Care Ltd., Wilmslow	8/31/2004	163[3]	2	141	–

[1] Consolidated in the business segments.
[2] At the date of first-time consolidation.
[3] Income from service agreements (not included in total revenues of the Allianz Group).

2004 Acquisitions

Four Seasons Health Care Ltd., Wilmslow On August 16, 2004, the Allianz Group acquired 100.0 % of Four Seasons Health Care Ltd., Wilmslow at a purchase price of € 1,167 mn. Four Seasons Health Care Ltd., Wilmslow operates care homes and specialist centres in England, Scotland and Northern Ireland.

Disposals

The principal subsidiaries deconsolidated in the course of the year are presented in the following table:

For the years ended 12/31/	Effects on the Consolidated Financial Statements in the Year of Disposal[1]			
	Date of Deconsolidation	Gross Premiums	Net Income	Disposed Goodwill charged to Income[2]
		€ mn	€ mn	€ mn
2005				
Cadence Capital Management Inc., Delaware	8/31/2005	17	5	39
DresdnerGrund-Fonds, Frankfurt am Main	12/22/2005	–	85	–
2004				
Allianz of Canada, Inc., Toronto	9/12/2004	458	105	31
Allianz President General Insurance Co. Ltd., Taipeh	9/27/2004	69	10	4
ENTENIAL, Guyancourt	4/2/2004	–	–	(5)
2003				
AFORE Allianz Dresdner S. A. de C.V., Mexico City	11/11/2003	–	10	117
AGF AZ Chile Vida, Santiago de Chile	4/29/2003	–	–	–
AGF Belgium Bank S. A., Brussels	12/15/2003	–	(5)	–
Allianz Parkway Integrated Care Pte Ltd., Singapore	9/30/2003	7	–	–
Merchant Investors Assurance Company Ltd., Bristol	3/10/2003	3	–	–
Pioneer Allianz Life Assurance Corporation, Metro Manila	1/14/2003	–	–	–

[1] Consolidated in the business segments.
[2] At the date of deconsolidation.

2005 Disposals

DresdnerGrund-Fonds, Frankfurt am Main On December 22, 2005, the Allianz Group sold its shares in DresdnerGrund-Fonds, Frankfurt am Main, which is described further in Note 42. The proceeds from the sale of these shares amounted to € 2,029 mn.

Acquisitions and disposals of minority interests

2005

Riunione Adriatica di Sicurtà S.p.A., Milan On November 30, 2005, the Allianz Group increased its interest in Riunione Adriatica di Sicurtà S.p.A., Milan, by 20.7 % to 76.3 %. The acquisition cost for the additional interest was € 2,701 mn. This transaction was accounted for as a transaction between equity holders; therefore, the Allianz Group recorded a decrease in shareholders' equity before minority interests of € 1,339 mn and a decrease of minority interest in shareholders' equity of € 1,362 mn.

Allianz Global Investors of America L.P., Delaware On May 9, 2005, the Allianz Group increased its interest in Allianz Global Investors of America L.P., Delaware, by 3.4 % to 97.0 %. The acquisition cost for the additional interest was € 209 mn. This transaction was accounted for as a transaction between equity holders; therefore, the Allianz Group recorded a decrease in shareholders' equity before minority interests of € 209 mn.

Bayerische Versicherungsbank AG, Munich (was merged in January 2006 retroactively effective October 1, 2005 into Allianz Versicherungs-Aktiengesellschaft, Munich) On November 15, 2005, the Allianz Group increased its interest in Bayerische Versicherungsbank AG, Munich, by 10.0 % to 100.0 %. The acquisition cost for the additional interest was € 22 mn. This transaction was accounted for as a transaction between equity holders; therefore, the Allianz Group recorded an increase in shareholders' equity before minority interests of € 82 mn and a decrease of minority interest in shareholders' equity of € 104 mn.

Assurances Générales de France, Paris During the year ended December 31, 2005, Assurances Générales de France, Paris issued shares to plan participants as a result of exercises of share options. These issuances resulted in a decrease in the Allianz Group's ownership interest in Assurances Générales de France, Paris from 62 % at December 31, 2004 to 61 % at December 31, 2005. These transactions were accounted for as transactions between equity holders; therefore, the Allianz Group recorded an increase in shareholders' equity before minority interests of € 19 mn and an increase in minority interests in shareholders' equity of € 127 mn.

2004

Allianz Global Investors of America L.P., Delaware In January, April and November 2004, the Allianz Group increased its interest in Allianz Global Investors of America L.P., Delaware, by a total of 9.7 % to 93.6 %, resulting in additional goodwill of € 583 mn. The acquisition cost for the additional interest was € 598 mn.

2003

Riunione Adriatica di Sicurtà S. p. A., Milan On February 17, 2003, the Allianz Group increased its interest in Riunione Adriatica di Sicurtà S. p. A., Milan, by 4.4 % to 55.5 %, resulting in additional goodwill of € 146 mn. The acquisition cost for the additional interest was € 810 mn.

Münchener und Magdeburger Agrarversicherung AG, Munich On December 2, 2003, the Allianz Group increased its interest in Münchener und Magdeburger Agrarversicherung AG, Munich, by 6.1 % to 58.5 %. The acquisition cost for the additional interest was € 0.2 mn.

Allianz Global Investors of America L.P., Delaware In April 2003, July 2003 and October 2003, the Allianz Group increased its interest in PIMCO Advisors L.P., Delaware, by a total of 14.4 % to 83.9 %, resulting in additional goodwill of € 624 mn. The acquisition cost for the additional interest was € 640 mn.

5 Segment Reporting

As a result of the Allianz Group's worldwide organization, the business activities of the Allianz Group are first segregated by product and type of service: insurance activities, banking activities and asset management activities. Due to differences in the nature of products, risks and capital allocation, insurance activities are further divided between property-casualty and life/health categories. Thus, the Allianz Group's segments are structured as Property-Casualty, Life/Health, Banking and Asset Management. Based on various legal, regulatory and other operational issues associated with operating entities in jurisdictions worldwide, the segments of the Allianz Group are also further analyzed by geographical areas or regions in matrixes that comprise a number of profit and service-center segments (see following pages). This geographic analysis is performed to provide further understanding of trends and results underlying the segment data.

Property-Casualty

The Allianz Group is the largest German property-casualty insurance company based on gross premiums written during the year ended December 31, 2005. Principal product lines offered primarily within Germany include automobile liability and other automobile insurance, fire and property insurance, personal accident insurance, liability insurance and legal expense insurance. The Allianz Group is also among the largest property-casualty insurance companies in other countries, including France, Italy, the United Kingdom, Switzerland and Spain. The Allianz Group conducts its property-casualty insurance operations in these countries through five main groups of operating entities in France, primarily offering automobile, property, injury and liability for both individual and corporate customers; Italy, operating in all personal and commercial property-casualty lines in particular personal automobile insurance; the United Kingdom, offering products generally similar to those offered by the Allianz Group's German property-casualty operations as well as a number of specialty products, including extended warranty and pet insurance; Switzerland, offering property-casualty insurance, travel and assistance insurance, conventional reinsurance as well as a variety of alternative risk transfer products for corporate customers worldwide; and Spain, offering a wide variety of traditional personal and commercial property-casualty insurance products, with an emphasis on automobile insurance.

Life/Health

The Allianz Group is the largest provider of life insurance and the third-largest provider of health insurance in Germany as measured by gross premiums written during the year ended December 31, 2005. Germany is the Allianz Group's most important market for life/health insurance. The Allianz Group's German life insurance companies offer a comprehensive and unified range of life insurance and life insurance-related products on both an individual and group basis. The main classes of coverage offered include endowment life insurance, annuity policies, term life insurance, unit linked annuities, and other life insurance-related forms of cover, which are provided as riders to other policies and on a stand-alone basis. The Allianz Group's German health insurance companies provide a wide range of health insurance products, including full private healthcare coverage for the self-employed, salaried employees and civil servants, supplementary insurance for people insured under statutory health insurance plans, daily sickness allowance for the self-employed and salaried employees, hospital daily allowance, supplementary care insurance and foreign travel medical expenses insurance. The Allianz Group also maintains significant life/health operations in the United States, offering a wide variety of life insurance, fixed and variable annuity contracts, including equity-indexed annuities to individuals, and long-term care insurance to individual and corporate customers. Italy and France are also markets where the Allianz Group maintains a significant presence offering products such as unit linked and investment-oriented products, health insurance and individual and group life insurance.

Banking

The Allianz Group's banking operations primarily comprise the operations of the Dresdner Bank AG and subsidiaries, hereafter "Dresdner Bank Group", whose principal banking products and services include traditional commercial banking activities such as deposit taking, lending (including residential mortgage lending) and cash management, as well as corporate finance advisory services, mergers and acquisitions advisory services, capital and money market services, securities underwriting and securities trading and derivatives business on its own account and for its customers. The Allianz Group operates through the domestic and international branch network of the Dresdner Bank Group and through various subsidiaries both in Germany and abroad, some of which also have branch networks.

Asset Management

The Allianz Group's Asset Management segment operates as a global provider of institutional and retail asset management products and services to third-party investors and provides investment management services to the Allianz Group's insurance operations. The Allianz Group managed approximately € 743 bn of third-party assets, Allianz Group's own investments and separate account assets on a worldwide basis as of December 31, 2005, with key management centers in Munich, Frankfurt, London, Paris, Singapore, Hong Kong, Milan, Westport (Connecticut) and San Francisco, San Diego and Newport Beach (California). As measured by total assets under management at December 31, 2005, the Allianz Group is one of the five largest asset managers in the world. The United States is the Allianz Group's largest geographic region for third-party assets under management comprising approximately 73 % (2004: 70 % and 2003: 69 %).

Business Segment Information – Consolidated Balance Sheets
As of December 31, 2005 and 2004

ASSETS	Property-Casualty		Life/Health	
	2005	2004	2005	2004
	€ mn	€ mn	€ mn	€ mn
Intangible assets	2,117	2,185	3,975	4,075
Investments in associated enterprises and joint ventures	47,766	48,359	3,845	5,532
Investments	88,408	81,245	178,821	154,920
Loans and advances to banks	11,181	7,424	56,285	56,699
Loans and advances to customers	2,031	6,224	27,788	28,808
Financial assets carried at fair value through income	2,977	1,137	66,029	46,668
Cash and cash equivalents	3,961	1,665	5,872	968
Amounts ceded to reinsurers from reserves for insurance and investment contracts	13,030	12,337	10,944	16,382
Deferred tax assets	7,470	6,816	3,969	3,451
Other assets	22,417	20,045	24,633	20,362
Total segment assets	**201,358**	**187,437**	**382,161**	**337,865**

SHAREHOLDERS' EQUITY AND LIABILITIES	Property-Casualty		Life/Health	
	2005	2004	2005	2004
	€ mn	€ mn	€ mn	€ mn
Participation certificates and subordinated liabilities	7,338	5,497	141	141
Reserves for insurance and investment contracts	85,051	83,095	276,105	249,854
Liabilities to banks	5,411	1,358	5,405	1,241
Liabilities to customers	5,017	5,336	75	165
Certificated liabilities	9,215	11,405	4	68
Financial liabilities carried at fair value through income	1,680	530	61,031	44,776
Other accrued liabilities	6,270	5,960	938	1,016
Other liabilities	14,310	12,352	16,976	21,280
Deferred tax liabilities	8,034	7,894	5,199	4,539
Deferred income	94	161	121	139
Total segment liabilities	**142,420**	**133,588**	**365,995**	**323,219**

	Banking		Asset Management		Consolidation Adjustments		Group	
	2005 € mn	2004 € mn	2005 € mn	2004 € mn	2005 € mn	2004 € mn	2005 € mn	2004 € mn
	2,545	2,526	6,748	6,362	–	(1)	15,385	15,147
	677	3,037	2	3	(50,195)	(51,174)	2,095	5,757
	16,646	17,736	831	529	(1,786)	(6,103)	282,920	248,327
	85,730	119,025	431	144	(2,243)	(1,749)	151,384	181,543
	163,482	168,346	46	29	(7,923)	(7,727)	185,424	195,680
	165,928	192,746	227	131	(154)	(108)	235,007	240,574
	21,848	13,097	476	431	(510)	(533)	31,647	15,628
	–	–	–	–	(1,854)	(6,409)	22,120	22,310
	2,925	3,679	232	187	–	6	14,596	14,139
	12,011	15,341	3,535	2,942	(5,293)	(7,477)	57,303	51,213
	471,792	**535,533**	**12,528**	**10,758**	**(69,958)**	**(81,275)**	**997,881**	**990,318**

	Banking		Asset Management		Consolidation Adjustments		Group	
	2005 € mn	2004 € mn	2005 € mn	2004 € mn	2005 € mn	2004 € mn	2005 € mn	2004 € mn
	7,428	7,815	–	–	(223)	(223)	14,684	13,230
	2	4	–	–	(2,021)	(6,573)	359,137	326,380
	141,914	189,187	205	7	(978)	(446)	151,957	191,347
	159,672	158,127	461	294	(6,866)	(6,785)	158,359	157,137
	50,719	47,041	4	4	(739)	(766)	59,203	57,752
	82,080	99,934	–	–	(151)	(103)	144,640	145,137
	5,163	5,783	1,931	1,225	–	–	14,302	13,984
	5,137	8,859	1,120	709	(6,160)	(11,929)	31,383	31,271
	1,314	1,860	74	57	–	–	14,621	14,350
	2,257	1,737	21	2	–	–	2,493	2,039
	455,686	**520,347**	**3,816**	**2,298**	**(17,138)**	**(26,825)**	**950,779**	**952,627**
						Shareholders' equity	**47,102**	**37,691**
						Total equity and liabilities	**997,881**	**990,318**

Business Segment Information – Consolidated Income Statements
For the Years ended December 31, 2005, 2004 and 2003

	Property-Casualty			Life/Health		
	2005 € mn	2004 € mn	2003 € mn	2005 € mn	2004 € mn	2003 € mn
Premiums earned (net)	38,017	38,193	37,277	19,730	18,596	18,701
Interest and similar income	4,021	4,051	4,187	11,731	11,196	11,065
Income from associated enterprises and joint ventures (net)	1,582	2,438	3,619	809	438	712
Other income from investments	1,745	2,145	5,026	2,683	2,423	4,605
Income from financial assets and liabilities carried at fair value through income (net)	(289)	(41)	(1,481)	256	198	447
Fee and commission income, and income from service activities	1,711	1,038	522	198	224	234
Other income	992	1,064	1,770	916	1,226	1,484
Total income	**47,779**	**48,888**	**50,920**	**36,323**	**34,301**	**37,248**
Insurance and investment contract benefits (net)	(26,208)	(26,871)	(27,180)	(27,563)	(25,390)	(25,206)
Interest and similar expenses	(1,476)	(1,562)	(1,667)	(471)	(749)	(732)
Other expenses from investments	(539)	(1,127)	(2,340)	(858)	(867)	(4,087)
Loan loss provisions	(1)	(7)	(10)	–	(3)	(3)
Acquisition costs and administrative expenses	(11,325)	(10,734)	(10,276)	(4,432)	(4,533)	(3,938)
Amortization of goodwill	–	(381)	(383)	–	(159)	(398)
Other expenses	(2,558)	(2,069)	(2,646)	(725)	(896)	(1,640)
Total expenses	**(42,107)**	**(42,751)**	**(44,502)**	**(34,049)**	**(32,597)**	**(36,004)**
Earnings from ordinary activities before taxes	5,672	6,137	6,418	2,274	1,704	1,244
Taxes	(1,126)	(1,520)	(756)	(463)	(469)	(639)
Minority interests in earnings	(997)	(1,151)	(451)	(462)	(368)	(386)
Net income (loss)	**3,549**	**3,466**	**5,211**	**1,349**	**867**	**219**

Banking			Asset Management			Consolidation Adjustments			Group		
2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
–	–	–	–	–	–	–	–	–	57,747	56,789	55,978
7,064	6,471	8,047	90	62	78	(565)	(824)	(867)	22,341	20,956	22,510
532	84	3	–	–	10	(1,666)	(2,183)	(1,330)	1,257	777	3,014
619	635	809	8	21	16	(345)	(45)	34	4,710	5,179	10,490
1,164	1,493	1,524	19	11	30	9	(3)	(1)	1,159	1,658	519
3,278	3,085	2,956	3,757	3,110	2,892	(634)	(634)	(544)	8,310	6,823	6,060
317	293	521	24	48	33	(67)	(98)	(5)	2,182	2,533	3,803
12,974	**12,061**	**13,860**	**3,898**	**3,252**	**3,059**	**(3,268)**	**(3,787)**	**(2,713)**	**97,706**	**94,715**	**102,374**
–	–	–	–	–	–	(26)	6	146	(53,797)	(52,255)	(52,240)
(4,942)	(4,179)	(5,284)	(33)	(13)	(29)	552	800	841	(6,370)	(5,703)	(6,871)
(259)	(480)	(678)	(2)	(3)	(13)	(21)	(195)	(334)	(1,679)	(2,672)	(7,452)
110	(344)	(1,014)	–	–	–	–	–	–	109	(354)	(1,027)
(6,012)	(6,008)	(6,592)	(3,335)	(2,730)	(2,632)	657	625	521	(24,447)	(23,380)	(22,917)
–	(244)	(263)	–	(380)	(369)	–	–	–	–	(1,164)	(1,413)
(334)	(873)	(1,965)	(108)	(401)	(401)	83	148	64	(3,642)	(4,091)	(6,588)
(11,437)	**(12,128)**	**(15,796)**	**(3,478)**	**(3,527)**	**(3,444)**	**1,245**	**1,384**	**1,238**	**(89,826)**	**(89,619)**	**(98,508)**
1,537	(67)	(1,936)	420	(275)	(385)	(2,023)	(2,403)	(1,475)	7,880	5,096	3,866
(396)	294	1,025	(132)	52	80	3	(19)	41	(2,114)	(1,662)	(249)
(102)	(101)	(104)	(51)	(52)	(92)	226	504	107	(1,386)	(1,168)	(926)
1,039	**126**	**(1,015)**	**237**	**(275)**	**(397)**	**(1,794)**	**(1,918)**	**(1,327)**	**4,380**	**2,266**	**2,691**

Business Segment Information – Insurance
As of and for the Years ended December 31, 2005, 2004 and 2003

PROPERTY-CASUALTY	Premiums earned (net)			Loss ratio[1]		
	2005	2004	2003	2005	2004	2003
	€ mn	€ mn	€ mn	%	%	%
1. Europe						
Germany	10,474	10,712	10,478	64.2	68.5	71.7
Italy	4,964	4,840	4,645	68.0	68.1	70.9
France	4,375	4,484	4,453	74.0	73.5	79.8
Great Britain	1,913	2,012	1,827	64.1	63.6	67.1
Switzerland	1,708	1,659	1,599	74.9	72.9	71.0
Spain	1,551	1,454	1,337	71.4	72.2	75.9
2. America						
NAFTA Region	3,590	3,932	4,037	68.3	64.7	70.0
South America	510	378	408	64.5	64.7	71.3
3. Asia-Pacific	1,280	1,243	1,171	68.0	72.8	71.7
4. Specialty Lines						
Allianz Global Risks Rückversicherungs-AG	959	1,072	1,038	71.3	68.9	70.9
Credit Insurance	995	901	845	41.2	40.8	49.3
Travel Insurance and Assistance Services	934	863	784	60.3	59.8	60.6
Allianz Marine & Aviation	541	475	417	123.5	64.4	65.5
5. Other	4,223	4,168	4,238	61.4	76.9	73.2
6. Consolidation adjustments[2]	–	–	–			
Total	**38,017**	**38,193**	**37,277**	**67.1**	**67.7**	**71.5**

LIFE/HEALTH	Premiums earned (net)		
	2005	2004	2003
	€ mn	€ mn	€ mn
1. Europe			
Germany Life	10,205	8,936	8,788
Germany Health	3,042	3,019	2,959
France	1,484	1,545	1,509
Italy	1,104	1,088	1,169
Switzerland	470	504	542
Spain	350	576	530
2. USA	522	428	598
3. Asia-Pacific	1,223	1,131	1,303
4. Other	1,330	1,369	1,303
5. Consolidation adjustm ents[2]	–	–	–
Total	**19,730**	**18,596**	**18,701**

[1] The loss ratio represents net claims incurred as a percentage of net premiums earned.

[2] Represents elimination of intercompany transactions between Allianz Group subsidiaries in different geographic regions. In the life/health insurance segment, consolidation adjustments also include the elimination of intercompany transactions between Germany Life and Germany Health. Additionally, the Allianz Group has excluded a number of significant non-operating intra-Allianz Group transactions from various country and specialty lines above and instead has netted them in the consolidation line, including the impacts from the September 30, 2002 reinsurance agreement between Fireman's Fund in the United States and Allianz AG in Germany providing cover for asbestos and environmental exposures.

Expense ratio[3]			Net income (loss)			Group's own investments[5]	
2005	2004	2003	2005	2004	2003	2005	2004
%	%	%	€ mn	€ mn	€ mn	€ mn	€ mn
25.3	25.1	25.7	1,378	1,744	4,519	110,505	101,844
22.5	22.4	22.9	671	494	347	11,841	12,772
25.0	24.9	24.4	593	843	109	24,896	23,219
29.9	29.8	29.0	269	208	179	4,369	4,411
21.5	19.7	25.3	122	96	53	4,706	4,433
19.4	18.7	19.6	106	108	59	2,504	2,165
26.4	28.0	28.2	825	489	(85)	17,407	16,729
32.3	33.3	32.6	31	23	3	667	499
24.1	23.7	23.8	172	88	64	3,539	2,902
28.6	28.8	27.9	38	52	73	2,843	2,325
25.3	28.2	32.7	126	99	62	2,912	2,634
31.2	31.8	31.3	30	6	3	656	574
25.0	29.2	21.8	(186)	88	68	1,409	1,216
25.9	25.0	24.0	39	357	463	28,149	27,820
			(665)	(1,229)	(706)	(65,863)	(60,306)
25.2	**25.2**	**25.5**	**3,549**	**3,466**	**5,211**	**150,540**	**143,237**

Statutory expense ratio[4]			Net income (loss)			Group's own investments[5]	
2005	2004	2003	2005	2004	2003	2005	2004
%	%	%	€ mn	€ mn	€ mn	€ mn	€ mn
7.0	10.4	6.8	297	159	17	122,148	115,960
8.8	9.3	10.4	96	53	(1)	15,301	14,297
15.4	17.3	16.5	237	127	124	51,485	48,145
5.1	4.4	3.5	214	151	112	22,611	21,763
8.5	9.8	8.6	32	13	6	7,923	7,860
7.2	5.8	6.3	24	22	16	5,383	5,067
5.4	5.2	4.6	295	256	132	27,789	19,515
10.5	13.2	10.8	55	(16)	(261)	7,247	5,332
17.5	19.5	20.0	102	109	83	13,118	11,711
			(3)	(7)	(9)	(675)	(632)
8.1	**9.1**	**7.9**	**1,349**	**867**	**219**	**272,330**	**249,018**

[3] The expense ratio represents net acquisition costs and administrative expenses as a percentage of net premiums earned.
[4] The statutory expense ratio represents net acquisition costs and administrative expenses as a percentage of net premiums earned (statutory).
[5] Group's own investments, which reflect the definition of investments as used by management for controlling purposes, are presented before consolidation adjustments representing the elimination of intra-Allianz Group investment holdings held by Allianz Group subsidiaries in different geographic regions.

Business Segment Information – Banking
For the Years ended December 31, 2005, 2004 and 2003

BANKING SEGMENT – DIVISIONS

For the years ended 12/31/	2005			2004			2003		
	Operating revenues[1]	Cost-income ratio	Earnings after taxes and before minority interests	Operating revenues[1]	Cost-income ratio	Earnings after taxes and before minority interests	Operating revenues[1]	Cost-income ratio	Earnings after taxes and before minority interests
	€ mn	%	€ mn	€ mn	%	€ mn	€ mn	%	€ mn
Personal Banking	1,883	84.2	136	1,846	89.2	(6)	1,856	93.5	(130)
Private & Business Banking	1,179	58.5	293	1,145	65.0	188	1,100	68.2	146
Corporate Banking	1,027	44.9	335	1,014	47.2	282	1,041	48.1	197
DrKW	2,102	91.7	132	2,045	89.4	152	2,141	87.6	209
IRU	70	232.6	91	362	79.1	5	598	77.6	(896)
Corporate Other[2]	(307)	–[3]	98	(186)	–[3]	(153)	(491)	–[3]	(293)
Dresdner Bank	**5,954**	**88.9**	**1,085**	**6,226**	**85.2**	**468**	**6,245**	**91.9**	**(767)**
Other Banks[4]	281	73.9	56	220	94.9	3	459	75.7	119
Subtotal	**6,235**	**–**	**1,141**	**6,446**	**–**	**471**	**6,704**	**–**	**(648)**
Amortization of goodwill[5]	–	–	–	–	–	(244)	–	–	(263)
Minority interests in earnings	–	–	(102)	–	–	(101)	–	–	(104)
Total	**6,235**	**88.2**	**1,039**	**6,446**	**85.6**	**126**	**6,704**	**90.8**	**(1,015)**

1) Consists of net interest income, net fee and commission income, and net trading income. Operating revenues is a measure used by management to calculate and monitor the activities and operating performance of its banking operations. This measure is used by other banks, but other banks may calculate operating income on a different basis and accordingly may not be comparable to operating revenues as used herein.
2) The Corporate Other division contains income and expense items that are not assigned to Dresdner Bank's operating divisions. These items include, in particular, expenses for central functions and projects affecting Dresdner Bank as a whole which are not allocated to the operating divisions, as well as provisioning requirements for country and general risks, and realized gains and losses from Dresdner Bank's non-strategic investment portfolio.
3) Presentation not meaningful.
4) Consists of non-Dresdner Bank banking operations within our Banking segment.
5) Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

BANKING SEGMENT – GEOGRAPHICAL

	Operating revenues[1]			Earnings after taxes and before goodwill amortization and minority interests in earnings[2]		
For the years ended 12/31/	2005	2004	2003	2005	2004	2003
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Germany	4,084	4,238	3,377	1,553	724	(32)
Rest of Europe	1,662	1,698	2,394	(28)	(138)	39
NAFTA	347	359	385	184	143	(351)
Rest of world	184	151	548	67	89	198
Subtotal	**6,277**	**6,446**	**6,704**	**1,776**	**818**	**(146)**
Consolidation adjustments[3]	(42)	–	–	(635)	(347)	(502)
Total	**6,235**	**6,446**	**6,704**	**1,141**	**471**	**(648)**

1) Consists of net interest income, net fee and commission income, and net trading income. Operating revenues is a measure used by management to calculate and monitor the activities and operating performance of its banking operations. This measure is used by other banks, but other banks may calculate operating income on a different basis and accordingly may not be comparable to operating revenues as used herein.
2) Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
3) Represents elimination of transactions between Allianz Group subsidiaries in different geographic regions.

Business Segment Information – Operating Profit for the years ended December 31, 2005, 2004 and 2003

The Allianz Group evaluates the results of its Property-Casualty, Life/Health, Banking and Asset Management segments using a financial performance measure referred to herein as "operating profit". The Allianz Group defines segment operating profit as earnings from ordinary activities before taxes, excluding, as applicable for each respective segment, all or some of the following items: net capital gains and impairments on investments, net trading income, intra-Allianz Group dividends and profit transfer, interest expense on external debt, restructuring charges, other non-operating income/(expenses), acquisition-related expenses and amortization of goodwill.

While these excluded items are significant components in understanding and assessing the Allianz Group's consolidated financial performance, the Allianz Group believes that the presentation of operating results enhances the understanding and comparability of the performance of its operating segments by highlighting net income attributable to ongoing segment operations and the underlying profitability of its businesses. For example, the Allianz Group believes that trends in the underlying profitability of its segments can be more clearly identified without the fluctuating effects of the realized capital gains and losses or impairments on investment securities, as these are largely dependent on market cycles or issuer specific events over which the Allianz Group has 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 the Allianz Group's discretion. Operating profit is not a substitute for earnings from ordinary activities before taxes or net income as determined in accordance with IFRS. The Allianz Group's definition of operating profit may differ from similar measures used by other companies, and may change over time.

The following table sets forth the total revenues, operating profit and net income for each of our business segments for the years ended December 31, 2005, 2004 and 2003, as well as consolidated net income of the Allianz Group.

	Property-Casualty € mn	Life/Health € mn	Banking € mn	Asset Management € mn	Consolidation adjustments € mn	Group € mn
For the year ended 12/31/2005						
Total revenues*)	44,061	48,129	6,235	2,733	(261)	100,897
Operating profit	4,162	1,603	845	1,133	–	7,743
Earnings from ordinary activities before taxes	5,672	2,274	1,537	420	(2,023)	7,880
Taxes	(1,126)	(463)	(396)	(132)	3	(2,114)
Minority interests in earnings	(997)	(462)	(102)	(51)	226	(1,386)
Net income/(loss)	**3,549**	**1,349**	**1,039**	**237**	**(1,794)**	**4,380**
For the year ended 12/31/2004						
Total revenues*)	43,780	45,177	6,446	2,308	(836)	96,875
Operating profit	3,979	1,418	586	856	–	6,839
Earnings from ordinary activities before taxes	**6,137**	**1,704**	**(67)**	**(275)**	**(2,403)**	**5,096**
Taxes	(1,520)	(469)	294	52	(19)	(1,662)
Minority interests in earnings	(1,151)	(368)	(101)	(52)	504	(1,168)
Net income/(loss)	**3,466**	**867**	**126**	**(275)**	**(1,918)**	**2,266**
For the year ended 12/31/2003						
Total revenues*)	43,420	42,319	6,704	2,226	(929)	93,740
Operating profit/(loss)	2,397	1,265	(396)	716	–	3,982
Earnings from ordinary activities before taxes	**6,418**	**1,244**	**(1,936)**	**(385)**	**(1,475)**	**3,866**
Taxes	(756)	(639)	1,025	80	41	(249)
Minority interests in earnings	(451)	(386)	(104)	(92)	107	(926)
Net income(loss)	**5,211**	**219**	**(1,015)**	**(397)**	**(1,327)**	**2,691**

*) Total revenues comprise Property-Casualty segment's gross premiums written, Life/Health segment's statutory premiums, Banking segment's operating revenues, as well as Asset Management segment's operating revenues.

Property-Casualty Insurance Segment

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Gross premiums written	44,061	43,780	43,420
Premiums earned (net)[1]	38,017	38,193	37,277
Current income from investments	3,901	3,935	3,854
Investment management and interest expenses	(488)	(834)	(1,295)
Insurance benefits (net)[2]	(26,076)	(26,650)	(27,261)
Net acquisition costs and administrative expenses[3]	(10,840)	(10,360)	(9,814)
Other operating income/(expenses) (net)	(352)	(305)	(364)
Operating profit	**4,162**	**3,979**	**2,397**
Net capital gains and impairments on investments[4]	1,306	1,325	6,049[5]
Net trading income/(expense)[6]	(426)	(49)	(1,490)
Intra-group dividends and profit transfer	1,531	1,963	676
Interest expense on external debt	(834)	(863)	(831)
Amortization of goodwill[7]	–	(381)	(383)
Restructuring charges	(67)	–	–
Other non-operating income/(expenses) (net)	–	163	–
Earnings from ordinary activities before taxes	**5,672**	**6,137**	**6,418**
Taxes	(1,126)	(1,520)	(756)
Minority interests in earnings	(997)	(1,151)	(451)
Net income	**3,549**	**3,466**	**5,211**
Loss ratio[8] in %	67.1	67.7	71.5
Expense ratio[9] in %	25.2	25.2	25.5
Combined ratio in %	**92.3**	**92.9**	**97.0**

[1] Net of earned premiums ceded to reinsurers of € 5,411 mn (2004: € 5,298 mn; 2003: € 5,539 mn).
[2] Comprises net claims incurred of € 25,519 mn (2004: € 25,867 mn; 2003: € 26,659 mn), net expenses from changes in other net underwriting provisions of € 187 mn (2004: € 458 mn; 2003: € 269 mn) and net expenses for premium refunds of € 370 mn (2004: € 325 mn; 2003: € 333 mn). Net expenses for premium refunds were adjusted for income of € 111 mn (2004: € 210 mn; 2003: expense of € 138 mn) related to policyholders' participation of net capital gains and impairments on investments as well as net trading income/(expense) that were excluded from the determination of operating profit.
[3] Comprises net acquisition costs of € 5,771 mn (2004: € 5,781 mn; 2003: € 5,509 mn), administrative expenses of € 3,794 mn (2004: € 3,849 mn; 2003: € 4,002 mn) and expenses for service agreements of € 1,275 mn (2004: € 730 mn; 2003: € 303 mn). Net acquisition costs and administrative expenses do not include expenses for the management of investments and, accordingly, do not reconcile to acquisition costs and administrative expenses.
[4] Comprises net realized gains on investments of € 1,340 mn (2004: € 1,878 mn; 2003: € 7,517 mn) and net impairments on investments of € 34 mn (2004: € 553 mn; 2003: € 1,468 mn). These amounts are net of policyholders' participation.
[5] Includes significant net realized gains from sales of certain shareholdings.
[6] Net trading income/(expense) are net of policyholders' participation.
[7] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
[8] Represents ratio of net claims incurred to net premiums earned.
[9] Represents ratio of net acquisition costs and administrative expenses, excluding expenses for service agreements, to net premiums earned.

Life/Health Insurance Segment

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Statutory premiums[1]	48,129	45,177	42,319
Gross premiums written	20,950	20,716	20,689
Premiums earned (net)[2]	19,730	18,596	18,701
Current income from investments	11,826	11,335	11,260
Investment management and interest expenses	(478)	(483)	(516)
Insurance benefits (net)[3]	(25,023)	(23,845)	(24,189)
Net acquisition costs and administrative expenses[4]	(3,921)	(4,039)	(3,416)
Net trading income	(326)	117	218
Other operating income/(expenses) (net)	(205)	(263)	(793)
Operating profit	**1,603**	**1,418**	**1,265**
Net capital gains and impairments on investments[5]	608	282	274[6]
Intra-group dividends and profit transfer	82	163	103
Amortization of goodwill[7]	–	(159)	(398)
Restructuring charges	(19)	–	–
Earnings from ordinary activities before taxes	**2,274**	**1,704**	**1,244**
Taxes	(463)	(469)	(639)
Minority interests in earnings	(462)	(368)	(386)
Net income	**1,349**	**867**	**219**
Statutory expense ratio[8] in %	8.1	9.1	7.9

[1] Under the Allianz Group's accounting policies for life insurance contracts, for which the Allianz Group has adopted US GAAP accounting standards, gross written premiums include only the cost- and risk-related components of premiums generated from unit linked and other investment-oriented products, but do not include the full amount of statutory premiums written on these products. Statutory premiums are gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
[2] Net of earned premiums ceded to reinsurers of € 1,125 mn (2004: € 2,048 mn; 2003: € 1,953 mn).
[3] Net insurance benefits were adjusted for income of € 2,541 mn (2004: € 1,548 mn; 2003: € 1,015 mn), related to policyholders' participation of net capital gains and impairments on investments that were excluded from the determination of operating profit.
[4] Comprises net acquisition costs of € 2,358 mn (2004: € 2,635 mn; 2003: € 1,885 mn), administrative expenses of € 1,426 mn (2004: € 1,270 mn; 2003: € 1,307 mn) and expenses for service agreements of € 137 mn (2004: € 134 mn; 2003: € 224 mn). Net acquisition costs and administrative expenses do not include expenses for the management of investments and, accordingly, do not reconcile to acquisition costs and administrative expenses.
[5] Comprises net realized gains on investments of € 671 mn (2004: € 331 mn; 2003: € 602 mn), and net impairments on investments of € 63 mn (2004: € 49 mn; 2003: € 328 mn). These amounts are net of policyholders' participation.
[6] Includes realized gains of € 743 mn from sales of Credit Lyonnais shares in 2003.
[7] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
[8] Represents ratio of net acquisition costs and administrative expenses, excluding expenses for service agreements, to net statutory premiums of € 46,895 mn (2004: € 43,031 mn; 2003: € 40,276 mn).

Banking Segment

For the years ended 12/31/	2005		2004		2003	
	Banking Segment € mn	Dresdner Bank € mn	Banking Segment € mn	Dresdner Bank € mn	Banking Segment € mn	Dresdner Bank € mn
Net interest income	2,305	2,228	2,359	2,267	2,728	2,325
Net fee and commission income	2,767	2,610	2,593	2,460	2,452	2,387
Net trading income	1,163	1,116	1,494	1,499	1,524	1,533
Operating revenues[1]	**6,235**	**5,954**	**6,446**	**6,226**	**6,704**	**6,245**
Administrative expenses	(5,500)	(5,292)	(5,516)	(5,307)	(6,086)	(5,739)
Net loan loss provisions	110	113	(344)	(337)	(1,014)	(1,015)
Operating profit/(loss)	**845**	**775**	**586**	**582**	**(396)**	**(509)**
Net capital gains and impairments on investments	710[2]	713	172[2]	166	166[2]	120
Restructuring charges	(13)	(12)	(292)	(290)	(892)	(840)
Other non-operating income/(expenses) (net)	(5)	(9)	(289)	(278)	(551)	(613)
Amortization of goodwill[3]	–	–	(244)	(244)	(263)	(270)
Earnings from ordinary activities before taxes	**1,537**	**1,467**	**(67)**	**(64)**	**(1,936)**	**(2,112)**
Taxes	(396)	(382)	294	288	1,025	1,075
Minority interests in earnings	(102)	(82)	(101)	(60)	(104)	(5)
Net income/(loss)	**1,039**	**1,003**	**126**	**164**	**(1,015)**	**(1,042)**
Cost-income ratio[4] in %	88.2	88.9	85.6	85.2	90.8	91.9

[1] Operating revenues is a measure used by management to calculate and monitor the activities and operating performance of its banking operations. This measure is used by other banks, but other banks may calculate operating revenues on a different basis and accordingly may not be comparable to operating revenues as used herein.

[2] Comprises primarily net realized gains on investments of € 930 mn (2004: € 604 mn; 2003: € 709 mn) and impairments on investments of € 225 mn (2004: € 467 mn; 2003: € 591 mn). Impairments on investments includes € 37 mn (2004: € 32 mn; 2003: € 23 mn) of scheduled depreciation of real estate used by third parties.

[3] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

[4] Represents ratio of administrative expenses to operating revenues.

Asset Management Segment

For the years ended 12/31/	2005		2004		2003	
	Asset Management Segment € mn	Allianz Global Investors € mn	Asset Management Segment € mn	Allianz Global Investors € mn	Asset Management Segment € mn	Allianz Global Investors € mn
Operating revenues	2,733	2,698	2,308	2,301	2,226	2,226
Operating expenses	(1,600)	(1,574)	(1,452)	(1,450)	(1,510)	(1,510)
Operating profit	**1,133**	**1,124**	**856**	**851**	**716**	**716**
Acquisition-related expenses	(713)	(713)	(751)	(751)	(732)	(732)
thereof: Deferred purchases of interests in PIMCO[1]	(676)	(676)	(501)	(501)	(448)	(448)
Retention payments for management and employees of PIMCO and Nicholas Applegate	(12)	(12)	(125)	(125)	(147)	(147)
Amortization charges relating to capitalized bonuses for PIMCO management	(25)	(25)	(125)	(125)	(137)	(137)
Amortization of goodwill[2]	–	–	(380)	(380)	(369)	(369)
Earnings from ordinary activities before taxes	**420**	**411**	**(275)**	**(280)**	**(385)**	**(385)**
Taxes	(132)	(130)	52	53	80	80
Minority interests in earnings	(51)	(48)	(52)	(52)	(92)	(92)
Net income/(loss)	**237**	**233**	**(275)**	**(279)**	**(397)**	**(397)**
Cost-income ratio[3] in %	58.5	58.3	62.9	63.0	67.8	67.8

[1] Effective January 1, 2005, and applied retrospectively, under IFRS, the PIMCO LLC Class B Unit Purchase Plan ("Class B Plan") is considered a cash settled plan, resulting in changes in the fair value of the shares issued to be recognized as expense.

[2] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

[3] Represents ratio of operating expenses to operating revenues.

Supplementary Information on the Allianz Group's Assets

6 Intangible assets

As of 12/31/	2005 € mn	2004 € mn
Goodwill	12,023	11,677
PVFP	1,336	1,522
Software	1,091	972
Brand names	740	740
Loyalty bonuses*)	–	33
Other	195	203
Total	**15,385**	**15,147**

*) Net of accumulated amortization of € 713 mn as of December 31, 2005 (2004: € 680 mn).

Amortization expense of intangible assets is estimated to be € 428 mn in 2006, € 419 mn in 2007, € 406 mn in 2008, € 390 mn in 2009 and € 377 mn in 2010.

Goodwill

	2005 € mn	2004 € mn	2003 € mn
Cost as of 1/1/	11,901	12,594	13,786
Accumulated impairments as of 1/1/	(224)	(224)	–
Carrying amount as of 1/1/	**11,677**	**12,370**	**13,786**
Additions	70	803	782
Disposals	(45)	(62)	(225)
Impairment	–	–	(224)
Foreign currency translation adjustments	479	(270)	(560)
Reclassifications to disposal groups held for sale	(158)	–	–
Amortization	–	(1,164)	(1,189)
Carrying amount as of 12/31/	**12,023**	**11,677**	**12,370**
Accumulated impairments as of 12/31/	224	224	224
Cost as of 12/31/	**12,247**	**11,901**	**12,594**

Additions include goodwill from

- Increasing the of interest in GamePlan Financial Marketing, LLC, Woodstock by 60.0 % to 100.0 %,
- the acquisition of 100.0 % interest in BetterCare Group Limited, Kingston upon Thames,
- the acquisition of 100.0 % interest in Questar Capital Corporation, Ann Arbor.

Disposals include goodwill from

- Reducing the interest in Cadence Capital Management Inc., Delaware, by 100.0 % to 0.0 %.

The impairment charge of € 224 mn during the year ended December 31, 2003 concerns Allianz Life Insurance Company Ltd., Seoul. In the course of the annual goodwill impairment review the amount of the impairment was determined on the basis of an evaluation of future cash flows from the existing contract portfolio and new business. This amount reflects the effects of persistently lower interest rates in the capital markets and the overall unsatisfactory earnings performance of the company.

The reclassifications affect the goodwill of Four Seasons Health Care Ltd., Wilmslow and BetterCare Group Limited, Kingston upon Thames as these subsidiaries were reclassified to disposal groups held for sale.

PVFP

	2005 € mn	2004 € mn	2003 € mn
Cost as of 1/1/	2,737	2,699	2,619
Accumulated amortization as of 1/1/	(1,215)	(1,041)	(851)
Carrying amount of 1/1/	**1,522**	**1,658**	**1,768**
Additions	–	47	–
Changes in the consolidated subsidiaries of the Allianz Group	–	(4)	(5)
Change in assumptions	–	–	118
Foreign currency translation adjustments	7	(5)	(33)
Amortization*)	(193)	(174)	(190)
Carrying amount as of 12/31/	**1,336**	**1,522**	**1,658**
Accumulated amortization as of 12/31/	1,408	1,215	1,041
Cost as of 12/31/	**2,744**	**2,737**	**2,699**

*) During the year ended December 31, 2005, includes interest accrued on unamortized PVFP € 47 mn (2004: € 94 mn; 2003: € 102 mn).

As of December 31, 2005, the percentage of PVFP that is expected to be amortized in 2006 is 12.78 % (12.11 % in 2007, 11.16 % in 2008, 9.94 % in 2009 and 9.02 % in 2010).

Software

	2005 € mn	2004 € mn	2003 € mn
Cost as of 1/1/	3,532	3,083	2,692
Accumulated amortization as of 1/1/	(2,560)	(2,019)	(1,411)
Carrying amount as of 1/1/	**972**	**1,064**	**1,281**
Additions	577	757	713
Changes in the consolidated subsidiaries of the Allianz Group	(2)	(70)	(69)
Disposals	(290)	(232)	(233)
Foreign currency translation adjustments	14	(6)	(20)
Amortization	(180)	(541)	(608)
Carrying amount as of 12/31/*)	**1,091**	**972**	**1,064**
Accumulated amortization as of 12/31/	2,740	2,560	2,019
Cost as of 12/31/	**3,831**	**3,532**	**3,083**

*) As of December 31, 2005, includes € 772 mn (2004: € 608 mn; 2003: € 598 mn) for software developed in-house and € 319 mn (2004: € 364 mn; 2003: € 466 mn) for software purchased from third parties.

Impairment Tests for Goodwill and Intangible Assets with Indefinite Lives

The Allianz Group has allocated goodwill for impairment testing purposes to seven cash generating units in the Property-Casualty segment, five cash generating units in the Life/Health segment, three cash generating units in the Banking segment and one cash generating unit in the Asset Management segment. These cash generating units represent the lowest level at which the goodwill is monitored for internal management purposes. In addition, the Allianz Group's brand names have been allocated to two cash generating units in the Banking segment and one cash generating unit in the Asset Management segment.

The groups of cash generating units of the Property-Casualty segment are: Europe I, including Germany, Switzerland and Austria; Europe II, including France, Italy and Spain; NAFTA, including the United States and Mexico; South America; Asia Pacific; Eastern Europe and Specialty Lines. The groups of cash generating units of the Life/Health segment are: Europe I Life, including Germany Life, Switzerland and Austria; Europe I Health, comprising Germany Health; Europe II, including France, Italy and Spain; NAFTA, including the United States; and Asia Pacific. The cash generating units of the Banking segment are Personal Banking and Private & Business Banking; Corporate Banking and DrKW; and Other Banking. The Asset Management segment is considered a cash generating unit.

The recoverable amounts of all cash generating units are determined on the basis of value in use calculations.

The Allianz Group applies generally acknowledged valuation principles to determine the value in use. In this regard, the Allianz Group utilizes the capitalized earnings method to derive the value in use for all cash generating units in the Property-Casualty and Banking segments and for the Asset Management and Europe I Health 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 are the results of the structured management dialogues between the Board of Management of the Allianz Group and the companies in connection with a reporting process integrated into these dialogues. Generally, the business plans 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, specifically those utilized in the calculation of Economic Value Added.

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

The carrying amounts of goodwill and brand names allocated to Allianz Group's cash generating units as of December 31, 2005 are as follows:

As of 12/31/ Cash Generating Units	2005 Goodwill € mn	2005 Brand names € mn
Property-Casualty		
Europe I	293	–
Europe II	701	–
NAFTA	120	–
South America	21	–
Asia Pacific	214	–
Eastern Europe	71	–
Specialty Lines	20	–
Subtotal	**1,440**	**–**
Life/Health		
Europe I – Life	723	–
Europe I – Health	325	–
Europe II	580	–
NAFTA	406	–
Asia Pacific	320	–
Subtotal	**2,354**	**–**
Banking		
Personal Banking and Private & Business Banking	1,390	377
Corporate Banking and DrKW	183	279
Other Banking	52	–
Subtotal	**1,625**	**656**
Asset Management	6,604	84
Total	**12,023**	**740**

7 Investments in associated enterprises and joint ventures

As of 12/31/	2005 € mn	2004 € mn
Investments in associated enterprises	1,984	5,675
Investments in joint ventures	111	82
Total	**2,095**	**5,757**

As of December 31, 2005, loans to associated enterprises and joint ventures and debt securities available-for-sale issued by associated enterprises and joint ventures held by the Allianz Group amounted to € 12,618 mn (2004: € 19,011 mn).

8 Investments

As of 12/31/	2005 € mn	2004 € mn
Securities held-to-maturity	4,826	5,179
Securities available-for-sale	266,953	230,919
Real estate used by third parties	9,569	10,628
Funds held by others under reinsurance contracts assumed	1,572	1,601
Total	**282,920**	**248,327**

Securities held-to-maturity

	Amortized Cost € mn	Unrealized Gains € mn	Unrealized Losses € mn	Fair Value € mn
As of 12/31/2005				
Government and government agency bonds				
Germany	140	8	–	148
Italy	427	42	–	469
Austria	364	2	–	366
All other countries	1,240	70	–	1,310
Subtotal	**2,171**	**122**	**–**	**2,293**
Corporate bonds	2,619	154	–	2,773
Other	36	–	–	36
Total	**4,826**	**276**	**–**	**5,102**
As of 12/31/2004				
Government and government agency bonds				
Germany	157	3	–	160
Italy	407	10	–	417
Austria	367	9	–	376
All other countries	1,255	27	(1)	1,281
Subtotal	**2,186**	**49**	**(1)**	**2,234**
Corporate bonds	2,951	143	–	3,094
Other	42	17	–	59
Total	**5,179**	**209**	**(1)**	**5,387**

Securities available-for-sale

As of 12/31/	2005				2004			
	Amortized Cost € mn	Unrealized Gains € mn	Unrealized Losses € mn	Fair Value € mn	Amortized Cost € mn	Unrealized Gains € mn	Unrealized Losses € mn	Fair Value € mn
Debt Securities								
Government and agency mortgage-backed securities (residential and commercial)	9,894	10	(253)	9,651	9,376	38	(58)	9,356
Corporate mortgage-backed securities (residential and commercial)	3,265	37	(31)	3,271	909	42	(1)	950
Other asset-backed securities	3,381	56	(22)	3,415	2,926	84	(4)	3,006
Government and government agency bonds								
Germany	15,801	825	(32)	16,594	13,887	559	–	14,446
Italy	23,479	1,339	(39)	24,779	23,403	1,160	(7)	24,556
France	16,250	1,656	(13)	17,893	14,031	1,218	(2)	15,247
United States	9,527	202	(85)	9,644	4,430	127	(110)	4,447
Spain	8,484	823	(3)	9,304	7,371	646	(1)	8,016
Belgium	4,438	302	(4)	4,736	4,362	249	(19)	4,592
Austria	3,730	220	(3)	3,947	3,509	190	(3)	3,696
All other countries	27,656	1,082	(110)	28,628	25,616	1,176	(36)	26,756
Subtotal	**109,365**	**6,449**	**(289)**	**115,525**	**96,609**	**5,325**	**(178)**	**101,756**
Corporate bonds	73,136	3,331	(214)	76,253	65,417	3,510	(90)	68,837
Other	1,556	154	(2)	1,708	2,727	90	(4)	2,813
Subtotal	**200,597**	**10,037**	**(811)**	**209,823**	**177,964**	**9,089**	**(335)**	**186,718**
Equity Securities	**38,157**	**19,161**	**(188)**	**57,130**	**32,106**	**12,488**	**(393)**	**44,201**
Total	**238,754**	**29,198**	**(999)**	**266,953**	**210,070**	**21,577**	**(728)**	**230,919**

The following table presents proceeds from sales, gross realized gains, and gross realized losses from securities available-for-sale:

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Proceeds from Sales			
Debt securities	107,929	101,239	99,568
Equity securities	24,800	17,462	34,930
Total	**132,729**	**118,701**	**134,498**
Gross Realized Gains			
Debt securities	968	1,109	1,763
Equity securities	3,348	3,579	8,151
Total	**4,316**	**4,688**	**9,914**
Gross Realized Losses			
Debt securities	331	373	508
Equity securities	567	517	2,390
Total	**898**	**890**	**2,898**

The following table sets forth gross unrealized losses on securities held-to-maturity and securities available-for-sale and the related fair value, segregated by investment category and length of time such investments have been in a continuous unrealized loss position as of December 31, 2005. For a general discussion of the Allianz Group's impairment policy see Note 2.

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Debt Securities						
Government and agency mortgage-backed securities (residential and commercial)	6,465	(185)	2,443	(68)	8,908	(253)
Corporate mortgage-backed securities (residential and commercial)	1,474	(31)	–	–	1,474	(31)
Other asset-backed securities	1,190	(19)	113	(3)	1,303	(22)
Government and government agency bonds	23,006	(260)	1,154	(29)	24,160	(289)
Corporate bonds	13,073	(187)	695	(27)	13,768	(214)
Other	210	(2)	–	–	210	(2)
Subtotal	**45,418**	**(684)**	**4,405**	**(127)**	**49,823**	**(811)**
Equity Securities	**3,667**	**(188)**	**–**	**–**	**3,667**	**(188)**
Total	**49,085**	**(872)**	**4,405**	**(127)**	**53,490**	**(999)**

Government and agency mortgage-backed securities (residential and commercial) Total unrealized losses amounted to € 253 mn at December 31, 2005. The unrealized loss positions concern mostly issues of United States government agencies, which are primarily held by Allianz Group's North American entities. These pay-through/pass-through securities are serviced by cash flows from pools of underlying loans to mostly private debtors. The unrealized losses of these mortgage-backed securities were partly caused by interest rate increases between purchase date of the individual securities and the balance sheet date. Also in various instances, price decreases were caused by increased prepayment risk for individual loan pools that were originated in a significantly higher interest rate environment. Because the decline in fair value is attributable to changes in interest rates and, to a lesser extent, instances of insignificant deterioration of credit quality and as an immediate disposal is not intended, the Allianz Group does not consider these investments to be impaired at December 31, 2005.

Government and government agency bonds Total unrealized losses amounted to € 289 mn at December 31, 2005. The Allianz Group holds a large variety of government bonds, mostly of OECD countries (Organization of Economic Cooperation and Development). Given the fact that the issuers of these bonds are backed by the fiscal capacity of the issuers and the issuers typically hold an "investment grade" country- and/or issue-rating, credit risk is not a significant factor. Hence, the unrealized losses on Allianz Group's investment in government bonds were mainly caused by interest rate increases between the purchase date of the individual securities compared to balance sheet date. Because the decline in fair value is attributable to changes in interest rates and, to a lesser extent, to instances of insignificant deterioration of credit quality and as an immediate disposal is not intended, the Allianz Group does not consider these investments to be impaired at December 31, 2005.

Corporate bonds Total unrealized losses amounted to € 214 mn at December 31, 2005. The Allianz Group holds a large variety of bonds issued by corporations mostly domiciled in OECD countries. For the vast majority of the Allianz Group's corporate bonds, issuers and/or issues are of "investment grade". Therefore, the unrealized losses on Allianz Group's investment in corporate debt securities were primarily caused by interest rate increases between the purchase date of the individual securities compared to balance sheet date. As the decline in fair value is primarily attributable to changes in interest rates and as an immediate disposal is not intended, the Allianz Group does not consider these investments to be impaired at December 31, 2005.

Equity securities As of December 31, 2005, unrealized losses from equity securities amounted to € 188 mn. These unrealized losses concern equity securities that did not meet the criteria of Allianz Group's impairment policy for equity securities as described in Note 2. Substantially all of the unrealized losses have been in a continuous loss position for less than 6 months. In addition, only 2 securities have an aggregated unrealized loss greater than € 10 mn.

Contractual maturities

The amortized cost and estimated fair value of debt securities held-to-maturity and debt securities available-for-sale as of December 31, 2005, by contractual maturity, are as follows:

	Amortized Cost € mn	Fair Value € mn
Held-to-maturity		
Contractual term to maturity		
Due in 1 year or less	350	362
Due after 1 year and in less than 5 years	1,502	1,566
Due after 5 years and in less than 10 years	2,059	2,161
Due after 10 years	915	1,013
Total	**4,826**	**5,102**
Available-for-sale		
Contractual term to maturity		
Due in 1 year or less	13,847	13,916
Due after 1 year and in less than 5 years	67,599	69,171
Due after 5 years and in less than 10 years	60,504	63,207
Due after 10 years	58,647	63,529
Total	**200,597**	**209,823**

Actual maturities may deviate from the contractually defined maturities, because certain security issuers have the right to call or repay certain obligations ahead of schedule, with or without redemption or early repayment penalties. Investments that are not due at a single maturity date are, in general, not allocated over various maturity buckets, but are shown within their final contractual maturity dates.

Equity investments carried at cost

As of December 31, 2005, fair values could not be reliably measured for equity investments with carrying amounts totaling € 935 mn (2004: € 167 mn). These investments are primarily investments in privately held corporations and partnerships. During the year ended December 31, 2005, such investments with carrying amounts of € 2 mn (2004: € 20 mn) were sold leading to gains of € 2 mn (2004: € 2 mn) and losses of € 0 mn (2004: € 6 mn).

Real estate used by third-parties

	2005 € mn	2004 € mn	2003 € mn
Cost as of 1/1/	14,710	13,672	13,621
Accumulated depreciation as of 1/1/	(4,082)	(3,171)	(2,874)
Carrying amount as of 1/1/	**10,628**	**10,501**	**10,747**
Additions	608	1,669	712
Changes in the consolidated subsidiaries of the Allianz Group	240	83	(228)
Disposals	(740)	(709)	(594)
Reclassifications	(745)	–	345
Foreign currency translation adjustments	71	(5)	(184)
Depreciation and impairments*)	(493)	(911)	(297)
Carrying amount as of 12/31/	**9,569**	**10,628**	**10,501**
Accumulated depreciation as of 12/31/	4,575	4,082	3,171
Cost as of 12/31/	**14,144**	**14,710**	**13,672**

*) For the year ended December 31, 2005, includes impairments of € 240 mn (2004: € 653 mn; 2003: € 30 mn).

As of December 31, 2005, the fair value of real estate used by third parties was € 12,901 mn (2004: € 14,181 mn). As of December 31, 2005, real estate used by third parties pledged as security, and other restrictions on title, were € 55 mn (2004: € 61 mn).

9 Loans and advances to banks and customers

Loans and advances to banks

As of 12/31/	2005			2004		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Loans	61,149	4,339	65,488	54,332	5,211	59,543
Reverse repurchase agreements and collateral paid for securities borrowing transactions	24,055	45,323	69,378	18,520	84,886	103,406
Short-term investments and certificates of deposit	1,590	3,702	5,292	1,578	6,151	7,729
Other	1,787	9,640	11,427	4,344	6,752	11,096
Subtotal	**88,581**	**63,004**	**151,585**	**78,774**	**103,000**	**181,774**
Loan loss allowance	(11)	(190)	(201)	(2)	(229)	(231)
Total	**88,570**	**62,814**	**151,384**	**78,772**	**102,771**	**181,543**
Due within one year			93,762			132,200
Due after more than one year			57,823			49,574
Total			**151,585**			**181,774**

Loans and advances to customers

As of 12/31/	2005			2004		
	Germany	Other countries	Total	Germany	Other countries	Total
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Corporate customers	30,933	92,082	123,015	38,148	95,816	133,964
Public authorities	2,739	1,800	4,539	4,014	2,898	6,912
Private customers	57,218	2,098	59,316	52,203	6,505	58,708
Subtotal	**90,890**	**95,980**	**186,870**	**94,365**	**105,219**	**199,584**
Loan loss allowance	(1,143)	(303)	(1,446)	(3,365)	(539)	(3,904)
Total	**89,747**	**95,677**	**185,424**	**91,000**	**104,680**	**195,680**
Due within one year			103,425			98,922
Due after more than one year			83,445			100,662
Total			**186,870**			**199,584**

Loans and advances to customers by type of loan, are comprised of the following:

As of 12/31/	2005 € mn	2004 € mn
Loans	114,933	119,832
Reverse repurchase agreements and collateral paid for securities borrowing transactions	60,981	70,459
Other	10,956	9,293
Total	**186,870**	**199,584**

The table shown below provides a breakdown of loans and advances to customers, by economic sector:

As of 12/31/	2005 € mn	2004 € mn
Germany		
Manufacturing industry	5,425	6,459
Construction	721	812
Wholesale and retail trade	5,023	3,979
Financial institutions (excluding banks) and insurance companies	5,988	8,849
Service providers	10,425	12,060
Other	3,351	5,989
Corporate customers	**30,933**	**38,148**
Public authorities	2,739	4,014
Private customers	57,218	52,203
Subtotal	**90,890**	**94,365**
Other countries		
Industry, wholesale and retail trade and service providers	10,732	11,419
Financial institutions (excluding banks) and insurance companies	75,957	78,001
Other	5,393	6,396
Corporate customers	**92,082**	**95,816**
Public authorities	1,800	2,898
Private customers	2,098	6,505
Subtotal	**95,980**	**105,219**
Total	**186,870**	**199,584**

As of December 31, 2005, unearned income related to discounts deducted from loan balances was € 85 mn (2004: € 103 mn).

As of December 31, 2005, loans and advances to customers include amounts receivable under finance leases at their net investment value totaling € 1,500 mn (2004: € 1,247 mn). As of December 31, 2005, the corresponding gross investment value of these leases amounts to € 2,177 mn (2004: € 1,517 mn), and the associated unrealized finance income is € 677 mn (2004: € 270 mn). As of December 31, 2005 and 2004, the residual values of the entire leasing portfolio were fully insured. During the year ended December 31, 2005, lease payments received were recognized as income in the amount of € 122 mn (2004: € 42 mn; 2003: € 80 mn). As of December 31, 2005 and 2004, an allowance for uncollectible lease payments was not recorded. As of December 31, 2005, the total amounts receivable under leasing arrangements include € 155 mn (2004: € 371 mn) due within one year, € 593 mn (2004: € 388 mn) due within one to five years, and € 752 mn (2004: € 758 mn) due after more than five years, as of December 31, 2005.

Loan loss allowance

As of December 31, 2005, the overall volume of risk provisions includes loan loss allowances deducted from loans and advances to banks and customers in the amount of € 1,647 mn (2004: € 4,135 mn; 2003: € 5,725 mn) and provisions for contingent liabilities, such as guarantees, loan commitments and other obligations included in other accrued liabilities in the amount of € 117 mn (2003: € 371 mn; 2003: € 549 mn).

Changes in the loan loss allowance

	Specific allowances			Country risk allowances			General allowances*)			Total		
	2005 € mn	2004 € mn	2003 € mn	2005 € mn	2004 € mn	2003 € mn	2005 € mn	2004 € mn	2003 € mn	2005 € mn	2004 € mn	2003 € mn
As of 1/1/	3,685	5,304	6,415	261	270	367	560	700	818	4,506	6,274	7,600
Changes in the consolidated subsidiaries of the Allianz Group	(3)	(251)	(60)	–	–	–	–	(62)	(3)	(3)	(313)	(63)
Additions charged to the income statement	604	1,313	2,154	83	117	42	87	9	4	774	1,439	2,200
Charge-offs	(2,829)	(1,900)	(2,034)	–	–	(7)	–	–	–	(2,829)	(1,900)	(2,041)
Amounts released	(641)	(756)	(858)	(90)	(119)	(95)	(51)	(98)	(150)	(782)	(973)	(1,103)
Other additions/reductions	40	6	(67)	(48)	1	4	63	13	34	55	20	(29)
Foreign currency translation adjustments	24	(31)	(246)	19	(8)	(41)	–	(2)	(3)	43	(41)	(290)
As of 12/31/	**880**	**3,685**	**5,304**	**225**	**261**	**270**	**659**	**560**	**700**	**1,764**	**4,506**	**6,274**

*) Includes particular allowances.

The following tables present information relating to the Allianz Group's impaired and non-accrual loans:

As of 12/31/	2005 € mn	2004 € mn
Impaired loans	2,888	6,732
Impaired loans with specific allowances	1,754	6,048
Impaired loans with particular allowances	562	–
Non-accrual loans	2,102	5,605

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Average balance of impaired loans	4,581	8,479	11,780
Interest income recognized on impaired loans	36	104	117
Interest income not recognized from non-accrual loans	102	244	367
Interest collected and recorded on non-accrual loans	4	49	49

As of December 31, 2005, the Allianz Group had € 39 mn (2004: € 48 mn) of commitments to lend additional funds to borrowers whose loans are non-performing or whose terms have been previously restructured.

10 Financial assets carried at fair value through income

As of 12/31/	2005 € mn	2004 € mn
Financial assets held for trading	166,184	194,439
Financial assets for unit linked contracts	54,661	41,409
Financial assets designated at fair value through income	14,162	4,726
Total	**235,007**	**240,574**

Financial assets held for trading

As of 12/31/	2005 € mn	2004 € mn
Equity securities	30,788	20,033
Debt securities	109,384	153,858
Derivative financial instruments	26,012	20,548
Total	**166,184**	**194,439**

Equity and debt securities held in financial assets held for trading are primarily marketable and listed securities. As of December 31, 2005, the debt securities include € 38,375 mn (2004: € 87,509 mn) from public-sector issuers and € 71,009 mn (2004: € 66,349 mn) from other issuers.

As of December 31, 2005, the portion of trading gains and losses from financial assets held for trading amounted to € 1,161 mn (2004: € 2,285 mn) and to € 2,706 mn (2004: € 2,555 mn), respectively.

Financial assets designated at fair value through income

As of 12/31/	2005 € mn	2004 € mn
Equity securities	3,476	1,751
Debt securities	10,686	2,975
Total	**14,162**	**4,726**

11 Cash and cash equivalents

As of 12/31/	2005 € mn	2004 € mn
Balances with banks payable on demand and checks	26,640	12,621
Balances with central banks	3,807	1,384
Cash on hand	1,045	963
Treasury bills, discounted treasury notes and similar treasury securities	23	465
Bills of exchange	132	195
Total	**31,647**	**15,628**

As of December 31, 2005, compulsory deposits on accounts with national central banks under restrictions due to required reserves from the European Central Bank totaled € 3,232 mn (2004: € 264 mn).

12 Amounts ceded to reinsurers from reserves for insurance and investment contracts

As of 12/31/	2005 € mn	2004 € mn
Unearned premiums	1,448	1,238
Aggregate policy reserves	9,770	10,276
Reserves for loss and loss adjustment expenses	10,874	10,684
Other insurance reserves	28	112
Total	**22,120**	**22,310**

Changes in aggregate policy reserves ceded to reinsurers are as follows:

	2005 € mn
Carrying amount as of 1/1/	10,276
Foreign currency translation adjustments	443
Change recorded in insurance and investment contract benefits (net)	134
Other changes*)	(1,083)
Carrying amount as of 12/31/	**9,770**

*) Primarily relates to novation of quota share reinsurance agreement.

The Allianz Group reinsures a portion of the risks it underwrites in an effort to control its exposure to losses and events and protect capital resources. For international corporate risks exposures exceeding the relevant retention levels of the Allianz Group's subsidiaries are reinsured internally by Allianz Global Risks Rückversicherungs-AG ("AGR") where the portfolio is pooled and with risks exceeding retention limits ceded by external reinsurance. The Allianz Group maintains a centralized program for natural catastrophe events which pools exposures from a number of subsidiaries by internal reinsurance agreements with Allianz AG. Allianz AG limits exposures in this portfolio through external reinsurance. For other risks, the subsidiaries of the Allianz Group maintain individual reinsurance programs. Allianz AG participates as a reinsurer on an arms' length basis in these programs.

Reinsurance involves credit risk and is subject to aggregate loss limits. Reinsurance does not legally discharge the Allianz Group from primary liability under the reinsured policies. Although the reinsurer is liable to the Allianz Group to the extent of the reinsurance ceded, the Allianz Group remains primarily liable as the direct insurer on all risks it underwrites, including the portion that is reinsured. The Allianz Group monitors the financial condition of its reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically in order to evaluate the reinsurer's ability to fulfill its obligations to the Allianz Group under existing and planned reinsurance contracts. The Allianz Group's evaluation criteria, which includes the claims-paying and debt ratings, capital and surplus levels, and marketplace reputation of its reinsurers, are such that the Allianz Group believes any risks of collectibility to which it is exposed are not significant, and historically the Allianz Group subsidiaries have not experienced difficulty in collecting from their reinsurers. Additionally, and as appropriate, the Allianz Group may also require letters of credit, deposits, or other financial measures to further minimize its exposure to credit risk. In certain cases, however, the Allianz Group does establish an allowance for doubtful amounts related to reinsurance as appropriate, although this amount was not significant as of December 31, 2005 and 2004.

Concentrations the Allianz Group has with individual reinsurers include Munich Re, Swiss Reinsurance Company, GE Global Insurance Holding Corporation and SCOR. As of December 31, 2005, amounts ceded to reinsurers for insurance and investment contracts includes € 7,613 mn (2004: € 8,590 mn) related to Munich Re.

13 Other assets

As of 12/31/	2005 € mn	2004 € mn
Real estate used for its own activities	4,391	6,042
Equipment[1)]	1,385	1,470
Accounts receivable on direct insurance business[2)]	7,691	7,579
Accounts receivable on reinsurance business	2,469	2,137
Other receivables[3)]	14,338	11,617
Other assets[4)]	8,271	4,022
Deferred sales inducements	515	303
Deferred policy acquisition costs	15,586	13,474
Prepaid expenses	2,657	4,569
Total	**57,303**	**51,213**

[1)] As of December 31, 2005, cost of € 7,472 mn (2004: € 7,186 mn), net of accumulated depreciation of € 6,087 mn (2004: € 5,716 mn).
[2)] As of December 31, 2005, includes accounts receivable from policyholders of € 4,105 mn (2004: € 4,041 mn), accounts receivable from agents and other distributors of € 3,852 mn (2004: € 3,671 mn) and allowances for doubtful accounts of € 266 mn (2004: € 133 mn).
[3)] As of December 31, 2005, includes tax refunds of € 2,123 mn (2004: € 2,227 mn) and interest and rental receivable of € 5,474 mn (2004: € 5,286 mn) as of December 31, 2005. Included in tax refunds are income tax refunds of € 1,523 mn (2004: € 1,671 mn).
[4)] As of December 31, 2005, includes derivative financial instruments used for hedging purposes that meet the criteria for hedge accounting of € 839 mn (2004: € 969 mn), and assets and disposal groups held for sale of € 3,292 mn.

The accounts receivable on direct insurance business and accounts receivable on reinsurance business are due within one year. Other receivables due within one year amounted to € 13,980 mn (2004: € 10,518 mn), and those due after more than one year totaled € 358 mn (2004: € 1,099 mn).

Real estate owned by the Allianz Group used for its own activities

	2005 € mn	2004 € mn	2003 € mn
Cost as of 1/1/	7,799	6,543	6,854
Accumulated depreciation as of 1/1/	(1,757)	(1,523)	(1,422)
Carrying amount as of 1/1/	**6,042**	**5,020**	**5,432**
Additions	540	1,373	877
Changes in the consolidated subsidiaries of the Allianz Group	(2,493)	691	(1)
Disposals	(318)	(789)	(765)
Reclassification	745	–	(345)
Foreign currency translation adjustments	84	(19)	(77)
Depreciation	(209)	(234)	(101)
Carrying amount as of 12/31/	**4,391**	**6,042**	**5,020**
Accumulated depreciation as of 12/31/	1,966	1,757	1,523
Cost as of 12/31/	**6,357**	**7,799**	**6,543**

As of December 31, 2005, the fair value of real estate owned by the Allianz Group used for its own activities was € 6,227 mn (2004: € 7,232 mn). As of December 31, 2005, assets pledged as security and other restrictions on title were € 25 mn (2004: € 34 mn).

Deferred sales inducements

Changes in the deferred sales inducements were:

	2005 € mn	2004 € mn
Carrying amount as of 1/1/	303	–
Transfer from insurance reserves	–	89
Cumulative effect adjustment due to implementation of SOP 03-1	–	23
Additions	209	222
Foreign currency translation adjustment	52	–
Amortization	(49)	(31)
Carrying amount as of 12/31/	**515**	**303**

Deferred policy acquisition costs

	2005 € mn	2004 € mn	2003 € mn
Property-Casualty			
Carrying amount as of 1/1/	3,432	3,380	3,158
Additions	2,625	1,732	450
Changes in the consolidated subsidiaries of the Allianz Group	–	(60)	2
Foreign currency translation adjustments	78	(51)	(86)
Amortization	(2,545)	(1,569)	(120)
Impairments	–	–	(24)
Carrying amount as of 12/31/	**3,590**	**3,432**	**3,380**
Life/Health			
Carrying amount as of 1/1/	10,042	9,117	7,370
Additions	2,765*)	2,888	2,525
Changes in the consolidated subsidiaries of the Allianz Group	(21)	(158)	153
Foreign currency translation adjustments	539	(712)	(521)
Amortization	(1,352)	(1,093)	(410)
Carrying amount as of 12/31/	**11,973**	**10,042**	**9,117**
Asset Management	**23**	**–**	**–**
Total	**15,586**	**13,474**	**12,497**

*) Includes € 61 mn related to novation of quota share reinsurance agreement.

Assets and disposal groups held for sale

As a result of the agreements described in Note 41, the Allianz Group reclassified the carrying amount of its ownership interest in Eurohypo AG to assets held for sale. On the agreement date, as the fair value less costs to sell of the Eurohypo AG ownership interest was greater than the Allianz Group's carrying amount, a gain or loss was not recognized. Therefore, on December 15, 2005, the date of derecognition of the first tranche, the Allianz Group recognized a gain on disposal which is included in income from associated enterprises and joint ventures (net). The assets held for sale related to Eurohypo AG are included in the Banking segment.

During the year ended December 31, 2005, the Allianz Group reclassified the assets, including goodwill, and liabilities related to its ownership of Four Seasons Health Care Ltd., Wilmslow and BetterCare Group Limited, Kingston upon Thames to disposal groups held for sale as the classification criteria in IFRS 5 were met. On the date of reclassification, as the fair value less cost to sell was in excess of the carrying amount a gain or loss was not recognized. The disposal of Four Seasons Health Care Ltd., Wilmslow and BetterCare Group Limited, Kingston upon Thames is expected to occur during the first half of 2006. The assets and liabilities of the disposal group held for sale related to Four Seasons Health Care Ltd., Wilmslow and BetterCare Group Limited, Kingston upon Thames are included in the Property-Casualty segment.

Supplementary Information on the Allianz Group´s Shareholders´ Equity and Liabilities

14 Shareholders' equity

As of 12/31/	2005 € mn	2004 € mn
Issued capital	1,039	988
Capital reserve	20,577	18,445
Revenue reserves	9,930	10,498
Treasury shares	(1,351)	(4,605)
Foreign currency translation adjustments	(1,032)	(2,634)
Unrealized gains and losses (net)	10,324	7,303
Shareholders' equity before minority interests	**39,487**	**29,995**
Minority interests in shareholders' equity	7,615	7,696
Total	**47,102**	**37,691**

Issued capital

Issued capital at December 31, 2005 amounted to € 1,039,462,400 divided into 406,040,000 registered shares. The shares have no par value but a mathematical per share value of € 2.56 each as a proportion of the issued capital.

As of December 31, 2005, the Allianz AG had € 424,100,864 (165,664,400 shares) of authorized unissued capital (Authorized Capital 2004/I) which can be issued at any time up to May 4, 2009. The Board of Management, with approval of the Supervisory Board, is authorized to exclude the pre-emptive rights of shareholders if the shares are issued against a contribution in kind and, in certain cases, if they are issued against a cash contribution.

As of December 31, 2005, the Allianz AG had € 4,356,736 (1,701,850 shares) of authorized unissued capital (Authorized Capital 2004/II) which can be issued at any time up to May 4, 2009. The Board of Management, with approval of the Supervisory Board, is authorized to exclude the pre-emptive rights of shareholders if the shares are issued to employees of the Allianz Group.

Further, as of December 31, 2005, Allianz AG had € 226,960,000 (88,656,250 shares) of unissued conditional authorized capital which will be carried out only to the extent that conversion or option rights are exercised by holders of bonds issued by Allianz AG or any of its subsidiaries or that mandatory conversion obligations are fulfilled.

Changes to the number of issued shares outstanding

	2005	2004
As of 1/1/	366,859,799	366,472,698
Exercise of warrants	9,000,000	–
Capital increase for cash	10,116,850	–
Capital increase for employee shares	1,148,150	1,056,250
Change in treasury shares held for non-trading purposes	17,165,510	(2,861)
Change in treasury shares held for trading purposes	1,008,088	(666,288)
As of 12/31/	**405,298,397**	**366,859,799**

On February 18, 2005, the Allianz Group issued a subordinated bond with 11.2 mn detachable warrants, which allow the holder to purchase a share of Allianz AG. The warrants are exercisable at any time during their three year term and have an exercise price of € 92 per share. The warrants were recorded in capital reserve at the premium received of € 174 mn on their issuance date. During the year ended December 31, 2005, as a result of the exercise of 9 mn warrants the Allianz Group received consideration of € 828 mn, which increased issued capital by € 23 mn and capital reserve by € 805 mn.

In September 2005, the Allianz Group issued 10,116,850 shares for proceeds of € 1,062 mn, which increased issued capital by € 26 mn and capital reserve of € 1,036 mn.

In November 2005, 1,148,150 (2004: 1,056,250) shares were issued at a price of € 103.50 (2004: € 81.61) per share, enabling employees of Allianz Group subsidiaries in Germany and abroad to purchase 1,144,196 (2004: 1,051,191) shares at prices ranging from € 72.45 (2004: € 57.13) to € 87.98 (2004: € 69.37) per share. The remaining 3,954 (2004: 5,059) shares were sold on the Frankfurt stock exchange at an average price of € 129.23 (2004: € 95.74) per share. As a result, issued capital increased by € 2 mn and capital reserve increased by € 117 mn.

All shares issued in during the years ended December 31, 2005, and 2004 are qualifying shares from the beginning of the year of issue.

Dividends

For the year ended December 31, 2005, the Board of Management will propose to shareholders at the Annual General Meeting the distribution of a dividend of € 2.00 per qualifying share. During the years ended December 31, 2004 and 2003, Allianz AG paid a dividend of € 1.75 and € 1.50, respectively, per qualifying share.

Treasury shares

The Annual General Meeting on May 4, 2005 (2004: May 5), authorized Allianz AG to acquire its own shares for other purposes pursuant to clause 71 (1) no. 8 of the German Stock Corporation Law ("Aktiengesetz"). During the years ended December 31, 2005 and 2004, the authorization was not used to acquire shares of Allianz AG.

In 2005 the Dresdner Bank Group placed 17,155,008 shares of Allianz AG in the market.

In order to enable Dresdner Bank Group to trade in shares of Allianz AG, the Annual General Meeting on May 4, 2005 authorized the Allianz Group's domestic or foreign credit institutions in which Allianz AG has a majority holding to acquire treasury shares for trading purposes pursuant to clause 71 (1) no. 7 of the Aktiengesetz. During the year ended December 31, 2005, in accordance with this authorization, the credit institutions of the Allianz Group purchased 83,202,188 (2004: 29,685,678) of Allianz AG's shares or acquired them by way of securities borrowing at an average price of € 104.66 per share (2004: € 88.84), which included previously held Allianz AG shares. During the year ended December 31, 2005, 87,652,805 shares (2004: 29,092,223) were disposed of or ceded from borrowed holdings at an average price of € 105.06 per share (2004: € 88.82). During the year ended December 31, 2005, the losses arising from treasury share transactions and in consideration of the holding, were € 31 mn (2004: losses of € 53 mn), which were transferred to revenue reserves.

The resulting short position in own shares is hedged by the use of derivatives and is reflected in the revenue reserves. Due to written put options the Allianz Group is obliged to buy own shares amounting to € 1,261 mn, in case the put options are exercised.

Composition of the treasury shares

	Acquisition costs € mn	Number of shares	Issued capital %
As of 12/31/2005			
Allianz AG	50	424,035	0.10
Dresdner Bank Group	40	317,568	0.08
Dresdner Bank Group (obligation for written put options on Allianz AG shares)	1,261	–	–
Total	**1,351**	**741,603**	**0.18**
As of 12/31/2004			
Allianz AG	50	424,035	0.11
Dresdner Bank Group	4,554	18,480,664	4.79
Other	1	10,502	–
Total	**4,605**	**18,915,201**	**4.90**

Capital Requirements

The Allianz Group's capital requirements are primarily dependent on our growth and the type of business that it underwrites, as well as the industry and geographic locations in which it operates. In addition, the allocation of the Allianz Group's investments plays an important role. During the Allianz Group's annual management planning dialogues with its operating entities, capital requirements are forecasted through business plans regarding the levels and timing of capital expenditures and investments. Regulators impose minimum capital rules on the level of both the Allianz Group's operating entities and the Allianz Group as a whole.

At December 31, 2005, the Allianz Group's eligible capital for the solvency margin, required for insurance groups under German law, was € 43.6 billion (2004: € 29.1 billion), surpassing the minimum legally stipulated level by € 29.4 billion. This margin resulted in a cover ratio[1] of 307 % (2004: 217 %). In 2005, this solvency margin requirement applied only to the Allianz Group's insurance segments and did not contain any capital requirements for the banking business.

On January 1, 2005, the Financial Conglomerates Directive, a supplementary EU directive, became effective in Germany. Under this directive, a financial conglomerate is defined as any financial parent holding company that, together with its subsidiaries, has significant cross-border and cross-sector activities. The Allianz Group is a financial conglomerate within the scope of the directive and the related German law. The law requires that the financial conglomerate calculate the capital needed to meet the respective solvency requirements on a consolidated basis. The calculation methodology for the financial conglomerates solvency margin is still subject to uncertainties.

At December 31, 2005, based on the current status of discussion, the Allianz Group's eligible capital for the solvency margin, required for the insurance segments and the banking and asset management business, was € 40.0 billion (including off-balance sheet reserves[2]), surpassing the minimum legally stipulated level by € 16.3 billion. This margin resulted in a cover ratio[1] of 169 % in 2005.

Dresdner Bank is subject to the risk-adjusted capital guidelines (or "Basle Accord") promulgated by the Basle Committee on Banking Supervision (or "BIS-rules") and therefore calculates and reports under such guidelines to the German Federal Financial Supervisory Authority (the Bundesanstalt für Finanzdienstleistungsaufsicht, or "BaFin") and the Deutsche Bundesbank, the German central bank. These guidelines are used to evaluate capital adequacy based primarily on the perceived credit risk associated with balance sheet assets, as well as certain off-balance sheet exposures such as unfunded loan commitments, letters of credit, and derivative and foreign exchange contracts. In addition, for Allianz AG to maintain its status as a "financial holding company" under the U.S. Gramm-Leach-Bliley Financial Modernization Act of 1999, Dresdner Bank must be considered "well capitalized" under guidelines issued by the Board of Governors of the Federal Reserve System. To be considered "well capitalized" for these purposes, Dresdner Bank must have a Tier I Capital Ratio of a least 6 % and a combined Tier I and Tier II Capital Ratio of at least 10 %, and not be subject to a directive, order or written agreement to meet and maintain specific capital levels. As shown in the table below, Dresdner Bank maintained a "well capitalized" position during both 2005 and 2004.

[1] Represents the ratio of the eligible capital to the required capital.

[2] Representative of the difference between fair value and book value of real estate used by third parties and investments in associated enterprises and joint ventures, net of deferred taxes, policyholder participation and minority interest.

The following table sets forth Dresdner Bank's BIS capital ratios:

As of 12/31/	2005[1)] € mn	2004 € mn
Tier I capital (core capital)	11,126	6,867
Tier I & Tier II capital	18,211	13,734
Tier III capital (supplementary capital)	–	226
Total capital	**18,211**	**13,960**
Risk-weighted assets–banking book	108,659	100,814
Risk-weighted assets–trading book	2,875	3,963
Total risk-weighted assets	**111,534**	**104,777**
Tier I capital ratio (core capital) in %	9.98	6.55
Tier I & Tier II capital ratio in %	16.33	13.11
Total capital ratio in %	**16.33**	**13.32**

1) Effective June 2005, Dresdner Bank changed the accounting basis for calculation and disclosure of BIS-figures from German GAAP to IFRS.

The distinction between "core capital" and "supplementary capital" in the table above reflects the ability of the capital components to cover losses. Core capital, with the highest ability to cover losses, corresponds to Tier I capital, while supplementary capital corresponds to Tier II capital as such terms are defined in applicable U.S. capital adequacy rules.

In addition to regulatory capital requirements, Allianz AG also uses an internal risk capital model to determine how much capital is required to absorb any unexpected volatility in results of operations.

Certain of the Allianz Group's insurance subsidiaries prepare individual financial statements based on local laws and regulations. These laws establish restrictions on the minimum level of capital and surplus an insurance entity must maintain and the amount of dividends that may be paid to shareholders. The minimum capital requirements and dividend restrictions vary by jurisdiction. The minimum capital requirements are based on various criteria including, but not limited to, volume of premiums written or claims paid, amount of insurance reserves, asset risk, mortality risk, credit risk, underwriting risk and off-balance sheet risk.

As of December 31, 2005, the Allianz Group's insurance subsidiaries were in compliance with all applicable solvency and capital adequacy requirements.

Certain insurance subsidiaries are subjected to regulatory restrictions on the amount of dividends, which can be remitted to Allianz AG without prior approval by the appropriate regulatory body. Such restrictions provide that a company may only pay dividends up to an amount in excess of certain regulatory capital levels or based on the levels of undistributed earned surplus or current year income or a percentage thereof. By way of example only, the operations of our insurance subsidiaries located in the United States are subject to limitations on the payment of dividends to their parent company under applicable state insurance laws. Dividends paid in excess of these limitations generally require prior approval of the insurance commissioner of the state of domicile. The Allianz Group believes that these restrictions will not affect the ability of the Allianz AG to pay dividends to its shareholders in the future. In addition, Allianz AG is not subject to legal restrictions on the amount of dividends it can pay to its shareholders.

Comprehensive income

The components of comprehensive income were as follows:

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Unrealized gains and losses from investments			
Unrealized gains and losses arising during the year, net of deferred tax impact of € 521 mn (2004: € 1,451 mn; 2003: € 781 mn)	5,934	2,893	5,031
Less: Reclassification adjustment for realized gains and losses included in net income, net of deferred tax impact of € 256 mn (2004: € 1,021 mn; 2003: € 396 mn)	(2,916)	(2,036)	(2,549)
Subtotal	**3,018**	**857**	**2,482**
Foreign currency translation adjustments	1,602	(741)	(1,578)
Unrealized gains and losses on derivatives related to hedging cash flows and net investments in foreign entities, net of deferred tax impact of € 1 mn (2004: € 0 mn; 2003: € 2 mn)	3	–	(4)
Other comprehensive income	**4,623**	**116**	**900**
Net income	4,380	2,266	2,691
Comprehensive income	**9,003**	**2,382**	**3,591**

Unrealized investment gains and losses are shown net of policyholder liabilities and minority interests. As of December 31, 2005, unrealized gains, net of unrealized losses, which have been allocated to policyholder liabilities, were € 14,299 mn (2004: € 10,210 mn; 2003: € 6,433 mn). Net amounts which have been allocated to minority interests are presented below.

As of December 31, 2005, ending balances in accumulated other comprehensive income for derivatives related to hedging net investments in foreign entities were € 182 mn (2004: € 182 mn; 2003: € 182 mn).

Minority interests in shareholders' equity

As of 12/31/	2005 € mn	2004 € mn
Unrealized gains and losses	1,321	1,206
Share of earnings	1,386	1,168
Other equity components	4,908	5,322
Total	**7,615**	**7,696**

The primary subsidiaries of the Allianz Group included in minority interests are the AGF Group, Paris and the RAS Group, Milan.

15 Participation certificates and subordinated liabilities

	Contractual Maturity Date							
	2006 € mn[1]	2007 € mn[1]	2008 € mn[1]	2009 € mn[1]	2010 € mn[1]	Thereafter € mn[1]	As of 12/31/2005 € mn[1]	As of 12/31/2004 € mn[1]
Allianz AG[2]								
Subordinated bonds								
Fixed rate	–	–	–	–	–	1,984	1,984	
Contractual interest rate	–	–	–	–	–	5.87 %		
Floating rate	–	–	–	–	–	4,236	4,236	
Current interest rate	–	–	–	–	–	5.65 %		
Subtotal	**–**	**–**	**–**	**–**	**–**	**6,220**	**6,220**	**4,775**
Participation certificates								
Floating rate[3]	85	–	–	–	–	–	85	85
Total Allianz AG[2]	**85**	**–**	**–**	**–**	**–**	**6,220**	**6,305**	**4,860**
Banking subsidiaries								
Subordinated bonds								
Fixed rate	458	715	401	105	160	1,239	3,078	
Contractual interest rate	3.76 %	6.30 %	5.94 %	4.17 %	6.98 %	6.25 %		
Floating rate	12	92	54	303	32	702	1,195	
Current interest rate	6.38 %	3.35 %	2.76 %	3.08 %	2.82 %	4.44 %		
Subtotal	**470**	**807**	**455**	**408**	**192**	**1,941**	**4,273**	**4,779**
Hybrid equity								
Fixed rate	–	–	–	–	–	1,614	1,614	1,500
Contractual interest rate	–	–	–	–	–	7.00 %		
Participation certificates[4]								
Fixed rate	504	940	51	–	4	–	1,499	
Contractual interest rate	8.01 %	6.91 %	6.13 %	–	6.39 %	–		
Floating rate	18	–	–	–	–	–	18	
Current interest rate	3.41 %	–	–	–	–	–		
Subtotal	**522**	**940**	**51**	**–**	**4**	**–**	**1,517**	**1,526**
Total banking subsidiaries	**992**	**1,747**	**506**	**408**	**196**	**3,555**	**7,404**	**7,805**
All other subsidiaries								
Subordinated liabilities								
Fixed rate	–	–	62	–	–	643	705	
Contractual interest rate	–	–	6.84 %	–	–	5.35 %		
Floating rate	–	–	–	–	–	225	225	
Current interest rate	–	–	–	–	–	3.23 %		
Subtotal	**–**	**–**	**62**	**–**	**–**	**868**	**930**	**520**
Hybrid equity								
Fixed rate	–	–	–	–	–	45	45	45
Contractual interest rate	–	–	–	–	–	3.58 %		
Total all other subsidiaries	**–**	**–**	**62**	**–**	**–**	**913**	**975**	**565**
Total	**1,077**	**1,747**	**568**	**408**	**196**	**10,688**	**14,684**	**13,230**

[1] Except for interest rates. Interest rates represent the weighted-average.
[2] Includes subordinated bonds issued by Allianz Finance B.V. and Allianz Finance II B.V. and guaranteed by Allianz AG.
[3] The terms of the profit participation certificates provide for an annual cash distribution of 240 % of the dividend paid by Allianz AG per one Allianz AG share. Holders of profit participation certificates do not have voting rights, or any rights to convert the certificates into Allianz AG shares, or rights to liquidation proceeds. Profit participation certificates are unsecured and rank pari passu with the claims of other unsecured creditors. Profit participation certificates can be redeemed by holders upon twelve months prior notice every fifth year. Allianz AG has the right to call the profit participation certificates for redemption, upon six months' prior notice every fifth year. The next call date is December 31, 2006. Upon redemption by Allianz AG, the cash redemption price per certificate would be equal to 122.9 % of the then current price of one Allianz AG share during the last three months preceding the recall of the participation certificate. In lieu of redemption for cash, Allianz AG may offer 10 Allianz AG ordinary shares per 8 profit participation certificates.
[4] Participation certificates issued by the Dresdner Bank Group which entitle holders to annual interest payments, which take priority over its shareholders' dividend entitlements. They are subordinated to obligations for all other creditors of the issuer, except those similarly subordinated, and share in losses of the respective issuers in accordance with the conditions attached to the participation certificates. The profit participation certificates will be redeemed subject to the provisions regarding loss sharing.

On February 18, 2005, the Allianz Group issued a subordinated bond with a principal amount of € 1,400 mn. The subordinated bond is perpetual; however, the Allianz Group has the right to call the bond after 12 years. The subordinated bond has a coupon rate of 4.375 %.

On January 27, 2005, the AGF Group issued a subordinated bond with a principal amount of € 400 mn. The subordinated bond is perpetual and has a coupon rate of 4.625 %.

16 Reserves for insurance and investment contracts

As of 12/31/	2005 € mn	2004 € mn
Unearned premiums	13,303	12,050
Aggregate policy reserves	249,530	229,873
Reserves for loss and loss adjustment expenses	67,005	62,331
Reserves for premium refunds	28,510	21,237
Premium deficiency reserves	153	138
Other insurance reserves	636	751
Total	**359,137**	**326,380**

Unearned premiums

As of 12/31/	2005 € mn	2004 € mn
Property-Casualty	12,970	11,822
Life/Health	333	228
Total	**13,303**	**12,050**

Aggregate policy reserves

As of 12/31/	2005 € mn	2004 € mn
Traditional participating insurance contracts (SFAS 120)	120,967	117,439
Long-duration insurance contracts (SFAS 60)	39,679	38,442
Universal-Life type insurance contracts (SFAS 97)	88,415	73,610
Non unit linked investment contracts	469	382
Total	**249,530**	**229,873**

Changes in aggregate policy reserves and financial liabilities for unit linked contracts were as follows:

	2005		
	SFAS 120 € mn	SFAS 60 € mn	SFAS 97 € mn
As of 1/1/	117,439	38,442	115,129
Foreign currency translation adjustments	(28)	280	7,378
Changes in the consolidated subsidiaries of the Allianz Group	77	–	(99)
Deposits from SFAS 97 contracts	–	–	27,179
Change recorded in premiums (net)	–	–	(2,414)
Change recorded in insurance and investment contract benefits (net)	2,698	558	2,125
Change recorded in income from financial assets and liabilities carried at fair value through income	–	–	3,551
Other changes	781	399	(9,304)
As of 12/31/	**120,967**	**39,679**	**143,545**
Comprised of			
Universal life type insurance contracts			88,415
Non unit linked investment contracts			469
Unit linked insurance contracts			30,320
Unit linked investment contracts			24,341
Total			**143,545**

As of December 31, 2005, participating life business represented approximately 67 % (2004: 70 %) of the Allianz Group's gross insurance in-force. During the year ended December 31, 2005, participating policies represented approximately 66 % (2004: 64 %) of the gross premiums written and 63 % (2004: 61 %) of the life premiums earned. As of December 31, 2005, conventional participating reserves were approximately 53 % (2004: 55 %) of the Allianz Group's consolidated aggregate policy reserves.

Reserves for loss and loss adjustment expenses

As of 12/31/	2005 € mn	2004 € mn
Property-Casualty	60,246	55,536
Life/Health	6,759	6,795
Total	**67,005**	**62,331**

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

	2005			2004			2003		
	Gross € mn	Ceded € mn	Net € mn	Gross € mn	Ceded € mn	Net € mn	Gross € mn	Ceded € mn	Net € mn
Reserves for loss and loss adjustment expenses as of 1/1/	55,536	(10,029)	45,507	56,644	(12,049)	44,595	60,054	(14,588)	45,466
Loss and loss adjustment expenses incurred									
Current year	30,038	(3,620)	26,418	28,650	(3,007)	25,643	28,990	(3,278)	25,712
Prior year	(1,589)	423	(1,166)	(1,281)	835	(446)	(371)	650	279
Subtotal	**28,449**	**(3,197)**	**25,252**	**27,369**	**(2,172)**	**25,197**	**28,619**	**(2,628)**	**25,991**
Loss and loss adjustment expenses paid									
Current year	(12,667)	905	(11,762)	(12,260)	886	(11,374)	(12,697)	837	(11,860)
Prior year	(13,359)	2,572	(10,787)	(14,393)	2,575	(11,818)	(16,351)	3,196	(13,155)
Subtotal	**(26,026)**	**3,477**	**(22,549)**	**(26,653)**	**3,461**	**(23,192)**	**(29,048)**	**4,033**	**(25,015)**
Foreign currency translation adjustments and other	2,286	(819)	1,467	(1,020)	551	(469)	(2,966)	1,144	(1,822)
Change in the consolidated subsidiaries of the Allianz Group	1	–	1	(804)	180	(624)	(15)	(10)	(25)
Reserves for loss and loss adjustment expenses as of 12/31/	**60,246**	**(10,568)**	**49,678**	**55,536**	**(10,029)**	**45,507**	**56,644**	**(12,049)**	**45,595**

Prior year's loss and loss adjustment expenses incurred reflects the changes in estimation charged or credited to the consolidated income statement in each year with respect to the reserves for loss and loss adjustment expenses established as of the beginning of that year. During the year ended December 31, 2005, the Allianz Group recorded additional income of € 1,166 mn (2004: income of € 446 mn and 2003: losses of € 279 mn) with respect of losses occurring in prior years. During the year ended December 31, 2005, these amounts as percentages of the net balance of the beginning of the year were 2.6 % (2004: 1.0 % and 2003: – 0.6 %).

Loss and loss adjustment expenses development for the Property-Casualty segment

The following table illustrates the development of the Allianz Group's reserves for loss and loss adjustment expenses, over the past five years. The table presents calendar year data, not accident year data. In addition, the table includes subsidiaries from the date acquired and excludes all subsidiaries disposed on a retrospective basis.

For the years ended 12/31/	2000 € mn	2001 € mn	2002 € mn	2003 € mn	2004 € mn	2005 € mn
Loss and loss adjustment expenses						
Net	41,294	45,158	44,801	43,988	45,504	49,678
Ceded	12,386	15,875	14,403	11,901	10,025	10,568
Gross	53,680	61,033	59,204	55,889	55,529	60,246
Paid (cumulative) as of						
One year later	16,001	15,624	16,120	14,218	13,357	
Two years later	22,889	24,069	23,739	20,987		
Three years later	27,755	29,394	28,687			
Four years later	31,220	33,016				
Five years later	33,826					
Liability re-estimated as of						
One year later	54,577	57,738	55,836	54,050	56,311	
Two years later	53,069	55,703	55,650	55,227		
Three years later	51,495	55,820	57,119			
Four years later	52,016	57,130				
Five years later	53,234					
Cumulative surplus (deficiency)						
Gross	446	3,903	2,085	662	(782)	
Gross excluding the impact of foreign exchange and other	(1,996)	(1,415)	781	1,767	1,589	
Net	2,242	4,118	450	162	(181)	
Percent	**5.4 %**	**9.1 %**	**1.0 %**	**0.4 %**	**(0.4) %**	

Discounted loss and loss adjustment expenses

As of December 31, 2005 and 2004, the Allianz Group Property-Casualty reserves for loss and loss adjustment expenses reflected discounts of € 1,326 mn and € 1,220 mn, respectively.

The discount reflected in the reserves is related to annuities for certain long-tailed liabilities, primarily in workers' compensation, personal accident, general liability, motor liability, individual and group health disability and employers' liability. 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 loss and loss adjustment expenses that have been discounted, and the interest rates used for discounting:

	Discounted reserves for loss and loss adjustment expenses		Amount of the discount		Interest rate used for discounting	
As of 12/31/	2005 € mn	2004 € mn	2005 € mn	2004 € m	2005 %	2004 %
France	1,404	1,402	357	330	3.25	3.25
Germany	445	407	298	278	2.75 – 4.00	2.75 – 4.00
Switzerland	414	392	237	236	3.25	3.25
United States	213	190	230	216	6.00	6.00
United Kingdom	116	84	110	65	4.00 – 4.25	4.25
Belgium	91	83	28	26	4.68	4.75
Hungary	67	69	22	22	1.40	1.40
Portugal	57	57	44	47	4.00	4.25
Total	**2,807**	**2,684**	**1,326**	**1,220**		

Asbestos and Environmental (A&E) Reserves

In the United States, the planned external review of the asbestos & environmental (or "A&E") liability reserves at Fireman's Fund had no net impact at the Allianz Group level as a result of already sufficient reserves, absent a USD 65 mn loss caused by the increase in provisions for uncollectible reinsurance recoverables and unallocated loss adjustment expenses.

Reserves for premium refunds

	2005 € mn	2004 € mn	2003 € mn
Amounts already allocated under local statutory or contractual regulations			
As of 1/1/	8,794	7,326	7,131
Foreign currency translation adjustments	14	6	(35)
Changes in the consolidated subsidiaries of the Allianz Group	–	27	(7)
Change	2,107	1,435	237
As of 12/31/	**10,915**	**8,794**	**7,326**
Latent reserves for premiums refunds			
As of 1/1/	12,443	8,001	6,554
Foreign currency translation adjustments	(4)	6	(25)
Changes due to fluctuations in market value	4,094	3,771	1,924
Changes in the consolidated subsidiaries of the Allianz Group	6	71	1,028
Changes due to valuation differences charged (credited) to income	1,056	594	(1,480)
As of 12/31/	**17,595**	**12,443**	**8,001**
Total	**28,510**	**21,237**	**15,327**

17 Liabilities to banks

As of 12/31/	2005 € mn	2004 € mn
Payable on demand	14,534	14,003
Repurchase agreements and collateral received from securities lending transactions	62,219	78,675
Term deposits and certificates of deposit	73,189	96,736
Other	2,015	1,933
Total	**151,957**	**191,347**
Due within one year	141,682	180,716
Due after more than one year	10,275	10,631
Total	**151,957**	**191,347**

As of December 31, 2005, liabilities to domestic banks amounted to € 61,919 mn (2004: € 80,326 mn) and liabilities to foreign banks amounted to € 90,038 mn (2004: € 111,021 mn).

18 Liabilities to customers

As of 12/31/	2005 € mn	2004 € mn
Savings deposits	2,302	2,410
Home loan savings deposits	3,306	3,214
Payable on demand	57,624	50,946
Repurchase agreements and collateral received from securities lending transactions	47,064	49,276
Term deposits and certificates of deposit	45,968	49,124
Other	2,095	2,167
Total	**158,359**	**157,137**
Due within one year	143,286	148,320
Due after more than one year	15,073	8,817
Total	**158,359**	**157,137**

Liabilities to customers, by type of customer, are comprised of the following:

	Germany € mn	Other countries € mn	Total € mn
12/31/2005			
Corporate customers	44,973	71,356	116,329
Public authorities	1,026	6,105	7,131
Private customers	27,762	7,137	34,899
Total	**73,761**	**84,598**	**158,359**
12/31/2004			
Corporate customers	40,954	75,100	116,054
Public authorities	1,529	6,471	8,000
Private customers	27,807	5,276	33,083
Total	**70,290**	**86,847**	**157,137**

As of December 31, 2005, liabilities to customers include € 30,049 mn (2004: € 24,989 mn) of noninterest bearing deposits.

19 Certificated liabilities

	Contractual Maturity Date							
	2006 € mn[1]	2007 € mn[1]	2008 € mn[1]	2009 € mn[1]	2010 € mn[1]	Thereafter € mn[1]	As of 12/31/2005 € mn[1]	As of 12/31/2004 € mn[1]
Allianz AG[2]								
Senior bonds								
Fixed rate	85	2,184	1,620	–	–	892	4,781	5,741
Contractual interest rate	2.93 %	2.60 %	5.00 %	–	–	5.70 %		
Exchangeable bonds								
Fixed rate	1,064	–	1,262	–	–	–	2,326	2,742
Contractual interest rate	1.25 %	–	0.75 %	–	–	–		
Money market securities								
Fixed rate	1,131	–	–	–	–	–	1,131	1,428
Contractual interest rate	2.29 %	–	–	–	–	–		
Total Allianz AG[2]	**2,280**	**2,184**	**2,882**	**–**	**–**	**892**	**8,238**	**9,911**
Banking subsidiaries								
Senior bonds								
Fixed rate	3,038	4,584	3,149	2,240	402	1,847	15,260	
Contractual interest rate	5.20 %	5.32 %	4.94 %	5.38 %	4.32 %	5.17 %		
Floating rate	3,092	1,219	1,676	1,510	873	2,632	11,002	
Current interest rate	3.47 %	3.14 %	3.16 %	3.19 %	2.74 %	3.17 %		
Subtotal	**6,130**	**5,803**	**4,825**	**3,750**	**1,275**	**4,479**	**26,262**	**25,140**
Money market securities								
Fixed rate	17,306	–	–	–	–	–	17,306	
Contractual interest rate	3.99 %	–	–	–	–	–		
Floating rate	6,981	–	–	–	–	–	6,981	
Current interest rate	2.26 %	–	–	–	–	–		
Subtotal	**24,287**	**–**	**–**	**–**	**–**	**–**	**24,287**	**21,693**
Total banking subsidiaries	**30,417**	**5,803**	**4,825**	**3,750**	**1,275**	**4,479**	**50,549**	**46,833**
All other subsidiaries								
Certificated liabilities								
Fixed rate	–	–	–	–	–	16	16	458
Contractual interest rate	–	–	–	–	–	6.00 %		
Money market securities								
Fixed rate	400	–	–	–	–	–	400	550
Contractual interest rate	2.12 %	–	–	–	–	–		
Total all other subsidiaries	**400**	**–**	**–**	**–**	**–**	**16**	**416**	**1,008**
Total	**33,097**	**7,987**	**7,707**	**3,750**	**1,275**	**5,387**	**59,203**	**57,752**

[1] Except for the interest rates. The interest rates represent the weighted-average.

[2] Includes senior bonds, exchangeable bonds and money market securities issued by issued by Allianz Finance B.V. and Allianz Finance II B.V. guaranteed by Allianz AG and money market securities issued by Allianz Finance Corporation, a wholly-owned subsidiary of Allianz AG, which are fully and unconditionally guaranteed by Allianz AG.

On February 18, 2005, the Allianz Group issued a senior exchangeable bond, Basket Index Tracking Equity Linked Securities ("BITES"), with a principal amount of € 1,262 mn. The redemption value of the BITES is linked to the performance of the DAX Index. The BITES were issued at a DAX reference level of 4,205.115. The Allianz Group may redeem the BITES with shares of BMW AG, Munich Re and/or Siemens AG or cash. The BITES have a term of 3 years, however, the Allianz Group has the right to redeem the BITES anytime during their term. The holders of the BITES have the right to exchange the BITES during their term at the redemption value. An outperformance premium is paid annually equal to 0.75 % of the average DAX Index during the reference period prior to the payment date. Upon redemption of the BITES by the Allianz Group or at maturity, the holders of the BITES receive a redemption premium of 1.75 % of the redemption value. As of December 31, 2005, the Allianz Group has recorded an embedded derivative related to this transaction in financial liabilities carried at fair value through income of € 409 mn.

On March 23, 2005, the Allianz Group repaid in cash a senior exchangeable bond with a face amount of € 1,700 mn.

On August 26, 2005, The Allianz Group repaid a senior bond with a face amount of CHF 1,500 mn.

20 Financial liabilities carried at fair value through income

As of 12/31/	2005 € mn	2004 € mn
Financial liabilities held for trading	86,392	102,141
Financial liabilities for unit linked contracts	54,661	41,409
Financial liabilities for puttable equity instruments	3,137	1,386
Financial liabilities designated at fair value through income	450	201
Total	**144,640**	**145,137**

Financial liabilities held for trading

As of 12/31/	2005 € mn	2004 € mn
Obligations to deliver securities	49,029	72,804
Derivative financial instruments	28,543	23,018
Other trading liabilities	8,820	6,319
Total	**86,392**	**102,141**

Financial liabilities for unit linked contracts

As of 12/31/	2005 € mn	2004 € mn
Unit linked insurance contracts	30,320	21,444
Unit linked investment contracts	24,341	19,965
Total	**54,661**	**41,409**

21 Other accrued liabilities

As of 12/31/	2005 € mn	2004 € mn
Reserves for pensions and similar obligations	5,594	5,630
Accrued taxes	1,802	1,408
Miscellaneous accrued liabilities*)	6,906	6,946
Total	**14,302**	**13,984**

*) As of December 31, 2005, includes restructuring provisions of € 186 mn (2004: € 739 mn), provisions for lending related commitments of € 117 mn (2004: € 371 mn), provisions for employee expenses of € 4,440 mn (2004: € 3,451 mn), loss reserves from the non-insurance business of € 235 mn (2004: € 243 mn), provisions for litigation of € 184 mn (2004: € 155 mn), and commission reserves for agents of € 216 mn (2004: € 333 mn).

Defined benefit and defined contribution plans

Retirement benefits in the Allianz Group are either in the form of defined benefit or defined contribution plans. Employees, including agents in Germany, are granted such retirement benefits by the various legal entities of the Allianz Group. In Germany, these are primarily defined benefit in nature.

For defined benefit plans, the participant is granted a defined benefit by the employer or via an external entity. In contrast to defined contribution arrangements, the future cost to the employer of a defined benefit plan is not known with certainty in advance.

Defined benefit plans

The following table represents the changes in the net amount recognized for defined benefit plans:

	2005 € mn	2004 € mn
Carrying amount as of 1/1/	5,630	5,572
Changes in the consolidated subsidiaries of the Allianz Group	15	(27)
Foreign currency translation adjustments	21	(6)
Expense	641	672
Payments	(713)	(581)
Carrying amount as of 12/31/	**5,594**	**5,630**

The following table sets forth the changes in the projected benefit obligations, the changes in fair value of plan assets and the net amount recognized for the various Allianz Group defined benefit plans:

For the years ended 12/31/	2005 € mn	2004 € mn
Change in projected benefit obligations		
Projected benefit obligations as of 1/1/	14,279	13,310
Service cost	353	313
Interest cost	693	676
Plan participants' contributions	66	55
Amendments	(44)	7
Actuarial losses	2,268	646
Foreign currency translation adjustments	125	(52)
Benefits paid	(655)	(595)
Changes in the consolidated subsidiaries of the Allianz Group	74	(81)
Projected benefit obligations as of 12/31/[1]	**17,159**	**14,279**
Change in fair value of plan assets		
Fair value of plan assets as of 1/1/	7,149	6,724
Actual return on plan assets	883	431
Employer contributions	374	236
Plan participants' contributions	66	55
Foreign currency translation adjustments	81	(36)
Benefits paid[2]	(293)	(264)
Changes in the consolidated subsidiaries of the Allianz Group	27	3
Fair value of plan assets as of 12/31/	8,287	**7,149**
Funded status as of 12/31/	8,872	7,130
Unrecognized net actuarial losses	(3,283)	(1,504)
Unrecognized prior service costs	5	4
Net amount recognized as of 12/31/	**5,594**	**5,630**

[1] As of December 31, 2005, includes direct commitments of the consolidated subsidiaries of the Allianz Group of € 8,164 mn (2004: € 6,649 mn) and commitments through plan assets of € 8,995 mn (2004: € 7,630 mn).

[2] In addition, the Allianz Group paid € 362 mn (2004: € 331 mn) directly to plan participants.

Amounts recognized in the Allianz Group's consolidated balance sheets for defined benefit plans are as follows:

As of 12/31/	2005 € mn	2004 € mn
Prepaid benefit cost	(262)	(220)
Accrued benefit cost	5,856	5,850
Net amount recognized	**5,594**	**5,630**

As of December 31, 2005, postretirement health benefits included in the projected benefit obligation and net amount recognized amounted to € 165 mn (2004: € 97 mn) and € 151 mn (2004: € 107 mn), respectively.

As of December 31, 2005, the accumulated benefit obligation for all defined benefit plans was € 16,188 mn (2004: € 13,395 mn).

Defined benefit plans with an accumulated benefit obligation in excess of plan assets are summarized as follows:

As of 12/31/	2005 € mn	2004 € mn
Projected benefit obligation	16,069	12,254
Accumulated benefit obligation	15,242	11,446
Fair value of plan assets	7,215	5,188

The net periodic benefit cost related to defined benefit plans consists of the following components:

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Service cost	353	313	314
Interest cost	693	676	606
Expected return on plan assets	(411)	(366)	(312)
Amortization of prior service costs recognized	(45)	5	26
Amortization of net loss recognized	57	8	6
(Income)/expenses of plan curtailments or settlements	(6)	36	(19)
Net periodic benefit cost	**641**	**672**	**621**

During the year ended December 31, 2005, net periodic benefit cost includes net periodic benefit cost related to postretirement health benefits of € 8 mn (2004: € 7 mn).

Most of the amounts expensed are charged in the Allianz Group's consolidated income statement as acquisition and administrative expenses, and loss and loss adjustment expenses (claims settlement expenses).

The actual return on plan assets amounted to € 883 mn, € 431 mn and € 379 mn during the years ended December 31, 2005, 2004 and 2003.

Assumptions

The assumptions for the actuarial computation of the projected benefit obligation, accumulated benefit obligation and the net periodic benefit cost depend on the circumstances in the particular country where the plan has been established.

The calculations are based on current actuarially calculated mortality estimates. Projected turnover depending on age and length of service have also been used, as well as internal Allianz Group retirement projections.

The weighted-average assumptions, for the Allianz Group's defined benefit plans, used to determine projected and accumulated benefit obligation:

As of 12/31/	2005 %	2004 %
Discount rate	4.1	4.9
Rate of compensation increase	2.7	2.7
Rate of pension increase	1.4	1.6

The discount rate assumptions reflect the market yields at the balance sheet date of high-quality fixed income investments corresponding to the currency and duration of the liabilities.

The weighted-average assumptions used to determine net periodic benefit cost:

For the years ended 12/31/	2005 %	2004 %	2003 %
Discount rate	4.9	5.5	5.7
Expected long-term return on plan assets	5.8	6.4	6.6
Rate of compensation increase	2.7	2.8	2.9
Rate of pension increase	1.6	1.9	1.8

For the year ended December 31, 2005, the weighted expected long-term return on plan assets was derived from the following target allocation and expected long-term rate of return for each asset category:

Asset category	Target allocation %	Weighted expected long-term rate of return %
Equity securities	30.5	8.2
Debt securities	65.0	4.8
Real estate	3.8	4.4
Other	0.7	0.5
Total	**100.0**	**5.8**

The determination of the expected long-term rate of return for the individual asset categories is based on capital market surveys.

Plan assets

The defined benefit plans' weighted-average asset allocations by asset category are as follows:

For the years ended 12/31/	2005 %	2004 %
Equity securities	28.4	26.2
Debt securities	66.0	69.7
Real estate	3.6	2.6
Other	2.0	1.5
Total	**100.0**	**100.0**

The bulk of the plan assets are held by the Allianz Versorgungskasse VVaG, Munich. This entity insures effectively all employees of the German insurance operations and is not additionally consolidated.

Plan assets do not include equity securities issued by the Allianz Group or real estate used by the Allianz Group.

The Allianz Group plans to gradually increase its actual equity securities allocation for plan assets of defined benefit plans.

Contributions

During the year ending December 31, 2006, the Allianz Group expects to contribute € 264 mn to its defined benefit plans and pay € 367 mn directly to plan participants of its defined benefit plans, in addition to the contributions noted in Note 46.

Estimated future benefit payments

The following estimated future benefit payments are based on the same assumptions used to measure the Allianz Group's projected and accumulated benefit obligations as of December 31, 2005, and reflect expected future service, as appropriate.

	€ mn
2006	576
2007	591
2008	621
2009	646
2010	692
Years 2011–2015	3,750

Defined contribution plans

Defined contribution plans are funded through independent pension funds or similar organizations. Contributions fixed in advance (e.g., based on salary) are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no obligation beyond payment of the contributions. The main pension fund is the Versicherungsverein des Bankgewerbes a.G., Berlin, which covers most of the banking employees in Germany.

During the year ended December 31, 2005, the Allianz Group recognized expense for defined contribution plans of € 126 mn (2004: € 110 mn; 2003: € 105 mn).

Provisions for restructuring

As of December 31, 2005, the Allianz Group has provisions for restructuring for a number of restructuring programs in various segments. With the exception of those provisions for restructuring related to Dresdner Bank Group, none of the individual restructuring programs is significant. These provisions for restructuring primarily include personnel costs, which result from severance payments for employee terminations, and contract termination costs, including those relating to the termination of lease contracts, that will arise in connection with the implementation of the respective initiatives. Restructuring charges are included in other expenses.

Changes in the provisions for restructuring were:

	2005			2004			2003		
	Dresdner Bank Group € mn	Other € mn	Total € mn	Dresdner Bank Group € mn	Other € mn	Total € mn	Dresdner Bank Group € mn	Other € mn	Total € mn
As of 1/1/	670	69	739	815	30	845	365	39	404
New provisions*)	22	86	108	132	57	189	389	9	398
Additions to existing provisions	29	3	32	143	1	144	324	6	330
Release of provisions recognized in previous years	(48)	(2)	(50)	(62)	(11)	(73)	(47)	(7)	(54)
Release of provisions via payments	(288)	(68)	(356)	(274)	(8)	(282)	(196)	(16)	(212)
Release of provisions via transfers	(294)	–	(294)	–	–	–	–	–	–
Changes in the consolidated subsidiaries of the Allianz Group	–	–	–	(55)	–	(55)	(7)	–	(7)
Foreign currency translation adjustments	12	–	12	(6)	–	(6)	(13)	(1)	(14)
Other	(13)	8	(5)	(23)	–	(23)	–	–	–
As of 12/31/	**90**	**96**	**186**	**670**	**69**	**739**	**815**	**30**	**845**

*) In addition, during the year ended December 31, 2005, the Allianz Group directly reflected restructuring charges of € 10 mn in other expenses (2004: € 87 mn; 2003: € 268 mn).

Dresdner Bank Group's provisions for restructuring

Dresdner Bank Group supplemented its existing restructuring programs introduced since 2000 with some further measures. For these combined initiatives, Dresdner Bank Group has announced plans to eliminate an aggregate of approximately 17,050 positions. As of December 31, 2005, an aggregate of approximately 15,490 positions had been eliminated and approximately 760 additional employees had contractually agreed to leave Dresdner Bank Group under these initiatives.

During the year ended December 31, 2005, Dresdner Bank Group recorded restructuring charges for all restructuring programs of € 12 mn. This amount includes new provisions, additions to existing provisions, release of provisions recognized in previous years, and restructuring charges directly reflected in other expenses. A summary of the restructuring charges related to Dresdner Bank Group for the year ended December 31, 2005, by restructuring program is as follows:

	2005				
	2005 Measures € mn	2004 Measures € mn	New Dresdner € mn	Other Programs € mn	Total € mn
New provisions	22	–	–	–	22
Additions to existing provisions	–	6	18	5	29
Release of provisions recognized in previous years	–	(16)	(26)	(6)	(48)
Restructuring charges directly reflected in the consolidate income statement	1	1	4	3	9
Total restructuring charges during the year ended 12/31/	**23**	**(9)**	**(4)**	**2**	**12**
Total restructuring charges incurred to date	23	130	578*)	816	1,547
Total restructuring charges expected to be incurred	–	–	3	–	3

*) Includes € 106 mn primarily related to outsourcing domestic retail securities processing (and custody) and payment processing activities, as well as impairment charges related to information technology systems necessitated by the revised business model.

A summary of the existing provisions for restructuring related to the Dresdner Bank Group is as follows:

2005 Measures

During the year ended December 31, 2005, Dresdner Bank Group recorded restructuring charges of € 23 mn for further restructuring initiatives announced in addition to and separately from the "2004 Measures" and from the "New Dresdner" program. Through these 2005 Measures, Dresdner Bank Group plans to eliminate 250 positions mainly within the Corporate Functions Units. Approximately 25 employees had been terminated and approximately 15 additional employees had contractually agreed to leave Dresdner Bank Group pursuant to the 2005 Measures as of December 31, 2005.

2004 Measures

During the year ended December 31, 2004, further restructuring initiatives were announced by Dresdner Bank Group in addition to the 'New Dresdner' program. Through these 2004 Measures, Dresdner Bank Group plans to eliminate 1,100 positions mainly within the Personal Banking and Dresdner Kleinwort Wasserstein divisions, as well as within Dresdner Bank Lateinamerika, which is part of the IRU division. Approximately 540 employees (2004: 40 employees) had been terminated and approximately 310 additional employees had contractually agreed to leave Dresdner Bank Group pursuant to the 2004 Measures as of December 31, 2005.

New Dresdner

In August 2003, Dresdner Bank Group announced the "New Dresdner" program as part of its cost-cutting initiatives to eliminate approximately 4,700 positions in the banking operations by December 31, 2005. This initiative focuses on the back-office areas and the support functions, which will primarily affect Dresdner Bank Group's head office. Approximately 3,830 employees (2004: 2,740 employees) had been terminated and approximately 340 additional employees had contractually agreed to leave Dresdner Bank Group pursuant to the New Dresdner program as of December 31, 2005.

In February 2003, as part of our efforts to focus on the Allianz and Dresdner Bank brands, we announced a plan to integrate the activities of Dresdner Bank Group's direct banking subsidiary Advance Bank into the Allianz Group during the year ended December 31, 2003. This initiative involved the elimination by mid 2004 of approximately 400 positions, which were also included within the 4,700 positions of the New Dresdner program. All 400 positions had been eliminated as of December 31, 2005.

Other Programs

In addition to the above mentioned programs, there were four further cost-cutting and restructuring programs that were implemented by Dresdner Bank Group from 2000 through 2002. These programs included the Turnaround 2003 program, two restructuring activities announced during the year 2001, and the first restructuring plans established by Dresdner Bank Group in May 2000. Although the last program was announced by Dresdner Bank Group prior to its acquisition by Allianz AG it had been included in the consolidated financial statements of the Allianz Group. These programs involved an aggregated reduction of approximately 11,000 positions and the last remaining measures were completed by December 31, 2005.

A summary of the changes in the provisions for restructuring of the Dresdner Bank Group during the year ended December 31, 2005 is:

		Provisions recorded during 2005							
	Provisions as of 1/1/2005 € mn	New provisions € mn	Additions to existing provisions € mn	Release of provisions recognized in previous years € mn	Release of provisions via cash payments € mn	Release of provisions via transfers € mn	Foreign currency translation adjust-ments € mn	Other € mn	Provisions as of 12/31/2005 € mn
2005 Measures									
Personnel costs	–	22	–	–	–	(3)	–	–	19
Subtotal	**–**	**22**	**–**	**–**	**–**	**(3)**	**–**	**–**	**19**
2004 Measures									
Personnel costs	123	–	6	(15)	(42)	(58)	1	–	15
Contract termination costs	4	–	–	(1)	–	–	–	–	3
Other	5	–	–	–	(2)	(2)	–	–	1
Subtotal	**132**	**–**	**6**	**(16)**	**(44)**	**(60)**	**1**	**–**	**19**
New Dresdner									
Personnel costs	295	–	16	(22)	(117)	(112)	1	(9)	52
Contract termination costs	17	–	2	(3)	(5)	(11)	–	–	-
Other	1	–	–	(1)	–	–	–	–	-
Subtotal	**313**	**–**	**18**	**(26)**	**(122)**	**(123)**	**1**	**(9)**	**52**
Other Programs									
Personnel costs	120	–	–	(3)	(56)	(57)	–	(4)	–
Contract termination costs	28	–	2	(1)	(6)	(24)	1	–	–
Other	77	–	3	(2)	(60)	(27)	9	–	–
Subtotal	**225**	**–**	**5**	**(6)**	**(122)**	**(108)**	**10**	**(4)**	**–**
Total	**670**	**22**	**29**	**(48)**	**(288)**	**(294)**	**12**	**(13)**	**90**

The development of the restructuring provisions reflects the implementation status of the restructuring initiatives. Based on the specific IFRS guidance, restructuring provisions are recognized prior to when they qualify to be recognized under the guidance for other types of provisions. In order to reflect the timely implementation of the various restructuring initiatives, restructuring provisions, as far as they are already 'locked in', have been transferred to the provision type, which would have been used not having a restructuring initiative in place. This applies for each single contract. For personnel costs, at the time an employee has contractually agreed to leave Dresdner Bank Group by signing either an early retirement, a partial retirement (Altersteilzeit, which is a specific type of an early retirement program in Germany), or a termination agreement the respective part of the restructuring provision has been transferred to provisions for employee expenses. In addition, provisions for vacant office spaces that result from restructuring initiatives have been transferred to 'other' provisions after the offices have been completely vacated. In this context, Dresdner Bank Group recorded releases of provisions via transfers to other provision categories of € 294 mn.

22 Other liabilities

As of 12/31/	2005 € mn	2004 € mn
Funds held under reinsurance business ceded	7,105	8,706
Accounts payable on direct insurance business	7,843	8,199
Accounts payable on reinsurance business	1,648	1,694
Other liabilities[*)]	14,787	12,672
Total	**31,383**	**31,271**

*) As of December 31, 2005, includes tax accruals of € 1,352 mn (2004: € 1,163 mn), interest and rental liabilities of € 513 mn (2004: € 471 mn), social security liabilities of € 176 mn (2004: € 241 mn), derivative financial instruments used for hedging purposes that meet the criteria for hedge accounting of € 909 mn (2004: € 1,254 mn) and unprocessed sales of € 420 mn (2004: € 473 mn), and liabilities for disposal groups held for sale of € 1,389 mn.

Accounts payable on direct insurance business and accounts payable on reinsurance are due within one year. Of the remaining other liabilities, € 12,126 mn (2004: € 10,389 mn) are due within one year, and € 2,661 mn (2004: € 2,283 mn) are due after more than one year.

23 Deferred income

As of December 31, 2005, includes miscellaneous deferred income of € 2,493 mn (2004: € 2,039 mn), which is primarily comprised of accrued interest of € 2,254 mn (2004: € 1,737 mn).

Supplementary Information on the Allianz Group's Consolidated Income Statement

24 Premiums earned (net)

	Property-Casualty			Life/Health			Total
	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)	Group*)
For the years ended 12/31/	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
2005							
Premiums written							
Direct	40,548	–	40,548	20,707	–	20,707	61,255
Assumed	3,514	(244)	3,270	243	(1)	242	3,512
Subtotal	**44,062**	**(244)**	**43,818**	**20,950**	**(1)**	**20,949**	**64,767**
Ceded	(5,548)	1	(5,547)	(1,128)	244	(884)	(6,431)
Net	**38,514**	**(243)**	**38,271**	**19,822**	**243**	**20,065**	**58,336**
Premiums earned							
Direct	40,168	–	40,168	20,612	–	20,612	60,780
Assumed	3,260	(241)	3,019	243	(2)	241	3,260
Subtotal	**43,428**	**(241)**	**43,187**	**20,855**	**(2)**	**20,853**	**64,040**
Ceded	(5,411)	2	(5,409)	(1,125)	241	(884)	(6,293)
Net	**38,017**	**(239)**	**37,778**	**19,730**	**239**	**19,969**	**57,747**
2004							
Premiums written							
Direct	40,460	–	40,460	20,246	–	20,246	60,706
Assumed	3,320	(794)	2,526	470	(11)	459	2,985
Subtotal	**43,780**	**(794)**	**42,986**	**20,716**	**(11)**	**20,705**	**63,691**
Ceded	(5,331)	11	(5,320)	(2,045)	794	(1,251)	(6,571)
Net	**38,449**	**(783)**	**37,666**	**18,671**	**783**	**19,454**	**57,120**
Premiums earned							
Direct	40,156	–	40,156	20,174	–	20,174	60,330
Assumed	3,335	(799)	2,536	470	(13)	457	2,993
Subtotal	**43,491**	**(799)**	**42,692**	**20,644**	**(13)**	**20,631**	**63,323**
Ceded	(5,298)	13	(5,285)	(2,048)	799	(1,249)	(6,534)
Net	**38,193**	**(786)**	**37,407**	**18,596**	**786**	**19,382**	**56,789**

*) After eliminating intra-Allianz Group transactions between segments.

	Property-Casualty			Life/Health			Total
	Segment	Consolidation adjustments	Group*)	Segment adjustments	Consolidation	Group*)	Group*)
For the year ended 12/31/	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
2003							
Premiums written							
Direct	40,675	–	40,675	20,002	–	20,002	60,677
Assumed	2,745	(711)	2,034	687	(11)	676	2,710
Subtotal	**43,420**	**(711)**	**42,709**	**20,689**	**(11)**	**20,678**	**63,387**
Ceded	(5,415)	11	(5,404)	(1,951)	711	(1,240)	(6,644)
Net	**38,005**	**(700)**	**37,305**	**18,738**	**700**	**19,438**	**56,743**
Premiums earned							
Direct	40,111	–	40,111	19,967	1	19,968	60,079
Assumed	2,705	(712)	1,993	687	(11)	676	2,669
Subtotal	**42,816**	**(712)**	**42,104**	**20,654**	**(10)**	**20,644**	**62,748**
Ceded	(5,539)	11	(5,528)	(1,953)	711	(1,242)	(6,770)
Net	**37,277**	**(701)**	**36,576**	**18,701**	**701**	**19,402**	**55,978**

*) After eliminating intra-Allianz Group transactions between segments.

25 Interest and similar income

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Securities held-to-maturity	253	269	329
Securities available-for-sale*)	9,986	9,010	9,288
Real estate used by third parties	1,018	974	986
Lending, money market transactions and loans	10,753	9,954	11,064
Leasing agreements	122	42	80
Other interest-bearing instruments	209	707	763
Total	**22,341**	**20,956**	**22,510**

*) During the year ended December 31, 2005, includes dividend income of € 1,447 mn (2004: € 1,310 mn; 2003: € 1,336 mn).

Net interest margin from the Banking segment is comprised of the following:

For the years ended 12/31/	2005			2004			2003		
	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Interest and similar income	7,064	(36)	7,028	6,471	(30)	6,441	8,047	(46)	8,001
Interest expense	(4,942)	81	(4,861)	(4,179)	60	(4,119)	(5,284)	59	(5,225)
Net interest margin	**2,122**	**45**	**2,167**	**2,292**	**30**	**2,322**	**2,763**	**13**	**2,776**
Loan loss provisions	110	–	110	(344)	–	(344)	(1,014)	–	(1,014)
Net interest margin after loan loss provisions	**2,232**	**45**	**2,277**	**1,948**	**30**	**1,978**	**1,749**	**13**	**1,762**

*) After eliminating intra-Allianz Group transactions between segments.

26 Income from investments in associated enterprises and joint ventures (net)

For the years ended 12/31/	2005	2004	2003
	€ mn	€ mn	€ mn
Income			
Current income	253	251	(28)
Reversal of impairments	–	9	5
Realized gains from investments in associated enterprises and joint ventures[1]	1,098	856	4,013
Subtotal	**1,351**	**1,116**	**3,990**
Expenses			
Impairments	(50)	(59)	(237)
Realized losses from investments in associated enterprises and joint ventures[2]	(32)	(271)	(727)
Miscellaneous expenses	(12)	(9)	(12)
Subtotal	**(94)**	**(339)**	**(976)**
Total	**1,257**	**777**	**3,014**

1) During the year ended December 31, 2005, includes realized gains from the disposal of subsidiaries of € 274 mn (2004: € 171 mn; 2003: € 780 mn).

2) During the year ended December 31, 2005, includes realized losses from the disposal of subsidiaries of € 14 mn (2004: € 220 mn; 2003: € 515 mn).

27 Other income from investments

For the years ended 12/31/	2005	2004	2003
	€ mn	€ mn	€ mn
Realized gains from investments			
Securities available-for-sale	4,316	4,688	9,914
Real estate used by third parties	373	361	494
Other investments	–	–	12
Subtotal	**4,689**	**5,049**	**10,420**
Reversals of impairments from investments			
Securities held-to-maturity	3	–	3
Securities available-for-sale	17	73	65
Real estate used by third parties	1	57	2
Subtotal	**21**	**130**	**70**
Total	**4,710**	**5,179**	**10,490**

28 Income from financial assets and liabilities carried at fair value through income (net)

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Income from financial assets and liabilities held for trading			
Banking segment*)	1,171	1,502	1,485
Property-Casualty and Life/Health segments*)	(742)	63	(1,273)
Asset Management segment*)	2	15	30
Subtotal	**431**	**1,580**	**242**
Income from financial assets and liabilities designated at fair value through income	728	78	277
Total	**1,159**	**1,658**	**519**

*) After eliminating intra-Allianz Group transactions between segments.

Income from financial assets and liabilities held for trading of the Banking segment[1] is comprised of the following:

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Trading in interest products	473	771	664
Trading in equity products	274	219	146
Foreign exchange/precious metals trading	222	149	358
Other trading activities[2]	202	363	317
Total	**1,171**	**1,502**	**1,485**

[1] After eliminating intra-Allianz Group transactions between segments.
[2] During the year ending December 31, 2005, other trading activities of the Banking segment includes expenses from the application of IAS 39 of € 132 mn (2004: € 331; 2003: € 161 mn).

Income from financial assets and liabilities held for trading during the year ended December 31, 2005, includes expenses of € 706 mn (2004: € 286 mn; 2003: € 1,359 mn) from derivative financial instruments used by the Property-Casualty and Life/Health segments for which hedge accounting is not applied. This includes expenses from derivative financial instruments embedded in exchangeable bonds of € 605 mn (2004: € 11 mn; 2003: € 249 mn), income from derivative financial instruments which economically hedge the exchangeable bonds, however which do not qualify for hedge accounting, of € 265 mn (2004: € 17 mn; 2003: € 251 mn) and expenses from other derivative financial instruments of € 366 mn (2004: € 292 mn; 2003: € 1,361 mn).

During the year ended December 31, 2003, equity exposure was substantially reduced through the use of derivatives and direct sales. Futures and put options on indexes were used for hedging purposes that did not meet the criteria for hedge accounting. The change in the fair value of the derivatives of this macro hedge are recognized as income from financial assets and liabilities held for trading in the Allianz Group's consolidated income statement, while the corresponding changes in the fair value of the underlying equities were directly recognized in the Allianz Group's consolidated shareholders' equity. The changes in the fair value of the respective underlying equities were recognized in the Allianz Group's consolidated income statement only at the time of their realization in the capital market. The use of derivatives for macro hedges that did not meet the criteria for hedge accounting resulted in a loss of € 1,351 mn for year ending December 31, 2003.

29 Fee and commission income, and income from service activities

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Banking segment[1]	2,965	2,804	2,705
Asset Management segment[1]	3,650	3,015	2,815
Other segments[1], [2]	1,695	1,004	540
Total	**8,310**	**6,823**	**6,060**

[1] After eliminating intra-Allianz Group transactions between segments.
[2] During the year ended December 31, 2005, includes fee revenue from Four Seasons Health Care Ltd., Wilmslow and BetterCare Group Limited, Kingston upon Thames of € 572 mn (2004: € 163 mn).

Net fee and commission income from the Banking segment

For the years ended 12/31/	2005			2004			2003		
	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group *)
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Fee and commission income	3,278	(313)	2,965	3,085	(281)	2,804	2,956	(251)	2,705
Fee and commission expenses	(512)	24	(488)	(492)	27	(465)	(506)	43	(463)
Net fee and commission income	**2,766**	**(289)**	**2,477**	**2,593**	**(254)**	**2,339**	**2,450**	**(208)**	**2,242**

*) After eliminating intra-Allianz Group transactions between segments.

Net fee and commission income from the Allianz Group's Banking segment*), by type of business, is comprised of the following:

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Securities business	1,074	951	1,027
Payment transactions	357	375	372
Mergers and acquisitions advisory	219	155	110
Underwriting business (new issues)	101	95	104
Foreign commercial business	62	63	64
Other	664	700	565
Net fee and commission income	**2,477**	2,339	2,242

*) After eliminating intra-Allianz Group transactions between segments.

Net fee and commission income from the Asset Management segment*)

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Fee and commission income	3,650	3,015	2,815
Fee and commission expenses	(755)	(614)	(520)
Net fee and commission income	**2,895**	2,401	2,295

*) After eliminating intra-Allianz Group transactions between segments.

Net fee and commission income from the Allianz Group's Asset Management segment*), by type of business, is comprised of the following:

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Management fees	1,505	1,256	1,128
Advisory fees	1,344	1,139	1,073
Other	46	6	94
Net fee and commission income	**2,895**	**2,401**	**2,295**

*) After eliminating intra-Allianz Group transactions between segments.

30 Other income

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Foreign currency transaction gains	417	481	1,010
Fees	443	540	729
Release of miscellaneous accrued liabilities	350	202	433
Income from reinsurance business	140	214	254
Gains from the disposal of real estate used for own activities and equipment	46	199	29
Income from other assets	28	199	73
Other	758	698	1,275
Total	**2,182**	**2,533**	**3,803**

31 Insurance and investment contract benefits (net)

PROPERTY-CASUALTY

For the years ended 12/31/	2005			2004			2003		
	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
GROSS									
Claims									
Claims paid	(26,294)	268	(26,026)	(27,321)	668	(26,653)	(29,718)	670	(29,048)
Change in loss reserves	(2,420)	(3)	(2,423)	(722)	6	(716)	423	6	429
Subtotal	**(28,714)**	**265**	**(28,449)**	**(28,043)**	**674**	**(27,369)**	**(29,295)**	**676**	**(28,619)**
Change in other reserves									
Aggregate policy reserves	(190)	(45)	(235)	(436)	169	(267)	(292)	53	(239)
Other	(13)	(1)	(14)	(52)	3	(49)	(76)	1	(75)
Subtotal	**(203)**	**(46)**	**(249)**	**(488)**	**172**	**(316)**	**(368)**	**54**	**(314)**
Expenses for premium refunds	(520)	1	(519)	(576)	1	(575)	(198)	1	(197)
Total	**(29,437)**	**220**	**(29,217)**	**(29,107)**	**847**	**(28,260)**	**(29,861)**	**731**	**(29,130)**
CEDED REINSURANCE									
Claims									
Claims paid	3,482	(5)	3,477	3,467	(6)	3,461	4,038	(5)	4,033
Change in loss reserves	(287)	7	(280)	(1,291)	2	(1,289)	(1,402)	(3)	(1,405)
Subtotal	**3,195**	**2**	**3,197**	**2,176**	**(4)**	**2,172**	**2,636**	**(8)**	**2,628**
Change in other reserves									
Aggregate policy reserves	1	–	1	17	–	17	38	–	38
Other	(6)	–	(6)	1	–	1	4	–	4
Subtotal	**(5)**	**–**	**(5)**	**18**	**–**	**18**	**42**	**–**	**42**
Expenses for premium refunds	39	–	39	42	–	42	3	–	3
Total	**3,229**	**2**	**3,231**	**2,236**	**(4)**	**2,232**	**2,681**	**(8)**	**2,673**
NET									
Claims									
Claims paid	(22,812)	263	(22,549)	(23,854)	662	(23,192)	(25,680)	665	(25,015)
Change in loss reserves	(2,707)	4	(2,703)	(2,013)	8	(2,005)	(979)	3	(976)
Subtotal	**(25,519)**	**267**	**(25,252)**	**(25,867)**	**670**	**(25,197)**	**(26,659)**	**668**	**(25,991)**
Change in other reserves									
Aggregate policy reserves	(189)	(45)	(234)	(419)	169	(250)	(254)	53	(201)
Other	(19)	(1)	(20)	(51)	3	(48)	(72)	1	(71)
Subtotal	**(208)**	**(46)**	**(254)**	**(470)**	**172**	**(298)**	**(326)**	**54**	**(272)**
Expenses for premium refunds	(481)	1	(480)	(534)	1	(533)	(195)	1	(194)
Total	**(26,208)**	**222**	**(25,986)**	**(26,871)**	**843**	**(26,028)**	**(27,180)**	**723**	**(26,457)**

*) After eliminating intra-Allianz Group transactions between segments.

LIFE/HEALTH

For the years ended 12/31/	2005			2004			2003		
	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
GROSS									
Benefits paid	(18,134)	5	(18,129)	(18,424)	6	(18,418)	(18,358)	5	(18,353)
Change in reserves									
Aggregate policy reserves	(5,146)	–	(5,146)	(4,224)	–	(4,224)	(5,219)	–	(5,219)
Other	(84)	(7)	(91)	(144)	(2)	(146)	(379)	3	(376)
Subtotal	**(23,364)**	**(2)**	**(23,366)**	**(22,792)**	**4**	**(22,788)**	**(23,956)**	**8**	**(23,948)**
Expenses for premium refunds	(5,410)	(26)	(5,436)	(4,524)	6	(4,518)	(3,170)	146	(3,024)
Total	**(28,774)**	**(28)**	**(28,802)**	**(27,316)**	**10**	**(27,306)**	**(27,126)**	**154**	**(26,972)**
CEDED REINSURANCE									
Benefits paid	1,086	(268)	818	1,701	(668)	1,033	1,938	(670)	1,268
Change in reserves									
Aggregate policy reserves	88	45	133	219	(169)	50	(86)	(54)	(140)
Other	19	4	23	(8)	(9)	(17)	51	(6)	45
Subtotal	**1,193**	**(219)**	**974**	**1,912**	**(846)**	**1,066**	**1,903**	**(730)**	**1,173**
Expenses for premium refunds	18	(1)	17	14	(1)	13	17	(1)	16
Total	**1,211**	**(220)**	**991**	**1,926**	**(847)**	**1,079**	**1,920**	**(731)**	**1,189**
NET									
Benefits paid	(17,048)	(263)	(17,311)	(16,723)	(662)	(17,385)	(16,420)	(665)	(17,085)
Change in reserves									
Aggregate policy reserves	(5,058)	45	(5,013)	(4,005)	(169)	(4,174)	(5,305)	(54)	(5,359)
Other	(65)	(3)	(68)	(152)	(11)	(163)	(328)	(3)	(331)
Subtotal	**(22,171)**	**(221)**	**(22,392)**	**(20,880)**	**(842)**	**(21,722)**	**(22,053)**	**(722)**	**(22,775)**
Expenses for premium refunds	(5,392)	(27)	(5,419)	(4,510)	5	(4,505)	(3,153)	145	(3,008)
Total	**(27,563)**	**(248)**	**(27,811)**	**(25,390)**	**(837)**	**(26,227)**	**(25,206)**	**(577)**	**(25,783)**

*) After eliminating intra-Allianz Group transactions between segments.

32 Interest and similar expenses

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Deposits	(2,719)	(2,085)	(2,859)
Certificated liabilities	(1,570)	(1,385)	(1,764)
Subtotal	**(4,289)**	**(3,470)**	**(4,623)**
Other interest expenses	(2,081)	(2,233)	(2,248)
Total	**(6,370)**	**(5,703)**	**(6,871)**

33 Other expenses from investments

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Realized losses from investments			
Securities held-to-maturity	–	(1)	(3)
Securities available-for-sale	(898)	(890)	(2,898)
Real estate used by third parties	(23)	(52)	(102)
Other investment securities	–	–	(2)
Subtotal	**(921)**	**(943)**	**(3,005)**
Impairments from investments			
Securities held-to-maturity	(2)	(4)	(10)
Securities available-for-sale	(263)	(814)	(4,136)
Real estate used by third parties	(240)	(653)	(30)
Other investment securities	–	–	(4)
Subtotal	**(505)**	**(1,471)**	**(4,180)**
Depreciation on real estate used by third parties	(253)	(258)	(267)
Total	**(1,679)**	**(2,672)**	**(7,452)**

34 Loan loss provisions

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Additions to allowances including direct impairments	(774)	(1,439)	(2,200)
Amounts released	782	973	1,103
Recoveries on loans previously impaired	101	112	70
Total	**109**	**(354)**	**(1,027)**

35 Acquisition costs and administrative expenses

For the years ended 12/31/	2005			2004			2003		
	Segment	Consolidation adjustments	Group[1]	Segment	Consolidation adjustments	Group[1]	Segment	Consolidation adjustments	Group[1]
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
PROPERTY-CASUALTY									
Acquisition costs									
Payments	(6,805)	–	(6,805)	(6,813)	–	(6,813)	(6,676)	–	(6,676)
Commissions and profit received on reinsurance business ceded	881	(1)	880	864	(3)	861	920	(2)	918
Change in deferred acquisition costs	153	–	153	168	31	199	247	(42)	205
Total acquisition costs	**(5,771)**	**(1)**	**(5,772)**	**(5,781)**	**28**	**(5,753)**	**(5,509)**	**(44)**	**(5,553)**
Administrative expenses	(3,794)	37	(3,757)	(3,849)	42	(3,807)	(4,002)	95	(3,907)
Underwriting costs (net)	**(9,565)**	**36**	**(9,529)**	**(9,630)**	**70**	**(9,560)**	**(9,511)**	**51**	**(9,460)**
Expenses for management of investments	(485)	27	(458)	(374)	27	(347)	(461)	28	(433)
Expenses from service agreements[2]	(1,275)	16	(1,259)	(730)	6	(724)	(304)	6	(298)
Subtotal	**(11,325)**	**79**	**(11,246)**	**(10,734)**	**103**	**(10,631)**	**(10,276)**	**85**	**(10,191)**
LIFE/HEALTH									
Acquisition costs									
Payments	(3,821)	–	(3,821)	(4,413)	–	(4,413)	(3,900)	–	(3,900)
Commissions and profit received on reinsurance business ceded	146	(37)	109	241	(73)	168	247	(52)	195
Change in deferred acquisition costs	1,317	–	1,317	1,537	–	1,537	1,768	–	1,768
Total acquisition costs	**(2,358)**	**(37)**	**(2,395)**	**(2,635)**	**(73)**	**(2,708)**	**(1,885)**	**(52)**	**(1,937)**
Administrative expenses	(1,426)	1	(1,425)	(1,270)	3	(1,267)	(1,307)	2	(1,305)
Underwriting costs (net)	**(3,784)**	**(36)**	**(3,820)**	**(3,905)**	**(70)**	**(3,975)**	**(3,192)**	**(50)**	**(3,242)**
Expenses for management of investments	(511)	151	(360)	(494)	125	(369)	(521)	107	(414)
Expenses from service agreements	(137)	31	(106)	(134)	63	(71)	(225)	49	(176)
Subtotal	**(4,432)**	**146**	**(4,286)**	**(4,533)**	**118**	**(4,415)**	**(3,938)**	**106**	**(3,832)**

[1] After eliminating intra-Allianz Group transactions between segments.

[2] During the year ended December 31, 2005, includes expenses from Four Seasons Health Care Ltd., Wilmslow and BetterCare Group Limited, Kingston upon Thames of € 476 mn (2004: € 141 mn).

For the years ended 12/31/	2005			2004			2003		
	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)	Segment	Consolidation adjustments	Group*)
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
BANKING									
Personnel expenses	(3,323)	–	(3,323)	(3,325)	–	(3,325)	(3,637)	1	(3,636)
Operating expenses	(2,177)	39	(2,138)	(2,191)	57	(2,134)	(2,449)	33	(2,416)
Fee and commission expenses	(512)	24	(488)	(492)	27	(465)	(506)	43	(463)
Subtotal	**(6,012)**	**63**	**(5,949)**	**(6,008)**	**84**	**(5,924)**	**(6,592)**	**77**	**(6,515)**
ASSET MANAGEMENT									
Personnel expenses	(1,679)	–	(1,679)	(1,459)	–	(1,459)	(1,495)	–	(1,495)
Operating expenses	(546)	14	(532)	(353)	16	(337)	(381)	17	(364)
Fee and commission expenses	(1,110)	355	(755)	(918)	304	(614)	(756)	236	(520)
Subtotal	**(3,335)**	**369**	**(2,966)**	**(2,730)**	**320**	**(2,410)**	**(2,632)**	**253**	**(2,379)**
Total	**(25,104)**	**657**	**(24,447)**	**(24,005)**	**625**	**(23,380)**	**(23,438)**	**521**	**(22,917)**

*) After eliminating intra–Allianz Group transactions between segments.

Acquisition costs and administrative expenses in the insurance segments include the personnel and operating expenses allocated to the functional areas acquisition of insurance policies, administration of insurance policies and management of investments. Other personnel and operating expenses are reported under insurance and investment contract benefits (claims settlement expenses) and other expenses.

All personnel and operating expenses in banking business are reported under acquisition costs and administrative expenses.

36 Other expenses

For the years ended 12/31/	2005	2004	2003
	€ mn	€ mn	€ mn
Overhead expenses	(837)	(1,027)	(1,129)
Restructuring charges	(100)	(347)	(942)
Foreign currency transaction losses	(618)	(336)	(676)
Expense of transferring or increasing miscellaneous or accrued liabilities	(580)	(390)	(671)
Bad debts	(116)	(123)	–
Expenses for service activities	–	–	(53)
Fees	(192)	(219)	(388)
Expenses resulting from reinsurance business	(28)	(33)	(38)
Amortization and impairments of intangible assets	(112)	(141)	(261)
Direct charge to policy reserve	(91)	(95)	(171)
Amortization of capitalized loyalty bonuses to senior management of PIMCO Group	(25)	(125)	(137)
Fire protection tax	(115)	(113)	(118)
Interest on accumulated policyholder dividends	(95)	(103)	(108)
Expenses for assistance to victims under joint and several liability and road casualties	(100)	(101)	(97)
Other	(633)	(938)	(1,799)
Total	**(3,642)**	**(4,091)**	**(6,588)**

37 Taxes

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Current taxes			
Germany	(1,020)	(373)	(660)
Other countries	(1,025)	(930)	(850)
Subtotal	**(2,045)**	**(1,303)**	**(1,510)**
Deferred taxes			
Germany	408	(32)	1,260
Other countries	(425)	(274)	56
Subtotal	**(17)**	**(306)**	**1,316**
Total income taxes	**(2,062)**	**(1,609)**	**(194)**
Other taxes	(52)	(53)	(55)
Total	**(2,114)**	**(1,662)**	**(249)**

During the year ended December 31, current income tax expense included a charge of € 44 mn (2004: € 17 mn; 2003: € 531 mn) related to prior periods. The dividend distribution proposed for the year ended December 31, 2005 is expected to reduce corporate taxes for the year ended December 31, 2006 by € 33 mn. Due to the "moratorium" introduced by the "bill on the reduction of tax privileges", the dividend distribution proposed for the years ended December 31, 2004 and 2003 did not lead to a reduction of corporate taxes.

Of the deferred tax charge for the year ended December 31, 2005, income of € 468 mn (2004: € 2 mn; 2003: € 141 mn) are attributable to the recognition of deferred taxes on temporary differences and expense of € 492 mn (2004: € 342 mn; 2003: income € 1,137 mn) are attributable to tax losses carried forward. The change of applicable tax rates due to changes in tax law produced deferred tax income of € 7 mn (2004: € 34 mn; 2003: € 28 mn). Deferred tax charge included in shareholders' equity during the year ended December 31, 2005 amounted to € 101 mn (2004: € 578 mn; 2003: € 169 mn).

The recognized income tax charge for the year ended December 31, 2005 is € 278 mn lower than the expected income tax charge (2004: higher than expected by € 131 mn; 2003: lower than expected by € 975 mn). The following table shows the reconciliation of the expected income tax charge of the Allianz Group with the effectively recognized tax charge. The Allianz Group's reconciliation is a summary of the individual company-related reconciliations, which are based on the respective country-specific tax rates after consolidation effects with impact on group result are taken into account. The tax rate for domestic Allianz Group subsidiaries applied in the reconciliation includes corporate tax and the solidarity surcharge and amounts to 26.38 % (2004: 26.38 %; 2003: 27.96 %).

The effective tax rate is determined on the basis of the effective income tax charge, on earnings from ordinary activities (before income tax and before minority interests), net of other taxes.

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Earnings from ordinary activities before income taxes			
Germany	1,780	1,157	1,433
Other countries	6,048	3,886	2,378
Total	**7,828**	**5,043**	**3,811**
Expected income tax rate in %	**29.9**	**29.3**	**30.7**
Expected income tax charge	2,340	1,478	1,170
Municipal trade tax and similar taxes	280	227	(226)
Net tax exempt income	(503)	(426)	(1,746)
Amortization of goodwill	–	296	437
Effects of tax losses	(73)	(68)	(222)
Effects of German tax law changes	–	–	758
Other tax settlements	18	102	23
Effective income tax charge	**2,062**	**1,609**	**194**
Effective tax rate in %	**26.3**	**31.9**	**5.1**

During the year ended December 31, 2005, a deferred tax charge of € 4 mn (2004: € 129 mn; 2003: € 0 mn) was recognized due to a devaluation of deferred tax assets on tax losses carried forward. Due to the use of tax losses carried forward for which no deferred tax asset was recognized, the current income tax charge diminished by € 64 mn (2004: € 193 mn; 2003: € 33 mn). The recognition of deferred tax assets on losses carried forward from earlier periods, for which no deferred taxes had yet been recognized or which had been devalued resulted in a deferred tax income of € 39 mn (2004: € 87 mn; 2003: € 443 mn). The non-recognition of deferred taxes on tax losses for the current fiscal year increased tax charges by € 26 mn (2004: € 83 mn; 2003: € 254 mn). The above mentioned effects are shown in the reconciliation statement as "effects of tax losses".

The effect of changes in German tax law of € 758 mn recorded in 2003 was the result of a law passed in December 2003 abolishing the tax-exempt status of dividends and gains from the sale of interests in corporations for life and health insurance companies. In addition, the taxation regarding investment funds had been changed.

The tax rates used in the calculation of the Allianz Group deferred taxes are the applicable national rates, which in 2005 ranged from 12.5 % to 46.1 %. Changes to tax rates already adopted on December 31, 2005, are taken into account.

Tax deferrals are recognized if a future reversal of the difference is expected. Deferred taxes on losses carried forward are recognized as an asset to the extent sufficient future taxable profits are available for realization.

Deferred tax assets and liabilities

As of 12/31/	2005 € mn	2004 € mn
Deferred tax assets		
Intangible assets	370	308
Investments	1,555	1,673
Trading assets	332	186
Deferred acquisition costs	187	254
Tax losses carried forward	5,850	6,172
Other assets	1,308	1,637
Insurance reserves	3,929	3,128
Pensions and similar reserves	351	291
Other liabilities	1,546	1,325
Total deferred tax assets	**15,428**	**14,974**
Valuation allowance for deferred tax assets on tax losses carried forward	(832)	(835)
Net deferred tax assets	**14,596**	14,139
Deferred tax liabilities		
Intangible assets	805	630
Investments	4,930	4,389
Trading assets	900	990
Deferred acquisition costs	3,207	2,622
Other assets	440	933
Insurance reserves	2,402	2,539
Pensions and similar reserves	146	72
Other liabilities	1,791	2,175
Total deferred tax liabilities	**14,621**	**14,350**
Net deferred tax (liabilities)/assets	**(25)**	**(211)**

Tax losses carried forward

Tax losses carried forward at December 31, 2005 of € 15,740 mn (2004: € 16,566 mn) result in recognition of deferred tax assets to the extent there is sufficient certainty that the unused tax losses will be utilized. € 10,886 mn (2004: € 11,097 mn) of the tax losses carried forward can be utilized without time limitation. The Allianz Group believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize its deferred tax assets.

Tax losses carried forward are scheduled according to their expiry periods as follows:

For the years ending 12/31/	€ mn
2006	248
2007	203
2008	140
2009	287
2010	87
2011	73
2012	39
2013	–
2014	–
2015	–
>10 years	3,777
Unrestricted	10,886
Total	**15,740**

Allianz Life of North America Company (ALONA) has been under audit by the Internal Revenue Service (IRS) for the years ended December 31, 1991 through 1997. During the fourth quarter of 2004, ALONA and the IRS agreed on a proposed settlement of all open issues for those years. The agreement has been approved by the Joint Committee on Taxation and resulted in a tax refund.

Other Information

38 Supplementary information on the Banking segment*)

Volume of foreign currency exposure from the Banking segment

The amounts reported constitute aggregate Euro equivalents of a wide variety of currencies outside the European Monetary Union ("EMU"). Any differences between assets and liabilities are a result of differing valuation principles. Loans and advances to banks, loans and advances to customers, liabilities to banks and liabilities to customers are reported at amortized cost, while all derivative transactions are accounted for at fair value.

As of 12/31/	USD € mn	GBP € mn	Other € mn	Total 2005 € mn	Total 2004 € mn
Balance sheet items					
Assets	141,727	43,957	34,861	220,545	181,904
Liabilities	127,035	45,494	32,664	205,193	186,528

Structure of residual terms for the Banking segment

The following presents loans and advances and liabilities in the Allianz Group's Banking segment according to their final maturity or call dates.

	Maturity at 12/31/2005				
	Total € mn	Up to 3 months € mn	> 3 months to 1 year € mn	> 1 year to 5 years € mn	More than 5 years € mn
Assets					
Loans and advances to banks	85,930	73,931	8,050	2,957	992
Loans and advances to customers[1]	163,676	85,818	14,402	29,650	33,806
Total	**249,606**	**159,749**	**22,452**	**32,607**	**34,798**
Liabilities					
Participation certificates and subordinated liabilities	7,404	32	947	2,964	3,461
Term liabilities to banks[2]	126,534	105,387	12,367	4,426	4,354
Liabilities to customers[2]					
Savings deposits and home-loan savings deposits	5,357	1,702	3,523	109	23
Other term liabilities to customers	94,764	84,948	2,383	2,576	4,857
Certificated liabilities	50,549	18,507	11,963	15,517	4,562
Total	**284,608**	**210,576**	**31,183**	**25,592**	**17,257**

1) Loans and advances to customers with a residual term of up to 3 months include € 5,295 mn of undated claims. These claims include credit lines available until further notice, overdraft facilities, called or overdue loans, unauthorized overdrafts, call money and internal account balances.

2) Excluding balances payable on demand.

*) After eliminating intra-Allianz Group transactions between segments.

Trustee business in the Banking segment

The following presents trustee business within the Allianz Group's Banking segment not recorded in the balance sheet as of December 31:

As of 12/31/	2005 € mn	2004 € mn
Loans and advances to banks	2,997	3,920
Loans and advances to customers	1,405	1,889
Investments	855	950
Total assets[*)]	**5,257**	**6,759**
Liabilities to banks	1,035	1,044
Liabilities to customers	4,222	5,715
Total liabilities	**5,257**	**6,759**

[*)] Including € 3,420 mn (2004: € 5,016 mn) of trustee loans.

Other banking information

As of December 31, 2005, the Allianz Group had deposits that have been reclassified as loan balances of € 6,131 mn (2004: € 8,555 mn) and deposits with related parties of € 2,297 mn (2004: € 2,441 mn). The Allianz Group received no deposits on terms other than those available in the normal course of banking operations. An amount of € 132 mn (2004: € 196 mn) eligible for refinancing with the central bank is held in cash funds.

The aggregate amount of certificates of deposit and other time deposits in the amount of € 100,000 or more issued by the Allianz Group's German offices at December 31, 2005 was € 67,239 mn, including banks and customers (2004: € 77,498 mn).

The aggregate amount of certificates of deposit and other time deposits in the amount of € 100,000 or more issued by the Allianz Group's non-German offices at December 31, 2005 was € 24,528 mn, including banks and customers (2004: € 26,505 mn).

39 Derivative financial instruments

Use, treatment and reporting of derivative financial instruments

Derivatives derive their fair values from one or more underlying assets or specified reference values.

Examples of derivatives include contracts for future delivery in the form of futures or forwards, options on shares or indices, interest rate options such as caps and floors, and swaps relating to both interest rates and non-interest rate markets. The latter include agreements to exchange previously defined assets or payment series.

Derivatives used by individual subsidiaries in the Allianz Group comply with the relevant supervisory regulations and the Allianz Group's own internal guidelines. The Allianz Group's investment and monitoring rules exceed regulations imposed by supervisory authorities. In addition to local management supervision, comprehensive financial and risk management systems are in force across the Allianz Group. Risk management is an integral part of the Allianz Group's controlling process that includes identifying, measuring, aggregating and managing risks. Risk management objectives are implemented at both the Allianz Group level and by the local operational units. The use of derivatives is one key strategy used by the Allianz Group to manage its market and investment risks.

Insurance subsidiaries in the Allianz Group use derivatives to manage the risk exposures in their investment portfolios based on general thresholds and targets. The most important purpose of these instruments is hedging against adverse market movements for selected securities or for parts of a portfolio. Specifically, the Allianz Group selectively uses derivative financial instruments such as swaps, options and forwards to hedge against changes in prices or interest rates in their investment portfolio.

Within the Allianz Group's banking business, derivatives are used both for trading purposes and to hedge against movements in interest rates, currency rates and other price risks of the Allianz Group's investments, loans, deposit liabilities and other interest-sensitive assets and liabilities.

Market and counterparty risks arising from the use of derivative financial instruments are subject to control procedures. Credit risks related to counterparties are assessed by calculating gross replacement values. Market risks are monitored by means of up-to-date value-at-risk calculations and stress tests and limited by specific stop-loss limits.

The counterparty settlement risk is virtually excluded in the case of exchange-traded products, as these are standardized products. By contrast, over-the-counter ("OTC") products, which are individually traded contracts, carry a theoretical credit risk amounting to the replacement value. The Allianz Group therefore closely monitors the credit rating of counterparties for OTC derivatives. In the derivatives portfolios of the Allianz Group's banking operations 96 % of the positive replacement values, which are essential for assessing counterparty risk, involve counterparties with "investment grade" ratings. To reduce the counterparty risk from trading activities, so-called cross-product netting master agreements with the business partners are established. In the case of a defaulting counterparty, netting makes it possible to offset claims and liabilities not yet due.

The following tables show the distribution of derivative positions on the Allianz Group's consolidated balance sheet date between its insurance segments and Banking and Asset Management segments.

Property-Casualty and Life/Health Segments

As of 12/31/	Maturity by notional amount			2005			2004		
	Up to 1 year	1–5 years	Over 5 years	Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Interest rate contracts, consisting of									
OTC									
Forwards	4,826	1,850	100	6,776	110	(10)	–	–	–
Swaps	66	7,670	1,907	9,643	212	(95)	5,467	143	(113)
Swaptions	–	56	700	756	12	(5)	506	18	(2)
Caps	–	7,265	7,142	14,407	–	(102)	14,008	1	(87)
Futures	–	–	–	–	–	–	50	–	–
Options	–	–	–	–	–	–	247	4	–
Exchange traded									
Futures	1,357	4	–	1,361	2	(2)	16	1	–
Options	1,084	–	–	1,084	2	–	20	–	–
Subtotal	**7,333**	**16,845**	**9,849**	**34,027**	**338**	**(214)**	**20,314**	**167**	**(202)**
Equity index contracts, consisting of									
OTC									
Forwards	4,262	55	–	4,317	200	(599)	649	30	(18)
Swaps	298	–	10	308	3	–	912	–	(1)
Options	19,681	3,134	23,887	46,702	1,190	(3,341)	28,070	525	(2,092)
Exchange traded									
Futures	4,923	–	–	4,923	4	(28)	475	5	(2)
Options	1,942	–	–	1,942	2	(248)	4,469	5	(33)
Forwards	–	1,262	–	1,262	–	(409)	–	–	–
Warrants	1	1	–	2	1	–	20	48	–
Subtotal	**31,107**	**4,452**	**23,897**	**59,456**	**1,400**	**(4,625)**	**34,595**	**613**	**(2,146)**
Foreign exchange contracts, consisting of									
OTC									
Forwards	1,048	–	–	1,048	9	(8)	1,565	22	(15)
Swaps	32	328	52	412	35	(2)	1,110	175	–
Options	–	–	–	–	–	–	22	1	–
Subtotal	**1,080**	**328**	**52**	**1,460**	**44**	**(10)**	**2,697**	**198**	**(15)**
Credit contracts, consisting of									
OTC									
Options	–	–	–	–	–	–	5	–	–
Swaps	40	712	244	996	4	(3)	365	5	(1)
Subtotal	**40**	**712**	**244**	**996**	**4**	**(3)**	**370**	**5**	**(1)**
Total	**39,560**	**22,337**	**34,042**	**95,939**	**1,786**	**(4,852)**	**57,976**	**983**	**(2,364)**

As of December 31, 2005, included in equity index option contracts are equity indexed annuities with negative fair values of € 2,841 mn (2004: € 2,039 mn) and guaranteed minimum income benefits/guaranteed minimum death benefits with a negative fair value of € 6 mn (2004: positive fair value of € 37 mn).

The major exposures in equity contracts are in the form of options used for hedging the Allianz Group's insurance portfolio against market fluctuations. In managing interest rate risk, long-term interest income is primarily controlled by the use of interest rate caps. In addition, exchange rate fluctuations are hedged by synthetically transforming financial assets and liabilities in foreign currencies into Euro-denominated financial instruments through foreign exchange deals and currency swaps.

Banking and Asset Management Segments

As of 12/31/	Maturity by notional amount			2005			2004		
	Up to 1 year	1–5 years	Over 5 years	Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
Interest rate contracts, consisting of									
OTC									
Forwards	103,503	14,262	–	117,765	40	(33)	105,788	25	(31)
Swaps	1,064,497	1,075,914	1,095,548	3,235,959	58,931	(56,849)	2,507,529	47,217	(45,823)
Swaptions	25,821	34,080	35,452	95,353	1,094	(2,768)	83,238	720	(1,708)
Caps	8,478	38,206	11,682	58,366	141	(112)	50,457	84	(73)
Floors	7,311	17,476	6,134	30,921	404	(264)	53,141	469	(313)
Options	335	648	598	1,581	57	(62)	998	21	(10)
Other	8,817	205	996	10,018	64	(82)	13,726	2	(89)
Exchange traded									
Futures	165,853	19,435	–	185,288	105	(125)	120,578	64	(25)
Options	42,985	–	–	42,985	692	(262)	28,846	2	(9)
Subtotal	**1,427,600**	**1,200,226**	**1,150,410**	**3,778,236**	**61,528**	**(60,557)**	**2,964,301**	**48,604**	**(48,081)**
Equity index contracts, consisting of									
OTC									
Swaps	13,995	4,139	2,371	20,505	642	(723)	10,981	543	(686)
Options	102,012	112,561	5,713	220,286	9,061	(9,429)	273,872	3,647	(4,220)
Forwards	70	–	–	70	–	(34)	55	–	(1)
Warrants	–	–	–	–	–	–	20	1	–
Other	18	1,041	18	1,077	4	(11)	66	5	(8)
Exchange traded									
Futures	10,659	–	–	10,659	1	(38)	8,970	8	(33)
Options	40,333	35,172	5,610	81,115	3,185	(3,063)	62,733	1,734	(1,749)
Subtotal	**167,087**	**152,913**	**13,712**	**333,712**	**12,893**	**(13,298)**	**356,697**	**5,938**	**(6,697)**
Foreign exchange contracts, consisting of									
OTC									
Forwards	392,823	11,966	5,777	410,566	4,805	(4,976)	405,858	7,312	(8,047)
Swaps	14,646	49,490	18,852	82,988	2,888	(2,634)	74,158	5,020	(4,501)
Options	124,954	18,441	4,788	148,183	1,340	(1,637)	165,118	3,837	(4,345)
Other	590	–	–	590	1	–	–	–	–
Exchange traded									
Futures	2,264	123	–	2,387	4	(5)	1,624	17	(10)
Options	297	–	–	297	10	(2)	–	–	–
Subtotal	**535,574**	**80,020**	**29,417**	**645,011**	**9,048**	**(9,254)**	**646,758**	**16,186**	**(16,903)**
Credit contracts, consisting of									
OTC									
Credit default swaps	34,905	373,993	74,450	483,348	3,108	(2,711)	260,063	1,690	(1,523)
Total return swaps	6,479	3,523	3,651	13,653	769	(1,249)	7,686	747	(1,318)
Subtotal	**41,384**	**377,516**	**78,101**	**497,001**	**3,877**	**(3,960)**	**267,749**	**2,437**	**(2,841)**
Other contracts, consisting of									
OTC									
Precious metals	6,151	2,695	2	8,848	503	(338)	5,594	234	(196)
Other	926	1,260	20	2,206	48	(34)	3,884	26	(24)
Exchange traded									
Futures	1,317	–	–	1,317	8	–	639	–	–
Options	16	–	–	16	1	–	75	1	–
Subtotal	**8,410**	**3,955**	**22**	**12,387**	**560**	**(372)**	**10,192**	**261**	**(220)**
Total	**2,180,055**	**1,814,630**	**1,271,662**	**5,266,347**	**87,906**	**(87,441)**	**4,245,697**	**73,426**	**(74,742)**

The primary derivative financial instruments used include interest rate derivatives, in particular interest rate swaps which are primarily entered into during the course of trading activities by our banking subsidiaries.

The Allianz Group principally uses fair value hedging. Important hedging instruments used by the Banking segment are interest rate swaps and forwards and currency swaps and forwards. Hedging instruments may be implemented for individual transactions (micro hedge) or for a portfolio of similar assets or liabilities (portfolio hedge).

The interest rate swaps used by the Banking segment in fair value hedges of the interest rate risk of certificated and subordinated liabilities had a total net fair value as of December 31, 2005 of € 507 mn (2004: € 707 mn). Thereof, interest rate swaps with a positive fair value of € 537 mn (2004: € 744 mn) are recorded in the Allianz Group's consolidated balance sheet in other assets, and interest rate swaps with a negative fair value of € 30 mn (2004: € 37 mn) are recorded in other liabilities. During the year ended December 31, 2005, the fair value of the interest rate swaps increased by € 43 mn (2004: decrease € 5 mn), whereas the certificated and subordinated liabilities hedged decreased in fair value by € 24 mn (2004: increase € 13 mn), resulting in a net ineffectiveness of the hedge of € 19 mn (2004: € 8 mn) that is recognized in the Allianz Group's consolidated income statement as interest and similar income. For detailed information about certificated and subordinated liabilities, see Note 15 and Note 19, respectively.

The derivative financial instruments used for all fair value hedges of the Allianz Group had a total negative fair value as of December 31, 2005 of € 102 mn (2004: € 282 mn). Ineffectiveness in fair value hedge transactions led to a net realized gain of € 2 mn (2004: loss of € 10 mn) and was classified consistently with the respective hedged item; € 1 mn (2004: € 1 mn) was excluded from the assessment of hedge effectiveness.

During the year ended December 31, 2005, cash flow hedges were used to hedge variable cash flows exposed to interest rate fluctuations. As of December, 31, 2005 the interest rate swaps utilized had a negative fair value of € 68 mn (2004: € 4 mn) other reserves in shareholders' equity increased by € 3 mn (2004: € 0.3 mn). Ineffectiveness of the cash flow hedges led to net realized losses of € 5 mn (2004: € 0.5 mn) in 2004.

As of December 31, 2002, foreign exchange hedging transactions in the form of foreign currency forwards with a total fair value of € 107 mn were outstanding with respect to hedges of currency risks related to a net investment in a foreign entity. This hedging strategy was terminated in the second quarter of 2003. Total unrealized gains of € 182 mn related to this hedging strategy remain in other reserves.

Derivative Financial Instruments Indexed to Allianz Group's shares

The Allianz Group enters into various types of contracts indexed to Allianz Group shares with third-parties, mainly as a hedge of Allianz Group's future obligations under its share based compensation plans. Further, the Allianz Group issued an equity linked loan indexed to Allianz AG's share, for which an embedded derivative has been bifurcated. In addition, in connection with various banking products offered by the Dresdner Bank Group, the Dresdner Bank Group has entered into various types of option contracts indexed to Allianz AG shares and AGF shares.

These contracts that are cash settled are accounted for as financial assets and liabilities held for trading. The contracts that are equity settled are accounted for as equity transactions, with the exception of written put options. The Allianz Group records a liability for the present value of its obligation to purchase the share with an offset to shareholders' equity.

The following table summarizes these option positions:

As of 12/31/2005		Maturity			Settlement		Fair Value		
	Total shares	Up to 1 year	1–5 years	More than 5 years	of which cash settled	of which share settled	of which cash settled € mn	of which share settled € mn	Weighted average strike price €
Derivatives on Allianz AG shares									
Allianz AG activities									
Long call options/warrants	22,518,424	217,704	21,300,720	1,000,000	22,518,424	–	487	–	102
Forward purchase contracts	4,574,891	4,574,891	–	–	4,574,891	–	154	–	95
Equity linked loan	10,700,000	10,700,000	–	–	10,700,000	–	(243)	–	105
Banking activities									
Long call options	24,357,414	12,601,414	11,756,000	–	6,148,170	18,209,244	188	447	112
Long put options	18,495,959	10,426,854	8,069,105	–	4,240,775	14,255,184	38	115	114
Short call options/warrants	23,326,959	11,970,876	11,356,083	–	5,506,227	17,820,732	(127)	(335)	122
Short put options	18,307,643	10,765,911	7,541,732	–	4,627,880	13,679,763	(18)	(63)	97
Derivatives on AGF shares									
Banking activities									
Long call options	540,000	40,000	500,000	–	540,000	–	4	–	89
Long put options	3,000	3,000	–	–	3,000	–	–	–	83
Short call options	599,154	75,000	524,154	–	524,154	75,000	(16)	(3)	6

40 Fair value

The fair value of a financial instrument is defined as the amount for which a financial instrument could be exchanged between two willing parties in the ordinary course of business. If market prices are not available, the fair value is based on estimates using the present value of future cash flows method or another appropriate valuation method. These methods are significantly influenced by the assumptions made, including the discount rate applied and the estimates of future cash flows. Specific financial instruments are discussed below.

The Allianz Group uses the following methods and assumptions to determine fair values:

Cash and cash equivalents The carrying amount corresponds to the fair value due to its short-term nature.

Investments (including financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through income) The fair value of debt securities is based on market prices, provided these are available. If debt securities are not actively traded, their fair value is determined on the basis of valuations by independent data suppliers. The fair value of equity securities is based on their stock-market prices. The carrying amount and the fair value for debt securities and equity securities do not include the fair value of derivative contracts used to hedge the related debt and equity securities.

The fair value of derivative financial instruments is derived from the value of the underlying assets and other market parameters. Exchange-traded derivative financial instruments are valued using the fair-value method and based on publicly quoted market prices. Valuation models established in financial markets (such as present value models or option pricing models) are used to value OTC-traded derivatives. In addition to interest rate curves and volatilities, these models also take into account market and counterparty risks. Fair value represents the capital required to settle in full all the future rights and obligations arising from the financial contract.

Loans and advances to banks and customers The fair value of loans is calculated using the discounted cash flow method. This method uses the effective yield of similar debt instruments. Where there is doubt regarding the repayment of the loan, the anticipated cash flows are discounted using a reasonable discount rate and include a charge for an element of uncertainty in cash flows.

Financial assets and liabilities for unit linked contracts The fair values of financial assets for unit linked contracts were determined using the market value of the underlying investments. Fair values of financial liabilities for unit linked contracts are equal to the fair value of the financial assets for unit linked contracts.

Investment contracts with policyholders Fair values for investment and annuity contracts were determined using the cash surrender values of the policyholders' and contract holders' accounts.

Participation certificates, subordinated liabilities, and certificated liabilities The fair value of bonds and loans payable is estimated using discounted cash flow analyses, using interest rates currently offered for similar loans and other borrowings.

The following table presents the carrying amount and estimated fair value of the Allianz Group's financial instruments:

As of 12/31/	2005		2004	
	Carrying Amount € mn	Fair Value € mn	Carrying Amount € mn	Fair Value € mn
Financial assets				
Securities held-to-maturity	4,826	5,102	5,179	5,387
Securities available-for-sale	266,953	266,953	230,919	230,919
Cash and cash equivalents	31,647	31,647	15,628	15,628
Loans and advances to banks and customers	336,808	338,407	377,223	383,244
Financial assets held for trading	166,184	166,184	194,439	194,439
Financial assets for unit linked contracts	54,661	54,661	41,409	41,409
Financial assets designated at fair value through income	14,162	14,162	4,726	4,726
Derivative financial instruments included in other assets	839	839	969	969
Financial liabilities				
Investment contracts with policyholders	88,884	91,092	59,625	57,327
Liabilities to banks and customers	310,316	310,591	348,484	348,411
Certificated liabilities, participation certificates and subordinated liabilities	73,887	76,454	70,982	72,885
Financial liabilities held for trading	86,392	86,392	102,141	102,141
Financial liabilities for unit linked contracts	54,661	54,661	41,409	41,409
Financial liabilities for puttable equity instruments	3,137	3,137	1,386	1,386
Financial liabilities designated at fair value through income	450	450	201	201
Derivative financial instruments included in other liabilities	909	909	1,254	1,254

41 Related party transactions

Allianz Group companies maintain various types of ordinary course business relations (particularly in the area of insurance, banking and asset management) with related enterprises. In particular, the business relations with associated companies, which are active in the insurance business, take on various forms and may also include special service, computing, reinsurance, cost-sharing and asset management agreements, whose terms are deemed appropriate by management. Similar relationships may exist with pension funds, foundations, joint ventures and companies, which provide services to Allianz Group companies.

Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München ("Munich Re")

As a result of material changes in the relationship between Allianz Group and Munich Re in 2003 and 2004, in particular the significant reduction of the mutual shareholdings to below 10 %, the cancellation of the "Principles of Cooperation" agreement and the termination of mutual board interlocks, we do not longer consider Munich Re as a related party since fiscal 2004.

As Munich Re is one of the biggest reinsurers in the world, the reinsurance relationship between companies of the Allianz Group and Munich Re will continue. All reinsurance and retrocession agreements are a result of the ordinary course business within which Allianz Group companies purchase reinsurance coverage from, among other reinsurers, Munich Re. These reinsurance contracts cover world-wide business within all areas (life and health, as well as property and casualty) and are subject to arms-length conditions. A major part of the reinsurance premiums relates to a quota share agreement for 10.5 % of the gross self-retention of the insurance business of the subsidiaries of the Allianz German Property-Casualty Group via Allianz AG.

In 2003, Allianz Group ceded written premiums of € 2,250 mn to Munich Re Group and assumed written premiums of € 650 mn from companies of the Munich Re Group.

Of the Allianz Group's total third-party reinsurance premiums ceded, approximately 33.9 % were ceded to the Munich Re Group for the year ending December 31, 2003. This amount represents approximately 3.7 % of the Allianz Group's gross premiums written for the year ending December 31, 2003.

Eurohypo

Following the acquisition of Dresdner Bank AG by the Allianz Group, Dresdner Bank's mortgage bank Deutsche Hyp, Rheinische Hypothekenbank AG, the mortgage banking subsidiary of Commerzbank, and Eurohypo, the mortgage banking subsidiary of Deutsche Bank, were merged into a single entity, Eurohypo, on August 1, 2002. As of December 31, 2004, the Allianz Group held an ownership interest of 28.48 % in Eurohypo and accounted for it using the equity method. In November 2005, agreements for a two-step transfer of the 28.48 % participation of Allianz Group in Eurohypo AG to Commerzbank AG were signed. In the first step, on December 15, 2005 Commerzbank AG acquired 7.35 % of the 28.48 % participation of Allianz Group in Eurohypo AG. Commerzbank AG's acquisition of the residual 21.13 % participation will be consummated after the fulfilment of the conditions precedent customary for such kind of transactions, in particular, after obtaining approvals from the relevant antitrust authorities and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin).

One member of the Supervisory Board of Eurohypo is a member of the Management Board of Dresdner Bank AG. As of December 31, 2005, the Allianz Group had loans to and held debt securities available-for-sale issued by Eurohypo of € 11,149 mn in the aggregate. All of such loans were made in the ordinary course of business and are subject to arm's length conditions. As of December 31, 2005, the Allianz Group's carrying value in Eurohypo was € 1,410 mn.

Loans to Members of the Board of Management and the Supervisory Board

In the normal course of business, and subject to applicable legal restrictions, members of the Board of Management and the Supervisory Board may be granted loans by Dresdner Bank AG and other Allianz Group companies. Other than such normal course loans, no loans to board members were outstanding in 2005.

42 Contingent liabilities, commitments, guarantees, and assets pledged and collateral

Litigation

Allianz Group companies are involved in legal, regulatory and arbitration proceedings in Germany and a number of foreign jurisdictions, including the United States, involving claims by and against them, which arise in the ordinary course of their businesses, including in connection with their activities as insurance, banking and asset management subsidiaries, employers, investors and taxpayers. It is not feasible to predict or determine the ultimate outcome of the pending or threatened proceedings. Management does not believe that the outcome of these proceedings, including those discussed below, will have a material adverse effect on the financial position or results of operations of Allianz Group, after consideration of any applicable reserves.

Dresdner Bank AG was one of the named defendants in a consolidated class action complaint, in re Deutsche Telekom Securities Litigation, filed in the United States District Court for the Southern District of New York in May 2001 by purported purchasers of Deutsche Telekom American Depositary Shares (ADSs) in the June 2000 offering. On June 9, 2005, the competent court delivered an order and final judgment approving the stipulation and agreement by and among Deutsche Telekom and the members of the class to settle all claims against a payment of USD 120 mn. The settlement also provides for a complete release of all claims against the underwriters, including Dresdner Bank.

In July 2002, the German Federal Cartel Office (Bundeskartellamt) commenced an investigation against several property-casualty insurance companies in Germany, in connection with alleged coordinated behavior to achieve premium increases in parts of the commercial and industrial insurance business and imposed administrative fines against these German insurance companies, among them Allianz Versicherungs-AG, which received a notice imposing a fine on March 22, 2005. Allianz Versicherungs-AG has appealed this decision.

On November 5, 2001, a lawsuit, Silverstein v. Swiss Re International Business Insurance Company Ltd., was filed in the United States District Court for the Southern District of New York against certain insurers and reinsurers, including a subsidiary of Allianz AG which is now named Allianz Global Risks US Insurance Company. The complaint sought a determination that the terrorist attack of September 11, 2001 on the World Trade Center constituted two separate occurrences under the alleged terms of various coverages. In connection with the terrorist attack of September 11, 2001 we recorded net claims expense of approximately € 1.5 bn in 2001 for the Allianz Group on the basis of one occurrence. On December 6, 2004, a New York jury rendered a verdict that the World Trade Center attack constituted two occurrences under the alleged terms of various coverages. At December 31, 2005, this decision had no adverse impact on the Allianz Group's operating results. Allianz Global Risk U.S. Insurance Co. has appealed this decision. The final implications of this decision for the Allianz Group will not be determined until the completion of further proceedings.

The insolvency administrator of KirchMedia GmbH & Co. KGaA (KirchMedia) made a formal demand on Dresdner Bank AG to compensate the insolvency assets (Insolvenzmasse) of KirchMedia for the loss of a 25 % shareholding in the Spanish television group Telecinco. In June 2005, the insolvency administrator filed an action for a part of the claim. The shareholding had been pledged by subsidiaries of KirchMedia to Dresdner Bank AG as collateral for a loan of € 500 mn from Dresdner Bank to KirchMedia's holding company, TaurusHolding GmbH & Co. KG (or TaurusHolding). Following TaurusHolding's default on the loan in April 2002 and insolvency in June 2002, Dresdner Bank AG acquired through a subsidiary the Telecinco shareholding in a forced auction sale. The insolvency administrator contends that the pledge was created under circumstances that cause it to be invalid or void. We believe that there is no valid basis for the insolvency administrator's demand. At the end of June 2004, the 25 % shareholding in Telecinco was placed within Telecinco's initial public offering.

The insolvency administrator and the major limited partner of Heye KG have filed a complaint claiming damages of approximately € 200 mn from Dresdner Bank, alleging a failure to execute transfer orders despite a purported line of credit. We believe that such claim is without merit.

In January 2006, a putative class action lawsuit was filed against Dresdner Bank AG and some of its subsidiaries by six employees of Dresdner Kleinwort Wasserstein in the United States District Court for the Southern District of New York. The plaintiffs are claiming an amount of USD 1.4 bn alleging gender-based discrimination. We believe that the claims are without merit.

On May 24, 2002, pursuant to a statutory squeeze-out procedure, the general meeting of Dresdner Bank AG resolved to transfer shares from its minority shareholders to Allianz AG as principal shareholder in return for payment of a cash settlement amounting to € 51.50 per share. The amount of the cash settlement was established by Allianz AG on the basis of an expert opinion, and its adequacy was confirmed by a court-appointed auditor. Some of the former minority shareholders applied for a court review of the appropriate amount of the cash settlement in a mediation procedure (Spruchverfahren), which is pending with the district court (Landgericht) of Frankfurt. We believe that a claim to increase the cash settlement does not exist. In the event that the court were to determine a higher amount as an appropriate cash settlement, this would affect all approximately 16 mn shares which were transferred to Allianz AG.

Allianz Global Investors of America L.P. and some of its subsidiaries have been named as defendants in multiple civil US lawsuits commenced as putative class actions and other proceedings related to matters involving market timing and revenue sharing in the mutual fund industry. The outcome of these proceedings can not be predicted at this stage.

Three members of the Fireman's Fund group of companies in the United States, all subsidiaries of Allianz AG, are amongst the roughly 135 defendants named in a class action filed on August 1, 2005 in the United States District Court District of New Jersey, captioned In re Insurance Brokerage Antitrust Litigation, in connection with allegations relating to contingent commissions in the insurance industry. Fireman's Fund has filed a motion to dismiss, and the proceedings are in the preliminary discovery stage. It is not possible to predict potential outcomes or assess any eventual exposure at this point.

In 2005, Allianz Life Insurance Company of North America was named as a defendant in various putative class action lawsuits in Minnesota and California in connection with the marketing and sale of cash bonus annuity products. The lawsuit in Minnesota has been certified as a class action. The complaints allege that the defendant engaged in, among other practices, deceptive trade practices and misleading advertising in connection with the sale of such products, including, with the respect to the Minnesota lawsuit, the violation of the Minnesota Consumer Fraud and Deceptive and Unlawful Trade Practices Act. At this stage of the proceedings, we cannot predict the potential outcome of these lawsuits.

On February 8, 2006, the extraordinary shareholders' meeting of Allianz AG passed a resolution approving the merger of Riunione Adriatica di Sicurtà S.p.A. (RAS) with and into Allianz AG. The merger will become effective upon its registration in the commercial register at the registered office of Allianz AG, which is planned for September 2006. Upon registration of the merger, Allianz AG will adopt the legal form of a European Company (Societas Europaea, or SE). In March 2006, certain shareholders of Allianz AG filed contestation suits against the above-mentioned resolution of the shareholders' meeting. The entry of the merger in the commercial register may only take place once the competent court rejects the lawsuits, or if such lawsuits are withdrawn or if the competent court rules finally and conclusively that the lawsuits do not prevent the entry of the merger in the commercial register (so-called "Freigabeverfahren"). We will initiate such release ruling (Freigabeverfahren) before the competent court.

Other contingencies

Liquiditäts-Konsortialbank GmbH ("LIKO") is a bank founded in 1974 in order to provide funding for German banks which experience liquidity problems. 30 % of LIKO shares are held by Deutsche Bundesbank, while the remaining shares are being held by other German banks and banking associations. The shareholders have provided capital of € 200 mn to fund LIKO; Dresdner Bank AG's participation is € 12.1 mn. Dresdner Bank AG is contingently liable to pay future assessments to LIKO up to € 60.5 mn. In addition, under clause 5(4) of the Articles of Association of LIKO, Dresdner Bank AG is committed to a secondary liability, which arises if other shareholders do not fulfill their commitments to pay their respective future assessments. In all cases of secondary liability, the financial status of the other shareholders involved is sound.

Dresdner Bank AG is a member of the German banks' Joint Fund for Securing Customer Deposits (Joint Fund), which covers liabilities to each respective creditor up to specified amounts. As a member of the Joint Fund, which is itself a shareholder in LIKO, Dresdner Bank AG is liable with the other members of the Joint Fund for additional capital contributions, with the maximum being the amount of Dresdner Bank AG's annual contribution. During the year ended December 31, 2005, the Joint Fund levied a contribution of € 21 mn (2004:€ 28 mn). Under section 5 (10) of the Statutes of the Joint Fund for Securing Customer Deposits, the Allianz Group has undertaken to indemnify the Federal Association of German Banks (Bundesverband deutscher Banken e.V.) for any losses it may incur by reason of measures taken on behalf of any bank in which the Allianz Group owns a majority interest.

Commitments

Loan commitments

The Allianz Group engages in various lending and underwriting related commitments to meet the financing needs of its customers. The following table represents the amounts at risk should customers draw fully on all facilities and then default, excluding the effect of any collateral. Since the majority of these commitments may expire without being drawn upon, the amounts shown may not be representative of actual liquidity requirements for such commitments.

As of 12/31/	2005 € mn	2004 € mn
Underwriting commitments	–	126
Irrevocable loan commitments		
Advances	26,954	31,001
Stand-by facilities	9,496	8,238
Guarantee credits	1,733	1,229
Discount credits	46	65
Mortgage loans/public-sector loans	667	282
Total	**38,896**	**40,941**

Leasing commitments

During the year ended December 31, 2005, the Allianz Group completed the sale of a subsidiary that owned 301 properties, primarily branch offices of the Dresdner Bank Group, to an unrelated party. In addition, the Allianz Group has entered into agreements to lease the properties for an average term of nine years with options to renew for two additional five year terms. The lease agreements are accounted for as operating leases. Therefore, the Allianz Group has recognized gains related to the sale of the properties.

In addition, the Allianz Group occupies space in many other locations under various long-term operating leases and has entered into various operating leases covering the long-term use of data processing equipment and other office equipment. Rental expense for the year ending December 31, 2005, was € 315 mn (2004: € 280 mn; 2003: € 296 mn).

As of December 31, 2005, the future minimum lease payments under non-cancelable operating leases operating lease were as follows:

	Dresdner Bank Group properties € mn	Other € mn	Total € mn
2006	87	376	463
2007	85	236	321
2008	85	214	299
2009	80	200	280
2010	75	188	263
Thereafter	426	831	1,257
Subtotal	**838**	**2,045**	**2,883**
Subleases	–	(66)	(66)
Total	**838**	**1,979**	**2,817**

Purchase obligations

The Allianz Group has commitments to invest in private equity funds totaling € 1,476 mn (2004: € 1,378 mn) as of December 31, 2005. As of December 31, 2005, commitments outstanding to purchase real estate used by third-parties and owned by the Allianz Group used for its own activities amounted to € 145 mn (2004: € 99 mn). As of December 31, 2005, commitments outstanding to purchase items of equipment amounted to € 66 mn (2004: € 100 mn). In addition, as of December 31, 2005, the Allianz Group has other commitments of € 244 mn (2004: € 1,068 mn) referring to maintenance, real estate development, sponsoring and purchase obligations.

Other commitments

Other principal commitments of the Allianz Group include the following:

For Allianz of America Inc., Wilmington, Allianz Group posted a surety declaration for obligations in connection with the acquisition of Allianz Global Investors of America L.P., Delaware ("AGI L.P."). The Allianz Group had originally acquired a 69.5 % interest in AGI L.P., whereby minority interestholders had the option of putting their shares to Allianz of America, Inc. On December 31, 2005, the remaining interest of Pacific Life (the minority interest holder) in AGI L.P. was 2.24 %, resulting in a commitment to Pacific Life amounting to USD 0.4 bn on December 31, 2005.

In December 2002, Protektor Lebensversicherungs-AG ("Protektor") was founded. Protektor is a life insurance company whose role is to protect policyholders of all German life insurers. Protektor intervenes in cases where other attempts to prevent insolvency of a German life insurer have failed. In such cases, Protektor takes over the contract portfolios of the respective company, managing and consolidating them with the goal of subsequently selling these portfolios. All life insurance companies in Germany are obliged to be shareholders of Protektor and thus have to finance a specific amount of the capital needed by Protector in cases of intervention. During the year ended December 31, 2003, Protektor intervened in one case in which Allianz Lebensversicherungs-AG was required to contribute € 24 mn. No intervention was necessary during the years ended December 31, 2004 and December 31, 2005. At December 31, 2005, Allianz Lebensversicherungs-AG's outstanding commitment to Protektor was € 495 mn, what is equal to 10 % of the total amount of the commitment of all German life insurance companies to Protektor.

Pursuant to a reform of the German Insurance Supervision Act (Versicherungsaufsichtsgesetz, VAG), which became effective in December 2004, a mandatory insurance guarantee scheme (Sicherungsfonds) was implemented and exists independent of Protektor. Each member of the scheme is obliged to make a certain annual contribution to the scheme. The exact amount of costs for each member will be calculated according to the provisions of a Federal Regulation which has not been enacted yet. The annual contribution of all members together equals 0.02 % of the sum of their technical provisions (net). The scheme is administered by a public bank, unless its functions and competences will be conferred on a legal entity under Private Law as a private trustee. It is likely that Protektor will become this trustee. The final impact of this new legislation on Protektor is currently unclear and subject to ongoing discussions.

Guarantees

Maximum potential amount of payments by maturity and collateral

	Letters of credit and other financial guarantees	Market-value-guarantees	Idemnification contracts
	€ mn	€ mn	€ mn
Up to 1 year	10,680	–	167
1-2 years	1,989	76	13
3-5 years	1,702	154	1
Over 5 years	1,477	1,569	228
Total	**15,848**	**1,799**	**409**
Collateral	7,154	–	7

Letters of credit and other financial guarantees

The majority of the Allianz Group's letters of credit and other financial guarantees are issued to customers through the normal course of the Allianz Group's Banking segment in return for fee and commission income, which is generally determined based on rates subject to the nominal amount of the guarantees and inherent credit risks. Once a guarantee has been drawn upon, any amount paid by the Allianz Group to third-parties is treated as a loan to the customer, and is, therefore, principally subject to collateral pledged by the customer as specified in the agreement.

Market value guarantees

Market value guarantees represent assurances given to customers of certain mutual funds and fund management agreements, under which initial investment values and/or minimum market performance of such investments are guaranteed at levels as defined under the relevant agreements. The obligation to perform under a market value guarantee is triggered when the market value of such investments does not meet the guaranteed targets at pre-defined dates.

The Allianz Group's Asset Management, in the ordinary course of business, issues market value guarantees in connection with investment trust accounts and mutual funds it manages. The levels of market value guarantees, as well as the maturity dates, differ based on the separate governing agreements of the respective investment trust accounts and mutual funds. As of December 31, 2005, the maximum potential amount of future payments of the market value guarantees was € 1,113 mn, which represents the total value guaranteed under the respective agreements including the obligation that would have been due had the investments matured on that date. The fair value of the investment trust accounts and mutual funds related to these guarantees as of December 31, 2005, was € 2,285 mn.

The Allianz Group's banking operations in France, in the ordinary course of business, issue market value and performance-at-maturity guarantees in connection with mutual funds offered by the Allianz Group's asset management operations in France. The levels of market value and performance-at-maturity guarantees, as well as the maturity dates, differ based on the underlying agreements. In most cases, the same mutual fund offers both a market value guarantee and a performance-at-maturity guarantee. Additionally, the performance-at-maturity guarantees are generally linked to the performance of an equity index or group of equity indexes. As of December 31, 2005, the maximum potential amount of future payments of the market value and performance-at-maturity guarantees was € 686 mn, which represents the total value guaranteed under the respective agreements. The fair value of the mutual funds related to the market guarantees as of December 31, 2005, was approximately € 777 mn. Such funds generally have a duration of five to eight years.

Indemnification contracts

Indemnification contracts are executed by the Allianz Group with various counterparties under existing service, lease or acquisition transactions. Such contracts may also be used to indemnify counterparties under various contingencies, such as changes in laws and regulations or litigation claims.

In connection with the sale of various of the Allianz Group's former private equity investments, subsidiaries of the Allianz Group provided indemnities to the respective buyers in the event certain contractual warranties arise. The terms of the indemnity contracts cover ordinary contractual warranties, environmental costs and any potential tax liabilities the entity incurred while owned by the Allianz Group.

Credit derivatives

Credit derivatives consist of written credit default swaps, which require payment by the Allianz Group in the event of default of debt obligations, as well as written total return swaps, under which the Allianz Group guarantees the performance of the underlying assets. The notional principal amounts and fair values of the Allianz Group's credit derivative positions as of December 31, 2005 are provided in Note 39.

Assets pledged and collateral

The carrying amount of the assets pledged as collateral where the secured party does not have the right by contract or custom to sell or repledge the assets are as follows:

As of 12/31/	2005 € mn	2004 € mn
Investments	3,820	–
Loans and advances to banks	–	6,599
Loans and advances to customers	1,161	6,380
Financial assets carried at fair value through income	16,189	42,500
Total	**21,170**	**55,479**

As of December 31, 2005, the Allianz Group has received collateral with a fair value of € 213,333 mn (2004: € 221,429 mn), respectively, which the Allianz Group has the right to sell or repledge. As of December 31, 2005, € 137,559 mn (2004: € 182,652 mn), respectively, related to collateral that the Allianz Group has received and sold or repledged.

43 Share based compensation plans

Group Equity Incentives Plans

The Group Equity Incentives Plans ("GEI") of the Allianz Group support the orientation of senior management, in particular the Board of Management, toward the long-term increase of the value of the Allianz Group. The GEI include grants of stock appreciation rights and restricted stock units.

Stock appreciation rights

The stock appreciation rights granted to a plan participant obligate the Allianz Group to pay in cash the excess of the market price of an Allianz AG share over the reference price on the exercise date for each stock appreciation right granted. The excess is capped at 150 % of the reference price. The reference price represents the market price of an Allianz AG share on the grant date. The stock appreciation rights vest after two years and expire after seven years. Upon vesting, the stock appreciation rights may be exercised by the plan participant if the following market conditions are attained:

- during their contractual term, the market price of Allianz AG share has outperformed the Dow Jones Europe STOXX Price Index at least once for a period of five consecutive trading days; and
- the Allianz AG market price is in excess of the reference price by at least 20 % on the exercise date.

In addition, upon a change in control of the Allianz Group or the sale of the subsidiary that employs the plan participant, the stock appreciation rights vest immediately.

Upon the expiration date, any unexercised stock appreciation rights that have not been exercised will be exercised automatically if the above market conditions have been attained. The stock appreciation rights are forfeited if the plan participant ceases to be employed by the Allianz Group or if the market conditions are not attained by the expiration date.

A summary of the number and the weighted-average grant date fair value of the nonvested stock appreciation rights are as follows:

	Number	Weighted average grant date fair value €
Nonvested as of 12/31/2002	**1,075,961**	**111.60**
Granted	1,503,247	27.35
Vested	(406,631)	112.62
Forfeited	(65,507)	109.01
Nonvested as of 12/31/2003	**2,107,070**	**51.38**
Granted	1,788,458	30.71
Vested	(588,963)	110.53
Forfeited	(133,554)	40.56
Nonvested as of 12/31/2004	**3,173,011**	**29.21**
Granted	2,176,463	26.69
Vested	(1,398,426)	27.35
Forfeited	(165,998)	29.70
Nonvested as of 12/31/2005	**3,785,050**	**28.42**

As of December 31, 2005, there were 1,130,779 stock appreciation rights, with a reference price of € 65.91, that were granted during the year ended December 31, 2003, exercisable as the vesting and market conditions were met.

As of December 31, 2005, 1,419,884 stock appreciation rights, with a weighted average reference price of € 281.25, that were granted before 2003, were not exercisable as the market conditions were not met.

The stock appreciation rights are accounted for as cash settled plans by the Allianz Group. Therefore, the Allianz Group accrues the fair value of the stock appreciation rights as compensation expense over the vesting period. Upon vesting, any changes in the fair value of the unexercised stock appreciation rights are recognized as compensation expense. During the year ended December 31, 2005, the Allianz Group recognized compensation expense related to the unexercised stock appreciation rights of € 99 mn (2004: € 23 mn; 2003: € 18 mn). During the year ended December 31, 2005, the Allianz Group recognized a deferred tax benefit related to the unexercised stock appreciation rights of € 24 mn (2004: € 6 mn; 2003: € 5 mn). During the year ended December 31, 2005, the total amount paid related to stock appreciation rights exercised was € 11 mn (2004: € 0 mn; 2003: € 0 mn).

As of December 31, 2005, the Allianz Group recorded a liability, in other accrued liabilities, for the unexercised stock appreciation rights of € 160 mn (2004: € 41 mn). Based upon the fair value of the stock appreciation rights as of December 31, 2005, the total compensation expense not yet recognized related to the nonvested stock appreciation rights, due to vesting requirements was € 87 mn. The total compensation expense not yet recognized related to the nonvested stock appreciation rights is expected to be recognized over a weighted-average period of 1 year.

Restricted stock units

The restricted stock units granted to a plan participant obligate the Allianz Group to pay in cash the average market price of an Allianz AG share in the ten trading days preceding the vesting date or issue one Allianz AG share, or other equivalent equity instrument, for each restricted stock unit granted. The restricted stock units vest after five years. The Allianz Group will exercise the restricted stock units on the first stock exchange day after their vesting date. On the exercise date, the Allianz Group can choose the settlement method for each restricted stock unit.

In addition, upon a change in control of the Allianz Group or the sale of the subsidiary that employs the plan participant, the restricted stock units vest immediately.

A summary of the number and the weighted-average grant date fair value of the nonvested restricted stock units are as follows:

	Number	Weighted average grant date fair value €
Nonvested as of 12/31/2003	–	–
Granted	540,057	65.91
Forfeited	(747)	65.91
Nonvested as of 12/31/2003	**539,310**	**65.91**
Granted	749,030	77.02
Vested	(4,123)	73.54
Forfeited	(39,805)	69.74
Nonvested as of 12/31/2004	**1,244,412**	**72.45**
Granted	1,023,600	85.28
Forfeited	(75,859)	75.02
Nonvested as of 12/31/2005	**2,192,153**	**78.35**

The restricted stock units are accounted for as cash settled plans as the Allianz Group intends to settle in cash. Therefore, the Allianz Group accrues the fair value of the restricted stock units as compensation expense over the vesting period. During the year ended December 31, 2005, the Allianz Group recognized compensation expense related to the nonvested restricted stock units of € 49 mn (2004: € 18 mn; 2003: € 6 mn). During the year ended December 31, 2005, the Allianz Group recognized a deferred tax benefit related to the nonvested restricted stock units of € 14 mn (2004: € 5 mn; 2003: € 2 mn). During the year ended December 31, 2005, the total amount paid related to restricted stock units exercised was € 0 mn (2004: € 0.4 mn; 2003: € 0 mn).

As of December 31, 2005, the Allianz Group recorded a liability, in other accrued liabilities, of € 72 mn (2004: € 24 mn) for the nonvested restricted stock units. Based upon the fair value of the restricted stock units as of December 31, 2005, the total compensation expense not yet recognized related to the nonvested restricted stock units, due to vesting requirements, was € 193 mn. The total compensation expense not yet recognized related to the nonvested restricted stock units is expected to be recognized over a weighted-average period of 4 years.

Share based compensation plans of subsidiaries of the Allianz Group

PIMCO LLC Class B Unit Purchase Plan

When acquiring AGI L.P. during the year ended December 31, 2000, Allianz AG caused Pacific Investment Management Company LLC ("PIMCO LLC") to enter into a Class B Purchase Plan (the "Class B Plan") for the benefit of members of the management of PIMCO LLC. The plan participants of the Class B Plan have rights to a 15 % priority claim on the adjusted operating profits of PIMCO LLC.

The Class B equity units issued under the Class B Plan vest over three to five years and are subject to repurchase by AGI L.P. upon death, disability or termination of the participant prior to vesting. As of January 1, 2005, AGI L.P. has the right to repurchase, and the participants have the right to cause AGI L.P. to repurchase, a portion of the vested Class B equity units each year. On the repurchase date, the repurchase price will be based upon the determined value of the Class B equity units being repurchased. As the Class B equity units are puttable by the plan participants, the Class B Plan is accounted for as a cash settled plan.

A summary of the number and the weighted-average grant date fair value of the outstanding Class B equity units are as follows:

	Number	Weighted average grant date fair value €
Outstanding as of 12/31/2002	**84,625**	**5,892**
Granted	35,375	6,755
Forfeited	–	–
Outstanding as of 12/31/2003	**120,000**	**5,461**
Granted	30,000	8,480
Forfeited	(4,695)	5,169
Outstanding as of 12/31/2004	**145,305**	**6,004**
Granted	4,695	9,733
Called	(5,427)	3,998
Forfeited	(480)	7,823
Outstanding as of 12/31/2005	**144,093**	**5,900**

The Class B equity units are accounted for as cash settled plans. Therefore, the Allianz Group accrues the fair value of the Class B equity units as compensation expense over the vesting period. Upon vesting, any changes in the fair value of the Class B equity units are recognized as compensation expense. During the year ended December 31, 2005, the Allianz Group recognized compensation expense related to the Class B equity units of € 536 mn (2004: € 399 mn; 2003: € 357 mn). In addition, the Allianz Group recognized expense related to the priority claim on the adjusted operating profits of PIMCO LLC of € 141 mn (2004: € 101 mn; 2003: € 91 mn). During the year ended December 31, 2005, the Allianz Group recognized a deferred tax benefit related to the Class B equity units of € 219 mn (2004: € 163 mn; 2003: € 146 mn). During the year ended December 31, 2005, the Allianz Group called 5,427 Class B equity units. The total amount paid related to the call of the Class B equity units was € 71 mn.

The total recognized compensation expense for Class B equity units that are outstanding is recorded as a liability in other accrued liabilities. As of December 31, 2005, the Allianz Group recorded a liability for the Class B equity units of € 1,473 mn (2004: € 816 mn). As of December 31, 2005, the total compensation expense not yet recognized related to the nonvested Class B equity units was € 1,191 mn (2004: € 1,331 mn). The total compensation expense not yet recognized related to the Class B equity units is expected to be recognized over the remaining vesting period of up to 5 years.

Dresdner Kleinwort Wasserstein

The Allianz Group awarded eligible employees of Dresdner Kleinwort Wasserstein ("DrKW") a promise to deliver Allianz AG shares on the vesting dates (hereafter "nonvested shares"). In jurisdictions in which regulatory restrictions do not allow for delivery of shares where the awards are settled in cash. The awards vest in three installments in each of the three years following the initial award. Each year, immediately prior to vesting, the number of unvested shares is adjusted higher or lower according to the performance adjustment.

A summary of the number and the weighted-average grant date fair value of the nonvested share units are as follows:

	Number	Weighted average grant date fair value €
Nonvested as of 12/31/2003	–	–
Granted	1,161,614	105.62
Forfeited	(82,261)	105.62
Nonvested as of 12/31/2004	**1,079,353**	**105.62**
Granted	1,440,399	92.81
Vested	(333,517)	105.58
Forfeited	(177,588)	101.43
Nonvested as of 12/31/2005	**2,008,647**	**96.81**

The shares settled by delivery of Allianz AG shares are accounted for as equity settled plans by the Allianz Group. Therefore, the Allianz Group measures the total compensation expense to be recognized for the equity settled shares based upon their fair value as of the grant date. The total compensation expense is recognized over the three year vesting period. The shares settled in cash are accounted for as cash settled plans by the Allianz Group. Therefore, the Allianz Group accrues the fair value of the cash settled shares as compensation expense over the vesting period. During the year ended December 31, 2005, the Allianz Group recognized compensation expense related to the nonvested shares of € 102 mn (2004: € 64 mn). During the year ended December 31, 2005, the Allianz Group did not recognize a deferred tax benefit related to the nonvested shares as the expenses are not tax deductible. During the year ended December 31, 2005, the total amount paid related to cash settled shares vested was € 2 mn. During the year ended December 31, 2005, the total fair value of equity settled shares that vested was € 33 mn.

As of December 31, 2005, the Allianz Group recorded a liability for the nonvested cash settled shares of € 6 mn (2004: € 4 mn). As of December 31, 2005, the total compensation expense not yet recognized related to the nonvested shares was € 74 mn (2004: € 49 mn). The total compensation expense not yet recognized related to the nonvested shares is expected to be recognized over a weighted-average period of 1 year.

AGF Group Share Option Plan

The AGF Group has awarded share options on AGF shares to eligible AGF Group executives and managers of subsidiaries, as well as to certain employees, whose performance justified grants. The primary objective of the share option plan is to encourage the retention of key personnel of AGF Group and to link their compensation to the performance of AGF Group. These share options are independent of the remuneration plans of the Allianz Group. Share options granted have an exercise price of at least 85 % of the market price on the day of grant. The maximum term for the share option granted is eight years.

The following table provides the weighted-average grant date fair value of options and the assumptions used in calculating their fair value by application of the Black-Scholes option pricing model for options granted.

For the years ended 12/31/		2005	2004	2003
Weighted-average fair value	€	5.05	14.38	12.04
Weighted-average assumptions				
Risk free interest rate	%	2.7	3.5	4.0
Expected volatility	%	15.0	30.0	30.0
Dividend yield	%	4.0	3.5	2.5

A summary of the number, weighted-average exercise price, weighted-average remaining contractual term and aggregate intrinsic value of the options outstanding and exercisable are as follows:

	Number*)	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
		€		€ mn
Outstanding as of 12/31/2002	**4,930,328**	**43.80**		
Granted	1,131,788	42.12		
Exercised	(81,028)	23.34		
Forfeited	(8,687)	23.39		
Outstanding as of 12/31/2003	**5,972,401**	**43.79**		
Granted	1,130,656	50.86		
Exercised	(584,128)	36.94		
Forfeited	(11,952)	23.05		
Outstanding as of 12/31/2004	**6,506,977**	**45.67**		
Granted	1,398,000	78.24		
Exercised	(2,131,928)	46.47		
Forfeited	(352,959)	42.29		
Outstanding as of 12/31/2005	**5,420,090**	**53.97**	**6**	**161**
Exercisable as of 12/31/2005	**4,023,590**	**45.55**	**5**	**153**

*) Number and weighted-average exercise price were adjusted as in 2005 AGF Group increased its capital.

During the year ended December 31, 2005, the total intrinsic value of share options exercised was € 50 mn (2004: € 9 mn; 2003: € 2 mn). During the year ended December 31, 2005, the AGF Group recorded compensation expense related to the share options of € 14 mn (2004: € 16 mn; 2003: € 15 mn). During the year ended December 31, 2005, the Allianz Group did not recognize a deferred tax benefit related to the share options as the share compensation expense is not tax deductible in France. As of December 31, 2005, the total compensation expense not yet recognized related to the share options was € 5 mn (2004: € 12 mn). The total compensation expense not yet recognized related to the share options is expected to be recognized over a weighted-average period of 1 year.

RAS Group share option plan

The RAS Group has awarded eligible members of senior management with share purchase options on RAS ordinary shares. The share options have a vesting period of 18 months to 2 years and a term of 6.5 to 7 years.The share options may be exercised at any time after the vesting period and before expiration, provided that:

- on the date of exercise, the RAS share price is at least 20 % higher than the average share price in January of the grant year (for share options granted during the year ended December 31, 2001, the hurdle is 10 %), and
- the performance of the RAS share in the year of grant exceeds the Milan Insurance Index in the same year.

The following table provides the weighted-average grant date fair value and the assumptions used in calculating their fair value by application of the Black-Scholes option pricing model for options granted:

For the years ended 12/31/		2005	2004	2003
Weighted-average fair value	€	1.91	1.51	4.68
Weighted-average assumptions				
Risk free interest rate	%	3.4	3.3	3.1
Expected volatility	%	18.0	17.0	13.5
Dividend yield	%	7.1	6.8	6.3

A summary of the number, weighted-average exercise price, weighted-average remaining contractual term and aggregate intrinsic value of the options outstanding and exercisable are as follows:

	Number	Weighted average exercise price €	Weighted average remaining contractual term	Aggregate intrinsic value € mn
Outstanding as of 1/1/2005	**2,261,000**	**13.55**		
Granted	1,200,000	17.09		
Exercised	(2,041,000)	13.47		
Forfeited	(467,000)	15.78		
Outstanding as of 12/31/2005	**953,000**	**17.09**	**6**	**3**
Exercisable as of 12/31/2005	–	–	–	–

During the year ended December 31, 2005, the total intrinsic value of share option exercised was € 10 mn. During the year ended December 31, 2005, the RAS Group recorded compensation expense of € 1 mn (2004: € 3 mn; 2003: € 3 mn) related to share options. During the year ended December 31, 2005, the Allianz Group did not recognize a deferred tax benefit related to the share options as the expenses are not tax deductible in Italy. As of December 31, 2005, the total compensation expense not yet recognized related to the share options was € 1 mn (2004: € 1 mn). The total compensation expense not yet recognized related to the share options is expected to be recognized over a weighted-average period of 2 years.

Share purchase plans

The Allianz Group offers Allianz AG shares to qualified employees at favorable conditions. The shares have a minimum holding period of one year to five years. During the year ended December 31, 2005, the number of shares sold to employees under these plans was 1,144,196 (2004: 1,051,191; 2003: 944,625). During the year ended December 31, 2005, the Allianz Group recognized compensation expense, the difference between the market price and the offer price of the shares purchased by employees, of € 24 mn (2004: € 18 mn; 2003: € 16 mn).

In addition, during the years ended December 31, 2004 and 2003, the AGF Group offered AGF shares to qualified employees in France at favorable conditions. The shares have a minimum holding period of five years. During the years ended December 31, 2004 and 2003, the number of shares sold to employees under this plan was 787,675 and 1,214,304. During the years ended December 31, 2004 and 2003, the compensation expense recorded was € 8 mn and € 11 mn.

Other share option and shareholding plans

The Allianz Group has other local share-based compensation plans, including share option and employee share purchase plans, none of which, individually or in the aggregate, are material to the consolidated financial statements. During the year ending December 31, 2005, the total expense, in the aggregate, recorded for these plans was € 4 mn (2004: € 3 mn; 2003: € 5 mn).

44 Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share reflects the effect of potentially dilutive securities. As of December 31, 2005, 1,175,554 (2004: 1,175,554) participation certificates issued by Allianz AG were outstanding which can potentially be converted to 1,469,443 (2004: 1,469,443) Allianz shares (on a weighted basis: 1,469,443 (2004: 1,469,443) Allianz AG shares) and therefore have a dilutive effect.

The Allianz Group's share compensation plans with potentially dilutive securities of 493,229 (2004: 729,596) are included in the calculation of diluted earnings per share for the year ended December 31, 2005.

Furthermore 807,859 common shares from trading in derivatives on own shares have been included in the calculation of diluted earnings per share for the year ended December 31, 2005.

Reconciliation of basic and diluted earnings per share

For the years ended 12/31/		2005	2004	2003
Numerator for basic earnings per share (net income)	€ mn	4,380	2,266	2,691
Effect of dilutive securities	€ mn	–	3	3
Numerator for diluted earnings per share (net income after assumed conversion)	€ mn	**4,380**	**2,269**	**2,694**
Denominator for basic earnings per share (weighted-average shares) – not including treasury shares held by the Allianz Group		389,756,350	365,930,584	338,201,031
Potential dilutive securities		3,513,710	2,199,039	1,585,044
Denominator for diluted earnings per share (adjusted weighted-average after assumed conversion)		**393,270,060**	**368,129,623**	**339,786,075**
Basic earnings per share	€	11.24	6.19	7.96
Diluted earnings per share	€	11.14	6.16	7.93

During the year ended December 31, 2005, the weighted average number of shares does not include 2,389,193 (2004: 18,915,201; 2003: 18,766,949) treasury shares held by the Allianz Group. The potential settlement of the equity-linked loan has not been included in the calculation of diluted earnings per share as it is anti-dilutive.

The impact of the recently adopted principles described in Note 3, on basic and diluted earnings per share is as follows:

	2004		2003	
	Basic €	Diluted €	Basic €	Diluted €
Earnings per share, as previously reported	6.01	5.98	5.59	5.57
IAS 32 and IAS 39 revised				
Impairments	0.59	0.59	2.67	2.65
Financial assets and liabilities designated at fair value	(0.05)	(0.05)	0.04	0.04
IFRS 4	(0.34)	(0.34)	(0.36)	(0.35)
IFRS 2	(0.02)	(0.02)	0.02	0.02
Earnings per share	**6.19**	**6.16**	**7.96**	**7.93**

45 Other information

Employee information

As of December 31, 2005, the Allianz Group employed a total of 177,625 people (2004: 176,501*); 2003: 173,750). Of those people, 72,195 (2004: 75,667; 2003: 82,245) were employed in Germany and 105,430 (2004: 100,834*); 2003: 91,505) abroad. During the year ended December 31, 2005, the number of employees undergoing training decreased by 883 to 4,023. The average total number of employees for the year ended December 31, 2005 was 177,063 people.

*) Increase of 14,321 reflects changes in scope of consolidation in 2004

Personnel expenses

For the years ended 12/31/	2005 € mn	2004 € mn	2003 € mn
Salaries and wages	9,582	9,277	9,108
Social security contributions and employee assistance	1,628	1,466	1,548
Expenses for pensions and other post-retirement benefits	684	625	634
Total	**11,894**	**11,368**	**11,290**

Principal accountant fees and services

For a summary of fees billed by the Allianz Group's principal auditors, see page 100. The information provided there is considered part of these consolidated financial statements.

Compensation for the Board of Management

As of December 31, 2005, the Board of Management had 10 (2004: 10) members.

Total compensation of the Board of Management for the year ended December 31, 2005 amounts to € 20.0*) mn (2004: € 25.6 mn). For 2005 an expense was recorded for the group equity incentives granted to the Board of Management for 2005 amounting to € 19.7 mn (2004: € 5.4 mn). Compensation to former members of the Board of Management and their beneficiaries totaled € 4.3 mn (2004: € 4.2 mn).

Pension obligations to former members of the Board of Management and their beneficiaries are accrued in the amount of € 38.9 mn (2004: € 36.5 mn).

Total compensation to the Supervisory Board amounts to € 2.6 mn (2004: € 2.2 mn).

Board of Management and Supervisory Board compensation by individual is included in the Corporate Governance section of the Annual Report. The information provided there is considered part of these consolidated financial statements.

*) Includes € 0.3 mn from previous years effect

46 Subsequent events

Allianz-RAS Merger / European Company (SE)

On February 3, 2006, the extraordinary shareholders' meetings of holders of RAS ordinary shares and holders of RAS saving shares agreed to the merger plan regarding the merger of RAS S.p.A. into Allianz AG. On February 8, 2006 the extraordinary shareholders' meeting of Allianz AG agreed also to the merger plan. Against the resolution of the shareholders' meeting of Allianz AG regarding the agreements to the merger plan and the capital increase to implement the merger, contestation suits have been filed. We are confident that we can achieve the entry of this merger in a release ruling (so called "Freigabeverfahren"). In the course of the merger, Allianz AG will be converted into a European Company (Societas Europaea or "SE"). Further details are provided on page 75 of this annual report.

Subordinated perpetual bond

In March 2006, Allianz Finance II B.V., a wholly owned subsidiary of the Allianz Group, issued € 800 mn of subordinated perpetual bonds, guaranteed by Allianz AG, with a coupon rate of 5.375 %. Allianz Finance II B.V. has the right to call the bonds after 5 years.

Restructuring of the German Business

In February 2006, in connection with the reorganization of the insurance business in Germany, the Allianz Group announced to its employees that in the course of tightening the organisational structure a reduction of 700 positions in the area of the sales support and distribution divisions has been identified. The reorganization of the insurance business in Germany is described in more detail on page 76 of this annual report.

Industrial and Commercial Bank of China Ltd. (ICBC)

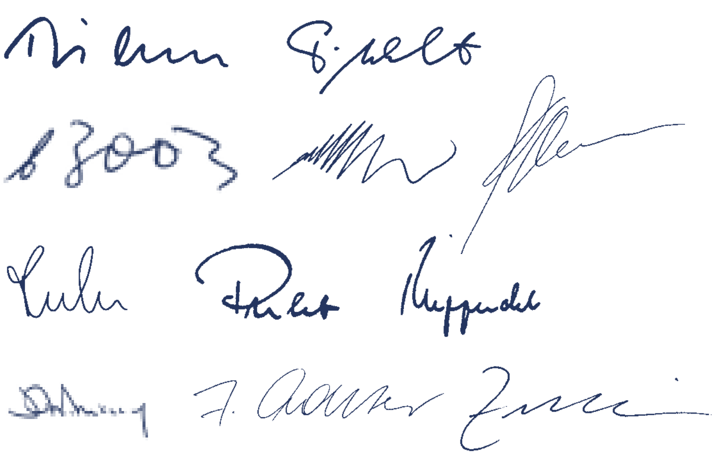
On January 27, 2006, Allianz Group signed a contract for the acquisition of about 2.5 % interest in Industrial and Commercial Bank of China Ltd. (ICBC) for approximately € 825 mn. The acquisition will be executed by Dresdner Bank Luxemburg S.A.

Contributions to defined benefit plans

During January 2006, the Allianz Group contributed € 1,876 mn to the defined benefit plans of the Dresdner Bank Group.

Munich, February 22, 2006

Allianz Aktiengesellschaft
The Board of Management



Selected subsidiaries and other holdings

OPERATING SUBSIDIARIES – GERMANY	Equity € mn	% owned[*)]
AGIS Allianz Dresdner Informationssysteme GmbH, Munich	208	100.0
Allianz Capital Partners GmbH, Munich	550	100.0
Allianz Dresdner Bauspar AG, Bad Vilbel	6	100.0
Allianz Global Investors Advisory GmbH, Frankfurt am Main	3	100.0
Allianz Global Investors AG, Munich	3,036	100.0
Allianz Global Risks Rückversicherungs-AG, Munich	351	100.0
Allianz Immobilien GmbH, Stuttgart	5	100.0
Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart	1,396	91.0
Allianz Marine & Aviation Versicherungs-AG, Hamburg	122	100.0
Allianz Pensionskasse AG, Stuttgart	116	100.0
Allianz Private Equity Partners GmbH, Munich	0.04	100.0
Allianz Private Krankenversicherungs-Aktiengesellschaft, Munich	335	100.0
Allianz ProzessFinanz GmbH, Munich	0.4	100.0
Allianz Versicherungs-Aktiengesellschaft, Munich	2,386	100.0
Allianz Zentrum für Technik GmbH, Munich	0.2	100.0
Bayerische Versicherungsbank AG, Munich (was merged in January 2006 retroactively effective October 1, 2005 into Allianz Versicherungs-Aktiengesellschaft, Munich)	275	100.0
DEGI Deutsche Gesellschaft für Immobilienfonds mbH, Frankfurt am Main	124	94.0
Deutsche Lebensversicherungs-AG, Berlin	40	100.0
Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt am Main	115	100.0
Dresdner Bank AG, Frankfurt am Main	7,533	100.0
dresdner bank investment management Kapitalanlagegesellschaft mbH, Frankfurt am Main	24	100.0
Euler Hermes Kreditversicherungs-AG, Hamburg	161	100.0
Frankfurter Versicherungs-AG, Frankfurt am Main (was merged in January 2006 retroactively effective October 1, 2005 into Allianz Versicherungs-Aktiengesellschaft, Munich)	299	100.0
Münchner und Magdeburger Agrarversicherung AG, Munich	5	58.5
Oldenburgische Landesbank AG, Oldenburg	94	89.4
Reuschel & Co. Kommanditgesellschaft, Munich	234	97.5
Vereinte Spezial Krankenversicherung AG, Munich	4	100.0
Vereinte Spezial Versicherung AG, Munich	45	100.0

[*)] Percentage includes equity participations held by dependent enterprises in full, even if the Allianz Group's share in the dependent enterprise is under 100 %.

OPERATING SUBSIDIARIES – OTHER COUNTRIES	Equity € mn	% owned [1]
Adriática de Seguros C. A., Caracas	20	97.0
AGF Allianz Argentina Compania de Seguros Generales S. A., Buenos Aires	23	100.0
AGF Asset Management S. A., Paris	66	99.9
AGF Belgium Insurance S. A., Brussels	209	100.0
AGF Brasil Seguros S. A., Sao Paulo	107	72.5
AGF La Lilloise S. A., Paris	57	100.0
Alba Allgemeine Versicherungs-Gesellschaft, Basel	31	100.0
Allianz Australia Limited, Sydney	992	100.0
Allianz Bulgaria Insurance and Reinsurance Company Ltd., Sofia	22	78.0
Allianz Bulgaria Life Insurance Company Ltd., Sofia	9	99.0
Allianz Compañía de Seguros y Reaseguros S. A., Barcelona	504	99.9
Allianz Cornhill Insurance plc., Guildford	1,266	98.0 [2]
Allianz Dazhong Life Insurance Company Ltd., Shanghai	6	51.0
Allianz Egypt Insurance Company S. A. E., Cairo	12	85.0
Allianz Egypt Life Company S. A. E., Cairo	10	96.0
Allianz Elementar Lebensversicherungs-Aktiengesellschaft, Vienna	57	100.0
Allianz Elementar Versicherungs-Aktiengesellschaft, Vienna	393	100.0
Allianz Europe Ltd., Amsterdam	451	100.0
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	7	100.0
Allianz Generales du Laos Ltd., Laos	4	51.0
Allianz General Insurance Company S. A., Athens	27	100.0
Allianz General Insurance Malaysia Berhad p.l.c., Kuala Lumpur	68	98.7
Allianz Global Investors Distributors LLC, Stamford	36	100.0
Allianz Global Investors Hong Kong Ltd., Hong Kong	47	100.0
Allianz Global Investors Ireland Ltd., Dublin	6	100.0
Allianz Global Investors Korea Limited, Seoul	22	100.0
Allianz Global Investors Luxembourg S. A., Luxembourg	67	100.0
Allianz Global Investors of America L. P., Delaware	806	97.0
Allianz Global Investors Taiwan (SITE) Ltd., Taipeh	10	100.0
Allianz Global Risks US Insurance Company, Burbank	4,199	100.0
Allianz Hungária Biztosító Rt., Budapest	150	100.0
Allianz Insurance (Hong Kong) Ltd., Hong Kong	8	100.0
Allianz Insurance Company of Singapore Pte. Ltd., Singapore	16	100.0
Allianz Irish Life Holdings p.l.c., Dublin	362	66.4
Allianz Life Insurance Co. Ltd., Seoul	422	100.0
Allianz Life Insurance Company of North America, Minneapolis	2,802	100.0
Allianz Life Insurance Company S. A., Athens	21	100.0
Allianz Life Insurance Malaysia Berhad p.l.c., Kuala Lumpur	20	100.0
Allianz Marine & Aviation (France), Paris	129	100.0
Allianz México S. A. Compañía de Seguros, Mexico-City	83	100.0
Allianz Nederland Levensverzekering N.V., Utrecht	263	100.0
Allianz Nederland Schadeverzekering N.V., Rotterdam	384	100.0
Allianz of America Inc., Wilmington	9,468	100.0
Allianz poistóvna a.s., Prague	92	100.0

[1] Percentage includes equity participations held by dependent enterprises in full, even if the Allianz Group's share in the dependent enterprise is under 100 %.
[2] 99.99 % of the voting share capital.

OPERATING SUBSIDIARIES – OTHER COUNTRIES	Equity € mn	% owned [1]
Allianz President Life Insurance Co. Ltd., Taipeh	57	50.0 [2]
Allianz Re Dublin Ltd., Dublin	14	100.0
Allianz Risk Transfer AG, Zurich	390	100.0
Allianz Slovenská poist'ovna a. s., Bratislava	267	84.6
ALLIANZ SUBALPINA S. p. A. SOCIETÀ DI ASSICURAZIONI E RIASSICURAZIONI, Turin	282	98.0
Allianz Suisse Lebensversicherungs-Gesellschaft, Zurich	377	100
Allianz Suisse Versicherungs-Gesellschaft, Zurich	612	100.0
Allianz Tiriac Insurance S. A., Bucharest	45	51.6
Allianz Underwriters Insurance Company, Burbank	41	100.0
Allianz (UK) Limited, Guildford	1,406	100.0
Allianz Worldwide Care Ltd., Dublin	18	100.0
Allianz Zagreb d.d., Zagreb	14	80.1
Assurances Générales de France, Paris	7,022	61.0
Assurances Générales de France IART S. A., Paris	2,291	100.0
Assurances Générales de France Vie S. A., Paris	2,703	100.0
Assurances Générales du Laos Ltd., Laos	4	51.0
Banque AGF S. A., Paris	358	100.0
Colseguros Generales S. A., Bogota	40	100.0
Commercial Bank Allianz Bulgaria Ltd., Sofia	21	99.6
Compagnie d'Assurance de Protection Juridique S. A., Zug	11	100.0
Companhia de Seguros Allianz Portugal S. A., Lissabon	158	64.8
Dresdner Bank Luxemburg S. A., Luxembourg	160	100.0
Dresdner Bank (Schweiz) AG, Zurich	22	99.8
Dresdner Kleinwort Wasserstein (Japan) Limited, Hong Kong	115	100.0
Dresdner Kleinwort Wasserstein (South East Asia) Ltd., Singapore	186	100.0
ELVIA Reiseversicherungs-Gesellschaft AG, Zurich	135	100.0
Euler Hermes Crédito Compañía de Seguros y Reaseguros, S. A., Madrid	8	100.0
EULER HERMES SFAC. S. A., Paris	312	100.0
Eurovida, S. A. Compañía de Seguros y Reaseguros, Madrid	42	51.0
Fireman's Fund Insurance Company, Novato	2,994	100.0
Four Seasons (JDM) Ltd., Wilmslow (former: Four Seasons Health Care Ltd., Wilmslow)	184	100.0
GENIALLOYD S. p. A., Milan	56	100.0
Insurance Joint Stock Company „Allianz", Moscow	7	100.0
Lloyd Adriatico S. p. A., Triest	935	99.7
Mondial Assistance S. A. S., Paris Cedex	44	100.0
NFJ Investment Group LP, Dallas	3	100.0
Nicholas Applegate Capital Management LLC, Delaware	17	100.0
Oppenheimer Capital LLC, Delaware	5	100.0
Pacific Investment Management Company LLC, Delaware	196	85.0
Privatinvest AG, Salzburg	40	74.0
PT Asuransi Allianz Life Indonesia p.l.c, Jakarta	13	99.8
PT Asuransi Allianz Utama Indonesia Ltd., Jakarta	15	75.4
RAS ASSET MANAGEMENT Socièta di gestione del risparmio S. p. A., Milan	42	100.0
RAS Tutela Giudiziaria S. p. A., Milan	11	100.0
RB Vita S. p. A., Milan	236	100.0

[1] Percentage includes equity participations held by dependent enterprises in full, even if the Allianz Group's share in the dependent enterprise is under 100 %.
[2] Controlled by the Allianz Group.

OPERATING SUBSIDIARIES – OTHER COUNTRIES	Equity € mn	% owned *)
RCM Capital Management LLC, San Francisco	25	100.0
RCM (UK) Ltd., London	27	100.0
Riunione Adriatica di Sicurtà S. p. A., Milan	4,862	76.3
TU Allianz Polska S. A., Warsaw	56	100.0
TU Allianz Zycie Polska S. A., Warsaw	13	100.0
Veer Palthe Voûte (VPV) N.V., Gouda	14	100.0
Wm. H McGee & Co. Inc., New York	2	100.0

*) Percentage includes equity participations held by dependent enterprises in full, even if the Allianz Group's share in the dependent enterprise is under 100 %.

ASSOCIATED ENTERPRISES[1]	Equity € mn	% owned [2]
Eurohypo AG, Frankfurt am Main[2]	5,998	21.1
AGF Eurocash	3,147	20.5
Deutsche Schiffsbank AG, Bremen und Hamburg	445	40.0
Objective Japon	251	19.9 [4]
Oddo, Paris	222	27.0
Oddo Generation C	173	36.3
Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald	155	40.5
Cofitem Cofimur, Paris	148	21.8
Koç Allianz Sigorta T.A.S., Istanbul	138	37.1
Captain Holding S.à.r.l., Luxembourg	128	46.0
Depfa Holding III, Frankfurt	115	22.4
Oddo Euro Index AC	110	22.0
Oddo Capital Europe	101	19.7[4]
PHRV (Paris Hotels Roissy Vaugirard), Paris	86	24.9
Russian People's Insurance Society "Rosno", Moskow	78	47.4
Rendite Partner Gesellschaft für Vermögensverwaltung-mbH, Frankfurt am Main	77	33.3
Koç Allianz Hayat ve Emeklilik A.S. (Koç Allianz Life and Pension Company), Istanbul	57	38.0
Ayudhya Allianz C.P. Life Public Company Limited, Bangkok	52	25.0
Allianz Bajaj Life Insurance Company Limited, Pune (Indien)	43	26.0
EUROPENSIONES S. A. - Entidad Gestora de Fondos de Pensiones, Madrid	37	49.0
Compania de Seguro de Creditos S. A. (Cosec), Portugal	34	41.4
Dresdner-Cetelem Bank GmbH, Munich	22	49.9

[1] Associated enterprises are all those enterprises other than affiliated enterprises or joint ventures, in which the Allianz Group has an interest of between 20 % and 50 % regardless of whether a significant influence is exercised or not. The presented associated enterprises represent 90 % of total carrying amount of investments in associated enterprises.

[2] Including shares held by dependent subsidiaries.

[3] Included in assets held for sale in the consolidated financial statements.

[4] Significant influence

OTHER SELECTED HOLDINGS IN LISTED COMPANIES[1]	Market value € mn	owned[2] %	Group equity € mn	Net Profit € mn	Balance sheet date
Banco Popular Español S. A., Madrid	1,170	9.4	4,946	888	12/31/2004
Banco BPI S. A., Porto	251	8.8	1,242	251	12/31/2005
BASF AG, Ludwigshafen	862	2.6	15,766	1,883	12/31/2004
Bayer AG, Leverkusen	1,122	4.4	12,379	603	12/31/2004
Bayerische Motorenwerke AG, Munich	1,012	4.1	17,517	2,222	12/31/2004
Beiersdorf AG, Hamburg	642	7.3	1,033	296	12/31/2004
BNP Paribas S.A., Paris	528	0.9	45,993	5,852	12/31/2005
E.ON AG, Düsseldorf	1,925	3.2	37,704	4,339	12/31/2004
ENI S.p.A., Roma	848	0.9	28,318	7,274	12/31/2004
GEA Group AG, Bochum	205	10.1	1,686	62	12/31/2004
Heidelberger Druckmaschinen AG, Heidelberg	340	12.2	1,230	55	3/31/2005
KarstadtQuelle AG, Essen	228	8.5	620	(1,631)	12/31/2004
Linde AG, Wiesbaden	906	11.5	4,081	274	12/31/2004
Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich	2,573	9.8	20,737	1,833	12/31/2004
Nestle S.A., Vevey	619	0.6	25,899	4,319	12/31/2004
Rhön-Klinikum AG, Bad Neustadt/Saale	112	6.7	569	76	12/31/2004
RWE AG, Essen	1,297	4.1	11,193	2,137	12/31/2004
Sanofi-Aventis S.A., Paris	727	0.7	35,933	(3,610)	12/31/2004
Schering AG, Berlin	1,253	11.4	3,026	500	12/31/2004
Sequana Capital, Paris	375	14.8	1,779	(64)	12/31/2004
Siemens AG, Munich	802	1.2	27,773	2,248	9/30/2005
Süd Chemie AG, Munich	104	19.0	224	20	12/31/2004
Total S. A., Paris	1,055	1.2	31,889	9,612	12/31/2004
Unicredito Italiano S.p.A., Milan	1,954	3.2	15,165	2,131	12/31/2004
Zagrebacka Banka d.d., Zagreb	217	13.7	750	90	12/31/2004

[1] Market value greater than or equal to € 100 mn and percentage of shares owned greater than or equal to 5 %, or market value greater than or equal to € 500 mn, excluding trading portfolio of banking business.

[2] Including shares held by dependent subsidiaries (including consolidated investment funds).

Auditors’ Report

We have audited the consolidated financial statements prepared by the Allianz Aktiengesellschaft, Munich – comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements – together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (Abs. 1) HGB are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB (Handels-Gesetzbuch, “German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors), and in supplementary compliance with Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (I) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, March 6, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gottfried Wohlmannstetter
Independent Auditor

Dr. Frank Pfaffenzeller
Independent Auditor

Joint Advisory Council of the Allianz Companies

Dr. Henning Schulte-Noelle
Chairman
Chairman of the Supervisory Board Allianz AG

Franz Fehrenbach until April 30, 2005
Chairman of the Board of Management Robert Bosch GmbH

Prof. Dr. Bernd Gottschalk since January 1, 2006
President Verband der Automobilindustrie e. V.

Prof. Dr. Peter Gruss
President Max-Planck-Gesellschaft zur Förderung der Wissenschaften e. V.

Herbert Hainer since January 1, 2006
Chairman of the Board of Management adidas-Salomon AG

Dr. Jürgen Hambrecht
Chairman of the Board of Management BASF Aktiengesellschaft

Prof. Dr. h. c. Hans-Olaf Henkel
President Wissenschaftsgemeinschaft Gottfried Wilhelm Leibniz e. V.

Dr. Jürgen Heraeus
Chairman of the Supervisory Board Heraeus Holding GmbH

Dr. Dieter Hundt
Senator h. c., Managing Partner Allgaier Werke GmbH

Dr. Jürgen F. Kammer
Chairman of the Supervisory Board Süd-Chemie AG

Dr. Hans-Peter Keitel since January 1, 2006
Chairman of the Board of Management Hochtief AG

Dr. Hartmut Mehdorn
Chairman of the Board of Management Deutsche Bahn AG

Dr. h. c. Bernd Pischetsrieder
Chairman of the Board of Management Volkswagen AG

Prof. Dr. Klaus Pohle
Deutsches Rechnungslegungs Standards Committee e. V.

Harry Roels
Chairman of the Board of Management RWE Aktiengesellschaft

Dr. h. c. Rudolf Rupprecht
Former Chairman of the Board of Management MAN Aktiengesellschaft

Dr. h. c. Walter Scheel
Former President of the Federal Republic of Germany

Dr. Jörg Spiekerkötter
Member of the Board of Management Schering AG

Holger Strait
Managing Partner J. G. Niederegger GmbH & Co. KG

Dr. h. c. Heinrich Weiss
Chairman of the Board of Management SMS GmbH

Manfred Wennemer since January 1, 2006
Chairman of the Board of Management Continental AG

International Advisory Board

Dr. Dr. Heinrich von Pierer
Chairman Supervisory Board Siemens AG

Khalifa Al-Kindi since January 1, 2006
Deputy Managing Director
Abu Dhabi Investment Authority

Donald R. Argus AO
Chairman BHP Billiton Group

Belmiro de Azevedo
Presidente Sonae S. G. P. S., S. A.

Antony Burgmans
Chairman Unilever N. V.

Alfonso Cortina de Alcocer
Chairman Repsol YPF Foundation

Dr. Jürgen Hambrecht since August 17, 2005
Chairman of the Board of Management BASF Aktiengesellschaft

Dr. Franz B. Humer until May 3, 2005
Chairman and CEO F. Hoffmann-La Roche Ltd.

Rahmi Koç
Honorary Chairman Board of Directors Koç Holding A. S.

Aarnout Loudon
Chairman Supervisory Board Akzo Nobel N.V.

Minoru Makihara
Senior Corporate Advisor, Former Chairman, President and CEO
Mitsubishi Corporation

Jacques A. Nasser
Senior Partner One Equity Partners LLC

James W. Owens since January 18, 2006
Chairman and CEO Caterpillar inc.

Dr. Marco Tronchetti Provera
Chairman and CEO Pirelli S. p. A.

Dr. Gianfelice Rocca since January 1, 2006
Chairman Techint Group

Anthony Salim
President and CEO Salim Group

Louis Schweitzer
Président Directeur Général de Renault

Peter Sutherland
Chairman BP plc

Lord Vallance of Tummel
Chairman Nations Healthcare Ltd.

Javier Valls Taberner
Presidente del Consejo Banco Popular Español

Lorenzo H. Zambrano since January 25, 2006
Chairman and CEO CEMEX

Mandates of the members of the Supervisory Board

Dr. Henning Schulte-Noelle

Membership in other statutory supervisory boards in Germany
E.ON AG, Siemens AG, ThyssenKrupp AG

Norbert Blix

Membership in other statutory supervisory boards in Germany
Allianz Versorgungskasse VVaG (Deputy Chairman)

Dr. Wulf H. Bernotat

Membership in other statutory supervisory boards in Germany
METRO AG, RAG AG (Chairman)
Membership in Group bodies E.ON Energie AG (Chairman), E.ON Ruhrgas AG (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies E.ON Nordic AB (Chairman), E.ON Sverige AB (Chairman), E.ON UK plc (Chairman), E.ON US Investments Corp. (Chairman)

Dr. Diethart Breipohl

Membership in other statutory supervisory boards in Germany
Continental AG, KarstadtQuelle AG, KM Europa Metal AG (Chairman)

Membership in comparable*) supervisory bodies
Assurances Générales de France, Atos Origin S. A., Crédit Lyonnais, Euler Hermes S. A.

Dr. Gerhard Cromme

Membership in other statutory supervisory boards in Germany
Axel Springer AG, Deutsche Lufthansa AG, E.ON AG, Hochtief AG (until May 10, 2006), Siemens AG, ThyssenKrupp AG (Chairman), Volkswagen AG (until May 3, 2006)

Membership in comparable*) supervisory bodies
BNP PARIBAS S. A., Compagnie de Saint-Gobain S. A., Suez S. A.

Claudia Eggert-Lehmann

Membership in other statutory supervisory boards in Germany
Dresdner Bank AG

Hinrich Feddersen

Membership in other statutory supervisory boards in Germany
Basler Versicherung Beteiligungsgesellschaft mbH (until March 3, 2006), Deutscher Ring Lebensversicherungs-AG (until March 3, 2006)

Franz Fehrenbach since May 4, 2005

Membership in comparable*) supervisory bodies
Membership in Group bodies Robert Bosch Corporation

Peter Haimerl

Membership in other statutory supervisory boards in Germany
Dresdner Bank AG (Deputy Chairman)

Prof. Dr. Rudolf Hickel

Membership in other statutory supervisory boards in Germany
GEWOBA AG Wohnen und Bauen in Bremen, Howaldtswerke Deutsche Werft AG, Salzgitter AG Stahl und Technologie

Dr. Franz B. Humer since May 4, 2005

Membership in other statutory supervisory boards in Germany
Membership in Group bodies Hoffmann-La Roche AG (Chairman), Roche Deutschland Holding GmbH (Chairman), Roche Diagnostics GmbH (Chairman)

Membership in comparable*) supervisory bodies
DIAGEO plc London
Membership in Group bodies Chugai Pharmaceutical Co. Ltd. Tokio, Roche Holding AG Basel (Chairman)

Prof. Dr. Renate Köcher

Membership in other statutory supervisory boards in Germany
BASF AG, Infineon Technologies AG, MAN AG

Igor Landau since January 1, 2005

Membership in other statutory supervisory boards in Germany
adidas-Salomon AG, Dresdner Bank AG

Membership in comparable*) supervisory bodies
Essilor S. A., HSBC France, Sanofi-Aventis S. A.

As of December 31, 2005 or (with members who resigned) day of resignation.
*) We regard memberships in other supervisory bodies as "comparable", if the company is listed on a stock exchange or has more than 500 employees.

Frank Ley until May 4, 2005

Dr. Max Link

Iris Mischlau-Meyrahn since May 4, 2005

Karl Neumeier

Sultan Salam

Membership in other statutory supervisory boards in Germany
Dresdner Bank AG

Dr. Albrecht E. H. Schäfer until May 4, 2005

Dr. Manfred Schneider

Membership in other statutory supervisory boards in Germany
Bayer AG (Chairman), DaimlerChrysler AG, Linde AG (Chairman), METRO AG, RWE AG, TUI AG

Margit Schoffer

Membership in other statutory supervisory boards in Germany
Dresdner Bank AG

Prof. Dr. Hermann Scholl until May 4, 2005

Membership in other statutory supervisory boards in Germany
BASF AG, Robert Bosch GmbH (Chairman)

Membership in comparable*) supervisory bodies
Robert Bosch Corporation, Robert Bosch Internationale Beteiligungen AG, Sanofi-Aventis S. A.

Prof. Dr. Dennis J. Snower

As of December 31, 2005 or (with members who resigned) day of resignation.
*) We regard memberships in other supervisory bodies as "comparable", if the company is listed on a stock exchange or has more than 500 employees.

Mandates of the members of the Board of Management

Michael Diekmann

Membership in other statutory supervisory boards in Germany
BASF AG, Linde AG (Deputy Chairman), Deutsche Lufthansa AG
Membership in Group bodies Allianz Deutschland AG (Chairman), Allianz Global Investors AG (Chairman), Allianz Lebensversicherungs-AG (Chairman) (until December 31, 2005), Allianz Versicherungs-AG (Chairman) (until December 31, 2005), Dresdner Bank AG (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies Assurances Générales de France (Vice President), Riunione Adriatica di Sicurtà S. p. A. (Vice President)

Dr. Paul Achleitner

Membership in other statutory supervisory boards in Germany
Bayer AG, RWE AG
Membership in Group bodies Allianz Deutschland AG, Allianz Global Investors AG, Allianz Immobilien GmbH (Chairman) (until January 31, 2006)

Membership in comparable*) supervisory bodies
Membership in Group bodies Allianz Elementar Lebensversicherungs-AG, Allianz Elementar Versicherungs-AG, Allianz Investmentbank AG

Clement B. Booth since January 1, 2006

Membership in other statutory supervisory boards in Germany
Membership in Group bodies Allianz Global Risks Rückversicherungs-AG (Chairman), Allianz Marine & Aviation Versicherungs-AG (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies Allianz Australia Ltd., Allianz Cornhill Insurance plc, Allianz Irish Life plc, Euler Hermes S. A.

Detlev Bremkamp until December 31, 2005

Membership in other statutory supervisory boards in Germany
ABB AG (Germany), Hochtief AG
Membership in Group bodies Allianz Global Risks Rückversicherungs-AG (Chairman) (until December 31, 2005), Allianz Marine & Aviation Versicherungs-AG

Membership in comparable*) supervisory bodies
Membership in Group bodies Allianz Compañia de Seguros y Reaseguros S. A. (Chairman) (until December 31, 2005), Allianz Nederland Groep N. V. (until December 31, 2005), Assurances Générales de France (until December 31, 2005), Companhia de Seguros Allianz Portugal S. A. (until December 31, 2005), Elmonda, Lloyd Adriatico S.p.A. (until December 31, 2005), Riunione Adriatica di Sicurtà S.p.A. (until December 31, 2005)

Jan R. Carendi

Membership in comparable*) supervisory bodies
Membership in Group bodies Allianz Life Insurance Company of North America (Chairman), Fireman's Fund Insurance Company (Chairman)

Enrico Tomaso Cucchiani since January 1, 2006

Membership in comparable*) supervisory bodies
ACEGAS-APS S.p.A., Banca Antonveneta
Membership in Group bodies Allianz Elementar Lebensversicherungs-AG, Allianz Elementar Versicherungs-AG, Companhia de Seguros Allianz Portugal S. A., Koc Allianz Hayat ve Emeklilik A. S., Koc Allianz Sigorta A. S., Lloyd Adriatico S.p.A. (Chairman), Riunione Adriatica di Sicurtà S.p.A.

Dr. Joachim Faber

Membership in other statutory supervisory boards in Germany
Bayerische Börse AG, Infineon Technologies AG (until February 16, 2006)
Membership in Group bodies Allianz Beratungs- und Vertriebs-AG, DEGI Deutsche Gesellschaft für Immobilienfonds mbH (Chairman) (until December 31, 2005), Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies Assurances Générales de France, Riunione Adriatica di Sicurtà S.p.A.

As of December 31, 2005 or (with members who resigned) day of resignation.
*) We regard memberships in other supervisory bodies as "comparable", if the company is listed on a stock exchange or has more than 500 employees.

Dr. Reiner Hagemann until December 31, 2005

Membership in other statutory supervisory boards in Germany
E.ON Energie AG, Schering AG
Membership in Group bodies (until December 31, 2005) Allianz Global Risks Rückversicherungs-AG, Allianz Private Krankenversicherungs-AG (Chairman), Bayerische Versicherungsbank AG (Chairman), Euler Hermes Kreditversicherungs-AG (Chairman), Frankfurter Versicherungs-AG (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies (until December 31, 2005) Allianz Cornhill Insurance plc, Allianz Elementar Lebensversicherungs-AG (Deputy Chairman), Allianz Elementar Versicherungs-AG (Chairman), Allianz Investmentbank AG, Allianz Irish Life, Allianz Suisse Lebensversicherungs-AG, Allianz Suisse Versicherungs-AG, Euler Hermes S. A.

Dr. Helmut Perlet

Membership in other statutory supervisory boards in Germany
GEA-Group AG
Membership in Group bodies Allianz Deutschland AG (Deputy Chairman), Allianz Global Investors AG, Allianz Global Risks Rückversicherungs-AG (Deputy Chairman), Allianz Marine & Aviation Versicherungs-AG (Deputy Chairman), Dresdner Bank AG

Membership in comparable*) supervisory bodies
Membership in Group bodies Fireman's Fund Insurance Company, Lloyd Adriatico S.p.A., Riunione Adriatica di Sicurtà S.p.A.

Dr. Gerhard Rupprecht

Membership in other statutory supervisory boards in Germany
Fresenius AG, Heidelberger Druckmaschinen AG, Quelle GmbH, Thyssen-Krupp Automotive AG
Membership in Group bodies Allianz Beratungs- und Vertriebs-AG (Chairman), Allianz Lebensversicherungs-AG (Chairman), Allianz Private Krankenversicherungs-AG (Chairman), Allianz Versicherungs-AG (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies Allianz Elementar Lebensversicherungs-AG (Chairman) (until January 16, 2006), Allianz Elementar Versicherungs-AG (until January 16, 2006), Allianz Life Insurance Co. Ltd. Seoul

Jean-Philippe Thierry since January 1, 2006

Membership in other statutory supervisory boards in Germany
Membership in Group bodies Allianz Global Risks Rückversicherungs-AG

Membership in comparable*) supervisory bodies
Baron Philippe de Rothschild, Compagnie Financière Saint-Honoré, Eurazeo, Paris Orléans, Société Financière et Foncière de participation
Membership in Group bodies Allianz Compañia de Seguros y Reaseguros S. A., Allianz Nederland Groep N.V., Euler Hermes S. A. (Chairman), Mondial Assistance AG (Chairman)

Dr. Herbert Walter

Membership in other statutory supervisory boards in Germany
Deutsche Börse AG, TSV München von 1860 GmbH & Co. KG aA
Membership in Group bodies Allianz Beratungs- und Vertriebs-AG

Membership in comparable*) supervisory bodies
Banco Popular Español S. A., Banco Portugues de Investimento S. A.

Dr. Werner Zedelius

Membership in comparable*) supervisory bodies
Rosno (Vice Chairman)
Membership in Group bodies Allianz Australia Ltd. (until December 31, 2005), Allianz Hungária Biztosító Rt. (Chairman), Allianz pojistovna a. s. (Chairman), Allianz-Slovenska poistovna a. s. (Chairman), T. U. Allianz Polska S. A. (Chairman), T. U. Allianz Zycie Polska S. A. (Chairman)

As of December 31, 2005 or (with members who resigned) day of resignation.
*) We regard memberships in other supervisory bodies as "comparable", if the company is listed on a stock exchange or has more than 500 employees.

The accounting terms explained here are intended to help the reader understand this Annual Report. Most of these terms concern the balance sheet or the income statement. Terminology relating to particular segments of the insurance or banking business has not been included.

Acquisition cost
The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition.

Affiliated enterprises
The parent company of the Group and all consolidated subsidiaries. Subsidiaries are enterprises where the parent company can exercise a dominant influence over their corporate strategy in accordance with the control concept. This is possible, for example, where the parent Group holds, directly or indirectly, a majority of the voting rights, has the power to appoint or remove a majority of the members of the Board of Management or equivalent governing body, or where there are contractual rights of control.

Aggregate policy reserves
Policies in force – especially in life, health, and personal accident insurance – give rise to potential liabilities for which funds have to be set aside. The amount required is calculated actuarially.

Allowance for loan losses
The overall volume of provisions includes allowance for credit loss – deducted from the asset side of the balance sheet – and provisions for risks associated with hedge derivatives and other contingencies, such as guarantees, loan commitments or other obligations, which are stated as liabilities.

Identified counterparty risk is covered by specific credit risk allowances. The size of each allowance is determined by the probability of the borrower's agreed payments regarding interest and installments, with the value of underlying collateral being taken into consideration.

General allowances for loan losses have been established, on the basis of historical loss data.

Country risk allowances are established for transfer risks. Transfer risk is a reflection of the ability of certain country to serve its external debt. These country risk allowances are based on an internal country rating system which incorporates economic data as well as other facts to categorize countries.

Where it is determined that a loan cannot be repaid, the uncollectable amount is written off against any existing specific loan loss allowance, or directly recognized as expense in the income statement. Recoveries on loans previously written off are recognized in the income statement under net loan loss provisions.

Assets under management
The total of all investments, valued at current market value, which the Group has under management with responsibility for maintaining and improving their performance. In addition to the Group's own investments, they include investments held for variable annuity policyholders, bank loans and advances, and investments held under management for third parties.

Associated enterprises
All enterprises, other than affiliated enterprises or joint ventures, in which the Group has an interest of between 20 % and 50 %, regardless of whether a significant influence is actually exercised or not.

At amortized cost
Under this accounting principle the difference between the acquisition cost and redemption value (of an investment) is added to or subtracted from the original cost figure over the period from acquisition to maturity and credited or charged to income over the same period.

Benefits (net) payable to policyholders
The expense of policyholder benefits (less amounts ceded in reinsurance) comprises loss and loss adjustment expenses, premium refunds, and the net change in insurance reserves.

Capital relating to participating certificates
Amount payable on redemption of participating certificates issued. The participating certificates of Allianz AG carry distribution rights based on the dividends paid, and subscription rights when the capital stock is increased; but they carry no voting rights, no rights to participate in any proceeds of liquidation, and no rights to be converted into shares.

Cash flow statement
Statement showing movements of cash and cash equivalents during an accounting period, classified by three types of activity:

- normal operating activities
- investing activities
- financing activities

Certificated liabilities
Certificated liabilities comprise debentures and other liabilities for which transferable certificates have been issued.

Consolidated interest (%)
The consolidated interest is the total of all interests held by affiliated enterprises and joint ventures in affiliated enterprises, joint ventures, and associated enterprises.

Contingent liabilities
Financial obligations not shown as liabilities on the balance sheet because the probability of a liability actually being incurred is low. Example: guarantee obligations.

Corridor approach
With defined benefit plans, differences come about between the actuarial gains and losses which, when the corridor approach is applied, are not immediately recognized as income or expenses as they occur. Only when the cumulative actuarial gains or losses fall outside the corridor is redemption made from the following year onwards. The corridor is 10% of the present value of the pension rights accrued or of the market value of the pension fund assets, if this is higher.

Coverage ratio
Represents ratio of total loan loss provisions to total risk elements according to SEC guide 3 (non-performing loans and potential problem loans).

Credit risk
The risk that one party to a contract will fail to discharge its obligations and thereby cause the other party to incur financial loss.

Current employer service cost
Net expense incurred in connection with a deferred benefit plan less any contributions made by the beneficiary to a pension fund.

Current value
The current value of an investment is normally the same as the market value. If the market value cannot be calculated directly, fair market value is used.

Deferred acquisition costs
Expenses of an insurance company which are incurred in connection with the acquisition of new insurance policies or the renewal of existing policies. They include commissions paid and the costs of processing proposals.

Deferred tax assets/liabilities
The calculation of deferred tax is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax base, and on differences arising from applying uniform valuation policies for consolidation purposes. The tax rates used for the calculation are the local rates applicable in the countries of the enterprises included in the consolidation; changes to tax rates already adopted on the balance sheet date are taken into account.

Defined benefit plans
Under defined benefit plans, the enterprise or an external pension fund pledges to pay the beneficiary a benefit at a particular level; unlike the defined contribution plans, the level of the contributions payable by the enterprise are not fixed from the start. To determine the expense over the period, accounting regulations require that actuarial calculations are carried out according to fixed set of rules.

Defined contribution plans
Under retirement plans in the form of defined contribution plans, the enterprise pledges to pay the beneficiary benefits at a pre-defined level. This effectively releases the enterprise from any further obligations beyond the contributions payable and at the same time precludes the enterprise from participating in the investment success of the contributions.

Derivative financial instruments (derivatives)
Financial contracts, the values of which move in relationship to the price of an underlying asset. Derivative financial instruments can be classified in relation to their underlying assets (e.g. interest rates, share prices, exchange rates or prices of goods). Important examples of derivative financial instruments are options, futures, forwards and swaps.

Earnings from ordinary activities
Pre-tax profit or loss from activities which an enterprise undertakes in the normal course of business. This does not include extraordinary items, i.e. income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and are therefore not expected to recur frequently or regularly.

Earnings per share (basic/diluted)
Ratio calculated by dividing the consolidated profit or loss for the year by the average number of shares issued. For calculating diluted earnings per share the number of shares and the profit or loss for the year are adjusted by the dilutive effects of any rights to subscribe for shares which have been or can still be exercised. Subscription rights arise in connection with issues of convertible bonds or share options.

Equity consolidation
The relevant proportion of cost for the investment in a subsidiary is set off against the relevant proportion of the shareholders' equity of the subsidiary.

Equity method
Investments in joint ventures and associated companies are accounted for by this method. They are valued at the Group's proportionate share of the net assets (= shareholders' equity) of the companies concerned. In the case of investments in companies which prepare consolidated financial statements of their own, the valuation is based on the sub-group's consolidated net assets. The valuation is subsequently adjusted to reflect the proportionate share of changes in the company's net assets, a proportionate share of the company's net earnings for the year being added to the Group's consolidated income.

Expense ratio
Underwriting costs (including change in deferred acquisition costs) as a percentage of premiums earned.

Fair value
The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

FAS
U.S. Financial Accounting Standards on which the details of U.S. GAAP (Generally Accepted Accounting Principles) are based.

Forwards
The parties to this type of transaction agree to buy or sell at a specified future date. The price of the underlying assets is fixed when the deal is struck.

Funds held by/for others under reinsurance contracts
Funds held by others are funds to which the reinsurer is entitled but which the ceding insurer retains as collateral for future obligations of the reinsurer. The ceding insurer shows these amounts as "funds held under reinsurance business ceded."

Futures
Standardized contracts for delivery on a future date, traded on an exchange. Normally, rather than actually delivering the underlying asset on that date, the difference between closing market value and the exercise price is paid.

Goodwill
Difference between the purchase price of a subsidiary and the relevant proportion of its net assets valued at the current value of all assets and liabilities at the time of acquisition. Minority interests are always valued at carried-forward historical cost. Goodwill is amortized over its useful life.

Gross/Net
In insurance terminology the terms gross and net mean before and after deduction of reinsurance respectively. (Net is also referred to as "for own account"). In connection with income from interests in affiliated enterprises, joint ventures and associated enterprises, the term "net" is used where the relevant expenses (e.g. depreciations and losses on the disposal of assets) have already been deducted. In the context of investments the term "net" is used where the relevant expenses (e.g. for investment management or valuation writedowns) have already been deducted from the income. This means that investment income (net) from investments in affiliated enterprises, joint ventures and associated enterprises signifies the net result from these investments.

Hedging
The use of special financial contracts, especially derivative financial instruments, to reduce losses which may arise as a result of unfavorable movements in rates or prices.

Held for sale
A non-current asset is classified as held for sale if its carrying amount will be recouvered principally through sale rather than though continuing use. On the date a non-current asset meets the criteria as held for sale, it is measurd at the lower of its carrying amount and fair value less costs to sell.

IAS
International Accounting Standards.

IFRS
International Financial Reporting Standards. Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board. Already approved standards will continue to be cited as International Accounting Standards (IAS).

IFRS Framework
The framework for International Financial Reporting Standards (IFRS) which sets out the concepts that underlie the preparation and presentation of financial statements for external users.

Investments held on account and at risk of life insurance policyholders
Mainly investments funding variable annuities plus investments to cover obligations under policies where the benefits are index-linked. Policyholders are entitled to the gains recorded on these investments, but also have to carry any losses.

Issued capital and capital reserve
This heading comprises the capital stock, the premium received on the issue of shares, and amounts allocated when option rights are exercised.

Joint venture
An enterprise which is managed jointly by an enterprise in the Group and one or more enterprises not included in the consolidation. The extent of joint management control is more than the significant influence exercised over associated enterprises and less than the control exercised over affiliated enterprises.

Loss frequency
Number of losses in relation to the number of insured risks.

Loss ratio
Loss and loss adjustment expenses as a percentage of premiums earned.

Market value
The amount obtainable from the sale of an investment in an active market.

Minority interests in earnings
That part of net earnings for the year which is not attributable to the Group but to others outside the Group who hold shares in affiliated enterprises.

Minority interests in shareholders' equity
Those parts of the equity of affiliated enterprises which are not owned by companies in the Group.

New cost basis
Historical cost adjusted by depreciation to reflect permanent diminution in value.

Options
Derivative financial instruments where the holder is entitled – but not obliged – to buy (call option) or sell (put option) the underlying asset at a predetermined price sometime in the future. The grantor (writer) of the option, on the other hand, is obliged to transfer or buy the asset and receives a premium for granting the option to the purchaser.

OTC derivatives
Derivative financial instruments which are not standardized and not traded on an exchange but are traded directly between two counterparties via over-the-counter (OTC) transactions.

Pension reserves
Reserves for current and future post-employment benefits formed for the defined benefit plans of active and former employees. These also include reserves for health care benefits and processing payments.

Premiums written/earned
Premiums written represent all premium revenues in the year under review. Premiums earned represent that part of the premiums written used to provide insurance coverage in that year. In the case of life insurance products where the policyholder carries the investment risk (e.g. variable annuities), only that part of the premiums used to cover the risk insured and costs involved is treated as premium income.

Reinsurance
Where an insurer transfers part of the risk which he has assumed to another insurer.

Repurchase and reverse repurchase agreements
A repurchase ("repo") transaction involves the sale of securities by the Group to a counterparty, subject to the simultaneous agreement to repurchase these securities at a certain later date, at an agreed price. The securities concerned are retained in the Group's balance sheet for the entire lifetime of the transaction, and are valued in accordance with the accounting principles for financial assets carried at fair value through income or investment securities, respectively. The proceeds of the sale are reported in liabilities to banks or to customers, as appropriate.

A reverse repo transaction involves the purchase of securities with the simultaneous obligation to sell these securities at a future date, at an agreed price. Such transactions are reported in loans and advances to banks, or loans and advances to customers, respectively.

Interest income from reverse repos and interest expenses from repos are accrued evenly over the lifetime of the transactions and reported under interest income/interest expenses and similar income/ expenses.

Reserve for loss and loss adjustment expenses
Reserves for the cost of insurance claims incurred by the end of the year under review but not yet settled.

Reserve for premium refunds
That part of the operating surplus which will be distributed to policyholders in the future. This refund of premiums is made on the basis of statutory, contractual, or company by-law obligations, or voluntary undertaking.

Revenue reserves
In addition to the reserve required by law in the financial statements of the Group parent company, this item consists mainly of the undistributed profits of Group enterprises and amounts transferred from consolidated net income.

Securities available-for-sale
Securities available-for-sale are securities which are neither held with the intent that they will be held-to-maturity nor have been acquired for sale in the near term; securities available-for-sale are shown at their market value on the balance sheet date.

Securities held-to-maturity

Securities held-to-maturity comprise debt securities held with the intent and ability that they will be held-to-maturity. They are valued at amortized cost.

Segment reporting

Financial information based on the consolidated financial statements, reported by business segments (life/health, property/casualty, banking business and asset management) and by regions and products.

Subordinated assets

Assets are recorded as subordinated assets if, in the case of liquidation or bankruptcy, the related claim cannot be realized before the claims of other creditors are realized.

Subordinated liabilities

Liabilities which, in the event of liquidation or bankruptcy, are not settled until after all other liabilities.

Swaps

Agreements between two counterparties to exchange payment streams over a specified period of time. Important examples include currency swaps (in which payment streams and capital in different currencies are exchanged) and interest rate swaps (in which the parties agree to exchange normally fixed interest payments for variable interest payments in the same currency).

Financial assets carried at fair value through income

Financial assets carried at fair value through income are debt issues and stocks as other financing instruments (essentially derivatives, note loans und precious metals holding) which have been acquired solely for sale in the near term. They are shown in the balance sheet at fair value.

Income from financial assets and liabilities carried at fair value through income

Income from financial assets and liabilities carried at fair value through income includes all realized and unrealized profits and losses from financial assets carried at fair value through income and financial liabilities carried at fair value through income. In addition, it includes commissions as well as any interest or dividend income from trading activities as well as refinancing costs.

Financial liabilities carried at fair value through income

Financial liabilities carried at fair value through income include primarily negative market values from derivatives and short selling of securities. Short sales are made to generate income from short-term price changes. Shorts sales of securities are recorded at market value on the balance sheet date. Derivatives shown as financial liabilities carried at fair value through income are valued the same way as financial assets carried at fair value through income.

Underwriting costs

Commissions, salaries, general expenses and other expenses relating to the acquisition and ongoing administration of insurance policies. The net figure is after expenses recovered from reinsurers have been deducted.

Unearned premiums

Premiums written attributable to income of future years. The amount is calculated separately for each policy and for every day that the premium still has to cover.

Unrecognized gains/losses

Amount of actuarial gains or losses, in connection with defined benefit pension plans, which are not yet recognized as income or expenses (see also “corridor approach”).

Unrecognized past service cost

Present value of increases in pension benefits relating to previous years' service, not yet recognized in the pension reserve.

U.S. GAAP

U.S. Generally Accepted Accounting Principles.

Variable annuities

The benefits payable under this type of life insurance depend primarily on the performance of the investments in a mutual fund. The policyholder shares equally in the profits or losses of the underlying investments.

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Allianz Group Selected Consolidated Financial Data

Years ended December 31,		2005	Change from prev. year in %	2004[2]	2003[2]	2002[2]	2001[3]
Income Statement							
Total revenues[1]							
Property-Casualty	€ mn	44,061	0.6	43,780	43,420		
Life/Health	€ mn	48,129	6.5	45,177	42,319		
Banking	€ mn	6,235	(3.3)	6,446	6,704		
Asset Management	€ mn	2,733	18.4	2,308	2,226		
Consolidation	€ mn	(261)		(836)	(929)		
Total Group	€ mn	**100,897**	**4.2**	**96,875**	**93,740**	–[4]	–[4]
Operating profit							
Property-Casualty	€ mn	4,162	4.6	3,979	2,397		
Life/Health	€ mn	1,603	13.0	1,418	1,265		
Banking	€ mn	845	44.2	586	(396)		
Asset Management	€ mn	1,133	32.4	856	716		
Total Group	€ mn	**7,743**	**13.2**	**6,839**	**3,982**	–[4]	–[4]
Earnings from ordinary activities before taxes[5]	€ mn	7,880	54.6	5,096	3,866	(3,991)	1,768
Net income[5]	€ mn	4,380	93.3	2,266	2,691	(3,243)	1,585
Balance sheet							
Investments	€ mn	282,920	13.9	248,327	231,397	228,111	345,302
Loans and advances to banks and customers	€ mn	336,808	(10.7)	377,223	378,295	329,195	300,967
Total assets	€ mn	997,881	0.8	990,318	933,213	848,752	942,986
Shareholders' equity before minority interests	€ mn	39,487	31.6	29,995	27,993	21,046	31,613
Minority interests in shareholders' equity	€ mn	7,615	(1.1)	7,696	7,266	7,965	17,349
Reserves for insurance and investment contracts	€ mn	359,137	10.0	326,380	309,460	303,258	299,512[6]
Liabilities to banks and customers	€ mn	310,316	(11.0)	348,484	332,906	284,598	312,725
Returns							
Return on equity after taxes[7]	%	12.6	4.8 pts	7.8	11.0	(12.5)	4.7
Return on equity after taxes and before goodwill amortization[7]	%	12.6	1.0 pts	11.6	16.5	(8.3)	6.9
Share information							
Basic earnings per share[5]	€	11.24	81.6	6.19	7.96	(11.71)	6.51
Diluted earnings per share[5]	€	11.14	80.8	6.16	7.93	(11.71)	6.51
Weighted average number of shares outstanding							
Basic	mn	389.8	6.5	365.9	338.2	276.9	277.8
Diluted	mn	393.3	6.8	368.1	339.8	276.9	277.8
Shareholders' equity per share	€	121	20.4	103	104	105	176
Dividend per share	€	2.00	14.3	1.75	1.50	1.50	1.50
Dividend payment	€ mn	811	20.3	674	551	374	364
Share price at December 31[8]	€	127.94	31.1	97.60	100.08	80.80	237.10
Market capitalization at December 31	€ mn	51,949	44.6	35,936[9]	36,743[9]	22,039[9]	64,156[9]
Other data							
Employees		177,625	0.6	176,501	173,750	181,651	179,946
Third-party assets under management at December 31	€ mn	742,937	27.0	584,624	564,714	560,588	620,458

[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] Beginning January 1, 2005, under IFRS, various existing accounting standards changed and additional new accounting standards became effective, both of which impacted the Allianz Group's consolidated financial statements prospectively and, to a certain extent, retrospectively, which required revisions of prior year periods as if those accounting principles had always been used. For further information concerning the impact of these accounting standards, see "Effects of Recently Adopted Accounting Pronouncements" within our Group Management Report and Note 3 to our consolidated financial statements.
[3] Our selected financial data as of and for each of the years ended December 31, 2005, 2004, 2003 and 2002 is presented in accordance with 2005 IFRS. The selected financial data as of and for the year ended December 31, 2001 is, however, presented in accordance with pre-2005 IFRS and accordingly does not reflect the retrospective application of 2005 IFRS, due to the unreasonable effort or expense required to prepare such information. See Note 3 to our consolidated financial statements included herein for further information on the differences between 2005 IFRS and pre-2005 IFRS.
[4] Not previously presented as net income and total income were the relevant performance measures used by the Allianz Group in such years.
[5] Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
[6] Represents amounts included in the "Insurance reserves" line-item under pre-2005 IFRS. Under 2005 IFRS, this line-item has been replaced with "Reserves for insurance and investment contracts" in our consolidated financial statements pursuant to the Allianz Group's adoption of IFRS 4, Insurance Contracts, as discussed further in Note 3 to our consolidated financial statements.
[7] Based on average shareholders' equity before minority interests. Average shareholders' equity before minority interests has been calculated based upon the average of the current and preceding year's shareholders' equity before minority interests.
[8] Retrospectively adjusted for transactions affecting our share capital, specifically capital increases.
[9] Excluding treasury shares.

Allianz AG
Königinstraße 28
80802 Munich
Telephone +49 89 38 00 00
Telefax +49 89 34 99 41
www.allianz.com

Photography:
Michael Diekmann: Andreas Pohlmann
Dr. Henning Schulte-Noelle: Andreas Pohlmann
IEC: Jochen Manz, Andreas Pohlmann

UKGBE0010Z0 (0/09) 4.06