

ALLIANZ SE
Form 20-F
March 20, 2008
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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

(Mark One)

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

or

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

For the fiscal year ended December 31, 2007

or

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

For the transition period to

or

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

Date of event requiring this shell report

Commission file number 1-15154

ALLIANZ SE

(Exact name of registrant as specified in its charter)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Königinstrasse 28, 80802 Munich, Germany

(Address of principal executive offices)

Burkhard Keese

ALLIANZ SE

Königinstrasse 28, 80802 Munich, Germany

Telephone: +49 89 3800-16596

Facsimile: +49 89 3800-16598

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|--|--|
| Ordinary Shares (without par value)* | The New York Stock Exchange, Inc. |
| * Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange. | |
| Securities registered or to be registered pursuant to Section 12(g) of the Act: None | |

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock at December 31, 2007:

| | |
|------------------------------------|--------------------|
| Ordinary shares, without par value | 452,350,000 shares |
|------------------------------------|--------------------|

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

YES ☒ NO ☐

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

YES ☐ NO ☒

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

YES ☒ NO ☐

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

| | | |
|---|--|--|
| Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> |
|---|--|--|

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

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

Other ☐ "

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

Item 17 ☐ Item 18 ☐

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

YES ☐ NO ☒ x

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

Unless otherwise indicated, when we use the term **consolidated financial statements**, we are referring to the consolidated financial statements (including the related notes) of Allianz SE as of December 31, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007, which have been audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft. The consolidated financial statements of the Allianz Group have been prepared in conformity with International Financial Reporting Standards (**IFRS**), as adopted under European Union (**EU**) regulations in accordance with section 315a of the German Commercial Code (**HGB**). The consolidated financial statements of the Allianz Group have also been prepared in accordance with IFRS as issued by the International Accounting Standard Board (**IASB**). The Allianz Group's application of IFRSs results in no differences between IFRS as adopted by the EU and IFRS as issued by the IASB. The amounts set forth in some of the tables may not add up to the total amounts given in those tables due to rounding.

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

For convenience only (except where noted otherwise), some of the Euro figures have been translated into U.S. Dollars at the rate of \$1.5369 = 1.00, the noon buying rate in New York for cable transfers in Euros certified by the Federal Reserve Bank of New York for customs purposes on March 10, 2008. These translations do not mean

that the Euro amounts actually represent those U.S. Dollar amounts or could be converted into U.S. Dollars at those rates. See **Key Information** **Exchange Rate Information** for information concerning the noon buying rates for the Euro from January 1, 2003 through March 10, 2008.

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

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

general economic conditions, including in particular economic conditions in our core business areas and core markets;

function and performance of global financial markets, including emerging markets;

frequency and severity of insured loss events, including terror attacks, environmental and asbestos claims;

mortality and morbidity levels and trends;

persistence levels;

interest rate levels;

currency exchange rate developments, including the Euro/U.S. Dollar exchange rate;

levels of additional loan loss provisions;

further impairments of investments;

general competitive factors, in each case on a local, regional, national and global level;

changes in laws and regulations, including in the United States and in the European Union;

changes in the policies of central banks and/or foreign governments;

the impact of acquisitions, including related integration and restructuring issues; and

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

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PART I

ITEM 1. Identity of Directors, Senior Management and Advisors

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

Selected Consolidated Financial Data

We present below our selected financial data as of and for each of the years in the five-year period ended December 31, 2007. We derived the selected financial data for each of the years in the five-year period ended December 31, 2007 from our audited annual consolidated financial statements, including the notes to those financial statements. All the data should be read in conjunction with our consolidated financial statements and the notes thereto. We prepare our annual audited consolidated financial statements in accordance with IFRS.

Effective January 1, 2006, we implemented certain revisions to our consolidated financial statements to enhance the reader's understanding of our financial results and to use a more consistent presentation with that of our peers. These revisions reflect certain reclassifications in our consolidated balance sheet and consolidated income statement, changes to our segment reporting, changes to operating profit methodology and changes to our consolidated cash flow statement. Our selected financial data as of and for the years ended December 31, 2005, 2004 and 2003 presented below also reflect these revisions, with the exception of total revenues and operating profit for the year ended December 31, 2003. Total revenues and operating profit for the year ended December 31, 2003 are presented in accordance with our pre-2006 segment reporting structure and operating profit methodology, and accordingly do not reflect the retrospective application of our revised segment reporting structure and operating profit methodology, due to the unreasonable effort or expense required to prepare such information, in particular resulting from the implementation of our new Corporate segment.

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

(1) Amounts given in Euros have been translated for convenience only into U.S. Dollars at the rate of \$1.5369 = 1.00, the noon buying rate in New York for cable transfers in Euros certified by the Federal Reserve Bank of New York for customs purposes on March 10, 2008.

(2) Total revenues comprise Property-Casualty segment's gross premiums written, Life/Health segment's statutory premiums, Banking segment's operating revenues and Asset Management segment's operating revenues. Please refer to Operating and Financial Review and Prospects Introduction for a reconciliation of total revenues to premiums written for the Allianz Group.

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

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

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

(6)

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

- (7) Based on average shareholders' equity. Average shareholders' equity has been calculated based upon the average of the current and preceding years' shareholders' equity.
- (8) Source: Thomson Financial Datastream.
- (9) Excluding treasury shares.

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The following table sets forth the annual dividends declared in 2007 and paid in prior years per ordinary share and American Depositary Share (or ADS) equivalent for 2003 through 2007. The table does not reflect the related tax credits available to German taxpayers. See Additional Information German Taxation Taxation of Dividends.

| | Dividend per ordinary share | | Dividend paid per ADS equivalent | |
|---------------------|--------------------------------|------|-------------------------------------|-------|
| | | \$ | | \$ |
| 2003 | 1.50 | 1.82 | 0.150 | 0.182 |
| 2004 | 1.75 | 2.27 | 0.175 | 0.227 |
| 2005 | 2.00 | 2.43 | 0.200 | 0.243 |
| 2006 | 3.80 | 5.13 | 0.380 | 0.513 |
| 2007 ⁽¹⁾ | 5.50 | 8.45 | 0.550 | 0.845 |

⁽¹⁾ Dividend amounts given in Euros have been translated for convenience only into U.S. Dollars at the rate of \$1.5369 = 1.00, the noon buying rate in New York for cable transfers in Euros certified by the Federal Reserve Bank of New York for customs purposes on March 10, 2008. See Presentation of Financial and Other Information.

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

Exchange Rate Information

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

| | High | Low | Period average ⁽¹⁾ (\$ per 1.00) | Period end |
|------------------------------|--------|--------|---|---------------|
| 2003 | 1.2597 | 1.0361 | 1.1321 | 1.2597 |
| 2004 | 1.3625 | 1.1801 | 1.2478 | 1.3538 |
| 2005 | 1.3476 | 1.1667 | 1.2400 | 1.1842 |
| 2006 | 1.3327 | 1.1860 | 1.2481 | 1.3197 |
| 2007 | 1.4862 | 1.2904 | 1.3797 | 1.4603 |
| September | 1.4219 | 1.3606 | 1.3913 | 1.4219 |
| October | 1.4468 | 1.4092 | 1.4349 | 1.4468 |
| November | 1.4862 | 1.4435 | 1.4562 | 1.4688 |
| December | 1.4759 | 1.4344 | 1.4630 | 1.4603 |
| 2008 | | | | |
| January | 1.4877 | 1.4574 | 1.4790 | 1.4841 |
| February | 1.5187 | 1.4495 | 1.5019 | 1.5187 |
| March (until March 10, 2008) | 1.5369 | 1.5195 | 1.5282 | 1.5369 |

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

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

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Risk Factors

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

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

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

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

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

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

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

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

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Allianz Group holds a significant equity portfolio, which represented approximately 15% of Allianz Group's financial assets at December 31, 2007, excluding financial assets and liabilities carried at fair value through income. Fluctuations in equity markets affect the market value and liquidity of these holdings. Allianz Group also has real estate holdings in its investment portfolio, the value of which is likewise exposed to changes in real estate market prices and volatility.

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

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

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

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

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

Business and market conditions may impact the amount of goodwill Allianz Group carries in its consolidated financial statements. As of December 31, 2007, Allianz Group has recorded goodwill in an aggregate amount of 12,453 million, of which 6,165 million relates to its asset management business, 4,433 million relates to its insurance business, 1,714 million relates to its banking business, and 141 million relates to its corporate segment.

As the value of certain parts of Allianz Group's businesses, including in particular Allianz Group's

banking and asset management businesses, are significantly impacted by such factors as the state of financial markets and ongoing operating performance, significant declines in financial markets or operating performance could also result in impairment of other goodwill carried by us and result in significant write-downs, which could be material. No impairments were recorded for goodwill in 2007.

The assumptions Allianz Group made with respect to recoverability of deferred policy acquisition costs (DAC) are also affected by such factors as operating performance and market conditions. DAC is incurred in connection with the production of new and renewal insurance business and is deferred and amortized generally in proportion to profits or to premium income expected to be generated over the life of the underlying policies, depending on the classification of the product. If the assumptions on which expected profits are based prove to be incorrect, it may be necessary to accelerate amortization of DAC, even to the extent of writing down DAC through impairments, which could materially adversely affect results of operations. No impairments were recorded for DAC in 2007.

As of December 31, 2007, Allianz Group had a total of 4,771 million in net deferred tax assets and 3,973 million in net deferred tax liabilities. The calculation of the respective tax assets and liabilities is based on current tax laws and IFRS and depends on the performance of the Allianz Group as a whole and certain business units in particular. At December 31, 2007, 3,227 million of deferred tax assets depended on the ability to use existing tax-loss carry forwards.

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

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

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

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

Established loss reserves estimates are periodically adjusted in the ordinary course of settlement, using the most current information available to management, and any adjustments resulting from changes in reserve estimates are reflected in current results of operations. Allianz Group also conducts reviews of various lines of business to consider the adequacy of reserve levels.

Based on current information available to us and on the basis of Allianz Group's internal procedures, Allianz Group's management considers that Allianz Group's reserves are adequate at December 31, 2007. However, because the establishment of reserves for loss and loss adjustment expenses is an inherently uncertain process, there can be no assurance that ultimate losses will not materially exceed the established reserves for loss and loss adjustment expenses and have a material adverse effect on Allianz Group's results of operations.

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

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

We have a significant portfolio of contracts with guaranteed investment returns, including endowment and annuity products for the German market as well as certain guaranteed contracts in other markets. The amounts payable by us at maturity of an endowment policy in Germany and in certain other markets include a guaranteed benefit, an amount that, in practice, is equal to a legally mandated maximum rate of return on actuarial reserves. If interest rates decline to historically low levels for a long period, we could be required to provide additional funds to Allianz

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Group's life/health subsidiaries to support their obligations in respect of products with higher guaranteed returns, or increase reserves in respect of

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

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

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

Portions of Allianz Group's property-casualty insurance may cover losses from unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, fires, industrial explosions, freezes, riots, floods and other man-made or natural disasters, including acts of terrorism. The incidence and severity of these catastrophes in any given period are inherently unpredictable.

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

We have significant counterparty risk exposure.

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

General Credit Risks. Third-parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include

the issuers whose securities we hold, borrowers under loans made, customers, trading counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Reinsurers. We transfer our exposure to certain risks in our property-casualty and life/health insurance business to others through reinsurance arrangements. Under these arrangements, other insurers assume a portion of Allianz Group's losses and expenses associated with reported and unreported losses in exchange for a portion of policy premiums. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. Any decrease in the amount of Allianz Group's reinsurance will increase its risk of loss. When we obtain reinsurance, we are still liable for those transferred risks if the reinsurer cannot meet its obligations. Therefore, the inability of Allianz Group's reinsurers to meet their financial obligations could materially affect Allianz Group's results of operations. Although Allianz Group conducts periodic reviews of the financial statements and reputations of its reinsurers, including, and as appropriate, requiring letters of credit, deposits or other financial measures to further minimize its exposure to credit risk, reinsurers may become financially unsound by the time they are called upon to pay amounts due.

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

Claims paying ability and financial strength ratings are each a factor in establishing the competitive position of insurers. Our financial strength rating has a significant impact on the individual ratings of key subsidiaries. If a rating of certain subsidiaries falls below a certain threshold, the respective operating business may be significantly impacted. A ratings downgrade, or the potential for such a downgrade, of the Allianz Group

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or any of our insurance subsidiaries could, among other things, adversely affect relationships with agents, brokers and other distributors of our products and services, thereby negatively impacting new sales, adversely affect our ability to compete in our markets and increase our cost of borrowing. In particular, in those countries where primary distribution of our products is done through independent agents, such as the United States, future ratings downgrades could adversely impact sales of our life insurance and annuity products. Any future ratings downgrades could also materially adversely affect our cost of raising capital, and could, in addition, give rise to additional financial obligations or accelerate existing financial obligations which are dependent on maintaining specified rating levels.

Rating agencies can be expected to continue to monitor our financial strength and claims paying ability, and no assurances can be given that future ratings downgrades will not occur, whether due to changes in our performance, changes in rating agencies' industry views or ratings methodologies, or a combination of such factors.

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

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

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

After September 11, 2001, reinsurers generally either put terrorism exclusions into their policies or drastically increased the price for such coverage.

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

At this time, we cannot assess the future effects of terrorist attacks, potential ensuing military and other responsive actions, and the possibility of further terrorist attacks, on our businesses. Such matters have significantly adversely affected general economic, market and political conditions, increasing many of the risks in our businesses noted in the previous risk factors. This may have a material negative effect on our businesses and results of operations over time.

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

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

Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, know your customer rules, privacy, record keeping, and marketing and selling practices. Banking, insurance and other financial services laws, regulations and policies currently

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governing us and our subsidiaries may change at any time in ways which have an adverse effect on our business, and we cannot predict the timing or form of any future regulatory or enforcement initiatives in respect thereof. Also, bank regulators and other supervisory authorities in the EU, the United States and elsewhere continue to scrutinize payment processing and other transactions under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures. If we fail to address, or appear to fail to address, appropriately any of these changes or initiatives, our reputation could be harmed and we could be subject to additional legal risk, including enforcement actions, fines and penalties. Despite our best efforts to comply with applicable regulations, there are a number of risks in areas where applicable regulations may be unclear or where regulators revise their previous guidance or courts overturn previous rulings. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in significant adverse publicity and reputational harm, suspension or revocation of our licenses, cease-and-desist orders, fines, civil penalties, criminal penalties or other disciplinary action that could materially harm our results of operations and financial condition.

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

In addition, discussions on a new solvency regime for insurance companies in the EU (Solvency II) are ongoing. As those discussions are not yet finalized, its potential future impact for capital requirements can not currently be assessed. For more information, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Outlook.

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

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

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

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

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We prepare our consolidated financial statements in Euro. However, a significant portion of the revenues and expenses from our subsidiaries outside the Euro zone, including in the United States, Switzerland and the United Kingdom, originates in currencies other than the Euro. We expect this trend

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

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

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

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

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

insurance or reinsurance companies, banks or asset management companies; and general market volatility.

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

The benefits that Allianz SE may realize from Allianz AG's conversion into a European Company (Societas Europaea, SE) and the subsequent reorganization of its European operations, including the acquisition of minority interests in the Italian subsidiary, RAS S.p.A. and its French subsidiary AGF could be materially different from our current expectations. For more information about these transactions and reorganization, see "Information on the Company Legal Structure AGF minorities buy-out procedure completed" and "Information on the Company Important Group Organizational Changes Reorganization in Italy." We took these measures to implement a business plan creating strategic synergies and organizational efficiencies, however, our estimates of the benefits that we may realize as a result of these measures involve subjective judgments that are subject to uncertainties. A variety of factors that are partially or entirely beyond our control could cause actual results to be materially different from what we currently expect, and any synergies that we realize from a conversion to an SE and full ownership of these subsidiaries could be materially different from our current expectations.

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

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

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

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

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

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ITEM 4. Information on the Company

The Allianz Group

Founded in 1890 and with 117 years of experience in the financial services industry, the Allianz Group is committed to providing financial security to a broad base of customers ranging from private individuals to large multinational corporations.

Allianz SE (formerly Allianz Aktiengesellschaft, or Allianz AG) is a European Company (Societas Europaea, or SE) incorporated in the Federal Republic of Germany and organized under the laws of the Federal Republic of Germany and the European Union. Allianz SE is the ultimate parent of the Allianz Group. It was incorporated as Allianz Versicherungs- Aktiengesellschaft in Berlin, Germany on February 5, 1890 and converted to a European Company on October 13, 2006. Our registered office is located at Koeniginstrasse 28, 80802 Munich, Germany, telephone +49 (0) 89 3800-0.

The Allianz Group's Business Model

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

Property-Casualty & Life/Health insurance operations

We are one of the leading insurance groups in the world and rank number one in the German property-casualty and life insurance markets based on gross premiums written and statutory premiums, respectively.⁽¹⁾ We are also among the largest insurance companies in a number of the other countries in which we operate. Our product portfolio

⁽¹⁾ Source: As published by Gesamtverband der deutschen Versicherungswirtschaft e.V. (or "GDV") in 2007. The GDV is a private association representing the German insurance industry. includes a wide array of property-casualty and life/health insurance products for both private and corporate customers.

Product portfolio of the insurance segments

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

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

Our more mature insurance markets (e.g. Germany, France, Italy and the United States) are highly competitive. In recent years, we have also experienced increasing competition in emerging markets, as large insurance companies and other financial service providers from more developed countries have entered these markets to participate in their high growth potential. In addition, local institutions have become more experienced and have established strategic relationships, alliances or mergers with our competitors.

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

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

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

Banking operations

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

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

Business model of Dresdner Bank

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

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

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

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

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

Asset Management operations

We are one of the five largest asset managers in the world.⁽²⁾

Our business activities in this segment consist of asset management products and services both for third-party investors and for the Allianz Group's insurance operations.

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

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

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AGI's customer and selected product range

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

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

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

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

Corporate segment

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

Legal Structure

AGF minorities buy-out procedure completed

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

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

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

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

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

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

Acquisition in 2007

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

Squeeze-out of Allianz Lebensversicherungs-AG announced

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

Important Group Organizational Changes⁽¹⁾

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

⁽¹⁾ Please see Note 4 to our consolidated financial statements for information on changes in the scope of consolidation in the years ended December 31, 2007, 2006 and 2005.

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

Reorganization of German Insurance Operations

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We continued the reorganization of our German insurance operations which was announced in 2005, by consolidating our major insurance subsidiaries under the Allianz SE wholly-owned holding company Allianz Deutschland AG and revising our regional sales and service structure. This process is part of our ongoing effort to simplify structures and reduce complexity within the Allianz Group, enabling us to react to changes in our markets with greater speed, focus and flexibility. Our goal is to create one joint presence of our insurance operations, with customers perceiving Allianz as one unit with comprehensive high quality services geared toward the customer's needs. The reorganization is part of our strategy to further develop our leading position in the German insurance market.

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

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

Business model of Allianz Deutschland AG

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

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

Reorganization in Italy

On October 1, 2007 the integration of Riunione Adriatica di Sicurtà (RAS), Lloyd Adriatico and Allianz Subalpina, which are as a group the second largest composite insurer in Italy⁽¹⁾, was completed successfully. The newly formed Allianz S.p.A. is now able to realize the chance to exploit new opportunities for growth. To support this, the brands of the sales networks were reinforced with the Allianz brand, so e.g. the former RAS brand is now called Allianz RAS .

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

Global Diversification of our Insurance Business¹⁾

As an integrated financial services provider we offer insurance, banking and asset management products and services to more than 80 million customers in over 70 countries. We are one of the leading global services providers of insurance, banking and asset management. Based on our market capitalization²⁾, we are the largest financial institution in Germany.

Germany

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

Operations

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

of 2007, Allianz Deutschland AG had a total of 19.8 million customers.

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

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

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

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

(1) Please see ITEM 18. Financial Statements Notes to the Allianz Group's Consolidated Financial Statements Selected subsidiaries and other holding for a breakdown of selected operating entities.

(2) As of March 1, 2008. Source: Deutsche Börse Group.

(3) Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations for further information.

(4) Source: Based on data provided by German Insurance Association, GDV.

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Products & Distributions

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

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

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

In the **life** business, we are active both in the private and commercial markets and offer a comprehensive range of life insurance and related products on both an individual and group basis. The main classes of coverage offered include annuity, endowment and term insurance. In our commercial lines, we offer group life insurance and provide companies with services and solutions in connection with pension arrangements and defined contribution plans.

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

Outlook

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

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

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

Our **health insurance** business with its two basic products – full health care coverage and supplementary insurance – is expected to be impacted by the German health care reform during the upcoming years. As a result of the reforms, we expect demand for full health care coverage to grow

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only slightly. On the other side, we believe that supplementary insurance will further increase, though we will also face competition arising from statutory health insurers which have been allowed to offer special supplementary insurance (so called "Wahltarif") from 2007 onwards.

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Europe

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

2007 in review:

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

France

Operations

In France, we operate through the Assurances Générales de France (or AGF) Group, a major participant in insurance and financial services. We are ranked third in the French **property-casualty** market and eighth in the **life/health** insurance market, based on gross premiums written and statutory premiums, respectively, in 2006.¹⁾ AGF's activities encompass several areas, including: property-

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

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

Products & Distributions

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

Outlook

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

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

⁽¹⁾ Source : French Insurers Association, FFSA

⁽²⁾ Please see Information on the Company Legal structure AGF minorities buy-out procedure completed for further information.

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Italy

Operations

In October 2007, the former operations of the RAS S.p.A., Lloyd Adriatico S.p.A. and Allianz Subalpina S.p.A were integrated into one single company, Allianz S.p.A., in an effort to better serve the Italian market with a broad range of insurance and financial products, more effective customer service and best practice solutions. Allianz S.p.A. is the second¹⁾ largest Italian insurance group based on gross premiums written and statutory premiums written, respectively.

Products & Distributions

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

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

Outlook

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

United Kingdom

Operations

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

Products & Distributions

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

Outlook

Operating in a highly competitive market, Allianz Insurance continues to concentrate on active cycle management, whereby we seek to capitalize on growth opportunities that offer a profitable correlation between premium rates and risks and forego premium growth in areas with increasing pricing pressures, as a measure to support operating profitability.

Switzerland

Operations

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

We conduct our **life/health** operations in this region primarily through Allianz Suisse Lebensversicherungs-Gesellschaft and Phénix Vie. In aggregate, these operating entities represent the sixth largest life insurance provider in Switzerland based on statutory premiums in 2006.²⁾

Products & Distributions

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

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

(1) Source : Italian Insurers Association, ANIA

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

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Outlook

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

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

Spain

Operations

We serve the Spanish **property-casualty** market through our operating entities Allianz Compañía de Seguros y Reaseguros S.A. and Fénix Directo S.A. We rank third in the Spanish market, based on gross premiums written in 2007.¹⁾

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

Products & Distributions

In Spain, we offer a wide variety of personal and commercial **property-casualty** insurance products, with an emphasis on motor business, comprising approximately two-thirds of our gross premiums written in Spain in 2007.

Additionally, we provide a broad **life/health** insurance product portfolio, consisting primarily of traditional life insurance, annuities, pension and unit-linked products, which are mainly distributed by agents and through our bank channel.

Outlook

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

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

Western and Southern Europe

Operations

We conduct **property-casualty** operations in most of the other Western and Southern European countries, of which, based on gross premiums written in 2007, the largest are our operations in the Netherlands, Austria and Ireland.

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

Products & Distributions

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

Outlook

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

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

⁽¹⁾ Source : Research and Statistics Bureau of Spanish Insurers and Pension Funds, ICEA

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New Europe

Our presence in New Europe dates back to the acquisition of the Hungarian state-run insurance company Hungaria Biztosító in 1989. Today, we operate our business in this region through more than 25 companies in 10 countries, and we are the largest foreign insurer based on statutory premiums and gross premiums written in 2006¹⁾, respectively. We offer life, health, property and casualty insurance, as well as pension fund products.

2007 in review:

February 21: Allianz acquires 49.2% of the shares of the ROSNO Group

May 21: Allianz acquires Russian insurer Progress-Garant

September 20: Market entry in Kazakhstan through the acquisition of 100% of the shares of ATF-Polis from ATF Bank

Operations

Based on gross premiums written in 2006¹⁾, we are the leading **property-casualty** international insurance company in New Europe, which we believe is one of the fastest growing insurance markets in the world. We serve the market through our operating subsidiaries in Hungary, the Czech Republic, Slovakia, Poland, Bulgaria, Romania, Croatia, Ukraine and Russia. Further expansion in the region has begun with the acquisition of ATF Polis insurance company in Kazakhstan.

In the **life/health** segment, we are present in all key markets in this region and are one of the top four life insurance providers, based on statutory premiums in 2006¹⁾.

Products & Distributions

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

Outlook

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

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

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

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Asia-Pacific and Africa

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

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

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

Allianz also operates in several countries in Africa.

2007 in review:

January 15: Acquisition of Commerce Assurance Berhad in Malaysia

January 18: Majority take over in Taiwan at Allianz President Life and re-branding as Allianz Taiwan Life on July 7

March 12: New joint venture Bajaj Allianz Financial Distributors Ltd. for distribution of financial products, such as mutual funds, credit cards and loans, throughout India

July 30: Licence to expand into Jiangsu province granted to Allianz China Life

November 20: Licence to enter Beijing life markets to Allianz China Life

Asia-Pacific

Operations

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

The majority of our **life/health** business in this region is conducted in South Korea through Allianz Life Insurance Co. Ltd. (Allianz Life Korea) and in Taiwan through Allianz Taiwan Life Insurance Company. Allianz Life Korea was the sixth-largest life insurance company in South Korea based on statutory premiums in 2007.¹⁾ We also maintain operations in Malaysia, Indonesia, as well as in China, Thailand, Pakistan and

India.

Products & Distributions

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

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

⁽¹⁾ Source: South Korean Life Insurance Association.

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Outlook

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

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

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

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

Australia

Operations

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

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

Products & Distributions

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

Outlook

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

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The Americas

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

2007 in review¹⁾:

July 2: Sale of our business in Venezuela

September 17: AGF Allianz Argentina renamed Allianz Argentina

United States

Operations

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

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

Products & Distributions

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

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

Outlook

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

After a slowdown in business in 2006 and 2007, Allianz Life U.S. is taking measures to grow its annuity products business by expanding distribution with broker-dealers, banks and wire-houses, designing channel-specific products and also reinforcing development of fixed-indexed and variable products.

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South America

Operations

We conduct our **property-casualty** operations in Brazil through our subsidiary AGF Brasil Seguros S.A. Based on gross premiums written in 2007, we are the eighth-largest property-casualty insurance provider in Brazil.¹⁾ We also sell property-casualty products in Colombia and Argentina.

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

Products & Distributions

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

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

Outlook

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

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

Worldwide Speciality Lines

Operations

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

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

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

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

Products & Distributions

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

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

Our Mondial Assistance Group offers travel insurance and assistance services.

Outlook

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

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

At Mondial Assistance Group, we seek to enter new markets and develop new products.

(1) Source: Based on data provided by National Association for Private Insurance Companies, FENASEG.

(2) Source: Own estimate based on information from International Credit Insurance and Surety Association, ICISA.

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

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Property-Casualty Insurance Reserves

General

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

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

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

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

The process of estimating loss and LAE reserves is by nature uncertain due to the large number of

variables affecting the ultimate amount of claims. Some of these variables are internal to the Allianz Group, such as changes in claims handling procedures, introduction of new IT systems or company acquisitions and divestitures. Others are external to the Allianz Group, such as inflation, judicial trends and legislative and regulatory changes. The Allianz Group attempts to reduce the uncertainty in reserve estimates through the use of multiple actuarial reserving techniques and analysis of the assumptions underlying each technique.

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

On the basis of currently available information, management believes that the Allianz Group's property-casualty loss and LAE reserves are adequate. However, the establishment of loss reserves is an inherently uncertain process, and accordingly, there can be no assurance that ultimate losses will not differ from these estimates. For more information, see Risk Factors Loss Reserves for Allianz Group's property-casualty insurance and reinsurance policies are based on estimates as to future claims liabilities. Adverse developments relating to claims could lead to further reserve additions and materially adversely impact Allianz Group's results of operations.

Overview of Loss Reserving Process

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

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Local Reserving Processes

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

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

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

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

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

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

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

Central Reserve Oversight Process

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

Minimum standards for actuarial loss reserving;

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

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

Regular quantitative and qualitative reserve monitoring.

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Each of these components is described further below.

Minimum standards for actuarial loss reserving: Group-wide minimum standards of actuarial reserving define the reserving practices which must be conducted by each operating entity. These standards provide guidance regarding all relevant aspects of loss reserving, including organization and structure, data, methods, and reporting. Group Actuarial monitors compliance with these minimum standards through a combination of diagnostic reviews i.e. standardized qualitative assessment of the required components in the reserving process and local site visits. Group Actuarial informs the local operating entity of areas requiring immediate remediation as well as areas for potential improvement and coordinates with the local operating entities to address the relevant issues and implement improvements.

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

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

reserve review of an Allianz Group company, it will perform a peer review of the entity's own analysis.

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

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

Loss and LAE Composition by Region and Line of Business

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

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The following table breaks down the loss and LAE reserves of the Allianz Group, in total and separately by IBNR and case reserves, gross of reinsurance, by region and major line of business for the years ending December 31, 2005, 2006 and 2007, on an IFRS basis. The credit, travel and global corporate lines are written on a world-wide basis through multiple legal entities in several countries, and as a result, are not included in the regional totals.

The Allianz Group estimates that loss and LAE reserves consist of approximately 10% short-tail, 62% medium-tail and 28% long-tail business.

Table of Contents**Allianz Group****Loss and LAE Reserves by Year, Region and Line of Business, Gross of Reinsurance⁽¹⁾****IFRS Basis****Euro in millions**

| | Automobile Insurance | | | General Liability | | | Property | | | Other Short-Tail Lines ⁽²⁾ | | | Other Medium-Tail Lines ⁽²⁾ | | | Other Long-Tail Lines ⁽²⁾ | | | Total | | |
|----------------------------------|----------------------|--------|--------|-------------------|--------|--------|----------|-------|-------|---------------------------------------|-------|-------|--|-------|-------|--------------------------------------|-------|-------|--------|--------|--------|
| of December 31, 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Germany ⁽³⁾ | 4,696 | 4,681 | 4,778 | 1,826 | 1,875 | 1,879 | 748 | 556 | 570 | | | | 2,731 | 2,454 | 2,276 | 2,051 | 2,017 | 1,940 | 12,053 | 11,583 | 11,441 |
| se Reserves ⁽¹⁾ | 4,579 | 4,555 | 4,650 | 1,251 | 1,300 | 1,309 | 592 | 452 | 455 | | | | 1,984 | 1,631 | 1,279 | 679 | 695 | 719 | 9,085 | 8,632 | 8,411 |
| NR | 117 | 126 | 128 | 574 | 575 | 570 | 156 | 104 | 115 | | | | 748 | 824 | 997 | 1,373 | 1,322 | 1,221 | 2,968 | 2,951 | 3,030 |
| France | 2,180 | 2,224 | 2,240 | 1,901 | 1,924 | 1,884 | 1,161 | 1,103 | 1,117 | 306 | 316 | 509 | 2,144 | 2,182 | 1,433 | 1,052 | 997 | 1,589 | 8,744 | 8,746 | 8,771 |
| se Reserves ⁽¹⁾ | 1,610 | 1,511 | 1,490 | 1,541 | 1,534 | 1,480 | 963 | 921 | 932 | 95 | 114 | 156 | 785 | 763 | 157 | 54 | 66 | 460 | 5,049 | 4,910 | 4,671 |
| NR | 571 | 713 | 750 | 359 | 390 | 404 | 197 | 182 | 186 | 211 | 202 | 353 | 1,359 | 1,419 | 1,276 | 997 | 931 | 1,130 | 3,695 | 3,836 | 4,099 |
| Italy | 4,175 | 4,192 | 4,360 | 1,579 | 1,716 | 1,833 | 449 | 521 | 464 | 142 | 134 | 168 | 430 | 459 | 419 | 12 | 14 | 19 | 6,786 | 7,035 | 7,261 |
| se Reserves ⁽¹⁾ | 2,927 | 3,091 | 3,401 | 1,023 | 1,067 | 1,182 | 422 | 510 | 470 | 119 | 110 | 132 | 385 | 407 | 376 | 11 | 13 | 18 | 4,886 | 5,197 | 5,571 |
| NR | 1,249 | 1,101 | 959 | 556 | 649 | 651 | 27 | 10 | (6) | 23 | 24 | 36 | 45 | 53 | 43 | 1 | 1 | 1 | 1,900 | 1,838 | 1,689 |
| United Kingdom | 1,029 | 1,005 | 883 | 418 | 503 | 520 | 615 | 485 | 384 | 73 | 77 | 77 | 194 | 259 | 245 | 927 | 935 | 789 | 3,257 | 3,265 | 2,891 |
| se Reserves ⁽¹⁾ | 836 | 847 | 809 | 306 | 356 | 403 | 456 | 356 | 342 | 30 | 29 | 25 | 116 | 179 | 176 | 607 | 577 | 500 | 2,350 | 2,344 | 2,251 |
| NR | 193 | 157 | 74 | 112 | 147 | 117 | 159 | 129 | 42 | 44 | 48 | 52 | 79 | 80 | 69 | 320 | 359 | 288 | 907 | 921 | 640 |
| Switzerland | 824 | 842 | 873 | 236 | 233 | 228 | 146 | 104 | 98 | 82 | 74 | 74 | 872 | 836 | 692 | 1,119 | 1,080 | 1,070 | 3,278 | 3,169 | 3,031 |
| se Reserves ⁽¹⁾ | 718 | 683 | 679 | 189 | 191 | 186 | 126 | 74 | 72 | 59 | 53 | 50 | 675 | 725 | 597 | 791 | 764 | 742 | 2,557 | 2,490 | 2,321 |
| NR | 106 | 159 | 193 | 47 | 42 | 42 | 20 | 29 | 26 | 24 | 22 | 24 | 197 | 111 | 95 | 328 | 315 | 329 | 721 | 679 | 710 |
| Main | 1,036 | 1,134 | 1,217 | 264 | 280 | 298 | 135 | 142 | 147 | 2 | 3 | 3 | 69 | 82 | 136 | 189 | 183 | 207 | 1,695 | 1,824 | 2,001 |
| se Reserves ⁽¹⁾ | 992 | 1,072 | 1,163 | 219 | 208 | 226 | 117 | 117 | 121 | 2 | 2 | 3 | 51 | 64 | 115 | 168 | 151 | 179 | 1,550 | 1,614 | 1,801 |
| NR | 44 | 62 | 54 | 44 | 72 | 72 | 17 | 25 | 26 | 0 | 0 | 0 | 19 | 19 | 20 | 21 | 32 | 28 | 145 | 210 | 200 |
| Other Europe | 2,742 | 2,864 | 2,927 | 1,033 | 1,051 | 1,117 | 485 | 538 | 630 | 302 | 197 | 210 | 174 | 146 | 82 | 604 | 592 | 653 | 5,340 | 5,388 | 5,611 |
| se Reserves ⁽¹⁾ | 2,379 | 2,378 | 2,445 | 781 | 786 | 838 | 441 | 433 | 535 | 247 | 132 | 141 | 133 | 121 | 71 | 432 | 436 | 485 | 4,414 | 4,287 | 4,511 |
| NR | 363 | 486 | 482 | 252 | 265 | 279 | 44 | 104 | 95 | 54 | 65 | 69 | 41 | 25 | 11 | 172 | 157 | 168 | 926 | 1,102 | 1,100 |
| APFTA Region ^{(3), (4)} | 533 | 419 | 294 | 4,001 | 3,575 | 3,079 | 148 | 145 | 175 | 414 | 270 | 177 | 1,080 | 1,103 | 1,048 | 1,345 | 1,077 | 954 | 7,519 | 6,589 | 5,721 |
| se Reserves ⁽¹⁾ | 311 | 230 | 164 | 1,261 | 1,250 | 918 | 28 | 89 | 115 | 257 | 47 | 95 | 571 | 270 | 129 | 1,057 | 846 | 693 | 3,485 | 2,730 | 2,111 |
| NR | 221 | 189 | 130 | 2,740 | 2,325 | 2,161 | 120 | 57 | 60 | 156 | 224 | 82 | 509 | 833 | 920 | 288 | 231 | 261 | 4,034 | 3,859 | 3,610 |
| Asia - Pacific Region | 1,384 | 1,381 | 1,508 | 379 | 379 | 403 | 219 | 184 | 221 | 39 | 40 | 1 | 110 | 119 | 182 | 671 | 665 | 694 | 2,802 | 2,768 | 3,011 |
| se Reserves ⁽¹⁾ | 782 | 899 | 998 | 110 | 113 | 128 | 147 | 114 | 168 | 3 | 2 | 0 | 49 | 49 | 55 | 217 | 221 | 229 | 1,307 | 1,398 | 1,571 |
| NR | 602 | 483 | 509 | 270 | 266 | 275 | 72 | 70 | 53 | 36 | 38 | 0 | 61 | 70 | 127 | 454 | 444 | 466 | 1,495 | 1,371 | 1,440 |
| South America & other | 165 | 176 | 167 | 56 | 59 | 63 | 110 | 149 | 187 | | | | 77 | 68 | 72 | | | | 407 | 452 | 491 |
| se Reserves ⁽¹⁾ | 130 | 127 | 129 | 55 | 57 | 59 | 91 | 136 | 182 | | | | 52 | 46 | 39 | | | | 328 | 366 | 401 |
| NR | 34 | 48 | 38 | 1 | 2 | 4 | 19 | 13 | 5 | | | | 25 | 22 | 34 | | | | 80 | 86 | 80 |
| Subtotal of countries / regions | 18,764 | 18,919 | 19,247 | 11,691 | 11,595 | 11,303 | 4,216 | 3,926 | 3,992 | 1,361 | 1,111 | 1,218 | 7,882 | 7,709 | 6,586 | 7,969 | 7,560 | 7,916 | 51,882 | 50,818 | 50,261 |
| se Reserves ⁽¹⁾ | 15,264 | 15,393 | 15,929 | 6,736 | 6,862 | 6,728 | 3,384 | 3,203 | 3,391 | 813 | 488 | 603 | 4,800 | 4,254 | 2,994 | 4,015 | 3,767 | 4,024 | 35,010 | 33,968 | 33,661 |
| NR | 3,500 | 3,525 | 3,318 | 4,956 | 4,732 | 4,575 | 832 | 723 | 601 | 548 | 622 | 615 | 3,082 | 3,455 | 3,591 | 3,954 | 3,793 | 3,892 | 16,872 | 16,850 | 16,599 |
| Credit Insurance | | | | | | | | | | 688 | 691 | 656 | 424 | 351 | 387 | | | | 1,112 | 1,042 | 1,041 |
| se Reserves ⁽¹⁾ | | | | | | | | | | 445 | 452 | 424 | 663 | 586 | 622 | | | | 1,108 | 1,038 | 1,041 |
| NR | | | | | | | | | | 243 | 239 | 232 | (239) | (235) | (235) | | | | 4 | 4 | (1) |

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| | Automobile Insurance | | | General Liability | | | Property | | | Other Short-Tail Lines ⁽²⁾ | | | Other Medium-Tail Lines ⁽²⁾ | | | Other Long-Tail Lines ⁽²⁾ | | | Total | | |
|--|----------------------|--------|--------|-------------------|--------|--------|----------|-------|-------|---------------------------------------|-------|-------|--|--------|-------|--------------------------------------|-------|-------|--------|--------|--------|
| of December 31, 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| lianz Global Corporate | | | | | | | | | | | | | | | | | | | | | |
| Specialty ⁽³⁾ | | | | 1,632 | 1,399 | 1,229 | 1,930 | 1,594 | 1,165 | 72 | 131 | 152 | 2,819 | 2,921 | 2,870 | 685 | 616 | 54 | 7,137 | 6,662 | 5,411 |
| ase Reserves ⁽¹⁾ | | | | 713 | 719 | 483 | 1,305 | 966 | 828 | 33 | 78 | 75 | 1,622 | 1,463 | 1,617 | 441 | 408 | 27 | 4,114 | 3,633 | 3,023 |
| NR | | | | 919 | 681 | 746 | 625 | 629 | 337 | 39 | 53 | 77 | 1,197 | 1,458 | 1,253 | 244 | 208 | 27 | 3,023 | 3,028 | 2,411 |
| Travel Insurance and Assistance Services | | | | | | | | | | 128 | 143 | 169 | | | | | | | 128 | 143 | 169 |
| ase Reserves ⁽¹⁾ | | | | | | | | | | 108 | 117 | 140 | | | | | | | 108 | 117 | 140 |
| NR | | | | | | | | | | 20 | 26 | 28 | | | | | | | 20 | 26 | 28 |
| Subtotal of specific business (global) | | | | 1,632 | 1,399 | 1,229 | 1,930 | 1,594 | 1,165 | 888 | 964 | 976 | 3,243 | 3,272 | 3,257 | 685 | 616 | 54 | 8,377 | 7,846 | 6,649 |
| ase Reserves ⁽¹⁾ | | | | 713 | 719 | 483 | 1,305 | 966 | 828 | 586 | 647 | 639 | 2,285 | 2,049 | 2,239 | 441 | 408 | 27 | 5,330 | 4,789 | 4,211 |
| NR | | | | 919 | 681 | 746 | 625 | 629 | 337 | 302 | 317 | 337 | 958 | 1,223 | 1,018 | 244 | 208 | 27 | 3,047 | 3,057 | 2,440 |
| lianz Group Total | 18,764 | 18,919 | 19,247 | 13,323 | 12,994 | 12,532 | 6,146 | 5,520 | 5,157 | 2,248 | 2,075 | 2,194 | 11,125 | 10,981 | 9,842 | 8,654 | 8,176 | 7,970 | 60,259 | 58,664 | 56,911 |
| ase Reserves ⁽¹⁾ | 15,264 | 15,393 | 15,929 | 7,448 | 7,581 | 7,211 | 4,689 | 4,169 | 4,219 | 1,399 | 1,136 | 1,242 | 7,085 | 6,303 | 5,233 | 4,456 | 4,175 | 4,051 | 40,340 | 38,757 | 37,811 |
| NR | 3,500 | 3,525 | 3,318 | 5,875 | 5,413 | 5,321 | 1,457 | 1,352 | 938 | 850 | 939 | 952 | 4,040 | 4,678 | 4,609 | 4,198 | 4,001 | 3,920 | 19,919 | 19,908 | 19,099 |

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

(2) For 2007 lines of business are allocated to Other Short-, Medium- and Long-Tail Lines based on more detailed information depending on duration by jurisdiction.

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

(3) Allianz Global Corporate & Specialty was established in 2006 and combines reserves formerly presented as Marine & Aviation and as part of reserves for Germany and NAFTA Region.

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

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

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

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

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

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

Reconciliation of Beginning and Ending Loss and LAE Reserves

The following table reconciles the beginning and ending reserves of the Allianz Group, including the effect of reinsurance ceded, for the property-casualty insurance segment for each of the years in the three-year period ended December 31, 2007 on an IFRS basis.

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

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

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

Table of Contents**Changes in Loss and LAE Reserves During 2007**

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

Allianz Group**Changes in Loss and LAE Reserves During 2007 Gross and Net of Reinsurance****IFRS Basis****Euros in millions**

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

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

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

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

Germany

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

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

Unfavorable developments included:

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

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

Favorable developments included:

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

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

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

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

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

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

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

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

France

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

Favorable developments in France included:

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

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

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

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

Unfavorable developments in France included:

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

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

Italy

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

Favorable developments in Italy included:

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

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

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

United Kingdom

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

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

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

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

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

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

Switzerland

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

Spain

Gross loss and LAE reserves for Allianz Seguros developed favorably by 137 million, or 7.5% of the reserves at December 31, 2006. This favorable development is mainly due to a refinement of methodology. Due to a limited history of data, in the past, estimates have been based on incurred loss development in prior reserve reviews. In 2007, more history was available to rely on paid loss development, allowing for a more stable analysis.

Rest of Europe

Loss and LAE reserves in other European Allianz Group companies developed favorably by 255 million, or 4.7% of reserves at December 31, 2006. This figure includes the result of favorable and unfavorable developments for numerous individual companies. As the business is written in different currencies, these developments were also affected by foreign exchange rate movements.

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

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

36 million in aggregate on other business lines.

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

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

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

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

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

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

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

NAFTA Region

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

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

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

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

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

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

Asia-Pacific

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

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

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

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

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

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

Credit Insurance

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

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

Allianz Global Corporate and Specialty

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

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

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

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

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

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

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

Changes in Historical Loss and LAE Reserves

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The following table illustrates the development of the Allianz Group's loss and LAE reserves, on an IFRS basis and gross of reinsurance, over the past eleven years. As the Allianz Group adopted IFRS in 1997, historical loss development data is available on an IFRS basis for the ten years 1997 to 2007 only.

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

The bottom section compares the latest re-estimated gross reserves for loss and LAE to the gross reserves as initially established, and indicates the cumulative development of the initially established gross reserves through December 31, 2007. The surplus (deficiency) shown in the table for each year represents the aggregate amount by which the original estimates of reserves at that year-end have changed in subsequent years. Accordingly, the cumulative surplus (deficiency) for a year-end relates only to reserves at that year-end and such amounts are not additive. Caution should be exercised in evaluating the information shown on this table, as each amount includes the effects of all changes in amounts for prior periods. For example, the development of 1997 reserves during 2000 is included in the cumulative surplus (deficiency) of the 1997 through 1999 columns.

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

Companies acquired or divested during the period shown in the table can lead to distortions in the cumulative surplus or deficiency. The table starts with the presentation of gross liabilities for unpaid claims and claims expenses as accounted as of the respective date of the balance sheet. Over time, these

liabilities are re-estimated. In addition, these liabilities will change if, through acquisition or sale of a company, entire new portfolios of claim payments and reserves are added to or subtracted from the data. In addition, changes in currency exchange rates can lead to distortions in the cumulative surplus or deficiency. At the end of this table, we quantify the effects of the change in the set of consolidated entities and of foreign exchange, and present the cumulative loss development excluding these two effects. Prior year amounts have been reclassified to conform to the current year presentation.

Allianz Group**IFRS Basis****Euro in Millions**

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

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

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

The overall increase in loss and LAE reserves from 2004 to 2005 was caused in part by the unusually high frequency and severity of natural catastrophes in 2005, including an estimated net reserve of 1,090 million for the hurricanes Katrina, Rita and Wilma. An additional causative factor was the weakening of the Euro relative to U.S. Dollar and Australian Dollar during 2005. The relatively low reserve in 2006 as compared to 2005 was due to the relative absence of natural catastrophe claims in 2006.

Discounting of Loss and LAE Reserves

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

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

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

Asbestos and Environmental (A&E) Loss Reserves

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There are significant uncertainties in estimating A&E reserves for loss and LAE. Reserves for asbestos-related illnesses and environmental clean up losses cannot be estimated using traditional actuarial techniques due to the long latency period and changes in the legal, socio-economic and regulatory environment. Case reserves are established when sufficient information is available to indicate the involvement of a specific insurance policy. In

addition, IBNR reserves are established to cover additional exposures on both known and not yet reported claims. To the extent possible, A&E loss reserve estimates are based not only on claims reported to date, but also on a survey of policies that may be exposed to claims reported in the future (i.e., an exposure analysis).

In establishing liabilities for A&E claims, management considers facts currently known and the current state of the law and coverage litigation.

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

While the U.S. A&E claims still represent a majority of the total A&E claims reported to the Allianz Group, the insurance industry is facing an increased prominence in exposures to A&E claims on a global basis. We have, as a result, increased our analysis of these non-U.S. A&E exposures during 2006 and 2007. The results of our ongoing non-U.S. A&E reserve analysis resulted in a decrease of non-U.S. A&E reserves of 105 million in 2007.

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

| As of December 31, | A&E Net Reserves mn | A&E Gross Reserves mn | As percentage of the Allianz Group's Property-Casualty Gross Reserves |
|-----------------------|---------------------------|-----------------------------|--|
| 2005 | 3,147 | 3,873 | 6.4% |
| 2006 | 2,990 | 3,636 | 6.2% |
| 2007 | 2,764 | 3,287 | 5.8% |

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

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

Selected Statistical Information Relating to our Banking Operations

For the purposes of presenting the following information, our banking operations include Dresdner Bank AG and its subsidiaries (Dresdner Bank) and certain other banking subsidiaries of the Allianz Group. The following information has been derived from the financial records of our banking operations and has been prepared in accordance with IFRS; it does not reflect certain adjustments and consolidations to convert such information to the Allianz Group's consolidated financial statements. In particular, the assets and liabilities of Dresdner Bank do not reflect the purchase accounting adjustments applied for the Allianz Group's consolidated financial statements with respect to Dresdner Bank's assets and liabilities at July 23, 2001, the date of the acquisition of Dresdner Bank by the Allianz Group.

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

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

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

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

The information presented herein for the years ended December 2004 and 2003 was revised in 2005 to reflect the required retrospective application of IAS 39 revised, which became effective January 1, 2005, as if IAS 39 revised had always been used.

Average Balance Sheet and Interest Rate Data

The following table sets forth the average balances of assets and liabilities and related interest earned from interest-earning assets and interest expensed on interest-bearing liabilities, as well as the resulting average interest yields and rates for the years ended December 31, 2007, 2006 and 2005. The average balance sheet and interest rate data is based

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

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

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

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

| | Years Ended December 31, | | | | | | | | |
|---|--------------------------|--|--------------------------------|--------------------------|--|--------------------------------|--------------------------|--|--------------------------------|
| | Average Balance mn | 2007 Interest Income/ Expense mn | Average Yield/ Rate % | Average Balance mn | 2006 Interest Income/ Expense mn | Average Yield/ Rate % | Average Balance mn | 2005 Interest Income/ Expense mn | Average Yield/ Rate % |
| Assets⁽¹⁾ | | | | | | | | | |
| Financial assets carried at fair value through income | | | | | | | | | |
| In German offices ⁽²⁾ | 23,461 | 1,002 | 4.3% | 37,181 | 1,228 | 3.3% | 88,194 | 2,626 | 3.0% |
| In non-German offices | 48,664 | 1,894 | 3.9% | 55,947 | 2,364 | 4.2% | 53,059 | 1,941 | 3.7% |
| Total ⁽³⁾ | 72,125 | 2,896 | 4.0% | 93,128 | 3,592 | 3.9% | 141,253 | 4,567 | 3.2% |
| Loans and advances to banks | | | | | | | | | |
| In German offices | 26,178 | 962 | 3.7% | 23,205 | 768 | 3.3% | 19,646 | 424 | 2.2% |
| In non-German offices | 24,537 | 1,418 | 5.8% | 18,417 | 668 | 3.6% | 13,322 | 564 | 4.2% |
| Total | 50,715 | 2,380 | 4.7% | 41,622 | 1,436 | 3.5% | 32,968 | 988 | 3.0% |
| Loans and advances to customers | | | | | | | | | |
| In German offices | 81,343 | 4,004 | 4.9% | 76,642 | 3,834 | 5.0% | 77,873 | 4,313 | 5.5% |
| In non-German offices | 49,921 | 2,903 | 5.8% | 45,993 | 3,165 | 6.9% | 32,261 | 1,600 | 5.0% |
| Total | 131,264 | 6,907 | 5.3% | 122,635 | 6,999 | 5.7% | 110,134 | 5,913 | 5.4% |
| Securities purchased under resale agreements | | | | | | | | | |
| In German offices | 89,847 | 4,635 | 5.2% | 91,242 | 3,622 | 4.0% | 83,614 | 2,690 | 3.2% |
| In non-German offices | 78,623 | 3,685 | 4.7% | 68,300 | 2,361 | 3.5% | 85,379 | 2,324 | 2.7% |
| Total | 168,470 | 8,320 | 4.9% | 159,542 | 5,983 | 3.8% | 168,993 | 5,014 | 3.0% |
| Investment securities ⁽⁴⁾ | | | | | | | | | |
| In German offices | 8,108 | 331 | 4.1% | 8,585 | 307 | 3.6% | 7,304 | 237 | 3.2% |
| In non-German offices | 4,436 | 182 | 4.1% | 4,394 | 161 | 3.7% | 5,739 | 237 | 4.1% |
| Total | 12,544 | 513 | 4.1% | 12,979 | 468 | 3.6% | 13,043 | 474 | 3.6% |
| Total interest-earning assets | 435,118 | 21,016 | 4.8% | 429,906 | 18,478 | 4.3% | 466,391 | 16,956 | 3.6% |
| Non-interest-earning assets | | | | | | | | | |
| In German offices | 97,118 | | | 92,435 | | | 89,295 | | |
| In non-German offices | 51,780 | | | 46,644 | | | 43,714 | | |
| Total non-interest -earning assets | 148,898 | | | 139,079 | | | 133,009 | | |
| Total assets | 584,016 | | | 568,985 | | | 599,400 | | |
| Percent of assets attributable to non-German offices | 44.2% | | | 42.1% | | | 39.0% | | |

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

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

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

Table of Contents**Net Interest Margin**

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

| | Years Ended December 31, | | |
|---|--------------------------|---------------------|---------------------|
| | 2007 | 2006 ⁽³⁾ | 2005 ⁽³⁾ |
| | mn | mn | mn |
| Average total interest-earning assets | 435,118 | 429,906 | 466,391 |
| Net interest earned ⁽¹⁾ | 2,810 | 2,806 | 3,772 |
| Net interest margin in % ⁽²⁾ | 0.65% | 0.65% | 0.81% |

(1) Net interest earned is defined as total interest income less total interest expense.

(2) Net interest margin is defined as net interest earned divided by average total interest-earning assets.

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

The following table sets forth an allocation of changes in interest income, interest expense and net interest income between changes in the average volume and those caused by changes in the average interest rates for the two most recent years. Volume and interest rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Changes due to a combination of volume and rate are allocated proportionally to the absolute change in volume and rate. Interest income includes loan fees amounting to 154 million in 2007 (2006: 181 million; 2005: 97 million).

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

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

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

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

Table of Contents**Return on Equity and Assets**

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

| | Years Ended December 31, | | |
|--|--------------------------|---------------------|---------------------|
| | 2007 | 2006 ⁽⁴⁾ | 2005 ⁽⁴⁾ |
| | mn | mn | mn |
| Net income/(loss) | 443 | 909 | 1,768 |
| Average shareholders' equity | 12,284 | 12,349 | 11,934 |
| Return on assets in % ⁽¹⁾ | 0.08% | 0.16% | 0.29% |
| Return on equity in % ⁽²⁾ | 3.61% | 7.36% | 14.81% |
| Equity to assets ratio in % ⁽³⁾ | 2.10% | 2.17% | 1.99% |

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

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

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

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

Financial Assets Carried At Fair Value Through Income and Investment Securities

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

| | As of December 31, | | |
|--|--------------------|--------|--------|
| | 2007 | 2006 | 2005 |
| | mn | mn | mn |
| Financial assets carried at fair value through income | | | |
| German: | | | |
| Federal and state government and government agency debt securities | 4,658 | 4,247 | 11,497 |
| Local government debt securities | 1,717 | 1,885 | 690 |
| Corporate debt securities | 4,342 | 10,135 | 18,972 |
| Mortgage-backed securities | 90 | 162 | 139 |
| Equity securities | 3,627 | 2,627 | 2,656 |
| German total | 14,434 | 19,056 | 33,954 |

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

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| | | | |
|---|--------|---------|---------|
| Equity securities | 33,298 | 32,626 | 28,105 |
| Non-German total | 80,203 | 97,977 | 107,580 |
| Total financial assets carried at fair value through income | 94,637 | 117,033 | 141,534 |

Securities available-for-sale

German⁽³⁾:

| | | | |
|--|-------|-------|-------|
| Federal and state government and government agency debt securities | 280 | 345 | 305 |
| Local government debt securities | 547 | 1,347 | 1,777 |
| Corporate debt securities | 4,246 | 4,068 | 5,195 |
| Equity securities | 1,043 | 1,261 | 1,573 |
| German total | 6,116 | 7,021 | 8,850 |

Non-German:

| | | | |
|--|-------|-------|-------|
| U.S. Treasury and other U.S. government agency debt securities | 4 | 79 | 5 |
| Other government and official institution debt securities | 1,315 | 1,401 | 1,245 |
| Corporate debt securities | 5,490 | 5,536 | 3,180 |
| Mortgage-backed securities | 13 | 11 | 266 |
| Other debt securities | | 100 | 455 |
| Equity securities | 2,234 | 1,931 | 1,649 |
| Non-German total | 9,056 | 9,058 | 6,800 |

| | | | |
|-------------------------------------|--------|--------|--------|
| Total securities available-for-sale | 15,172 | 16,079 | 15,650 |
|-------------------------------------|--------|--------|--------|

Securities held-to-maturity

Non-German:

| | | | |
|---|--|--|----|
| Other government and official institution debt securities | | | 41 |
|---|--|--|----|

| | | | |
|------------------|--|--|----|
| Non-German total | | | 41 |
|------------------|--|--|----|

| | | | |
|-----------------------------------|--|--|----|
| Total securities held-to-maturity | | | 41 |
|-----------------------------------|--|--|----|

- (1) The change in non-German fair value corporate debt securities and mortgage-backed securities in 2006 is attributable to a reclassification of such securities to provide a more accurate disclosure.
- (2) The change in non-German fair value other debt securities in 2006 and 2005 is attributable to RAS Bank's reclassification of such securities from the non-German corporate fair value debt securities category to provide a more accurate disclosure.
- (3) We did not hold any German mortgage-backed securities available-for-sale from 2005 to 2007.

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

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

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

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

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

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

At December 31, 2007, our banking operations held no ordinary shares with a book value in excess of ten percent of the shareholders' equity of our banking operations.

Maturity Analysis of Debt Investment Securities

The following table sets forth an analysis of the contractual maturity and weighted average yields of our banking operation's debt investment securities. Actual maturities may differ from contractual maturity dates because issuers may have the right to call or prepay obligations. The allocation between German and non-German components is based on the domicile of the issuer. We did not hold any securities held-to-maturity in 2007.

| | As of December 31, 2007 | | | | |
|--|-------------------------------------|--|---|------------------------------|-------------|
| | Due In One Year Or Less mn | Due After One Year Through Five Years mn | Due After Five Years Through Ten Years mn | Due After Ten Years mn | Total mn |
| Securities available-for-sale | | | | | |
| German: | | | | | |
| Federal and state government and government agency debt securities | 8 | 101 | 167 | 4 | 280 |
| Local government debt securities | 138 | 341 | 68 | 0 | 547 |

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

Table of Contents**Loan Portfolio**

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

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

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

- (1) The decrease in the non-German Corporate Construction and Manufacturing loan category from 2003 to 2004 is primarily attributable to the reduction of our foreign non-strategic loan business.
- (2) The decrease in the residential mortgage loans balance and the non-German private individuals loans balance from 2003 to 2004 is primarily attributable to the sale of our banking subsidiary Entenial in January 2004.

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

| | As of December 31, | | | | |
|----------------|--------------------|--------|--------|--------|--------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | mn | mn | mn | mn | mn |
| Mortgage loans | 24,145 | 25,184 | 25,877 | 28,193 | 38,191 |
| Finance leases | 1,218 | 2,081 | 1,500 | 1,248 | 933 |

Loan Concentrations

Although our loan portfolio is diversified across more than 138 countries, at December 31, 2007 approximately 61.2% of our total loans were to borrowers in Germany. At December 31, 2007, our largest credit exposures to borrowers in Germany were loans to private individuals (including self-employed professionals) constituting 52.3% of German loans; this category represented 32.0% of our total loans outstanding at December 31, 2007. Approximately 55.7% of these loans are residential mortgage loans, which represent approximately 17.8% of our total loans outstanding at December 31, 2007. Our residential mortgage loans include owner-occupied, single- and two-family homes and apartment dwellings and investment properties. Our residential mortgage loans are well diversified across all German states. Our remaining loans to private individuals in Germany primarily include other consumer installment loans and loans to self-employed professionals, which are also geographically diversified across Germany. We have no other concentrations of loans to private individuals (including self-employed professionals) in Germany in excess of ten percent of our total loans.

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

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

At December 31, 2007, approximately 15.0% of our total loans were to non-financial corporate borrowers outside Germany. These loans are well- diversified across various commercial industries, including:

| | As of December 31, 2007 Percent of Total Loans |
|--|--|
| Manufacturing | 3.2% |
| Construction | 0.3% |
| Wholesale and retail trade | 0.9% |
| Telecommunications | 0.2% |
| Transportation | 2.4% |
| Other service providers ⁽¹⁾ | 4.0% |
| Other ⁽²⁾ | 4.1% |

⁽¹⁾ Other services providers include media, utilities, natural resources and other services.

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

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

Table of Contents**Maturity Analysis of Loan Portfolio**

The following table sets forth an analysis of the contractual maturity of our loans at December 31, 2007. The allocation between German and non-German components is based on the domicile of the borrower.

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

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

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The following table sets forth the total amount of loans with predetermined interest rates and floating or adjustable interest rates that, at December 31, 2007, are due after one year. Loans with predetermined interest rates are loans for which the interest rate is fixed for the entire term of the loan. All other loans are considered floating or adjustable interest rate loans. The allocation between German and non-German components is based on the domicile of the borrower.

| | As of December 31, 2007 | | |
|---|---|---|-------------|
| | Loans with Predetermined Interest Rates mn | Loans with Floating or Adjustable Interest Rates mn | Total mn |
| German: | | | |
| Private individuals (including self-employed professionals) | 27,503 | 3,343 | 30,846 |
| Corporate and public customers | 13,156 | 5,571 | 18,727 |
| German total | 40,659 | 8,914 | 49,573 |
| Non-German: | | | |
| Private individuals (including self-employed professionals) | 568 | 901 | 1,469 |
| Corporate and public customers | 9,225 | 12,199 | 21,424 |
| Non-German total | 9,793 | 13,100 | 22,893 |
| Total | 50,452 | 22,014 | 72,466 |

Risk Elements***Non-performing Loans***

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

| | As of December 31, | | | | |
|--|--------------------|------------|------------|------------|------------|
| | 2007 mn | 2006 mn | 2005 mn | 2004 mn | 2003 mn |
| Non-accrual loans⁽¹⁾: | | | | | |
| German | 1,231 | 1,570 | 1,855 | 4,774 | 6,459 |
| Non-German ⁽²⁾ | 324 | 231 | 247 | 831 | 2,236 |
| Total non-accrual loans | 1,555 | 1,801 | 2,102 | 5,605 | 8,695 |
| Loans past due 90 days and still accruing interest⁽¹⁾: | | | | | |
| German | 176 | 176 | 251 | 390 | 477 |
| Non-German | 23 | 14 | 293 | 321 | 183 |
| Total loans past due 90 days and still accruing interest | 199 | 190 | 544 | 711 | 660 |

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

- (1) The overall decline in the risk elements is predominantly driven by the disposal of non-strategic assets and the streamlining of the retail portfolio.
- (2) The increase in non-German non-accrual loans from 2006 to 2007 is primarily attributable to impairments in connection with the failure of two major credit exposures.

Table of Contents***Non-accrual Loans***

Non-accrual loans are those for which interest or other income are no longer recognized on an accrual basis. Loans are placed on non-accrual status when we determine, based on management's judgment, that the payment of interest or principal is doubtful. Management's judgment is applied based on its credit assessment of the borrower.

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

Loans Past Due 90 Days and Still Accruing Interest

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

Troubled Debt Restructurings

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

Interest Income on Non-performing Loans

The following table sets forth the gross interest income that would have been recorded during the year ended December 31, 2007 on non-accrual loans and troubled debt restructurings had such loans been current in accordance with their original contractual terms and the interest income on such loans that was actually included in interest income during the year ended December 31, 2007.

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

Potential Problem Loans

Potential problem loans are loans that are not classified as non-performing loans, but for which known information about possible credit problems causes us to have serious doubts as to the ability of the borrower to comply with the present loan repayment terms and which may result in classifying the loans in one of the three categories of non-performing loans described above.

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

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

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

Approximately 5.5% of our potential problem loans are to private individuals in Germany. The remaining loans are to corporate borrowers in manufacturing, construction, wholesale and retail trade, telecommunication, transportation and other services, including media, utilities, natural resources and other services and other industry sectors. Our potential problem loans to corporate borrowers are concentrated in the following geographic regions based on the domicile of the borrower:

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

Table of Contents**Foreign Outstandings**

Cross-border outstandings consist of loans, net of allowances for loan losses, accrued interest receivable, acceptances, interest-bearing deposits with other banks, other interest-earning investments and other monetary assets that either are recorded in an office that is not in the same country as the domicile of the borrower, guarantor, issuer or counterparty, or are denominated in a currency that is not the local currency of the borrower, guarantor, issuer or counterparty or are net local country claims. Net local country claims are domestic claims recorded in offices outside Germany that are denominated in local or foreign currency and that are not funded by liabilities in the same currency as the claim and recorded in the same office.

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

The following table sets forth our cross-border outstandings by geographic location for countries that exceeded 0.75% of the total assets of our banking operations. At December 31, 2007, there were no cross-border outstandings that exceeded 0.50% of the total assets of our banking operations in any country currently facing debt restructurings or liquidity problems that we expect would materially impact the borrowers' ability to repay their obligations.

| As of December 31, 2007 | | | | | | | |
|-------------------------|--|--|----------------------------|--------------------------------------|--|---|--|
| Country | Government and Official Institutions mn | Banks and Financial Institutions mn | Other ⁽¹⁾ mn | Net local Country Claims mn | Total Cross- border Outstandings mn | Percent of Total Assets ^{(2), (3)} | Cross-border Commitments ⁽⁴⁾ mn |
| United States | 7 | 7,614 | 7,480 | 7,185 | 22,286 | 4.40% | 4,332 |
| United Kingdom | 891 | 17,882 | 9,320 | 314 | 28,407 | 5.61% | 10,691 |
| France | 376 | 5,302 | 2,886 | | 8,564 | 1.69% | 2,137 |
| Italy | 1,516 | 1,499 | 3,027 | 134 | 6,176 | 1.22% | 5,648 |
| Netherlands | 3 | 1,929 | 2,093 | | 4,025 | 0.80% | 592 |
| Switzerland | 67 | 2,239 | 1,682 | | 3,988 | 0.79% | 706 |
| Cayman Islands | | 136 | 9,746 | | 9,882 | 1.95% | 3,286 |
| Ireland | | 1,151 | 7,110 | | 8,261 | 1.63% | 531 |
| Luxemburg | | 2,533 | 2,347 | 29 | 4,909 | 0.97% | 568 |

| As of December 31, 2006 | | | | | | | |
|-------------------------|--|--|----------------------------|--------------------------------------|--|---|--|
| Country | Government and Official Institutions mn | Banks and Financial Institutions mn | Other ⁽¹⁾ mn | Net local Country Claims mn | Total Cross- border Outstandings mn | Percent of Total Assets ^{(2), (3)} | Cross-border Commitments ⁽⁴⁾ mn |
| United States | 45 | 3,194 | 13,320 | | 16,559 | 2.96% | 22,751 |
| United Kingdom | | 4,512 | 7,178 | 55 | 11,745 | 2.1% | 22,104 |
| France | 1,465 | 5,071 | 3,798 | | 10,334 | 1.85% | 11,714 |
| Italy | 1,257 | 1,413 | 1,510 | | 4,180 | 0.75% | 9,965 |

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

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| Country | As of December 31, 2005 | | | | | | |
|----------------|--|--|----------------------------|--------------------------------------|--|---|--|
| | Government and Official Institutions mn | Banks and Financial Institutions mn | Other ⁽¹⁾ mn | Net local Country Claims mn | Total Cross- border Outstandings mn | Percent of Total Assets ^{(2), (3)} | Cross-border Commitments ⁽⁴⁾ mn |
| United States | 60 | 1,849 | 16,704 | | 18,613 | 3.49% | 3,325 |
| United Kingdom | | 2,672 | 6,665 | 84 | 9,421 | 1.76% | 9,423 |
| France | 3,443 | 3,082 | 3,611 | 14 | 10,150 | 1.90% | 2,765 |
| Italy | 1,826 | 1,682 | 1,665 | 543 | 5,716 | 1.07% | 6,428 |
| Cayman Islands | 9,656 | 87 | 1,114 | | 10,857 | 2.03% | 2,370 |

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

(2) Percent of total assets is defined as total cross-border outstandings divided by total assets of our banking operations. The total assets of our banking operations were 506 billion, 560 billion and 534 billion at December 31, 2007, 2006 and 2005, respectively.

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

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

At December 31, 2007 and 2006, there were no material cross-border outstandings disclosed above that were also disclosed within the category of non-performing and potential problem loans.

Summary of Loan Loss Experience

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

The loan portfolio is divided into a homogenous and non-homogeneous portion. The homogeneous portion includes only loans in the domestic private banking business with gross risk less than 1 million.

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

A specific loan loss allowance for impaired loans within the non-homogeneous portfolio,

A portfolio loan loss allowance for loans within our homogeneous portfolio,

A general loan loss allowance for impairments that have been incurred but not yet identified within the non-homogeneous portfolio;
and

An allowance for transfer risk, or country risk allowances.

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

In order to avoid layering or double counting of specific, portfolio and general loan loss allowances, only those loans that have not been deemed impaired under International Accounting Standards Board's International Accounting Standard (or IAS) 39 *Financial Instruments: Recognition and Measurement* are included as part of the portfolio used to establish the general loan loss allowance. We do not maintain any additional reserves.

Specific Loan Loss Allowance

We evaluate our loans based on portfolio segmentation, classified either as homogeneous or non-homogeneous. Loans included within our Investment Banking division, as well as loans to borrowers within the Private & Corporate Clients division with gross risk equal to or greater than 1 million are classified as non-homogeneous, and are therefore evaluated individually. All remaining loans, i.e. loans to borrowers within the Private & Corporate Clients division with gross risk less than 1 million, form the homogeneous portfolio. These loans are evaluated on a portfolio-based approach. Prior to 2005, we evaluated each of our loans individually. Loans for which a specific loan loss allowance had been previously established were

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

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

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

We use an internal credit rating system to assign ratings from 1 to 16 to each loan within our portfolio, on the basis of specific quantitative and qualitative customer criteria, including financial condition, historical earnings, management quality, and general industry data, among others. Loans that are classified in the lowest rating categories 15 and 16 are impaired loans under IAS 39. Our internal rating system is subject to continuous improvement to reflect current market conditions.

Portfolio Loan Loss Allowance

As commenced in 2005, we determine loan loss allowances for all loans allocated to the homogeneous portfolio within our Private and Corporate Clients division (e.g. for mortgage loans and installment loans) with gross risk below 1 million by using a portfolio approach. This approach is based on historically derived loss rates

for the corresponding sub-portfolio and is dependent upon the respective products as well as geared to the individual overdraft status. The resulting risk allowance embraces incurred but unidentified losses for loans, which are performing properly. Prior to 2005, we determined the impairment allowance on the homogeneous portfolios by applying a back-testing approach. Portfolio allowances are presented within the respective risk category.

General Loan Loss Allowance

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

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

Country Risk Allowance

We establish country risk allowances for convertibility and transfer risk. Convertibility and transfer risk is a measure of the likely ability of a borrower in a certain country to repay its cross-border obligations. A cross-border transaction exists if the country of cash flow of the lender is not identical with the country of cash flow of the borrower. Country risk allowances are presented within the specific or general risk category, as appropriate.

Self-Correcting Mechanisms

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

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observed losses is our practice of basing loss estimates on our historical loss experience. Where actual observed losses differ from estimated losses, information relating to the actual observed losses is incorporated into the historical statistical data on which we base our estimates and is accordingly reflected in our subsequent estimated losses. Similarly, the credit default models that we use in calculating the general loan loss allowance are regularly updated to reflect current market conditions.

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

Movements in Loan Loss Allowance

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

Our total loan portfolio increased by 159 million, or 0.1%, to 113,973 million at December 31, 2007 from 113,814 million at

December 31, 2006. As a result of the wind-down of our non-strategic loan portfolio, non-performing loans and potential problem loans have been significantly reduced since 2004. Our non-performing loans decreased by 238 million, or 11.8%, while our potential problem loans were reduced by 12 million, or 23.8%, from December 31, 2006 to December 31, 2007. Our specific loan loss provisions slightly increased by 17 million, or 3.9% from 431 million to 448 million at December 31, 2007, related to provisions in connection with a single major credit exposure.

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

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

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

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

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

| | 2007 | | 2006 | | As of December 31, 2005 | | 2004 | | 2003 | |
|--|--------------|--|--------------|--|----------------------------|--|--------------|--|--------------|--|
| | Amount mn | Percent of total loans in each category to total loans | Amount mn | Percent of total loans in each category to total loans | Amount mn | Percent of total loans in each category to total loans | Amount mn | Percent of total loans in each category to total loans | Amount mn | Percent of total loans in each category to total loans |
| German: | | | | | | | | | | |
| Corporate: | | | | | | | | | | |
| Manufacturing | 39 | 5.9% | 70 | 5.3% | 105 | 4.9% | 447 | 6.5% | 687 | 6.9% |
| Construction | 32 | 1.0% | 39 | 0.7% | 63 | 0.6% | 230 | 0.8% | 256 | 0.9% |
| Wholesale and retail trade | 26 | 4.3% | 29 | 3.8% | 63 | 4.6% | 271 | 4.1% | 382 | 3.7% |
| Financial institutions (excluding banks) and insurance companies | 17 | 4.3% | 9 | 4.1% | 21 | 3.1% | 83 | 2.0% | 94 | 2.6% |
| Banks | | 1.8% | | 1.5% | 1 | 1.7% | 2 | 1.2% | 1 | 0.2% |
| Service providers | | | | | | | | | | |
| Telecommunication | | 0.1% | | 0.4% | | 0.6% | 4 | 0.4% | 7 | 0.1% |
| Transportation | 1 | 1.5% | 2 | 1.2% | 4 | 1.2% | 30 | 1.1% | 34 | 0.8% |
| Other Service Providers | 24 | 6.4% | 67 | 6.9% | 183 | 8.4% | 503 | 10.5% | 726 | 10.4% |
| Total Service Providers | 25 | | 69 | 8.5% | 187 | 10.3% | 537 | 12.0% | 767 | 11.2% |
| Other | 16 | 3.6% | 14 | 2.5% | 41 | 2.1% | 34 | 1.9% | 39 | 2.0% |
| Corporate total | 155 | 29.1% | 230 | 26.4% | 481 | 27.3% | 1,604 | 28.5% | 2,226 | 27.5% |
| Public authorities | | 0.2% | | 0.3% | | 0.3% | | 0.5% | | 0.5% |
| Private individuals (including self-employed professionals) | 59 | 32.0% | 76 | 33.2% | 115 | 38.5% | 1,211 | 39.6% | 1,409 | 35.3% |
| German total | 214 | 61.2% | 306 | 59.8% | 596 | 66.1% | 2,815 | 68.6% | 3,635 | 63.2% |

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

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

(2) For reasons of simplicity and materiality and to reflect our current reserving process, the category Country Risk Allowance, disclosed separately in previous years' financial statements, will be from now on allocated to the categories of specific and general allowances, using objective criteria. The amounts of 95 mn, 225 mn, 252 mn and 259 mn as of December 31, 2006, 2005, 2004 and 2003 have been re-allocated to general allowance.

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

| | Years Ended December 31, | | | | |
|--|--------------------------|-------|-------|-------|-------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | mn | mn | mn | mn | mn |
| Total allowances for loan losses at beginning of the year | 1,012 | 1,596 | 4,109 | 5,720 | 6,966 |
| Gross charge-offs: | | | | | |
| German: | | | | | |
| Corporate: | | | | | |
| Manufacturing | 43 | 69 | 366 | 217 | 146 |
| Construction | 15 | 33 | 193 | 53 | 72 |
| Wholesale and retail trade | 21 | 53 | 233 | 169 | 113 |
| Financial institutions (excluding banks) and insurance companies | 3 | 22 | 87 | 31 | 28 |
| Banks | | | | | 7 |
| Service providers | | | | | |
| Telecommunication | | | 2 | | 41 |
| Transportation | 3 | 6 | 24 | 11 | 13 |
| Other Service Providers | 41 | 84 | 414 | 475 | 180 |
| Total Service Providers | 44 | 90 | 440 | 486 | 234 |
| Other | 6 | 5 | 21 | 21 | 53 |
| Corporate total | 132 | 272 | 1,340 | 977 | 653 |
| Private individuals (including self-employed professionals) | 200 | 229 | 1,156 | 404 | 590 |
| German total | 332 | 501 | 2,496 | 1,381 | 1,243 |
| Non-German: | | | | | |
| Corporate: | | | | | |
| Manufacturing | 3 | | 51 | 51 | 41 |
| Construction | | 4 | 2 | 3 | 13 |
| Wholesale and retail trade | 5 | 1 | 31 | 21 | 80 |
| Financial institutions (excluding banks) and insurance companies | | 51 | 28 | 46 | 9 |
| Banks | | 43 | 1 | 70 | 52 |
| Service providers | | | | | |
| Telecommunication | | | 24 | 29 | 44 |
| Transportation | | 1 | 23 | 26 | 9 |
| Other Service Providers | | | 26 | 98 | 45 |
| Total Service Providers | | 1 | 73 | 153 | 98 |
| Other | | 8 | 22 | 107 | 391 |
| Corporate total | 8 | 108 | 208 | 451 | 684 |
| Public authorities | | | | 4 | 1 |
| Private individuals (including self-employed professionals) | 4 | 5 | 22 | 14 | 43 |
| Non-German total | 12 | 113 | 230 | 469 | 728 |
| Total gross charge-offs | 344 | 614 | 2,726 | 1,850 | 1,971 |
| Recoveries: | | | | | |
| German: | | | | | |
| Corporate: | | | | | |
| Manufacturing | 18 | 11 | | 3 | 1 |
| Construction | 7 | 4 | | | |
| Wholesale and retail trade | 9 | 6 | | 2 | |
| Financial institutions (excluding banks) and insurance companies | 1 | 2 | | | |
| Service providers | | | | | |
| Transportation | 1 | | 1 | | 1 |
| Other Service providers | 12 | 15 | 26 | 4 | 3 |
| Total Service providers | 13 | 15 | 27 | 4 | 4 |

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

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

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

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

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

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

Table of Contents**Deposits**

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

| | Years Ended December 31, | | | | | |
|--------------------------------------|--------------------------|-----------------|--------------------------|-----------------|--------------------------|-----------------|
| | 2007 | | 2006 | | 2005 | |
| | Average Balance mn | Average Rate | Average Balance mn | Average Rate | Average Balance mn | Average Rate |
| German: | | | | | | |
| Non-interest-bearing demand deposits | 29,961 | | 27,389 | | 26,805 | |
| Interest-bearing demand deposits | 38,579 | 3.7% | 35,789 | 3.5% | 36,274 | 2.7% |
| Savings deposits | 4,560 | 2.5% | 4,726 | 2.5% | 4,768 | 2.5% |
| Time deposits | 79,029 | 4.5% | 78,104 | 3.3% | 86,911 | 2.7% |
| German total | 152,129 | | 146,008 | | 154,758 | |
| Non-German: | | | | | | |
| Non-interest-bearing demand deposits | 7,933 | | 7,529 | | 7,310 | |
| Interest-bearing demand deposits | 12,561 | 5.5% | 14,657 | 4.5% | 11,769 | 5.0% |
| Savings deposits | 487 | 2.7% | 490 | 2.3% | 513 | 2.2% |
| Time deposits ⁽¹⁾ | 49,053 | 5.2% | 45,698 | 6.0% | 49,049 | 3.9% |
| Non-German total | 70,034 | | 68,374 | | 68,641 | |
| Total deposits | 222,163 | | 214,382 | | 223,399 | |

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

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

Time Deposits

The following table sets forth the balance of time certificates of deposit and other time deposits in the amount of 100,000 or more issued by our German offices by time remaining to maturity at December 31, 2007.

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

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

Short-term Borrowings

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

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

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

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

(1) Excludes collateral received for securities lending transactions.

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

Regulation and Supervision**General**

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

Allianz SE

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

Effective January 2005, reinsurance companies in Germany such as Allianz SE are subject to specific legal requirements regarding assets covering their technical reserves. These assets are required to be appropriately diversified to prevent a reinsurer from relying excessively on any particular asset. The introduction of these requirements anticipated the implementation of the EU Reinsurance Directive (2005/68/EC) which

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was adopted in November 2005. All of the directive's provisions have finally been implemented in Germany effective June 2, 2007. Although Allianz SE expects to meet the new requirements, there can be no assurances as to the impact on Allianz SE of any future amendments to or changes in the interpretation of the laws and regulations regarding assets covering technical reserves of reinsurance companies, which could require Allianz SE to change the composition of its asset portfolio covering its technical reserves or take other appropriate measures.

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

Regulations for Financial Conglomerates

In December 2004, Germany adopted a law implementing the EU Financial Conglomerates

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

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

Regulation by Sector

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

Insurance

European Union

The EU has adopted a series of insurance directives on life insurance and direct insurance other than life insurance, which have resulted in significant deregulation of the EU insurance markets. Under the directives, the regulation of insurance companies, including insurance operations outside their respective home countries (whether direct or through branches), is the responsibility of the home country insurance regulatory authority. This home country control principle permits an insurance company licensed in any jurisdiction of the EU to conduct insurance business, directly or through branches, in

all other jurisdictions of the EU, without being subject to additional licensing requirements in these countries. In EU member states, insurance contracts will be subject to laws and regulations implementing the so-called anti-discrimination EU directives. In the insurance industry, differences in premiums and benefits of policies will not be permitted unless they are based on actuarial or statistical data. The impact of the directives on Allianz Group companies in EU member states depends on how the directives will be implemented by member states and how courts will interpret the provisions. Consequently, at this stage, we cannot assess the potential impact of the directives.

Germany

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

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claims reserves of each insurer must be adequate to allow the insurer to fulfill its contractual commitments to pay upon receipt of claims. To that end, insurers must maintain a certain solvency margin (own funds). This solvency margin is monitored by the BaFin, which has the authority to order the company to take certain action if it considers the available solvency margin inadequate to assure the company's sound financial position.

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

Furthermore, insurance companies that form part of an insurance group, as defined by the German law implementing the EU Insurance Groups Directive (1998/78/EC), are subject to regulatory requirements, including the following three

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components: (i) the supervision of intra-group transactions, (ii) the monitoring of solvency on a consolidated basis and (iii) the establishment of appropriate internal controls for providing the BaFin with information as part of its monitoring of the first two components.

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

Other European Countries

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

United States

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

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

Although the federal government generally does not directly regulate the insurance business, many federal laws affect the insurance business in a variety of ways, including the Federal Fair Credit Reporting Act relating to the privacy of information used in consumer reports, the Do Not Call laws and the USA PATRIOT Act of 2001 relating to, among other things, the establishment of anti-money laundering programs. In addition, our property-casualty operations are subject to the requirements of the Terrorism Reinsurance Act which is administered by the U.S. Department of Treasury and provides for reinsurance from the U.S. government for major acts of terrorism.

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

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

Pursuant to industry-wide investigations, several of our U.S. subsidiaries have received requests for information from state insurance regulatory authorities and attorneys general relating to contingent commissions. The last of these requests was received by Allianz entities in mid-2006. Other carriers and intermediaries have entered into settlements that required more transparency with respect to intermediary compensation and in many cases required discontinuance of the use of contingent commissions. See Note 46 of the consolidated financial statements for more information regarding contingent commission related litigation pending against several insurers and intermediaries, including some Allianz entities.

As a result of one market conduct examination, the California Department of Insurance (DOI) imposed an Order to Show Cause against Allianz Life Insurance Company of North America (Allianz Life) with respect to certain marketing and sales practices of deferred annuity products. The potential outcome and exposure in this matter is currently uncertain. In February 2007, Allianz Life reached a settlement with the DOI regarding the issues raised in the Order to Show Cause. See Note 46 to the consolidated financial statements for information regarding certain class action lawsuits and some settlements in California and Minnesota related to the marketing and sale of deferred annuity products.

Other Countries

Our insurance operations in countries other than those discussed above are also subject to detailed regulation and supervision by authorities in the

relevant jurisdictions, including but not limited to such matters as corporate governance, solvency, minimum capital, policy forms and rates, reserving, investment and financial practices, as well as marketing, distribution and sales activities.

Banking, Asset Management and Other Investment Services

European Union

The supervision of banking, asset management and other investment services in the EU member states is primarily the responsibility of national authorities within the individual member states. However, the rules governing the regulation and supervision of these financial services have been harmonized by a number of EU directives, which have been or will be implemented in the member states. Most importantly, the national implementation of the EU Markets in Financial Instruments Directive (2004/39/EC) (MiFID) increased the level of harmonization for the operational structures and code of conduct rules for European investment firms. The EU Capital Requirements Directive (2006/48/EC and 2006/49/EC) primarily focuses on establishing harmonized minimum capital requirements for financial institutions and the EU Undertakings for Collective Investments in Securities Directive (1985/611/EEC), as amended from time to time, provides a European standard for the core asset management product in Europe. As a result of this harmonization, banking, asset management or investment service licenses granted in one EU member state are to be recognized in all other member states. Further, the directive on payment services in the internal market (2007/64/EC) represents the legal framework for the realization of the Single Euro Payments Area (SEPA).

Under the MiFID, investment firms can operate branches in all EU member states and also engage in cross-border services based on their existing home country license. For cross-border business without local presence, the MiFID introduces the relevance of home country code of conduct rules only. Moreover, EU member states must ensure that financial institutions that are members of a securities exchange in one member state are eligible for admission to trading on the exchanges of all other member states. Another field of harmonization is the offering and the trading of securities. The EU Prospectus Directive

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(2003/71/EC), which came into force on December 31, 2003, provides for harmonized rules with respect to the contents and filing of prospectuses for publicly traded securities. In addition, the EU Transparency Directive (2004/109/EC) harmonizes the rules for disclosure of financial and other information that publicly traded companies have to provide. The EU Market Abuse Directive (2003/6/EC) sets forth certain rules against market manipulation and insider dealing. The EU Anti Money Laundering Directive (2005/60/EC) introduces new rules on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing to be implemented by the EU member states. There are also EU directives harmonizing investor protection.

Germany

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

In June 2004, the Basle Committee released the Revised Framework (Basle II) to replace the 1988 capital accord with a new capital accord. The two principal objectives of Basle II for measuring risk are (i) to align capital requirements more closely with the underlying risks; and (ii) to introduce a capital charge for operational risk (including, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). Credit institutions in the various countries that participate in the Basle Committee began implementing Basle II in the beginning of 2007. In Germany, the Solvability Regulation (*Solvabilitätsverordnung*) implemented Basle II and included the new capital requirements. A bank must report its large credits to the Bundesbank and must notify the BaFin and the Bundesbank if it

exceeds certain ceilings. Credits exceeding these ceilings may only be granted with the approval of the BaFin, and the amount exceeding these ceilings must be covered by capital of the bank.

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

Other European Countries

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

United States

Allianz Global Investors of America LLC, Allianz Global Investors of America L.P., Pacific Investment Management Company LLC, Oppenheimer Capital LLC, Nicholas-Applegate Capital Management LLC, RCM Capital Management LLC and other financial services subsidiaries of Allianz SE in the United States are registered as investment advisers under the Investment Advisers Act of 1940. Many of the investments managed by these financial services subsidiaries, including a variety of mutual funds and other pooled investment vehicles, are registered with the SEC under the Investment Company Act of 1940. The investment advisory activities of these financial

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services subsidiaries are subject to various U.S. federal and state laws and regulations. These laws and regulations relate to, among other things, limitations on the ability of investment advisers to charge performance-based or non-refundable fees to clients, record-keeping and reporting requirements, disclosure requirements, limitations on principal transactions between an adviser or its affiliates and advisory clients, as well as general anti-fraud provisions.

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

Some U.S. financial services subsidiaries of Allianz SE are also registered with the SEC as broker-dealers under the Securities Exchange Act of 1934 and are subject to extensive regulation. In addition, some of these subsidiaries are members of, and subject to regulation by, self-regulatory organizations such as the FINRA and, in the case of Dresdner Kleinwort Securities LLC, also the New York Stock Exchange. The scope of broker-dealer regulation covers matters such as capital requirements, the use and safekeeping of customers' funds and securities, advertising and other communications with the public, sales practices, record-keeping and reporting requirements,

supervisory and organizational procedures intended to assure compliance with securities laws and rules of the self-regulatory organizations and to prevent improper trading on material non-public information, employee-related matters, limitations on extensions of credit in securities transactions, and clearance and settlement procedures.

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

As a result of its ownership of Dresdner Bank, Allianz SE is also subject to the supervision of the Federal Reserve Board under the BHCA and the IBA and since June 30, 2004, Allianz SE has the status of a financial holding company. See Note 23 to the consolidated financial statements for further information with respect to capital requirements Dresdner Bank must meet to enable Allianz SE to keep the status of a financial holding company.

Other Countries

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

ITEM 4A. Unresolved Staff Comments

None

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ITEM 5. Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our consolidated financial statements including the notes thereto. The consolidated financial statements of the Allianz Group have been prepared in conformity with International Financial Reporting Standards (IFRS), as adopted under European Union (EU) regulations in accordance with section 315a of the German Commercial Code (HGB). The consolidated financial statements of the Allianz Group have also been prepared in accordance with IFRS as issued by the International Accounting Standard Board (IASB). The Allianz Group's application of IFRSs results in no differences between IFRS as adopted by the EU and IFRS as issued by the IASB. Unless otherwise indicated, we have obtained data regarding the relative size of various national insurance markets from annual reports prepared by SIGMA, an independent organization which publishes market research data on the insurance industry. In addition, unless otherwise indicated, insurance market share data are based on gross premiums written and statutory premiums for our Property-Casualty and Life/Health segments, respectively. Data on position and market share within particular countries are based on various third party and/or internal sources as indicated herein.

Critical Accounting Policies and Estimates

Goodwill

Goodwill resulting from business combinations represents the difference between the acquisition cost of the business combination and the Allianz Group's proportionate share of the net fair value of identifiable assets, liabilities and certain contingent liabilities. Goodwill resulting from business combinations is not subject to amortization. It is initially recorded at cost and subsequently measured at cost less accumulated impairments. For impairment testing purposes, goodwill is allocated to the cash generating units that are expected to benefit from the synergies of the business combination as of the acquisition date. Significant judgment is involved in this estimate, and the actual resulting synergies of the business combination may not reflect the original estimate. During 2007, the Allianz Group realigned its cash generating units in the Property-Casualty and

Life/Health segments to ensure consistency with the management responsibilities of the Board of Management. As a result, the Allianz Group has allocated goodwill to nine cash generating units in the Property-Casualty, six cash generating units in the Life/Health segment, three cash generating units in the Banking segment, one cash generating unit in the Asset Management segment and one cash generating unit in the Corporate segment.

The Allianz Group conducts an annual impairment test of goodwill on October 1, or more frequently if there is an indication that goodwill is not recoverable. The impairment test includes comparing the recoverable amount to the carrying amount, including goodwill, of all relevant cash generating units. A cash generating unit is not impaired if the recoverable amount is greater than the carrying amount. A cash generating unit is impaired if the carrying amount is greater than the recoverable amount. Judgment is involved in applying valuation techniques when estimating the recoverable amount. The recoverable amounts of cash generating units generally are determined on the basis of value in use calculations.

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

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

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

For the portfolio of ABS-based products, primarily consisting of RMBS and CDOs that were affected by the financial market crisis, the availability of price quotations from a functioning

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

Impairments of Investments

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

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

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

An available-for-sale equity security is considered to be impaired if there is objective evidence that the cost may not be recovered. Objective evidence that the cost may not be recovered, in addition to qualitative impairment criteria, includes a significant or prolonged decline in the fair value below cost. The Allianz Group's policy considers a significant decline to be one in which the fair value is below the weighted-average cost by more than 20% and a prolonged decline to be one in

which fair value is below the weighted-average cost for greater than nine months. This policy is applied individually by all subsidiaries.

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

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

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

Total unrealized losses on available-for-sale debt securities and held-to-maturity investments were 4,264 million and 1,959 million as of December 31, 2007 and 2006, respectively. Total unrealized losses on available-for-sale equity securities were 467 million and 159 million as of December 31, 2007 and 2006, respectively.

Loan impairments and provisions

The loan loss allowance represents management's estimate of losses from impaired loans within the loan portfolio and other lending related commitments. The loan loss allowance is reported in the Allianz Group balance sheet as a reduction of Loans and advances to banks and customers, and the provisions for contingent liabilities such as

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guarantees, loan commitments and other obligations are reported as "Other liabilities". Changes in the loan loss allowance are reported in the Allianz Group income statement under the caption "Loan loss provisions".

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

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

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

The loan loss allowance comprises the following four categories:

Specific allowances

For all individually significant loans, counterparty relationships are periodically reviewed

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

General allowances

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

Country risk allowances

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

In order to avoid duplication, specific allowances are excluded from general and country risk allowance calculations. Moreover, countries for which a country risk allowance is maintained are excluded from the determination of the transfer risk component of the general allowances.

Portfolio allowances

Loans that are not considered individually significant are not individually assessed but are

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instead segmented into portfolios of homogeneous loans to assess for impairment. Portfolio loan loss allowances are calculated using the delinquency flow model, which involves separating the homogeneous loan portfolios into distinct groups of loans evidencing similar loss behavior. We consider various factors in defining such portfolio groups, including consistency of underwriting practices, transaction terms and conditions, customer segmentation, product type, existence and types of collateral, similarity in size and number of loans, and loss behavior.

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

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

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

Changes in the loan loss provision on an Allianz Group level totaled (113) million, 36 million and (109) million for the years ended December 31, 2007, 2006 and 2005, respectively. The total loan loss allowance as of December 31, 2007 and 2006 amounted to 1,031 and 1,315 million, respectively.

Deferred Policy Acquisition Costs

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

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

One method used to monitor trends and sensitivities to changes in assumptions is to compare the recoverability ratio over time and using different levels of inputs. The recoverability ratio provides information regarding the percentage of future profits from the current portfolio that is needed to support the amortization of policy acquisition costs previously capitalized. The recoverability ratio is defined as DAC and PVFP, net of unearned revenue liabilities, divided by a best estimate of present value of future profits. Using best estimate assumptions, the recoverability ratio for the Allianz Group amounted to 51.5% as of December 31, 2007 and 52.8 % as of December 31, 2006, both including updated figures for the German health business. As the recoverability ratio approaches 100%, it indicates that there is an increased risk of loss. A recoverability ratio of 100% or greater would result in a charge to the Allianz Group's net income, as the deferred acquisition costs would not be recoverable.

The recoverability ratio is most sensitive to changes in the investment yield, which is the rate of return earned on the investment of net cash inflows. The investment yield is generally estimated in determining the recoverability of DAC and PVFP by increasing the relevant yield curves by the expected credit spread net of default risk. The relevant yield curves represent the risk free rate of return expected to be earned based upon the risk free interest rate in the country where the insurance contracts were issued (generally referenced by government issued debt instruments). This sensitivity is more pronounced for our local operating entities with

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significant older portfolios with relatively higher guaranteed interest rates (e.g., Switzerland, Belgium, South Korea and Taiwan).

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

| Country | Carrying amount of DAC/PVFP, net of unearned revenue liabilities mn | Effect of +1% change in the yield curve mn | Effect of -1% change in the yield curve mn |
|-------------|--|---|---|
| Germany | 6,716 | | |
| France | 395 | | |
| Italy | 628 | | |
| US | 3,820 | 16 | (56) |
| South Korea | 688 | 11 | (19) |
| Belgium | 100 | | (1) |
| Switzerland | 229 | 45 | (89) |
| Austria | 221 | 14 | (20) |

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

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

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

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

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

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

The aggregate policy reserves for traditional participating insurance contracts are computed in accordance with SFAS 120 using the net level premium method. The method uses assumptions for mortality, morbidity and interest rates that are guaranteed in the contract or are used in determining the policyholder dividends. Deferred policy acquisition costs and PVFP for traditional participating products are amortized over the expected life of the contracts in proportion to estimated gross margins (EGMs) based upon historical and anticipated future experience, which is determined on a best estimate basis and evaluated regularly. The present value of EGMs is computed using the expected investment yield. EGMs include premiums, investment income including realized gains and losses, insurance benefits, administration costs, changes in the aggregate reserves and policyholder dividends. The effect of changes in EGMs are recognized in net income in the period revised.

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

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

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

| | Long- duration Insurance Contracts (SFAS 60) | Traditional participating insurance Contracts (SFAS 120) |
|----------------------------|---|---|
| Aggregate policy reserves | 2.5 6% | 2.8 4.3% |
| Deferred acquisition costs | 2.5 6% | 5 6% |

Aggregate policy reserves include liabilities for guaranteed minimum death and similar mortality and morbidity benefits related to non-traditional

contracts, annuitization options, and sales inducements. These liabilities are calculated based on contractual obligations using actuarial assumptions. Contractually agreed sales inducements to contract holders include persistency bonuses and are accrued over the period in which the insurance contract must remain in force to qualify for the inducement.

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

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

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

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The table below provide a breakdown of the Allianz Group's aggregate policy reserves by country of our major Life/Health local operating entities as of December 31, 2007 (in millions of euros):

| Country | Long-duration insurance contracts | Aggregate Policy Reserves | | | Non-Unit-Linked Reserves (mn) | Other Reserves | | Total | % of Allianz Group |
|------------------------------------|-----------------------------------|---|---|--|-------------------------------|----------------------|--|----------------|--------------------|
| | | Universal-Life type insurance contracts | Traditional participating insurance contracts | | | Unit-Linked Reserves | Market Value of Liability Options ¹ | | |
| German Life | 18 | 4,526 | 112,765 | | | 1,831 | | 119,140 | 35.6% |
| German Health | 13,339 | | | | | | | 13,339 | 4.0% |
| France | 6,924 | 35,907 | | | | 14,285 | | 57,116 | 17.0% |
| Italy | 7,737 | 11,271 | | | 112 | 25,682 | | 44,802 | 13.4% |
| United States | 1,201 | 31,079 | | | 94 | 13,954 | 4,312 | 50,640 | 15.1% |
| Switzerland | 166 | 2,031 | 3,486 | | 11 | 583 | | 6,277 | 1.9% |
| Spain | 4,068 | 574 | | | 216 | 92 | | 4,950 | 1.5% |
| Netherlands | 969 | 28 | | | | 3,356 | | 4,353 | 1.3% |
| Austria | | | 3,194 | | | 277 | | 3,471 | 1.0% |
| Belgium | 4,152 | 1,175 | | | | 302 | | 5,629 | 1.7% |
| South Korea | 4,340 | 1,639 | | | | 904 | 14 | 6,897 | 2.1% |
| Taiwan | 776 | 1,063 | | | 2 | 2,710 | | 4,551 | 1.4% |
| Other countries | 2,472 | 570 | 643 | | 130 | 2,085 | | 5,900 | 1.8% |
| Life/Health Total | 46,162 | 89,864 | 120,088 | | 564 | 66,060 | 4,326 | 327,064 | 97.8% |
| Other Segment/Consolidation | 175 | (24) | 7,413 | | | | | 7,564 | 2.2% |
| Allianz Group Total | 46,337 | 89,840 | 127,502 | | 564 | 66,060 | 4,326 | 334,628 | 100.0% |

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

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

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

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

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

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

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

Aggregate policy reserves totaled 264,243 million and 256,333 million as of December 31, 2007 and 2006, respectively. Reserves for premium refunds totaled 27,225 million and 30,689 million as of December 31, 2007 and 2006, respectively. For further information regarding reserves for insurance and investment contracts, see Note 18 to our consolidated financial statements.

Reserves for loss and loss adjustment expenses

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

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

Minimum standards for actuarial loss reserving;

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

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

Quarterly quantitative and qualitative reserve monitoring.

Each of these components is described further below.

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

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

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Group Actuarial's reserve estimates and those of the local operating entity are then discussed, and evaluated to determine if changes in assumptions are needed.

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

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

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

Appropriate provisions have been made for environmental and asbestos claims and large-scale individual liability claims based on the Allianz Group's judgment and an analysis of the portfolios in which such risks occur. These provisions represent the Allianz Group's best estimate. The current reserves for loss and loss adjustment expenses for asbestos claims in the United States reflect the best estimate of local actuaries based on their assessment of current developments and trends in these claims.

Variability of Reserve Estimates

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

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

German motor liability and

Asbestos claims reserves.

German Motor Liability

As a longstanding market leader in German motor insurance, Allianz holds a significant balance of motor liability reserves (4,526 million gross as of December 31, 2007). Moreover, German motor liability claims are particularly long-tailed in nature. We estimate that approximately 62% of claims are paid after one year and 90% after eight years from the occurrence of the claim. Actuaries must rely on long data histories, but data from older accident years may be less predictive for current developments. Furthermore, sufficient data for extremely long development of bodily injury claims for 40 and more years are not available and, therefore, we extrapolate the ultimate loss amounts. As a result, changes in assumptions such as loss development patterns have a significant effect on estimated reserves.

In order to gauge the sensitivity of German motor liability loss reserve estimates to alternative assumptions, we applied statistical methods that allow for both the natural variability in the reserving process (i.e., process volatility) as well as the potential variability in estimating reserving assumptions (i.e., parameter volatility) and provide quantitative insights into reserve volatility. This

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analysis provides that it is reasonably likely that future German motor liability loss payments will be 300 million higher or lower than carried reserves.

Asbestos claims reserves

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

In order to quantify the potential variability of asbestos claim reserves, we calculate a point best estimate reserve and a range of reasonable estimates of asbestos loss reserves for U.S. and non-U.S. asbestos in aggregate. This range is calculated by testing the sensitivity of reserve estimates to alternative assumptions. We would consider any estimate within the range to be reasonable. The range does not represent lower and upper bounds, and does not contain all of the possible loss results. Our best estimate represents the expected unpaid loss resulting from assumptions that we consider neither optimistic nor pessimistic. The lower and upper ends of the range represent unpaid losses that would result from optimistic and pessimistic, but reasonable, assumptions. It should be noted that there is a reasonable possibility that the actual loss amounts will fall outside that range. As of December 31, 2007, the high end of this range is 880 million higher than the best estimate; the low end of the range is 700 million lower than the best estimate.

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

The projected level of future claims filings increase compared to the level as predicted by the epidemiological-based models;

Future values of claims settlements by disease type increase compared to the inflation-adjusted projections;

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

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

Claims from coverages not yet affected by asbestos claims and not reflected in our projections emerge;

The projected level of new policyholders being brought into asbestos litigation increases compared to our estimates in addition to an increase over our estimate of the average cost to settle all future asbestos claims for these policyholders.

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

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

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

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

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

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

Total reserves for loss and loss adjustment expenses amounted to 63,706 million and 65,464 million as of December 31, 2007 and 2006, respectively. For further information regarding reserves for loss and loss adjustment expenses, see Note 17 to our consolidated financial statements.

Deferred Taxes

Deferred taxes are recognized on temporary differences between the tax bases and the carrying amounts of assets and liabilities in the Allianz Group's IFRS consolidated balance sheet and tax losses carried forward as of the balance sheet date.

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Deferred taxes are calculated based on the current income tax rates enacted in the respective country. Changes in tax rates that have already been substantially adopted prior to or as of the date of the consolidated balance sheet are taken into consideration.

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

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

Pension and Similar Obligations

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

differ materially from actual experience, due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of the participants. Any such differences could have a significant impact on the amount of pension expense recorded in future years.

We are required to estimate the expected rate of return on plan assets, which is then used to compute pension cost recorded in the consolidated statements of income. Estimating future returns on plan assets is particularly subjective as the estimate requires an assessment of possible future market returns based on the plan asset mix and observed historical returns. In 2007, the weighted average expected rate of return on plan assets was 5.3%; in 2006, we adjusted the rate from 5.8% to 5.3%.

Changes to Accounting and Valuation Policies

See Note 3 to our consolidated financial statements.

Introduction

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

While these excluded items are significant components in understanding and assessing our consolidated financial performance, we believe that the presentation of operating results enhances the understanding and comparability of the performance of our segments by highlighting net income attributable to ongoing segment operations and the underlying profitability of our businesses. For example, we believe that trends in the underlying

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profitability of our segments can be more clearly identified without the fluctuating effects of the realized gains/losses or impairments of investments, as these are largely dependent on market cycles or issuer specific events over which we have little or no control, and can and do vary, sometimes materially, across periods. Further, the timing of sales that would result in such gains or losses is largely at our discretion. Operating profit is not a substitute for income before income taxes and minority interests in earnings or net income as determined in accordance with International Financial Reporting Standards as adopted by the EU and as issued by the IASB (or

IFRS). Our definition of operating profit may differ from similar measures used by other companies, and may change over time. For further information on operating profit, as well as the particular reconciling items between operating profit and net income, see Note 5 to our consolidated financial statements.

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

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

| | PC | LH | Banking | AM | Cons | Group |
|--|---------------|---------------|--------------|--------------|-------------|----------------|
| 2007 | | | | | | |
| Premiums written | 44,289 | 21,522 | | | (23) | 65,788 |
| Add: Deposit premium for FAS 97 products | | 27,845 | | | (15) | 27,830 |
| Total revenues P-C and L/H | 44,289 | 49,367 | | | (38) | 93,618 |
| Add: Interest and similar income | | | 8,370 | 135 | | 8,505 |
| Less: Interest expense | | | (5,266) | (54) | | (5,320) |
| Add: Fee and commission income | | | 3,651 | 4,403 | | 8,054 |
| Less: Fee and commission expense | | | (603) | (1,270) | | (1,873) |
| Income from financial assets and liabilities designated at fair value through income (net) | | | (431) | 31 | | (400) |
| Other income | | | | 14 | | 14 |
| Total revenues Banking and Asset Management | | | 5,721 | 3,259 | | 8,980 |
| Total revenues | 44,289 | 49,367 | 5,721 | 3,259 | | 102,598 |
| | PC | LH | Banking | AM | Cons | Group |
| 2006 | | | | | | |
| Premiums written | 43,674 | 21,614 | | | (13) | 65,275 |
| Add: Deposit premium for FAS 97 products | | 25,807 | | | (85) | 25,722 |
| Total revenues P-C and L/H | 43,674 | 47,421 | | | (98) | 90,997 |
| Add: Interest and similar income | | | 7,312 | 112 | | 7,424 |
| Less: Interest expense | | | (4,592) | (41) | | (4,633) |
| Add: Fee and commission income | | | 3,598 | 4,186 | | 7,784 |
| Less: Fee and commission expense | | | (590) | (1,262) | | (1,852) |
| Income from financial assets and liabilities designated at fair value through income (net) | | | 1,335 | 38 | | 1,373 |
| Other income | | | 25 | 11 | | 36 |
| Total revenues Banking and Asset Management | | | 7,088 | 3,044 | | 10,132 |
| Total revenues | 43,674 | 47,421 | 7,088 | 3,044 | | 101,129 |
| | PC | LH | Banking | AM | Cons | Group |
| 2005 | | | | | | |
| Premiums written | 43,699 | 21,093 | | | (26) | 64,766 |
| Add: Deposit premium for FAS 97 products | | 27,179 | | | (18) | 27,161 |
| Total revenues P-C and L/H | 43,699 | 48,272 | | | (44) | 91,927 |
| Add: Interest and similar income | | | 7,321 | 90 | | 7,411 |
| Less: Interest expense | | | (5,027) | (34) | | (5,061) |

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

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We further believe that an understanding of our total revenue⁽¹⁾ performance is enhanced when the effects of foreign currency translation as well as acquisitions and disposals (or changes in scope of consolidation) are excluded. Accordingly, in

addition to presenting nominal growth, we also present internal growth, which excludes the effects of foreign currency translation and changes in scope of consolidation.

The following table sets forth the reconciliation of nominal total revenue growth to internal total revenue growth for each of our segments⁽²⁾ and the Allianz Group as a whole for the years ended December 31, 2007 and 2006.

| | Nominal total revenue growth % | Changes in scope of consolidation % | Foreign currency translation % | Internal total revenue growth % |
|-----------------------------------|--------------------------------------|---|--------------------------------------|---------------------------------------|
| 2007 | | | | |
| Property-Casualty | 1.4 | 1.3 | (1.0) | 1.1 |
| Life/Health | 4.1 | 0.1 | (2.3) | 6.3 |
| Banking | (19.3) | | (1.0) | (18.3) |
| thereof: Dresdner Bank | (20.3) | | (1.1) | (19.2) |
| Asset Management | 7.1 | 0.8 | (7.0) | 13.3 |
| thereof: Allianz Global Investors | 6.3 | | (7.5) | 13.8 |
| Allianz Group | 1.5 | 0.6 | (1.7) | 2.6 |
| 2006 | | | | |
| Property-Casualty | (0.1) | (0.2) | (0.2) | 0.3 |
| Life/Health | (1.8) | | (0.2) | (1.6) |
| Banking | 12.2 | | (0.1) | 12.3 |
| thereof: Dresdner Bank | 12.8 | | (0.1) | 12.9 |
| Asset Management | 11.8 | (0.7) | (0.9) | 13.4 |
| thereof: Allianz Global Investors | 11.7 | (0.7) | (0.9) | 13.3 |
| Allianz Group | 0.2 | (0.1) | (0.2) | 0.5 |

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

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

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Executive Summary¹⁾

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

Strong earnings with net income of 8.0 billion.

Our sustainable underlying profitability helped to compensate for the impact from the financial markets turbulence.

High quality asset base and a strong capitalization with shareholders' equity of 47.8 billion.

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

2006 was a year of success.

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

Operating profit in Life/Health grew by 23%.

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

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

Net income grew by 60% to 7.0 billion.

Shareholders' equity stood at 49.7 billion, up almost 28%.

Total revenues

in bn

Net income

in mn

*Shareholders' equity*³⁾

in mn

- (1) The Allianz Group operates and manages its activities primarily through four operating segments: Property-Casualty, Life/Health, Banking and Asset Management. Effective January 1, 2006, in addition to our four operating segments and with retrospective application, we introduced a fifth business segment named Corporate. For detailed information on the Allianz Group, our activities and structures, as well as the environment in which we operate please see Information on the Company .
- (2) Compound annual growth rate (CAGR) is the year-over-year growth rate over a multiple-year period.
- (3) Does not include minority interests.

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Allianz Group's Consolidated Results of Operations

Total revenues⁽¹⁾

Total revenues Segments

in mn

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

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

- (1) Total revenues comprise Property-Casualty segment's gross premiums written, Life/Health segment's statutory premiums Banking segment's operating revenues and Asset Management segment's operating revenues. Please refer to Introduction for a reconciliation of total revenues to premiums written of the Allianz Group.
- (2) Internal total revenue growth excludes the effects of foreign currency translation as well as acquisitions and disposals. Please refer to Introduction for a reconciliation of nominal total revenue growth to internal total revenue growth for each of our segments and the Allianz Group as a whole.

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

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

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

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

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

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

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

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

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

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

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

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

Banking Operating revenues were up substantially by 12.2% to 7.1 billion in 2006. All income categories contributed to this strong

development, with double-digit growth rates in Dresdner Bank's net interest income and net trading income. Both operating divisions at Dresdner Bank recorded considerably higher revenues than a year ago.

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

Operating profit

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

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

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

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

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

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

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

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

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

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

Banking Our Banking segment's operating profit more than doubled to 1.4 billion in 2006.

Operating revenue growth was achieved at the same time as accomplishing improvements in productivity and efficiency, reflected in decreased operating expenses. Thereby, we achieved our milestone for a cost-income ratio of below 80%.

Asset Management We continued to deliver double-digit operating profit growth and improved our cost-income ratio to 57.6% from an already competitive level in 2005. While at the same time making substantial investments in our distribution network and human resources development, key drivers for these developments were our strong and further growing asset base, and effective cost management.

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

Net income

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

Net income grew by 13.5% to almost 8.0 billion.

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

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

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

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

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

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

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

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

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

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

We grew net income by 60.3% to 7.0 billion. This development was primarily driven by our segments' operating profit growth, reflecting the high quality of our earnings. In addition, increased restructuring charges were offset by higher realized gains.

The most significant capital gains resulted from the sale of our shareholdings in Schering AG and in Eurohypo AG in the first half of 2006, as well as from the disposal of Four Seasons Health Care Ltd. in the second half.

Restructuring charges amounted to 964 million, 864 million more than 2005. This increase primarily

⁽¹⁾ Please see Note 49 to our consolidated financial statements for further information on our restructuring plans. reflects the reorganization of our German insurance operations and the New Dresdner Plus reorganization program⁽²⁾.

Net expenses from financial assets and liabilities held for trading was down significantly, as, in 2005, heavy negative impacts stemmed from derivatives from an equity-linked loan which was issued as a component of financing the cash tender offer for the outstanding RAS shares.

Income tax expenses of 2.0 billion benefited from the tax-exemption of the significant capital gains and the capitalization of the Allianz Group's total corporate tax credits as a consequence of the new German Reorganization Tax Act (SEStEG) which entered into force in December 2006. Following this tax law change, current income tax expenses were reduced by 571 million. Please see Note 41 to our consolidated financial statements for further information. As a result of the above, our effective tax rate declined to 19.5% from 26.3%.

Minority interests in earnings were down 97 million to 1.3 billion. This was primarily a result of the acquisition of the minority interest in RAS.

Earnings per share

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

Earnings per share ⁽¹⁾

in

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

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

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

| | Property-Casualty mn | Life/Health mn | Banking mn | Asset Management mn | Corporate mn | Consolidation mn | Group mn |
|---|-------------------------|-------------------|---------------|------------------------|-----------------|---------------------|----------------|
| 2007 | | | | | | | |
| Total revenues⁽¹⁾ | 44,289 | 49,367 | 5,721 | 3,259 | | (38) | 102,598 |
| Operating profit (loss) | 6,299 | 2,995 | 773 | 1,359 | (325) | | |
| Non-operating items | 962 | 107 | (59) | (494) | (29) | | |
| Income (loss) before income taxes and minority interests in earnings | 7,261 | 3,102 | 714 | 865 | (354) | (20) | 11,568 |
| Income taxes | (1,656) | (897) | (266) | (342) | 217 | 90 | (2,854) |
| Minority interests in earnings | (431) | (214) | (71) | (25) | (21) | 14 | (748) |
| Net income (loss) | 5,174 | 1,991 | 377 | 498 | (158) | 84 | 7,966 |
| 2006 | | | | | | | |
| Total revenues⁽¹⁾ | 43,674 | 47,421 | 7,088 | 3,044 | | (98) | 101,129 |
| Operating profit (loss) | 6,269 | 2,565 | 1,422 | 1,290 | (831) | | |
| Non-operating items | 1,291 | 135 | (147) | (555) | (156) | | |
| Income (loss) before income taxes and minority interests in earnings | 7,560 | 2,700 | 1,275 | 735 | (987) | (960) | 10,323 |
| Income taxes | (2,075) | (641) | (263) | (278) | 824 | 420 | (2,013) |
| Minority interests in earnings | (739) | (416) | (94) | (53) | (16) | 29 | (1,289) |
| Net income (loss) | 4,746 | 1,643 | 918 | 404 | (179) | (511) | 7,021 |
| 2005 | | | | | | | |
| Total revenues⁽¹⁾ | 43,699 | 48,272 | 6,318 | 2,722 | | (44) | 100,967 |
| Operating profit (loss) | 5,142 | 2,094 | 704 | 1,132 | (881) | | |
| Non-operating items | 1,024 | 177 | 822 | (707) | (1,118) | | |
| Income (loss) before income taxes and minority interests in earnings | 6,166 | 2,271 | 1,526 | 425 | (1,999) | (560) | 7,829 |
| Income taxes | (1,804) | (488) | (387) | (129) | 741 | 4 | (2,063) |
| Minority interests in earnings | (827) | (425) | (102) | (52) | (10) | 30 | (1,386) |
| Net income (loss) | 3,535 | 1,358 | 1,037 | 244 | (1,268) | (526) | 4,380 |

⁽¹⁾ Total revenues comprise Property-Casualty segment's gross premiums written, Life/Health segment's statutory premiums Banking segment's operating revenues and Asset Management segment's operating revenues. Please refer to Introduction for a reconciliation of total revenues to premiums written of the Allianz Group.

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Impact of the financial markets turbulence

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

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

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

Impact on insurance operations

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

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

Impact on investment banking activities of Dresdner Bank

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

Asset-backed securities of the trading book

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

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

Breakdown of exposure by rating class

in %

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

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

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

Credit enhancements

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

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

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

Conduits

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

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

Leveraged buy-out

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

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

Monoliner

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

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

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Structured Investment Vehicles (SIV)

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

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

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

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

Valuation methods

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

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

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

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

Recently Adopted and Issued Accounting Pronouncements and Changes in the Presentation of the Consolidated Financial Statements

For information on recently adopted and issued accounting pronouncements please see Note 3 to our consolidated financial statements.

Events After the Balance Sheet Date

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

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Property-Casualty Insurance Operations

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

Emerging markets contributed more than 4 billion to steadily growing premiums.

Profitability sustained throughout the cycle.

Combined ratio of 93.6%.

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

Underwriting performance drove operating profitability.

Very competitive combined ratio of 92.9%.

Further operating profit growth of 22% to 6.3 billion after an already strong year in 2005.

We sustained our successful strategy of selective use of market opportunities.

Net income increased 34.3% to 4.7 billion.

Earnings Summary

Gross premiums written

Gross premiums written by region⁽¹⁾

in %

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⁽¹⁾ After elimination of transactions between Allianz Group companies in different geographic regions and different segments. Gross premiums written from our specialty lines have been allocated to the respective geographic regions.

Gross premiums written Growth rates⁽¹⁾

in %

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

⁽²⁾ Together with our property-casualty assumed reinsurance business, primarily attributable to Allianz SE, the decline within Germany was (6.0)% (2006: (1.9)%).

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

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

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

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

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

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

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

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

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

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

review. Overall premiums in Germany were down by 681 million.

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

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

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

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

In 2006, our underwriting strategy of putting profitability ahead of volume was again successful. Gross premiums written were flat at 43,674 million

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reflecting average constant prices and a slightly increased sales volume, with considerably varying developments across our different markets. Increases in gross premiums written were primarily achieved within Spain (+ 140 million) and the United States (+ 115 million), as well as our emerging markets of New Europe (+ 117 million) and South America (+ 153 million). Lower gross premiums written were recorded within Germany, in Switzerland at Allianz Risk Transfer (or ART) and within our specialty lines at Allianz Global Corporate & Specialty. On an internal growth basis, gross premiums written grew marginally by 0.3%.

We continued to benefit from our global diversification and the measures implemented as part of our Sustainability Program which allow us to take selective advantage of market opportunities and to perform local market cycle management.

At Allianz Sach within Germany, we closely monitored pricing development in order to maintain profitability. Premiums in our motor business were down, reflecting largely lower prices. The development in our casualty lines primarily due to increased sales of accident insurance products with premium refunds, however, compensated partially for the decline in motor. An additional factor contributing to the lower premiums within Germany was that the Allianz Group's Property-Casualty subsidiaries outside of Germany reduced their internal reinsurance cessions to Allianz SE.

In some markets, such as the United States and Spain, we recorded increasing volumes while being able to maintain stable, profitable prices. Two lines of business contributing to the increased business volume at Fireman's Fund in the United States were the crop insurance business and specialty casualty lines. The positive development in Spain was attributable to higher sales across all lines of business.

The decrease of 207 million in Switzerland reflected an increase in gross premiums written at Allianz Suisse due to a favorable development in our motor business and lower premium volume at ART. At ART, in 2005, we benefited from a large single premium multi-year contract.

Within New Europe, the increase in gross premiums written took place in a well-performing

economy. Our distribution network captured a significant part of the growing market potential. The expanded sales capacity in Poland was the key driver for the growth of our property-casualty portfolio. In contrast, in Hungary, we were willing to forego volume for better prices and thereby protected our profitability.

In South America, our operations benefited predominantly from growth in our Brazilian motor business driven by a continued good performance of the fleet business and an increase of new car sales.

At AGCS gross premiums written were down 142 million to 2,802 million. This development was to a large extent brought about by foregoing business volume as a result of declining prices mainly in Europe.

Operating profit

Operating profit

in mn

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

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

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

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higher large claims incurred at AGCS as well as our newly consolidated entities in Russia and Kazakhstan.

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

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

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

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

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

Operating profit showed a strong increase of 21.9% to 6,269 million. The top three contributing operations to our operating profit growth were AGCS at 658 million, the United States at 328 million and France at 193 million. In Italy and Switzerland we also experienced strong increases of 75 million each. The decrease within Germany by 286 million stemmed from declines of a similar magnitude at both Allianz Sach and Allianz SE. Lower gross premiums written, previously described, were the primary factor for the decline in operating profit at Allianz Sach. At Allianz SE, operating profit was down mainly due to lower premium income as a result of decreased internal cessions from Allianz Group companies outside of Germany, as well as increased loss estimates for Hurricane Katrina in the United States in 2005.

Our significantly improved underwriting profitability was the main driver behind these strong developments, with excellent combined ratios across

all markets. Driven by the improvement of our loss ratio, our combined ratio was down to 92.9%, 1.4 percentage points better than in 2005. Thereby, we surpassed our target of 95% and further solidified our competitive position within the property-casualty market.

In 2006, we recorded both lower severity and frequency of claims. The exceptionally high losses from natural catastrophes in the prior year were not repeated. In addition, our motor business experienced severity increases which were clearly lower than inflation. Accordingly, our accident year loss ratio improved by 2.8 percentage points to 67.6%.

Overall, claims and insurance benefits incurred (net), at 24,672 million in 2006, were down 2.6% from a year ago. As a result, our calendar year loss ratio improved by 2.2 percentage points to 65.0%. The difference between the improvement of our loss ratio based on accident year compared to that based on calendar year is due to lower run-offs in 2006 compared to 2005. We continued to deliver positive net development on prior years' loss reserves primarily in Italy, France, the United Kingdom and within our credit insurance business. Partially, we attribute this

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positive development to the measures we undertook in the context of our Sustainability Program, such as improved claims management processes in many companies.

Acquisition and administrative expenses (net), at 10,590 million in 2006, were 374 million higher than last year. This drove our expense ratio up by 80 basis points to 27.9%.

However, in the amount of 109 million, these developments resulted from the inclusion of additional net expenses in acquisition and administrative expenses, previously not included in this item. Further important factors were strategic project-related expenses associated with our initiatives for future profit growth, such as our Sustainability Program, as well as increased accruals for retirements in Germany and additional pension accruals. Increased accruals for retirements arose, among other factors, from the facilitation of the use of early retirement schemes due to pension law changes in Germany, of which many employees at Allianz Sach took advantage.

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Interest and similar income rose by 349 million to 4,096 million, reflecting higher dividends received, improved yields from debt securities due to slightly higher coupon payments, and our growing asset base. Realized gains/losses (net) from investments, shared with policyholders, declined by 227 million to 46 million. In 2005, realizations from available-for-sale equity investments in connection with accident insurance products with premium refunds in Germany were exceptionally high due to a strategy change at the fund managing these assets. This had an impact of a similar, but opposite, magnitude on changes in reserves for insurance and investment contracts (net), which amounted to a net expense of 425 million in 2006 compared to a net expense of 707 million a year earlier.

Non-operating result

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

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

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

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

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

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

Non-operating items, in aggregate, resulted in a gain of 1,291 million, up 267 million from a year ago. This improvement is principally the result of increased realized gains which were only partially offset by higher impacts from impairments of investments and restructuring charges.

Realized gains/losses (net) from investments, not shared with policyholders, amounted to 1,746 million, 598 million higher than last year. The transactions contributing most to this increase were the sale of Allianz Sach's participation in Schering AG and the disposal of our real estate portfolio in Austria in June 2006, as well as the sale of Lloyd Adriatico's shareholding in Banca Antoniana Popolare Veneta S.p.A. in April 2006, which together accounted for 726 million of the increase.

Non-operating impairments of investments (net) rose by 98 million to 175 million, to a large extent brought about by impairments of available-for-sale equity securities in the second quarter of 2006 at Allianz Sach following at that time the downward trend in the equity capital

markets.

Restructuring charges were up 294 million to 362 million, stemming primarily from the reorganization of our German insurance operations.

Net income

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

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

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

Net income increased 34.3% to 4,746 million, driven both by our significantly improved operating profitability and the higher gain from non-operating items.

Income tax expenses rose by 15.0% and amounted to 2,075 million. Our effective tax rate declined from 29.3% to 27.4%, largely due to the capitalization of corporate tax credits in Germany.

Minority interests in earnings decreased by 10.6% to 739 million primarily as a result of the minority buyout at RAS in Italy.

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The following table sets forth our Property-Casualty insurance segment's income statement, loss ratio, expense ratio and combined ratio for the years ended December 31, 2007, 2006 and 2005.

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

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- (1) For the Property-Casualty segment, total revenues are measured based upon gross premiums written.
- (2) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (3) The total of these items equals realized gains/losses (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (4) The total of these items equals impairments of investments (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (5) Represents claims and insurance benefits incurred (net) divided by premiums earned (net).
- (6) Represents acquisition and administrative expenses (net) divided by premiums earned (net).
- (7) Represents the total of acquisition and administrative expenses (net) and claims and insurance benefits incurred (net) divided by premiums earned (net).

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The following table sets forth our Property-Casualty gross premiums written, premiums earned (net), combined ratio, loss ratio, expense ratio and operating profit by geographic region for the years ended December 31, 2007, 2006 and 2005. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different geographic regions and different segments.

| | Gross premiums written | | | Premiums earned (net) | | | Operating profit | | |
|---|------------------------|---------------|---------------|-----------------------|--------------|---------------|------------------|--------------|--------------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| | mn | | | mn | | | mn | | |
| Germany | 10,746 | 11,427 | 11,647 | 9,245 | 9,844 | 10,048 | 1,628 | 1,479 | 1,765 |
| Italy | 5,229 | 5,396 | 5,369 | 4,902 | 4,935 | 4,964 | 719 | 816 | 741 |
| France | 5,086 | 5,110 | 5,104 | 4,422 | 4,429 | 4,375 | 486 | 420 | 227 |
| United Kingdom | 2,236 | 2,396 | 2,449 | 1,989 | 1,874 | 1,913 | 208 | 281 | 268 |
| Spain | 2,136 | 2,013 | 1,873 | 1,820 | 1,675 | 1,551 | 253 | 252 | 217 |
| Switzerland | 1,804 | 1,805 | 2,012 | 1,595 | 1,706 | 1,708 | 218 | 228 | 153 |
| Netherlands | 927 | 926 | 930 | 809 | 813 | 823 | 108 | 150 | 135 |
| Austria | 915 | 922 | 935 | 748 | 782 | 773 | 86 | 82 | 92 |
| Ireland | 691 | 704 | 733 | 614 | 622 | 653 | 180 | 222 | 204 |
| Belgium | 374 | 356 | 352 | 301 | 298 | 293 | 40 | 30 | 24 |
| Portugal | 283 | 287 | 304 | 246 | 258 | 275 | 38 | 36 | 32 |
| Greece | 79 | 74 | 71 | 50 | 46 | 46 | 9 | 10 | 11 |
| Western and Southern Europe¹⁾ | 3,269 | 3,269 | 3,325 | 2,768 | 2,819 | 2,863 | 482 | 550 | 494 |
| Russia ²⁾ | 678 | 30 | 24 | 574 | 4 | 12 | 7 | 1 | 2 |
| Hungary | 580 | 575 | 598 | 502 | 499 | 523 | 73 | 68 | 63 |
| Poland | 367 | 283 | 235 | 246 | 200 | 160 | 24 | 20 | 12 |
| Romania | 341 | 291 | 219 | 155 | 132 | 125 | 11 | 11 | 11 |
| Slovakia | 319 | 288 | 300 | 273 | 251 | 251 | 112 | 52 | 82 |
| Czech Republic | 249 | 253 | 242 | 183 | 179 | 160 | 41 | 29 | 27 |
| Bulgaria | 103 | 95 | 91 | 70 | 70 | 37 | 16 | 16 | 14 |
| Croatia | 86 | 70 | 60 | 63 | 53 | 45 | 2 | 4 | 2 |
| New Europe³⁾ | 2,723 | 1,885 | 1,769 | 2,067 | 1,388 | 1,313 | 256 | 184 | 213 |
| Other Europe | 5,992 | 5,154 | 5,094 | 4,835 | 4,207 | 4,176 | 738 | 734 | 709 |
| United States | 4,306 | 4,510 | 4,395 | 3,341 | 3,523 | 3,478 | 651 | 810 | 482 |
| Mexico ⁴⁾ | 201 | 192 | 175 | 86 | 100 | 88 | 12 | 15 | 13 |
| NAFTA | 4,507 | 4,702 | 4,570 | 3,427 | 3,623 | 3,566 | 663 | 825 | 495 |
| Australia | 1,543 | 1,452 | 1,469 | 1,245 | 1,195 | 1,159 | 296 | 225 | 235 |
| Other | 349 | 310 | 280 | 170 | 141 | 121 | 16 | 19 | 17 |
| Asia-Pacific | 1,892 | 1,762 | 1,749 | 1,415 | 1,336 | 1,280 | 312 | 244 | 252 |
| South America | 918 | 869 | 716 | 692 | 623 | 510 | 55 | 47 | 61 |
| Other | 95 | 68 | 58 | 50 | 32 | 30 | 9 | 9 | 7 |

Specialty lines

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| | | | | | | | | | |
|---|----------------|----------------|----------------|---------------|---------------|---------------|--------------|--------------|--------------|
| Allianz Global Corporate & Specialty | 2,811 | 2,802 | 2,944 | 1,800 | 1,545 | 1,633 | 414 | 404 | (254) |
| Credit Insurance | 1,762 | 1,672 | 1,725 | 1,268 | 1,113 | 997 | 496 | 442 | 420 |
| Travel Insurance and Assistance Services | 1,139 | 1,044 | 991 | 1,093 | 1,008 | 934 | 97 | 90 | 77 |
| Subtotal | 46,353 | 46,220 | 46,301 | 38,553 | 37,950 | 37,685 | 6,296 | 6,271 | 5,138 |
| Consolidation⁶⁾ | (2,064) | (2,546) | (2,602) | | | | 3 | (2) | 6 |
| Total | 44,289 | 43,674 | 43,699 | 38,553 | 37,950 | 37,685 | 6,299 | 6,269 | 5,142 |

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

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

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

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Life/Health Insurance Operations

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

Strong statutory premium development showing double-digit growth rates in many countries.

Strong operating profit growth continued resulting in almost 3 billion.

Operating asset base increased to 350.0 billion.

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

Strong operating profit growth sustained, while revenues were nearly flat.

Statutory premium growth held back by Italy and the United States.

Dynamic operating profit growth continued.

Higher investment, expense and technical margins drive operating profit.

Driven by the higher operating profit, net income rose by 21.0% to 1.6 billion.

Earnings Summary

Statutory premiums⁽¹⁾

Statutory premiums by region⁽¹⁾

in %

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

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

Statutory premiums Growth rates⁽¹⁾

in %

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

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

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

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

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

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

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

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

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

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

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

Many of our operating entities worldwide, especially in the growth markets of Asia-Pacific and

New Europe, increased their statutory premiums with high double-digit growth rates. In 2006, these two markets, in aggregate, contributed 9.6% of our total statutory premiums, compared to 7.8% in 2005. But also most of our established markets continued to grow dynamically, such as Germany Life at 6.4% and France at 9.6%. However, these increases were offset by marked declines particularly in the United States and Italy of 21.2% and 8.1%, respectively. Overall, our statutory premiums, at 47,421 million in 2006, were slightly down 1.8% on a nominal basis and 1.6% on an internal basis compared to 2005. Our new business mix showed an increase in recurring premium products and a decrease in single premium business compared to last year. Given that in the year of sale, a recurring premium contract only contributes a fraction of a single premium contract to annual premiums, this change in new business mix had a negative impact on statutory premium growth year-on-year in 2006. The new recurring premium contracts will however increase premiums in subsequent years.

Within Germany Life, statutory premiums excelled to 13,009 million, primarily a result of strong new business production in both our individual and group life business.

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At our life operating entities of AGF Group in France, we generated statutory premium growth to 5,792 million. This positive development was brought about by strong sales of unit-linked contracts, particularly related to several newly-launched products. Growth was achieved both through our proprietary financial advisors network and partnerships with independent advisors.

Within Asia-Pacific, statutory premiums in South Korea increased to 2,054 million as we recorded strong sales of equity-indexed annuity products and in our variable annuity business. In China, growth was also significant, albeit starting from a low base. Here, we began to benefit from our strategic partnership with Industrial and Commercial Bank of China Ltd. We have received further sales licenses and expanded our branch network.

Within New Europe our Polish operations recorded a strong increase in statutory premiums from a very successful sales campaign for unit-linked contracts with a bank partner. In addition, in

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Slovakia, we generated considerable new business production through our tied agents network. In the fourth quarter of 2006, our companies in the region launched a limited-edition index-linked life insurance product across six markets. Overall, our operations within New Europe recorded statutory premiums of 828 million in 2006, 72.9% up from a year earlier.

Conversely, in the United States, statutory premiums declined significantly by 21.2% to 8,758 million. This development is primarily attributable to challenges faced by our sales channels in response to the NASD's notice in late 2005 to members regarding the sale of equity-indexed annuities. However, despite the decrease in statutory premiums, our Life/Health asset base in the United States grew. In Italy, statutory premiums were down considerably by 8.1% to 8,555 million, principally negatively influenced by a difficult market environment which was characterized by, among other factors, decreased overall private demand for life insurance products in the bancassurance channel. In addition, at RAS Group, our share in the total life production of our joint venture partner UniCredit Group decreased.

Operating profit

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

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

Operating profit

in mn

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

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

Asset base⁽¹⁾

fair values⁽²⁾ in bn

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

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

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

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

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

We again delivered growth in operating profit which increased to 2,565 million, up 22.5% from a year ago. Key factors in this strong development were the growth of our Life/Health asset base, our improved margins both from our new and in-force business, as well as efficiency gains in many operating entities following the implementation of our Sustainability Program and other initiatives. Furthermore, in 2006, we increased the shareholders' share in our gross earnings while at the same time we credited a higher amount to our policyholders.

Most of our life operating companies exhibited operating profit growth, with the highest absolute increases at our operations in Germany, the United States, South Korea, France and Spain. In addition, we experienced a solid increase in aggregate operating profit within New Europe.

Our improved investment margin was brought about by significantly higher interest and similar income, and the growth in aggregate realized gains/losses and impairments of investments (net). Interest and similar income increased primarily due to higher dividends received from available-for-sale equity investments in Germany and France. In addition, our U.S. operations benefited from higher yields on bonds and growth in asset base. Significant realized gains resulted from the sale of our shareholdings in Schering AG and the disposal of Four Seasons Health Care Ltd. Partially offsetting was the unfavorable net development in our income from financial assets and liabilities carried at fair value through income mainly as Germany Life exhibited significant negative effects from the accounting treatment for certain derivative instruments. In the United States, an increase in market interest rates had an additional

negative impact. Furthermore, increased investment expenses stemmed predominantly from the weaker U.S. Dollar compared to the Euro.

Acquisition and administrative expenses (net) rose by 464 million to 4,437 million, partly triggered by adjustments recorded for the unlocking of deferred acquisition costs at various operating entities after the regular review of assumptions for the calculation of our deferred acquisition costs asset. In addition, higher commissions due to the strong new business production within Germany Life, previously mentioned, also contributed to increased acquisition and administrative expenses (net).

Consequently, together with the decline in statutory premiums (net), our statutory expense ratio increased to 9.6% from 8.4% a year ago. Excluding the adjustments described above, our statutory expense ratio would only have increased 70 basis points from 8.7% in 2005 to 9.4% in 2006.

Claims and insurance benefits incurred (net), and changes in reserves for insurance and investment contracts (net), in aggregate, resulted in charges of 28,150 million, up 1.0% over 2005. While premiums were lower than in 2005, this development in particular reflects the investment income on our assets which benefits our policyholders.

Overall charges of 140 million were recorded for operating restructuring charges in 2006. These charges were incurred in connection with the reorganization of our German insurance operations.⁽¹⁾

Non-operating result

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

In aggregate non-operating items were down by 28 million driven by lower net realized gains not to be shared with policyholders in the United States.

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

Non-operating items, in aggregate, resulted in a gain of 135 million after a gain of 177 million in 2005. This development largely mirrors higher

⁽¹⁾ Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations and Note 49 to our consolidated financial statements for further information.

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non-operating restructuring charges, at 34 million in 2006, mainly in connection with the reorganization of our German insurance operation⁽¹⁾

Net income

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

Net income increased by 21.2% to 1,991 million driven by the higher operating profit. Income tax expenses of 897 million, were up 256 million year on year. The higher tax expense in 2007 is a result of the higher pre-tax income. Additionally, the benefit from tax-exempt income was lower than in 2006, leading to a higher effective tax rate of 28.9% (2006: 23.7%).

Minority interests in earnings were almost halved to 214 million reflecting the minority buy outs at RAS in Italy and at AGF in France.

⁽¹⁾ Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations and Note 49 to our consolidated financial statements for further information.

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

Driven by the higher operating profit, net income rose by 21.0% to 1,643 million.

With income tax expenses of 641 million in 2006, up 153 million from a year ago, our effective tax rate increased to 23.7% (2005: 21.5%). Both in 2006 and 2005, our effective tax rate benefited from significant tax-exempt income. However, based on a higher income before income taxes, the tax-exempt income in 2006 had a lower impact on our effective tax rate than in 2005. Additional significant one-time factors contributing to the relatively low effective tax rates in both years were the capitalization of corporate tax credits in Germany in 2006 and a beneficial tax settlement in the United States in 2005.

Minority interests in earnings remained stable at 416 million. Higher minority interests in earnings at AGF Group in France, reflecting its increased earnings after income taxes, were offset by lower minority interests in earnings at RAS Group in Italy, stemming from its decreased earnings after income taxes and the acquisition of the minority interest in RAS.

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The following table sets forth our Life/Health insurance segment's income statements and statutory expense ratios for the years ended December 31, 2007, 2006 and 2005.

| | 2007 mn | 2006 mn | 2005 mn |
|---|-----------------|-----------------|-----------------|
| Statutory premiums⁽¹⁾ | 49,367 | 47,421 | 48,272 |
| Ceded premiums written | (644) | (840) | (942) |
| Change in unearned premiums | (61) | (221) | (168) |
| Statutory premiums (net) | 48,662 | 46,360 | 47,162 |
| Deposits from SFAS 97 insurance and investment contracts | (27,853) | (25,786) | (27,165) |
| Premiums earned (net) | 20,809 | 20,574 | 19,997 |
| Interest and similar income | 13,417 | 12,972 | 12,057 |
| Income from financial assets and liabilities carried at fair value through income (net), shared with policyholders ⁽²⁾ | (945) | (361) | 258 |
| Realized gains/losses (net) from investments, shared with policyholders ⁽³⁾ | 3,579 | 3,087 | 2,523 |
| Fee and commission income | 701 | 630 | 507 |
| Other income | 182 | 43 | 45 |
| Operating revenues | 37,743 | 36,945 | 35,387 |
| Claims and insurance benefits incurred (net) | (17,637) | (17,625) | (17,439) |
| Changes in reserves for insurance and investment contracts (net) | (10,268) | (10,525) | (10,443) |
| Interest expense | (374) | (280) | (452) |
| Loan loss provisions | 3 | (1) | |
| Impairments of investments (net), shared with policyholders ⁽⁴⁾ | (824) | (390) | (199) |
| Investment expenses | (833) | (750) | (567) |
| Acquisition and administrative expenses (net) | (4,588) | (4,437) | (3,973) |
| Fee and commission expenses | (209) | (223) | (219) |
| Operating restructuring charges ⁽⁵⁾ | (16) | (140) | |
| Other expenses | (2) | (9) | (1) |
| Operating expenses | (34,748) | (34,380) | (33,293) |
| Operating profit | 2,995 | 2,565 | 2,094 |
| Income from financial assets and liabilities carried at fair value through income (net), not shared with policyholders ⁽²⁾ | 5 | | |
| Realized gains/losses (net) from investments, not shared with policyholders ⁽³⁾ | 137 | 195 | 208 |
| Impairments of investments (net), not shared with policyholders ⁽⁴⁾ | (3) | | |
| Amortization of intangible assets | (3) | (26) | (13) |
| Non-operating restructuring charges ⁽⁵⁾ | (29) | (34) | (18) |
| Non-operating items | 107 | 135 | 177 |
| Income before income taxes and minority interests in earnings | 3,102 | 2,700 | 2,271 |
| Income taxes | (897) | (641) | (488) |
| Minority interests in earnings | (214) | (416) | (425) |
| Net income | 1,991 | 1,643 | 1,358 |

| | | | |
|---|------------|------------|------------|
| Statutory expense ratio⁽⁶⁾ in % | 9.4 | 9.6 | 8.4 |
|---|------------|------------|------------|

- (1) For the Life/Health segment, total revenues are measured based upon statutory premiums. Statutory premiums are gross premiums written from sales of life insurance policies, as well as gross receipts from sales of unit linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
- (2) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (3) The total of these items equals realized gains/losses (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (4) The total of these items equals impairments of investments (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (5) The total of these items equals restructuring charges in the segment income statement included in Note 5 to the consolidated financial statements.
- (6) Represents acquisition and administrative expenses (net) divided by statutory premiums (net).

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The following table sets forth our Life/Health statutory premiums, premiums earned (net), operating profit and statutory expense ratio by geographic region for the years ended December 31, 2007, 2006 and 2005. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different geographic regions and different segments.

| | Statutory premiums ⁽¹⁾ | | | Premiums earned (net) | | |
|--|-----------------------------------|---------------|---------------|-----------------------|---------------|---------------|
| | mn | | | mn | | |
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Germany Life | 13,512 | 13,009 | 12,231 | 10,381 | 10,543 | 10,205 |
| Germany Health⁽²⁾ | 3,123 | 3,091 | 3,042 | 3,123 | 3,091 | 3,042 |
| Italy | 9,765 | 8,555 | 9,313 | 1,006 | 1,098 | 1,104 |
| France | 6,550 | 5,792 | 5,286 | 1,760 | 1,436 | 1,420 |
| Switzerland | 992 | 1,005 | 1,058 | 432 | 455 | 470 |
| Spain | 738 | 629 | 547 | 399 | 400 | 350 |
| Belgium | 664 | 597 | 601 | 310 | 302 | 327 |
| Netherlands | 399 | 424 | 381 | 137 | 146 | 144 |
| Austria | 396 | 380 | 343 | 288 | 283 | 262 |
| Portugal | 115 | 98 | 83 | 73 | 66 | 60 |
| Greece | 105 | 98 | 91 | 65 | 62 | 54 |
| Luxembourg | 83 | 58 | 47 | 26 | 30 | 25 |
| Western and Southern Europe⁽³⁾ | 1,762 | 1,655 | 1,546 | 899 | 889 | 872 |
| Poland | 431 | 367 | 99 | 121 | 96 | 53 |
| Slovakia | 235 | 183 | 149 | 157 | 135 | 129 |
| Hungary | 141 | 96 | 89 | 80 | 75 | 73 |
| Czech Republic | 96 | 76 | 64 | 56 | 54 | 50 |
| Croatia | 58 | 48 | 41 | 40 | 36 | 33 |
| Bulgaria | 35 | 25 | 19 | 28 | 23 | 19 |
| Romania | 30 | 25 | 18 | 12 | 12 | 7 |
| Russia | 13 | 8 | | 12 | 7 | |
| New Europe | 1,039 | 828 | 479 | 506 | 438 | 364 |
| Other Europe | 2,801 | 2,483 | 2,025 | 1,405 | 1,327 | 1,236 |
| Mexico ⁽⁴⁾ | 37 | | | 36 | | |
| United States | 6,931 | 8,758 | 11,115 | 636 | 533 | 522 |
| NAFTA | 6,968 | 8,758 | 11,115 | 672 | 533 | 522 |
| South Korea | 2,188 | 2,054 | 1,752 | 975 | 986 | 972 |
| Taiwan | 1,812 | 1,336 | 1,347 | 72 | 107 | 136 |
| Indonesia | 224 | 115 | 69 | 49 | 38 | 31 |
| Malaysia | 126 | 107 | 106 | 104 | 88 | 73 |
| Other | 288 | 121 | 35 | 18 | 37 | 10 |
| Asia-Pacific | 4,638 | 3,733 | 3,309 | 1,218 | 1,256 | 1,222 |
| South America | 78 | 147 | 141 | 40 | 42 | 36 |
| Other⁽⁵⁾ | 418 | 439 | 455 | 373 | 393 | 390 |

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| | | | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Subtotal | 49,583 | 47,641 | 48,522 | 20,809 | 20,574 | 19,997 |
| Consolidation ⁽⁷⁾ | (216) | (220) | (250) | | | |
| Total | 49,367 | 47,421 | 48,272 | 20,809 | 20,574 | 19,997 |

- (1) Statutory premiums are gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
- (2) Loss ratios were 71.6%, 68.4% and 69.7% for 2007, 2006 and 2005, respectively.
- (3) Contains run-off of (3) mn, (2) mn and (11) mn in 2007, 2006 and 2005 respectively, from our former life insurance business in the United Kingdom which we sold in December 2004.
- (4) Effective 2007, life business in Mexico is shown within the Life/Health segment.
- (5) Contains, among others, the Life/Health business assumed by Allianz SE, which was previously reported under Germany in the Property-Casualty segment. Prior year balances have been adjusted to reflect this reclassification and allow for comparability across periods.
- (6) Presentation not meaningful.
- (7) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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| | Operating profit mn | | | Statutory expense ratio % | | |
|--|------------------------|--------------|--------------|------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Germany Life | 695 | 521 | 347 | 5.8 | 9.1 | 8.1 |
| Germany Health⁽²⁾ | 164 | 184 | 159 | 9.8 | 9.3 | 9.1 |
| Italy | 372 | 339 | 334 | 5.8 | 6.4 | 5.4 |
| France | 632 | 582 | 558 | 15.4 | 12.6 | 15.1 |
| Switzerland | 66 | 50 | 55 | 10.6 | 9.9 | 8.7 |
| Spain | 104 | 92 | 71 | 9.2 | 9.3 | 7.4 |
| Belgium | 68 | 62 | 76 | 10.1 | 12.5 | 12.1 |
| Netherlands | 44 | 50 | 41 | 9.8 | 18.4 | 13.5 |
| Austria | 40 | 29 | 35 | 11.8 | 12.1 | 9.4 |
| Portugal | 25 | 25 | 13 | 26.5 | 15.1 | 19.1 |
| Greece | 6 | 13 | 7 | 20.7 | 22.6 | 25.9 |
| Luxembourg | 4 | 5 | 5 | 10.8 | 12.2 | 14.4 |
| Western and Southern Europe⁽³⁾ | 184 | 182 | 166 | 12.1 | 14.8 | 13.3 |
| Poland | 10 | 6 | 3 | 19.7 | 17.6 | 33.3 |
| Slovakia | 29 | 16 | 8 | 16.8 | 18.2 | 24.4 |
| Hungary | 13 | 12 | 10 | 20.4 | 25.7 | 26.9 |
| Czech Republic | 10 | 9 | 6 | 18.0 | 20.1 | 21.5 |
| Croatia | 2 | 4 | 3 | 17.1 | 20.4 | 22.7 |
| Bulgaria | 4 | 3 | 3 | 15.0 | 14.2 | 10.5 |
| Romania | | | 1 | 33.8 | 39.3 | 28.0 |
| Russia | (7) | | | 99.5 | 28.1 | |
| New Europe | 61 | 50 | 34 | 20.0 | 19.6 | 25.7 |
| Other Europe | 245 | 232 | 200 | 15.1 | 16.4 | 16.3 |
| Mexico⁽⁴⁾ | 5 | | | 13.8 | | |
| United States | 380 | 418 | 257 | 11.9 | 8.0 | 4.8 |
| NAFTA | 385 | 418 | 257 | 11.9 | 8.0 | 4.8 |
| South Korea | 286 | 64 | 20 | 14.4 | 13.9 | 16.6 |
| Taiwan | 26 | 14 | 11 | 2.9 | 5.0 | 4.3 |
| Indonesia | 6 | 3 | 1 | 12.7 | 19.3 | 25.0 |
| Malaysia | 12 | 10 | 2 | 17.2 | 19.9 | 14.0 |
| Other | (30) | (10) | (7) | 17.0 | 18.4 | 37.7 |
| Asia-Pacific | 300 | 81 | 27 | 10.2 | 11.2 | 12.0 |
| South America | | 1 | 2 | 32.6 | 16.9 | 17.7 |
| Other⁽⁵⁾ | 30 | 74 | 92 | (6) | (6) | (6) |
| Subtotal | 2,993 | 2,574 | 2,102 | | | |
| Consolidation ⁽⁷⁾ | 2 | (9) | (8) | | | |
| Total | 2,995 | 2,565 | 2,094 | 9.4 | 9.6 | 8.4 |

(1) Statutory premiums are gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.

(2) Loss ratios were 71.6%, 68.4% and 69.7% for 2007, 2006 and 2005, respectively.

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- (3) Contains run-off of (3) mn, (2) mn and (11) mn in 2007, 2006 and 2005 respectively, from our former life insurance business in the United Kingdom which we sold in December 2004.
- (4) Effective 2007, life business in Mexico is shown within the Life/Health segment.
- (5) Contains, among others, the Life/Health business assumed by Allianz SE, which was previously reported under Germany in the Property-Casualty segment. Prior year balances have been adjusted to reflect this reclassification and allow for comparability across periods.
- (6) Presentation not meaningful.
- (7) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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Banking Operations⁽¹⁾

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

Operating profit at 730 million despite financial markets turbulence.

Net trading loss of 461 million caused by markdowns on asset-backed securities.

Profitability of Private & Corporate Clients division further improved

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

Ambitious 2006 targets surpassed.

Strong growth of operating revenues and operating profit, outperforming our expectations.

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

Both operating divisions improved strongly.

Net income amounted to 891 million.

Earnings Summary

Operating revenues

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

Dresdner Bank's operating revenues were down by 20.3% to 5,424 million compared to the previous year. This development resulted mainly from the effects of the financial markets turbulence which heavily impacted our net trading income. However, the net interest income grew.

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Net interest income grew by 12.9% to 2,987 million. Private & Corporate Clients (PCC) as well as the Investment Bank (IB) contributed positively to this improvement with 61 million and 142 million, respectively. In the PCC division we saw higher income from the deposit business due to higher volumes and margins. This was partially offset by lower income from the loan business. The IB improved its result from the loan business and leveraged finance activities.

Net fee and comission income improved slightly by 0.9% to 2,866 million. This resulted from an increased fee volume in the advisory business of our Investment Bank and higher transaction-driven fees in Corporate Other. Lower income from the securities business in PCC, where we saw less client activity due to the market turbulence, partially offset this development.

The development in our net trading income was significantly impacted by the financial markets turbulence leading to a negative result of 461 million (2006: income of 1,242 million). This decline was almost entirely attributable to the markdowns of 1,275 million in only a limited number of business lines of our Investment Bank. The remaining shortfall in these business lines was indirectly related to the credit crisis, resulting from constrained activities in the capital markets. Unaffected business units in aggregate recorded revenue growth of 6.1%. This growth was largely driven by higher client revenues, particularly in leveraged finance, loans and interest derivatives.

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

Dresdner Bank's operating revenues strongly increased to 6,804 million, up 12.7% from the prior year. All income categories contributed to this development, with double-digit growth rates in net interest income and net trading income. Both operating divisions, Private & Corporate Clients (or PCC) and Investment Banking (or IB) recorded higher operating revenues compared to 2005.

Net interest income was 2,645 million, an increase of 19.3%, with significant growth from IB, largely driven by its increased loan book from structured finance and syndicated loan transactions. PCC recorded stable net interest income, as higher revenues in the deposit business were offset by lower net interest income from the loan business. The increase in our net interest income was aided by the development of the impact from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting, amounting to a positive effect of 66 million in 2006 compared to a negative effect of 346 million in 2005.

⁽¹⁾ The results of operations of our Banking segment are almost exclusively represented by Dresdner Bank, accounting for 94.8% of our total Banking segment's operating revenues for the year ended December 31, 2007 (2006: 96.0%, 2005: 95.6%). Accordingly, the discussion of our Banking segment's results of operations relates solely to the operations of Dresdner Bank.

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At 2,841 million, we grew net fee and commission income by 5.5% over the 2005 level. This development was mainly a result of our growing securities business in PCC which benefited from both higher turnover-related commissions and increased assets under management. In addition, PCC's positively developing life and pension insurance business contributed, with particularly strong sales of Riester pension products. Net fee and commission income from IB also improved. Here, our advisory business benefited from increased merger and acquisition activities. In contrast, our Corporate Other division experienced a decline in net fee and commission income, principally impacted by the closure of our Institutional Restructuring Unit (or IRU) in September 2005.

Trading income (net), at 1,242 million in 2006 and up 10.6% compared to the prior year, benefited from a growth momentum across all product groups, particularly within the derivatives and the foreign exchange business. Contrary to the development of net interest income, net trading income was negatively affected by the impact from the accounting treatment for derivative instruments which do not qualify for hedge accounting, amounting to a negative effect of 113 million in 2006, after a positive effect of 132 million in 2005.

Operating profit

Operating profit *Dresdner Bank*

in mn

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

At 730 million, operating profit was down 46.1%, including the above mentioned markdowns on asset-backed securities of 1.3 billion experienced in a number of business lines of the Investment Bank due to the financial markets turbulence. The remaining shortfall in these business lines was also related to the credit crisis. Expense savings of 597 million partly

compensated this development. As these savings could not outweigh the decline in revenues, our cost-income ratio increased by 9.3 percentage points to 89.0%.

Operating expenses, at 4,826 million, were down 11.0%. We saw reductions in all expense categories. Administrative expenses were down by 10.7% to 4,809 million. Thereof, personnel expenses declined by 14.9% to 2,894 million driven by significantly lower performance-related expenses at the Investment Bank, reflecting the development in operating revenues. Further staff reductions and efficiency gains, achieved under the New Dresdner Plus programme, also contributed to this development. Non-personnel expenses also decreased by 3.4% to 1,915 million. This decline resulted predominantly from lower office costs and reduced consulting fees, partly offset by additional expenses for focused growth initiatives.

Loan loss provisions showed gross releases and recoveries of 645 million and at the same time new provisions of 513 million leading to net releases of 132 million in 2007 (2006: net additions of 27 million). We recorded releases and recoveries on a high level reflecting our conservative risk approach in the past. Following the approval of new internal models for expected losses which we also use for Basel II, our assumptions regarding the provisioning for the general loan loss provision turned out to be more cautious than necessary and were revised

accordingly.

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

We more than doubled our operating profit, up 114.9% to 1,354 million in 2006, primarily resulting from the positive revenue development previously described. With our higher operating revenues and lower operating expenses, our cost-income ratio improved significantly to 79.7% in 2006, down 11.7 percentage points compared to 2005.

Operating expenses, at 5,423 million, were down 1.8% from a year earlier due to decreased administrative expenses. Administrative expenses amounted to 5,384 million, of which personnel expenses were 3,400 million, up 3.8%, and non-personnel expenses were 1,984 million, down 8.9%.

Higher personnel expenses were entirely driven by increased performance-related bonuses, reflecting the strong growth of our operating revenues. On the other hand, further staff reductions and efficiency

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gains, helped to decrease both non-performance-related personnel expenses and non-personnel expenses. The decline in non-personnel expenses stemmed from materially lower office space expenses.

Within our loan loss provisions we continued to benefit from the improved quality of our loan portfolio. In aggregate, loan loss provisions experienced moderate net additions of 27 million, compared to net releases of 113 million in 2005. Net releases in the prior year were driven by recoveries and substantial releases in connection with the wind-down of the IRU. Our coverage ratio⁽¹⁾ improved to 61.5% as of December 31, 2006 from 56.8% in 2005.

Non-operating results

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

The non-operating result more than halved to a loss of 70 million in 2007. The main drivers were significantly reduced restructuring charges and lower net impairments on investments.

Net realized gains decreased by 422 million to 70 million. In the previous year, we recorded large gains from the sale of Dresdner Bank's remaining shareholding in Munich Re as well as from the disposal of Eurohypo AG.

Net impairments of investments declined by 58.6% to 89 million as the prior year's figure included higher write-downs on real estate properties used by third-parties.

Restructuring charges declined from 422 million to 51 million. In 2006, higher charges were incurred in connection with the New Dresdner Plus reorganization programme.⁽²⁾

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

In aggregate, the impact from non-operating items declined from 825 million profit to a loss of 145 million, as expected.

Realized gains/losses (net) decreased by 528 million to 492 million, primarily due to a

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- (1) Represents total loan loss allowance as a percentage of total non-performing loans and potential problem loans.
(2) Please see Note 49 to our consolidated financial statements for further information on our restructuring plans.

reduced number of significant sale transactions compared to a year ago. Realized gains in 2006 included a tax-exempt gain from the sale of Dresdner Bank's remaining 2.3% shareholdings in Munich Re to Allianz SE (formerly Allianz AG) as well as a gain from the disposal of our remaining participation in Eurohypo AG.

Impairments of investments (net) was up 17.5% to 215 million, largely attributable to write-downs on real estate properties used by third-parties.

Restructuring charges increased by 410 million to 422 million, mainly reflecting the New Dresdner Plus reorganization program.

Net income

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

The decline in net income by 58.9% to 366 million resulted mainly from lower operating profit as previously described.

Although we recorded lower income before income taxes and minority interests in earnings, our income taxes decreased by only 1.7% to 232 million leading to an effective tax rate of 35.2% (2006: 19.5%). The especially low effective tax rate in 2006 was caused mainly by the capitalization of corporate tax credits. In 2007 the German tax reform led to a negative one-off effect of 137 million due to the revaluation of the net deferred tax assets. In addition, no deferred tax assets were recognized for losses from markdowns on asset backed securities.

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

Net income amounted to a strong 891 million, evidencing the high quality of our earnings. Our significantly improved operating profit almost compensated for the expected decline in non-operating items.

With income tax expenses down 36.7%, our effective tax rate decreased from 25.6% to 19.5%. This development was mainly attributable to higher tax exempt income and the capitalization of corporate tax credits in Germany, while income before income taxes was lower in 2006.

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The following table sets forth the income statements and cost-income ratios for both our Banking segment as a whole and Dresdner Bank for the years ended December 31, 2007, 2006 and 2005.

| | 2007 | | 2006 | | 2005 | |
|---|--------------------------|------------------------|--------------------------|---------------------------------------|--------------------------|------------------------|
| | Banking Segment mn | Dresdner Bank mn | Banking Segment mn | Dresdner Bank ⁽¹⁾ mn | Banking Segment mn | Dresdner Bank mn |
| Net interest income ⁽²⁾ | 3,104 | 2,987 | 2,720 | 2,645 | 2,294 | 2,218 |
| Net fee and commission income ⁽³⁾ | 3,048 | 2,866 | 3,008 | 2,841 | 2,850 | 2,693 |
| Trading income (net) ⁽⁴⁾ | (464) | (461) | 1,282 | 1,242 | 1,170 | 1,123 |
| Income from financial assets and liabilities designated at fair value through income (net) ⁽⁴⁾ | 33 | 33 | 53 | 53 | (7) | (6) |
| Other income | | (1) | 25 | 23 | 11 | 11 |
| Operating revenues⁽⁵⁾ | 5,721 | 5,424 | 7,088 | 6,804 | 6,318 | 6,039 |
| Administrative expenses | (5,061) | (4,809) | (5,605) | (5,384) | (5,661) | (5,452) |
| Investment expenses | (14) | (20) | (47) | (53) | (30) | (37) |
| Other expenses | 1 | 3 | 14 | 14 | (33) | (33) |
| Operating expenses | (5,074) | (4,826) | (5,638) | (5,423) | (5,724) | (5,522) |
| Loan loss provisions | 126 | 132 | (28) | (27) | 110 | 113 |
| Operating profit | 773 | 730 | 1,422 | 1,354 | 704 | 630 |
| Realized gains/losses (net) | 83 | 70 | 492 | 492 | 1,020 | 1,020 |
| Impairments of investments (net) | (90) | (89) | (215) | (215) | (184) | (183) |
| Amortization of intangible assets | | | | | (1) | |
| Restructuring charges | (52) | (51) | (424) | (422) | (13) | (12) |
| Non-operating items | (59) | (70) | (147) | (145) | 822 | 825 |
| Income before income taxes and minority interests in earnings | 714 | 660 | 1,275 | 1,209 | 1,526 | 1,455 |
| Income taxes | (266) | (232) | (263) | (236) | (387) | (373) |
| Minority interests in earnings | (71) | (62) | (94) | (82) | (102) | (82) |
| Net income | 377 | 366 | 918 | 891 | 1,037 | 1,000 |
| Cost-income ratio⁽⁶⁾ in % | 88.7 | 89.0 | 79.5 | 79.7 | 90.6 | 91.4 |

(1) We have enhanced the presentation of revenues and operating profit stemming from trades in shares of Allianz SE and its affiliates. From 2007 onwards, these results are eliminated on Dresdner Bank level, whereas in 2006 they were adjusted on segment level only. At Dresdner Bank this led to reduced operating revenues and reduced operating profit of 6 mn and 6 mn, respectively, compared to the figures as stated in 2006. As a result income taxes decreased by 3 mn. All other changes are related to rounding.

(2) Represents interest and similar income less interest expense.

(3) Represents fee and commission income less fee and commission expenses.

(4) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement included in Note 5 to the consolidated financial statements.

(5) For the Banking segment, total revenues are measured based upon operating revenues.

(6) Represents operating expenses divided by operating revenues.

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The following table sets forth our banking operating revenues, operating profit and cost-income ratio by division. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different segments.

| | Operating revenues | | | Operating profit (loss) | | | Cost-income ratio | | |
|--|--------------------|--------------|--------------|-------------------------|--------------|------------|-------------------|-------------|-------------|
| | 2007 mn | 2006 mn | 2005 mn | 2007 mn | 2006 mn | 2005 mn | 2007 mn | 2006 mn | 2005 mn |
| Private & Corporate Clients ⁽¹⁾ | 3,625 | 3,624 | 3,464 | 884 | 783 | 626 | 74.0 | 74.9 | 77.2 |
| Investment Banking ⁽¹⁾ | 1,628 | 3,111 | 2,613 | (659) | 548 | 351 | 137.0 | 82.9 | 88.1 |
| Corporate Other ⁽²⁾ | 171 | 69 | (38) | 505 | 23 | (347) | (3) | (3) | (3) |
| Dresdner Bank | 5,424 | 6,804 | 6,039 | 730 | 1,354 | 630 | 89.0 | 79.7 | 91.4 |
| Other Banks ⁽⁴⁾ | 297 | 284 | 279 | 43 | 68 | 74 | 83.5 | 75.7 | 72.4 |
| Total | 5,721 | 7,088 | 6,318 | 773 | 1,422 | 704 | 88.7 | 79.5 | 90.6 |

(1) Our reporting by division reflects the organizational changes within Dresdner Bank effective starting with 1Q 2007, resulting in two operating divisions, Private & Corporate Clients (PCC) and Investment Banking (IB). PCC combines all banking activities formerly provided by the Personal Banking and Private & Business Banking (including Private Wealth Management) divisions as well as our activities with medium-sized business clients from our former Corporate Banking division. IB, with Global Banking and Capital Markets, unites the activities formerly provided by the Dresdner Kleinwort Wasserstein division and the remaining activities of the former Corporate Banking division. Prior year balances have been adjusted accordingly to reflect these reorganization measures and allow for comparability across periods.

(2) The Corporate Other division contains income and expense items that are not assigned to Dresdner Bank's operating divisions. These items include, in particular, impacts from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting as well as provisioning requirements for country and general risks. For the years ended December 31, 2007, 2006 and 2005 the impact from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting on Corporate Other's operating revenues amounted to (54) mn, (47) mn and (214) mn, respectively.

(3) Presentation not meaningful.

(4) Consists of non-Dresdner Bank banking operations within our Banking segment.

Table of Contents**Banking Operations by Geographic Region**

The following table sets forth our banking operating revenues and operating profit by geographic region for the years ended December 31, 2007, 2006 and 2005. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different segments.

| | Operating revenues | | | Operating profit (loss) | | |
|--------------|--------------------|--------------|--------------|-------------------------|--------------|------------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| | mn | mn | mn | mn | mn | mn |
| Germany | 4,321 | 4,312 | 4,340 | 1,488 | 853 | 814 |
| The Americas | 433 | 560 | 176 | 77 | 251 | (78) |
| Europe | 664 | 1,944 | 1,571 | (907) | 234 | (110) |
| New Europe | 72 | 60 | 47 | 8 | 2 | 3 |
| Asia-Pacific | 231 | 212 | 184 | 107 | 82 | 75 |
| Total | 5,721 | 7,088 | 6,318 | 773 | 1,422 | 704 |

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Asset Management Operations

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

Internal growth of 8.1% in third-party assets under management.

Strong profitability based on growing asset base and tight cost control.

Cost-income ratio at a very competitive 58.3%.

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

Another year of substantial improvement across all key performance indicators.

Strong net inflows of 36 billion despite challenging capital market environment.

Further double-digit operating profit growth to 1.3 billion.

Very competitive cost-income ratio at 57.6%.

Net income reached 404 million, up 65.6%.

Third-Party Assets Under Management of the Allianz Group

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

The majority of our third-party assets under management outperformed their respective benchmarks. Operating profit grew 5.3% to 1,359 million. Excluding negative foreign currency translation effects of 96 million operating profit grew 12.8% at constant exchange rates.

In the fixed income business, especially in the second half of the year, we again generated a very strong overall investment performance, showing that our long-term approach pays off. We also further improved our investment performance in the equity business.

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Third party assets under management increased by 8.1% on an internal basis. This growth was driven by net inflows and positive market effects, which in aggregate contributed 62 billion. However, the continuing decline of the U. S. Dollar outweighed most of that asset growth.

Of the net inflows, 12.4 billion are attributable to fixed income investments, whereas there were outflows of 2.4 billion from equity investments.

There were no major movements in the geographic origination of third party assets under management in the year. The allocation between retail and institutional clients also remained almost unchanged. Roughly two thirds were made up by institutional clients with a majority thereof coming from the United States. The same applied to retail clients. With regards to investment categories, the proportion between fixed income and equity does not reflect any major movements either. The majority were fixed income investments mainly from the United States. On the equity side the allocation between the United States, Germany and other countries was fairly balanced.

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

In 2006, we faced a volatile and challenging capital market environment. Whereas in the first, third and fourth quarter, equity capital markets developed favorably worldwide, the second quarter showed substantial declines in market values. In the fixed income capital markets, substantial decreases in fixed income indices occurred throughout the first half of the year, following the increases in market interest rates, and values only recovered slowly during the second half of the year.

This capital market environment led to mixed developments in the asset management industry. For example, net flows in the fixed income mutual fund market in the United States turned negative during the second quarter of 2006. In Germany, the equity and fixed income mutual fund markets recorded net outflows in 2006, whereas balanced and money market products saw net inflows of a similar magnitude.

Despite this challenging environment and also dampened private demand for third-party asset management products and services, we achieved net inflows to third-party assets of 36 billion, primarily stemming from the United States and Europe, compared to 65 billion in 2005. Both fixed income and equity products contributed to net inflows in

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2006, which again affirmed our strong position as one of the largest asset managers worldwide, based on total assets under management.⁽¹⁾

A key success factor continued to be our competitive investment performance. The overwhelming majority of the third-party assets we manage again outperformed their respective benchmarks in 2006. Market-related appreciation was 43 billion. Net inflows and positive market effects were partly offset by negative currency conversion effects of 57 billion, resulting primarily from a weaker U.S. Dollar versus the Euro. Overall, on a Euro-basis, our third-party assets increased by 21 billion⁽²⁾ to 764 billion as of December 31, 2006, compared to 743 billion as of December 31, 2005.

⁽¹⁾ Source: Own internal analysis and estimates.

⁽²⁾ Including a negative deconsolidation effect of 1 bn.

Rolling investment performance of Allianz Global Investors⁽¹⁾

in %

⁽¹⁾ AGI account-based, asset-weighted 3-year investment performance of 3rd party assets vs. benchmark including all equity and fixed income accounts managed on a discretionary basis by equity and fixed income managers of AGI (including direct accounts, Spezialfonds and CPMs of Allianz with AGI Germany). For some retail funds the net of fee performance is compared to the median performance of an appropriate peer group (Micropal or Lipper; 1st and 2nd quartile mean out-performance). For all other retail funds and for all institutional accounts performance is calculated gross of fees using closing prices (revaluated) where appropriate and compared to the benchmark of each individual fund or account. Other than under GIPS, the performance of closed funds/accounts is not included in the analysis. Also not included: WRAP accounts and accounts of Caywood Scholl, AGI Taiwan, AGI Korea, AGF AM and RAS AM.

Development of third-party assets under management

in bn

Third-party assets under management By geographic region as of December 31, 2007 (2006)⁽¹⁾

in %

⁽¹⁾ Based on the origination of assets.

⁽²⁾

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Consists of third-party assets managed by Dresdner Bank (approximately 18 bn and 21 bn as of December 31, 2007 and 2006, respectively) and by other Allianz Group companies (approximately 22 bn and 20 bn as of December 31, 2007 and 2006, respectively).

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

Major awards received during the year reflect our success in the asset management business in 2007:

Morningstar has named PIMCO's Bill Gross and team the 2007 Fixed-Income Fund Manager of the year. Bill Gross is the first fund manager ever to receive three Morningstar Fund Manager of the year awards.

PIMCO was awarded Best Third-Party Provider of Fixed Income Portfolio Management Services in Asia from Euromoney Private Banking Survey 2007.

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Allianz Global Investors Germany was awarded with five stars again according to Capital magazine ranking.

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

Our major achievements in 2006 included:

Allianz/PIMCO Funds were named Best Mutual Fund Family in the 2006 Lipper/Barron's Fund Families Survey.

Particularly strong net inflows of approximately 7 billion at our equity fund manager NFJ Investment Group.

PIMCO CommodityRealReturn Funds began trading on June 29, 2006 and already successfully raised USD 773 million in assets to December 31, 2006.

PIMCO was named Investor of the Year in the 2006 Securitization News survey.

Allianz Global Investors Germany is market leader in the innovative segment of certificate funds.⁽¹⁾

Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH (or dit) ranked first in the Most Improved Group of Standard & Poor's German Fund Awards 2006.

dit was awarded five stars by the German financial magazine Capital, the highest possible score.

Effective January 1, 2007, our German retail fund company dit and our German special fund company dresdnerbank investment management Kapitalanlagegesellschaft mbH (or dbi) were merged to form Allianz Global Investors Kapitalanlagegesellschaft mbH.

⁽¹⁾ Source: Bundesverband Investment und Asset Management (or BVI), an association representing the German investment fund industry.

Earnings Summary⁽²⁾

Operating revenues

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

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Operating revenues amounted to 3,178 million, up 6.3% from a year ago. Operating revenue grew 13.5% on an internal basis.

Net fee and commission income was up 186 million to 3,060 million driven by higher management fees resulting from our growing asset base, as well as by increased performance fees. In contrast, loading and exit fees decreased reflecting the development in mutual fund sales.

| | 2007 mn | 2006 mn | 2005 mn |
|--------------------------------------|--------------|--------------|--------------|
| Management fees | 3,496 | 3,368 | 2,941 |
| Loading and exit fees | 307 | 334 | 333 |
| Performance fees | 202 | 107 | 122 |
| Other income | 292 | 309 | 294 |
| Fee and commission income | 4,297 | 4,118 | 3,690 |
| Commissions | (877) | (895) | (812) |
| Other expenses | (360) | (349) | (281) |
| Fee and commission expenses | (1,237) | (1,244) | (1,093) |
| Net fee and commission income | 3,060 | 2,874 | 2,597 |

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

At 2,989 million, operating revenues reflect a solid growth of 11.7% at stable revenue margins, primarily attributable to strict pricing discipline and a further improved responsiveness to our clients' needs. Net fee and commission income was up 277 million to 2,874 million, predominantly due to higher management fees as a result of the growing third-party asset under management base, as previously discussed. Internal operating revenue growth of 13.3% was even stronger, as nominal operating revenue growth was impacted by the weaker U.S. Dollar compared to the Euro.

- (2) The results of operations of our Asset Management segment are almost exclusively represented by AGI, accounting for 97.5% of our total Asset Management segment's operating revenues for the year ended December 31, 2007 (2006: 98.2%, 2005: 98.3%). Accordingly, the discussion of our Asset Management segment's results of operations relates solely to the operations of AGI.

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Operating profit

Operating profit Allianz Global Investors

in mn

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Operating profit increased by 3.5% to 1,321 million.

Administrative expenses, excluding acquisition-related expenses were up 8.4% to 1,857 million as a result of our business expansion and structured investments to secure future growth. In line with new business generation, compensation-related expenses were also up. At 58.4%, our cost-income remains at a very competitive level.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Operating profit grew by 14.2% to 1,276 million.

Administrative expenses, excluding acquisition-related expenses, at 1,713 million in 2006, were up 9.8%, representing a considerably less than proportionate increase compared to that in our operating revenues due to effective cost control. As a result, our cost-income ratio decreased by 1.0 percentage point to 57.3%.

This success was achieved despite substantial investments in our distribution network and human resources development.

Non-operating result

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

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The aggregate net loss from non-operating items declined to 492 million, down 64 million compared to the prior year period. Acquisition related expenses declined by 7.7% to 491 million. This was mainly driven by a positive foreign exchange effect of 48 million. Excluding foreign exchange impacts, acquisition related expenses grew 1.2%, mainly due to valuation effects of PIMCO LLC Class B Units (or Class B Units) as a result of increased operating performance at PIMCO. This outweighed the lower number of outstanding Class B Units in 2007 as compared to 2006. As of December 31, 2007, the Allianz Group had acquired 43,917 of the 150,000 Class B Units⁽¹⁾ originally outstanding. Going forward, we expect acquisition-related expenses to be mainly driven by the number of Class B Units outstanding and our operating profit development at PIMCO.

There was no charge in 2007 for amortization of intangible assets compared to a charge in the prior year of 23 million that was related to the impairment of a brand name.

⁽¹⁾ Please see Note 48 to our consolidated financial statements for further information on the Class B Units.

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Year ended December 31, 2006 Compared to Year ended December 31, 2005

In aggregate, the net loss from non-operating items decreased significantly from 708 million to 556 million. Thereof, at 532 million, acquisition related expenses declined 22.6%. This decrease was mainly driven by a lower number of outstanding PIMCO LLC Class B Units (or Class B Units) in 2006 as compared to 2005. As of December 31, 2006, the Allianz Group had acquired 21,762 of the 150,000 Class B Units originally outstanding. Going forward, we expect acquisition-related expenses to be mainly driven by the number of Class B Units outstanding and our operating profit development at PIMCO. Amortization of intangible assets of 23 million in 2006 was related to the merger of dit and dbi to Allianz Global Investors Kapitalanlagegesellschaft mbH, previously mentioned. Thereby, our dit brand was fully written off in 2006.

Net income

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

Income before income taxes and minority interests increased by 109 million, giving rise to a higher tax charge. Our effective tax rate increased by 2.4 percentage points to 40.7%, primarily due to a higher taxable income in the United States.

Due to the minority buy-outs of AGF and RAS, minority interests in earnings reduced by 27 million to 22 million.

Net income therefore grew by 19.0% to 470 million in 2007.

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

Net income reached 395 million, exceeding previous year's level by 68.8%. Primarily as a result of higher taxable income in the United States income tax expenses increased 117.3% to 276 million, representing a rise of our effective tax rate from 31.1% to 38.3%.

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The following table sets forth the income statements and cost-income ratios for both our Asset Management segment as a whole and AGI for the years ended December 31, 2007, 2006 and 2005.

| | 2007 | | 2006 | | 2005 | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | Asset Management Segment mn | Allianz Global Investors mn | Asset Management Segment mn | Allianz Global Investors mn | Asset Management Segment mn | Allianz Global Investors mn |
| Net fee and commission income ⁽¹⁾ | 3,133 | 3,060 | 2,924 | 2,874 | 2,636 | 2,597 |
| Net interest income ⁽²⁾ | 81 | 75 | 71 | 66 | 56 | 51 |
| Income from financial assets and liabilities carried at fair value through income (net) | 31 | 29 | 38 | 37 | 19 | 18 |
| Other income | 14 | 14 | 11 | 12 | 11 | 11 |
| Operating revenues⁽³⁾ | 3,259 | 3,178 | 3,044 | 2,989 | 2,722 | 2,677 |
| Administrative expenses, excluding acquisition-related expenses ⁽⁴⁾ | (1,900) | (1,857) | (1,754) | (1,713) | (1,590) | (1,560) |
| Operating expenses | (1,900) | (1,857) | (1,754) | (1,713) | (1,590) | (1,560) |
| Operating profit | 1,359 | 1,321 | 1,290 | 1,276 | 1,132 | 1,117 |
| Realized gains/losses (net) | 2 | 4 | 7 | 5 | 6 | 5 |
| Impairments of investments (net) | (1) | (1) | (2) | (2) | | |
| Acquisition-related expenses⁽⁴⁾, thereof | | | | | | |
| Deferred purchases of interests in PIMCO | (488) | (488) | (523) | (523) | (677) | (677) |
| Other acquisition-related expenses ⁽⁵⁾ | (3) | (3) | (9) | (9) | (10) | (10) |
| Subtotal | (491) | (491) | (532) | (532) | (687) | (687) |
| Amortization of intangible assets | | | (24) | (23) | (25) | (25) |
| Restructuring charges | (4) | (4) | (4) | (4) | (1) | (1) |
| Non-operating items | (494) | (492) | (555) | (556) | (707) | (708) |
| Income before income taxes and minority interests in earnings | 865 | 829 | 735 | 720 | 425 | 409 |
| Income taxes | (342) | (337) | (278) | (276) | (129) | (127) |
| Minority interests in earnings | (25) | (22) | (53) | (49) | (52) | (48) |
| Net income | 498 | 470 | 404 | 395 | 244 | 234 |
| Cost-income ratio⁽⁶⁾ in % | 58.3 | 58.4 | 57.6 | 57.3 | 58.4 | 58.3 |

(1) Represents fee and commission income less fee and commission expense.

(2) Represents interest and similar income less interest expense and investment expenses.

(3) For the Asset Management segment, total revenues are measured based upon operating revenues.

(4) The total of these items equals acquisition and administration expenses (net) in the segment income statement included in Note 5 to the consolidated financial statements.

(5) Consists of retention payments for the management and employees of PIMCO and Nicholas Applegate.

(6) Represents operating expenses divided by operating revenues.

Table of Contents**Corporate Activities**

Operating loss declined by 506 million driven by higher investment result

Earnings Summary

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

The operating loss declined significantly due to higher current investment income and lower expenses. This improvement along with a positive trading result and a further increased level of realized gains led to a much lower loss before taxes, whereas the negative tax effects almost off-set these positive developments. Net income thus slightly improved by 21 million to a net loss of 158 million.

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

While operating loss, down 50 million to 831 million in 2006, remained relatively stable, net expenses from non-operating items declined significantly by 962 million. As a result, loss before income taxes and minority interests in earnings was down 1,012 million to 987 million. Consequently, net income was down to a net loss of 179 million from a net loss of 1,268 million in 2005.

| | Holding Function | | | Private Equity | | | Total | | |
|--|-------------------------|--------------|----------------|-----------------------|-------------|-------------|--------------|--------------|----------------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| | mn | mn | mn | mn | mn | mn | mn | mn | mn |
| Operating profit (loss) | (446) | (824) | (932) | 121 | (7) | 51 | (325) | (831) | (881) |
| Non-operating items | 37 | (455) | (1,109) | (66) | 299 | (9) | (29) | (156) | (1,118) |
| Income (loss) before income taxes and minorities | (409) | (1,279) | (2,041) | 55 | 292 | 42 | (354) | (987) | (1,999) |
| Net income (loss) | (168) | (460) | (1,286) | 10 | 281 | 18 | (158) | (179) | (1,268) |

Holding Function

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

Operating profit At 446 million, the operating loss was nearly halved, a considerable improvement as compared to a year earlier. On the revenue side, in line with a higher asset base and an increase in yields, the main driver was interest and similar income which was up 74.5%, reaching 745 million, driven by a high liquidity accumulated to pay back liabilities. Additionally, operating expenses declined by 6.9%, primarily attributing to lower investment expenses which reflect declined banking and investment transaction costs.

Non-operating result The non-operating result turned into an aggregate profit of 37 million compared to an aggregate loss of 455 million in the prior year. The non-operating trading result driven by the BITES exchangeable bond, which was partially repaid in 2007, and higher net capital gains contributed to this development and therefore more than compensated for the higher interest expense from external debt in connection with the minority buy-out at AGF.

Net income Due to high negative tax impacts stemming primarily from the German tax reform our net loss came to 168 million.

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

Operating profit The considerable decrease in operating loss stemmed primarily from higher interest and similar income due to higher dividends received from equity investments. Further key operating items included within Holding Function are administrative expenses to run our Group Center, expenses associated with our pension plans, and expenses for certain Allianz Group-wide growth initiatives.

Non-operating items Net expenses from non-operating items decreased by 654 million, predominantly from higher realized gains brought about by various sales transactions. With net realized gains of 434 million the sale of our shareholding in Schering AG in June 2006 contributed most. In addition, non-operating items benefited from a lower net loss from financial assets and liabilities held for trading in comparison to 2005 when the effects of

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derivatives from an equity-linked loan issued in connection with financing the cash tender offer for the outstanding RAS shares made a significant negative impact. Interest expense from external debt, at 775 million in 2006, remained relatively constant.

Net income Net loss of the Holding Function was down to 460 million and more than halved compared to the prior year. This was almost exclusively due to an almost similar development in non-operating items as previously described.

Private Equity

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

Operating profit At 121 million, the operating result turned positive after an operating loss of 7 million a year ago reflecting profit participation of 65 million.

Non-operating result Non-operating result turned negative and amounted to an aggregate loss of 66 million, following a gain of 299 million a year ago, as the high level of realized gains from disposals in the prior year period mainly in connection with the sale of Four Seasons Health Care Limited was not repeated.

Net income Net income decreased to 10 million. This development was mainly attributable to the non-operating loss. Furthermore, net income was impacted by higher taxes and increased minority interests in earnings.

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

Operating profit Operating profit turned negative and decreased 58 million from the 2005 level. In August 2006, the Allianz Group acquired 100.0% of MAN Roland Druckmaschinen AG. The full consolidation of this private equity investment had impacts of a similar magnitude both on operating revenues and operating expenses, namely income and expenses from fully consolidated private equity investments.

Non-operating items Non-operating items improved from a loss of 9 million to a gain of 299 million. The disposal of Four Seasons Health Care Ltd. (or Four Seasons) in August 2006 contributed 287 million to this development.

Net income Net income was 281 million as compared to 18 in 2005. Non-operating items turned positive; this by far outweighed the negative operating profit development.

Table of Contents**Balance Sheet Review**

Shareholders' equity of 47.8 billion.

Strong net income of 8.0 billion partially offset by various impacts following minority buy-outs.

Consolidated Balance Sheets⁽¹⁾

The following table sets forth the Allianz Group's consolidated balance sheets as of December 31, 2007 and 2006.

| As of December 31, | 2007 mn | 2006 mn |
|--|--------------------|--------------------|
| ASSETS | | |
| Cash and cash equivalents | 31,337 | 33,031 |
| Financial assets carried at fair value through income ⁽²⁾ | 185,461 | 198,992 |
| Investments ⁽³⁾ | 286,952 | 298,134 |
| Loans and advances to banks and customers | 396,702 | 423,765 |
| Financial assets for unit linked contracts | 66,060 | 61,864 |
| Reinsurance assets | 15,312 | 19,360 |
| Deferred acquisition costs | 19,613 | 19,135 |
| Deferred tax assets | 4,771 | 4,727 |
| Other assets | 41,528 | 38,001 |
| Intangible assets | 13,413 | 13,072 |
| Total assets | 1,061,149 | 1,110,081 |
| LIABILITIES AND EQUITY | | |
| Financial liabilities carried at fair value through income | 126,053 | 121,822 |
| Liabilities to banks and customers | 336,494 | 376,565 |
| Unearned premiums | 15,020 | 14,868 |
| Reserves for loss and loss adjustment expenses | 63,706 | 65,464 |
| Reserves for insurance and investment contracts | 292,244 | 287,032 |
| Financial liabilities for unit linked contracts | 66,060 | 61,864 |
| Deferred tax liabilities | 3,973 | 4,588 |
| Other liabilities | 49,324 | 49,764 |
| Certificated liabilities | 42,070 | 54,922 |
| Participation certificates and subordinated liabilities | 14,824 | 16,362 |
| Total liabilities | 1,009,768 | 1,053,251 |
| Shareholders' equity | 47,753 | 49,650 |
| Minority interests | 3,628 | 7,180 |
| Total equity | 51,381 | 56,830 |
| Total liabilities and equity | 1,061,149 | 1,110,081 |

- (1) The Allianz Group identified prior period errors through an analysis of various balance sheet accounts (the Errors). The Errors resulted primarily from the accounting for the purchase of Dresdner Bank in 2001 and 2002, consolidation of special funds in 2001 and other errors related to minority interest and policyholder participation occurred in combination with mergers. The Errors had the effect of reducing net income by 78 mn in 2006, 42 mn in 2005, and 157 mn for the 4 years from 2001 through 2004. As the majority of the Errors related to the years 2001 through 2004, the Errors from these periods have been accounted for in 2007 by adjusting the opening balance sheet as of January 1, 2005. The Errors for 2005 and 2006 have been corrected through an out-of-period adjustment to net income in 2007. Certain financial instruments that were previously presented on a net presentation are now presented on a gross basis, due to contractual limitations to the right of offset. Partially offsetting these reclassifications from net to gross presentation is a change in the presentation of Collateral paid for securities borrowing transactions and Collateral received for securities lending transactions from gross to net presentation. The net effect is an increase in total assets and total liabilities of 57,610 mn for the year ended December 31, 2006. For further information, see Note 3 to the consolidated financial statements.
- (2) As of December 31, 2007, 23,163 mn are pledged to creditors and can be sold or repledged (2006: 90,211 mn).
- (3) As of December 31, 2007, 7,384 mn are pledged to creditors and can be sold or repledged (2006: 3,156 mn).

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Total Equity

Shareholders' equity⁽¹⁾

in mn

⁽¹⁾ Does not include minority interests of 3.6 bn, of 7.2 bn and of 8.4 bn as of December 31, 2007, 2006 and 2005, respectively. Please see note 23 to the consolidated financial statements for further information. Includes retrospective correction as of January 1, 2005 of 0.8 bn. Please see note 3 to the consolidated financial statements for further information.

⁽²⁾ Includes foreign currency translation adjustments.

In 2007, our shareholders' equity decreased 3.8% to 47.8 billion. Additions to the shareholders' equity were primarily the 2007 net income of 8.0 billion and a capital increase of 2.8 billion raised as part of financing the AGF minority buy-out. The goodwill related to the minority buy-outs of AGF and Allianz Leben amounting to 7.0 billion was recorded as a reduction of shareholders' equity. Together with the transfer on disposal of unrealized gains and losses to realized of 2.5 billion were these the largest downward movements. Furthermore foreign currency translation effects of 1.4 billion and the dividend payment of 1.6 billion contributed to the overall reduction in our shareholders' equity.

Total Assets and Total Liabilities

Total assets and liabilities decreased by 48.9 billion and 43.5 billion, respectively. In the following sections we analyze important developments within the

balance sheets of our Life/Health, Property-Casualty and Banking segments as presented under Notes to the Allianz Group's Consolidated Financial Statements Business Segment Information Consolidated Balance Sheets. Relative to the Allianz Group's total assets and total liabilities, we consider the total assets and total liabilities from our Asset Management segment as immaterial and have, accordingly, excluded these assets and liabilities from the following discussion. Our Asset Management segment's results of operations stem primarily from its business with third-party assets. Please see Asset Management Operations Third-Party Assets under Management of the Allianz Group for further information on the development of our third-party assets.

Assets and Liabilities of the Property-Casualty segment

Property-Casualty asset base

fair values⁽¹⁾ in bn

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- ⁽¹⁾Loans and advances to banks and customers, held-to-maturity investments, and real estate held for investment are stated at amortized cost. Investments in associates and joint ventures are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage. For further information see note 2 to the consolidated financial statements.
- ⁽²⁾Does not include affiliates of 10.0 bn and 9.5 bn as of December 31, 2007 and 2006, respectively.
- ⁽³⁾Includes debt securities of 2.7 bn and 3.2 bn as of December 31, 2007 and 2006, respectively, equity securities of 0.4 bn and 0.4 bn as of December 31, 2007 and 2006, respectively, and derivative financial instruments of 0.1 bn and 0.1 bn as of December 31, 2007 and 2006, respectively.

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Property-Casualty assets

Our property-casualty asset base decreased by 2.2 billion to 97.6 billion. In the segment's investments, excluding affiliates, we recorded a decline of 5.6 billion to 73.7 billion. Thereof, debt securities decreased by 2.0 billion to 50.3 billion as a result of higher interest rates which had direct negative impact on the fair value. Equity investments were down 2.6 billion to 16.5 billion mainly caused by a strategic decision to actively decrease our equity exposure in order to reduce equity gearing.⁽¹⁾

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

Rating structure of Property-Casualty fixed income portfolio⁽¹⁾

in %

⁽¹⁾ including loans and debt securities

⁽¹⁾ The equity gearing is an indicator for the sensitivity of our shareholders' equity due to changes in the value of all our equity investments.

Property-Casualty liabilities

In 2007, reserves for loss and loss adjustment expenses decreased by 1.8 billion to 56.9 billion. Important contributors to this decline were the positive development on prior years' loss reserves primarily in Italy, France, the United Kingdom, Australia and within the credit insurance business, as well as foreign currency translation effects.

Assets and Liabilities of the Life/Health segment

Life/Health asset base

fair values⁽¹⁾ in bn

- ⁽¹⁾Loans and advances to banks and customers, held-to-maturity investments, and real estate held for investment are stated at amortized cost. Investments in associates and joint ventures are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage. For further information see note 2 to the consolidated financial statements.
- ⁽²⁾Financial assets for unit-linked contracts represent 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. As a result, the value of financial assets for unit-linked contracts in our balance sheet corresponds with the value of financial liabilities for unit-linked contracts.
- ⁽³⁾Does not include affiliates of 2.7 bn and 2.8 bn as of December 31, 2007 and 2006, respectively.
- ⁽⁴⁾Includes debt securities of 9.3 bn and 7.3 bn as of December 31, 2007 and 2006, respectively, equity securities of 3.3 bn and 2.9 bn as of December 31, 2007 and 2006, respectively, and derivative financial instruments of (4.5) bn and (4.4) bn as of December 31, 2007 and 2006, respectively.

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Life/Health assets

Our Life/Health asset base grew by 2.5% to 350.0 billion. This development stemmed primarily from increased loans and advances to banks and customers, up 6.3% to 91.2 billion. Investments decreased slightly by 1.7% to 184.6 billion, excluding affiliates. Thereof, equity investments amounted to 41.2 billion, 1.0 billion lower than the last year as the upward market trend was reduced by higher realized gains. Debt securities were down by 1.2 billion to 137.6 billion principally due to increased market interest rates and, as a result, downward trends in fixed income indices. Financial assets for unit-linked contracts increased by 4.2 billion to 66.1 billion reflecting our sales success with unit-linked insurance and investment contracts. In aggregate, statutory premiums collected for unit-linked insurance and investment contracts amounted to 17.3 billion.

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

Rating structure of Life/Health fixed income portfolio⁽¹⁾

in %

⁽¹⁾including loans and debt securities

Life/Health liabilities

Life/Health reserves for insurance and investment contracts were up 1.8% to 283.1 billion

including an increase of 3.0% or 7.6 billion in aggregate policy reserves mainly from domestic business partly offset by a decrease in provisions for premium refunds of 9.2% or 2.6 billion, triggered for the most part by subsidiaries in France, Germany and Italy.

Assets and Liabilities of the Banking segment

Banking loans and advances to banks and customers

in bn

⁽¹⁾Includes loan loss allowance of (0.8) bn and (1.0) bn as of December 31, 2007 and 2006, respectively.

⁽²⁾Due to changes in the presentation of financial instruments we retrospectively adjusted figures for 2006. For further information see Note 3 to our consolidated financial statements.

Banking loans and advances to banks and customers

Loans and advances to banks and customers in our banking segment decreased by 10.2% to 295.5 billion as of December 31, 2007. The decrease was particularly driven by a reduced volume in reverse repurchase agreements of Dresdner Bank. This development was a result of the financial market turbulence which led to distortions in the money market business and therefore to reduced business activities between banks.

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Banking liabilities to banks and customers

Due to the reasons mentioned, liabilities to banks and customers also experienced a decrease of 12.4% to 320.4 billion namely in the form of repurchase agreements.

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 Allianz Group does not rely on off-balance sheet arrangements as a significant source of revenue. The types of off-balance sheet arrangements that Allianz is involved in are described below.

Commitments and Guarantees

In the normal course of business, we enter into various irrevocable loan commitments, leasing commitments, purchase obligations and various other commitments. We also extend market value guarantees to customers, as well as execute indemnification contracts under existing service, lease or acquisition transactions. Fee income from issuing guarantees is not a significant part of our total income, and losses incurred under guarantees and income from the release of related provisions were insignificant for each of the last three years. For further information, see Note 46 to our consolidated

financial statements. For additional information regarding parent company guarantees, please see the parent only condensed financial statements of Allianz Sociedad Europea in Schedule II.

Special purpose entities (SPEs)

The Allianz Group is involved with a variety of SPEs including asset securitization entities, investment funds and investment conduits. The Allianz Group is involved in asset securitization entities through arranging, facilitating, and in certain cases, managing investment conduits for banking customers in connection with asset-backed security transactions where the SPEs receive the underlying assets, such as trade or finance receivables from the Allianz Group's banking customers and securitizes such assets to provide customers with cost-efficient financing.

In providing these services, the Allianz Group may in some instances have a financial interest in such financing structures. However, the risk of financial loss may be mitigated through participations in such losses by other third party investors.

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The Allianz Group also engages in establishing and managing investment fund SPEs with a goal of developing, marketing and managing these funds. During the establishment phase of these funds, the Allianz Group may provide initial capital for the SPEs to acquire securities until either sufficient third-party investors purchase participations in the funds or the SPEs are terminated. Certain of these SPE s funds obligations may include capital maintenance and/or performance guarantees given to the investors. The guarantees we provide differ both in terms of amount and duration according to the relevant arrangements. The Allianz Group receives fee and commission income from investors for the management of these SPEs.

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As required under IFRS, the Allianz Group consolidates an SPE when the substance of the relationship between Allianz and the SPE indicates that the SPE is controlled by Allianz. The following table presents the assets held by all SPEs for which the Allianz Group controls the SPE by means other than a majority voting interest. Therefore, these SPEs are consolidated in the Allianz Group's consolidated financial statements as of December 31, 2007.

| Type of SPE | Total assets mn | As of December 31, 2007 | | |
|--------------------------------------|--------------------|--|--|--|
| | | Consolidated assets which are collateral for SPE's obligations | Amount of consolidated assets which are collateral for SPE's obligations mn | Creditor's recourse to Allianz Group assets mn |
| Asset-backed securities transactions | 22,643 | Various receivables, corporate notes, index certificates and derivatives | 22,643 | |
| Structured finance transactions | 12,413 | Corporate notes, German bund securities, lease receivables, cash funds | 12,413 | |
| Derivatives transactions | 3,861 | Derivatives, equity, leases and cash balances | 3,861 | |
| Investment funds | 1,739 | Hedge fund units, bonds, investment funds and derivatives | 1,739 | |
| Other | 469 | Real estate, equity instruments and cash and cash equivalents | 469 | |
| Total | 41,125 | | 41,125 | |

The following tables set forth the total assets of non-consolidated SPEs in which the Allianz Group has a significant beneficial interest, the Allianz Group's maximum exposure to loss associated with these SPEs and further information regarding the Allianz Group's involvement as of December 31, 2007. A significant beneficial interest is considered to be either an investment greater than 100 million in an SPE, or a smaller investment in an SPE that leads to expected losses greater than 5 million. Allianz Group's maximum exposure to loss comprises the total amount of investment, including note positions, committed liquidity facilities (whether drawn or not), or guarantee notionals. It describes a worst case scenario without considering the asset rating, available collateral, other types of protection or hedging activities that can and do significantly reduce the economic exposure of these SPEs to the Allianz Group. The non-consolidated SPEs are aggregated based on principal business activity, as reflected in the first column. The nature of the Allianz Group's interest in these SPEs can take different forms, as described in the second column.

| Type of SPE | Nature of Allianz Group's involvement with SPEs | As of December 31, 2007 | |
|---|--|-------------------------|--|
| | | Total assets mn | Allianz Group's maximum exposure to loss mn |
| Investment funds | Guarantee obligations | 2,039 | 1,852 |
| Investment funds | Investment manager and/or equity holder | 970 | 32 |
| Vehicles used for CDOs, securitization and credit derivative transactions | Arranger, establisher, servicer, liquidity provider and/or investment counterparty | 13,818 | 11,397 |
| Hedge funds | Hedge funds, Master funds, Equity holder | 33,723 | 1,028 |
| Securitization conduit | Commercial paper | 8,654 | 1,658 |
| SIV K2 | Capital notes, liquidity, repo facilities and investment manager | 16,344 | 3,546 |

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| | | | |
|--|---|--------|--------|
| Vehicles used for CBO and CDO transactions | Investment manager and/or equity holder | 6,518 | 1 |
| Other | Client financing transaction | 1,684 | 1,390 |
| Total | | 83,750 | 20,904 |

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The following table summarizes the Allianz Group's maximum exposure to loss by the type of exposure and by type of SPE:

| Without any mitigation of risks | Equity/Fund Investment mn | Notes ⁽¹⁾ mn | Liquidity Facilities ⁽²⁾ mn | Guarantees mn | CDS mn | Other mn | Total mn |
|---|---------------------------------|----------------------------|--|------------------|------------|--------------|---------------|
| Investment funds guarantee obligations | | | | 1,852 | | | 1,852 |
| Investment funds | 12 | 20 | | | | | 32 |
| Vehicles used for CDOs, securitization and credit derivative transactions | 6 | 9,450 | 1,531 | | | 410 | 11,397 |
| Hedge funds | 604 | | 424 | | | | 1,028 |
| Securitization conduit | | 1,490 | | | 135 | 33 | 1,658 |
| SIV K2 | | 47 | 102 | | | 3,397 | 3,546 |
| Vehicles used for CBO and CDO transactions | | 1 | | | | | 1 |
| Other | 31 | 1,359 | | | | | 1,390 |
| Total | 653 | 12,367 | 2,057 | 1,852 | 135 | 3,840 | 20,904 |

⁽¹⁾ The notes category primarily consists of CDOs and CLOs.

⁽²⁾ Maximum amount of liquidity facility which could but must not be drawn.

The following table provides the years to maturity of the Allianz Group's maximum exposure to loss in the non-consolidated SPEs.

| Years to maturity | Less than 1 mn | 1-3 mn | 3-5 mn | Over 5 mn | Equity mn | Total mn |
|---|-------------------|--------------|------------|--------------|--------------|---------------|
| Investment funds guarantee obligations | 1,852 | | | | | 1,852 |
| Investment funds | | | 12 | 8 | 12 | 32 |
| Vehicles used for CDOs, securitization and credit derivative transactions | 2,934 | 68 | 888 | 7,501 | 6 | 11,397 |
| Hedge funds | 424 | | | | 604 | 1,028 |
| Securitization conduit | 1,523 | | | 135 | | 1,658 |
| SIV K2 | 3,499 | | | 47 | | 3,546 |
| Vehicles used for CBO and CDO transactions | 1 | | | | | 1 |
| Other | 1 | 1,358 | | | 31 | 1,390 |
| Total | 10,234 | 1,426 | 900 | 7,691 | 653 | 20,904 |

The Group's liquidity facilities and capital maintenance guarantees as of December 31, 2007 are summarized above as with a maturity less than 1 year.

In addition to an equity interest or fund investment interest, the Allianz Group has various other types of interests in certain non-consolidated SPEs. These interests include direct loans, as well as liquidity facilities, which the SPE can draw upon if necessary. For certain mutual funds, primarily those sponsored by Allianz Global Investors in the normal course of business, the Allianz Group has guaranteed a portion of the investors' principal. Other agreements include securities lending and a foreign currency hedge transaction.

On March 18, 2008, Dresdner Bank and K2 Corporation entered into an agreement through which

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

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

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amount that ensures K2 has sufficient funds to repay its senior debt in full.

K2 is a SIV incorporated in Grand Cayman on October 17, 1997. K2 has invested in a diversified portfolio of assets. Dresdner Bank acts as the asset manager of K2.

In regard to credit risk, the rating of K2 assets as of December 31, 2007 is presented as follows:

| Rating Category | Moody's % of Portfolio | S&P % of Portfolio |
|---|-----------------------------------|-----------------------------------|
| Aaa/AAA including Super Senior ⁽¹⁾ | 57.67 | 55.85 |
| Aa/AA | 37.84 | 31.94 |
| A/A | 3.83 | 11.55 |
| Baa/BBB | 0.66 | 0.66 |

⁽¹⁾ Super senior bonds, a subset of the AAA class, are senior to all other classes with respect to both repayment and loss, including subordinate AAA classes.

As of December 31, 2007, the weighted average life of K2 cash assets is 3.34 years, and the weighted average life of K2 credit derivative assets is 3.89 years.

K2 raised its funding by issuing shares, subordinated capital notes (CN), commercial paper (CP) and mid-term notes (MTN). K2's senior funding is broken down in the following categories: European commercial paper (E-CP), European mid-term notes (E-MTN), U.S. commercial paper (US-CP) and U.S. mid-term notes (US-MTN). The weighted average life of K2's senior liabilities is 0.56 years as of December 31, 2007. Due to the extraordinary disruption of CP/MTN markets that started in 2007, liquidity has temporarily been provided by Dresdner Bank through buy/sell-back financing on arms-length conditions.

The maximum limit of the losses to be borne by capital note holders currently amounts to 1.3 billion. Dresdner Bank currently holds 47 million or 3.5% of the capital notes. The variable interests that Dresdner Bank holds in K2 consist of capital note coupons and investment management fees.

In addition, Dresdner Bank provides K2 with a committed liquidity facility amounting to 102 million. The obligation to fund K2 under the committed liquidity facility is at the request of K2 and is subject to certain conditions precedent being met. Terms that would limit Dresdner Bank's obligation to provide K2 funding include the standard conditions regarding enforceability (e.g., that the

facility does not contravene applicable law and that no liquidity event of K2's default is outstanding or would result from the making of the liquidity advance). There are several other liquidity providers, each of whose facility ranks pari passu with Dresdner Bank's facility and the terms and conditions of the facilities are similar in all material respects.

Liquidity and Capital Resources

Allianz Group and its subsidiaries are well-capitalized.

Ratings upgraded by both Standard & Poor's and A.M. Best.

Organization

Liquidity planning is an integral part of the overall financial planning and capital allocation process and is based on strategic decisions which include solvency planning, our dividend target, and expected merger and acquisition activities. The Board of Management of Allianz SE, the holding and ultimate parent company of the Allianz Group, decides, after consultation with local management for the Allianz Group companies, on how to allocate capital among the Group.

Liquidity Resources

Our liquidity resources resulted from the operations of our Property-Casualty, Life/Health, Banking and Asset Management segments, as well as from capital raising activities. 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.⁽¹⁾

Allianz owns several finance companies. We execute our external debt financing and other corporate financing purposes primarily through two of these companies: Allianz Finance B.V. and Allianz Finance II B.V., both incorporated in the Netherlands.

Insurance Operations The principal sources of liquidity for our operating activities within our

⁽¹⁾ For further information regarding the management of our liquidity risk please refer to Item 11. Quantitative and Qualitative Disclosures about Market Risk.

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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 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 capital markets, 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 policy renewal rates.

The liquidity needs of our life operations are generally affected by trends in actual mortality experience compared to the related assumptions 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 enterprises to which we extend credit, to make payments to us based on their outstanding commitments. Therefore liquidity could 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.

Capital Raising Activities Allianz SE coordinates and executes external debt financing for instance through securities issues and other capital raising transactions for the Allianz Group in order to fund any liquidity need. We have access to commercial paper, medium-term notes and other credit facilities as additional sources of liquidity. As of December 31, 2007, we had access to unused, committed and long-term credit lines as a source of further liquidity with different banks.

Debt and Capital Funding

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As of December 31, 2007, the majority of Allianz SE's external debt financing was made up of bonds and money market securities.

Our total certificated liabilities outstanding as of December 31, 2007 was 42,070 million (December 31, 2006: 54,922 million). Of these, 28,523 million are due within one year.⁽¹⁾ Our total participation certificates and subordinated liabilities outstanding as of December 31, 2007 were 14,824 million (December 31, 2006: 16,362 million). Thereof, 1,476 million are due within one year.⁽²⁾

In December 2003, Allianz SE (then Allianz AG) established a Medium Term Note (or MTN) program which was established for the purposes of external and internal debt issuance. The aggregate volume of debt issued by Allianz Finance B.V. and Allianz Finance II B.V. for the years ended December 31, 2007 and 2006 was 0.3 billion and 2.3 billion, respectively. As of December 31, 2007, Allianz SE had money market securities outstanding with a carrying value of 2,929 million.

On March 9, 2007 we redeemed 64.35% of the Basket Index Tracking Equity Linked Securities

⁽¹⁾ See Note 21 to our consolidated financial statements for further information.

⁽²⁾ See Note 22 to our consolidated financial statements for further information. Additionally, see Note 43 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.

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(BITES) exchangeable bond, representing 0.8 billion notional, issued in February 2005, with Munich Re shares.

Our use of commercial paper as a short-term financing instrument was increased by 2.0 billion to 2.9 billion in 2007 from 0.9 billion in 2006. Interest expense on commercial paper increased by 85.1% to 87.0 million (47.0 million) due to increasing interest rates in 2007 and higher average usage.

On April 2, 2007, Allianz Finance II B.V. issued USD 400 million of senior bonds, guaranteed by Allianz SE, with a floating coupon rate. The maturity of this bond is April 2, 2009.

On July 10, 2007, the Allianz Group completed the squeeze-out procedure for the outstanding AGF shares. In connection with this transaction, we completed a capital increase involving the issuance of 16.97 million new Allianz SE shares. The total cash component of the consideration for the acquisition of the outstanding AGF shares amounted to approximately 6.0 billion.

On January 14, 2008, the Allianz Group announced its intention to redeem the remaining 35.65% of the BITES index-linked bond at the final maturity date with Munich Re shares.⁽¹⁾

Allianz SE's issued debt as of December 31, 2007 and 2006⁽¹⁾

| | 2007 | | | 2006 | | |
|--------------------|------------------------|-------------------------|---------------------------|------------------------|-------------------------|---------------------------|
| | Nominal value mn | Carrying value mn | Interest expense mn | Nominal value mn | Carrying value mn | Interest expense mn |
| Senior bonds | 4,306 | 4,279 | 209.3 | 6,232 | 6,195 | 258.9 |
| Subordinated bonds | 7,043 | 6,853 | 407.1 | 7,079 | 6,883 | 404.6 |
| Exchangeable bonds | 450 | 450 | 8.3 | 1,262 | 1,262 | 14.8 |
| Total | 11,799 | 11,582 | 624.7 | 14,573 | 14,340 | 678.3 |

⁽¹⁾ Bonds and exchangeable bonds issued or guaranteed by Allianz SE in the capital market, presented at nominal and carrying values. Excludes 85.1 mn of participation certificates at each December 31, 2007 and 2006, with interest expense of 16.2 mn and 6.2 mn, respectively.

Certificated liabilities and subordinated bonds⁽¹⁾

by maturity Overview as of December 31, 2007

in mn

⁽¹⁾ Bonds and exchangeable bonds issued or guaranteed by Allianz SE in the capital market, presented at carrying values. Excludes 85.1 mn of participation certificates.

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⁽¹⁾ See Note 52 to our consolidated financial statements for further information on this early redemption.

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The following table describes Allianz SE's issued debt outstanding as of December 31, 2007 at nominal values. For further information see Notes 21 and 22 to our consolidated financial statements.

| | Interest expense in 2007 |
|---|--------------------------------|
| 1. Senior bonds | |
| 5.0% bond issued by Allianz Finance B.V., Amsterdam | |
| Volume | 1.6 bn |
| Year of issue | 1998 |
| Maturity date | 3/25/2008 |
| ISIN | DE 000 230 600 8 |
| Interest expense | 85.0 mn |
| Floating coupon rate bond issued by Allianz Finance II B.V., Amsterdam | |
| Volume | USD 0.4 bn |
| Year of issue | 2007 |
| Maturity date | 4/2/2009 |
| SIN | |
| ISIN | |
| Interest expense | 11.5 mn |
| 5.625% bond issued by Allianz Finance II B.V., Amsterdam | |
| Volume | 0.9 bn |
| Year of issue | 2002 |
| Maturity date | 11/29/2012 |
| ISIN | XS 015 879 238 1 |
| Interest expense | 51.2 mn |
| 4.00% bond issued by Allianz Finance B.V., Amsterdam | |
| Volume | 1.5 bn |
| Year of issue | 2006 |
| Maturity date | 11/23/2016 |
| ISIN | XS 027 588 026 7 |
| Interest expense | 61.6 mn |
| Total interest expense for senior bonds | 209.3 mn |
| 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 |
| ISIN | XS 014 888 756 4 |
| Interest expense | 120.5 mn |
| 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 | 65.9 mn |
| 7.25% bond issued by Allianz Finance II B. V., Amsterdam | |
| Volume | USD 0.5 bn |
| Year of issue | 2002 |
| Maturity date | Perpetual Bond |
| ISIN | XS 015 915 072 0 |
| Interest expense | 27.8 mn |

Interest
expense
in 2007

5.5% bond issued by Allianz SE

| | |
|------------------|------------------|
| Volume | 1.5 bn |
| Year of issue | 2004 |
| Maturity date | Perpetual Bond |
| ISIN | XS 018 716 232 5 |
| Interest expense | 84.0 mn |

4.375% bond issued by Allianz Finance II B. V., Amsterdam

| | |
|------------------|------------------|
| Volume | 1.4 bn |
| Year of issue | 2005 |
| Maturity date | Perpetual Bond |
| ISIN | XS 021 163 783 9 |
| Interest expense | 62.9 mn |

5.375% bond issued by Allianz Finance II B. V., Amsterdam

| | |
|------------------|----------------|
| Volume | 0.8 bn |
| Year of issue | 2006 |
| Maturity date | Perpetual Bond |
| ISIN | DE000A0GNPZ3 |
| Interest expense | 46.0 mn |

Total interest expense for subordinated bonds 407.1 mn

3. Exchangeable bonds

0.75% Basket Index Tracking Equity Linked Securities (BITES) issued by Allianz Finance II B.V., Amsterdam

| | |
|------------------|------------------|
| Underlying | DAX® |
| Volume | 0.5 bn |
| Year of issue | 2005 |
| Maturity date | 2/18/2008 |
| ISIN | XS 021 157 635 9 |
| Interest expense | 8.3 mn |

Total interest expense for exchangeable bonds 8.3 mn

4. Participation certificates

Allianz SE participation certificate

| | |
|------------------|------------------|
| Volume | 85.1 mn |
| ISIN | DE 000 840 405 4 |
| Interest expense | 16.2 mn |

Total interest expense for participation certificates 16.2 mn

5. Issues that matured in 2007

5.75% bond issued by Allianz Finance B.V., Amsterdam

| | |
|------------------|------------------|
| Volume | 1.1 bn |
| Year of issue | 1997/2000 |
| Maturity date | 7/30/2007 |
| ISIN | DE 000 194 000 5 |
| Interest expense | 37.0 mn |

4.625% bond issued by Allianz Finance II B.V., Amsterdam

| | |
|------------------|------------------|
| Volume | 1.1 bn |
| Year of issue | 2002 |
| Maturity date | 11/29/2007 |
| ISIN | XS 015 878 835 5 |
| Interest expense | 47.9 mn |

Total interest expense for matured issues 84.9 mn

Total interest expense 725.8 mn

(1) Bonds and exchangeable bonds issued or guaranteed by Allianz SE in the capital market.

Table of Contents**Capital Requirements**

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. Furthermore, regulators impose minimum capital rules on the level of both the Allianz Group's operating entities and the Allianz Group as a whole. See Note 23 to our consolidated financial statements for more information on our capital requirements.

Allianz Group Consolidated Cash Flows

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

in mn

⁽¹⁾ Includes effect of exchange rate changes on cash and cash equivalents of (115) mn, (78) mn and 72 mn in 2007, 2006 and 2005, respectively.

Positive net cash flow provided by operating activities was 12.7 billion in 2007, down 8.0 billion from a year ago. This decline resulted primarily from higher net outflows for collateralized refinancing activities in the banking segment.

Lower net cash outflow used in investing activities, at 4.6 billion in 2007 compared to 34.9 billion in the prior year, was mainly attributable to an increase in both available-for-sale investments and change in other loans and advances to banks and customers.

Net cash outflow provided by financing activities was down by 25.3 billion to 9.6 billion in 2007. The main contributing factors were lower net inflows from liabilities to banks and customers, as well as higher net outflows from certificated liabilities, participation certificates and subordinated liabilities. Additionally the cash flow for financing activities was affected by higher outflows from transactions between equityholders (mainly AGF).

Overall, cash and cash equivalents decreased by 1.7 billion to 31.3 billion as of December 31, 2007.

Cash and cash equivalents

| As of December 31, | 2007 mn | 2006 mn |
|---------------------------------------|------------|------------|
| Balances with banks payable on demand | 23,848 | 26,915 |
| Balances with central banks | 6,301 | 4,945 |

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| | | |
|---|---------------|---------------|
| Cash on hand | 918 | 919 |
| Treasury bills, discounted treasury notes, similar treasury securities and checks | 264 | 224 |
| Bills of exchange | 6 | 28 |
| Total | 31,337 | 33,031 |

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, U.S. Dollars and Swiss Francs.⁽¹⁾

⁽¹⁾ See Note 6 to our consolidated financial statements for additional information on the Allianz Group's cash and cash equivalents.

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Investment Portfolio Impairments, Depreciation and Unrealized Losses

For information concerning the valuation of available-for-sale securities and held-to-maturity securities, see Critical Accounting Policies and Estimates Fair Values of Financial Assets and Liabilities.

Impairment Charges and Depreciation

For the year ended December 31, 2007, net realized gains, losses totaled 6,548 million, of which 2,290 million related to realized losses. Of the total amount of realized losses in 2007, 2,031 million related to available-for-sale securities, 93 million related to investments in joint ventures, 120 million related to loans to banks and customers, and 46 million to real estate held for investment. Net impairments totaled 1,272 million, of which 19 million were reversal of net impairments. Of the total amount of net impairments 1,230 million related to available-for-sale securities, 10 million related to investments in associates and joint ventures and 51 million related to real estate held for investments. Of the available-for-sale net impairments we recorded in 2007, 1,155 million related to equity securities and 75 million to debt securities.

For the year ended December 31, 2006, net realized gains, losses totaled 6,151 million, of which 1,344 million related to realized losses. Of the total amount of realized losses in 2006, 1,137 million related to available-for-sale securities, 15 million related to investments in joint ventures, 57 million related to loans to banks and customers and 135 million to real estate held for investment. Net impairments totaled 775 million, of which 82 million were reversal of net impairments. Of the total amount of net impairments 586 million related to available-for-sale securities, 7 million related to held to maturity investments, 12 million related to investments in associates and joint ventures and 172 million related to real estate held for investments. Of the available-for-sale net impairments we recorded in 2006, 479 million related to equity securities and 105 million to debt securities.

Unrealized Losses

As of December 31, 2007, unrealized losses from available-for-sale securities totaled 4,711 million, of which 467 million were attributable to equity securities, 2,549 million to corporate bonds, 1,591 million to government bonds and 104 million to other securities.

As of December 31, 2006, unrealized losses from available-for-sale securities totaled 2,114 million, of which 159 million were attributable to equity securities, 862 million to corporate bonds, 1,075 million to government bonds and 18 million to other securities.

The following tables set forth further details regarding the duration and amount below amortized cost of the Allianz Group's unrealized loss positions for equity securities and debt securities as of December 31, 2007 and 2006, respectively. The length of time criterion reflects the period of time over which a security had continually been in the actual percentage decline category it was in on December 31, 2007 and December 31, 2006, respectively. We believe the following tables provide meaningful disclosure, as they capture the actual percentage decline category and related time period applicable at December 31, 2007 and December 31, 2006, respectively.

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An equity security is considered to be impaired if there is objective evidence that the cost of the equity security may not be recovered. IAS 39 revised requires that a significant or prolonged decline in the fair value of an equity security below cost is considered to be objective evidence of impairment. In addition to the existing qualitative criteria, the Allianz Group established new quantitative impairment criteria for equity securities to define significant or prolonged decline. To satisfy the significant criterion, the Allianz Group has established a policy that an equity security is considered impaired if the fair value is below the weighted-average cost by more than 20%. To satisfy the prolonged criterion, the Allianz Group established a policy that an equity security is considered impaired if the fair value is below the weighted-average cost for greater than nine months. Each of these policies is applied independently at the subsidiary level.

Table of Contents**Equity Securities Aging Table: Duration and Amount of Unrealized Losses as of December 31, 2007**

| | 0-6 months mn | 6-9 months mn | >9 months mn | Total mn |
|-------------------------|------------------|------------------|-----------------|-------------|
| Less than 20% | | | | |
| Market Value | 7,150 | 52 | 82 | 7,284 |
| Amortized Cost | 7,549 | 61 | 91 | 7,701 |
| Unrealized Loss | (399) | (9) | (9) | (417) |
| 20% to 50% | | | | |
| Market Value | 159 | | | 159 |
| Amortized Cost | 207 | | | 207 |
| Unrealized Loss | (48) | | | (48) |
| Greater than 50% | | | | |
| Market Value | 37 | | | 37 |
| Amortized Cost | 39 | | | 39 |
| Unrealized Loss | (2) | | | (2) |
| Total | | | | |
| Market Value | 7,346 | 52 | 82 | 7,480 |
| Amortized Cost | 7,795 | 61 | 91 | 7,947 |
| Unrealized Loss | (449) | (9) | (9) | (467) |

Debt Securities Aging Table: Duration and Amount of Unrealized Losses as of December 31, 2007

| | 0-6 months mn | 6-12 months mn | >12 months mn | Total mn |
|-------------------------|------------------|-------------------|------------------|-------------|
| Less than 20% | | | | |
| Market Value | 41,695 | 33,829 | 46,137 | 121,661 |
| Amortized Cost | 42,257 | 35,141 | 48,453 | 125,851 |
| Unrealized Loss | (562) | (1,321) | (2,316) | (4,190) |
| 20% to 50% | | | | |
| Market Value | 14 | 70 | | 84 |
| Amortized Cost | 20 | 99 | | 119 |
| Unrealized Loss | (6) | (29) | | (35) |
| Greater than 50% | | | | |
| Market Value | 11 | | | 11 |
| Amortized Cost | 30 | | | 30 |
| Unrealized Loss | (19) | | | (19) |
| Total | | | | |
| Market Value | 41,720 | 33,899 | 46,137 | 121,756 |
| Amortized Cost | 42,307 | 35,240 | 48,453 | 126,000 |
| Unrealized Loss | (587) | (1,341) | (2,316) | (4,244) |

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Equity Securities Aging Table: Duration and Amount of Unrealized Losses as of December 31, 2006

| | 0-6 months mn | 6-9 months mn | >9 months mn | Total mn |
|-------------------------|------------------|------------------|-----------------|-------------|
| Less than 20% | | | | |
| Market Value | 3,327 | 66 | 79 | 3,472 |
| Amortized Cost | 3,416 | 76 | 84 | 3,576 |
| Unrealized Loss | (89) | (10) | (5) | (104) |
| 20% to 50% | | | | |
| Market Value | 135 | | | 135 |
| Amortized Cost | 190 | | | 190 |
| Unrealized Loss | (55) | | | (55) |
| Greater than 50% | | | | |
| Market Value | | | | |
| Amortized Cost | | | | |
| Unrealized Loss | | | | |
| Total | | | | |
| Market Value | 3,462 | 66 | 79 | 3,607 |
| Amortized Cost | 3,606 | 76 | 84 | 3,766 |
| Unrealized Loss | (144) | (10) | (5) | (159) |

Debt Securities Aging Table: Duration and Amount of Unrealized Losses as of December 31, 2006

| | 0-6 months mn | 6-12 months mn | >12 months mn | Total mn |
|-------------------------|------------------|-------------------|------------------|-------------|
| Less than 20% | | | | |
| Market Value | 50,459 | 25,509 | 22,927 | 98,895 |
| Amortized Cost | 50,995 | 26,144 | 23,704 | 100,843 |
| Unrealized Loss | (536) | (635) | (777) | (1,948) |
| 20% to 50% | | | | |
| Market Value | | | 24 | 24 |
| Amortized Cost | | | 31 | 31 |
| Unrealized Loss | | | (7) | (7) |
| Greater than 50% | | | | |
| Market Value | | | | |
| Amortized Cost | | | | |
| Unrealized Loss | | | | |
| Total | | | | |
| Market Value | 50,459 | 25,509 | 22,951 | 98,919 |
| Amortized Cost | 50,995 | 26,144 | 23,735 | 100,784 |
| Unrealized Loss | (536) | (635) | (784) | (1,955) |

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Reversals of Impairment

Pursuant to IAS 39 revised, we no longer record reversals of impairment in our consolidated income statement for available-for-sale equity securities.

For fixed income securities, if, in a subsequent period, the amount of the impairment previously recorded on a 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 for investments in the Allianz Group's consolidated income statement. Such reversals do not result in a carrying amount of a security that exceeds what would have been, had the impairment not been recorded, at the date of the impairment is reversed. For the years ended December 31, 2007, 2006 and 2005 we recorded reversals of impairments of 13 million (available-for-sale securities: 13 million; held-to-maturity securities: 0 million), 2 million (available-for-sale securities: 1 million; held-to-maturity securities: 1 million) and 6 million (available-for-sale securities: 3 million; held-to-maturity securities: 3 million), respectively.

Tabular Disclosure of Contractual Obligations

The table sets forth the Allianz Group's contractual obligations as of December 31, 2007. Contractual obligations do not include contingent liabilities or commitments and only transactions with parties outside the Allianz Group are considered.

The table includes only liabilities that represent fixed and determinable amounts. The table excludes interest on floating rate long-term debt obligations and interest on money market securities, as the contractual interest rate on floating rate interest is not fixed and determinable. The amount and timing of

interest on money market securities is not fixed and determinable since these instruments have a daily maturity. For further information, see Notes 21 and 22 to our consolidated financial statements.

Furthermore, reserves for insurance and investment contracts presented in the table include contracts where the timing and amount of payments are considered fixed and determinable and contracts which have no specified maturity dates and may or may not result in a payment to the contract holder depending on mortality and morbidity experience and the incidence of surrenders, lapses, or maturities. For contracts which do not have payments that are fixed and determinable, the Allianz Group has made assumptions to estimate the undiscounted cash flows of contractual policy benefits including mortality, morbidity, interest crediting rates, policyholder participation in profits, and future lapse rates. These assumptions represent current best estimates, and may differ from the estimates originally used to establish the reserves for insurance and investment contracts as a result of the lock-in of assumptions on the issue dates of the contracts as required by the Allianz Group's established accounting policy. For further information, see Note 2 to our consolidated financial statements. Due to the uncertainty of the assumptions used, the amount presented could be materially different from the actual incurred payments in future periods. Furthermore, these amounts do not include premiums and fees expected to be received, investment income earned, expenses incurred to parties other than the policyholder such as agents, or administrative expenses. In addition, these amounts are presented net of reinsurance expected to be received as a result of these cash flows. The amounts presented in this table are undiscounted and therefore exceed the reserves for insurance and investment contracts presented in the consolidated balance sheet. For further information on reserves for insurance and investment contracts, see Note 18 to our consolidated financial statements.

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As of December 31, 2007, our income tax obligations amounted to 2,563 million. Thereof 1,925 million we expect to pay within the twelve months after the balance sheet date. For the remaining amount of 638 million an estimate of the timing of cash outflows is not reasonably possible. Our income tax obligations are not included in the below table.

| | Total mn | Payments Due By Period at December 31, 2007 | | | |
|---|-------------|---|-----------------|-----------------|-------------------------|
| | | Less than 1 Year mn | 1-3 Years mn | 3-5 Years mn | More than 5 Years mn |
| Long-term debt obligations ⁽¹⁾ | 56,894 | 29,999 | 7,803 | 4,387 | 14,705 |
| Interest on long-term debt obligations ⁽²⁾ | 1,339 | 519 | 260 | 120 | 440 |
| Operating lease obligations ⁽³⁾ | 3,652 | 567 | 807 | 647 | 1,631 |
| Purchase obligations ⁽⁴⁾ | 855 | 292 | 185 | 109 | 269 |
| Liabilities to banks and customers ⁽⁵⁾ | 336,494 | 321,464 | 8,044 | 2,553 | 4,433 |
| Reserves for insurance and investment contracts | 848,180 | 33,207 | 62,686 | 61,275 | 691,012 |
| Reserves for loss and loss adjustment expenses ⁽⁶⁾ | 56,943 | 16,967 | 15,145 | 8,040 | 16,791 |
| Total contractual obligations | 1,304,357 | 403,015 | 94,930 | 77,131 | 729,281 |

(1) For further information, see Notes 21 and 22 to our consolidated financial statements.

(2) Amounts included in the table reflect estimates of interest on fixed rate long-term debt obligations to be made to lenders based upon the contractually fixed interest rates.

(3) The amount of 3,652 million is gross of 120 million related to subleases, which represent cash inflow to the Allianz Group.

(4) Purchase obligations only include transactions related to goods and services; purchase obligations for financial instruments are excluded.

(5) Liabilities to banks and customers include 11,204 million and 60,443 million of payables on demand, respectively. For further information, see Note 15 to our consolidated financial statements.

(6) Comprise reserves for loss and loss adjustment expenses from our property-casualty insurance operations. These assumptions represent current best estimates and may differ from estimates utilized to establish the reserves. Due to the uncertainty of the assumptions used, the amounts presented could be materially different from the actual incurred payments in future periods. The amounts presented in the above table are gross of reinsurance ceded. The corresponding amounts, net of reinsurance ceded, are 14,533 million, 12,769 million, 7,164 million and 14,211 million for the periods less than 1 year, 1-3 years, 3-5 years and more than 5 years, respectively. For further information on reserves for loss and loss adjustment expenses, see Information on the Company Property-Casualty Insurance Reserves and Note 17 to our consolidated financial statements.

Recent and Expected Developments**Economic Outlook****Increased uncertainty**

Global economic growth is expected to be less buoyant in 2008 than in previous years. The industrialized countries in particular are likely to see growth down by around half a percentage point on 2007. However, growth in emerging market economies should decline to a lesser extent. Financial markets will not return to calmer waters until uncertainty is dispelled about the nature of the economic risks originating from the U.S. housing crisis. Monetary policy in Europe and the U.S. will then also need to confront the looming risk of inflation.

Weaker economic growth

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Our economists forecast global economic growth of more than 3% in 2008. Although around half a percentage point less than in 2007, this is still robust growth. We expect this pace to be set by the emerging markets, which we estimate will grow at

6.5%, only slightly less than 2007 (2006: 7%). We expect expansion in industrialized countries to be much more subdued than in 2007, at 2% (2006: 2.4%).

Asia will again be the most dynamic region with forecast growth of 8%. We expect that China will lead the way with growth of just over 10% (2006: 11.5%), with a modest slowdown welcome here in order to prevent the economy from overheating. India is estimated to take second place with growth of 8%, approximately half a percentage point below 2007. The other emerging markets in Asia are not expected to grow quite as strongly this year as in 2007. Expansion in Latin America and Eastern Europe in 2008 is expected to be roughly a percentage point below the corresponding figure for 2007.

Overall, economic momentum in industrialized countries at almost 2% will likely be more subdued than in 2007. Our forecast for Japan is 1.5% (2006: 2.1%), for Germany and the euro zone about 1.8%. In the case of Germany this is a significant slowdown compared to 2.5% growth in 2007. In the

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U.S. we also expect rather modest growth of almost 2% in the shadow of the housing crisis. U.S. growth began to slow in 2007, coming in at 2.2%. The weak U.S. Dollar is expected to boost U.S. exports in 2008 and, together with the expansive monetary and fiscal policy, to bolster the economy. At the same time, falling house prices are likely to dampen consumer spending, eliminating any significant boost from the consumption side.

The many uncertainties will also cast a shadow over the financial markets. However, we expect the economy to pick up again in the second half of the year, buoying equity prices. Interest rates will probably rise only moderately, especially as inflation should fall again in the second half of 2008. The U.S. Dollar will likely recover from its record lows against the euro during the year.

Not an easy environment for financial services providers

The aging of society is happening regardless of the economic uncertainties. The long-term fundamentals of the Life/Health segment remain intact. Private pension schemes remain important and are becoming ever more vital for the general public. In contrast to many pension insurance systems, most health insurance schemes are still faced with fundamental reform. Rising healthcare costs, which

can scarcely be financed through the common pay-as-you-go-based systems, will increasingly have to be paid privately. This gives rise to challenges and opportunities for private healthcare insurers.

Pensions should be based on more than one pillar, both now and in the future. Many countries are reorganizing their systems accordingly while building up capital for future pensions. This form of private financing is also increasingly being adopted in booming Asia, providing excellent business opportunities for asset managers. In the ageing societies of Europe and the U.S. the prospects for growth in the fund management sector remain intact.

In the Property-Casualty segment there are opportunities for expansion due to rises in income and assets in emerging markets. However, in established markets competition for market share is intense, and our demand for profitability limits growth.

Banks will feel the consequences of the U.S. housing crisis in 2008 as well. However, the improved economic outlook for the second half of the year should give a renewed impetus to business. On the other hand a flat interest-rate curve and the generally rather modest prospects for growth indicate only a slight upwards trend.

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ITEM 6. Directors, Senior Management and Employees

Corporate Governance

General

Allianz SE is a Germany based stock corporation in the form of a European Company (Societas Europaea or SE). Allianz SE is subject to specific provisions regarding the SE (such as the Council Regulation (EC) 2157/2001 (SE-Regulation) and the German Act on the SE-Implementation (SE-Ausführungsgesetz, SEAG)). However, to a large extent Allianz SE is treated as a German stock corporation and therefore governed by the general provisions of German corporate law (in particular the German Stock Corporation Act, Aktiengesetz). The corporate bodies of Allianz SE are the Board of Management (Vorstand), the Supervisory Board (Aufsichtsrat) and the General Meeting (Hauptversammlung). The Board of Management and the Supervisory Board are separate and no individual may serve simultaneously as a member of both boards.

The Board of Management is responsible for managing the day-to-day business of Allianz SE in accordance with the European SE-Regulation, the German Stock Corporation Act, the Statutes (Satzung) of Allianz SE as well as its internal rules of procedure (Geschäftsordnung). The Board of Management represents Allianz SE in its dealings with third parties. The Supervisory Board oversees the management. It is also responsible for appointing and removing the members of the Board of Management and representing Allianz SE in its transactions with members of the Board of Management. The Supervisory Board is not permitted to make management decisions, but as established by the Statutes or determined by the Supervisory Board, certain types of transactions may require the Supervisory Board's prior consent.

In carrying out their duties, the members of the Board of Management and the Supervisory Board must exercise the standard of care of a diligent and prudent business person. In complying with this standard of care, the members of both boards must take into account a broad range of considerations in their decisions, including the interests of Allianz SE, its shareholders, employees and creditors. Additionally, the Board of Management is required to respect the rights of shareholders to equal treatment and equal information.

Members of either board who violate their duties may be personally liable for damages to Allianz SE. The company may only waive these damages or settle these claims if at least three years have passed from the date of their origination and if the General Meeting approves the waiver or settlement with a simple majority. No approval of a waiver or settlement by the General Meeting will be effective if opposing shareholders who hold, in the aggregate, one-tenth or more of the share capital of Allianz SE have their opposition formally noted in the minutes recorded by a German notary. As a general rule under German law, a shareholder has no direct recourse against the members of the Board of Management or the Supervisory Board in the event that they are believed to have breached a duty to Allianz SE.

The Supervisory Board has comprehensive monitoring functions. To ensure that these functions are carried out properly, the Board of Management must regularly report to the Supervisory Board with regard to current business operations and future business planning (including financial, investment and personnel planning). The Supervisory Board is also entitled to request at any time special reports regarding the affairs of Allianz SE, the legal or business relations of Allianz SE to its subsidiaries and the affairs of any of its subsidiaries to the extent these may have a significant impact on Allianz SE.

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The Board of Management is required to ensure that adequate risk management and internal monitoring systems exist within Allianz SE to detect risks relating to Allianz Group's business activities at the earliest possible stage.

Upon the transformation of Allianz into an SE in 2006, Allianz SE was required to establish an SE works council that represents the European Allianz employees. The Allianz SE works council consists of employee representatives from up to 26 European countries. The SE works council, in simple terms, is a company-wide representative body for the European Allianz employees with special responsibility for cross-border matters within Europe. In particular, the SE works council has the right to be informed and heard with regard to all cross-border matters. In addition, it has the right to initiate cross-border measures in the areas of equal opportunity, worker safety and health protection data protection and basic and further training. Details of the SE works council are contained in the Agreement concerning the Participation of Employees in Allianz SE (Employee Involvement Agreement) discussed below.

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Applicable Corporate Governance Rules

Principal sources of enacted corporate governance standards for a European Company with its registered seat in Germany are the SE-Regulation, the German Act on the SE-Implementation (SE-Ausführungsgesetz, SEAG), the German Act on Employee Participation in a SE (SE-Beteiligungsgesetz, SEBG) and the German Stock Corporation Act (Mitbestimmungsgesetz). The German Co-determination Act, however, does not apply to Allianz SE. Instead, the participation of employees of Allianz on the Supervisory Board of Allianz SE is governed by the Employee Involvement Agreement of September 20, 2006, which was concluded between the Special Negotiating Body of the employees and the managements of Allianz SE and RAS within the employee involvement procedures initiated in connection with the formation of Allianz SE. The Employee Involvement Agreement to a large extent follows the statutory default provisions provided for in the German Act on Employee Participation in a SE (SE-Beteiligungsgesetz, SEBG).

In addition, the German Corporate Governance Code (Deutscher Corporate Governance Kodex, Code), originally published by the German Ministry of Justice (Bundesministerium der Justiz) in 2002, presents essential statutory regulations for the corporate governance of German listed companies. The aim of the Code is to make the German corporate governance rules related to German listed stock corporations transparent for national and international investors. As an SE with registered office and listed in Germany, Allianz SE is subject to the Code.

The Code comprises a set of best-practice guidelines. In addition to restating various corporate governance-related provisions of German law, the Code contains recommendations , which reflect widely recognized standards of corporate governance. Listed companies can deviate from the recommendations, but are then required to disclose this annually. Furthermore, the Code contains suggestions , which incorporate additional standards for the sound and responsible management and supervision of a company. Companies can deviate from the Code s suggestions without disclosure. Topics covered by the German Corporate Governance Code include:

The composition and responsibilities of the Board of Management, the compensation of Board of Management members, and rules for avoiding and resolving conflicts of interest;

The composition and responsibilities of the Supervisory Board and committees of the Supervisory Board, the compensation of Supervisory Board members, and rules for avoiding and resolving conflicts of interest;

The relationship between the Board of Management and the Supervisory Board;

Transparency and disclosure in periodic reports; and

Reporting on, and auditing of, the company s annual financial statements.

Although the Code does not have the force of law, it has a legal basis through the declaration of compliance required by Section 161 of the German Stock Corporation Act, which entered into force in 2002 and requires that the Board of Management and the Supervisory Board of a listed company declare annually either

(i) that the company has complied, and does comply, with the recommendations set forth in the German Corporate Governance Code, or, alternatively,

(ii) which recommendations the company has not complied, or does not comply, with (so-called "comply or explain" system).

On December 20, 2007, the Board of Management and the Supervisory Board of Allianz SE issued the following Declaration of Compliance:

1. Allianz SE will comply with all recommendations made by the Government Commission on the German Corporate Governance Code (Code version as of 14 June 2007).

2. Since the last Declaration of Compliance as of 18 December 2006, which referred to the German Corporate Governance Code in its 12 June 2006 version, Allianz SE has complied with all recommendations made by the Government Commission on the German Corporate Governance Code then in force.

The Declaration of Compliance is also available on Allianz Group's website at www.allianz.com/corporate-governance. (Reference to this uniform resource locator or URL is made as an inactive textual reference for informational purposes only. The information found at this website is not incorporated by reference into this document.)

Furthermore, you will find a summary of significant ways in which our corporate governance practices differ from those required from domestic companies under the NYSE corporate governance

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standards on our website under www.allianz.com/corporate-governance. (Reference to this uniform resource locator or URL is made as an inactive textual reference for informational purposes only. The information found at this website is not incorporated by reference into this document.)

General Meeting

General Meetings of the shareholders are called by the Board of Management. In exceptional cases, the Supervisory Board can call a General Meeting. Shareholders holding an aggregate of at least 5% of Allianz SE's issued share capital may request that a General Meeting be called. The right to participate in and vote at a General Meeting is only given to those shareholders who have timely notified Allianz SE of their attendance at the General Meeting and whose respective shares are registered in the share register.

Board of Management

The Board of Management (Vorstand) of Allianz SE currently consists of eleven members, and is multinationally staffed, in keeping with Allianz Group's international orientation. It is responsible for the management of Allianz SE and the Group. The managerial tasks of the Board of Management are primarily to determine the strategic direction of 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; he has a casting vote in case of a tie and a veto right against resolutions of the Board of Management.

Under the Statutes of Allianz SE, the Supervisory Board determines the size of the Board of Management, although it must have at least two members. The Statutes furthermore provide that Allianz SE may be legally represented by two members of the Board of Management or by one member of the Board of Management together with one person vested with a general power of attorney under German law (Prokurist). In addition, pursuant to a filing with the commercial register in Munich, Allianz SE may also be represented by two holders of a general power of attorney (Prokura). The Supervisory Board represents Allianz SE in connection with transactions between a member of the Board of Management and Allianz SE. To the extent that a Supervisory Board committee is entitled to decide on a specific matter in lieu of the Supervisory Board, the right of representing Allianz SE vis-à-vis the Board of Management in that matter can be transferred to the relevant Supervisory Board committee.

The Supervisory Board appoints the members of the Board of Management. The initial term of the members of the Board of Management is generally between three and five years. Under the Statutes of Allianz SE the term of the members of the Board of Management is limited to a maximum of five years. Each member may be reappointed or have his term extended by the Supervisory Board for one or more terms of up to five years each. As a general rule, the Supervisory Board limits the initial appointment or the reappointment of members of the Board of Management attaining the age of 60 to terms of one year. Members of the Board of Management must further resign from office at the end of the fiscal year in which they attain the age of 65. There is no share ownership requirement to qualify for or to remain a member of the Board of Management. The Supervisory Board may remove a member of the Board of Management prior to the expiration of his term for good cause, for example in the case of a serious breach of duty or a bona fide vote of no confidence by the General Meeting. A member of the Board of Management may not deal with, or vote on, matters relating to proposals, arrangements or contractual agreements between himself and Allianz SE and may be liable to Allianz SE if he has a material interest in any contractual agreement between Allianz SE and a third party which was not disclosed to, and approved by, the Supervisory Board. The Board of Management has adopted its own internal rules of procedure.

The Board of Management regularly reports to the Supervisory Board on the business of Allianz SE. According to the German Stock Corporation Act, the Board of Management requires the consent of the Supervisory Board to engage in certain transactions, primarily, certain

share capital measures.

Further, the Statutes of Allianz SE contain a catalogue of transactions requiring consent of the Supervisory Board, namely (i) acquisition of companies, participation in companies and parts of companies (except for financial investments), if in the individual case the market value, or in case of a lack of a market value, the book value reaches or exceeds 10% of the equity of the last consolidated balance sheet; or (ii) disposal of participations (except for financial investments) in a group company, to the extent that it leaves the circle of group companies by virtue of the disposal and if in the individual case the market value, or in case of lack of market value, the book value of the participation disposed of reaches or

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exceeds 10% of the equity of the last consolidated balance sheet; or (iii) entering into intercompany agreements (Unternehmensverträge); or (iv) development of new and abandonment of existing

business segments, to the extent such action is of material importance to the group. The Supervisory Board of Allianz SE may make further types of transactions contingent upon its approval.

The current members of the Board of Management of Allianz SE, their age as of December 31, 2007, their areas of responsibility, the year in which each member was first appointed, the year in which the term of each member expires, and their principal board memberships outside the Allianz Group, respectively, are listed below.

| Name | Age | Area of Responsibility | Year First Appointed | Year Current Term Expires | Principal Outside Board Memberships |
|-----------------------|-----|---|----------------------|---------------------------|---|
| Michael Diekmann | 53 | Chairman of the Board of Management | 1998 | 2011 | Member of the Supervisory Boards of BASF SE, Linde AG (deputy chairman), Deutsche Lufthansa AG and Siemens AG (since January 24, 2008) |
| Dr. Paul Achleitner | 51 | Finance | 2000 | 2009 | Member of the Supervisory Boards of Bayer AG and RWE AG |
| Oliver Bäte | 42 | Chief Operating Officer | 2008 | 2012 | None |
| Clement B. Booth | 53 | Insurance Anglo, NAFTA Markets/Global Lines | 2006 | 2010 | None |
| Enrico Cucchiani | 57 | Insurance Europe I | 2006 | 2010 | Member of the board of directors of Pirelli & Co. S.p.A. and Unicredit S.p.A. |
| Dr. Joachim Faber | 57 | Asset Management Worldwide | 2000 | 2009 | Member of the Supervisory Board of Bayerische Börse AG |
| Dr. Helmut Perlet | 60 | Controlling, Reporting, Risk | 1997 | 2008 | Member of the Supervisory Board of GEA-Group AG |
| Dr. Gerhard Rupprecht | 59 | Insurance German Speaking Countries | 1991 | 2008 | Member of the Supervisory Boards of Fresenius SE and Heidelberger Druckmaschinen AG |
| Jean-Philippe Thierry | 59 | Insurance Europe II | 2006 | 2008 | Member of the boards of directors of Société Financière et Foncière de participation, Baron Philippe de Rothschild, Compagnie Financière Saint-Honoré, Eurazeo, Paris Orléans and Pinault Printemps Redoute |
| Dr. Herbert Walter | 54 | Banking Worldwide | 2003 | 2012 | Member of the Supervisory Board of Deutsche Börse AG, E.ON Ruhrgas AG and the board of directors of Banco Popular Español S.A. and Banco BPI S.A. |
| Dr. Werner Zedelius | 50 | Insurance Growth Markets | 2002 | 2009 | Bajaj Allianz General Insurance Company Limited; Bajaj Allianz Life Insurance Company Limited |

The following is a summary of the business experience of the current members of the Board of Management:

Michael Diekmann: Joined the Allianz Group in 1988. From 1996 to 1998 he was chief executive

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officer of Allianz Insurance Management Asia- Pacific Pte. Ltd., Singapore. He became a deputy member in October 1998 and a full member of the Board of Management of Allianz AG in March 2000. He was appointed as chairman of the Board of Management in April 2003.

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Dr. Paul Achleitner: Joined the Board of Management in January 2000. He was previously chairman of Goldman, Sachs & Co. oHG, Frankfurt/Main, Germany and a partner of Goldman Sachs Group from 1994 to 1999.

Oliver Bäte: Joined the Board of Management of Allianz SE on January 1, 2008. He worked with McKinsey&Company from 1993 on. At McKinsey&Company, he was head of the German Insurance Sector from 1998-2003, and director and head of the European Insurance and Asset Management Sector from 2003 to 2007.

Clement B. Booth: Joined the Board of Management on January 1, 2006. From 1999 to 2003, he was a member of the Board of Management of Munich Re and from 2003 to 2005 he was chairman and CEO of Aon Re International, London.

Enrico Cucchiani: Joined the Board of Management on January 1, 2006. From 1996, he has held several leading management positions within Lloyd Adriatico S.p.A., Trieste. He became CEO in 1998 and from 2001 to 2007 he was chairman of the board of directors of Lloyd Adriatico.

Dr. Joachim Faber: Joined the Allianz Group in 1997 after holding various positions at Citibank AG, Frankfurt/Main, Germany (1984-1992), including chairman of the Board of Management, and Citibank International PLC, London (1992-1997), including head of capital markets. He was a member of the Board of Management of Allianz Versicherung from 1997 to 1999 and became a member of the Board of Management in January 2000.

Dr. Helmut Perlet: Joined the Allianz Group in 1973. He has been head of the foreign tax department since 1981, head of corporate finance since 1990 and head of accounting and controlling since 1992. He became a deputy member in July 1997 and a full member of the Board of Management in January 2000.

Dr. Gerhard Rupprecht: Joined the Allianz Group in 1979. In January 1989, he became a deputy member, and in January 1991 a full member, and in October 1991 was appointed chairman, of the Board of Management of Allianz Leben. He became a member of the Board of Management in October 1991.

Jean-Philippe Thierry: Joined the Board of Management on January 1, 2006. Previously, he was Chairman and CEO of Athena Insurance (1985-1997) and CEO of Generali France (1998-2001). Since June 2001, he is Chairman and Chief Executive Officer of Assurances Générales de France.

Dr. Herbert Walter: Held various positions at Deutsche Bank AG since 1983, including chairman of the business segment Private & Business Clients and speaker of the Board of Management of Deutsche Bank 24. Since 2002, he has been a member of the Group Executive Committee of Deutsche Bank group as well as Global Head of Private & Business Clients. He became a member of the Board of Management on March 19, 2003, and became the Chairman of the Board of Management of Dresdner Bank AG effective March 25, 2003.

Dr. Werner Zedelius: Joined the Allianz Group in 1987. After various positions in branch offices and in the headquarters of Allianz AG, he was General Manager Finance and member of the board of directors of Cornhill Insurance PLC in London from 1996 until 1999. Dr. Zedelius

became a member of the Board of Management on January 1, 2002.

The members of the Board of Management may be contacted at the business address of Allianz SE.

Supervisory Board

In accordance with the Statutes of Allianz SE, the Supervisory Board (Aufsichtsrat) of Allianz SE consists of twelve members, six of whom are shareholder representatives and six of whom are employee representatives. According to applicable law and the Statutes of Allianz SE the members of the Supervisory Board are appointed by the General Meeting, however, as to the appointment of the employee representatives, the General Meeting is bound to the proposals of the employees. There is no share ownership requirement to qualify for or remain a member of the Supervisory Board.

The first Supervisory Board of Allianz SE was appointed when the company became a European Company in October 2006. Its term ended at the close of the first ordinary General Meeting of Allianz SE on May 2, 2007. At the first ordinary General Meeting of Allianz SE, shareholders re-elected all members of the Supervisory Board who stood for reelection and appointed Peter Kossubek as an

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employee representative. The employee representatives are no longer representatives of the German employees only, but also representatives of employees of Allianz Group in certain other European countries. Among the employee representatives, there may also be representatives of the trade unions represented in the Allianz Group in Europe. The term of office of the members of the Supervisory Board of Allianz SE runs until the close of the General Meeting which resolves on the ratification of actions in respect of the forth financial year following the beginning of the term of office not counting the financial year in which the term of office begins, but in no case longer than six years. Repeated appointments are permitted.

As stipulated in the Employee Involvement Agreement concluded with the representatives of Allianz employees in September 2006, four of the six employees' representatives on the Supervisory Board are from Germany (including one union representative), one is from France and one is from the UK. For all forthcoming Supervisory Boards of Allianz SE (from 2012 onward), the country distribution of the employee representatives will depend on the country distribution of the employees of the Allianz Group within the EU and the European Economic Area. The appointment of the employee representatives of the Supervisory Board will follow the respective national legal provisions of the countries of origin of such representatives. In case no such provisions exist, the appointment will be made by the SE Works Council which was established pursuant to the Employee Involvement Agreement.

The General Meeting may remove any Supervisory Board member it has elected without having been bound by a proposal for the election by a simple majority of the votes cast. As regards the removal of members of the Supervisory Board that have been elected in accordance with a proposal by the employees, the Employee Involvement Agreement provides for the application of the respective statutory framework for the removal enacted in the respective member states. In the event no such provisions exist, Section 37 of the German Act on Employee Participation in a SE (SE-Beteiligungsgesetz, SEBG) shall apply accordingly. Under such provision, the employee representatives from Germany may be removed by the General Meeting upon a respective request by (i) the works councils (Arbeitnehmervertretungen) that have formed the electoral college (Wahlgremium),

i.e., in the present case, Allianz SE's Group Works Council (Konzernbetriebsrat), with a 75% majority of the votes cast, or (ii), with respect to the Supervisory Board members proposed by a trade union, only such trade union. The General Meeting is bound by such request. In addition, any member of the Supervisory Board may resign by giving written notice to the Board of Management.

The Supervisory Board of Allianz SE has elected a chairman, who must be a shareholder representative, and two deputy chairpersons. The Supervisory Board of Allianz SE constitutes a quorum if all members are invited or requested to adopt a resolution and if either at least six members, among them the chairman, or at least nine members, participate in the resolution.

Except where a different majority is required by law or the Statutes of Allianz SE, the Supervisory Board acts by simple majority of the votes cast. In the case of a tie, the vote of the chairman or if he does not participate in the voting, the vote of the deputy chairperson (provided that the deputy chairperson is a shareholder representative) shall be decisive (casting vote). The Supervisory Board meets at least twice each half-year. During the financial year 2007, the Supervisory Board met in total six times. Its main functions are:

to monitor the management of Allianz SE;

to appoint the members of the Board of Management; and

to approve matters in areas where such approval is required by German law or by the Statutes or which the Supervisory Board has made generally or in the individual case subject to its approval. See Board of Management.

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In addition, Supervisory Boards of German insurance companies are tasked with the appointment of the external auditor.

In order to exercise its functions efficiently, the Supervisory Board has established a Standing Committee, an Audit Committee, a Personnel Committee a Risk Committee, and in December 2007, a Nomination Committee. The committees prepare the discussion and adoption of resolutions in the plenary session. Furthermore, in appropriate cases, authority to take decisions has been delegated

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to committees themselves. The establishment of a Mediation Committee is no longer required because the German Employee Co-determination Act, which provides for such a committee, does not apply to Allianz SE.

Standing Committee. The Standing Committee, which comprises the chairman of the Supervisory Board, and four additional members elected by the Supervisory Board (two members upon proposal of the shareholders representatives and two upon proposal of the employee representatives), may approve or disapprove certain transactions of Allianz SE to the extent that such transactions do not fall under the competency of any other committee or are not required to be decided by plenary meeting of the Supervisory Board. In particular, the Standing Committee is responsible for approving several loans in accordance with the German Stock Corporation Act, Board of Management resolutions on capital measures and on acquisition or disposal of treasury shares and certain acquisitions of companies or participations in companies. Furthermore, the Standing Committee examines the corporate governance of Allianz SE, drafts the declaration of compliance and examines the efficiency of the work of the Supervisory Board. In addition, it is responsible for amendments to the Statutes that only affect the wording, not the content. The Standing Committee held four meetings and three telephone conference calls in 2007. The members of the Standing Committee are Dr. Henning Schulte-Noelle as chairman, Dr. Gerhard Cromme, Dr. Franz B. Humer, Claudia Eggert-Lehmann and Rolf Zimmermann.

Audit Committee. The Audit Committee comprises five members elected by the Supervisory Board (three members upon proposal of the shareholders representatives and two upon proposal of the employee representatives). The Audit Committee prepares the decisions of the Supervisory Board about the Allianz Group's annual financial statements, the consolidated financial statements and the appointment of the auditors and ascertains the independence of the auditors. Furthermore, the Audit Committee assigns the mandate to the auditors, sets priorities for the audit and determines the compensation of the auditors. In addition, it examines the quarterly reports. After the end of the fiscal year, the Audit Committee examines the Allianz Group's

annual financial statements and the consolidated financial statements, examines the risk monitoring system, discusses the auditor's report with the auditors and deals with compliance topics. The Audit Committee held five meetings and one telephone conference call in 2007. The members of the Audit Committee are Dr. Franz B. Humer as chairman, Dr. Wulf H. Bernotat, Igor Landau, Jean-Jaques Cette and Jörg Reinbrecht.

Personnel Committee. The Personnel Committee consists of the chairman of the Supervisory Board and two other members elected by the Supervisory Board (one member upon proposal of the shareholders representatives and one upon proposal of the employee representatives). It prepares the appointment of members of the Board of Management and it represents the company before the members of the Management Board pursuant to § 112 of the German Stock Corporation Act. In addition, it attends to on-going personnel matters of the members of the Board of Management including their membership on boards of other companies and the payments they receive. The Personnel Committee held four meetings in 2007. The members of the Personnel Committee are Dr. Henning Schulte-Noelle as chairman, Dr. Gerhard Cromme and Claudia Eggert-Lehmann.

Risk Committee. The Risk Committee consists of five members elected by the Supervisory Board (three members upon proposal of the shareholders representatives and two upon proposal of the employee representatives). The Risk Committee was established in December 2006 by the newly constituted Supervisory Board of Allianz SE. The Risk Committee monitors the establishment and maintenance of an appropriate risk management and risk monitoring system as well as its organizational structure and ongoing development. The Risk Committee monitors whether the risk strategy is aligned with general business strategy, keeping itself informed about the general risk situation and special risk developments. The Committee also conducts a preliminary examination of special risk-related statements as part of the audit of annual financial statements and management reports, informing the Audit Committee about its findings. The Risk Committee held two meetings in 2007. The members of the Risk Committee are Dr. Henning Schulte-Noelle as chairman, Dr. Wulf H. Bernotat, Prof. Dr. Renate Köcher, Godfrey Robert Hayward and Peter Kossubek.

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Nomination Committee. The Nomination Committee was established in December 2007 and consists of the chairman of the Supervisory Board and two further shareholder representatives (elected by the shareholder representatives of the Supervisory Board). With the establishment of the Nomination Committee, Allianz SE is following a new recommendation of the German Corporate Governance Code to establish this type of committee. The Nomination Committee is responsible for drawing up selection criteria for

shareholder representatives on the Supervisory Board, seeking suitable candidates for the election of shareholder representatives to the Supervisory Board and proposing suitable candidates to the Supervisory Board for its election proposal to the General Meeting. The newly established Nomination Committee held no meetings in 2007. The members of the Nomination Committee are Dr. Henning Schulte-Noelle as chairman, Dr. Gerhard Cromme and Dr. Franz B. Humer.

The current members of the Supervisory Board of Allianz SE, their age as of December 31, 2007, their principal occupations, the year in which each member first served on the Supervisory Board, the year in which the current term of each member expires and their principal board memberships outside the Allianz Group, respectively, are as follows:

| Name | Age | Principal Occupation | Principal Outside Board | |
|--|-----|---|-------------------------|---|
| | | | Year First Appointed | Memberships |
| Dr. Henning Schulte-Noelle, Chairman ⁽¹⁾ | 65 | Former chairman of the Board of Management of Allianz AG | 2003 | Member of the Supervisory Boards of E.ON AG, Siemens AG (until January 24, 2008) and ThyssenKrupp AG |
| Dr. Wulf H. Bernotat ⁽¹⁾ | 59 | Chairman of the Board of Management of E.ON AG | 2003 | Member of the Supervisory Boards of Metro AG and Bertelsmann AG |
| Jean-Jacques Cette ⁽²⁾ | 51 | Member of the AGF board of directors | 2006 | None |
| Dr. Gerhard Cromme ⁽¹⁾ | 64 | Chairman of the Supervisory Board of ThyssenKrupp AG | 2001 | Member of the Supervisory Boards of ThyssenKrupp AG (chairman), Axel Springer AG, Siemens AG (chairman), and member of Board of Directors of Compagnie de Saint-Gobain S.A. |
| Claudia Eggert-Lehmann ⁽²⁾ | 40 | Employee, Dresdner Bank AG | 2003 | None |
| Godfrey Robert Hayward ⁽²⁾ | 47 | Employee, Allianz Cornhill, UK | 2006 | None |
| Dr. Franz B. Humer ⁽¹⁾ | 61 | Chairman of the board of directors of F. Hoffmann-La Roche AG | 2005 | Member of the board of directors of DIAGEO plc. |
| Prof. Dr. Renate Köcher ⁽¹⁾ | 55 | Chairperson Institut für Demoskopie, Allensbach | 2003 | Member of the Supervisory Boards of MAN AG, Infineon Technologies AG and BASF AG (until January 14, 2008) |
| Peter Kossubek ⁽²⁾ | 53 | Employee, Allianz Versicherungs-AG | 2007 | None |
| Igor Landau ⁽¹⁾ | 63 | Member of the board of directors of Sanofi-Aventis S.A. | 2005 | Member of the Supervisory Boards of adidas AG (deputy chairman) and member of the boards of directors of HSBC France and Sanofi-Aventis S.A. |
| Jörg Reinbrecht ⁽²⁾ | 50 | Trade Union Secretary, ver.di, Germany | 2006 | Member of the Supervisory Board of SEB AG |
| Rolf Zimmermann ⁽²⁾ | 54 | Employee, Allianz Versicherungs-AG | 2006 | None |

⁽¹⁾ Shareholder Representative

⁽²⁾ Employee Representative

The members of the Supervisory Board may be contacted at the business address of Allianz SE.

Table of Contents**Compensation of Directors and Officers****Board of Management remuneration**

The remuneration of the Board of Management consists of fixed and variable pay components and it is designed to support sustained value-oriented management performance. To achieve this objective a significant portion of overall remuneration is variable. It is a three tier incentive system which includes short-term and mid-term cash bonus plans and equity related long-term incentives. The overall remuneration of individual Board Members is dependent upon their delegated role and accountability, individual performance, achievement of the financial goals of the Allianz Group and of the respective business unit, as well as the evolution of the Allianz SE share price. The remuneration of the Board of Management is set by the Personnel Committee of the Supervisory Board. The Personnel Committee is committed to a remuneration policy that is aligned to the interests of shareholders taking into consideration the competitive environment and the global market place in which the company operates. The structure of remuneration is regularly reviewed and discussed at the Supervisory Board.

The remuneration components of the Board of Management are described below:

Fixed salary

Base salary is a fixed amount which is normally reviewed every 3 years and reflects the individual's role as well as the market context. The salary is paid in twelve monthly installments. The 2007 base pay levels of the Board of Management are shown on page 150.

Performance-based remuneration

To achieve an appropriate balance of components linked to short term financial performance and those linked to long-term success and shareholder value creation a three-tier incentive system has been put in place. An overview is set out below:

Three-tier incentive system

| Annual bonus (short-term) Goal category | Three-year bonus (mid-term) Goal category | Equity-related remuneration (long-term) Goal category |
|--|---|--|
| Allianz Group financial goals | EVA-objectives over three-year performance period | Sustained increase in share price |
| Business division financial goals | Allianz Group financial goals and strategic objectives | |

| | |
|-----------------------|--|
| Individual objectives | Business division financial goals and strategic objectives |
| | Individual strategic objectives |

Short-Term and Mid-Term bonus plans

All members of the Board of Management are eligible to participate in the annual (short-term) and three-year (mid-term) bonus plans.

Annual bonus

The annual bonus is dependent on the achievement of annual goals. These include financial targets set at Group or business division level as well as personal objectives. Performance against these goals is assessed at the end of the annual performance period with the amount of bonus payable depending on the extent to which the targets and objectives have been met. The Personnel Committee sets the target bonus level for members of the Board of Management. For 2007 the target bonus amounts to 150.0% of base salary. The maximum achievement is set at 165.0% of target performance.

Details of the annual bonus amounts paid to each member of the Board of Management are shown in the Remuneration table on page 150.

Three-year bonus

The three-year or mid-term bonus plan was designed to make the continuous increase in value of

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the company a priority concern of executive management across the Group. Plan participants are the Board of Management and approximately 100 top managers globally. Bonus payouts under the plan depend on the attainment of financial and strategic goals over the defined three-year performance period. The mid-term bonus is granted at the end of the defined three year performance period and the amount is based on the overall achievement for the three years. Certain exceptions apply, for example in the event of retirement. Although an interim assessment of the objectives takes place once a year, these projections are only provisional and informative in nature. Mid-term bonus target levels for members of the Board of Management are set by the Personnel Committee. For the 2007 – 2009 plan, the target bonus amounts to approximately 128.0% of base salary over the three-year performance period. The maximum achievement is set at 140.0% of target performance. Details of the mid-term bonus amounts accrued for each member of the Board of Management are shown on page 150.

In exceptional circumstances, the Personnel Committee can decide to award bonuses moderately above maximum level. It can also decide to reduce bonuses where warranted and in exceptional circumstances could reduce them to zero. Any material exercise of discretion outside the maximum range will be explained in the Remuneration Report.

Equity-related remuneration

The Board of Management and approximately 800 top managers and high performing future leaders worldwide participate in the Group Equity Incentives (GEI) program. This consists of virtual stock options, known as Stock Appreciation Rights (SAR) and virtual stock awards, known as Restricted Stock Units (RSU).

The number of SAR and RSU awarded to the members of the Board of Management is dependent upon the discretionary decision of the Supervisory Board is based on their designated role and the performance of the Group and their respective business division. The value of the GEI program granted in any year cannot exceed the sum of base salary and the annual target bonus.

The SAR have a vesting period of two years and subject to the performance conditions mentioned below, they may be exercised during the following five years as set out in the rules of the plan. They lapse unconditionally at the end of the seven year term. To align the interests of management with those of shareholders the Personnel Committee has set two performance conditions for the exercise of the SAR. These are directly linked to the performance of Allianz SE stock. The conditions consist of a relative measure linked to the Dow Jones EURO STOXX Price Index (600) and an absolute measure requiring a set increase in the price of Allianz SE stock over the period between grant and exercise. Also, the program has a cap of 150.0% of the grant price on the potential payout from SAR exercises in recognition of the leverage profile. To encourage long term value creation the RSU have a vesting period of five years, at the end of which they are automatically released as set out in the rules of the plan.

Miscellaneous

The members of the Board of Management also receive perquisites. These consist of contributions to accident and liability insurances and the provision of a company car and, where applicable, a travel allowance for non-resident Board Members. Each member of the Board of Management is responsible for income tax on these perquisites. For 2007 the total value of the perquisites amounted to 0.5 million.

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The following table sets out the total fixed remuneration, perquisites and annual bonus. For reasons of transparency, the proportional bonus accrued for each member of the Board of Management of Allianz SE for the first year of the three-year bonus plan 2007 – 2009 is shown in the remuneration table:

| Board of Management | Fixed salary Change from previous year 2007 thou | Perquisites ⁽¹⁾ 2007 thou | Total non-performance based remuneration Change from previous year 2007 thou | | Annual bonus ⁽²⁾ Change from previous year 2007 thou | | Three-year bonus ⁽³⁾ Change from previous year 2007 thou | |
|-------------------------------|--|--|---|-------|---|--------|--|--------|
| | | | | | | | | |
| Michael Diekmann | | | | | | | | |
| (Chairman) | 1,050 | 24 | 1,074 | (1.5) | 2,046 | (8.0) | 472 | 3.1 |
| Dr. Paul Achleitner | 700 | 13 | 713 | (1.7) | 1,416 | (10.1) | 310 | 0.6 |
| Clement B. Booth | 700 | 78 | 778 | 4.6 | 1,218 | (17.5) | 318 | (7.8) |
| Jan R. Carendi ⁽⁴⁾ | 700 | 16 | 716 | 0.1 | 1,102 | (15.7) | 255 | (10.5) |
| Enrico Cucchiani | 700 | 118 | 818 | 14.7 | 1,261 | (15.3) | 346 | (3.4) |
| Dr. Joachim Faber | 700 | 20 | 720 | 0.6 | 1,245 | (11.0) | 312 | 5.4 |
| Dr. Helmut Perlet | 700 | 20 | 720 | (1.5) | 1,469 | (2.6) | 311 | (1.3) |
| Dr. Gerhard Rupprecht | 700 | 34 | 734 | 2.7 | 1,217 | (18.9) | 322 | (2.4) |
| Jean-Philippe Thierry | 700 | 77 | 777 | 7.8 | 1,245 | (13.4) | 312 | (11.6) |
| Dr. Herbert Walter | 700 | 45 | 745 | 1.6 | 923 | (32.3) | 175 | (51.8) |
| Dr. Werner Zedelius | 700 | 14 | 714 | 0.0 | 1,363 | (13.2) | 348 | 18.4 |
| Total | 8,050 | 459 | 8,509 | 2.3 | 14,505 | (13.9) | 3,481 | (6.0) |

(1) Broad range reflects travel allowances for non resident Board Members.

(2) Actual bonus paid in 2008 for fiscal year 2007.

(3) Estimated amount for 2007 following interim assessment – the actual performance assessment can only take place at the end of the three-year period.

(4) Retired from Board of Management on December 31, 2007. For three-year bonus actual proportional amount paid in 2008.

For the 2004 – 2006 three-year bonus plan the total amount paid to the Board of Management in 2007 was 9.7 million. The amounts paid to each member were accrued over the three-year performance period and disclosed in the relevant remuneration tables in the 2004, 2005 and 2006 annual reports.

The following table sets out the details of all awards made under the GEI program of equity – related remuneration in 2007 for each member of the Board of Management.

| Board of Management | Number of SAR granted 2007 | Number of RSU granted 2007 | Fair value of SAR awards at date of grant 2007 thou | Fair value of RSU awards at date of grant 2007 thou | 2007 thou | Total Change from previous year % |
|-----------------------------|-------------------------------------|-------------------------------------|--|--|--------------|--|
| | | | | | | |
| Michael Diekmann (Chairman) | 15,065 | 7,582 | 588 | 1,020 | 1,608 | 5.2 |
| Dr. Paul Achleitner | 10,044 | 5,054 | 392 | 680 | 1,072 | 2.0 |
| Clement B. Booth | 10,044 | 5,054 | 392 | 680 | 1,072 | 13.9 |

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| | | | | | | |
|-----------------------|--------|-------|-----|-----|-------|--------|
| Jan R. Carendi | 10,044 | 5,054 | 392 | 680 | 1,072 | 13.9 |
| Enrico Cucchiani | 10,044 | 5,054 | 392 | 680 | 1,072 | 11.3 |
| Dr. Joachim Faber | 10,044 | 5,054 | 392 | 680 | 1,072 | 10.4 |
| Dr. Helmut Perlet | 10,044 | 5,054 | 392 | 680 | 1,072 | 10.2 |
| Dr. Gerhard Rupprecht | 10,044 | 5,054 | 392 | 680 | 1,072 | 10.9 |
| Jean-Philippe Thierry | 10,044 | 5,054 | 392 | 680 | 1,072 | 14.7 |
| Dr. Herbert Walter | 10,044 | 5,054 | 392 | 680 | 1,072 | (47.6) |
| Dr. Werner Zedelius | 10,044 | 5,054 | 392 | 680 | 1,072 | 6.6 |

The GEI awards are accounted for as cash settled plans by the Allianz Group. Therefore, the Allianz Group accrues the fair value of the GEI awards as compensation expense over the vesting period. Upon vesting, any changes in the fair value of the unexercised SARs are recognized as compensation expense. The GEI compensation expense in 2007 amounted to, in thousand, for Mr. Diekmann 1,626, for Dr. Achleitner 1,212, for Mr. Booth 660, for Mr. Carendi 966, for Mr. Cucchiani 981, for Dr. Faber 1,128, for Dr. Perlet 1,136, for Dr. Rupprecht 1,112, for Mr. Thierry 456, for Dr. Walter 2,864 and for Dr. Zedelius 1,039.

SAR can be exercised once the two-year vesting period has expired on the condition that the Allianz SE stock price is at least 20.0% above the price at which the SAR were granted (strike price). Also, the price of the stock must have exceeded the Dow Jones EURO STOXX Price Index (600) over a period of five consecutive trading days at least once during the plan period. The RSU are released on the first trading day after the end of a five-year vesting period.

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The total remuneration of the Board of Management for fiscal year 2007 amounted to 39 million (2006: 41 million).

Remuneration for Allianz Group mandates and for mandates from outside the Allianz Group

If a member of the Board of Management holds a mandate in another company the full compensation amount is transferred to Allianz SE if the company is owned by Allianz. If the mandate is from a company outside the Allianz Group, 50.0% of the compensation received is normally paid to Allianz SE. The compensation paid by companies outside the Allianz Group is shown in the Annual Reports of the companies concerned.

Pensions and similar benefits

The pension agreements for members of the Board of Management up to 2004 provided for retirement benefits of a fixed amount that were not linked to the increases in salary or variable pay. With effect from 2005, Allianz SE changed from this defined benefit arrangement to a contribution-based system. The respective pension rights that existed at that point in time were frozen. As a result of the change, since 2005, annual contributions have been made by the Company instead of the former increase amendments. Interest is accrued on the contributions with a minimum guaranteed rate of 2.75% per annum. Should the net annual return from the invested contribution exceed 2.75% the full increase in value is credited to the members the same year. The company reviews the level of contributions annually. The contribution payments are guaranteed only as required for further regular financing of accrued pension rights resulting from defined benefit promises existing on December 31, 2004. In the case of an insured event, the accumulated capital is converted to equivalent annuity payments which are then paid out for the rest of the member's life or if

applicable to dependents. The increase in reserves for pensions (current service cost) includes the required expenditures for further financing of accrued pension rights as well as the contribution payments for the new contribution-based system.

When a mandate of a member of the Board of Management ends, a pension may become payable at the earliest upon reaching the age of 60, except for cases of occupational or general disability for medical reasons, or in case of death whereby a pension becomes payable to the dependents. If the mandate is terminated for other reasons before retirement age has been reached, a pension promise is maintained if non-forfeitable. This does not include, however, a right to pension payments beginning immediately.

The Allianz Group paid 4 million (2006: 4 million) to increase pension reserves and reserves for similar benefits for active members of the Board of Management. On December 31, 2007, pension reserves and reserves for similar benefits to members of the Board of Management who were active at that date, amounted to 25 million (2006: 23 million).

The following table sets out the current service cost and contributions arising in relation to the current pension plans according to IAS 19, excluding the current service cost for the old pension plan redeemed as of December 31, 2004 for each individual member of the Board of Management of Allianz SE in 2007.

| Board of Management | thou | Board of Management | thou |
|--------------------------------|-------------|--------------------------------|-------------|
| Michael Diekmann (Chairman) | 299 | Dr. Helmut Perlet | 208 |
| Dr. Paul Achleitner | 183 | Dr. Gerhard Rupprecht | 182 |

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| | | | |
|-------------------|-----|-----------------------|-----|
| Clement B. Booth | 259 | Jean-Philippe Thierry | 477 |
| Jan R. Carendi | 0 | Dr. Herbert Walter | 198 |
| Enrico Cucchiani | 310 | Dr. Werner Zedelius | 210 |
| Dr. Joachim Faber | 214 | | |

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The additional current service cost in 2007 according to IAS 19 for the frozen pension plan amounted to, in thousand, for Mr. Diekmann 162, for Dr. Achleitner 246, for Dr. Faber 134, for Dr. Perlet 0, for Dr. Rupprecht 175, for Dr. Walter 326 and for Dr. Zedelius 85.

Termination of service

The Supervisory Board decided to amend the service contract for members of the Board of Management for future appointments and prolongations to comply with a new suggestion of the German Corporate Governance Code regarding a severance payment cap. According to this amendment, payments made to members of the Board of Management in case of premature termination of the service contract without serious cause will be limited to a maximum of the value of two years cash compensation including benefits.

Members of the Board of Management who leave the Board after serving a term of at least five years are entitled to a transition payment for a period of six months. The amount payable is calculated on fixed salary and a proportion of the annual target bonus and it is paid in monthly installments.

If service is terminated as a result of a so-called change of control, the following separate regulation applies:

A change of control requires that a shareholder of Allianz SE acting alone or together with other shareholders holds more than 50.0% of voting rights in Allianz SE. If the appointment of a member of the Board of Management is unilaterally revoked by the Supervisory Board as a result of such a change of control within a period of twelve months after the event, or if the member terminates service by resignation due to a substantial decrease in managerial responsibilities and, without giving cause for termination, all contracted benefits will be payable in the form of a lump-sum for the duration of the employment contract. The amount to be paid is based on the fixed salary at the time of the change of control, the annual and current three-year bonus, in each case discounted according to market conditions at the time of payment. A target achievement of 100.0% is the basis for the annual and three-year bonus. If the remaining duration of the service contract is not at least three years at the time of

change of control, the lump-sum payment in respect of fixed salary and annual bonus is increased to correspond to a term of three years. If the member reaches the age of 60 before the three years have elapsed, the lump-sum payment decreases correspondingly. For the equity-based remuneration the member is treated as having retired. These regulations are also effective if the Board of Management mandate is not extended within two years after the change of control.

For other cases of early termination of appointment to the Board of Management, service contracts do not contain any special rules.

Benefits to retired Members of the Board of Management

In 2007, remuneration and other benefits of 5 million (2006: 4 million) were paid to retired members of the Board of Management and dependents. Additionally, reserves for current pensions and accrued pension rights totaled 49 million (2006: 52 million).

Supervisory Board remuneration

Remuneration system

The remuneration of the Supervisory Board is based on the scale and scope of the company, the functions and responsibilities of the members of the Supervisory Board and the financial situation of the company. The relevant provisions are contained in §11 of the Statutes of Allianz SE. The remuneration was decided at the General Meeting.

Three components make up the Supervisory Board's remuneration: a fixed sum of 50,000 and two performance-based components. One of the performance-based components has a short-term focus and depends on the increase of consolidated earnings-per-share in the previous fiscal year; the other is long-term and corresponds to the cumulative increase of this figure over the past three years.

The maximum sum for each of the two variable remuneration components is 24,000. This means that with the fixed sum of 50,000 the maximum total regular compensation for a Supervisory Board member amounts to 98,000. This maximum amount is achieved when the previous year's earnings-per-share has risen by 16.0% and when this

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indicator has further improved by a total of 40.0% or more over the last three years. If there has been no improvement in Corporate earnings-per-share during the relevant period (i.e. the past fiscal year or the past three years), no performance-based remuneration will be awarded.

The structure of the Supervisory Board's remuneration was ratified by the Annual General Meeting in 2005; on the conversion of Allianz AG into Allianz SE in 2006 it was adopted without changes. It complies with the recommendation or suggestion of the German Corporate Governance Code under which members of the Supervisory Board shall receive fixed as well as performance-based compensation that should contain components based on the long-term performance of the business. We believe that this form of the Supervisory Board's remuneration has proven to be effective, and that the earnings-per-share performance measure is appropriate for the calculation of the performance-based remuneration of the Supervisory Board.

The Chairperson and Deputy Chairpersons of the Supervisory Board as well as the Chairperson and members of its committees receive additional remuneration as follows: The Chairperson of the Supervisory Board receives double, the deputies one-and-a-half times the regular remuneration of a member of the Supervisory Board. Members of the Personnel Committee, Standing Committee and Risk Committee receive an additional 25.0%, and the Chairpersons of each of these committees 50.0%.

Members of the Audit Committee are entitled to a fixed sum of 30,000 per year, the Committee Chairperson receives 45,000. No additional remuneration is granted to the members of the Nomination Committee.

Remuneration of the Supervisory Board of Allianz SE

There is a cap on the total remuneration of each member of the Supervisory Board. It is reached when the Chairperson of the Supervisory Board has been awarded triple and the other members of the Supervisory Board double the regular remuneration of a member of the Supervisory Board.

The members of the Supervisory Board receive a 500 attendance fee for each Supervisory Board or committee meeting that they attend in person. 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 2007 amounted to 33,000.

Performance-based remuneration

The Group's earnings-per-share increased by 5.34% compared to 2006 and by 96.45% in relation to the financial year 2004. This meant that the regular remuneration for the short-term performance-based component for each member of the Supervisory Board amounted to 8,100 and the long-term performance-based component to 24,000.

| | Fixed remuneration | Performance- based remuneration | Committee remuneration | Total remuneration |
|-------------------|-----------------------|------------------------------------|---------------------------|-----------------------|
| Supervisory Board | | | | |

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| | | short-term | long-term | (may be capped) | (may be capped) |
|--|---------|------------|-----------|-----------------|-----------------|
| Dr. Henning Schulte-Noelle (Chairman) | 100,000 | 16,200 | 48,000 | 82,100 | 246,300 |
| Dr. Gerhard Cromme (Deputy Chairman) | 75,000 | 12,150 | 36,000 | 41,050 | 164,200 |
| Claudia Eggert-Lehmann (Deputy Chairwoman) | 75,000 | 12,150 | 36,000 | 41,050 | 164,200 |
| Dr. Wulf H. Bernotat | 50,000 | 8,100 | 24,000 | 50,525 | 132,625 |
| Jean-Jacques Cette | 50,000 | 8,100 | 24,000 | 30,000 | 112,100 |
| Godfrey Robert Hayward | 50,000 | 8,100 | 24,000 | 20,525 | 102,625 |
| Dr. Franz B. Humer | 50,000 | 8,100 | 24,000 | 20,525 | 102,625 |
| Prof. Dr. Renate Köcher | 50,000 | 8,100 | 24,000 | 20,525 | 102,625 |
| Peter Kossubek (since May 2, 2007) | 33,334 | 5,400 | 16,000 | 13,684 | 68,418 |
| Igor Landau | 50,000 | 8,100 | 24,000 | 30,000 | 112,100 |
| Jörg Reinbrecht | 50,000 | 8,100 | 24,000 | 30,000 | 112,100 |
| Margit Schoffer (until May 2, 2007) | 20,834 | 3,375 | 10,000 | 8,553 | 42,762 |
| Rolf Zimmermann | 50,000 | 8,100 | 24,000 | 20,525 | 102,625 |
| Total | 704,168 | 114,075 | 338,000 | 409,062 | 1,565,305 |

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Remuneration for mandates in other Allianz Group subsidiaries

As members of the Supervisory Board of Dresdner Bank AG Claudia Eggert-Lehmann received 45,000 and Margit Schoffer 45,000. Peter Kossubek received 40,000 as member of the Supervisory Board of Allianz Versicherungs-AG.

Loans to Members of the Board of Management and Supervisory Board

Loans granted by the Dresdner Bank and other Allianz Group companies to members of the Board of Management and Supervisory Board totalled 71,451 on the date of balance (December 31, 2007). Loans are provided at standard market conditions or at the conditions as applied to employees. The repaid amounts of loans amounted to 27,361 in 2007. Moreover, overdraft facilities were granted to members of the Board of Management and Supervisory Board as part of existing account relationships, likewise corresponding to conditions according to market standard or those applied to employees.

The loans and overdrafts mentioned above (1) were made in the ordinary course of business, (2) were granted on conditions that are comparable to those of loans and overdrafts granted to people in peer groups and (3) did not involve more than the normal risk of collectibility or present other unfavourable features. For members of the Board of Management, this means that the conditions have been set according to the prevailing conditions for Allianz employees.

Board Practices

Allianz SE has entered into service contracts with members of the Board of Management

providing for a limited benefit upon termination of service prior to the stated expiration date of a member's contract. In such circumstances, the member of the Board of Management would receive monthly fixed payments for a further six months as well as *pro rata* bonus payments if the conditions for the bonus payments are fulfilled. If regular pension benefits were to become due during this time period, they would be credited against these payments. Allianz SE has not entered into such contracts with members of the Supervisory Board.

Share Ownership

As of March 10, 2008, the members of the Board of Management and the Supervisory Board held less than 1% of our ordinary shares issued and outstanding. As of such date, the members of the Board of Management and the Supervisory Board held in the aggregate approximately 84,300 ordinary shares of Allianz SE.

Employees

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As of December 31, 2007, the Allianz Group employed a total of 181,207 people worldwide, of whom 72,063 or 39.8%, were employed in Germany. A large number of our German employees are covered by collective bargaining agreements or similar arrangements. In the past three years, there have been no work stoppages or strikes at our various sites that have arisen from collective bargaining disputes or for other reasons which had a material adverse effect on the Allianz Group's results of operations. We believe that our employee relations are good.

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The following table shows the number of employees of the Allianz Group by region as of December 31, 2007, 2006 and 2005.

Employees by countries

| Country | 2007 | 2006 | 2005 |
|----------------|---------|---------|---------|
| Germany | 72,063 | 76,790 | 72,195 |
| France | 19,120 | 17,096 | 17,246 |
| Russia | 11,744 | 280 | 235 |
| United Kingdom | 10,865 | 9,945 | 27,661 |
| United States | 10,706 | 10,691 | 10,840 |
| Italy | 7,445 | 7,661 | 7,706 |
| Switzerland | 4,117 | 2,874 | 2,823 |
| Australia | 3,608 | 3,474 | 3,673 |
| Spain | 3,299 | 3,139 | 2,762 |
| Hungary | 3,235 | 3,159 | 2,839 |
| Austria | 3,096 | 3,106 | 3,024 |
| Brazil | 2,971 | 2,334 | 2,345 |
| Slovakia | 2,627 | 2,564 | 2,645 |
| Romania | 2,292 | 2,061 | 1,749 |
| Netherlands | 2,130 | 1,988 | 1,851 |
| Belgium | 1,807 | 1,633 | 1,563 |
| Other | 20,082 | 17,710 | 16,468 |
| Total | 181,207 | 166,505 | 177,625 |

Stock-based Compensation Plans**Group Equity Incentive (GEI) Plans**

Group Equity Incentives support the orientation of senior management, and in particular the Board of Management, toward the long-term increase of the value of the company. In 1999, Allianz introduced Stock Appreciation Rights (SAR) through which part of the total remuneration is directly tied to the development of the Allianz share price. In 2003, Restricted Stock Units (RSU) with a 5-year vesting period were issued for the first time. Allianz senior management worldwide is entitled to participate in these Group Equity Incentives.

Awards were granted by the respective companies in accordance with uniform group-wide conditions. The grant price for SAR and RSU applicable for the award is calculated on the basis of the average daily closing price of the Allianz share in Xetra trading on the 10 trading days following the Financial Press Conference of Allianz SE. The grant price for the GEI plan 2007 is €160.13.

The number of SAR and RSU offered is set individually for each participant and is determined on the basis of the grant price, the economic development of the value of Allianz SE and the respective responsible company and individual elements such as fixed remuneration and performance. The volume of rights granted and thus the potential gain for the participant depends essentially on the economic performance.

For additional information on the Group Equity Incentive Plans see Note 48 to our consolidated financial statements.

Employee Stock Purchase Plans

Allianz SE offers its shares to qualified employees in Germany and abroad at favorable conditions within pre-defined timeframes. To be eligible, employees must have been employed for a minimum period of time prior to the share offering and no notice of termination of employment must have been served. Employees are also subject to certain restrictions on the amount that may be invested to purchase Allianz shares. Allianz SE and each participating Allianz Group subsidiary establishes a restricted period of at least one and maximum five years during which employees may not transfer these Allianz shares after purchasing them. After this period, these Allianz shares are not subject to vesting or other restrictions. The eligible employees of the Allianz Group acquired a total of 939,303 Allianz shares under such arrangements in 2007 (2006: 929,509; 2005: 1,144,196).

For additional information on our Employee Stock Purchase Plans, see Note 48 to our consolidated financial statements.

ITEM 7. Major Shareholders and Related Party Transactions

Major Shareholders

The outstanding capital stock of Allianz SE consists of ordinary shares without par value that are issued in registered form. Under our Statutes, each outstanding ordinary share represents one vote. Major shareholders do not have different voting rights. Based on our share register, as of March 10, 2008, we had approximately 419,800 registered shareholders, of which approximately 520 were

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U.S. holders. Based on our share register, approximately 16.4% of our ordinary shares issued were held by such U.S. holders. Although our shareholders are generally required when registering to indicate their respective names, addresses and, in the case of legal entities, whether they hold on behalf of a third party, many of our ordinary shares may be held of record by brokers, trustees or other nominal holders who are not required to provide such information with regard to beneficial shareholders. As a result, the number of holders of record or registered U.S. holders may not be representative of the actual number of beneficial U.S. holders. For information regarding the share ownership of the members of our Board of Management and our Supervisory Board, see Directors, Senior Management and Employees-Share Ownership.

Under the German Securities Trading Act, holders of voting securities of a listed German company are required to notify the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin) and the company of the level of their holding whenever it reaches, exceeds or falls below specified thresholds. These thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of a company's shares. The provisions of the German Securities Trading Act provide several criteria for attribution of shares.

As of March 10, 2008, no shareholder holding 5% or more of the share capital was reported to Allianz SE.

As of February 29, 2008, 452,350,000 ordinary shares were issued, of which 450,755,801 were outstanding and 1,594,199 were held by the Allianz Group in treasury (including 1,042,621 shares held by Dresdner Bank in trading positions).

Significant changes in the percentage ownership held of record by any of our major shareholders in the last three years were as follows:

the share ownership of Munich Re as reported to the SEC decreased from 12.8% as of December 31, 2003 to approximately 4.9% of our outstanding ordinary shares on July 12, 2005.

the voting rights of Munich Re as reported under the German Securities Trading Act on September 25, 2007, decreased below 3% and amounted to 2.67% as of this day.

Related Party Transactions

For a description of related party transactions, see Note 45 to the consolidated financial statements.

ITEM 8. Financial Information

Consolidated Statements and Other Financial Information

See pages F-1 and following for the consolidated financial statements required by this item.

Legal Proceedings

For a description of legal proceedings, see Note 46 to the consolidated financial statements.

Dividend Policy

Allianz SE normally declares dividends at the annual general meeting and pays these dividends once a year. Under applicable German law, dividends may be declared and paid only from balance sheet profits as shown in the German statutory annual financial statements of Allianz SE. For each fiscal year, the Board of Management approves the annual financial statements and submits them to the Supervisory Board with its proposal as to the appropriation of the annual profit. This proposal will set forth what amounts of the annual profit should be paid out as dividends, transferred to capital reserves, or carried forward to the next fiscal year. Upon approval by the Supervisory Board, the Board of Management and the Supervisory Board submit their combined proposal to the shareholders at the annual general meeting. The general meeting ultimately determines the appropriation of the annual profits, including the amount of the annual dividends. Shareholders generally participate in distributions of any dividends in proportion to the number of their ordinary shares. Any dividends declared by Allianz SE will be paid in Euro.

For information regarding annual dividends declared in 2007 and paid from 2003 through 2006, see [Key Information Dividends](#).

Significant Changes

For a description of significant developments since the date of the annual financial statements included in this annual report, see Note 52 to the consolidated financial statements.

Table of Contents**ITEM 9. The Offer and Listing****Trading Markets**

The principal trading market for the ordinary shares is the Frankfurt Stock Exchange. The ordinary shares also trade on the following other German stock exchanges: Berlin-Bremen, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart, as well as the stock exchanges in London, Paris, Milan and Zurich. The ADSs of Allianz SE, each representing one-tenth of an ordinary share, trade on the New York Stock Exchange under the symbol AZ. See also Major Shareholders and Related Party Transactions Major Shareholders.

Market Price Information

The table below sets forth, for the periods indicated, the high and low closing sales prices on the Frankfurt Stock Exchange for the ordinary shares of Allianz SE as reported by XETRA. The table also shows, for the periods indicated, the highs and lows of the DAX. See the discussion under Key Information Exchange Rate Information for information with respect to rates of exchange between the U.S. Dollar and the Euro applicable during the periods set forth below.

| | Price per ordinary share ⁽¹⁾ | | DAX | |
|---------------------------------|--|-------|---------|---------|
| | High | Low | High | Low |
| Annual highs and lows | | | | |
| 2003 | 101.5 | 41.1 | 3,965.2 | 2,203.0 |
| 2004 | 111.2 | 73.9 | 4,261.8 | 3,647.0 |
| 2005 | 129.7 | 89.7 | 5,458.6 | 4,178.1 |
| 2006 | 156.8 | 111.2 | 6,611.8 | 5,292.1 |
| 2007 | 178.6 | 133.9 | 8,105.7 | 6,447.7 |
| 2008 (through March 10, 2008). | 145.9 | 108.7 | 7,949.1 | 6,439.2 |
| Quarterly highs and lows | | | | |
| 2006 | | | | |
| First quarter | 139.5 | 124.1 | 5,984.2 | 5,334.3 |
| Second quarter | 139.0 | 111.2 | 6,140.7 | 5,292.1 |
| Third quarter | 137.4 | 115.5 | 6,004.3 | 5,396.9 |
| Fourth quarter | 156.8 | 136.1 | 6,611.8 | 5,992.2 |
| 2007 | | | | |
| First quarter | 169.0 | 147.8 | 7,027.6 | 6,447.7 |
| Second quarter | 178.6 | 155.0 | 8,090.5 | 6,937.2 |
| | Price per ordinary share ⁽¹⁾ | | DAX | |
| | High | Low | High | Low |
| Third quarter | 174.6 | 148.7 | 8,105.7 | 7,270.1 |
| Fourth quarter | 165.4 | 133.9 | 8,076.1 | 7,512.0 |
| 2008 | | | | |
| (through March 10, 2008) | 145.9 | 108.7 | 7,949.1 | 6,439.2 |
| Monthly highs and lows | | | | |
| 2007 | | | | |

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| | | | | |
|-----------|-------|-------|---------|---------|
| September | 163.9 | 148.7 | 7,861.5 | 7,375.4 |
| October | 165.4 | 150.5 | 8,041.3 | 7,794.9 |
| November | 151.8 | 133.9 | 7,880.9 | 7,512.0 |
| December | 148.0 | 137.6 | 8,076.1 | 7,808.9 |
| 2008 | | | | |
| January | 145.9 | 111.3 | 7,949.1 | 6,439.2 |
| February | 121.7 | 113.1 | 7,002.3 | 6,733.7 |
| March 10 | 116.0 | 108.7 | 6,690.0 | 6,448.1 |

(1) Adjusted to reflect the capital increase in April 2003.

On March 10, 2008, the closing sale price per Allianz SE ordinary share on XETRA was 108.70, which was equivalent to \$167.06 per ordinary share, translated at the closing noon buying rate for Euros on such date.

Based on turnover statistics supplied by Bloomberg, the average daily volume of the ordinary shares of Allianz SE traded on the Frankfurt Stock Exchange (XETRA) between January 2, 2008 and March 10, 2008 was 5,859,449.

Trading on the New York Stock Exchange

Official trading of Allianz SE ADSs on the New York Stock Exchange commenced on November 3, 2000. Allianz SE ADSs trade under the symbol AZ.

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The following table sets forth, for the periods indicated, the high and low closing sales prices per Allianz SE ADS as reported on the New York Stock Exchange Composite Tape:

| | Price per ADS | |
|---------------------------------|------------------|-----------|
| | High \$ | Low \$ |
| Annual highs and lows | | |
| 2003 | 12.7 | 5.0 |
| 2004 | 14.0 | 9.0 |
| 2005 | 15.4 | 11.4 |
| 2006 | 20.6 | 13.9 |
| 2007 | 24.0 | 19.2 |
| 2008 (through March 10, 2008) | 21.4 | 16.4 |
| Quarterly highs and lows | | |
| 2006 | | |
| First quarter | 17.0 | 15.1 |
| Second quarter | 17.5 | 13.9 |
| Third quarter | 17.5 | 14.6 |
| Fourth quarter | 20.6 | 17.3 |
| 2007 | | |
| First quarter | 22.2 | 19.2 |
| Second quarter | 23.8 | 20.7 |
| Third quarter | 24.0 | 20.3 |
| Fourth quarter | 23.5 | 19.6 |
| 2008 | | |
| (through March 10) | 21.4 | 16.4 |
| Monthly highs and lows | | |
| 2007 | | |
| September | 23.3 | 20.7 |
| October | 23.5 | 21.5 |
| November | 22.0 | 19.6 |
| December | 21.5 | 20.2 |
| 2008 | | |
| January | 21.4 | 16.9 |
| February | 18.5 | 16.4 |
| March (through March 10) | 17.6 | 16.6 |

On March 10, 2008, the closing sales price per Allianz SE ADS on the New York Stock Exchange as reported on the New York Stock Exchange Composite Tape was \$16.62.

ITEM 10. Additional Information**Articles of Association (Statutes)**

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Allianz SE's current statutes are filed as an exhibit to this annual report. See also "Directors, Senior Management and Employees" for a description of our corporate governance structure.

Organization and Share Capital

Allianz SE is a Stock Corporation in the form of a European Company (Societas Europaea or SE) and is organized under the laws of the Federal Republic of Germany and the European Union. It is registered in the Commercial Register in Munich, Germany, under the entry number HRB 164232.

The share capital of Allianz SE consists of ordinary shares without par value. As of February 29, 2008, the capital stock of Allianz SE amounts to 1,158,016,000. It is sub-divided into 452,350,000 shares with no par value, of which 450,755,801 shares were outstanding. The shares are registered and can only be transferred with the approval of the Company. The Company will withhold a duly applied approval only if it deems this to be necessary in the interest of the Company on exceptional grounds. The applicant will be informed about the reasons.

Objects and Purposes

Pursuant to article 1, paragraph 2 of our statutes the corporate purpose of the Company is the direction of an international group of companies, which is active in the areas of insurance, banking, asset management and other financial, consulting and similar services. The Company holds interests in insurance companies, banks, industrial companies, investment companies and other enterprises. As a reinsurer, the Company primarily assumes insurance business from its Group companies and other companies in which Allianz SE holds direct or indirect interests.

Copies of the statutes are publicly available from the Commercial Register in Munich. German- and English-language versions are available at our headquarter and on our website.

Conditions Governing Changes in Capital

Allianz SE has several categories of authorized capital, which are set forth in its statutes.

At the Extraordinary General Meeting on February 8, 2006, the shareholders approved the following authorized capital for issuance of new registered shares by the Board of Management, upon the approval of the Supervisory Board:

Up to 450,000,000 in the aggregate on one or more occasions on or before February 7, 2011 by issuing new registered

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no-par value shares against contributions in cash and/or in kind (Authorized Capital 2006/1), of which an amount of 406,545,646 remains as of February 29, 2008. If the capital stock is increased against contributions in cash, the shareholders are to be granted a subscription right. However, the Board of Management is authorized, upon the approval of the Supervisory Board, to exclude such shareholders' subscription right:

(i) for fractional amounts;

(ii) to the extent necessary to grant subscription rights on new shares to holders of bonds issued by Allianz SE or Allianz AG or its Group companies that carry conversion or option rights or conversion obligations to such an extent as such holders would be entitled after having exercised their conversion or option rights after any conversion obligations have been fulfilled; and

(iii) if the issue price is not substantially lower than the market price, subject to certain additional limitations in accordance with the German Stock Corporation Act.

Furthermore, the Board of Management is authorized, upon the approval of the Supervisory Board, to exclude shareholders' subscription rights in the case of a capital increase against contributions in kind. The Board of Management is also authorized, upon the approval of the Supervisory Board, to determine the additional rights of the shares and the conditions of the share issuance.

Up to 15,000,000 in the aggregate on one or more occasions on or before February 7, 2011 by issuing new registered no-par shares against contributions in cash (Authorized Capital 2006/II), of which an amount of 9,848,297 remains as of February 29, 2008. The Board of Management is authorized, upon the approval of the Supervisory Board:

(i) to exclude shareholders' subscription rights in order to issue the new shares to the employees of Allianz SE and Allianz Group companies;

(ii) to exclude fractional amounts from the shareholders' subscription right; and

(iii) to determine the additional rights of the shares and the conditions of the share issuance.

Furthermore, the shareholders have conditionally increased the share capital by an aggregate amount of up to 250,000,000.00 through issuance of up to 97,656,250 new registered no-par value shares with entitlement to share in profits from the beginning of the financial year of their issuance (Conditional Capital 2006). The conditional capital increase shall be carried out only to the extent that conversion or option rights are exercised by holders of conversion or option rights attached to bonds which Allianz AG or Allianz SE or their Group companies have issued against cash payments in accordance with the resolution of the General Meeting as of February 8, 2006, or that conversion obligations under such bonds are fulfilled, and only in so far as no other methods of performance are used in serving these rights. The Board of Management is authorized to determine further details of the conditional share capital increase.

At the Annual General Meeting on May 5, 2004, the shareholders have conditionally increased the share capital by an aggregate amount of up to 250,000,000.00 through issuance of up to 97,656,250 new registered no-par value shares with entitlement to share in profits from the beginning

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of the financial year of their issuance (Conditional Capital 2004). Of this conditional capital, an amount of up to 5,632,000 through issuance of up to 2,200,000 new registered no-par shares remained December 31, 2007. The conditional capital increase shall be carried out only to the extent that conversion or option rights are exercised by holders of conversion or option rights attached to bonds that Allianz AG or Allianz SE or their Group companies have issued against cash payments in accordance with the resolution of the General Meeting of Allianz AG of May 5, 2004, or that conversion obligations under such bonds are fulfilled, and only insofar as no other methods of performance are used in serving these rights. The Board of Management is authorized to determine further details of the conditional share capital increase. All option rights resulting from bonds which Allianz SE or its subsidiaries have issued on the basis of this authority have been exercised until

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February 15, 2008, so that this contingent capital has been fully carried out.

With respect to purchases of our own ordinary shares, see Note 23 to our consolidated financial statements.

Capital Increase

For information regarding capital increases see Note 23 to our consolidated financial statements.

Material Contracts

For information on material contracts to which Allianz AG or Allianz SE or any of its subsidiaries was a party in the preceding two years, see Note 45 to our consolidated financial statements.

Exchange Controls

Germany does not generally restrict capital movements between Germany and other countries, institutions or persons.

For statistical purposes, subject to certain exceptions, each company or person domiciled in Germany is required to report to the German Bundesbank each payment received from or made to a company or person not domiciled in Germany in excess of 12,500 (or an equivalent amount in a foreign currency). Moreover, all claims and liabilities of a company or person domiciled in Germany against or towards a company or person not domiciled in Germany in excess of 5 million (or an equivalent amount in a foreign currency) are required to be reported monthly to the German Bundesbank.

Other than as described above, there is no limitation on the right of non-resident or foreign owners to receive dividends or other payments relating to the ordinary shares or the ADSs permitted or granted by German law. Various national, state and other laws relating to the acquisition of control of Allianz SE's insurance and banking subsidiaries may impose limitations on the ability to acquire ordinary shares or ADSs beyond specified thresholds. In addition, some national laws may authorize investigation of certain money transfers.

German Taxation

The following discussion is a summary of the material German tax regulations which might be of interest for legal or beneficial owners of shares or ADSs, particularly for Non-German-Holders. Throughout this section we refer to owners as Non-German Holders if they are (i) not German residents for German income tax purposes (i.e., persons whose residence, habitual abode, statutory seat or place of effective management and

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control is not located in Germany) and (ii) whose shares do not form part of the business property of a permanent establishment or fixed base in Germany.

The comments are of a general nature and include herein solely for information purposes. These comments cannot replace legal or tax advice and does not purport to be a comprehensive discussion of all German tax consequences. The owner should consult their tax advisor regarding the German federal, state and local tax consequences of the purchase, ownership and disposition of shares or ADSs, the procedures to follow for the refund of German taxes withheld from dividends and the possible effects of changes in the tax laws of the Federal Republic of Germany.

This summary is based on the relevant German tax laws currently in force and typical tax treaties to

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which Germany is a party, as they are applied on the date hereof and are subject to changes in German tax laws or respective treaties.

Taxation of the Company in Germany

German corporations, including Allianz SE, have been subject to a corporate income tax rate of 25% in 2007. In addition a solidarity surcharge of 5.5% on the net assessed corporate income tax has to be paid, so that the corporate income tax and the solidarity surcharge, in the aggregate, amount to approximately 26.375%.

In the course of the reform of business taxation, implemented by the Business Tax Reform Act 2008, the income tax rate for corporations has been reduced to 15% as of the fiscal year 2008; including the solidarity surcharge, the aggregate rate amounts to 15.825%.

In addition, German corporations are subject to profit-related trade tax on income which is a municipal tax levied at an effective tax rate of approximately between 12% and 20%, depending on the applicable trade tax factor of the relevant municipality and is a deductible item in computing the corporation's tax base for corporate income and trade tax purposes. Due to the Business Tax Reform Act 2008 the trade tax will no longer be deductible for corporate income tax and trade tax purposes.

Tax losses carried forward can be used to offset against taxable profits of a period for an amount not exceeding 1 million. Taxable profits exceeding 1 million may only be set off by 60% with tax losses brought forward from prior periods. Unutilized tax losses can be carried forward without any time limitation.

Taxation of Dividends

Germany has a classic corporate tax system.

If the Shares or ADS's are held as private assets (*Privatvermögen*) by an **individual German resident**, dividends will be taxed as investment income (Einkünfte aus Kapitalvermögen). These dividends received are included in the tax basis by 50% only. However, income related expenses (e.g. custody fees or interest for a debt financed portfolio)

are also deductible by 50% only. The amount of such payments after deduction of related expenses will be subject to progressive income tax plus solidarity surcharge thereon. Since 2007, a personal annual exemption (Sparer-Freibetrag) of 750 Euro (1,500 Euro for married couples filing their tax return jointly) is available for the aggregate amount of the investment income, including the dividends. In addition, an individual is entitled to a standard deduction of 51 (102 for married couples filing their tax return jointly) in computing his overall investment income unless the expenses involved are demonstrated to have actually exceeded that amount.

If the shares are held as business assets (*Betriebsvermögen*) by a **German resident corporate investor**, the dividends are generally subject to corporate income tax plus solidarity surcharge thereon and trade tax. Under the current corporate income tax system dividends received by a German resident corporate investor are basically 100% tax-exempt (participation exemption). However, 5% of the gross dividend is considered

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non tax deductible expense (on each level of a corporate chain for corporate tax as well as for trade tax purposes). Dividends received from non-qualifying participations, which are participations of less than 10% (15% as from fiscal year 2008), are subject to trade tax on income for the full amount.

If the shares are held as business assets (*Betriebsvermögen*) by a **German partnership**, the dividends received are included in the tax basis by 50% only. For trade tax purposes the same rules apply as for corporate investors.

In the course of the reform of business taxation the taxation of dividends has been changed for individuals and partnerships. From 1 January 2009 onwards a final flat-rate tax (*Abgeltungssteuer*) amounting to 25% (plus a 5.5% solidarity surcharge) on all types of investment income (including dividends) will be established. This withholding tax levied on the income from capital investment shall generally be final and only be included in the relevant tax assessment for individuals upon application, especially if the personal income tax rate falls below 25%. The personal annual exemption (*Sparer-Freibetrag*) and the standard deduction will be replaced by a unitary flat sum (*Sparer-Pauschbetrag*) for the overall investment income of 801 (1,602 for married couples filing their tax

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return jointly). The deduction of related expenses will not be possible any more.

For German nonresidents (individuals and corporate investors) the dividends received are basically subject to income taxes and therefore to withholding tax (see next section).

Imposition of Withholding Tax

Dividend distributions are subject to a 20% withholding tax. In addition, a solidarity surcharge at a rate of 5.5% on the withholding tax is levied, resulting in an aggregate rate of withholding tax of 21.1% of the declared dividend. The withholding tax is generally withheld irrespective of whether and to what extent the dividend distribution is exempt at the level of the holder.

As part of the reform of business taxation, from 1 January 2009 onwards the withholding tax amounts to 25% (plus a 5.5% solidarity surcharge) on all types of investment income, including dividends.

For a Non-German Holder, the withholding tax rate may be reduced in accordance with an applicable income tax treaty. For a Non-German Holder, the withholding tax rate may be reduced in accordance with an applicable income tax treaty. Under most income tax treaties to which Germany is a party, including the U.S.-German income tax treaty, the rate of dividend withholding tax for individual holders and corporate holders of a non-qualifying participation is reduced to 15%. In that case, the Non-German Holder eligible for the reduced treaty rate may apply for a refund of 6.1% of the declared dividend for dividend distributions paid on or after January 1, 2002 by Allianz SE. The application for refund must be filed with the German Federal Tax Office (Bundeszentralamt für Steuern, Dienstsitz Bonn, An der Kueppe 1, D-53225 Bonn, Germany). The relevant forms can be obtained from the German Federal Tax Office or from German embassies and consulates.

From 1 January 2009 onwards two-fifth of the withholding tax will be refunded to Non-German corporate investors upon application at the German Federal Tax Office, which finally results in a withholding tax of 15% (plus solidarity surcharge), leaving the entitlement for further reductions under an applicable income tax treaty unaffected.

Refund Procedure for U.S. Shareholders

For shares and ADSs kept in custody with The Depository Trust Company in New York or one of its participating banks, the German tax authorities have introduced a collective procedure for the refund of German dividend withholding tax and the solidarity surcharge thereon on a trial basis. Under this procedure, The Depository Trust Company may submit claims for refunds payable to eligible U.S. holders (as defined below) under the income tax convention between Germany and the United States, as currently in effect (the Treaty) collectively to the German tax authorities on behalf of these eligible U.S. holders. The German Federal Tax Office will pay the refund amounts on a preliminary basis to The Depository Trust Company, which will redistribute these amounts to the eligible U.S. holders according to the regulations governing the procedure. The German Federal Tax Office may review whether the refund was made in accordance with the law within four years after making the payment to The Depository Trust Company. Details of this collective procedure are available from The Depository Trust Company.

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You are an eligible U.S. holder if you are a U.S. holder (as defined below under United States Taxation) that:

is a resident of the United States for purposes of the Treaty;

does not maintain a permanent establishment or fixed base in Germany to which the ordinary shares or ADSs are attributable and through which you carry on or have carried on business (or, in the case of an individual, perform or have performed independent personal services); and

is otherwise eligible for benefits under the Treaty with respect to income and gain from the ordinary shares or ADSs.

Individual claims for refunds may be made on a special German form which must be filed with the German Federal Tax Office at the address noted above. Copies of such form may be obtained from the German Federal Tax Office at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998. Claims must be filed within a four-year period from the end of the calendar year in which the dividend was received.

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As part of the individual refund claim, an eligible U.S. holder must submit to the German tax authorities the original bank voucher (or a certified copy thereof) issued by the paying agent documenting the tax withheld, and an official certification on IRS Form 6166 of its last United States federal income tax return. IRS Form 6166 may be obtained by filing a request, via IRS form 8802, with the Internal Revenue Service Center in Philadelphia, Pennsylvania, P.O. Box 42530, Philadelphia, PA 19101-2530. Requests for certification must include the eligible U.S. holder's name, Social Security or Employer Identification Number, tax return form number, and tax period for which the certification is requested. Requests for certifications can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certification on IRS Form 6166 to the eligible U.S. holder, who then must submit this document with his refund claim.

Taxation of Capital Gains

If the shares are held as business assets (Betriebsvermögen) by a corporate investor or partnerships, the capital gains are treated as the dividends.

For non-corporate investors, a 50% tax exemption on realized gains on the disposal of shares arise only if they sell shares of a corporation of which they hold at least 1% of the outstanding shares of the company at any time within the five years prior to the sale; within the 12 month speculative period or which were held as business assets in a partnership. Due to the Business Tax Reform Act 2008 capital gains from individuals are subject to taxation irrespective of any holding period with a 25% withholding tax.

Under German domestic tax law, capital gains derived by a Non-German Holder from the sale or other disposition of shares or ADSs are subject to tax in Germany only if such Non-German Holder has held, directly or indirectly, shares or ADSs representing 1% or more of the registered share capital of the company at any time during the five-year period immediately preceding the disposition.

U.S. holders that qualify for benefits under the Treaty are exempt in Germany under the Treaty on capital gains derived from the sale or disposition of shares or ADSs.

Inheritance and Gift Tax

Under German law, German gift or inheritance tax will be imposed on transfers of shares or ADSs by a Non-German Holder at death or by way of gift, if

(i) the decedent or donor, or the heir, donee or other transferee has his residence in Germany at the time of the transfer or with respect to German citizens who are not resident in Germany, if the decedent or donor, or the heir, donee or other transferee has not been continuously outside of Germany for a period of more than five years; or

(ii) the shares or ADSs subject to such transfer form part of a portfolio which represents 10% or more of the registered share capital of the company and has been held, directly or indirectly, by the decedent or donor, respectively, himself or together with related parties.

The right of the German government to impose inheritance or gift tax on a Non-German Holder may be further limited by an applicable estate tax treaty (such as the U.S.-German Inheritances and Gifts Tax Treaty of December 14, 1998).

Other Taxes

No German transfer, stamp or similar taxes apply to the purchase, sale or other disposition of shares or ADSs by a Non-German Holder. Currently, net worth tax is not levied in Germany.

United States Taxation

This section describes the principal United States federal income tax consequences of owning ordinary shares or ADSs. It applies to you only if you hold your ordinary shares or ADSs as capital assets for tax purposes. This section does not address all material tax consequences of owning ordinary shares or ADSs. It does not address special classes of holders, some of whom may be subject to other rules, including:

dealers in securities or currencies;

tax-exempt entities;

life insurance companies;

broker-dealers;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

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investors liable for alternative minimum tax;

investors that actually or constructively own 10% or more of the voting stock of Allianz AG;

investors that hold ordinary shares or ADSs as part of a straddle or a hedging or conversion transaction; or

investors whose functional currency is not the U.S. Dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, and published rulings and court decisions, all as currently in effect, as well as on the Treaty. These laws are subject to change, possibly on a retroactive basis.

In addition, this section is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. In general, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income tax.

You are a U.S. holder if you are a beneficial owner of ordinary shares or ADSs and you are, for United States federal income tax purposes:

a citizen or resident of the United States;

a domestic corporation;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership holds our Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. If you hold our shares as a partner in a partnership, you should consult your tax advisor with regard to the U.S. federal income tax treatment of an investment in our Shares.

You should consult your own tax advisor regarding the United States federal, state, local, foreign and other tax consequences of owning and disposing of ordinary shares or ADSs in your particular circumstances. In particular, you should confirm whether you qualify for the benefits of the Treaty and the consequences of failing to do so.

Taxation of Dividends

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Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the ordinary shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the ordinary shares or ADSs generally will be qualified dividend income if you meet the holding period requirement. You must include any German tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of ordinary shares, or the depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. Dollar value of the gross dividend amount, determined at the spot Euro/U.S. Dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. Dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. Dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The currency gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated

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earnings and profits, as determined for United States federal income tax purposes, will be treated as a return of capital to the extent of your basis in the ordinary shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the German tax withheld in accordance with German law or the Treaty and paid over to Germany will be creditable against your United States federal income tax liability. To the extent a refund of the tax withheld is available to you under German law or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. See German Taxation Refund Procedure for U.S. Shareholders, above, for the procedures for obtaining a tax refund. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Dividends constitute income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder and sell or otherwise dispose of your ordinary shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. Dollar value of the amount that you realize and your tax basis, determined in U.S. Dollars, in your ordinary shares or ADSs. Capital gain of a non-corporate U.S. holder that is recognized before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. Gain or loss

generally will be treated as arising from sources within the United States for foreign tax credit limitation purposes.

Passive Foreign Investment Company Status

We believe that our shares and ADSs should not be treated as stock of a passive foreign investment company (PFIC), for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to become a PFIC, the tax treatment of distributions on our shares or ADSs and of any gains realized upon the disposition of our shares or ADSs may be less favorable than as described herein. You should consult your own tax advisors regarding the PFIC rules and their effect on you if you hold shares or ADSs.

Documents on Display

Allianz SE is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, Allianz SE files reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Copies of the materials may be obtained from the Commission's Public Reference Room at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other

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information regarding registrants that file electronically with the Commission. Allianz SE's annual reports and some of the other information submitted by Allianz SE to the Commission may be accessed through this web site. In addition, material filed by Allianz SE can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

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ITEM 11. Quantitative and Qualitative Disclosures about Market Risk

Allianz risk management is designed to add value by focusing on both risk and return.

As a provider of financial services, we consider risk management one of our core competencies. It is therefore an integrated part of our business processes. The key elements of our risk management are:

Promotion of a strong risk culture supported by a robust risk governance structure.

Integrated risk capital framework consistently applied across the Group to protect our capital base and to support effective capital management.

Integration of risk considerations and capital needs into management and decision making processes through the attribution of risk and allocation of capital to the various segments.

Risk Governance Structure

The Allianz risk governance approach is designed to enable us to manage our local and global risks equally and to reduce the likelihood that our overall risk increases in an undetected manner. The following diagram provides an overview regarding risk-related decision-making responsibility within our risk governance structure.

The Board of Management of Allianz SE formulates business objectives and allocates capital resources across the Allianz Group, balancing return on investment and risk. The Supervisory Board Risk Committee of Allianz SE meets on a regular and ad-hoc basis to monitor the risk profile of the Allianz Group based on risk reports presented by the Chief Financial Officer and Chairman of the Group Risk Committee.

Two additional Board of Management level committees focus on the Group's risk exposure. The

Group Risk Committee monitors the Allianz Group's risk profile and availability of capital in an effort to maintain an adequate relationship between return on investment and risk. Its role is to provide for comprehensive risk awareness within the Allianz Group and to continually improve risk control. It also defines risk standards and establishes risk limits. Furthermore, it is responsible for recommending and coordinating measures to mitigate risk. The Group Finance Committee makes decisions about investments and market risks, while complying with the Allianz Group's risk framework.

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The Group Risk department (Group Risk), which reports to the Chief Financial Officer, develops methods and processes for identifying, assessing and monitoring risks across the Allianz Group based on systematic qualitative and quantitative analysis and regularly informs management concerning the Allianz Group s risk profile. Group Risk develops the Allianz risk framework and oversees the operating entities adherence to the framework. The core elements of the risk framework are set forth in the Group Risk Policy, which has been approved by the Board of Management of Allianz SE and which defines the minimum requirements for all operating entities within the Allianz Group. Additional risk standards, such as standards related to specific segments or risk categories, are in place for our operating entities worldwide. Group Risk is also responsible for monitoring the accumulation of specific types of risks across business lines, in particular with respect to natural disasters and business counterparties.

Local operating entities assume responsibility for their own risk management, with risk functions and committees that are similar to the Group structure. Independent risk oversight is a fundamental principle of our risk governance structure, with a clear separation between business functions that actively take decisions and assume risk responsibility, on the one hand, and independent risk oversight, on the other hand. Risk oversight consists of independent risk identification, assessment, reporting and monitoring, but also includes analyzing alternatives and proposing recommendations to the Risk Committees and local management or to the Board of Management of Allianz SE. The local risk departments performing the oversight role in our major operating entities are headed by a local Chief Risk Officer. Group Risk is represented on the local Risk Committees to enhance the risk dialogue between the Group and the operating entities.

The risk governance structure is further complemented by Group Audit, Group Compliance and Legal Services functions. On a periodic basis, Group Audit independently reviews the risk governance implementation, performs quality reviews of risk processes and tests adherence to business standards. Group Legal Services seek to mitigate legal risks with support from other departments. Legal risks include legislative changes, major litigation and disputes, regulatory proceedings and contractual

clauses that are unclear or construed differently by the courts. The Allianz Group s objective is to ensure laws and regulations are observed, to react appropriately to all impending legislative changes or new court rulings, to attend to legal disputes and litigation, and to provide legally appropriate solutions for transactions and business processes.

Allianz Group s risk landscape is continually evolving due to changes in our environment. In order to adapt, the Trend Assessment Committee is responsible for early recognition of new risks and opportunities evaluating long-term trends that may have a significant impact on the Allianz Group s risk profile. In addition, the Allianz Climate Core Group is a panel of internal experts that examines the possible effects of climate change on our business developing risk management strategies and identifying potential opportunities resulting from climate change.

Internal Risk Capital Framework

We define internal risk capital as the capital required to protect against unexpected, extreme economic losses. We aggregate internal risk capital consistently across all business segments (Property-Casualty, Life/Health, Banking, Asset Management and Corporate), providing a common standard for measuring and comparing risks across the wide range of different activities that we undertake as an integrated financial service provider.

Value-at-Risk approach

We use an internal risk capital model based on a Value-at-Risk (VaR) approach, determining a maximum loss in the value of our portfolio of businesses covered within the scope of the model (the covered business) due to adverse market, credit, insurance and other business events,

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within a specified timeframe (holding period) and probability (confidence level). More specifically, we calculate the net fair asset value of our covered business based on values (i) under current best estimate conditions and (ii) under adverse conditions defined by scenarios for each risk category. The required internal risk capital per risk category is defined as the difference between the value of the portfolio under the best estimate scenario and under the adverse scenario. Internal risk capital is determined on a quarterly basis and results per category are

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aggregated in a manner that takes into account the diversification effect across risk categories and regions.

To calculate internal risk capital using the VaR approach at the Allianz Group level, we assume a confidence level of 99.97% and a holding period of one year, which is assumed to be equivalent to an AA rating of Standard & Poor's. We apply a holding period of one year because it is generally assumed that it may take up to one year to identify a counterparty to whom to transfer the liabilities in our portfolio. This capital requirement is sufficient to cover a loss in any one year equivalent to a 3-in-10,000 year event. Although our internal risk capital is based on extreme events, it nonetheless provides adequate indications to manage the risks resulting from reasonably possible smaller adverse events that we might identify in the near-term, because the results allow us to analyze separately and in aggregate our exposure to each source of risk.

Diversification and correlation assumptions

Our internal risk capital model considers both concentration and correlation when aggregating results on the Allianz Group level, in order to reflect that not all of our potential losses are likely to be

realized at the same time. This effect is known as diversification. Managing diversification forms a central element of our risk management framework. The Allianz Group strives to diversify the risks to which it is exposed to limit the impact of any single source of risk and to help ensure that the positive developments of some businesses operate in such a manner to neutralize the possible negative developments of others.

The degree to which diversification can be realized depends in part on the level of relative concentration of those risks. For example, the greatest diversification is in general obtained in a balanced portfolio without any disproportionately large exposures to any one or more risks. In addition, the diversification effect depends upon the relationship between sources of risks. The degree of relationship between two sources of risk is referred to as correlation, characterized by a value between -1 and +1. Where possible, we develop correlation parameters for each pair of risks through statistical analysis of historical data. If sufficient historical data is unavailable, we use conservative professional judgment, ruling out negative correlations, and, in general, we set the correlation parameters to represent the level of interdependency of risks under adverse conditions.

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Scope

Our internal risk capital model takes into account the following sources of risk, classified as risk categories per segment:

| Risk category | Insurance | Banking | Asset Management | Corporate | Description |
|-------------------------|-----------|---------|------------------|------------------|---|
| Market risk: | | | ü (3) | | |
| interest rate | ü | ü | | ü | Possible losses caused by changes in interest rates, equity prices, real estate values, commodity prices and exchange rates |
| equity | ü | ü | | ü | |
| real estate | ü | ü | | ü | |
| currency ⁽¹⁾ | ü | ü (2) | | ü | |
| Credit risk: | | | ü ⁽³⁾ | ü ⁽³⁾ | |
| investment | ü | ü (5) | | ü | Possible losses caused by the failure of our debtors, bond issuers, reinsurance partners or counter parties to meet payment obligations or by changes in their creditworthiness |
| reinsurance | ü (4) | | | | |
| Actuarial risk: | | | | | |
| premium CAT | ü | | | | Unexpected financial losses due to the inadequacy of premiums for catastrophe and non-catastrophe risks, due to the inadequacy of reserves or due to the unpredictability of mortality or longevity |
| premium non-CAT | ü | | | | |
| reserve | ü | | | | |
| biometric | ü | | | | |
| Business risk: | | | | | |
| operational | ü | ü | ü | ü | Cost risks, as well as operational risks which is the risk of a loss resulting from inadequate or failed internal processes, or from personnel and systems, or from external events |
| cost | ü | ü | ü | ü | |

(1) Foreign currency risks are mainly allocated to the Corporate segment.

(2) As commodity risk is not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(3) Although the internal risk capital requirements for the Asset Management segment only reflect business risk, the evaluation of market risk and credit risk on the account of third parties is an integral part of the risk management process of our local operating entities.

(4) Reinsurance credit risk also covers the premium risk which our credit insurance entity Euler Hermes is exposed to due to its business model, as this type of risk is a special form of credit risk.

(5) In the Banking segment, credit risks include default and migration risks arising from the lending and securities business and our derivatives trading activities; for the latter, settlement risk is additionally taken into account. Furthermore, credit risks include country (and transfer) risk.

Our internal risk capital model covers:

Substantially all of our major insurance and banking operations.

Substantially all of our assets (including bonds, mortgages, investment funds, loans, floating rate notes, equities and real estate) and liabilities (including the cash flow profile of all technical reserves as well as deposits and issued securities). For the Life/Health segment, the model reflects the interaction between assets and liabilities and local management decisions such as investment strategies and policyholder participation rules.

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Substantially all of our derivatives (options, swaps and futures), in particular if they form part of the operating entity's regular business model (e.g., at Dresdner Bank or Allianz Life United States) or if they have a significant impact on the resulting internal risk capital (e.g., hedges of Allianz SE or in the Life/Health segment, if material obligations to policyholders are hedged through financial derivatives). Typically, embedded derivatives contained in a host contract are also included.

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For smaller insurance operating entities that have an immaterial impact on the Group risk profile, and for the Asset Management segment, we assign internal risk capital requirements based on an approach similar to Standard & Poor's standard model, using the same risk categories as for our internal risk capital model, thereby allowing us to consistently aggregate internal risk capital for all segments to the Group level. More specifically, approximately 99 % of the investments managed by the Asset Management segment are held for the benefit of either third parties or Allianz Group insurance entities and, therefore, do not result in significant market and credit risk for the Asset Management segment. As a result, the internal risk capital requirements for the Asset Management segment only reflect business risk. Furthermore, Dresdner Bank represents substantially all of the internal risk capital of our Banking segment accounting for 96% of our total Banking segment's internal risk capital. Therefore, the detailed risk discussion in the Banking segment below relates to Dresdner Bank only.

The Allianz Group's policy is to require each operating entity to match the currency of their material assets and liabilities or to otherwise hedge foreign currency risk. As a result, our residual foreign currency risk results primarily from the fair value of the net asset value of our non-Euro operating entities and certain exposures to non-Euro denominated assets and liabilities held at the Group level in currencies different to Euro. This currency risk is monitored and managed centrally at the Allianz Group level by Group Corporate Finance & Treasury and is, therefore, mostly allocated to the Corporate segment.

Limitations

Our internal risk capital model expresses the potential worst case amount in economic value that we might lose at a certain level of confidence. However, there is a statistically low probability of 0.03% that actual losses could exceed this threshold.

We assume that model parameters derived from historical data can be used to characterize future possible risk events; if future market conditions differ substantially from the past as in the case of the 2007 credit crisis for which there was no precedent, then our VaR approach may be too conservative or too liberal in ways that can not be predicted. Our ability to back-test the model's accuracy is limited because of the high confidence level of 99.97% and one-year holding period. Furthermore, as historical data is used to calibrate the model, it cannot be used for validation. Instead, we validate the model and parameters through external reviews by independent consulting firms focusing on methods for selecting parameters and control processes. Overall, we believe that our model adequately assesses the risks to which we are exposed.

As our internal risk capital model considers the change in economic fair value of our assets and liabilities, it is crucial to accurately estimate the fair value of each item. For certain assets and liabilities, we apply a mark-to-model approach without having available a current market price for that instrument or similar instruments. For our liabilities, the accuracy of fair values also depends on the quality of the actuarial cash flow estimates. Despite these limitations, we believe the estimated fair values are appropriately assessed in the aggregate.

We apply customized derivative valuation tools which are suitable to our business to reflect substantially all of our derivatives in internal risk capital. Our integrated internal risk capital model for insurance operations currently only allows for the modeling of common derivatives such as equity calls, puts, forwards and interest rate swaps. For internal risk capital calculations, non-standardized instruments, such as derivatives embedded in structured financial products, are represented by the most comparable standard derivative types. The volume of non-standard instruments is not material on either the local or the Allianz Group level, but a more precise modeling of these instruments might impact the fair value and resulting internal risk capital for these derivatives. However, we believe that any such change would not be material.

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Capital Management

The Allianz internal risk capital model plays a significant role in solvency management and capital allocation. Our aim is to ensure that the Allianz Group is adequately capitalized at all times, even following a significant adverse event, and that all operating entities meet their respective capital requirements. In addition, we employ a value-based approach (Economic Value Added or EVA), among other approaches, to measure and manage our business activities as well as to optimize capital allocation across the Allianz Group. Internal risk capital is a key parameter of our EVA-approach.

In managing our capital position, we also consider additional external requirements of regulators and rating agencies. While meeting rating agencies' capital requirements forms a strategic business objective of the Allianz Group, capital requirements imposed by regulators constitute a binding constraint. Regulators and rating agencies impose minimum capital rules on the level of both the Allianz Group's operating entities and on the Allianz Group as a whole.

Internal capital adequacy

Our objective is to maintain available capital at the Group level in excess of the minimum requirements that are determined by our internal risk capital model according to a solvency probability of 99.97% over a holding period of one year. In support of this objective, we require our local operating entities to hold available capital resources allowing them to remain solvent at a lower confidence level of 99.93% over the same one-year holding period. In doing so, we take into account the benefits of a single operating entity being part of a larger, diversified Group.

The Allianz Group's available capital is based on published shareholders' equity adjusted to reflect the full economic capital base available to absorb any unexpected volatility in results of operations. For example, the present value of future profits in the Life/Health segment and hybrid capital are added to shareholders' equity, whereas goodwill and other intangible assets are subtracted therefrom.

Available capital⁽¹⁾ and internal risk capital

in bn

Our available capital at December 31, 2007 amounted to 63.8 billion (2006: 70.2 billion), while our internal capital requirements at December 31, 2007 amounted to 33.4 billion (2006: 35.8 billion), resulting in a capital adequacy ratio of 191.0% at December 31, 2007, compared to 196.1% at December 31, 2006. The decrease of 9.1% in available capital was primarily driven by a decrease of shareholders' equity due to the buy-out by Allianz of the minority interests in AGF.

The Allianz Group-wide internal risk capital after Group diversification and before minority interests of 33.4 billion at December 31, 2007 reflects a realized diversification benefit on the Group level of approximately 54%. Non-diversified and Group diversified internal risk capital are broken down as follows:

⁽¹⁾ The figure for available capital in 2006 has been adjusted. See Note 3 to our consolidated financial statements for further information.

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Allocated internal risk capital by risk category (total

portfolio before minority interest)

in mn

Allocated internal risk capital by segment (total portfolio

before minority interest)

in mn

The overall decrease of 6.8% in internal risk capital in 2007 was due to a decline in market risk, which is discussed in more detail in the respective section.

Regulatory capital adequacy

Under the EU Financial Conglomerates Directive, a supplementary European Union 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 related German law. The law requires that a financial conglomerate calculates the capital needed to meet its solvency requirements on a consolidated basis.

At December 31, 2007, 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 is 45.5 billion (2006: 49.5 billion) including off-balance sheet reserves⁽²⁾, surpassing the minimum legally stipulated level by 16.6 (2006: 23.4 billion). This margin results in a preliminary cover ratio of 157% at December 31, 2007 (2006: 190%). The decrease of 8.1% in eligible capital was primarily driven by a decrease of shareholders' equity due to the buy-out by Allianz of the minority interests in AGF. See Note 23 to our consolidated financial statements for further information with respect to capital requirements.

Rating agency capital adequacy

Rating agencies apply their own models to evaluate the relationship between the required risk capital of a company and its available capital resources. Assessing capital adequacy is usually an integral part of the rating process. At December 31, 2007, the financial strength of Allianz SE was rated

- (1) The figure for available capital in 2006 has been adjusted. See Note 3 to our consolidated financial statements for further information.
- (2) Off-balance sheet reserves represent the difference between the fair value and the amortized cost of real estate used by third parties and investments in associates and joint ventures, net of deferred taxes, policyholders' participation and minority interests.
- (3) Represents the ratio of eligible capital to required capital.

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by Standard & Poor's as AA (stable outlook), by A. M. Best as A+ (stable outlook), and by Moody's as Aa3 (stable outlook). Subsequently to December 31, 2007, Standard & Poor's changed the outlook on its rating of Dresdner Bank (A+) from stable to negative.

In addition to its long-term financial strength rating, Standard & Poor's has introduced a new rating category for Enterprise Risk Management (ERM) which is rated separately. Standard & Poor's commenced its analysis of the Allianz risk management approach in 2006 and continued the review in 2007. Currently Standard & Poor's has assigned Allianz a Strong rating for the ERM capabilities for our insurance operations. This rating indicates that Standard & Poor's regards it unlikely that Allianz SE will experience losses outside its risk tolerance. Standard & Poor's stated that the assessment is based on the Allianz Group's strong risk management culture, strong controls for the majority of key risks and strong strategic risk management.

Supplementary stress test analysis

In addition to our internal risk capital analysis, we perform regular stress tests that act as early-warning indicators in monitoring the Allianz Group's regulatory solvency capital ratios and its capital position required by rating agencies. We also apply regular stress tests on a local operating entity level in order to monitor capital requirements imposed by local regulators and rating agencies.

For example, stress test results on a Group level indicated that a 10% price decline in our available-for-sale equity securities as of December 31, 2007 would have resulted in a 2.7 billion decline in shareholders' equity before minority interests. If the interest rate had increased by 100 basis points, shareholders' equity before minority interests would have decreased by 3.6 billion, if available-for-sale fixed income securities are taken into account as of December 31, 2007.

Concentration of Risks

As we are an integrated financial service provider offering a variety of products across different business segments and geographic regions, diversification is key to our business model. Diversification helps us to manage our risks efficiently by limiting the economic impact of any single event and by contributing to relatively stable results and risk profile in general. As discussed above, the degree to which the diversification effect can be realized depends not only on the correlation between risks but also on the level of relative concentration of those risks. Therefore, our aim is to maintain a balanced risk profile without any one or more disproportionately large risks.

Disproportionately large risks that might accumulate and have the potential to produce substantial losses (e.g., natural catastrophes or credit events) are closely monitored on a standalone basis (i.e., before the diversification effect) and are subject to a global limit framework. For example, the Management Board of Allianz SE has implemented a framework of natural catastrophe limits at both the operating entity and Group levels in an effort to reduce potential earnings volatility and restrict potential losses from events having an occurrence probability of once in 250 years. Group limits are linked to the planned operating profit and the limits on operating entity level are based on the Property-Casualty net asset value. Traditional reinsurance coverage and dedicated financial transactions on Group level are examples of two instruments to mitigate the peak risks and to limit the impact of adverse conditions on our financial results and shareholders' equity.

Similarly, the Group monitors and limits credit exposures to single obligors and groups. We identify and measure risk concentrations in terms of non-diversified internal risk capital in line with the risk categories covered in our internal risk capital model. In the subsequent sections all risks are presented before and after diversification and concentrations of single sources of risk are discussed accordingly.

Table of Contents**Market Risk**

In the following, we present our Group-wide internal risk capital related to market risks.

Allocated Internal Market Risk Capital by Business Segment and Source of Risk**Total Portfolio Before Minority Interests**

| As of December 31, | Non-diversified | | Group diversified | |
|---|-----------------|---------------|-------------------|---------------|
| | 2007 mn | 2006 mn | 2007 mn | 2006 mn |
| Total Group | 22,738 | 27,297 | 13,913 | 17,457 |
| Percentage of total Group internal risk capital | 32% | 36% | 42% | 49% |
| Interest rate | 6,691 | 8,590 | 655 | 1,259 |
| Equity | 13,508 | 16,307 | 10,885 | 13,790 |
| Real estate | 2,238 | 2,265 | 1,088 | 1,083 |
| Currency ⁽¹⁾ | 301 | 135 | 1,285 | 1,325 |
| Property-Casualty | 11,066 | 12,958 | 6,477 | 8,379 |
| Interest rate | 2,758 | 2,916 | 270 | 427 |
| Equity | 6,835 | 8,633 | 5,508 | 7,300 |
| Real estate | 1,385 | 1,290 | 673 | 617 |
| Currency ⁽¹⁾ | 88 | 119 | 26 | 35 |
| Life/Health | 5,533 | 6,219 | 2,836 | 3,244 |
| Interest rate | 2,100 | 2,613 | 206 | 383 |
| Equity | 3,006 | 3,092 | 2,422 | 2,615 |
| Real estate | 427 | 514 | 208 | 246 |
| Currency ⁽¹⁾ | 0 | 0 | 0 | 0 |
| Banking | 2,814 | 2,940 | 1,962 | 2,090 |
| Interest rate | 205 | 374 | 20 | 55 |
| Equity | 2,239 | 2,205 | 1,804 | 1,865 |
| Real estate | 157 | 345 | 76 | 165 |
| Currency ⁽²⁾ | 213 | 16 | 62 | 5 |
| Asset Management⁽³⁾ | 0 | 0 | 0 | 0 |
| Corporate | 3,325 | 5,180 | 2,638 | 3,744 |
| Interest rate | 1,628 | 2,687 | 159 | 394 |
| Equity | 1,428 | 2,377 | 1,151 | 2,010 |
| Real estate | 269 | 116 | 131 | 55 |
| Currency ⁽¹⁾ | 0 | 0 | 1,197 | 1,285 |

(1) Foreign currency risks are mainly allocated to the Corporate segment (please see Internal Risk Capital Framework Scope for further information).

(2) As commodity exposure is limited to the Banking segment only and not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(3) The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

The decrease in market risk mainly results from the sale of a significant portion of our strategic equity participations, in particular on the Corporate level and in the Property-Casualty segment. Furthermore, an increase in interest rates in Europe reduced our exposure to risk in connection with the minimum guaranteed crediting rate that we must provide to policyholders for certain of our Life/Health products.

As previously discussed, we determine internal risk capital figures on a quarterly basis. The table below presents the average internal risk capital for market risk calculated over the four quarters of 2007 and 2006, as well as the high and low quarterly internal risk capital amounts calculated in both years.

Table of Contents**Average, High and Low Allocated Internal Market Risk Capital By Business Segment and****Source of Risk****Total Portfolio Before Minority Interests and After Group Diversification**

| As of December 31, | 2007 | | | 2006 | | |
|---------------------------------------|------------------------|---------------|---------------|------------------------|---------------|---------------|
| | Over quarterly results | | | Over quarterly results | | |
| | Average mn | High mn | Low mn | Average mn | High mn | Low mn |
| Total Group | 15,559 | 16,800 | 13,913 | 17,438 | 18,565 | 16,738 |
| Interest rate | 713 | 764 | 655 | 1,403 | 1,492 | 1,259 |
| Equity | 12,424 | 13,662 | 10,885 | 13,713 | 14,908 | 12,913 |
| Real estate | 1,072 | 1,103 | 1,038 | 967 | 1,083 | 910 |
| Currency ⁽¹⁾ | 1,350 | 1,409 | 1,285 | 1,355 | 1,433 | 1,317 |
| Property-Casualty | 7,299 | 7,948 | 6,476 | 8,595 | 9,458 | 8,243 |
| Interest rate | 301 | 330 | 270 | 456 | 478 | 427 |
| Equity | 6,331 | 7,020 | 5,508 | 7,481 | 8,291 | 7,137 |
| Real estate | 636 | 673 | 593 | 624 | 672 | 599 |
| Currency ⁽¹⁾ | 31 | 33 | 26 | 34 | 35 | 33 |
| Life/Health | 3,074 | 3,215 | 2,835 | 3,177 | 3,247 | 3,094 |
| Interest rate | 210 | 226 | 195 | 468 | 517 | 383 |
| Equity | 2,650 | 2,781 | 2,422 | 2,478 | 2,615 | 2,369 |
| Real estate | 214 | 223 | 208 | 238 | 246 | 233 |
| Currency ⁽¹⁾ | 0 | 0 | 0 | 0 | 0 | 0 |
| Banking | 2,116 | 2,326 | 1,962 | 2,103 | 2,198 | 1,929 |
| Interest rate | 25 | 33 | 20 | 60 | 68 | 55 |
| Equity | 1,933 | 2,136 | 1,804 | 2,000 | 2,137 | 1,865 |
| Real estate | 113 | 159 | 76 | (4) | (4) | (4) |
| Currency ⁽²⁾ | 45 | 62 | 28 | (4) | (4) | (4) |
| Asset Management⁽³⁾ | 0 | 0 | 0 | 0 | 0 | 0 |
| Corporate | 3,071 | 3,521 | 2,639 | 3,562 | 3,931 | 3,202 |
| Interest rate | 177 | 185 | 159 | 422 | 448 | 394 |
| Equity | 1,510 | 1,988 | 1,151 | 1,757 | 2,192 | 1,285 |
| Real estate | 109 | 131 | 63 | 65 | 75 | 55 |
| Currency ⁽¹⁾ | 1,275 | 1,339 | 1,197 | 1,319 | 1,400 | 1,283 |

(1) Foreign currency risks are mainly allocated to the Corporate segment (please see Internal Risk Capital Framework Scope for further information).

(2) As commodity exposure is limited to the Banking segment only and not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(3) The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

(4) Only year-end results available for 2006.

In addition to the information given in the following paragraphs, the quantitative contributions of the non-trading and trading positions to the overall internal risk capital for market risk is presented at the end of this section.

Non-trading portfolios

The Allianz Group's non-trading portfolios contain all non-trading activities of the Banking segment as well as the financial assets and liabilities of the Property-Casualty, Life/Health and Corporate segments. The Allianz Group holds and uses many

different financial instruments in managing its businesses. Grouped according to our internal risk capital model categories, the following are the most significant market risks in terms of market values: equity price risk (including common shares and preferred shares), interest rate risk (from bonds, loans and mortgages) and currency risk (especially the impact of foreign exchange rate movements on the net asset value of our non-Euro denominated operating entities).

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Property-Casualty and Life/Health segments

As of December 31, 2007, most of the Allianz Group's insurance-related equity investments are intended to be held long-term. 63% of the non-diversified internal risk capital allocated to the Property-Casualty and Life/Health segments for equity risk is assigned to our operating entities in Germany, Italy, France and the U.S.

The interest rate risk to which the Property-Casualty and Life/Health segments are exposed arises from the net position between our insurance liabilities and the investments in fixed income instruments, in particular bonds, loans and mortgages, backing policyholder obligations that are different in terms of maturity and size. Our internal risk capital model provides management with information regarding the cash flow profiles of the segments' liabilities, which allows for active monitoring and management of our assets and liabilities. While the potential payments related to our liabilities in the Property-Casualty segment are typically shorter in maturity than the financial assets backing them, the opposite usually holds true for our Life/Health segment, which provides us with a natural hedge at the Allianz Group level.

We have allocated a significant part of the Life/Health segment's non-diversified internal risk capital for interest rate risk to Western Europe (47% as of December 31, 2007), mainly to cover traditional life insurance products. Traditional products sold in Western Europe generally feature policyholder participation in the profits (or losses) of the insurance company issuing the contract, subject to a minimum guaranteed crediting rate. In particular, our Life/Health contracts in Germany, France, Switzerland and Austria comprise a significant level of policyholder participation, limiting all sources of risk, including market, credit, actuarial and cost risks, which would otherwise be borne by Allianz. On the other hand, in accordance with the guarantees related to these arrangements, we must credit minimum rates for individual contracts (e.g., in Germany, France, U.S., Italy and South Korea). As interest rates may fall below the guaranteed crediting rates in those markets, we are exposed to interest rate risk. The valuation of these guarantees, which take into account the interaction of investment strategy and obligations to policyholders, forms an integral part of our internal risk capital model.

Banking Segment

The market risk in the non-trading portfolio of the Banking segment comprises interest rate risk and equity risk. The interest rate risk in the non-trading portfolio arises from loans and deposits, issued securities, interest rate related investment securities as well as corresponding hedges and also from long-term fixed rate loans funded in part by short-term deposits. The equity risk arises from available-for-sale securities with equity characteristics. Dresdner Bank manages this risk by setting VaR limits. At December 31, 2007, the Dresdner Bank diversified VaR, with a 99% confidence level and 10-day holding period, for market risks in the non-trading portfolio amounted to 15.8 million, compared to 15.5 million at December 31, 2006.

Asset Management segment

Although the internal risk capital requirements for the Asset Management segment only reflect business risk, the evaluation of market risk and credit risk on the account of third parties is an integral part of the risk management process of our local operating entities. Our Asset Management operating entities monitor market risks using VaR models, sensitivity analyses and stress tests that estimate the potential loss under extreme market conditions. All underlying models are regularly reviewed by the risk departments of the respective local operating entities.

Corporate segment

The primary Corporate risks are interest rate, equity and foreign currency risks. The Corporate segment manages the equity investments of Allianz SE and its finance subsidiary holding companies, as well as securities issued to fund the capital requirements of the Allianz Group. The issued securities include structured products that might be partly repaid with equity participation securities held in our asset portfolio. Some of the securities issued qualify as eligible capital for existing regulatory solvency requirements to the extent they constitute subordinated debt or are perpetual in nature.

On the level of the Corporate segment we are exposed to foreign currency risk because some of our subsidiaries' local currencies are different from the Euro. If non-Euro foreign exchange rates decline against the Euro, from a Group perspective, the Euro equivalent net asset values also decline. Our primary exposures to foreign currency risk are related to the U.S. Dollar, Swiss Franc and South Korean Won.

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Trading portfolios

The trading portfolios of the Allianz Group consist of all assets and liabilities classified as held for trading positions, most of which are to be found in the Banking segment. Activities in the Property-Casualty, Life/Health and Corporate segments designated as trading for accounting purposes relate mainly to hedging instruments for our insurance liabilities; in general, we do not actively trade structural hedge positions and they are not internally classified as trading. Trading activities in the Asset Management segment are immaterial. In our worldwide hedging and trading activities, the Allianz Group uses financial derivatives for the management of market risks and as a component of structured financial transactions. In terms of volume, the primary derivative products entered into by the Allianz Group are interest rate swaps, futures and options as well as foreign exchange forwards and equity derivatives.

Property-Casualty, Life/Health and Corporate segments

The Property-Casualty, Life/Health and Corporate segments generally do not engage in trading activities. In general, for accounting purposes and from a management perspective, financial instruments are classified as held-for-trading if they are financial assets or financial liabilities that are acquired or incurred for the purpose of selling or repurchasing them in the near term. For accounting purposes, however, all derivative instruments must be classified as trading regardless of their specific use within the business or of whether management intends to sell or repurchase them in the near term, and as such, the accounting classification may differ from Allianz Group's management view. The market risk data for the trading portfolios of these segments reflects risks related to such derivatives that are required to be treated as trading for accounting purposes. However, derivatives used in the Allianz Group's insurance operations and in the Corporate segment are principally used for hedging and not for trading purposes, and, as such, from a management perspective, we do not view them as trading.

Banking segment

The Banking segment is active in trading equities, interest rate instruments, foreign exchange, commodities and derivatives. The Banking segment

uses derivatives in its trading portfolios primarily to meet customer demands as well as to hedge market and credit risks. Derivatives are also used to take advantage of market opportunities. Dresdner Bank has expanded its use of credit and foreign exchange derivatives in order to meet client demands in this product field.

Although our internal risk capital model generally uses a one-year holding period and a confidence level of 99.93% for local operating entities, Dresdner Bank calculates market VaR figures based on different confidence level and holding period assumptions for its regulatory reporting as well as for the purposes of internal limit setting and risk management. These assumptions take into account that Dresdner Bank's trading portfolio can be transferred significantly faster than insurance liabilities.

Dresdner Bank's VaR model, which is used to evaluate capital adequacy for regulatory purposes and which produces the input for the Group's internal risk capital model, applies a confidence level of 99% and a 10-day holding period. This model has been approved by the German regulator, BaFin. For the purpose of risk management and internal limit setting, Dresdner Bank calculates its VaR with a confidence level of 95% and a one-day holding period. Unlike the VaR calculation required by the BaFin, this model assigns greater weight to the most recent market fluctuations. In doing so, Dresdner Bank endeavors to reflect current market trends on a timely basis.

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VaR is only one of the instruments used to characterize and control the market risk profile of Dresdner Bank. In addition, Dresdner Bank uses operational risk indicators and limits that are specifically adapted to the risk situation of the trading units. Current limit utilization is determined and monitored on a daily basis. Limit breaches, if any, are immediately communicated to management so that corrective action can be taken.

The VaR for market risks within Dresdner Bank's trading portfolio is calculated based on the industry-standard and Basel II compliant confidence level of 99% and holding period of 10 days. The Dresdner Bank diversified VaR amounted to 44 million at December 31, 2007, compared to 57 million at December 31, 2006. This decrease was mainly caused by lower interest rate risks due to an adjusted risk exposure.

Table of Contents**VaR Statistics for Market Risks within Dresdner Bank's Trading Portfolio (99% Confidence Level, 10-day Holding Period)**

| | 2007 | 2006 | 2007 | | | 2006 | | |
|----------------------------------|--------------------|------------|--------------------|-----------|-----------|--------------------|-----------|-----------|
| | As of December 31, | | Over daily results | | | Over daily results | | |
| | mn | mn | Average | High | Low | Average | High | Low |
| | mn | mn | mn | mn | mn | mn | mn | mn |
| Non-diversified | 85 | 100 | 83 | (1) | (1) | 87 | (1) | (1) |
| Interest rate | 30 | 43 | 35 | 55 | 22 | 51 | 77 | 32 |
| Equity | 41 | 44 | 32 | 63 | 15 | 23 | 85 | 8 |
| Commodity | 5 | 4 | 5 | 34 | 3 | 3 | 17 | 1 |
| Currency | 9 | 9 | 11 | 22 | 3 | 10 | 25 | 1 |
| Dresdner Bank diversified | 44 | 57 | 42 | 67 | 26 | 46 | 89 | 26 |

(1) The high and low values for non-diversified VaR can not be reasonably calculated as a sum, since the single values are measured on different dates.

These market risks are integrated into the Allianz Group-wide internal risk capital model. To this end, Dresdner Bank converts its VaR calculated using a 99% confidence interval and 10-day holding period to match Allianz's Group-wide internal risk capital standards for time horizon (one year) and confidence level (99.93%). The conversion is based on the methodology used by industry regulators to convert VaR into regulatory capital requirements. Through this conversion, we achieve the comparability and integration of Dresdner Bank results into the Group-wide analysis.

Contributions of trading and non-trading portfolios

The following tables show the contribution of non-trading and trading positions to the overall internal risk capital for market risks of the Allianz Group. The figures take into account the diversification effect for all the main sources of risk addressed in our internal risk capital model. Certain financial instruments are included in more than one risk category because they may be affected by changes in more than one parameter. For example, equities denominated in non-Euro currencies are affected by fluctuation in both stock prices and exchange rates.

Table of Contents**Allocated Internal Market Risk Capital By Business Segment and Source of Risk****Non-Trading Portfolio Before Minority Interests and After Group Diversification**

| As of December 31, | 2007 | 2006 |
|---------------------------------------|---------------|---------------|
| | mn | mn |
| Property-Casualty | 6,360 | 8,307 |
| Interest rate | 265 | 418 |
| Equity | 5,396 | 7,237 |
| Real estate ⁽¹⁾ | 673 | 617 |
| Currency ⁽²⁾ | 26 | 35 |
| Life/Health | 2,625 | 3,014 |
| Interest rate | 205 | 383 |
| Equity | 2,212 | 2,385 |
| Real estate ⁽¹⁾ | 208 | 246 |
| Currency ⁽²⁾ | 0 | 0 |
| Banking | 1,885 | 2,030 |
| Interest rate | 11 | 47 |
| Equity | 1,743 | 1,818 |
| Real estate ⁽¹⁾ | 76 | 165 |
| Currency ⁽³⁾ | 55 | 0 |
| Asset Management⁽⁴⁾ | 0 | 0 |
| Corporate | 2,482 | 3,604 |
| Interest rate | 159 | 394 |
| Equity | 1,029 | 1,872 |
| Real estate ⁽¹⁾ | 131 | 55 |
| Currency ⁽²⁾ | 1,163 | 1,283 |
| Total | 13,352 | 16,955 |

(1) All real estate assets are non-trading.

(2) Foreign currency risks are mainly allocated to the Corporate segment (please see Internal Risk Capital Framework Scope for further information).

(3) As commodity risk is not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(4) The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

Table of Contents**Allocated Internal Market Risk Capital By Business Segment and Source of Risk****Trading Portfolio Before Minority Interests and After Group Diversification**

| As of December 31, | 2007 | 2006 |
|---------------------------------------|------------|------------|
| | mn | mn |
| Property-Casualty | 117 | 72 |
| Interest rate | 5 | 9 |
| Equity | 112 | 63 |
| Real estate ⁽¹⁾ | 0 | 0 |
| Currency ⁽²⁾ | 0 | 0 |
| Life/Health | 211 | 230 |
| Interest rate | 1 | 0 |
| Equity | 210 | 230 |
| Real estate ⁽¹⁾ | 0 | 0 |
| Currency ⁽²⁾ | 0 | 0 |
| Banking | 77 | 60 |
| Interest rate | 9 | 8 |
| Equity | 61 | 47 |
| Real estate ⁽¹⁾ | 0 | 0 |
| Currency ⁽³⁾ | 7 | 5 |
| Asset Management⁽⁴⁾ | 0 | 0 |
| Corporate | 156 | 140 |
| Interest rate | 0 | 0 |
| Equity | 122 | 138 |
| Real estate ⁽¹⁾ | 0 | 0 |
| Currency ⁽²⁾ | 34 | 2 |
| Total | 561 | 502 |

(1) All real estate assets are non-trading.

(2) Foreign currency risks are mainly allocated to the Corporate segment (please see Internal Risk Capital Framework Scope for further information).

(3) As commodity risk is not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(4) The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

Table of Contents**Credit Risk**

Credit risk arises from claims against various obligors such as borrowers, counterparties, issuers, guarantors and insurers. Losses may result from the following events:

Changes in creditworthiness of an obligor, including ultimately its failure to meet payment obligations (default and migration risk);

Default on local government debt or temporary suspension of payment obligations (moratorium), deterioration of economic or political conditions, expropriation of assets, inability to transfer assets abroad due to sovereign intervention, etc. (country risk including transfer risk); and

Failure in the settlement of transactions (settlement risk).

Group Risk s obligor credit risk management framework is comparable to those widely used in the industry and is based on internal ratings, estimates of exposure at default (EAD) and loss given default

(LGD). These measurements are all estimated using statistical analysis and professional judgment. Our aggregation methodology is comparable to approaches widely used in the industry known as structural model . In a structural model, a counterparty is deemed to have defaulted when the value of its total assets is lower than its total liabilities. Since changes in the asset value of a company determine whether it defaults or migrates from one credit class to another, the correlation between different firms asset values determines the correlation between the firms defaults and migrations. Estimating these parameters allows us to aggregate credit risk across individual obligors using Monte-Carlo simulations to obtain the loss profile of a given portfolio i.e., its loss probability distribution. The loss profile is the basis of our internal credit risk capital model.

We monitor and manage credit risks pursuant to a limit system applicable to the entire Allianz Group. The limit system aggregates major risks having Group-wide significance such as credit insurance, lending, reinsurance recoverables and our fixed income investments and serves as the basis for controlling the risk on an Allianz Group-wide basis.

Allocated Internal Credit Risk Capital By Business Segment and Source of Risk**Total Portfolio Before Minority Interests**

| As of December 31, | Non-diversified | | Group diversified | |
|---|-----------------|--------------|-------------------|--------------|
| | 2007 mn | 2006 mn | 2007 mn | 2006 mn |
| Total Group | 7,983 | 8,005 | 5,701 | 5,767 |
| Percentage of total Group internal risk capital | 11% | 11% | 17% | 16% |
| Investment | 5,839 | 5,949 | 4,128 | 4,307 |
| Reinsurance | 2,144 | 2,056 | 1,573 | 1,460 |

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| | | | | |
|---------------------------------------|------------|------------|------------|------------|
| Property-Casualty | 2,779 | 2,583 | 2,016 | 1,844 |
| Investment | 832 | 719 | 588 | 521 |
| Reinsurance | 1,947 | 1,864 | 1,428 | 1,323 |
| Life/Health | 936 | 949 | 668 | 685 |
| Investment | 739 | 757 | 523 | 548 |
| Reinsurance | 197 | 192 | 145 | 137 |
| Banking | 4,216 | 4,470 | 2,981 | 3,236 |
| Asset Management⁽¹⁾ | 0 | 0 | 0 | 0 |
| Corporate | 52 | 3 | 36 | 2 |

⁽¹⁾ The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

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In spite of the overall difficult credit market worldwide in the second half of 2007, our internal credit risk capital remained rather stable in 2007 in comparison with 2006, mainly due to risk mitigating measures such as the closing of a non-investment grade commercial paper portfolio at Dresdner Bank early in 2007.

Property-Casualty, Life/Health and Corporate segments

In the Property-Casualty and Life/Health segments, credit risks arising from reinsurance counterparties are considered separately from issuer and counterparty risks arising from our investment activities, though the same methodology is applied. For the Corporate segment, our internal risk capital model covers only investment credit risk, as reinsurance activities are generally allocated to the Property-Casualty segment.

Reinsurance credit risk

Reinsurance credit risk also covers the premium risk which our credit insurance entity Euler Hermes is exposed to due to its business model, as this type of risk is a special form of credit risk. As of December 31, 2007, it represented 61% of our total Group non-diversified internal risk capital allocated to credit reinsurance risk.

We take steps to 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 with strong credit profiles. We may also require letters of credit, cash deposits or other financial measures to further mitigate our exposure to credit risk. To manage the related credit risk, we compile Allianz Group-wide data on potential and actual recoverables in respect of reinsurance losses. At December 31, 2007, 77% of the Allianz Group's reinsurance recoverables were distributed among reinsurers that had been assigned at least an A rating by Standard & Poor's. Non-rated reinsurance recoverables represented 23% of the total reinsurance recoverables at December 31, 2007, which is a reduction of 8% in non-rated exposure from December 31, 2006. Reinsurance recoverables

without Standard & Poor's rating include exposures to brokers, companies in run off and pools, where no rating is available, and companies rated by A.M. Best.

As of December 31, 2007, 13% of our total Group non-diversified internal risk capital allocated to credit reinsurance risk was assigned to our operating entities in the U.S.

Reinsurance recoverables by rating class⁽¹⁾ as of

December 31, 2007

in bn

⁽¹⁾ Represents gross exposure broken down by reinsurer.

Investment credit risk

As of December 31, 2007, our operating entities in the U.S. accounted for 20% of the non-diversified internal risk capital allocated to our Property-Casualty, Life/Health and Corporate segments for credit investment risk.

We limit the credit risk of our fixed income investments by setting high requirements on the creditworthiness of our issuers, by diversifying our investments and by setting limits for credit concentrations. We track the+ limit utilization by consolidating and monitoring our exposure across individual debtors and across all investment categories and business segments on a monthly basis. At December 31, 2007, approximately 95% of the fixed income investments of the insurance companies of the Allianz Group had an investment grade rating and approximately 90% of these investments were distributed among obligors that had been assigned at least an A rating by Standard & Poor's.

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Fixed income investments by rating class as of

December 31, 2007

fair values in bn

In addition to these fixed income investments, Allianz Group has also non-tradable mortgage loan portfolios in Germany and the U.S. At December 31, 2007, 98% of the German mortgage portfolio obligors were assigned a Standard & Poor's equivalent investment grade rating of at least A based on an internal scoring. The U.S. commercial mortgage loan investments are subject to thorough credit assessment and conservative underwriting by the responsible credit managers. There have been no delinquent or foreclosed non-tradeable commercial mortgage loans since 1994, and we thus regard the portfolio as investment grade. The North American Allianz insurance companies have a residential mortgage portfolio exposure of less than \$2,000,000.

Banking segment

As of December 31, 2007, approximately half (51%) of total Group non-diversified internal credit risk capital was represented by Dresdner Bank. In the Banking segment, credit risks include default and migration risks arising from the lending and securities business and our derivatives trading activities; for the latter, settlement risk is additionally taken into account. Furthermore, credit risks include country (and transfer) risk.

We use our customers' credit ratings as the central element for our approval, monitoring and control process. In this process, the creditworthiness of our customers is represented in the form of rating classes with each class representing a different average probability of default. We use a system with 16 distinct rating classes: 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 Basel II definition. We assess and improve our rating procedures on an ongoing basis.

The total credit risk exposure of Dresdner Bank of 299 billion includes loan limits from lending business and market values of trading positions, which for derivatives is the positive replacement value plus risk-based add-ons to reflect possible future changes in market prices. At December 31, 2007, approximately 74.6% of total credit risk exposure of Dresdner Bank was included in the rating classes I to VI, compared to 77.1% at December 31, 2006.

Credit profile of Dresdner Bank's rated portfolio as of

December 31, 2007

in %

Despite the difficult market conditions in certain business segments especially in the second half of the year loan volumes and quality remained stable. The implementation of a value-oriented growth strategy as well as further enhancements in loan processes contributed to this stable development. At December 31, 2007, approximately 68% (2006: 68%) of Dresdner Bank's loans (measured by limits) were with investment grade obligors.

In line with the observed portfolio quality, our total volume of problem loans and potential problem loans (measured by usage), which are two additional indicators for the quality of the loan portfolio, decreased from approximately 2.0 billion at December 31, 2006 to 1.8 billion at December 31, 2007.

Asset Management segment

As part of the investment management process, the Asset Management segment's entities assess credit risk affecting their customers' portfolios.

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Though our asset management companies do not engage in any lending transactions, counterparty risks can arise in certain circumstances, such as with broker-related over-the-counter transactions. Our asset management companies analyze the creditworthiness of their counterparties and set limits per counterparty based on objective criteria.

Actuarial Risk

Actuarial risks consist of premium and reserve risks in the Property-Casualty segment as well as biometric risks in our Life/Health segment. In the Banking and Asset Management segments, actuarial risks are not relevant. Although the Corporate segment provides some guarantees that transfer small parts of the actuarial risk away from local entities, such risk is primarily transferred by internal reinsurance and allocated to the Property-Casualty segment.

Allocated Internal Actuarial Risk Capital by Business Segment and Source of Risk⁽¹⁾**Total Portfolio Before Minority Interests**

| As of December 31, | Non-diversified | | Group diversified | |
|---|-----------------|---------------|-------------------|--------------|
| | 2007 mn | 2006 mn | 2007 mn | 2006 mn |
| Total Group | 23,038 | 21,928 | 6,521 | 5,846 |
| Percentage of total Group internal risk capital | 32% | 29% | 20% | 16% |
| Premium CAT | 5,780 | 5,261 | 1,077 | 831 |
| Premium non-CAT | 8,284 | 8,315 | 3,249 | 3,172 |
| Reserve | 8,037 | 7,485 | 2,170 | 1,823 |
| Biometric | 937 | 867 | 25 | 20 |
| Property-Casualty | 21,705 | 20,981 | 6,389 | 5,807 |
| Life/Health | 950 | 947 | 29 | 39 |
| Corporate⁽²⁾ | 383 | 0 | 103 | 0 |

(1) As risks are measured by an integrated approach on an economic basis, internal risk capital takes reinsurance effects into account.

(2) Allianz SE has a conditional commitment to make capital payments to Fireman's Fund Insurance Co. In particular, Allianz SE is required to make these payments in case of future negative developments of the reserves for the year 2003 and before. They are limited to US Dollar 1.1 billion.

Internal reserve risk capital increased, as we changed the reinsurance structure and further improved our internal risk capital model. The rise of the internal premium catastrophe risk capital was mainly due to an enhancement of the respective simulation models and their coverage.

The table below presents the average internal risk capital calculated for actuarial risks over the four quarters of 2007 and 2006, as well as the high and low quarterly internal risk capital amounts calculated in both years.

Average, High and Low Allocated Internal Actuarial Risk Capital by Source of Risk

Total Portfolio Before Minority Interests and After Group Diversification

| | 2007 | | | 2006 | | |
|--------------------|------------------------|--------------|--------------|------------------------|--------------|--------------|
| | Over quarterly results | | | Over quarterly results | | |
| | Average mn | High mn | Low mn | Average mn | High mn | Low mn |
| Total Group | 6,311 | 6,521 | 6,111 | 6,166 | 6,752 | 5,846 |
| Premium CAT | 1,007 | 1,077 | 953 | 887 | 993 | 828 |
| Premium non-CAT | 3,210 | 3,249 | 3,143 | 3,334 | 3,677 | 3,172 |
| Reserve | 2,071 | 2,170 | 1,984 | 1,926 | 2,063 | 1,823 |
| Biometric | 23 | 25 | 21 | 20 | 20 | 18 |

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Property-Casualty segment

A substantial portion of the Property-Casualty segment's non-diversified internal actuarial risk capital was assigned to our operating entities in Germany, Italy, France and the U.S. (47% as of December 31, 2007).

Premium risk

Premium risk represents risk that, during a one-year time horizon, underwriting profitability is less than expected. Such risk is subdivided into catastrophe risk (CAT risk) and non-catastrophe risk (non-CAT risk). We primarily quantify and manage premium risk based on actuarial models that are used to derive loss distributions for each risk.

Natural disasters such as earthquakes, storms and floods represent a special challenge for risk management due to their accumulation potential and occurrence volatility. In order to measure such risks and better estimate the potential effects of natural disasters, we use special modeling techniques in which we combine data about our portfolio (such as the geographic distribution and characteristics of insured objects and their values), with simulated natural disaster scenarios to estimate the magnitude and frequency of potential losses. Where such models do not exist (for example, hail risk in Germany), we use a scenario-based methodology.

Nearly a third (31% as of December 31, 2007) of the non-diversified internal premium risk capital allocated to natural catastrophe risk was borne by our operating entities in Germany and the U.S. Our exposure to losses from European windstorm is our largest exposure to natural catastrophe, followed by U.S. hurricane and California earthquake.

Our loss potential net of reinsurance for European wind-storm is approximately 900 million, measured at a probability level of once in 250 years (i.e., 0.4%).

Reserve risk

Reserve risk represents the risk of losses emerging on claims provisions over a one-year time

horizon. We measure and manage reserve risks by constantly monitoring the development of the provisions for insurance claims and change the provision for reserves in line with actuarial standards if necessary. We use approaches that are similar to the methods used for setting the reserves.

Life/Health segment

Biometric risk

We consider mortality and longevity risks which can cause variability in policyholder benefits resulting from the unpredictability of the (non-)incidence of death and the timing of its occurrence. For modeling these risks within our internal risk capital model, we distinguish level, trend and calamity risk. Biometric assumptions, such as life expectancy, play a significant role. To the extent available, we use assumptions approved by supervisory authorities and actuarial associations to enhance our models.

Due to the offsetting effects of mortality risk and longevity risk inherent in the combined portfolios of life insurance and annuity products, as well as due to a geographically diverse portfolio, our Life/Health segment does not have significant concentrations of biometric risk.

Business Risk

Business risks consist of operational risks and cost risks. Operational risks represent the loss resulting from inadequate or failed internal processes, or from personnel and systems, external events (such as interruption of business operations due to a break-down of electricity or a flood), damage caused by employee fraud or the losses caused by court cases. Operational risks do not include strategic risk and reputational risks, which are excluded in accordance with the requirements of Solvency II and Basel II. Cost risks consist of unanticipated fluctuations in earnings arising from a decline in income without a corresponding decrease in expenses and include the risk of budget deficits resulting from lower revenues or higher costs than budgeted.

Table of Contents**Allocated Internal Business Risk Capital by Business Segment****Total Portfolio Before Minority Interests**

| As of December 31, | Non-diversified | | Group diversified | |
|---|-----------------|---------------|-------------------|--------------|
| | 2007 mn | 2006 mn | 2007 mn | 2006 mn |
| Total Group | 18,365 | 18,145 | 7,233 | 6,716 |
| Percentage of total Group internal risk capital | 25% | 24% | 22% | 19% |
| Property-Casualty | 6,425 | 6,480 | 2,064 | 1,941 |
| Life/Health | 4,288 | 3,896 | 1,840 | 1,509 |
| Banking | 1,630 | 1,497 | 634 | 570 |
| Asset Management ⁽¹⁾ | 5,576 | 5,662 | 2,621 | 2,605 |
| Corporate | 446 | 610 | 74 | 91 |

⁽¹⁾ The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

The increase of internal business risk capital for the Life/ Health segment is mainly due to expanding the scope of our internal risk capital model by systematically taking into account the unit-linked business in our operating entities. In addition, the regular update of assumptions (e.g., lapse and mortality rates) at the beginning of the year contributed to the overall increase, as we take into account the experience of the previous year when determining the adverse scenarios.

Internal business risk capital for the Asset Management segment remained to be the highest Group-diversified figure compared with other segments. This is due to the high volume of third party assets under management coupled with the inherent conservative risk factor incorporated within the aforementioned approach similar to Standard & Poor's standard model. As discussed, because substantially all of the investments managed by the Asset Management segment are held for the benefit of either third parties or Allianz insurance entities, we are not exposed to significant market and credit risk in the Asset Management segment. As a result, the internal risk capital requirements for the Asset Management segment only reflect business risk.

Allianz has developed a Group-wide operational risk framework that focuses on early recognition and pro-active management of operational risks. The framework defines roles and responsibilities, risk processes and methods and has been implemented at the major Allianz Group companies. Local risk managers ensure this framework is implemented in the respective operating entities.

The operating entities identify and evaluate relevant operational risks and control weaknesses through a bottom-up approach via a structured self assessment. Complementing our pro-active local management approach, operational losses are collected in a central loss database and an analysis of the causes for significant losses is used to enable the operating entities to implement measures to avoid or reduce future losses. The measures adopted may include revising processes, improving failed or inappropriate controls, installing comprehensive security systems and strengthening emergency plans. This structured reporting is designed to provide comprehensive and timely information to senior management of the relevant local operating entities.

Other Risks

There are certain risks that cannot be fully quantified across the Group using our internal risk capital model. For these risks, we also pursue a systematic approach with respect to identification, analysis, assessment and monitoring. In general, the risk assessment is based on qualitative criteria or scenario analyses. The most important of these other risks include liquidity, reputational and strategic risk.

Liquidity risk

Liquidity risk is the risk that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the event of a company liquidity crisis, refinancing is only possible at higher interest rates or that assets may have to be liquidated at a

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discount. This risk can arise primarily if there are mismatches in the timing of cash payments and funding obligations. Liquidity risk does not include the risk of a change in market prices due to a worsening of the market liquidity of assets, as this is a component of market risk analyzed through our internal risk capital model (e.g., the assumed volatility of real estate investments takes into account historical observations). Funding risk, a particular form of liquidity risk, arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Corporate segment

On the Group level, liquidity risks arise mainly from capital requirements of subsidiaries and necessary refinancing of expiring strategic financial liabilities. The liquidity position of Allianz SE is monitored on a daily basis and reported to the Board of Management regularly. The main tools to limit unforeseen liquidity requirements are committed credit lines from banks, commercial paper facilities, medium-term debt issuance programs, access to the market of sale and repurchase agreements (the so-called Repo market) as well as internal resources in the form of intra-Group loans and an international cash pooling infrastructure.

Property-Casualty and Life/Health segments

Our insurance operating entities manage liquidity risk locally, using local asset-liability management systems designed to ensure that assets and liabilities are adequately matched. To the extent available, the approaches used to project the liability cash flows for the Property-Casualty segment are similar to the methods used for setting reserves.

Liquidity risk in our insurance segments is a secondary risk following external events, such as natural disasters, that are generally reflected in our internal risk capital model. Therefore, limiting and monitoring of the associated primary risks (such as through the use of reinsurance) also helps limit our liquidity risk related to such events. The quality of our investments also provides comfort that we can meet high liquidity requirements in unlikely events. Furthermore, in the case of an extraordinary event, a portion of the applicable payments may usually be made with a certain time lag, which reduces the risk that short-term current payment obligations cannot be

met. We employ actuarial methods for estimating our liabilities arising from insurance contracts. In the course of standard liquidity planning we reconcile the cash flows from our investment portfolio with the estimated liability cash flows. These analyses are performed on the operating entity level and aggregated at the Group level. Excess liquidity is centrally pooled on the Group level and can be transferred to single operating entities if necessary.

Banking segment

In this segment, the treasury function is responsible for liquidity management and the risk function is responsible for monitoring liquidity risk for regulatory as well as internal purposes. Liquidity risk monitoring includes a reporting process for limit breaches and provisions for emergency planning. Liquidity risk measurement is based on Dresdner Bank's liquidity management system, which models the maturities of all cash flows under different scenario assumptions and compiles a maturity mismatch profile (i.e., net cash flow for different maturities) taking into account available prime-rated securities as additional source of liquidity. Limits on liquidity gaps are established to manage short-term liquidity risk. Funding ratio limits are established for managing medium- and long-term structural liquidity risk for maturities of more than one year.

Asset Management segment

We limit liquidity risk by continually reconciling the cash flows from our operating business with our commitments to pay liabilities. Forecasting and managing liquidity is a regular process, designed to meet both regulatory requirements and Allianz Group standards.

Reputational risk

Reputational risk is the risk of direct loss or loss in future business caused by a decline in the reputation of the Allianz Group or one or more of its specific operating entities from the perspective of its stakeholders – shareholders, customers, staff, business partners or the general public. First, every action, existing or new transaction or product can lead to losses in the value of our reputation, either directly or indirectly, and can also result in losses in other risk categories. Second, every loss in other risk categories, irrespective of its size, can pose

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reputational risk to the Allianz Group. Therefore, reputational risk can both cause and result from losses in all risk categories such as market or credit risks.

Group Risk identifies and assesses this risk qualitatively as part of a quarterly evaluation. On the basis of this evaluation, Group Risk creates an overview of local and global risks which also includes reputational risks, analyses the risk profile of the Allianz Group and regularly informs management about the current situation.

Strategic risk

Strategic risk is the risk of an unexpected negative change in the company value, arising from

the adverse effect of management decisions on both business strategies and their implementation. This risk is a function of the compatibility between strategic goals, the business strategies developed to achieve those goals and the resources deployed to achieve those goals. Strategic risk also includes the ability of management to effectively analyze and react to external factors, which could impact the future direction of the relevant operating entity.

These risks are evaluated and analyzed quarterly in the same way as reputational risk.

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Outlook

We plan to continue to strengthen our risk management framework and systems in 2008. In particular, we are striving to constantly improve our accumulation monitoring systems, particularly those related to natural and man-made catastrophes, and are continuing to develop and extend our modeling capabilities for catastrophe risk.

In 2007, a key initiative started to consolidate infrastructure and to establish a best practice technical platform. Once fully operational, this platform will allow for efficient and auditable processes and enhanced capabilities to analyze, aggregate and manage risks across the Group.

In early 2008, we introduced our enhanced internal risk capital model for the purpose of quarterly risk reporting and risk related-performance measurement EVA in the Life/ Health segment. The enhanced model is part of an integrated approach addressing also the calculation of Market Consistent Embedded Value (MCEV), which, on an economic basis, is considered the shareholders' future profit embedded in the issued Life/Health business. This model change, applied per January 1, 2008, is expected to result in an increase of Group diversified internal risk capital for the Life/Health segment by approximately 2.2 billion.

In 2007, we reviewed the risk factor incorporated within the model used to derive business risk capital for the Asset Management segment. As a result, a level of conservatism within this factor will be reduced starting in 2008 to better reflect the risk capital needs of this segment.

Solvency II is a major European project and is expected to lead to significant changes to the European insurance solvency requirements in the coming years; therefore, the Allianz Group is actively participating in the process. We are continuously providing feedback on the proposals and analyses of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the EU Commission. Furthermore, we participate in the Quantitative Impact Studies and give technical advice, for instance, through the Chief Risk Officer Forum, which is comprised of the Chief Risk Officers of the major European insurance companies and financial conglomerates. It is our aim to have our

internal risk capital model, as well as our risk management practices, comply with the forthcoming internal and supervisory requirements at an early stage, and accordingly, we are constantly reviewing them on the basis of the evolving standards.

ITEM 12. Description of Securities other than Equity Securities

Not applicable

ITEM 13. Defaults, Dividend Arrearages and Delinquencies

None

ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None

ITEM 15. Controls and Procedures

For its fiscal year ending December 31, 2007, Allianz performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. In doing so, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired control objectives. Allianz's management is required to apply judgment in evaluating the risks facing Allianz in achieving its objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of the risks concerned materializing, in identifying its ability to reduce the incidence and impact of the risks that do materialize and in ensuring the costs of operating particular controls are proportionate to the benefit.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated Allianz's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, in light of the judgments noted above as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that these disclosure controls and procedures provided reasonable assurance as to effectiveness as of December 31, 2007.

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Management's Annual Report on Internal Control Over Financial Reporting

The management of Allianz is responsible for establishing and maintaining adequate internal control over financial reporting. Allianz's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS¹⁾).

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Allianz; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, that our receipts and expenditures are being made only in accordance with the authorizations of the management and the directors of Allianz; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Allianz's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on this assessment, Allianz's management has concluded that Allianz maintained effective internal control over financial reporting as of December 31, 2007.

Report of Independent Registered Public Accounting Firm

To the Board of Management and Supervisory Board of Allianz SE:

We have audited Allianz SE and its subsidiaries (collectively, the Allianz Group) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Allianz Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Allianz Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted

⁽¹⁾ as issued by the IASB and adopted by the European Union

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accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Allianz Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Allianz Group as of December 31, 2007 and 2006, and the related consolidated income statements, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2007 including the disclosures provided in the Qualitative and Quantitative Disclosures about Market Risk on pages 167 to 189, and our report dated March 19, 2008, expressed an unqualified opinion on those consolidated financial statements.

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

Munich, Germany

March 19, 2008

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during fiscal year 2007, which have materially

affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 16A. Audit Committee Financial Expert

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Our Supervisory Board has determined that Dr. Franz B. Humer, Dr. Wulf H. Bernotat and Igor Landau meet the criteria of an audit committee financial expert, as that term is defined in Item 16A(b) of Form 20-F. Dr. Franz B. Humer, Dr. Wulf H. Bernotat and Igor Landau are independent members of the Supervisory Board in accordance with NYSE listing standards applicable to Allianz SE.

ITEM 16B. Code of Ethics

In response to Section 406 of the Sarbanes-Oxley Act of 2002, we have adopted a specific Code of Ethics in addition to our general Code of Conduct that applies to all members of our Board of Management, including persons performing the functions of a principal executive officer, principal financial officer, principal accounting officer and controller and senior employees performing similar functions. A copy of this code of ethics is available on our Internet website www.allianz.com/corporate-governance. (Reference to this uniform resource locator or URL is made as an inactive textual reference for informational purposes only. The information found at this website is not incorporated by reference into this document). There have been no amendments or waivers to this code of ethics since its adoption. Information regarding any future amendments or waivers will be published on the aforementioned website.

ITEM 16C. 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 aggregate fees billed for each of the last two fiscal years by KPMG DTG or KPMG DTG and the world wide member firms of KPMG International (or KPMG) in the following categories: (i) Audit Fees, which comprise fees billed for services rendered for the audit of the Allianz Group's consolidated financial

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statements, the statutory audits of the financial statements of Allianz SE 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 advice and tax compliance; 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

| | 2007 mn | 2006 mn |
|----------------------|------------|------------|
| Audit fees | 49.0 | 57.8 |
| Audit-related fees | 9.8 | 8.1 |
| Tax fees | 4.2 | 6.0 |
| All other fees | 4.1 | 7.0 |
| Total ⁽¹⁾ | 67.1 | 78.9 |

⁽¹⁾ Fees attributable to KPMG DTG and affiliated entities for audit fees were 24.3 mn (2006: 24.7), audit-related fees 7.9 mn (2006: 3.6 mn), tax fees 2.7 mn (2006: 2.7 mn) and all other fees 2.5 mn (2006: 3.6 mn) for the year ended December 31, 2007. Effective October 1, 2007, KPMG operations in Germany and the United Kingdom became affiliated entities. Fee amounts pertaining to the year 2007 therefore include both entities.

Audit Fees KPMG billed the Allianz Group an aggregate of 49.0 million in 2007 and 57.8 million in 2006 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 9.8 million in 2007 and 8.1 million in 2006 for assurance and related services. These services consisted primarily of advisory and consulting services related to accounting and financial reporting standards and financial due diligence services.

Tax fees KPMG billed the Allianz Group an aggregate of 4.2 million in 2007 and 6.0 million in 2006 for professional services, primarily for tax advice.

All other fees KPMG billed the Allianz Group an aggregate of 4.1 million in 2007 and 7.0 million in 2006 for other services, which consisted primarily of general consulting services and other services under the guidance of Allianz Group management.

All services provided by KPMG to Allianz Group companies must be approved by the Audit Committee of the Allianz SE Supervisory Board. Services other than audit services must be pre-approved by the Audit Committee. 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. In 2007, the percentage of the total amount of revenue we paid to our principal accountants represented by non-audit services subject to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X was less than 5%.

ITEM 16D. Exemptions from the Listing Standards for Audit Committees

Our Audit Committee consists of three shareholder representatives and two employee representatives, one of whom is employed by the Allianz Group. With respect to the employee representative employed by the Allianz Group, Allianz SE relies on the exemption afforded by Rule 10A-3(b)(1)(iv)(C) under the Securities Exchange Act of 1934. We believe that such reliance does not materially adversely affect the ability of the Audit Committee to act independently or to satisfy the other requirements of Rule 10A-3.

Table of Contents**ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The table below sets forth the information with respect to purchases made by or on behalf of Allianz SE or any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, of Allianz SE shares for the year ended December 31, 2007.

| Period | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------|--|------------------------------------|--|--|
| January 1/1/07-1/31/07 | | | N/A | N/A |
| February 2/1/07-2/28/07 | | | | |
| March 3/1/07-3/31/07 | | | | |
| April 4/1/07-4/30/07 | | | | |
| May 5/1/07-5/31/07 | | | | |
| June 6/1/07-6/30/07 | | | | |
| July 7/1/07-7/31/07 | | | | |
| August 8/1/07-8/31/07 | | | | |
| September 9/1/07-9/30/07 | | | | |
| October 10/1/07-10/31/07 | | | | |
| November 11/1/07-11/30/07 | 1,025,643 ⁽²⁾ | 154,07 ⁽²⁾ | | |
| December 12/1/07-12/31/07 | | | | |
| Total | 1,025,643 | 154,07 | | |

⁽¹⁾ This table excludes market-making and related hedging purchases by Dresdner Bank and certain other Allianz Group entities. The table also excludes Allianz SE shares purchased by investment funds managed by Allianz Group entities for clients in accordance with investment strategies that are established by fund managers acting independently of Allianz SE.

⁽²⁾ Allianz SE purchased these newly issued shares in connection with the Allianz Group's Employee Stock Purchase Plan.

Table of Contents**PART III****ITEM 17. Financial Statements**

Not applicable.

ITEM 18. Financial Statements

See page F-1 forward for the consolidated financial statements required by this item.

ITEM 19. Exhibits

The following exhibits are filed as part of this annual report:

| Exhibit Number | Document |
|---------------------------|--|
| 1.1 | Statutes of Allianz SE, dated November 2007 |
| 7.1 | Statement regarding ratio of earnings to fixed charges |
| 8.1 | List of subsidiaries |
| 12.1 | Certification of the Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 |
| 12.2 | Certification of the Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 |
| 13.1 | Certification of the Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2 | Certification of the Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002 |
| 14.1 | Consent of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft |

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Report of Independent Registered Public Accounting Firm

To the Board of Management and Supervisory Board of Allianz SE:

We have audited the accompanying consolidated balance sheets of Allianz SE and subsidiaries (collectively, the Allianz Group) as of December 31, 2007 and 2006, and the related consolidated income statements, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2007 including the disclosures provided in the Qualitative and Quantitative Disclosures about Market Risk on pages 167 to 189. In connection with our audits of the consolidated financial statements we have also audited the accompanying financial statement schedules I to IV. These consolidated financial statements and financial statement schedules are the responsibility of the Allianz Group's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing

the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Allianz Group as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with International Financial Reporting Standards, as issued by the IASB and as adopted by the EU. Also in our opinion, the related financial statement schedules referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Allianz Group's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 19, 2008, expressed an unqualified opinion on the effectiveness of the Allianz Group's internal control over financial reporting.

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

Munich, Germany

March 19, 2008

Table of Contents**Allianz Group****Consolidated Balance Sheets**

| As of December 31, | Note | 2007 mn | 2006 mn |
|---|-------------|--------------------|--------------------|
| ASSETS | | | |
| Cash and cash equivalents | 6 | 31,337 | 33,031 |
| Financial assets carried at fair value through income ¹⁾ | 7 | 185,461 | 198,992 |
| Investments ²⁾ | 8 | 286,952 | 298,134 |
| Loans and advances to banks and customers | 9 | 396,702 | 423,765 |
| Financial assets for unit linked contracts | | 66,060 | 61,864 |
| Reinsurance assets | 10 | 15,312 | 19,360 |
| Deferred acquisition costs | 11 | 19,613 | 19,135 |
| Deferred tax assets | 41 | 4,771 | 4,727 |
| Other assets | 12 | 41,528 | 38,001 |
| Intangible assets | 13 | 13,413 | 13,072 |
| Total assets | | 1,061,149 | 1,110,081 |
| LIABILITIES AND EQUITY | | | |
| Financial liabilities carried at fair value through income | 14 | 126,053 | 121,822 |
| Liabilities to banks and customers | 15 | 336,494 | 376,565 |
| Unearned premiums | 16 | 15,020 | 14,868 |
| Reserves for loss and loss adjustment expenses | 17 | 63,706 | 65,464 |
| Reserves for insurance and investment contracts | 18 | 292,244 | 287,032 |
| Financial liabilities for unit linked contracts | 19 | 66,060 | 61,864 |
| Deferred tax liabilities | 41 | 3,973 | 4,588 |
| Other liabilities | 20 | 49,324 | 49,764 |
| Certificated liabilities | 21 | 42,070 | 54,922 |
| Participation certificates and subordinated liabilities | 22 | 14,824 | 16,362 |
| Total liabilities | | 1,009,768 | 1,053,251 |
| Shareholders' equity | 23 | 47,753 | 49,650 |
| Minority interests | 23 | 3,628 | 7,180 |
| Total equity | | 51,381 | 56,830 |
| Total liabilities and equity | | 1,061,149 | 1,110,081 |

¹⁾ As of December 31, 2007, 23,163 mn are pledged to creditors and can be sold or repledged (2006: 90,211 mn).

²⁾ As of December 31, 2007, 7,384 mn are pledged to creditors and can be sold or repledged (2006: 3,156 mn).

Table of Contents**Allianz Group****Consolidated Income Statements**

| | Note | 2007 mn | 2006 mn | 2005 mn |
|---|-----------|-----------------|-----------------|-----------------|
| Premiums written | | 65,788 | 65,275 | 64,766 |
| Ceded premiums written | | (5,934) | (6,218) | (6,429) |
| Change in unearned premiums | | (492) | (533) | (655) |
| Premiums earned (net) | 24 | 59,362 | 58,524 | 57,682 |
| Interest and similar income | 25 | 26,047 | 23,956 | 22,644 |
| Income from financial assets and liabilities carried at fair value through income (net) | 26 | (1,247) | 940 | 1,163 |
| Realized gains/losses (net) | 27 | 6,548 | 6,151 | 4,978 |
| Fee and commission income | 28 | 9,440 | 8,856 | 8,162 |
| Other income | 29 | 217 | 86 | 92 |
| Income from fully consolidated private equity investments | 30 | 2,367 | 1,392 | 598 |
| Total income | | 102,734 | 99,905 | 95,319 |
| Claims and insurance benefits incurred (gross) | | (46,409) | (45,523) | (46,802) |
| Claims and Insurance benefits incurred (ceded) | | 3,287 | 3,226 | 4,032 |
| Claims and insurance benefits incurred (net) | 31 | (43,122) | (42,297) | (42,770) |
| Change in reserves for insurance and investment contracts (net) | 32 | (10,685) | (11,375) | (11,176) |
| Interest expense | 33 | (6,672) | (5,759) | (6,377) |
| Loan loss provisions | 34 | 113 | (36) | 109 |
| Impairments of investments (net) | 35 | (1,272) | (775) | (540) |
| Investment expenses | 36 | (1,057) | (1,108) | (1,092) |
| Acquisition and administrative expenses (net) | 37 | (23,218) | (23,486) | (22,559) |
| Fee and commission expenses | 38 | (2,673) | (2,351) | (2,312) |
| Amortization of intangible assets | | (17) | (51) | (50) |
| Restructuring charges | 49 | (232) | (964) | (100) |
| Other expenses | 39 | (14) | 1 | (51) |
| Expenses from fully consolidated private equity investments | 40 | (2,317) | (1,381) | (572) |
| Total expenses | | (91,166) | (89,582) | (87,490) |
| Income before income taxes and minority interests in earnings | | 11,568 | 10,323 | 7,829 |
| Income taxes | 41 | (2,854) | (2,013) | (2,063) |
| Minority interests in earnings | | (748) | (1,289) | (1,386) |
| Net income | | 7,966 | 7,021 | 4,380 |
| Basic earnings per share | 50 | 18.00 | 17.09 | 11.24 |
| Diluted earnings per share | 50 | 17.71 | 16.78 | 11.14 |

Table of Contents**Allianz Group****Consolidated Statements of Changes in Equity**

| | Paid-in capital mn | Revenue reserves mn | Foreign currency translation adjustments mn | Unrealized gains and losses (net) mn | Shareholders equity mn | Minority interests mn | Total equity mn |
|---|--------------------------|---------------------------|---|---|------------------------------|-----------------------------|-----------------------|
| Balance as of January 1, 2005, as previously reported | 19,433 | 5,893 | (2,634) | 7,303 | 29,995 | 7,696 | 37,691 |
| Adjustments (Note 3) | | (559) | | (272) | (831) | 771 | (60) |
| Balance as of January 1, 2005 | 19,433 | 5,334 | (2,634) | 7,031 | 29,164 | 8,467 | 37,631 |
| Foreign currency translation adjustments | | | 1,601 | 50 | 1,651 | 33 | 1,684 |
| Available-for-sale investments | | | | | | | |
| Unrealized gains and losses (net) arising during the year ¹⁾ | | | | 3,805 | 3,805 | 549 | 4,354 |
| Transferred to net income on disposal ²⁾ | | | | (1,114) | (1,114) | (133) | (1,247) |
| Cash flow hedges | | | | 3 | 3 | | 3 |
| Miscellaneous | | 370 | | | 370 | 141 | 511 |
| Total income and expense recognized directly in shareholders' equity | | 370 | 1,601 | 2,744 | 4,715 | 590 | 5,305 |
| Net income | | 4,380 | | | 4,380 | 1,386 | 5,766 |
| Total recognized income and expense for the year | | 4,750 | 1,601 | 2,744 | 9,095 | 1,976 | 11,071 |
| Paid-in capital | 2,183 | | | | 2,183 | | 2,183 |
| Treasury shares | | 352 | | | 352 | | 352 |
| Transactions between equity holders | | (1,742) | 1 | 277 | (1,464) | (1,328) | (2,792) |
| Dividends paid | | (674) | | | (674) | (729) | (1,403) |
| Balance as of December 31, 2005 | 21,616 | 8,020 | (1,032) | 10,052 | 38,656 | 8,386 | 47,042 |
| Foreign currency translation adjustments | | | (1,175) | (4) | (1,179) | (276) | (1,455) |
| Available-for-sale investments | | | | | | | |
| Unrealized gains and losses (net) arising during the year ¹⁾ | | | | 4,731 | 4,731 | 20 | 4,751 |
| Transferred to net income on disposal ²⁾ | | | | (1,744) | (1,744) | (146) | (1,890) |
| Cash flow hedges | | | | 1 | 1 | | 1 |
| Miscellaneous | | 246 | | | 246 | 111 | 357 |
| Total income and expense recognized directly in shareholders' equity | | 246 | (1,175) | 2,984 | 2,055 | (291) | 1,764 |
| Net income | | 7,021 | | | 7,021 | 1,289 | 8,310 |
| Total recognized income and expense for the year | | 7,267 | (1,175) | 2,984 | 9,076 | 998 | 10,074 |
| Paid-in capital | 129 | | | | 129 | | 129 |
| Treasury shares | | 910 | | | 910 | | 910 |
| Transactions between equity holders | 3,653 | (2,316) | (3) | 356 | 1,690 | (1,552) | 138 |
| Dividends paid | | (811) | | | (811) | (652) | (1,463) |
| Balance as of December 31, 2006 | 25,398 | 13,070 | (2,210) | 13,392 | 49,650 | 7,180 | 56,830 |
| Foreign currency translation adjustments | | | (1,378) | (2) | (1,380) | (214) | (1,594) |
| Available-for-sale investments | | | | | | | |
| Unrealized gains and losses (net) arising during the year ¹⁾ | | | | (1,123) | (1,123) | (41) | (1,164) |
| Transferred to net income on disposal ²⁾ | | | | (2,484) | (2,484) | (101) | (2,585) |
| Cash flow hedges | | | | 35 | 35 | | 35 |
| Miscellaneous | | (77) | | | (77) | 116 | 39 |
| Total income and expense recognized directly in shareholders' equity | | (77) | (1,378) | (3,574) | (5,029) | (240) | (5,269) |
| Net income | | 7,966 | | | 7,966 | 748 | 8,714 |
| Total recognized income and expense for the year | | 7,889 | (1,378) | (3,574) | 2,937 | 508 | 3,445 |
| Paid-in capital | 158 | | | | 158 | | |